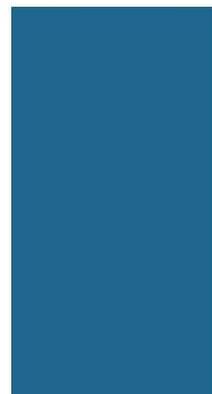


The impact of EU level financial instruments on climate policy in EU member states: case study of European Structural and Investment Funds (ESIF)

# Lessons Learnt: financing climate actions from EU structural funds and recommendations for emerging economies

Marina Olshanskaya, AvantGarde Innovation

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Between 2007 and 2020 EU has allocated **EUR 168 billion** from European Infrastructure and Structural Funds (ESIF) for **climate-related actions** in member states

**What lessons can we learn from this experience?**

# SUCCESS FACTORS

1. Sufficient negotiation period and flexibility to define implementation arrangements & negotiate targets and programming priorities – Partnership Agreement (legally-binding document)
2. EU-wide climate compact helps raise ambitions of individual MS, but alignment with socio-economic development priorities is even more important
3. Focus on low-hanging fruits, proven solutions & business models ready scale-up: energy efficiency in buildings and SMEs
4. Long-term planning horizon (7 years versus 1 year under regular budget exercise)
5. Leadership from Prime-Minister office level to facilitate consensus building and ensure inter-ministerial coordination

# CONSTRAINTS

- ▶ EU **regulations** (e.g. State Aid, public procurement) **restrict innovation** in climate programming, e.g. with non-grant Financial Instruments;
  - Grant and non-grant projects are not the same
- ▶ Lack of effective **delivery mechanisms/implementing structures**
  - EE in multi-family residential buildings
- ▶ Market **absorption capacity** and private sectors' reluctance to engage:
  - Scale matters for financial sector and suppliers
  - Complexity and bureaucracy associated with public funding also does matter

# FINANCIAL INSTRUMENTS (FIs)

- ▶ FIs take the form of loans, guarantees, equity capital or venture capital
- ▶ Investment Plan for Europe encourages **use of financial instruments instead of traditional grants** in ESIF funding (still at 3-5% of total funding)
- ▶ Ex-ante assessment shall establish evidence of market failures, determine **the size of the investment gap (viability gaps or financing gaps)** and propose specific financial instruments
- ▶ FI design must comply with **EU State Aide regulations** to determine eligible projects, maximum amount of financing per beneficiary, the terms of financing, and the governance structure
- ▶ FI intervention should be limited to the **minimum required to achieve the desired objective**

# Lessons Learnt from FI design for energy efficiency

- ▶ Quality ex-ante assessment: know your market conditions and beneficiaries
- ▶ Understand your regulatory constraints: State Aid, procurement
- ▶ FI's do not "fly" if there is a similar subsidy instruments or they are considered or have recently been implemented
- ▶ Ideally, should go hand in hand with market-oriented energy tariff reform
- ▶ Standardize and simplify process as much as possible, in particular for public procurement
- ▶ Provide comprehensive TA package to promote FI, support project preparation and implementation: combine TA and FI under one funding framework
- ▶ Non-climate benefits are important (inclusive growth, jobs, energy poverty)



# DISCUSSION

- ▶ Which lessons / factors from the EU experience discussed today do you find most relevant and important for future climate programming?
- ▶ Where do you face the biggest challenges in design and implementation of climate finance programmes, where EU experience may help?
  - ▶ Theory of change
  - ▶ M&E
  - ▶ Gender mainstreaming



Marina Olshanskaya  
olshanskaya@avantgarde-energy.com