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# Best use of financial instruments to mainstream climate issues in the next Multi-Annual Financial Framework

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*'Next MFF: Incentives and safeguards for climate friendly investments'*

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## Key outline and messages



- **Expanding the use** of financial instruments is relevant to provide badly needed financial support – but financial instruments are no silver-bullet
- Additional action to **modify** or **complement** existing proposals under central and shared management warranted to address market failures in:
  - Energy efficiency in SMEs and buildings
  - The promotion of renewable energy technologies
  - Low carbon and climate resilient energy infrastructure
  - Adaptation to climate change and climate resilient developments
- **Three-tiered track** is needed
  - Short-term solutions:
    - ✓ changes to Horizon 2020, Connecting Europe Facility (central)
    - ✓ dedicated instruments under CSF funds (shared)
    - ✓ Technical assistance under LIFE
  - Medium-term developments (city bonds, Natural Capital fund)
  - Additional horizontal measures

# Overview and relevance of barriers



Type of barrier	Barriers	Energy efficiency	Renewable energy technologies		Low carbon infrastructure	Adaptation and climate resilience
			Emerging	Mature		
Financial	High upfront costs	Medium	High	High	High	Medium
	Risk	Medium	High	Medium	High	Low
	Long maturity	Low	Medium	Medium	Medium	High
Technical	Small scale projects and high transaction costs	High	Low	Low	Medium	Low
	Technology risks	Low	High	Medium	Low	Low
Information / skills	Awareness	High	Medium	Medium	Medium	High
	Institutional capacity and skills	High	Medium	Medium	Medium	High
Regulatory / structural	Regulatory uncertainty	Medium	High	High	High	High
	Agency problems	High	Low	Low	Low	Medium

## Legend:

High	High relevance
Medium	Medium relevance
Low	Low relevance

\* Many of these barriers will be very context specific and will depend on the specific MS/region and/or project characteristics

# 2014-2020 MFF: evolution of financial instruments



MFF area 2014-2020	Fin. Instruments (2007-2013) centrally managed	Fin. Instruments (2007-2013) shared managed	Fin. Instruments (2014-2020) centrally managed	Fin. Instruments (2014-2020) shared managed
Research, Innovation, Development	<b>FP7</b> <ul style="list-style-type: none"> <li>Risk Sharing Finance Facility (RSFF), incl. Risk sharing instrument (RSI)</li> </ul>		<b>Horizons 2020</b> <ul style="list-style-type: none"> <li>Debt Facility for R&amp;I, incl. RSI II</li> <li>Equity Facility for R&amp;I</li> </ul>	
Growth, Jobs, Social Cohesion	<b>CIP</b> <ul style="list-style-type: none"> <li>High Growth and Innovation SME Facility (GIF)</li> <li>SME Guarantee Facility (SMEG)</li> </ul> European Process Micro-Finance Facility (EPMF)	Financial instruments under <b>ERDF</b> and <b>ESF</b> Financial instruments under <b>EAFRD</b>	<b>COSME</b> <ul style="list-style-type: none"> <li>Loan Guarantee Facility (LGF)</li> <li>Equity Facility for Growth (EFG)</li> </ul> <ul style="list-style-type: none"> <li><b>CCI</b> (cultural and creative industries guarantee facility) (<i>new</i>)</li> <li><b>Student Loan Guarantee Facility</b> (<i>new</i>)</li> <li><b>Social Change and Innovation Microfinance</b></li> </ul>	Special support instruments under <b>CSF Funds</b> <ul style="list-style-type: none"> <li>EU level</li> <li>'Off the Shelf'</li> <li>Tailored</li> <li>Direct loans and guarantees to beneficiaries</li> </ul> Policy-based guarantees under <b>ESF</b>
Infrastructure	Loan-Guarantee Facility for Ten-E Transport ( <b>LGTT</b> ) <b>Marguerite</b> —special investment vehicle for infrastructure <b>EU Project Bonds Initiative</b> – Pilot phase		<b>Connecting Europe Facility</b> <ul style="list-style-type: none"> <li>Loans and/or guarantees facilitated by risk sharing instruments, including enhancement mechanism to project bonds</li> <li>Equity Instruments</li> </ul>	
	<b>EEEF</b> (European Energy Efficiency Fund (hybrid))		?	
		Tech. Assistance ( <b>ELENA</b> )		<b>New FI under LiFE Programme ?</b>

# Priority options for modifying centrally managed financial instruments



Programme	Financial instrument	Option
Horizon 2020	Debt facility: RSI – II (SMEs)	Introduce a demand-driven ‘climate window’ for SMEs
	Debt facility: RSFF II (non-SMEs)	Introduce a demand-driven ‘climate window’ in the RSFF for mid-caps and large companies
Connecting Europe Facility	Loans and/or guarantees facilitated by risk sharing instruments, including enhancement mechanism to project bonds	Expand Project Bonds under CEF to renewable energy generation together with connection to the grid

# Priority options for modifying shared managed financial instruments and creating new instruments



Programme	Financial instrument	Option
CSF funds (including Cohesion and Rural Development Policy)	Off the shelf instruments Tailored instruments Ring fencing to EU level instruments	Introduce a dedicated loan and guarantee facility for energy efficiency Technical assistance for capacity building and knowledge transfer
LIFE	Sub-programme Climate Action - Adaptation	Allocate funds for technical assistance dedicated to adaptation to climate change

# Support horizontal actions



## *Procedural requirements:*

- Introduce a **project selection criterion** to incentivise all beneficiaries and project promoters to integrate horizontally climate change
- Introduce **ex-ante conditionality** to systematically mainstream climate change in investment planning through **risk/vulnerability assessment**
- Introduce **monitoring indicators and reporting requirements** for financial instruments related to climate action

## *Improving the information base*

- Create dedicated **expert group(s)** on pertinent aspects of low-carbon finance
- **Single focal point** to provide support for project promoters in working with different types of private investors



**!Thank you for your attention!**

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