



Increasing Bankability of Transition & the Clean Industrial Deal

July 2025

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Objectives of this report

This report examines the barriers to scaling up transition financeⁱ and provides recommendations for enhancing bankability and the efficient deployment of blended financeⁱⁱ and other de-risking instruments to unlock further private capital and facilitate access to sustainable and transition finance. The main objective is to contribute to the debate on better leveraging public funding and addressing the complexities of the blended finance ecosystem for private investors and banks.



ⁱ The European Commission defines **transition finance** as financing that supports the transition to a climate-neutral and sustainable economy, focusing on investments that reduce high greenhouse gas emissions or other environmental impacts and help businesses adapt to new sustainability requirements. This includes investments in companies or activities with credible transition plans, aiming to align with the EU's environmental objectives and achieve net-zero by 2050. Essentially, it's about financing the journey towards sustainability, not just green projects, for companies with varying starting points

ⁱⁱ For the purposes of this report, **blended finance** means any deployment of public financing goal of which is to de-risk projects to attract private financing that might otherwise not occur

Key recommendations for policymakers

1 Promote markets with demand policies and create an incentives-based transition ecosystem:

- Stimulate demand and increase awareness of sustainable behaviours and investments
- Ensure coherence between industrial and environmental policies
- Establish policies that encourage green innovation and low-carbon technologies
- Ensure predictability and stability of policies and incentive systems
- Phase out harmful fossil fuel subsidies and industrial policies that are detrimental to sustainable development

2 Enhance Blended Finance Ecosystem:

- Reduce the risks associated with long-term cash flows and innovative technologies
- Create targeted, standardised, and simplified blended finance products for sectors like renewable energy, sustainable transport, buildings, and agriculture. Leverage credit guarantees
- Further leverage resources stemming from the Emissions Trading System
- Enhance the risk appetite of the EIB Group to better leverage public funding to attract private funding by de-risking and enhancing space for private sector to finance more mature projects and technologies
- Expand InvestEU's Eligibility Criteria and include more circular economy, climate resilience, and nature-based solutions, as they are critical for long-term climate and industrial resilience
- Introduce Green Power Purchase agreements (PPAs) and Hybrid Financing Models: Use Green PPAs and hybrid financing (e.g., concessional equity with debt guarantees) to enhance project bankability

3 Support SMEs and Households:

- Develop micro-blended finance products for SMEs and households, particularly those in worst-performing buildings, to increase their access to finance
- Develop a digital platform to simplify access including for private investors and SMEs to standardized blended finance products at the EU level

4 Enhance Blended Finance Ecosystem:

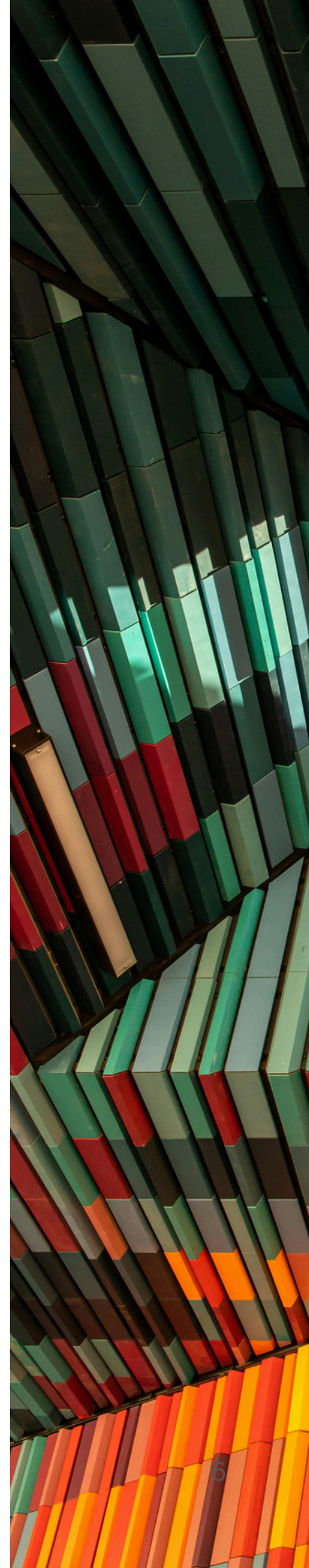
- Implement simplified fast-track processes for projects meeting predefined sustainability benchmarks

5 Simplify and Standardize Reporting:

- Reduce and standardize reporting requirements for blended finance products to minimize administrative burdens for banks and customers
- Remove redundant data points

6 Leverage Global Lessons:

- Apply insights from various international policies and initiatives, focusing on tax credits, simplicity, predictability, scalability, and regional flexibility



Executive summary

In times of geopolitical turmoil, increasing uncertainty and climate change challenges, a sustainable economy remains a must, not a nice-to-have. Europe will need both strong and competitive companies as well as massive amounts of funding, both private and public to finance its safety, prosperity and resilience.

The banking sector remains **committed to a sustainable development and just transition** towards the objectives stemming from the EU environmental and resilience goals. They play a pivotal role in engaging with customers to promote and accelerate sustainable practices and sharing knowledge about risks and opportunities.

Although financial institutions play an important role in facilitating and financing change, banks are not ultimately the owners of the projects they are financing. For an orderly transition, the financial sector must align with the pace of its clients and the geographies in which they operate. Investments in sustainability, climate change mitigation or adaptation measures **must make economic sense to those who undertake them**. Sustainability investments must be economically viable, beneficial and no riskier than traditional ones.

Banks ability to finance such investments is also constrained by the risk profile and viability. Many transition projects, especially those involving emerging technologies or operating in low-margin sectors, lack cash flow predictability or do not meet other standard lending criteria. Without clear demand signals, stable policy frameworks, and effective de-risking mechanisms, many transition projects remain too risky for banks to finance them. Public authorities role in **de-risking investments, aligning policy frameworks, and promoting sustainability as mainstream, is key to improve the transition business case**.

The report evolves around a central challenge: Lack of viable business cases rather than lack of capital and offers practical recommendations to improve the bankability of transition projects and ensure that **public and private finance work together to deliver** on the EU's climate and competitiveness goals.

Key outcomes

The report acknowledges the significant additional investments needed for the European Union to achieve its climate-neutrality goal by 2050. The substantial investment gap that exists cannot be filled by public or private money alone. While private financing is crucial, its mobilization is hindered by several factors:

- **Lack of demand from corporates and households:** Policy incentives for driving the transition to cleaner technologies or energies are still insufficient. Subsidies and price corrections have to be oriented toward green solutions. Positive impact must become cheaper than harm. Internalizing negative externalities (e.g., via carbon pricing) is essential to achieving the sustainability objectives.
- **Specific risk profile of transition projects:** Many clean technologies face additional risks stemming from the inherent nature of markets and uncertainties in future demand, pricing and technology adoption rates. Some clean technologies are still in the early stages of being commercially viable for large-scale deployment and do not have a sufficient risk-return profile. An outlook of viable economic opportunities or financial capacity (cash flow projections) is often insufficient for such projects to become bankable. More fit-for-purpose blended-finance instruments to de-risk such investments are needed. Clear and stable EU and national strategies should provide targeted incentives as well as industrial policies that support sustainable development and innovation.
- **Lack of expertise in emerging technologies:** Assessing credit risks for emerging technologies is challenging for banks.
- **Data considerations:** Banks often lack structured and machine-readable data to evaluate the sustainability profile of clients and mitigate greenwashing risks.
- **Regulatory considerations:** Simple, clear, consistent predictable and stable regulatory framework is necessary to support transition. The EU sustainable finance framework needs to be shifted to support sustainability objectives and decision-making processes. Also, some industry specific sectoral legislation adds to uncertainty.

- **Administrative considerations:** Many transition projects require long-term approval periods, including complex bureaucratic processes even at the national level, with increased complexity for multijurisdictional projects. The resulting delays and uncertainty negatively impact the capacity to attract private financing.
- **Complex blended finance ecosystem:** The fragmentation of the EU budget is considered a large barrier to financing. Access to funding is still cumbersome, hampered by different objectives and rules and complex structures. Existing support schemes' timelines for decision making are often too long, involving complex due diligence and administrative requirements. Standardisation of support programs, their rules and application, acceleration of the decision making processes and increase of the risk appetite of public finance schemes is needed.

To overcome the barriers to scaling up transition finance, Europe must establish an incentives-based transition ecosystem that fosters green innovation, accelerates the deployment of low-carbon technologies, and builds resilience. This requires coherent industrial and environmental policies, clear and consistent communication, streamlined administrative processes, and a stable, predictable incentive framework that makes decarbonization and adaptation economically viable for businesses and investors.

Achieving sustainability will depend on strong governmental leadership and systemic collaboration across all stakeholders. The Commission's sector-specific action plans under the Clean Industrial Deal are a welcome step, as policy clarity is essential for investor confidence. Updating production standards to mandate the use of green materials, alongside targeted support and incentives, will be key to stimulating demand and creating lead markets.

As most firms plan to rely on bank loans for sustainable investments, it is critical to provide adequate de-risking mechanisms that enable banks to support both corporates and households in their transition. The report highlights the need to strengthen the blended finance ecosystem by developing more targeted, standardized, and simplified financial products, particularly for high-emitting sectors, SMEs, and households.

Increasing the risk appetite of the EIB Group, especially for emerging technologies and sector-specific needs, is essential. Government-backed green Power Purchase Agreements (PPAs) can also provide long-term revenue certainty for green industrial projects.

Finally, the availability of diverse risk-sharing mechanisms is vital. To enhance efficiency and accessibility, the creation of an EU-wide digital platform for blended finance is recommended. This platform should offer streamlined access to public finance and guarantees, along with a clear, user-friendly guide to available funding opportunities.

Introduction

Europe at a crossroads

In times of geopolitical turmoil, increasing uncertainty and climate change challenges, the EU is realizing it can no longer outsource its energy supply, its security, or strategic production. While it is clear that the EU increasingly seeks to decrease its reliance on third countries for its security and prosperity, it is not yet entirely clear how it will be achieved. Two things are, however, clear. Firstly, Europe will need both strong and competitive companies as well as massive amounts of funding, both private and public to finance its safety, prosperity and resilience. Secondly, funding needs that cannot be served by banks and capital markets will add strain on limited public resources.¹

The EU's objective of becoming climate-neutral, with net-zero greenhouse gas emissions by 2050 itself will require very significant additional investments. However, **if climate objectives are well aligned and integrated with industrial, competition, economic and trade policies, including at the national level, they can drive growth and competitiveness, including at the global level.** This was also recognized by the European Commission in its competitiveness compass. The Clean Industrial Deal² has set out a competitiveness-driven approach to decarbonisation, aimed at securing the EU as an attractive location for manufacturing, including for energy-intensive industries, and promoting clean tech and new circular business models.



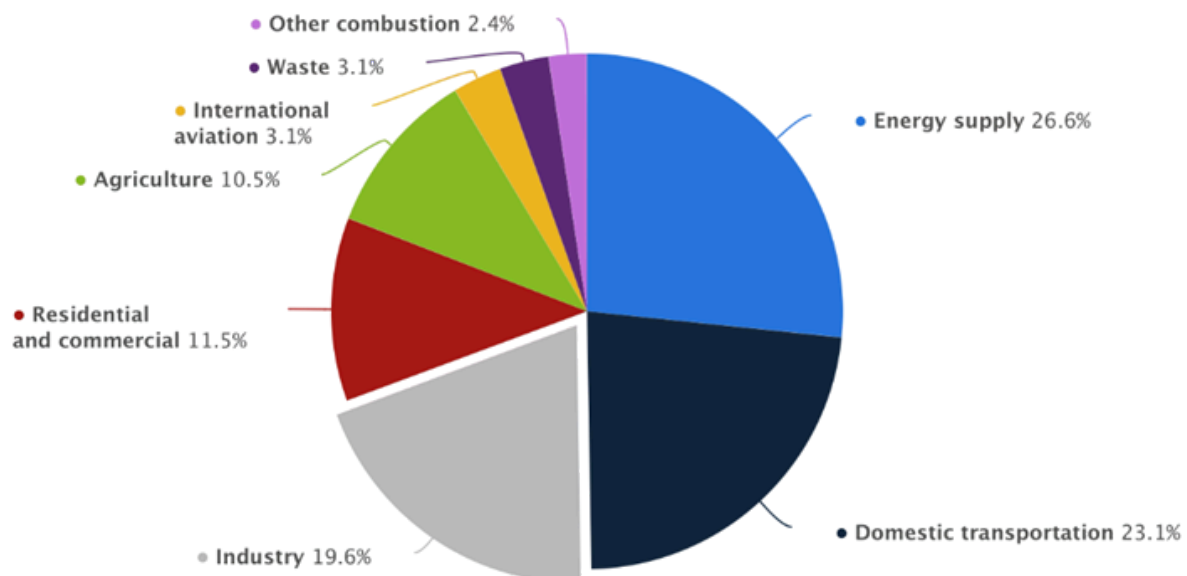
The transition to a sustainable economy requires massive amounts of public and private investments

Depending on the source, estimates of the EU's investment needs for climate change mitigation range from €620 billion and €1,350 billion per year (4% to 9% of EU GDP) and for climate change adaptation between €175 and €200 billion per year (1.1 to 1.3% of EU GDP).³ The studies available comprise estimates of additional green investment needs ranging from roughly 2.7% to 3.7% of EU GDP per year until 2030 (measured at 2023 prices).⁴

Most of the investments will be required to green the transport sector and boost energy efficiency in the residential building sector

The energy, transport, industry, residential and commercial, and agriculture sectors are the largest contributors to GHG emissions in the EU (see graph). Transport accounts for one-quarter of all greenhouse gas emissions and unlike other sectors, CO₂ emissions from transport are still higher than in 1990.

