

Towards an evidence-based and efficient design of climate and competitive investments in the next MFF

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The Commission's proposal for the next Multiannual Financial Framework (MFF) offers an opportunity to bridge Europe's climate investment gaps and crowd-in private capital to strengthen clean industrial competitiveness and improve Europe's energy security. This summary builds on the original recommendations from Climate Strategy's 2024 report and examines the Commission's recent budget proposal from an "efficiency-first" perspective.

We use an economic "efficiency" frame to examine the EU budget proposal to ensure that decarbonisation and competitiveness are delivered fairly to beneficiaries using the appropriate instrument (grant or financial instrument). Grants are clearly the most valuable, and scarce, EU budgetary currency, and they have to be reserved to deliver innovation, research, social, climate and other environmental objectives where financial instruments will not work.

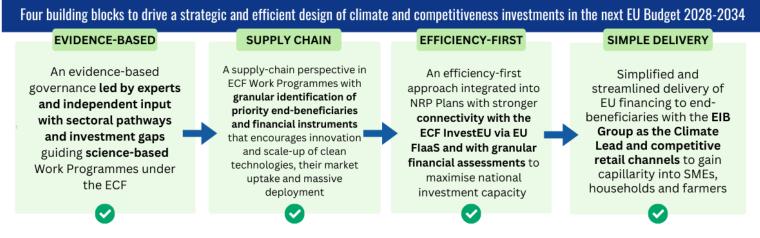
The scale of the challenge—an annual climate investment gap of at least €340–477 billion—and the limited fiscal space available at EU and national levels raises the question: how can the Commission and Member States make the most of EU funds and crowd-in more private capital into the Transition? An efficiency-first approach can ensure that the EU Budget is deployed with precision to fill in the gaps. Financial efficiency also requires evidence-based Work Programmes with a targeted supply-chain approach to identify priority investments in the next EU budget. Further, a simplified delivery is needed to streamline and have EU finance reach those end-beneficiaries that need it the most.



The European Competitiveness Fund (ECF) is proposed as the one-stop-shop for EU financial instruments and that can extend InvestEU support to grow strategic technologies from lab to scale. Currently, Member State compartments in InvestEU provide an opportunity to deploy EU Financial Instruments as a Service (EU FlaaS) for national and regional authorities.

Under the ECF InvestEU toolbox, the impact of funds available under the National and Regional Partnership (NRP) Plans can use this mechanism to crowd-in private investments into mature clean technologies and solutions.

Driving strategic and efficient design -----



Our premise: within a limited public budget, grants are the most valuable currency and should not be used where **financial instruments** are a better fit.

The following policy recommendations respond respectively to **four core building blocks** that can deliver a strategic and efficient design of climate and competitive investments in the next MFF:

Four core building blocks ----------

1. An evidence-based approach for ECF Work Programmes led by experts and aligned with sectoral decarbonisation pathways and investment gaps.

The implementation of the €234 billion ECF will rely on Work Programmes that determine investment priorities, eligible beneficiaries, and financing modalities. In the Commission's proposal, the development of Work Programmes is led by Member State committees, with limited space for input by independent experts and consultations with researchers, investors, civil society and end-beneficiaries of EU funds. With inclusive, expert-led governance, and robust evidence-based Work Programmes which follow sectoral decarbonisation pathways and granular investment gap analyses, scarce EU resources can be better allocated. Further, industrial investments only represent 5% of the total investment gap to reach net zero by 2050, and yet European clean industrial leadership depends on the wide-market uptake of these technologies in the real economy, usually by business actors and households.

