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

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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

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