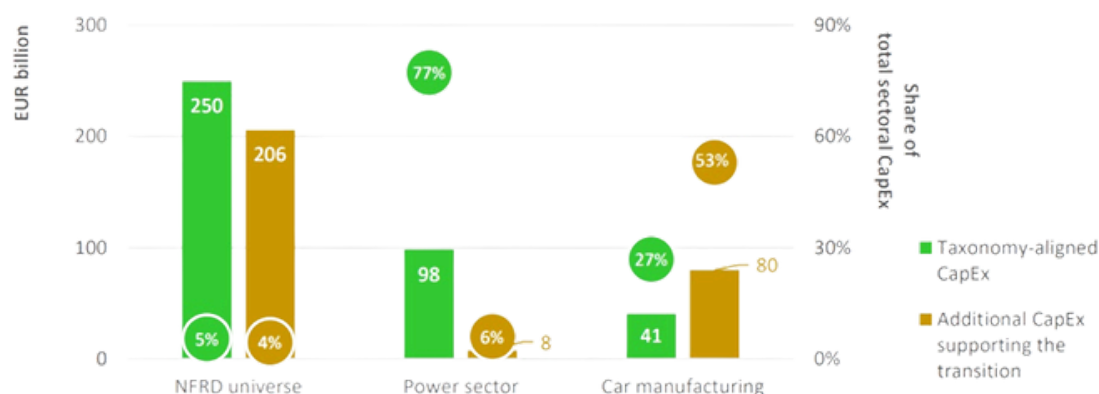
Chart 1: Largest contributors to GHG emissions in the EU



Source: Statista 2025

Electric utilities and grid operators are leading Europe's energy transition.ⁱⁱⁱ They account for a third of all Taxonomy-aligned CapEx. However, clean energy investments, at EUR 200 billion in 2024, remain 30% below the levels needed to meet the EU's 2030 targets. Carmakers' transition is underway – e.g. 30% of car manufacturers' CapEx (EUR 41 billion) is Taxonomy-aligned, with an additional EUR 80 billion potentially supporting the transition, signaling transformations within the EU automotive industry.⁵

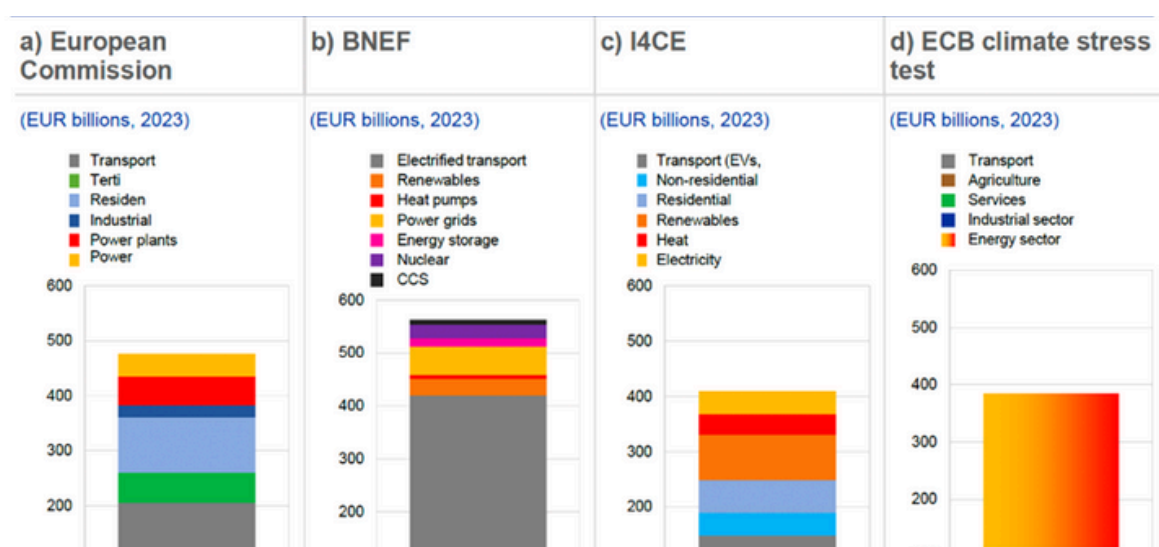
Chart 2: A snapshot on the status of transition finance in Europe, 2023



Source: Platform on Sustainable Finance⁶

The European Commission identifies substantial EU investment needs in transport, energy supply (power grids and power plants) and energy demand (mainly the industrial and residential building sectors).

Chart 3: Annual additional investment needs per sector



Source: ECB⁷

ⁱⁱⁱ We note that these figures may represent a conservative approach given the challenges in using the taxonomy. Some firms may not classify investments as taxonomy aligned given the lack of certainty about the DNSH criteria evaluation and adherence.

Addressing the investment gap

- According to the ECB⁸, only around 20-25% of total green investment needs can be covered by the **public sector**, while the remaining private capital will need to be mobilised.
- According to the IIF/McKinsey report, **private** financial institutions can cover about 55% of investment needs⁹, as the remaining investments are not suitable for private capital. It is estimated that even the Investments and Savings Union, once finalized, is expected to cover only about a third of the EU's overall funding needs (not only related to the transition).
- Savings in the EU are on high level - 12.7% of disposable income and 14.6% in the euro area (compared to 3.8% in the US).¹⁰

The key questions therefore are:

- 1 How to address the gap that cannot be closed either by public money or private funding alone?
- 2 How to channel the EU households' savings efficiently into productive investments?
- 3 How to increase the suitability of investments for private financing?

Private financing considerations

The availability of financial resources is not the only consideration. **Adequate risk and profitability are prerequisites for any investments, including sustainability.** When a private investor or lender is not able to properly assess the risk, or where the risk is too high relative to the potential return, private capital will not be available.

This is more severe for investments in emerging technologies, such as hydrogen, low-carbon fuels for shipping and aviation, CCUS, regenerative agriculture

agriculture or circular business models, because they still have a “green premium”, limited demand and uncertainties concerning expected outcomes in dynamic markets. According to the International Energy Agency, 45% of **activities required for net-zero still have cost disadvantages**. Also, only around 2% of all climate adaptation finance comes from private climate finance.¹¹

Unlocking additional private funding is therefore a key both for climate change mitigation and also to boost climate resilience investment. However, **a conservative attitude towards risk in the EU public financing hampers the EU's capacity to mobilize private investments**. While financial stability should not be compromised, there is a need to strike the right balance between financial stability and investments. The EU banks are well capitalized. The core capital ratio of European banks reached an all-time maximum of 15.6% in 2021, way above US and the rest of the world - while, or despite that, in the last 3 years EU institutions, national authorities and supervisors have continued increasing the core equity requirements.

Public financing considerations

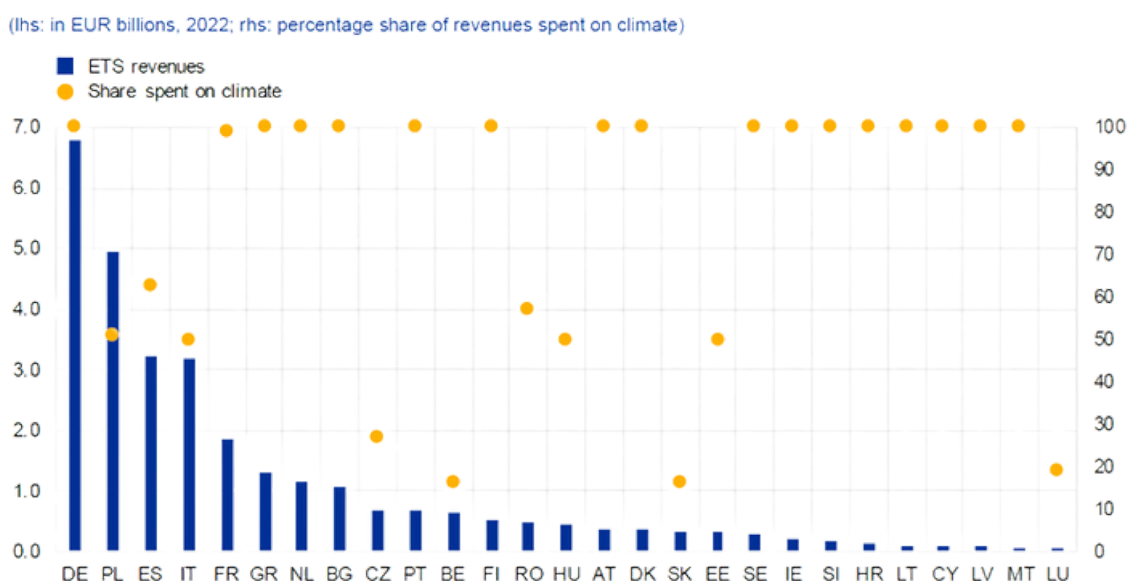
The EU budget should focus more on strategic priorities. In addition, **it is fragmented** across multiple spending programs, which represents a barrier to scaling up large or pan-European projects. The **limited funding and complex navigation** through the EU, national regulations and schemes can be challenging for private investors. While public sector funding is available, it **often lacks the flexibility and market alignment needed to effectively catalyze private capital**. As a result, it does not sufficiently contribute to bridging the investment gap – not due to a lack of volume alone, but because it is not always structured to complement private investment flows. Available financing from the public sector is not always compatible with market practices (lack of flexibility) and does not bridge the investment gap. These factors make it harder to attract sufficient private capital for green and transition projects. Private capital is attracted when financing is leveraged by public money or when there are tax incentives.

As stated by the European Commission in its competitiveness compass, the next Multi-annual Financial Framework will be an opportunity to rethink the structure and allocation of the EU budget in support of competitiveness priorities, including leveraging and de-risking private investments. The **network of European promotional banks and other international financial institutions** can also help to further leverage public investment. Nevertheless, the current budgetary framework will be in force until

2027, which in practice means that new budgeting decisions may start only afterwards.

The resources stemming from the Emissions Trading System (ETS) could also be further leveraged. While for most Member States the portion of ETS revenue is tiny (see graph below), they are expected to increase in the future due to the increase of its scope (over the next 12 years will increase fourfold). In 2022, the total EU ETS revenues were €30 billion, rising to €43.5 billion in 2023, of which 80% is being distributed to Member States for climate-related initiatives. It is also the main financing mechanism for the EU Innovation Fund.

Chart 4: ETS revenues



Source: ECB

Blended finance as an effective way to deploy public money and a catalyst for private capital

Blended finance is designed to provide more economic sense to investments while ensuring both the public and private sectors share the risks and rewards fairly. There is already a range of EU financial instruments and budgetary guarantees in place, many of which were introduced under the previous Multiannual Financial Framework (MFF) and are now consolidated primarily under the InvestEU programme. In terms of blending, the main complementary instrument currently available is the EIC Fund. These instruments have been positively received by banks, especially when they offer meaningful risk-sharing mechanisms. *These*

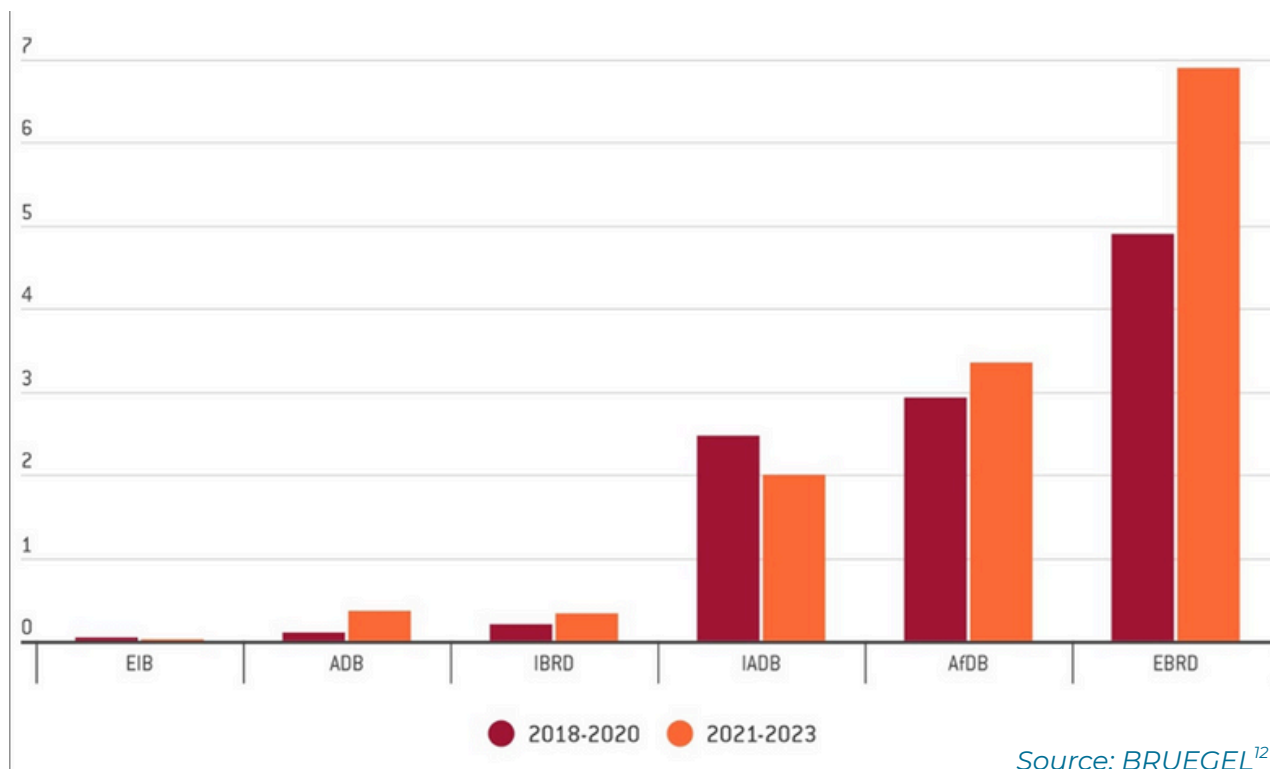
However, while the InvestEU programme – with its InvestEU Fund and implementing partners such as the EIB Group – offers a diversified set of guarantee products tailored to various risk profiles, including instruments intended to support higher-risk operations, stakeholder feedback indicates that a significant portion of financing has been directed towards lower-risk investments.

If European authorities can meaningfully reduce the risks associated with long-term cash flows through appropriate interventions, investments in green and transition activities will become more attractive, and **banks and in particular capital markets are likely to respond, given that many of these investments are more suitable for equity investments.**

The EU's capacity to mobilize private investment through risk-sharing instruments is influenced by how these instruments are operationalised across implementing partners. The EIB, as the world's largest multilateral development bank (MDB), plays a central role in deploying EU budget-backed instruments such as those under InvestEU. In these cases, the EIB assumes higher levels of risk in line with the mandate to demonstrate EU added value and mobilize private capital. However, when operating on its own balance sheet and without EU risk-sharing, the EIB has historically exhibited a more conservative risk appetite compared to peer MDBs, prioritizing projects with lower risk profiles as showed in the below figures of Bruegel.



Chart 5: NPL ratio, % of total loans, 3Y average



This conservative approach limits the EU's ability to support higher-risk, innovative projects that could drive significant economic growth and competitiveness. The report of Mario Draghi also suggests that to better leverage the EU budget and support private investment, there needs to be an increased appetite for risk, particularly in financing higher-risk and more scale-up investments.

The Commission's intended changes in improving the InvestEU guarantee programme¹³ echoes this by encouraging greater risk diversification and enhancing the scope of the guarantee to address key strategic sectors such as clean industry, defence, and digital technologies.

In the competitiveness compass, the European Commission recognised that in addition to direct public investment, public support will be required to de-risk and unlock private investment in the volumes needed. Given the size of Member States' national budgets (around 50% of EU GDP), the capacity of the EU to finance strategic public investment, including European public goods, will hinge on the prioritisation and coordination of national macroeconomic and fiscal policies towards this goal. In other words, Europe can only achieve its goals if **EU and national policies are aligned around the same objectives and reinforce each other** as many key levers, from taxation to labour markets to industrial policies, are largely or partly in the hands of EU governments.