Recommendations:

- Integrate independent experts and stakeholders in the ECF Stakeholder Board (including those from
 universities, civil society, investors and representatives of end-beneficiaries), ensuring clear connectivity with
 the processes behind the design of Work Programmes and with meaningful input from the Board. The
 inclusion of independent experts can help ensure a more scientific and data-driven process to determine how
 the ECF can be deployed strategically, efficiently and impactfully.
- Establish robust mechanisms for experts and stakeholder thematic platforms to be integrated in the committee procedures to ensure that Work Programmes are aligned with the reality as seen by stakeholders on the ground, who represent the likely recipients of EU funding.
- The ECF InvestEU investment guidelines can steer the design of asset-specific EU Financial Instruments as a Service (EU FlaaS) led by the EIB Group, the national promotional bank architecture, and in consultation with local financial institutions. Expert and stakeholder input for the design of EU FlaaS should be embedded both in the Advisory Board on the ECF InvestEU Instrument and in a series of "Policy Review Dialogues."
- SET Plan groups can have an extended and more prominent advisory role within the ECF Strategic Stakeholders Board and in the energy-related stakeholder platforms to coordinate with the Work Programmes of Horizon Europe under the Competitiveness component of Pillar 2.
- Competitiveness priorities under the ECF Work Programmes need to go beyond the traditional definition of
 industrial production capacity, and reflect how competitiveness manifests for smaller businesses and
 households via lower energy prices, energy security, the creation of jobs in clean sectors and reduced climate
 risks. This holistic definition of competitiveness can build, for example, on the Competitive Sustainability Index
 ("CSI") developed by the Cambridge Institute for Sustainable Leadership.
- Anchor ECF Work Programmes in science-based sectoral decarbonisation investment gap assessments
 which must: first, identify where the largest investment gaps are located, per sector, and per transition asset
 class; second, determine which investments can drive the largest emissions reductions in these sectors; and
 finally, offer a granular assessment of how these decarbonisation investments can boost competitiveness gains
 for Europe, and what positive social and economic impacts can be derived locally.
- Science-based sectoral assessments should build on existing EU and national tools, including: National
 Energy and Climate Plans, National Building Renovation Strategies and Action Plans, and other local sectoral
 pathways; the EU Taxonomy as a detailed framework that provides sectoral benchmarks and standards for
 climate contribution per industry classification code; and Commission-led assessments and independent think
 tank reports that describe the investment gaps to meet Europe's climate and energy targets.



2. A supply chain approach in ECF Work Programmes following a strategic choice of financial instruments and end-beneficiaries that includes support for market uptake.

The Commission has positioned the ECF, and its new InvestEU instrument, as the Union's toolbox to provide seamless support to European innovators from research to deployment, from ideas to start-up and to scale-up. The bulk of pre-2030 climate investments are already in late-stage, mature clean technologies and solutions that come with revenues, or savings, which can be used to provide surety for the repayment of financing. With only €26 billion for the Clean Transition and Industrial Decarbonisation window of the ECF, a strategic choice of financial instruments and end-beneficiaries is essential. The ECF Work Programmes must undertake granular supply-chain assessments of the financial instruments that each clean technology in a specific sector requires, and which end-beneficiaries need, or can afford, which instruments. An effective growth strategy for cleantech also requires that ECF Work Programmes boost the uptake of clean technologies and solutions by end-consumers, including smaller businesses and households. In line with the just transition objectives of the ECF, Work Programmes can also support small businesses and European citizens in accessing finance for their transition.

Recommendations:

