



DIGITAL POLICY BRIEF



Financial Instruments

European Financial Instruments

Existing Financial Instruments

In the context of the funding schemes of the EU, innovative financial instruments are support opportunities, which are different from funding by way of direct subsidies. The concept embeds a great number of funding schemes, for instance a combination of subsidy grant and loan. According to the EU-budget plan, the share of innovative financial instruments increased significantly in the course of the Financial Framework 2014-2020. Therefore it is imperative, that innovative financial instruments and their impact are taken into consideration on a wider scale. [1]

The Financial Framework 2014-2020 period provided the following innovative financial instruments:

Innovative Financial Instruments	
Risk and equity capital instruments	Debt instruments
Equity capital instrument for innovation and development	Debt instruments to support innovation and development activity
Risk capital instrument for seed phase investments to SMEs	Project bonds to support building infrastructure objects
Equity capital instrument to support infrastructure objects	Debt instrument to SMEs

Innovative Financial Instruments in Future

Within the Financial Framework 2014-2020 **20 % of EU expenditures** have been contributed to **climate objectives** [2]. In the next programming period 2021-2027 **25 % of the EU budget** will be spent on climate investments and additional funding for Horizon Europe, reflecting the crucial role of research and innovation in driving the shift towards a clean, circular, competitive and climate neutral economy. Targeted investments, funded through grants and loans, will develop an economy for the people and foster key sectors and technologies. [3]

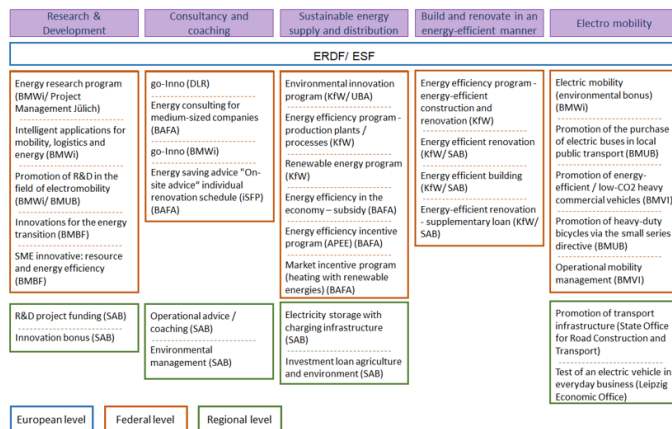
[1] Branten E., Purju A. (2013): Innovative Financial Instruments in EU Funding Schemes, Baltic Journal of European Studies, Vol.3

[2] European Commission (2018): EU Budget for the Future, retrieved June 29, 2020 at 10 a.m.: https://ec.europa.eu/commission/sites/beta-political/files/budget-proposals-sustainability-environment-climate-change-may2018_en.pdf

[3] European Commission (2020): Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions; Europeans's moment: Repair and Prepare for the Next Generation, 456 final

National Financial Instruments

Existing Financial Instruments

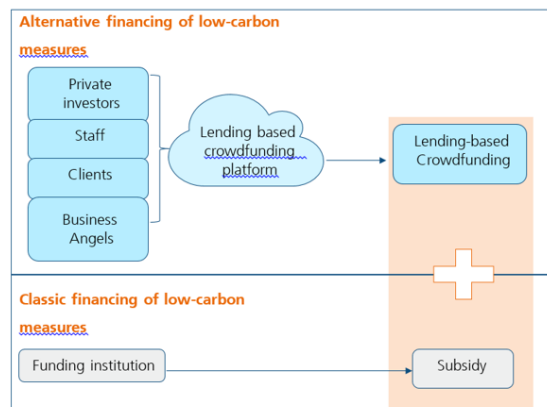


Source: Own illustration based on own research, Fraunhofer IMW. in Saxony, Germany.

The ex-ante assessment analysis regarding the financial market for SMEs to invest in energy efficiency measures in Saxony, Germany, provide a detailed overview about the financial instruments available in this specific context. The figure on the left hand side shows the variety of the national authorities providing financial capital according to the institutional level and which specific energy efficiency measures are being funded

Innovative Financial Instruments in Future

Nevertheless, the results from the ex-ante assessment analysis indicate the need of innovative financial instruments, because of some market failures determined as well as new opportunities available for instance from the rapidly and stable development of the alternative financial market, e.g. for stimulating additional private financial resources. The results from the analysis are the basics for the development of a concept for innovative financial instrument - a combination of lending-based crowdfunding with a subsidy, which we have called match lending. The following figure below illustrates the concept and where the financial resources are coming from.



Source: own illustration, Fraunhofer IMW.

Some of the main characteristics of the IFI are on one hand, to make use of its efficiency in the allocation of financial resources and on the other, to be able to acquire additional private financial resources for achieving the promotional objective. Furthermore, the features of the IFI could also emphasize the attention to the SMEs and its sustainable development, which could also be profitable for the companies. Hence, the IFI should not only be seen as financial source for investing in

energy efficiency measures, but also as an instrument adding additional value on one side to the SMEs and on the other to the specific issue - financing energy efficiency measures in general.