In addition, availability and **accessibility of blended finance products for SMEs** and households remains an issue due to limited awareness, complexities of application, documentation requirements as well as high administrative costs in relation to the small scale of the projects.



Challenges for SMEs and households to access public funding

Limited awareness and capacities: Many SMEs and households are often unaware of available public support. SMEs also often lack the technical capacity to properly assess the risk and return of energy efficiency investments, and many energy efficiency investments have been limited to those with very short payback periods.

Complex application process: SMEs and households often lack the expertise to navigate complex funding requirements. Many SMEs lack the in-house financial or legal expertise needed to prepare proposals that align with the often stringent and technical criteria required for blended finance instruments. Similarly, households – especially in lower-income or rural areas – may struggle to understand and access available funding programs due to limited awareness, administrative burdens, and fragmented information across institutions.

Burdensome reporting: One of the major barriers is burdensome reporting requirement. Standardizing reporting frameworks across blended finance products would also reduce administrative friction. For instance, in the agriculture sector, many farmers lack access to specific climate and other environmental-related data about their farms.

High transaction costs: The small scale of projects makes it difficult to cover administrative and financing costs. Many of the projects require a certain ticket size to make them profitable. The relatively small scale of most of the energy efficiency projects is considered one of the market barriers for energy-efficient investments given the high transaction costs for potential investors. An additional challenge is the cost of technical documentation.

For example, investments in measures related to soil health are often quite small from an overall financing perspective for a bank, and it is difficult with current blended finance products to find a sufficient investment volume to make use of blended finance products.

Limited availability: Blended finance products for households are still not sufficient, but they are crucial, for instance, to lower initial costs e.g. for renovating houses and improving energy efficiency.

1. Barriers to scaling up transition finance

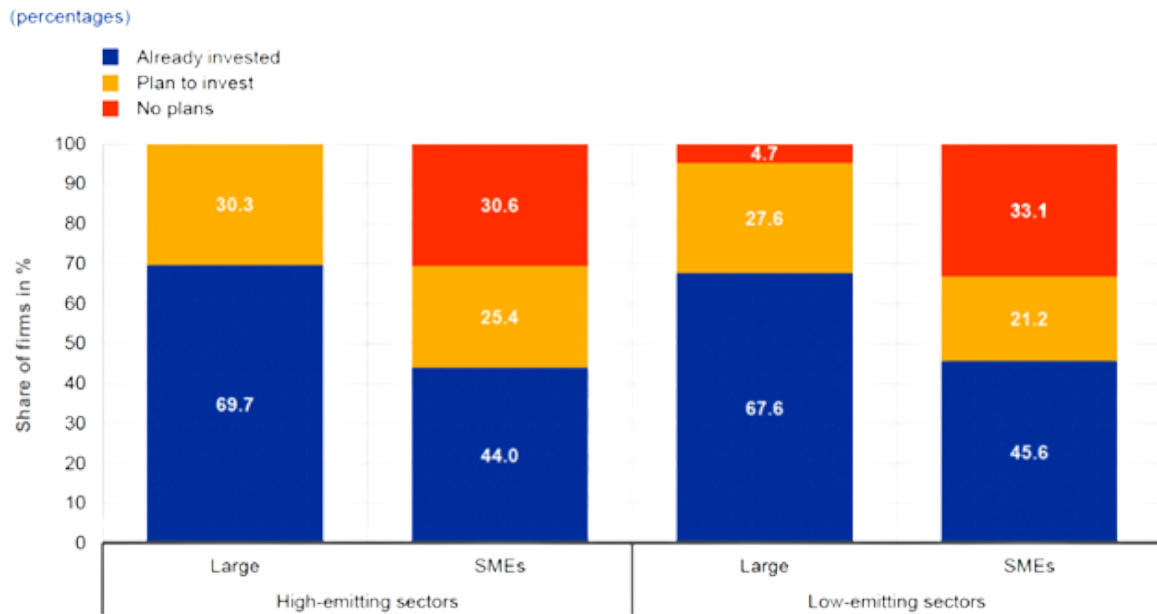
The primary barriers to scaling up transition finance are rooted in the real economy's conditions, which are yet sufficiently conducive to effective transition. Private investments are often constrained by lack of viable economic opportunities for companies in the real economy, unattractive risk-return profile of the investment, lack of financial capacity, lack of infrastructure, technology or its maturity, lack of knowledge and abilities to evaluate the viability or to realize the investments, uncertainties around demand and supply dynamics, lack of qualified employees to prepare and supervise relevant investments, in particular in SMEs or lack of insurance.

1.1. Lack of sufficient demand for sustainable finance

While the financial sector plays an important role in facilitating the change, banks are not ultimately the owners of investment decisions. Investments must first make economic sense to those who undertake them. Investments in sustainability must, in the end, be economically viable, beneficial and with risk comparable to the traditional ones.

EU companies show differences in their investment activity and plans to reduce their carbon emissions. While 69,7% of large firms in high-emitting sectors have already invested in the last five years and the remaining ones plan to invest in the green transition, only 44% of SMEs in high-emitting sectors invested in the same period. **30% of high-polluting SMEs do not have investment plans in place to reduce their environmental footprint.** Technical and financial support for the development and implementation of such plans would be useful.

Chart 6: Green investment activity by sector greenness



Source: ECB¹⁴

While this may vary from sector to sector and market to market, financial incentives to address environmental challenges remain insufficient. Companies as well as households lack incentives that will help environmentally positive projects become economically viable or commercially attractive. In other instances, the lack of demand relates to uncertainties in the future market developments, technological adoption or infrastructure barriers, as highlighted in the below section.

1

Lack of demand for sustainable and transition finance in economic sectors with low profit margins

Certain industries are operating with low profit margins, for example, agriculture. Farmers often lack financial capacity to make necessary emissions reduction-related investments or climate adaptation and resilience measures due to their low profit margins. **Government support for such investments is inevitable to ensure the transition of all critical sectors.**

2

Low demand for climate adaptation/resilience solutions

Barriers to private investments in climate resilience often include uncertainties linked to the financial benefits of the investments, disparity between investment horizon and pay-back horizon, upfront costs, lack of technical knowledge and inability to accurately price the avoidance of natural hazards and climate-related risks. **While the potential returns on investment of climate adaptation projects have been documented for several sectors, many investors do not perceive climate resilience measures as sufficiently profitable¹⁵ or as an immediate threat.** Lack of technical support to understand the risks, lack of understanding of the relevant adaptation measures per sectors/locations and their benefits, short term vision, uncertainties of risk events, overvaluation, immediate investment needs and undervaluation of future benefits as well as their difficulties to measure is considered a key impediment for the uptake of resilience measures and lack of demand for their financing.

3

Low demand for nature-positive investments

Concerning nature-positive investments, the fact is that the current landscape of nature-positive investments is very **scattered and segmented**. This challenge is typically compounded by **small-scale investments**, which are often seen by corporates as a "nice to have", but not as instruments that can significantly help finance their net-zero and nature transition goals.

The main challenge in expanding nature finance is the lack of new and innovative solutions for sectors like forestry, land use, and agriculture, which affect greenhouse gas emissions and nature degradation. The World Economic Forum mapped the current nature-based solutions projects within the agriculture and forestry sectors in the Global South at over \$21 billion. It identified key barriers to scaling, including the **lack of adequate and investable project pipelines**, the **significant upfront investments** required, and the **timelines** needed for nature-based solutions to be implemented and to yield higher economic and environmental outcomes than conventional agriculture and forestry alternatives. This aligns well with our observations in the market, including the perceived higher risks associated with investing in these geographies.

A nationwide/pan-European educational campaign is needed to show ESG risks and opportunities from a business perspective. Also, big corporations as buyers of nature-based solutions like agroforestry and organic agriculture can play a key role as they could stimulate demand for nature-positive products, helping these markets grow.

4

Lack of demand due to uncertainties in market adoption rates and technological development

Green and transition projects are typically **capital-intensive, require long-term commitments, and crucially present a high uncertainty** regarding future demand and related cash flows, which pose a considerable risk for investors. In addition to general uncertainties related to the need for a stable, predictable, and favorable regulatory environment, projects within green and transition industries are subject to **additional risks stemming from the inherent nature of these markets and uncertainties in future** demand, pricing and technology adoption rates.

Many projects face uncertainty due to **unclear supply and demand dynamics**. This is especially true with emerging technologies that are critical for the EU's long-term competitiveness, as they could provide EU companies with **leadership positions while reducing reliance on external energy sources**. The greatest uncertainty for emerging technologies relates to **market adoption and end-use applications, particularly which industries will adopt new technologies, at what scale, and how long these technologies will stay in the market**.

For example, while green ammonia is considered a potential fuel for shipping, it is unclear how quickly the shipping industry will transition from traditional fuels to green ammonia. Moreover, both green ammonia and hydrogen face competition from other emerging technologies. In the transportation sector, hydrogen competes with battery electric vehicles, and in industrial applications, it competes with carbon capture and storage (CCS) and other decarbonisation technologies.

Without clear demand signals or long-term offtake agreements, companies are also hesitant to invest in new technologies. **Lack of long-term revenue certainty (unclear cash flow projections)** is a major reason why banks hesitate to fund new technologies. This **uncertainty** makes the investment difficult to commercially justify from a risk and return perspective and limits financing opportunities.

Beyond high-risk new technologies, there are decarbonization technologies available that are proven but haven't been widely adopted/scaled due to high Capex costs. The high risk projects tend to be earlier stage and usually rely on startup VC-type funding but implementing technology that is proven to work into slow-moving, traditional industry can require different funding sources or incentives. While new tech is important, financing for emissions reductions using proven technology will also be important.

Energy-intensive industries need to adopt, where possible, the electrification route using low-carbon electricity, but to manage their fuel cost and reduce risks for their financiers (investors and debt providers), companies need government-backed green Power Purchase Agreements (PPAs) to provide long-term stability for green industrial projects.

While investors tend to have a broad understanding of different transition pathways for specific sectors, there is often a lack of clarity when it comes to what is going to be commercially viable in a specific country/region.

Nowadays, in many EU countries, the electricity price in commercial PPAs is not always sufficient to ensure profitability for renewable energy. To solve the problem, the EIB Group should support PPA agreements with some price/volume guarantee (a type of blended risk-taking with the PPA counterparty being guaranteed) – a hybrid CfD, where the EIB takes on some risks that are currently mainly covered by national support systems for renewable energy. However, this would create an ongoing cost for the EIB if the electricity price were low.

5

Lack of demand due to uncertainties in market adoption rates and technological development

Underdevelopment of infrastructure and supply chains represents a barrier to investments. Even in renewable sectors, banks observe a lack of interest from customers in establishing bigger renewable energy projects such as solar parks or windmills.

Investments in Europe's energy grids are necessary to reduce the risks of curtailment for renewable energy and move towards a net-zero energy system. However, European grid infrastructure is not sufficient to keep pace with the growth in renewables, leading to **long wait times for projects to connect to the grid.** Smooth integration of renewable energy sources into power grids is crucial to meet the expected increase in demand for electricity.

electricity. We believe, it is necessary to:

- **Streamline the permitting process:** Streamlining the process of securing permits is needed to boost the wind industry that many countries are relying on to meet their net-zero carbon emissions targets. One of the Europe's largest wind turbine manufacturers has warned of a "big discrepancy" between the ambitious targets set for the industry and the reality on the ground, highlighting the steep growth required to meet global climate goals.¹⁶
- **Speed up the process of connecting to the grid:** Situations such as in the UK, where hundreds of gigawatts of renewable energy are ready to join the UK grid, but some projects expect a 15-year wait time, should be avoided. The EU's infrastructure needs to be well prepared for renewable energy expansion.
- **Tackle energy storage issues to stabilise the grid infrastructure:** Coordination between market players is crucial to avoid spending available funds in a suboptimal manner. For instance, in Poland, there are currently parallel investment plans by smaller players such as owners of existing photovoltaic and wind farms in batteries or other energy storage technologies and larger players such as PSE (Polish Power Grid).

Policy solutions should be **regularly reviewed in terms of their effectiveness**, and a review process should be supported by regular dialogue with investors and corporates.

6

Lack of demand due to insufficient price incentives

Should unsustainable activities and products be more profitable/cheaper, at least in the short/medium term, companies and households will have less incentive to move to more sustainable activities and products or services. Public support should therefore be linked to policy objectives and positive impact, while high-emitting sectors should be supported in reaching their decarbonisation targets or decommissioning where transition is not possible. Rethinking public spending and aligning subsidies with EU objectives will likely be beneficial to the green transition. This includes phasing out harmful subsidies (oil and gas, elements of agriculture), and ensuring a level playing field by appropriately pricing externalities (carbon, pollution, water, etc).

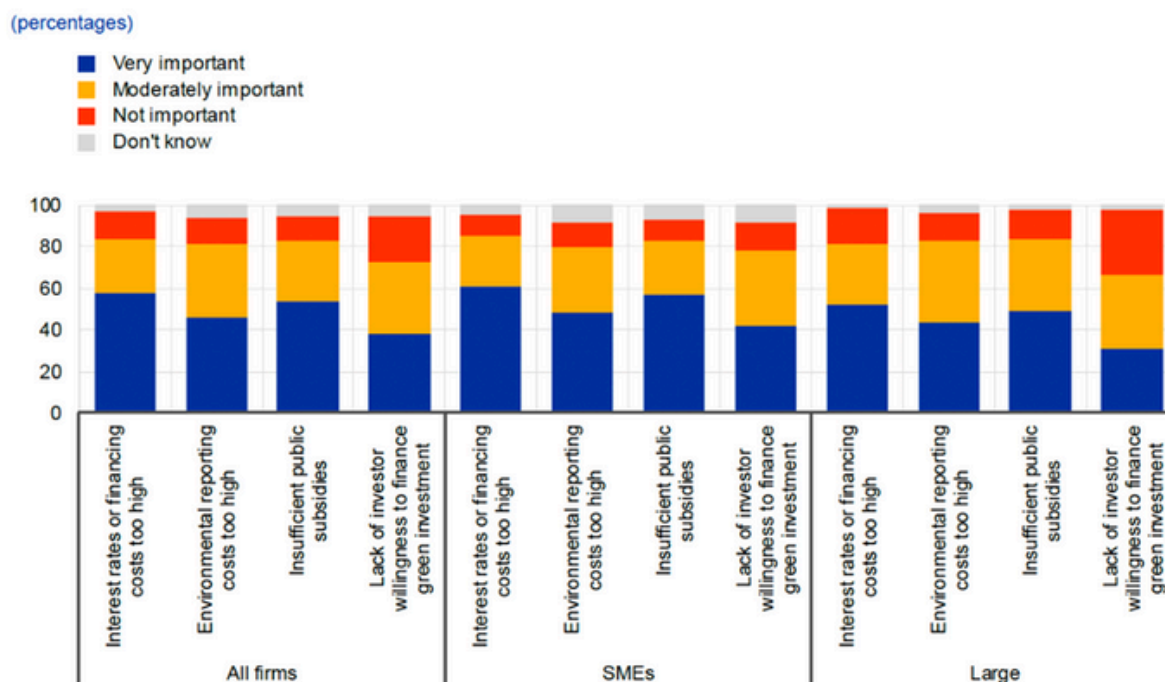
Active shifting of incentives to desirable elements of the economy to accelerate their development (electric vehicles, circularity), particularly where these elements of the economy have the potential to eventually outcompete in economic terms, but where that inflection point may be usefully brought forward, as well stimulation of the switch of the consumption decisions to be more aligned with the transition is key to its acceleration.