- A horizontal "efficiency-first" principle in ECF Work Programmes can ensure that grants are prioritised
 for goods and end-beneficiaries that need them most, to boost R&I investments for cleantech in low
 Technology Readiness Level ("TRL") via Horizon Europe, provide clean public goods and infrastructure (e.g.
 railways and grids, particularly via CEF), and for social and biodiversity investments (e.g. LIFE Activities). For
 later-stage, mature clean technologies and solutions, a more targeted use of financial instruments can
 deliver higher leverage of private investments, and thereby greater overall investments.
- In particular to support cleantech scaleups:
 - Earmark part of the €26 billion budget of the Clean Transition window to build an ambitious cleantech guarantee facility to complement the Scale Up Facility, implemented via the ECF InvestEU Instrument and managed by the EIB. Include ECF programmes of output-based instruments like CCFDs and open, competitive bidding. Integrate "as-a-service" compartments for Member States in the Scale Up Facility to pool in national contributions for cleantech guarantees and output-based support at the national and regional level.
 - o Integrate an "as-a-service" compartment for equity investments under the EIC to pool-in Member States resources to develop national equity schemes for cleantech.
- In particular to support the end-consumer segment of the supply chain:
 - Further develop the focus on the demand-side and end-consumers in the ECF regulation, Work Programmes and Investment Guidelines, including a specific mention to households.
 - The ECF Work Programmes and investment guidelines for InvestEU should offer low-cost, asset-specific, retail financial instruments "as-a-service" for European SMEs, households, and farmers (e.g. EU Renovation Loan, Solar PV Loan, or EV Loan "as-a-service"). EU FlaaS can be kickstarted with some contributions from the Clean Transition window, but then be enhanced with national contributions from NRP Plans.
 - An EU Renovation Loan as a Service could be initiated with a set-aside guarantee of some €1-3 billion under ECF InvestEU, to better build data on defaults and understand the mechanics of the retail market renovation segments with lenders across several Member States.
 - The option to include EU preference criteria in retail EU FlaaS may be considered to boost the
 uptake of EU-made cleantech, subject to those criteria being aligned with NECPs and EU
 manufacturing capacities.
- Improve the additionality of the ECF InvestEU financing with a strategic prioritisation of the end-beneficiaries that need it most, driven by horizontal conditionalities in ECF Work Programmes and Investment Guidelines, and in the Performance Regulation. SMEs, small innovators, European citizens and smallholder farmers usually face the greatest difficulties in accessing finance for their transition, and therefore should be prioritised.



3. An efficiency-first approach in national investments with EU FlaaS as the bridge between ECF InvestEU and NRP Plans

The bulk of EU funds in the next MFF will be implemented by Member States in their NRP Plans (€784 billion), which will have to align with the Union priorities on climate, competitiveness and security. In the last two programming periods, only around 7% of funds under shared management were delivered via financial instruments. With adequate conditions and reforms for national authorities to develop granular financial assessments and efficiently use public finance, NRP Plans can become robust investment plans for a competitive climate transition. To support efficient spending nationally, the Commission proposes to integrate a Member State compartment in the updated ECF InvestEU, as a useful toolbox for national and regional authorities. This will offer higher leverage, lower borrowing costs and could deliver administrative simplification via EU FlaaS. While larger national contributions to the ECF InvestEU is not the end objective, it is a means to increase the offer of financial instruments nationally to lever additional private capital for mature clean assets.

Recommendations:

- Make granular financial assessments mandatory in NRP Plans, that build on existing NECPs and other sectoral decarbonisation strategies, such as Long Term Building Renovation Strategies, inter alia. In these assessments, national authorities (including finance ministries) should identify sectoral investment needs by asset class and end-beneficiary, and thereby determine the most efficient use of grants and financial instruments.
- The Commission should produce an "efficiency-first" guidance establishing clear principles for the use of EU public finance in the context of NRP Plans. This guidance should improve the additionality and efficiency of national expenditures, by reserving grants for those goods and end-beneficiaries that need them most (e.g. the energy poor, or for early-stage cleantech innovators, small farms), while establishing incentives for directing finance via the ECF InvestEU Member State compartment to mobilise private investments in mature clean and resilient assets that align with Europe's energy and climate transition.
- The Commission can also offer guidelines to inform national authorities of the advantages of the ECF InvestEU and EU FlaaS, identifying best-practices in different countries, and clarifying the operational links between NRP Plans, the EU Facility, and ECF InvestEU including when local managing authorities may contribute directly to the Member State compartment. Additional technical assistance provided by SG REFORM can additionally support national and regional authorities in implementing these guidelines.
- Facilitate access to the Member State compartment to fund FlaaS for local authorities, who until now have not been able to directly engage to inform instruments that deploy the EU budget guarantee.
- Integrate an "efficiency-first" principle in the Performance Regulation to drive and track efficiency of spending with specific, mandatory indicators on the use of financial instruments and the ECF InvestEU. In the evaluations that Member States will have to develop, they can reflect on the implementation of "efficiency-first" in their NRP Plans. This could also be benchmarked for specific asset classes and beneficiaries across different Member States.
- The Competitiveness Coordination Tool is a governance mechanism that can guide Member States in directing more investments to climate and cleantech priorities via the ECF InvestEU "Member State contributions". This must not come at the expense of funding under NRP Plans for non-industrial decarbonisation objectives, however, as these are just as important for energy security and resilience.