While the European carbon price mechanism is working relatively well, but it is important to increase carbon prices and clarify midterm expectations to enhance the investment case on low carbon technologies.

1.2. Lack of bankability due to the high risk profile of transition finance projects

Overall, the current system conditions of the linear and non-sustainable economy and the limited demand from the market for sustainable products and services, as well as the lack of government incentives often lead to higher risk profiles and insufficient cash flow projections that do not necessarily fit the regulatory requirements and business model of a commercial banks. While recognizing value to positive impact for environmentally beneficial projects, it remains unclear how this can be reflected and included in valuation and subsequently in loan origination processes and risk modelling of banks and private investors. Without any form of risk mitigation from the public sector, the risks remain too high for private financing.

Chart 7: Obstacles to securing financing for planned investment for climate transition



Source: ECB¹⁷

If there is **too high risk relative to the return, insufficient financial capacity** of the borrower to undertake the necessary investments or insufficient cash flows, the projects become non-bankable. Lack of visibility regarding the viability of the project (new technology, no established market, question marks around demand and price) also decreases the bankability. If business risk is perceived to be too high (e.g., lack of established business model, consumer payment capacity or technology), then these businesses cannot be financed without public guarantees, which protect against a proportion of downside risk at an appropriate premium, which does not push the cost of capital too high.

Many risks related to technologies/business models are binary. If the business model or technology is not adopted by the market, losses will likely be close to 100% with low recovery options. In these cases, it is not a question of risk/ return but rather a risk of total loss. Binary and high-risk projects need full risk coverage to be available for private financing.

The reason while many projects often fall outside the standard parameters of bankability, can be related to factors such as absence of offtake agreements, limited track records, unproven emerging technologies or intense global competition. Projects are also often not large enough for structured financing.

1

High-risk development/construction phase

Emerging technologies must usually reach a sufficient level of maturity for a project involving emerging technologies to become bankable. The bankability of the Clean Industrial Deal, which is expected to shape the EU industrial, trade and climate policy during the coming years, must also be considered a priority by policymakers.

Availability of adequate blended finance solutions must be ensured, including for clean industrial projects that entail higher risk. The risk cycle needs to be considered as the risk of often dynamic and varies along the project timeline. Public funds are usually needed to bridge the high-risk project development/construction phase to attract much needed private finance.

For emerging technologies in the early phase of scaling up, different instruments should be used than for more developed technologies, where business cases already exist.

A technologically neutral approach is important to support business cases.

2

Long tenor projects

Most of the large deals aimed at financing the transition (e.g., large infrastructure projects and project financing on renewables) are characterised by a long duration, leading to several constraints for banks, including a higher risk that needs to be priced.

Therefore, specific blended finance structures **that would support financing of long tenor projects** or reduce the duration of the exposures for banks (e.g. public finance stepping in for the later phase), or vehicles which can support refinancing are necessary to enhance bankability and improve pricing conditions.

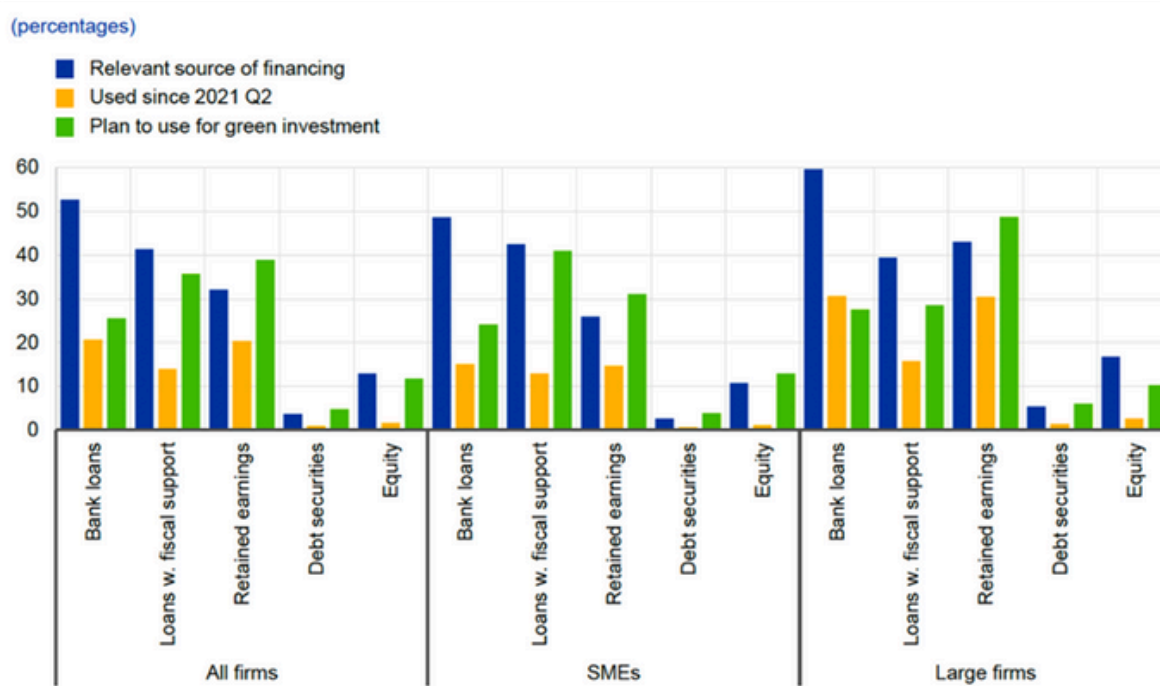


Banks are highly regulated and subject to robust and prudent standards for credit risk-taking, management and monitoring. Considering the constraints of the loan origination process and the limitations for risk taking in their lending portfolios, capital markets will have to play a bigger role in supporting the transition efforts.

Growing companies need solid equity backing before they can tap the debt market. Financing growing companies that typically fall under the supervisory definition of leverage finance, which is stricter than in the US, and banks are typically not equity investors. There is a greater need for equity financing to support project development activity, however, the potential of equity instruments in financing the transition is not fully tapped yet.

Access to pre-IPO equity capital plays a pivotal role in enabling scale-ups to reach suitable capitalization levels for public listing. Typically, this stage is supported by investors providing essential financing before exiting in the pre-IPO phase. However, **Europe's markets remain constrained by structural and cultural barriers, including a less developed equity culture**, the rise of alternative financing methods such as peer-to-peer lending, and the lower valuations that European IPOs tend to achieve compared to those in the United States. **Market fragmentation, exacerbated by regulatory differences across jurisdictions in areas such as insolvency, further limits the depth and integration of EU capital markets.** Currently, only a minority of firms are considering using equity financing as their financing source for the green transition (see graph).

Chart 8: Use of financing sources for firms planning to invest in the green transition



Source: ECB¹⁸



What is needed to develop the EU capital markets?

Improve the EU's pre-IPO equity risk capital ecosystem.

It is important to improve the EU's pre-IPO equity risk capital ecosystem (including private equity and venture capital). The latest AFME data reveals that risk capital funds account for only 4% of EU SME financing, far behind the UK (16.3%). Despite a decade of growth, the gap persists. The U.S. leads with €200 billion annually (0.85% of GDP), while the EU lags at €30 billion (0.19%). Even relative to GDP, the EU trails China (0.2%) and the UK (0.48%).

Mobilize EU savings

While successive iterations of the Capital Markets Union (2015 and 2020) have achieved progress, the broader objective of developing a fully integrated European capital market remains distant. A key challenge lies in mobilizing Europe's substantial savings pool, which exceeds €11 trillion [LETTA], towards productive long-term investment. Encouraging greater retail participation in equity markets requires both supply- and demand-side measures, including deploying suitable incentives for channeling household savings towards long-term equity investments, as well as regulatory adjustments that make equity-based financing a more attractive option for entrepreneurs. In this regard, reducing bureaucratic and cost-related barriers to market access for both issuers and investors and adopting governance frameworks that preserve founder influence - such as enhanced voting rights, contribute to fostering a more dynamic equity culture

Short-term solutions:

While structural reforms to develop capital markets will take time, there is scope for immediate interventions to expand the EU's financing capabilities in the short term.

- **Revitalization of securitization markets:** In particular, revitalizing the European securitization market, which has faced regulatory constraints and remains significantly smaller than its US counterpart, would facilitate greater risk-sharing between banks and institutional investors, improving capital velocity and supporting lending activity.

- **EU sovereign debt issuance:** Additionally, high-level reports, e.g., Draghi, support the introduction of expanded programs for sovereign debt issuance at the EU level, especially for cross-border infrastructure and innovation.

1.3. Lack of expertise in assessing the credibility of emerging technologies

Assessing credit risks associated with emerging technologies is particularly difficult for banks, primarily due to the need for specialized technical knowledge that often falls outside the scope of traditional financial risk models.

The challenge is especially acute for small and medium-sized banks, which often lack access to in-house technical expertise or external advisory resources. Without the ability to thoroughly assess the viability of these technologies, they may shy away from financing them altogether, limiting capital flows to innovative solutions critical for the green transition.

Banks that are leading cleantech financing are allocating dedicated risk teams with specific cleantech risk frameworks to make the right risk assessment with a better understanding of the characteristics of these technologies and mitigation actions.

1.4. Regulatory and administrative considerations

1

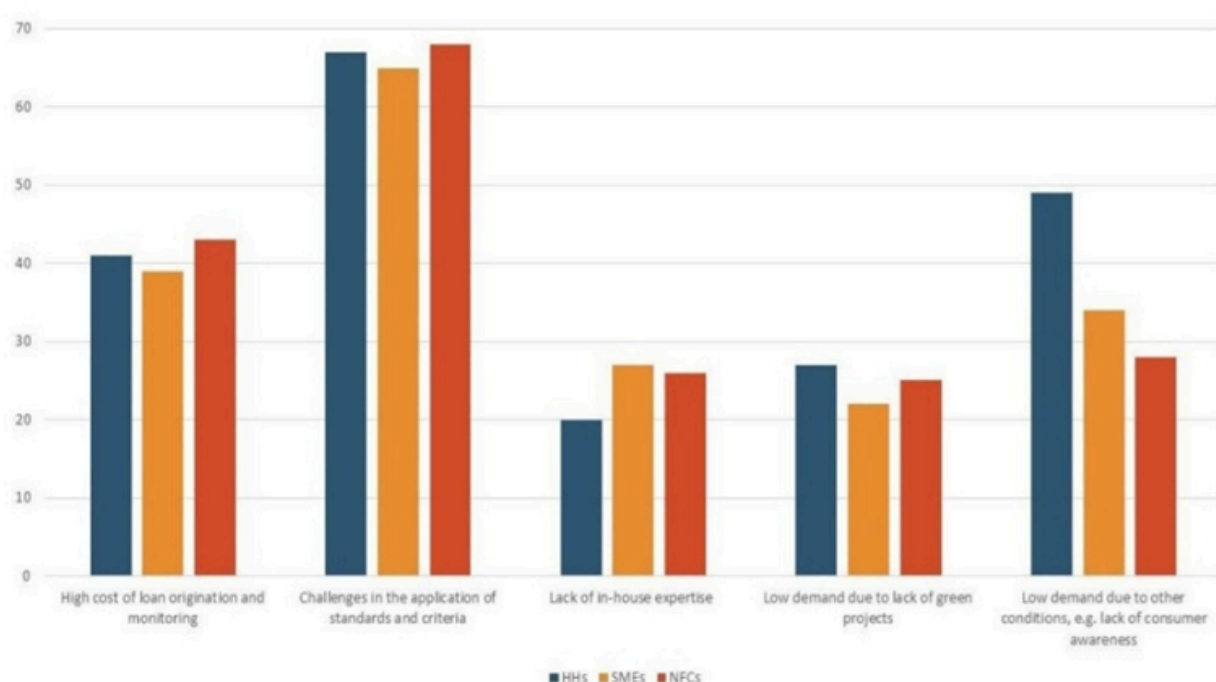
Sustainable finance framework

The EU Sustainable Finance Framework needs to be simplified, more usable and proportionate in terms of size, risk and impact. Overly complex and granular regulation has led to sustainable finance becoming a compliance

exercise. The regulatory framework as such needs to be reframed to promote financing of activities that contribute to the sustainability objectives, enhance competitiveness and support decision making while minimizing the burdens and improving consistency. It is not only about sustainable finance regulation, but the whole framework also needs to be consistent and conducive to transition and competitiveness, including prudential regulation and supervision.

Banks face challenges in the application of some standards and criteria (see the chart below from the ECB). The application of the EU Taxonomy, for example, is complex, time-consuming, and costly, and in most cases, associated data are not available or difficult to collect, so they are not suitable for the definition of green loans. In addition, there is a lack of expert knowledge or tools that would support the compliance assessment process. According to the below figure, this is considered to be the main obstacle for the growth of green loan market across all business lines.¹⁹

Chart 9: Main obstacles for the growth of green loan markets



Source: ECB²⁰

The lack of a common understanding of the nature of transition finance is also perceived as a barrier. Some industry initiatives, such as the GFANZ, work on scaling transition finance and set out a framework for considering the nature of transition finance strategies and guardrails, including those financing climate solutions, adapting firms, and the managed phase-out of

high-emitting assets. The European Commission, in its recommendation from June 2024, also recognized transition finance as the financing of climate and environmental performance improvements to transition towards a sustainable economy, at a pace that is compatible with the climate and environmental objectives of the EU. A further recognition by supervisory and regulatory authorities that financing high-emitting assets, which are on a credible path to decarbonisation, is a legitimate reason for temporarily increasing financed emissions would help to provide firms with the confidence to finance transitioning assets

2

Permitting and administrative processes

Many large-scale projects require long-term periods for their approval, even at the national level and complex bureaucratic processes. The length of the processes and uncertainty of the outcomes represent a barrier for investors to attract upfront private financing.

For example, a lengthy and uncertain permitting process for new power supply and grids is a major obstacle to the faster installation of new capacity. Investments in both power generation and grids require several years between feasibility studies and project completion. The EU has developed initiatives to shorten permitting, however, there are still significant hurdles to implementation, in particular lack of administrative capacity and digitalisation. There is a large variation in permitting times between Member States.

1.5. Overly fragmented blended finance ecosystem

The EU budget is fragmented across nearly 50 spending programs, which represent a barrier in particular to financing large-scale projects. There are too many programmes with overlapping policy goals and different and complex fund-specific rules on access to funding and compliance.