4. A simplified delivery of EU financing with the EIB Group as the Climate Lead and competitive retail channels to crowd-in private investments

The ECF includes new initiatives to support small cleantech start-ups and scale-ups in accessing EU support. If their focus is targeted and strategic, with a proactive EIB Group leading, and if it prioritises high added-value cleantech projects, these platforms under the ECF can be very useful. For Europe to deliver climate and competitiveness investments at scale, funding must also reach the wider fabric of SMEs, as well as smallholder farmers, and households the groups facing the greatest financing barriers. Past EU programmes have struggled to deliver effectively to these end-beneficiaries due to their fragmented structures and weak engagement of local retail channels. A simplified delivery of EU finance via retail EU FlaaS under the ECF InvestEU can contribute to improving the historically slow absorption rates of EU funds. EU finance delivery can be led by the national promotional bank architecture and competitive local retail channels, particularly in close coordination with the investment measures identified in NRP Plans.

Recommendations:

The effectiveness of a simplified delivery will depend on the target beneficiary, and the channels used.

For cleantech scale-ups:

- Establish a lead mandate for the EIB Group in the new Project Advisory initiative under the ECF with a more proactive outreach to cleantech champions. This can also be reflected in the updated EIB Climate Bank Roadmap for 2026-2032.
- The ECF Policy Review Dialogues with implementing partners should have a targeted focus on cleantech and integrate experts, civil society, as well as industrial alliances, to create a prioritisation of strategic cleantech projects across Europe.
- Earmarking part of the ECF financial envelopes for cleantech SMEs will be crucial, and should be explicit, to avoid historical trends in EU funding whereby large incumbents have more easily accessed EU calls.

For SMEs, households and smallholder farmers:

- The ECF should include as one of its key measures the active engagement with national promotional banks and competitive retail channels to take advantage of their local capillarity and access their client network of thousands, and even millions, of SMEs. This measure should also aim for, and explicitly mention, the simplification for households' access to the ECF InvestEU financing.
- To promote best-in-practice designs of sectoral financing solutions and socialise their delivery, engaging with sector-specific, specialised retail channels and proximity banks (e.g. agricultural banks) will also be useful.
- Involve competitive local retail channel networks in the planning and distribution of finance under NRP Plans with an increased use of EU FlaaS under ECF InvestEU. In this case local banking networks, who can contribute to enhancing, growing and unifying regional capital markets.
- Integrate broad stakeholder engagement during the design of NRP Plans, including the EIB, national promotional banks, local retail banks and lenders, and other retail channels to gather feedback and identify which are the real barriers on the ground and what are the type of financing forms and channels that can best deliver clean assets to local SMEs and households at scale.
- Establish capacity-building initiatives, particularly in lower-income regions or where retail channels and banking networks are weaker, to deliver EU finance efficiently and in accordance with all EU safeguards, supported by a more proactive EIB-National Promotional Bank approach with shared data on cleantech solutions and due diligence collaborations. DG ECFIN and SG REFORM can support Member States in identifying the necessary institutional reforms to strengthen their retail and banking networks for the delivery of EU finance.

More information

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