Access to EU funding is often considered complex and bureaucratic, making it time-consuming for private actors to navigate and benefit from available resources. Based on a survey of EBF members, the administrative burden for beneficiaries, regional and national authorities, is perceived as the largest obstacle to the EU budget achieving its objectives in decarbonising the EU's economy (see the survey below). There is a large room for the EU budget to become more effective and efficient in helping industries in their transition efforts. Fewer, clearer and simpler rules, simplified access to information about funding for beneficiaries and application of common rules, timelines and eligibility criteria to all relevant EU funds would substantially improve the usability.



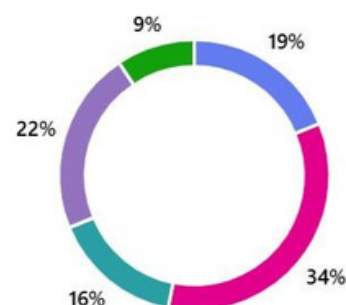


Results of the EBF survey

In the survey, 15 banks participated.

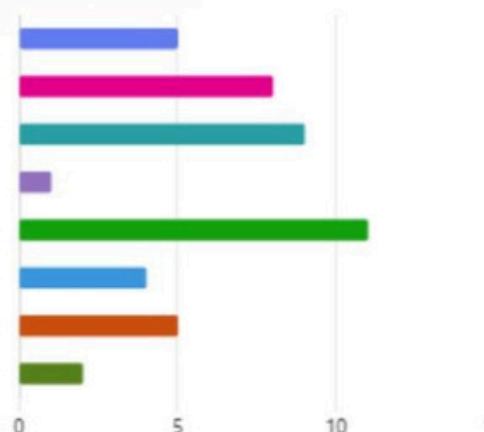
Question: Which of the following options could help the EU budget become more effective and efficient in helping industries in their transition efforts?

● Applying common rules, timelines and eligibility criteria to all relevant EU funds	6
● Fewer, clearer and simpler rules	11
● Reducing the number of EU funding programmes	5
● Simplifying access to and information about funding for beneficiaries	7
● Place greater focus on achieving results	3



Question: Which of the following do you see as obstacles to the EU budget achieving its objectives in decarbonizing the EU's economy?

● Too many programmes with overlapping policy goals	5
● Lack of coordination or synergies between programmes	8
● Different and complex fund-specific rules on access to funding and compliance	9
● Administrative capacity at EU, national and regional level	1
● Administrative burden for beneficiaries, regional and national authorities	11
● Insufficient alignment with national policies	4
● Lack of adequate focus on achieving results	5
● National regulatory environment makes EU funding less effective	2



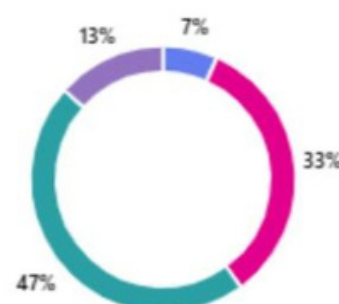
Question: To what extent does the current EU budget contribute to addressing the decarbonisation and environmental sustainability of strategic sectors?

To a large extent	0
Somewhat	10
Very little	5
Not at all	0



Question: To what extent does the current EU budget contribute to addressing the insufficient mobilisation of private financing for green transition (e.g., by derisking private investments)?

To a large extent	1
Somewhat	5
Very little	7
Not at all	2



The blended finance landscape is considered complex and fragmented, comprising numerous national and supranational initiatives, which limit how private financiers can leverage these solutions at scale. Not only SMEs and households but also banks have difficulties in **navigating through the existing blended finance system**. Blended finance solutions often do not align well with the timelines and business cycles of the private sector. **Simplicity and replicability should be the key feature of efficient blended financing systems.**

Despite the common EU objective of net-zero greenhouse gas emissions by 2050, the level of support for the transition efforts greatly differs between EU member states. The EU could consider adopting EU-wide tax incentives for blended finance projects, reducing reliance on upfront grants and leveraging on lessons outside the EU. In the US for example, the Cleantech

investments have surpassed \$155bn. This includes investments in key projects needed to transition the global economy, such as energy storage and infrastructure, EV manufacturing and charging infrastructure, hydrogen, solar and wind.

EIB Group product considerations

The EIF InvestEU Sustainability Guarantee for example is perceived positively in terms of a real impact on risk mitigation and helping projects get off the ground, grow and scale, or speed up. It has already unlocked investments in several public-private investments that would not have been possible without the support of public capital. It is a well-rounded blended finance instrument to reduce risks for banks and attract investments in high-risk sectors (e.g., renewable energy).

However, it remains **rather complex** with a high barrier to entry and with limited funds. It has insufficient funding volumes for large-scale projects, strict eligibility criteria, a lack of flexibility to negotiate framework contracts, and complex, time-consuming processes with heavy reporting. Also, some areas are underfunded (e.g. climate resilience) while some are excluded.

While EIB products and the EIF InvestEU Sustainability Guarantee theoretically have wide coverage, considering that the criteria are at least to some extent based on the EU Taxonomy Regulation, which does not cover some sectors and activities and often includes criteria that can still be considered complex and strict some types of transition projects therefore cannot benefit from these EU-level instruments.

The EIB Group's potential must be fully leveraged to crowd in private investment and bridge the transition investment gap. **De-risking financial instruments like budgetary guarantees are powerful tools, with an average multiplier effect above 15 times so far.**

1.6. Data considerations

Loan origination, risk assessment, and monitoring processes of banks require data from customers. On top, for a loan to be categorized as sustainable lending, banks need additional data, in line with their sustainability framework, to check for eligibility and mitigate greenwashing risk.

The eligibility assessment of the use of proceeds lending (where the allocation of the proceeds is known) involves the collection of documents regarding the purpose of the loan and the assessment of environmental impact/conditions. Some forms of transition lending, for example, sustainability-linked loans, also require documentation of progress (e.g., achievement of agreed targets or KPIs) throughout the lifetime of the loan, which can be perceived as a bureaucratic burden by customers.

For general-purpose lending of companies reporting under the CSRD (which will, after the Omnibus revision concern only a limited number of companies), banks obtain data from the public reports of companies.

However, in general, the efforts to document sustainability are perceived as too high compared to the benefits.

Companies, especially SMEs or retail clients, often believe that the benefits of documenting the financing as sustainable (e.g. pay for EPC certificates or document sustainability credentials and impact) exceed the efforts of doing so, as the data collection effort and associated costs outweigh the economic advantages of sustainable financing. The exceptions are companies whose business models, activities, or products have a positive impact.

There is also a lack of structured/machine-readable data to evaluate the sustainability profile of clients or projects. While more structured ESG data was expected via CSRD, the changes expected from the Omnibus initiative bring certain uncertainty as to the availability of data. Collecting ESG data if not coming in a structured format could be particularly burdensome. The unavailability of ESG data and a lack of incentives to document sustainability by companies are leading to situations whereby otherwise sustainable projects are sometimes banked as “normal lending”.

2. Banks' efforts in the current environment

2.1. Sustainable Finance

Sustainable finance encompasses financing of what is already environmentally sustainable and what is transitioning to environmentally sustainable and carbon-neutral over time. Banks have developed green, sustainable and transition finance instruments such as green loans and mortgages, and sustainability-linked loans and are also offering investment products that are linked to sustainability objectives. Banks are also partnering with public institutions to issue green bonds to finance large-scale sustainable projects.

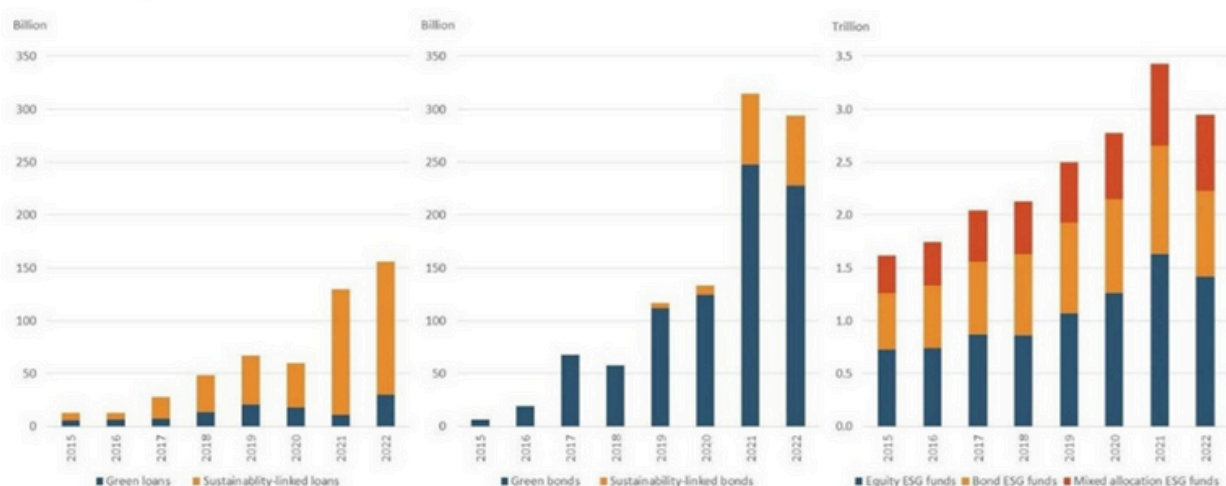
For example, in the Czech Republic, a public-private platform (Green Bond Fund) was created for issuing green bonds to finance renewable energy/energy-efficient projects. More incentives and demand would lead to creation of more products and financial innovation.

Green loans are designed for projects with positive environmental impacts, whereas sustainability-linked loans are tied to the borrower's future ESG performance, with financial terms such as interest rates linked to specific sustainability targets. Banks also provide more specific green loans, targeting, for example, electric vehicles, energy optimisation, solar panels, and loans for home renovations. Banks also provide innovation loans, impact loans, transition loans (based on credible transition plans of companies) and transition funds.

As part of their green lending, banks provide various monetary and non-monetary incentives to their borrowers for the uptake of these loans. Banks sometimes charge lower interest rates/fees for green loans and advances they grant to households and SMEs compared to similar non-green loans and advances.²¹

Green and sustainability-linked loan market is gradually developing across the whole EU. According to the EBA data, in 2022, the volume of EEA currency-denominated green loans and sustainability-linked loans has been growing since 2015, reaching EUR 156 billion at the end of 2022 (see graph).

Chart 10: Sustainable bank lending and sustainable capital market financing (outstanding amount in EUR billion and AUM in EUR trillion)



Source: EBA²²

Banks originate and monitor green loans as part of their general processes of loan origination and monitoring. The **EBA Guidelines on loan origination and monitoring** provide guidance on the integration of ESG factors in banks' internal governance for credit granting and monitoring. Banks must consider relevant information, such as the energy efficiency of the related economic activities and assets in the creditworthiness assessment of the borrowers.

Banks have developed their **internal sustainability frameworks** that contain criteria for the identification of sustainable products and services across all business lines. The EU Taxonomy and its technical screening criteria are also used by banks to define green loans and advances, although often only to some extent (e.g. using the substantial contribution criteria or some DNSH criteria as KPIs), given the difficulties in documenting and proving compliance with the EU Taxonomy criteria. However, the share of green lending remains low.

According to the EBA data (data as of December 2023), **banks' green loans and advances are on average 4.5% of their total loans**. The share of green loans and advances on banks' balance sheets varies across asset classes and institutions. The share of green loans and advances in total loans and advances is 11% in the household portfolio. **Over 98% of total green loans**

extended to households are financing residential real estate, while the remaining 2% is composed of green loans financing movable property, household equipment and appliances, credit cards and other green loans. However, the share of green loans and advances in total loans and advances is slightly over 2% in the non-retail SMEs, while in retail SMEs – only 1% of credit institutions' loans are classified as green.²³ **This is due to the small demand for green loans among retail SMEs and barriers identified earlier in the report.**

2.2. Banks' Advisory

Technical assistance and ESG-related advisory services are part of banks' services. Some banks have established dedicated teams or departments focused on providing technical assistance to their clients. These teams work closely with businesses to understand their unique challenges and opportunities, offering tailored advice and solutions to help them navigate the financial landscape. Even if there are no specific teams, technical assistance is often provided by way of arranging services, for instance, ESG-related advice and advice on structuring transactions. Banks are also advising clients on available public funding (subsidies and grants), including possible ways to combine several blended finance instruments for their projects.

- **Bank-created programmes.** To accelerate the transition efforts, banks have created programmes to help clients with the implementation of sustainability initiatives. They provide technical assistance and advice to prepare, for instance, energy-efficient projects, such as building retrofits or clean energy installations, in many cases covering the costs of the technical assistance.
- **Government-created programmes.** Governments have created programmes to offer EU-funded advisory services to businesses for green transition projects, helping them access funding and comply with regulations.
- **Private initiatives at the national level.** In some countries, private associations provide training and consultations to companies and households regarding sustainability and innovation.

2.3. Blended Finance

Blended finance is a financial structuring approach that can address specific risks at the level of an institution or portfolio, programme or project. **It allows investors and financiers to choose different risk tolerances while participating in the same project.**

The blended finance approach can bring together philanthropy, government and private sector investors and financiers with different risk and return expectations and time horizons. Those willing to take more risk can act as a capital cushion for senior investors who need to take less risk but are interested in financing positive-impact projects. By sharing the risks/benefits, public and private finance can leverage each other's strengths to support the transition. Blended finance has particular relevance when private finance is not capable of financing the project due to disproportionately high risks relative to prospective returns. **Public finance should act as a catalyst for private finance and complement, not compete with privately investable projects.** For the purposes of this report, blended finance means any deployment of public financing, the goal of which is to de-risk projects to attract private financing that might otherwise not occur.





Examples of blended finance at the global, EU, regional, or national level

EIB products

Loans, equity, and guarantees. The final beneficiaries are SMEs and other corporates. Commercial banks may collaborate with the EIB to offer resources for climate-related projects, including but not limited to renewable energy and energy efficiency upgrades.

EIF InvestEU Sustainability Guarantee

Through this program, backed by the European Investment Fund (EIF), banks can provide enhanced access to financing for businesses investing in sustainable projects. This guarantee reduces the risk for the bank, enabling better terms for borrowers engaging in green investments.

Regional level

The Nordic Investment Bank, for example, provides sustainability-linked loans and guarantees. NIB uses the InvestEU guarantee agreement to mobilise private investments in clean energy, the modernisation and decarbonisation of industry, critical raw materials supply, sustainable transport, environmental protection, bioeconomy, and sustainable data infrastructure in Nordic-Baltic countries.

National development/promotional financial institutions

Banks are actively using different public schemes that support sustainable lending. Various public schemes are aiming to facilitate the uptake of green loans in markets by reducing the cost of borrowing for environmentally sustainable activities across the EU. These schemes targeting borrowers and, in most cases, at the same time, supporting bank funding may take various forms such as preferential lending conditions, loan guarantees, grants, subsidies and tax relief. These schemes are facilitated via public banks or public authorities.²⁴ One of the examples is also Spain's Recovery, Transformation and Resilience Plan – a scheme that also supports ecological transition.²⁵

Scaling up blended financing

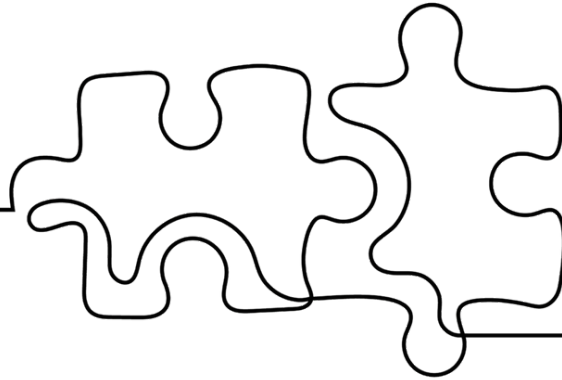
The most suitable products are those that can be easily leveraged by private financiers and alleviate the cost of capital quickly. We see the biggest merits in further exploring the following blended finance instruments and their combination in specific cases:

- **Credit guarantees:** Credit guarantees are considered the most actionable products to de-risk projects with a good track record of lowering risks for banks. Credit guarantees provide capital relief, so banks can allocate less capital to cover potential losses on guaranteed loans while at the same time not requiring direct deployments of public finance, so the leverage of public money could be maximized. For instance, if a project fails to generate the expected returns, the public entity providing the guarantee will compensate the private investors for a predetermined portion of their losses. This assurance can help unlock private capital by mitigating financial risks, and, at the same time, allowing banks to reduce RWAs (Risk Weighted Assets), optimising the capital profile as well as enhancing pricing competitiveness.
- **Grants:** Grants provide direct funding without the need for repayment. Grants are essential for desirable but high-cost and low-return projects. It could also be used in sectors with low profit margins, such as agriculture. This approach is already in use and relatively widespread, but it could be further reinforced to bridge the equity investment gap on certain projects, reduce risk for lenders (improving loan-to-value ratios), and unlock more private funding. Combining grants with loans is effective for large-scale projects, such as those related to transport or energy transition.
- **Subsidised loans:** Subsidised loans would allow households, SMEs and corporates to access investments, obtaining a more competitive and affordable cost of financing.
- **Subordinated Tranches:** In a financing structure, subordinated tranches are layers of debt or equity that are ranked below senior tranches in terms of repayment priority. In the event of a default, subordinated tranche holders are paid only after senior tranche holders have been compensated. Subordinated tranches typically offer higher returns to compensate for the increased risk. They are often used in structured finance to attract private investors by providing

providing a buffer that absorbs losses before they impact senior tranche holders. Public finance institutions or development banks may invest in subordinated tranches to improve the attractiveness of a project to private investors.

- **Subordinated loans:** Subordinated loans act as a buffer, improving the company's credit profile and allowing it to access senior financing on better terms. They can help leverage private investments but are currently underused. Their potential e.g. for renewable energy projects should be explored.
- **Fund structures with junior tranches:** Junior tranches take on the initial losses if the project underperforms, thereby protecting senior tranches. This tranche is typically funded by public entities, philanthropic organizations, or impact investors who are willing to take on higher risk to catalyse private investment. They help to de-risk projects by absorbing more risk, making senior tranches more attractive to not only banks but also other institutional investors like insurance companies and pension funds. Fund structures with junior tranches improve the overall credit profile, secure better financing terms, and attract a diverse range of investors. It would be important to identify and map the potential first-loss investors across the geographies.
- **Insurance and liquidity facilities:** They are especially needed for renewable energy and innovative tech projects to cover risks. Insurance covering specific risks, which banks cannot take, would be extremely valuable, for instance, covering the performance risk of certain new technology. CAT insurance needs a longer term (currently limited to one year). While there is EBRD emergency liquidity, it would be valuable to have access to technology risk insurance.
- **Standby letters of credit and convertible instruments:** They are less common but could address gaps in innovative and risky sectors.
- **Carbon Contracts for Difference:** These mechanisms de-risk investments in green projects by ensuring a stable carbon price signal and incentivizing investments in technologies like green hydrogen, carbon capture and storage (CCS), and industrial decarbonization. They function similarly to a standard Contract for Difference (CfD) used in energy markets but are applied to carbon prices instead of electricity prices.

Availability of different risk-absorbing structures and mechanism are important for an effective risk-sharing. To increase efficiency, we also suggest the creation of an EU digital platform for blended finance, which would allow easier access to public finance and guarantees together with a clear, transparent and easy to navigate guide to available public funding.



3. Recommendations to remove barriers

3.1. Need for an Incentives-Based Transition Ecosystem

The green transition requires appropriate business conditions that incentivise green innovation/new business models and provide a favourable environment for the development and adoption of low-carbon technologies. Policy-driven incentives to make sustainable choices attractive and feasible as well as available are essential. Key technological investments need to be considered a public good.

Removing the identified barriers, improving the project pipeline and bankability requires adjustments to the risk-return profile of the investments as well as:

- **Better communication and awareness: Tailored and clear communication to promote the uptake of projects that already make economic sense** (e.g. focus on resilience financing) **is needed.** Generic communication is not sufficient. It should be tailored to the needs of companies (if necessary, per sector) and households as to what is needed to make a business model more sustainable or what is necessary for households to adapt to climate change, as it greatly differs depending on the circumstances. It is vitally important to translate sustainability and transition aspects into a **simple language**. Raising awareness through education, knowledge centres, and promotion of success stories is vital to increase the project pipeline. The one-stop shops as foreseen in the EPBD are good examples and can be replicated for other sectors than building. Nationwide communication initiatives to raise awareness about ESG risks and opportunities, as well as support mechanisms, should be considered.

- **Improved incentives system: More predictable, transparent and easy-to-use incentives**, such as subsidies/grants and tax benefits to improve the economic viability of relevant projects, are essential to encourage transition. For instance, public subsidies to improve the economic viability of energy efficiency investments and critical national infrastructure, like the grid and energy storage, are needed. To remain competitive, Europe may need to reevaluate and expand its incentives and policies, ensuring that framework conditions match or exceed global benchmarks for investment opportunities in green and transition industries and make the level of support consistent across the Member States. Finally, it is important to phase out harmful subsidies, particularly for the oil and gas sectors.
- **Simplification:** Making the EU **sustainable finance framework more usable and pragmatic, and the application processes for blended finance products less complex**. The Omnibus Simplification Package to streamline and simplify the EU sustainability regulatory framework, as well as the Clean Industrial Deal, are important to support the EU companies in their transition efforts. Nevertheless, it is also important to **streamline permitting and licensing processes** for transition and sustainable investments (e.g., for renewable energy and infrastructure) and reduce the bureaucracy burden. The EU must make a major effort to accelerate the speed of administrative procedures.
- **Better integration of EU and national legal frameworks:** Alignment between EU sustainability goals and local regulatory frameworks is important to attract and ease cross-border investments. **Political commitments, clarity and certainty in terms of support for green transition and technologies considered viable and durable for the transition in the long run are essential to mitigate the technological and political risk.**
- **More support:** The public sector could provide better technical assistance. A network of public advisors, consultants and strategic advisors should be considered at local level so that companies can better understand mid-term cost efficiency, for instance, from renovating buildings. Technical assistance to prepare detailed business plans and feasibility studies is also needed as well as better guidance for households and businesses in accessing sustainable finance.

3.2. Enhancing the Blended Finance Ecosystem

Better consistency among blended finance criteria and business practices would boost sustainable initiatives, making them more accessible and facilitating the scale-up of private financing. Standardization of blended finance instruments, at least at the EU level, is necessary based on replicable and simple procedures, leveraging digital tools. The EU should also create a website dedicated to available public/blended finance products across the EU.²⁶

Public financing considerations

Blended finance products are essential, particularly in sectors that involve high capital costs, low profit margins, longer payback periods and/or technological risks. It is important to have a strategic focus on hard-to-abate industries. While some blended finance products are already tailored for specific sectors (e.g. renewable energy, energy efficiency), there is room for improvement.

Hard-to-abate industries: Transition finance for high-emitting sectors to support their decarbonisation may result in highly financed emissions in the short term but should be recognised as an appropriate strategy subject to safeguards which ensure that the finance is genuinely decarbonising. Industries such as steel, cement, and aluminium face significant challenges in reducing their carbon emissions due to the nature of their processes and the high costs associated with transitioning to low-carbon technologies. Furthermore, emission reductions in hard-to-abate industries such as steel, aluminium and cement production are particularly challenging due to their heavy reliance on fossil fuels and high-temperature heating requirements.²⁷

Renewable energy: Investments in energy supply should be the backbone of the energy transition in Europe. The deployment of wind and solar panels should provide the main source of renewable power. However, large renewable energy projects, like solar and wind farms, often face high initial capital costs and long payback periods, making them less suitable for lending. Blended finance could improve the risk profile or shorten the duration of the exposures whereby banks could finance only a certain phase of the project.

Sustainable transport: Sustainable transportation infrastructure, including electric vehicles and public transport, requires a high upfront investment. The transport sector is a major GHG-emitting sector, where emissions are increasing and investment needs are sizeable. The growing demand for travel and goods transportation poses a real challenge to the transition in this sector. Investing in ramping up electrification and increasing energy efficiency and the use of biofuels plays a major role in the decarbonisation of road transport, although the price level of electric cars and regulatory uncertainty constitute obstacles.²⁸

Buildings and construction: Buildings are pivotal in the European Union's pursuit of climate neutrality, accounting for approximately 40% of final energy consumption and 36% of energy-related greenhouse gas (GHG) emissions. Energy-efficient buildings and green infrastructure require substantial investments. Especially problematic is the residential sector, whose energy efficiency is critical to reducing GHG emissions in the EU, which, however, poses challenges for inclusive and just transition, as the most vulnerable part of the population will not be in the position to renovate.

Addressing energy poverty is essential for ensuring that vulnerable populations have access to affordable, sustainable energy, while simultaneously reducing overall energy consumption and greenhouse gas emissions in the EU's quest for climate neutrality.

Social and affordable housing projects, which are key urban regeneration initiatives with strong social and environmental benefits, often require the reclamation of large urban areas. This initial phase is typically marked by significant uncertainties around project costs and timelines, which can also impact the later stages of development. As a result, public sector involvement, especially during this initial phase of reclamation, is essential to ensure the project's successful implementation and to help mitigate the financial risks for banks.

Agriculture and food: Transition to regenerative agriculture is still low due to transition time, expertise and temporary financial gap. Funding is required over a long time, and it may take up to a decade (or longer) to see any form of benefits. Investments also involve significant uncertainty and risk such as related to soil health. These types of investments are challenging for banks or individual farmers to finance.

More Targeted Blended Finance Products

SMEs and households: While blended finance is also available to SMEs and households via guarantees, it needs to be significantly simplified to improve scalability. The administrative costs and complexities often offset the benefits of small-scale financing. The following could help to facilitate the sustainability efforts of SMEs and households:

- **A one-stop shop solution for SMEs** – a single point where they can access all the necessary information and receive advice (project preparation, legal advice...).
- **Increased outreach to SMEs and households** about available sustainability solutions, risks, opportunities and impacts
- **Targeted incentives to increase demand** where market solutions are not available or not affordable (e.g. to certain households). Public subsidies should not distort markets.
- **Innovative approaches to de-risking.** For example, in many emerging and developing countries, insurance products have been developed to cover any shortfall in projected savings
- **Increased accessibility of blended finance,** including micro-blended finance products. Currently, most of these tools are designed for large projects

Innovative clean technologies: The uncertainties around emerging technologies (e.g. hydrogen, carbon-capture) – future uptake competition with emerging technologies etc make these investments particularly risky, especially in the startup phase but also in the growth phase. Current blended finance products lack sufficient focus on startups and scale-up phases, leaving gaps in early-stage funding.

Climate resilience: Blended finance products related to climate resilience (e.g. to prevent flooding), particularly SMEs and households are limited across the EU.

Fit-For Purpose

Blended finance products could be made more accessible, usable and attractive for both banks and their clients by reducing complexity, prioritising guarantees and other de-risking instruments, and ensuring efficiency in the deployment of blended finance solutions. A significantly decreased administrative burden and simplified procedures to use blended finance products – both for banks and for banks' customers – are essential to increase the use of blended finance products.

Blended finance products should be more:

1 Structured and Usable

Existing blended finance products lack consistency in how they are designed. They should be simple and not over-structured. Products that are well understood by the market (e.g. vanilla guarantees) should be scaled up. More standardised products will also be more attractive for clients of banks that are experiencing challenges in navigating through the complexities. There is a need to simplify documentation and approval procedures to reduce time and administrative burden. The application processes of current blended finance products are rather complex and require expertise. Administrative complexity and lengthy approval processes are discouraging. Integration of multiple financial tools in one project is challenging. It is also difficult to navigate the rules governing the compatibility of grants with loans/private investments. Opportunities for leveraging diverse funding streams to maximise project impact are often missed.

2 Digitalised

Digital tools should be developed to help banks' clients access sustainable finance products, including blended finance. Digital platforms that allow clients to easily access information about available financing options and eligibility criteria would help. The EU should create a centralised blended finance digital platform that consolidates EU, national, and private finance options in one place. A better guide to available funding should be considered as well.

3 Timely

One of the issues with blended finance identified by investors is the length that it takes to approve specific projects. The application process is burdensome, with strict eligibility criteria, lengthy approval times in some cases, and heavy reporting requirements. While the need for careful consideration of investments is understandable, the pace and uncertainty of the process can pose an additional hurdle for private investors. The EU should especially fast-track access to blended finance through standardised processes for SMEs. It's crucial to make blended finance appealing from the start and flexible enough to quickly address any issues that might arise. Interoperability of due diligence when combining multiple public finance providers should also be considered.²⁹

4 Cost efficient

Administrative costs for small-scale projects, especially for SMEs and households need to be reduced. Blended finance products need to be available and attractive also for smaller funding amounts. The disproportionality of the administrative costs for smaller projects needs to be addressed.

5 More available

Much larger amounts of public finance are needed to cover early-stage project financing. The European and national ETS revenues could be leveraged to de-risk projects and facilitate access to finance, although also not expected to be sufficient to cover the funding needs.

6 More focused

Blended finance products should be more focused on transition and enablers (e.g. the EIF guarantee).

7 Focused on higher risk

The EU should further foster the risk appetite of the EIB and other EU institutions providing blended finance products. EIB group should support higher-risk clean industrial projects critical to Europe's transition such as early-stage technologies, carbon capture, innovation and clean manufacturing scale-up, while the more mature and lower risks projects and technologies are better fit for private financing.

If the EIB Group focuses its InvestEU and other EU budget-backed operations on higher-risk projects where market failures are most evident, and allows commercial institutions to finance mature, lower-risk technologies, it can maximise EU added value and avoid displacing private capital. This approach aligns with the additionality and impact assessment frameworks applied by the EIB and supports the crowding-in effect highlighted in the InvestEU Interim Evaluation. If EIB Group were willing to approach projects with higher risk and let the more mature projects and technologies be financed by commercial institutions, it would create space for the private sector.

8 Less burdensome

Narrow down burdensome reporting requirements arising from these products for banks and their SME customers. Standardising reporting frameworks across blended finance products would also reduce administrative friction. EIB Group's potential must be fully leveraged to crowd in private investment and bridge the transition investment gap. EIB Group's mandates should therefore be broadened and the procedures simpler, faster, and more flexible.

Anexes

Annex 1: Clean Industrial Deal and InvestEU directive key proposals

Clean Industrial Deal: Key proposals

Industry focused

- **Action Plan for Affordable Energy** [lower energy bills in the short term, accelerating clean energy + infrastructure (electrification from 23% to 32% in 2030 – annually + 100 GW of renewable energy), clean manufacturing and functioning gas market (interconnected Energy Union)]
- EU & National level – **National Energy and Climate Plans** – to translate national strategies into concrete actions
- Recommendation on energy taxation – **Energy Taxation Directive**
- Addressing **permitting-related** obstacles
- Stimulating **demand for decarbonised products** – Cleantech, market for captured carbon
- Align public spending with resilience and sustainability criteria – revise the **Public Procurement Framework**
- Include sustainability requirements and criteria in product legislation, and Voluntary labels on the carbon intensity content of industrial products
- Promote the update of renewable and **low-carbon hydrogen**

- Accelerating **Critical Raw Materials Act** implementation and adoption of the **Circular Economy Act** / Green VAT initiative (second-hand products)
- Accelerating pending and new **Free Trade Agreements, Clean Trade and Clean Trade and Investment Partnership** – develop strategic clean value chains
- Improving **CBAM** (simplification plus comprehensive review and extension)
- Protecting EU industry – (**Foreign subsidies regulation, Trade Défense Instrument**)
- **Skills and social implications – Union of Skills and Quality Jobs Roadmap**

Finance

- Additional annual investments needed in energy, industry and transport – **EUR 480 billion**. MFF – key enabler
- Simplification of state aid rules (by 25 July 2025), new **Clean Industry State Aid Framework** – crowd in private investments, longer horizon, more predictability, simplified rules
- Competitiveness Fund – **Industrial Decarbonization Bank** – EUR 100 billion to support industrial decarbonization/electrification (Hoekstra hoping for additional EUR 300 billion mobilised through private funding):
 - Innovation Fund (EUR 6 billion in 2025)
 - Invest EU (additional EUR 50 billion) – to leverage private funding, to increase its risk-bearing capacity and the MS compartment of Invest EU
 - **EIB new initiatives/derisking instruments** – Tech EU investment programme, Cleantech Guarantee Facility (additional EUR 50 billion), one stop shop for Important Project of Common EU Interest, trade finance instruments, advance payment guarantee – EIB pilot programme for Corporate Power Purchase, focus on small and

midcaps and energy intensive industries, derisking offtake of PPA, grid manufacturing guarantee

- Funding from ETS (pilot with EUR 1 billion auctions)
- **R&I Horizon Europe** pilot call EUR 600 million (26-27)

InvestEU Directive: Key proposals

- **Increase the EU's investment capacity** – mobilise additional EUR 50 billion of investment by:
 - Increasing the size of the EU guarantee by EUR 2.5 billion, and
 - Facilitating the combined use of the InvestEU guarantee with existing capacity available under three legacy programmes (EFSI, CEF Debt Instrument and InnovFin Debt Facility) to support new InvestEU financing and investment operations.
 - The increased InvestEU capacity will be mainly used to finance more innovative activities in support of priority policies, such as the Competitiveness Compass and the Clean Industrial Deal.
- **Simplification of administrative procedures:**
 - Reducing the frequency and the content of some reports, for instance, exempting small final recipients such as SMEs, as well as the application of certain rules (e.g. the adjusted application of the SME definition for certain financial products), in line with the principle of proportionality.
 - Such simplifications are expected to save around EUR 350 million for implementing partners, financial intermediaries, and final recipients of InvestEU funds.

Annex 2: Public money as a lever for private finance - use cases

Transition Finance	
Various commercial banks #usecase1 Decarbonising steel production – replacing coal with hydrogen.	Sydbank #usecase5 Improving lending conditions to SME customers, including for the development of sustainability projects.
Santander #usecase2 Boosting Europe's wind power manufacturing sector and accelerating the energy transition	J.P.Morgan #usecase6 The development of innovative electrolysis technologies to produce green hydrogen in a more energy- and cost-effective way.
Santander #usecase3 Improving the energy efficiency of existing buildings (renovation) and the construction of new energy-efficient buildings	Banco Português de Fomento #usecase10 Nine ESG-aligned guarantee products to support sustainable investments, especially among SMEs and small Mid-Caps, in key sectors such as carbon reduction, innovation and clean mobility.
Intesa Sanpaolo #usecase4 Modernisation of an Italian Railway Line, helping to reduce the environmental impact of transport.	BBVA #usecase11 Supporting Spanish SMEs and Energy Transition. Dual objective of advancing the energy transition and strengthening the competitiveness of Spanish SMEs and mid-caps.

BBVA #usecase12 Catalyzing Innovative and Sustainable Startups	Arion Bank #usecase15 Better lending conditions for SMEs that are making sustainability investments, for instance, green car loans.
BBVA #usecase13 Financing Sustainable Housing by Spanish SMEs and Mid-Caps	Austrian Bank #usecase16 Developing and Maintaining Solar Panels and Wind Parks
BBVA #usecase14 Financing a French Gigafactory for EV Batteries	

Climate Adaptation Finance

ABN Amro, ING, Rabobank #usecase7 Loans directly linked to climate adaptation for companies and projects.	KfW Development Bank #usecase9 Boosting the climate resilience of companies – improving climate protection or adapting to the consequences of climate change.
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Use case 1 – H2 Green Steel – Decarbonising Steel

Project:

H2 Green Steel was founded in Stockholm in 2020 to decarbonise the hard-to-abate steel industry, which is responsible for around 5% of CO2 emissions in the EU and 7% globally. According to the International Energy Agency, it is currently the largest industrial consumer of coal, providing ~75% of its energy demand.

H2 Green Steel's steel plant is replacing coal in the steel production process with hydrogen, which is produced through electrolysis in which the electricity is powered by renewable sources. Using green hydrogen-based fully or primarily on carbon-neutral electricity in steel-making, the objective is to abate close to 90% or more of the CO2 emissions associated with traditional blast furnace steelmaking. The green steel from the plant will have a carbon footprint close to zero, with up to 95% less CO2 emissions compared to steel produced using coke-fired blast furnaces.

Money raised:

H2 Green Steel has raised €3.5b in senior debt and an up-to-€600m junior debt facility with the crucial support of public finance, including the following:

- €250m grant agreement under the EU Innovation Fund, which supports innovative projects that aim to speed up the decarbonization of European industry and accelerate the green transition.
- Green credit guarantee from Riksgälden (Swedish National Debt Office) that has covered significant amounts of the private finance provided to the company.
- Export Credit Agency covered financing through Euler Hermes, which helped to further de-risk the project for private lenders.

- The EIB and the NIB took part in the project finance deal to support H2 Green Steel's large-scale production facility in Northern Sweden. The EIB contributed €314 million, of which €200 million was backed by a guarantee from the Commission under the InvestEU programme, and €114 million of **intermediated financing was provided through commercial banks** participating in the project financing. The NIB provided €57 million to the project finance package, of which €9 million was supported under InvestEU.

As shown in this example, public finance plays a crucial role in de-risking and catalysing private investment. Public finance support, such as guarantees from the EIB and Nordic Investment Bank, was instrumental in attracting private investment and making the projects viable.

Use case 2 – Boosting Europe’s Wind Energy Manufacturers

Money raised:

The EIB is providing a €500 million **counter-guarantee enabling Santander to create a portfolio of bank guarantees** of up to €1 billion, expected to unlock €8 billion of investment to support wind energy manufacturers in Europe.³⁰

The agreement is part of the EIB’s €5 billion wind power package to boost Europe’s wind power manufacturing sector and accelerate the energy transition. This EIB financing scheme is activated through agreements with the sector’s main lenders like Santander. Other banks benefiting from EIB’s wind power package are BNPP, SG, Intesa Sanpaolo, Commerzbank and Deutsche Bank. It is a key component of the European Wind Power Package launched by the Commission and is designed to further accelerate a just and swift transition to net zero while boosting home-grown industrial innovation.

The leverage effect of the EIB counter-guarantee is expected to mobilise additional funding from other investors to support increasing production and accelerate wind energy development, helping to stimulate investment in the real economy.

Sectors:

The guarantees back investments by companies manufacturing wind energy and grid interconnection equipment, as well as key components for the wind sector. This enables the manufacturers to receive advance payments as well as to provide performance guarantees when taking on new wind projects. The guarantees scheme also enables manufacturers to pay their suppliers in advance for the supply of wind farms and the related wind value chain components, which include turbines, grid connection infrastructure, cables and transformer stations.

Use case 3 – Improving Energy Efficiency in Buildings

Money raised:

The EIB Group – comprising the EIB and the EIF – **signed a synthetic securitisation with Santander** to support new investments in energy efficiency in Portugal worth €183 million. The operation focuses on the renovation of existing buildings to improve their energy efficiency, as well as the construction of new buildings meeting high energy efficiency standards. This deal builds on the success of a similar transaction signed between the parties in 2023.³¹

As part of this agreement, the EIB Group provides Santander with EUR 91.6m of unfunded protection to an upper-mezzanine tranche, enabling the latter to grant €183m, i.e. double that figure, in new financing for green mortgages. The securitisation structure includes a lower-mezzanine tranche protected by private investors.

Beneficiaries:

The beneficiaries of such support are individuals and homeowners' associations, together with SMEs and mid-caps. In addition, Santander is currently benefiting from advisory support under the EIB's Green Gateway facility with a focus on sourcing, assessing and reporting on green projects.

Supported projects:

Projects supported by this operation will benefit from competitive financing terms to reduce GHG emissions, improve air quality and encourage climate resilience. Investments can be up to €25 million, with a maximum of €12.5 million in financing per project and a minimum term of two years.

Use case 4 – Modernization of an Italian Railway Line

Project:

Modernisation of Palermo-Catania railway line (178km). The transaction facilitated the implementation of large-scale infrastructure projects and became a benchmark for the implementation of green strategic infrastructure.

Money raised:

Intesa Sanpaolo Imi Corporate & Investment Banking Division joined the EIB in the project to modernise the Palermo-Catania railway line (178 km), the first of its kind in Italy in the infrastructure sector, through an innovative financial operation that will provide total resources of 3.4 billion euro.³² The transaction consisted of:

- €800 million in direct financing from the EIB to the Ministry of Economy and Finance (MEF), of which the first €200 million tranche has already been executed.
- €1.3 billion counter-guarantee, also provided by the EIB and developed in conjunction with Ferrovie dello Stato Italiane, in favour of financial intermediaries. The first €500 million of this sum has been allocated to Intesa Sanpaolo, the bank that pioneered the project by helping to outline the instrument, and €300 million has been allocated to CDP. The remaining €500 million will be allocated to other financial intermediaries at a later stage.
- The 50% counter-guarantee will generate guarantees from financial institutions amounting to twice the EIB commitment, resulting in a total of €2.6 billion in guarantees available to implement construction contracts and subsequently start work.

Use case 5 – Better Lending Conditions for SMEs

Project:

Sydbank has entered an agreement with EIF as part of InvestEU and has obtained a guarantee to offer favourable lending conditions to SME customers. This includes lending activities to SMEs which concern sustainability. Sydbank is also on the verge of starting a collaboration with the EIB for medium-sized companies. It goes for both programmes that the guarantees that they provide to Sydbank as a commercial credit institution enable medium-sized us to engage in more risky lending activities from which they would have otherwise abstained.³³

However, there are also challenges to these programmes. While Sydbank does not yet have concrete experiences with EIB, it is a general impression that the EIB programme is broader and more commercially oriented and therefore less burdensome to handle. The EIF, on the other hand, has proved increasingly difficult. Compared to previous years, the current guarantee program under EIF is burdensome to handle, especially because of the criteria listed in the Use Case Document in terms of which activities qualify as eligible sustainable activities. These criteria have become increasingly strict and complicated to navigate in terms of whether the activity qualifies as an eligible sustainable activity. Another burdensome aspect of the EIF guarantee programme is the requirement for documentation and reporting. We must report on a range of different data points. This is difficult to integrate into our internal reporting system, and this data is therefore handled manually, which complicates this process further.

Use case 6 – Supporting New Technologies

In March 2024, the EIB teamed up with private investors, including J.P. Morgan, to support the development of innovative electrolysis technologies needed for Europe's green transition. The EIB has agreed to support Germany-based Sunfire's solid oxide electrolyzers toward first commercial production with up to €100 million in venture debt, of which €70 million has been signed with the help of InvestEU finance. Also, Sunfire secured an additional € 215 million in a Series E equity financing round. The agreement will support Sunfire in developing electrolyzers to produce green hydrogen with more energy- and cost-effectively for industry processes, replacing the use of fossil fuels in high energy-consuming sectors like chemicals and steel.³⁴

Use case 7 – Financing Climate Adaptation Solutions

Specific funds or loans for climate adaptation (as a subset of green loans).

The **NWB Water Innovation Fund** focuses on innovative and sustainable projects of water boards like innovations in the field of climate adaptation, climate mitigation, circular economy, biodiversity, water quality, flood risk management and the energy transition. The NWB Water Innovation Fund provides equity or subordinated capital in the form of a loan. It always involves co-financing: the fund contributes a maximum of 50% of the total required risk-bearing capital, and at least 1/3rd of the total required risk-bearing capital is contributed by one or more water boards. The maximum funding contribution from the fund is €2 million per application.

Hagelunie's innovation fund provides financial support to innovation projects for agriculture and (greenhouse) horticulture. Its roots lie with NV Hagelunie, the insurer for the plant-based sectors. Hagelunie offers a financial contribution of 50% of the costs for research projects in agriculture, including more efficient methods of management and the reduction of damage risks in agriculture or horticulture.

The EIB also finances adaptation to climate change. For example, in the Netherlands, in some cases, the EIB offers impact loans directly linked to climate adaptation to companies and projects, for instance, to the drinking water company PWN. **Impact loans from the EIB are also often available at advantageous financial conditions through commercial banks such as Rabobank.** For instance, the EIB is providing a EUR 200 m loan to NWB to improve flood protection and water quality in the Netherlands. NWB Bank will channel a total of EUR 400m in financing to Dutch water authorities to finance small-scale projects primarily focusing on flood protection, wastewater treatment and water level management, for example via improvements to locks and sluices, improving preparedness for the adverse effects of climate change.

Loans for projects – The Green Projects Scheme – is a joint scheme of the Ministries of Infrastructure and Water Management and Finance for green financing in the Netherlands. Various banks make use of the scheme and are therefore recognised as banks with a green fund. They can apply for a green certificate from RVO and use it to finance their customers' sustainable projects at a lower interest rate. As a result, savers and investors who deposit money benefit from a tax advantage. For example, the Floating Office has

been made possible in part thanks to the Green Projects Scheme. Thanks to the green certificate issued by RVO, they received a financial benefit from a loan from ABN AMRO Groenbank BV. Since 2016, the scheme has also had a Climate Adaptation project category, with the following subcategories:

- Retention area
- Building- and site-related water storage
- Innovative cooling of buildings
- Vegetation roofs

Use case 8 – Unlocking structural barriers to investments in transition finance through capital markets

Transition and green industry projects are typically capital-intensive, require long-term commitments, and crucially present a high uncertainty regarding future cash flows, which pose a considerable risk for investors.

In addition to general uncertainties related to the need for a stable, predictable, and favorable regulatory environment, projects within green and transition industries are subject to additional risks owing to the nascent nature of these markets and uncertainties in future demand, pricing and technology adoption rates. **An overarching challenge is thus to ensure some degree of cash flow security that can make such ventures viable for investors.** Without any form of risk mitigation, the risk will be considered too high for private capital.

If the EU can meaningfully reduce the risks associated with long-term cash flow through appropriate interventions, investments in green and transition industries will become more attractive, and capital markets are likely to respond.

The experience of the UK Productive Finance Working Group³⁵ could be an instructive example of unlocking structural barriers to investment in transition finance in capital markets.

The goal of this initiative (2019-21) was to unlock “investment in longer-term productive UK assets, such as research and development, technology, and infrastructure that can provide a boost to long-term growth and support an innovative, greener future for the UK”. The focus was on defined-contribution (DC) pension scheme funds. The context was that large-pension providers in the UK were rarely deviating from their default strategic asset allocations, because of regulatory constraints, and the lack of ability for beneficiaries to shape how their pension funds were allocated. Some of the key conclusions were:

- There was a lack of appropriate investment structures in the UK market to ‘crowd in’ institutional capital to illiquid private/real asset/infrastructure projects. This substantially increased the difficulty, cost and liquidity risk for pension funds interested in investing in productive assets, including transition finance.

- The review led to the creation of the LTAF vehicle³⁶ (long-term asset fund) in 2021.
- Regulations pushed DC pension fund managers to prioritise lowering fees over a more holistic conception of value. This makes it hard for pension fund managers to deviate from investing in the lowest-cost products for their beneficiaries, even if the alternative higher-fee products offer diversification benefits, higher long-run risk-adjusted returns, or better reflect the stated values of beneficiaries.

Use case 9 – Boosting Climate Resilience

With the KfW Environmental Programme, KfW supports investments that improve the environmental situation and climate protection, conserve resources, strengthen biodiversity and natural habitats, or serve to adapt to the consequences of climate change. Companies apply for a loan from a financing partner, which is a private bank.

The measures eligible for funding include:

- Natural climate protection measures on buildings, company premises, or on the grounds of commercial and industrial parks. These include, among other things, the design of near-natural company premises, the removal of impervious surfaces, renaturation projects, and decentralized precipitation management systems. A repayment subsidy is provided for these measures.
- Measures for the efficient and circular use of resources (" Circular Economy ")
- Air pollution control/noise protection
- Technical climate protection measures
- Adaptation to climate change
- Environmentally friendly transport
- Other environmental and nature conservation measures
- Planning and implementation support.

Use case 10 – Blended Finance for a Green and Inclusive Economy: The Approach of Banco Português de Fomento

Strategic Offering of ESG Guarantee Instruments

As Portugal's National Promotional Bank, Banco Português do Fomento (BPF) plays a critical role in designing and implementing innovative blended finance instruments that unlock private capital for sustainability-oriented investments, especially among SMEs and small Mid-Caps. A cornerstone of BPF's strategy is the use of public guarantee instruments to reduce perceived risk and incentivize commercial banks and other private investors to co-finance projects aligned with ESG objectives.

By 2024, BPF had nine ESG-aligned guarantee products, including the launch of InvestEU Guarantee Lines, designed to support sustainable investment in key sectors such as carbon reduction, innovation and clean mobility, in three windows:

- The **InvestEU Sustainable Investment Sub-Line** (1.28 B€), which supports SMEs and small Mid-Caps in objectives such as reducing their carbon footprint, enhancing energy efficiency and adopting circular practices.
- The **InvestEU Research, Innovation and Digitalization Line** (711 M€), which focuses on the technological transition aligned with EU priorities, including the EU Green Deal objectives.
- The **InvestEU Sustainable Urban Mobility Line** (284 M€), which facilitates investment in clean transport solutions and drives the decarbonization of the transport sector (e.g., electric and hydrogen vehicles, and supporting energy networks).

Another notable example is the **Sustainable Tourism Support Line** (50 M€), launched in the end of 2024, developed in partnership with Turismo de Portugal. This instrument provides guarantees for investments in the tourism sector in energy efficiency, renewable energy, water and waste management, and biodiversity protection. It includes a performance-based grant feature – allowing up to 20% of the loan to be converted into non-repayable subsidy if specific environmental goals (related to energy and water consumption) are met – creating strong incentives for private players

to engage in green transition initiatives in this key sector for the Portuguese economy.

These guarantee lines are distributed by the main commercial banks and Mutual Guarantee Societies, boosting financing with guarantees that can cover up to 75% of the amount of debt asked (in the case of the InvestEU Sustainable Investment Sub-Line), allowing SMEs to unlock more capital for sustainability purposes, supporting their operation within planetary boundaries.

Beyond environment-related finance, BPF also contributes to social impact through lines such as the **Financing Line for the Social Sector** (120 M€) and the **Entrepreneurship and Self-Employment Support Line** (253 M€), which promote social and economic inclusion and job creation, especially among vulnerable populations – a fundamental pillar for a just transition.

Unlocking Investment and Supporting Economic Growth

While still in an early stage, BPF's ESG-aligned guarantee instruments have shown potential to mobilize private investment in higher-risk, sustainability-focused sectors. Between 2020 and 2024, these guarantees supported over 8,300 companies and helped unlock 515 M€ in total investment, with deployment across all Portuguese regions. Designed to reduce risk for commercial banks, these instruments have been particularly important for micro and small enterprises engaged in the green and inclusive transition.

Beyond that, these targeted ESG products are part of a much broader and impactful portfolio. BPF's full financial offering – encompassing guarantees, equity, debt and export credit – has played a pivotal role in supporting the Portuguese economy. Preliminary results from an independent ex-post evaluation show that the companies supported by BPF between 2020 and 2023 accounted for approximately 21 pp of national GDP growth, 18 pp of export growth and 9 pp of growth in fixed capital formation. Among BPF's four financial instruments, public guarantees stood out as the most impactful across all indicators, especially during periods of economic uncertainty, providing critical support for **long-term growth and stability**.

Final Reflection: Bridging Gaps for Systemic Change

These figures reflect more than financial performance – they highlight the **multiplier effect** of public financial instruments in safeguarding economic resilience and unlocking longer-term investment. BPF's experience showcases the critical role national promotional banks play as catalysts for green and inclusive growth. By combining public risk-taking with private sector execution, and aligning their financial instruments with climate, biodiversity and social goals, institutions like BPF are uniquely positioned to **bridge investment gaps** and **drive systemic sustainability transformation**.

Use case 11 – Supporting Spanish SMEs and Energy Transition

Type of blended finance instrument: Guarantees and intermediated loans

Project:

BBVA and the EIB Group have partnered to mobilize €800 million in financing to support the dual objective of advancing the energy transition and strengthening the competitiveness of Spanish small and medium-sized enterprises (SMEs) and mid-caps. This operation is part of the broader EU initiative to address both the climate crisis and economic resilience by easing access to finance for sustainable investments.

The financing package focuses on enhancing green investments across key sectors such as manufacturing, transport, and energy efficiency, as well as enabling broader access to credit for SMEs. This aligns with the European Green Deal and the objectives of InvestEU to facilitate inclusive and sustainable growth.

Money raised:

The operation includes:

- **€300 million** in funding from the European Investment Bank (EIB)
- **€300 million** from the European Investment Fund (EIF) backed by the InvestEU guarantee mechanism
- **€200 million** contributed by BBVA from its own resources

The combined financing package is expected to unlock up to €800 million in total investment, catalyzing both private and public sector contributions. The use of EIB and EIF guarantees significantly reduces the risk exposure for BBVA, enabling the bank to extend more favorable loan terms to a broader base of SME clients.

Beneficiaries

The primary beneficiaries are Spanish SMEs and mid-caps seeking to invest in:

- Renewable energy and energy efficiency projects
- Digitalization and modernization of business operations
- Sustainable manufacturing processes and transport

Impact:

The transaction will help SMEs access credit under more favorable conditions, supporting job creation, productivity growth, and environmental sustainability. A particular emphasis is placed on climate and environmental objectives, including emissions reduction and improved energy efficiency, in line with EU climate goals.

This case is a compelling demonstration of how strategic partnerships between multilateral institutions and commercial banks can channel substantial resources toward sustainable development. The blend of public and private capital ensures that risk is mitigated while enabling broad-based, long-term investments across the real economy.

[More info \(click here\)](#)

Use case 12 – Catalyzing Innovative and Sustainable Startups

Type of blended finance instrument: Guarantee

Project:

The European Investment Fund (EIF) and BBVA have signed a €200 million guarantee agreement to facilitate improved access to finance for innovative startups and early-stage companies in Spain. This initiative is designed to back startups with investment plans that are aligned with sustainability, innovation, and digital transformation.

The operation is part of the InvestEU programme, which provides the EU budget guarantee to enable EIF and EIB Group partners to increase the availability of funding for high-risk segments of the economy. The guarantee aims to reduce the credit risk for BBVA, thereby encouraging lending to startups that often struggle to access traditional financing due to their early-stage profile and limited collateral.

Money raised:

- €200 million in lending capacity is unlocked through the EIF guarantee
- The EIF provides the guarantee with backing from the InvestEU programme
- BBVA will channel these resources into startup lending through its specific financing vehicle.

This agreement is expected to significantly de-risk startup financing, enabling BBVA to provide loans on more favorable terms, such as longer maturities or lower collateral requirements.

Beneficiaries

The primary beneficiaries include:

- Startups and early-stage companies focused on innovation
- Enterprises developing sustainable products and service
- Businesses involved in digital transformation or disruptive technologies

These companies often fall outside the scope of conventional bank lending but are crucial drivers of future economic growth and green transformation.

Impact:

The financing will:

- Support entrepreneurship and job creation in high-impact sectors
- Accelerate sustainable innovation by enabling startups to scale
- Contribute to the EU's green and digital transitions

By providing capital to young, high-potential companies that typically face funding constraints, the agreement aligns with both the **EU's Green Deal** and **Digital Strategy**, demonstrating how public guarantees can catalyze private sector lending to underserved segments.

This use case exemplifies how EIF-backed guarantees under InvestEU can enable commercial banks like BBVA to expand their startup lending portfolios without compromising risk standards.

[More info \(click here\)](#)

Use case 13 – Financing Sustainable Housing

Type of blended finance instrument: Intermediated loan and guarantee

Project:

The European Investment Bank (EIB) Group and BBVA have partnered to provide **€185 million** to support **sustainable housing developments** promoted by Spanish small businesses and mid-caps. This initiative targets the construction and renovation of housing with a strong environmental performance, advancing both the EU's climate objectives and Spain's green building agenda.

This operation contributes to the EU's Renovation Wave strategy, which aims to improve the energy performance of buildings and reduce greenhouse gas emissions from the building sector, one of the most energy-consuming and polluting sectors in Europe.

Money raised:

- **€92.5 million** in financing provided by the **EIB** to BBVA
- An additional **€92.5 million** in guarantees issued by the **European Investment Fund (EIF)** under the **InvestEU** programme
- The combined package enables BBVA to offer favorable financing conditions to SMEs and mid-caps involved in green real estate projects

The funds are used by BBVA to extend loans for eligible projects that meet high energy efficiency standards (e.g. Class A or B energy labels) or that involve deep renovations improving energy performance by at least 30%.

Beneficiaries

The financing targets:

- **Small and medium-sized developers** and construction firms
- **Mid-cap companies** specializing in residential building construction or rehabilitation
- Projects focused on **new construction, energy-efficient refurbishment, and green certification**

Impact:

This operation will:

- Support the development of thousands of energy-efficient housing units across Spain
- Enable SMEs to access green financing that might otherwise be cost-prohibitive
- Reduce CO₂ emissions from the housing sector, while improving affordability and sustainability

The partnership demonstrates how combining EIB loans and EIF guarantees under **InvestEU** can de-risk lending to small developers while accelerating progress toward **EU climate neutrality goals**.

This case highlights the effectiveness of blended finance tools in mobilizing capital for green infrastructure, particularly where smaller actors in the market require tailored support to contribute meaningfully to the green transition.

[More info \(click here\)](#)

Use case 14 – Financing a French Gigafactory for EV Batteries

Type of blended finance instrument: Project finance with multilateral support

Project:

BBVA has participated in the project financing of a new **electric vehicle (EV) battery gigafactory** in France promoted by **AESC**, a global battery technology company. The project is part of Europe's broader push toward electric mobility and energy sovereignty, aiming to reduce dependency on external battery suppliers and lower transport-sector emissions.

The gigafactory, located in **Douai**, is designed to supply next-generation batteries to major car manufacturers, particularly Renault Group, aligning with both national and EU industrial and climate policies.

Money raised:

- **Total financing exceeds €1.3 billion**, raised through a project finance structure
- BBVA acted as a **Mandated Lead Arranger and Hedging Bank**
- The project benefits from the support of several **multilateral and public financial institutions**, including:
 - **European Investment Bank (EIB)**, providing long-term funding
 - **BPI France** (French Public Investment Bank), supporting local industrial innovation
 - Export credit agencies and green finance investors involved in de-risking the deal

The structure includes a mix of senior debt and covered tranches, with sustainability-linked features and ESG performance targets embedded into the financing terms.

Beneficiaries

The key stakeholders and beneficiaries include:

- **AESC**, as the project sponsor and operator of the gigafactory
- **Renault Group** and other OEMs (original equipment manufacturers) benefiting from localized battery supply
- The **Hauts-de-France region**, gaining from industrial revitalization and job creation.

Impact:

The project is expected to:

- Create over 1,000 direct jobs in the region
- Produce **high-capacity, low-carbon batteries** for EVs, supporting the EU Green Deal
- Contribute to Europe's **strategic autonomy** in clean technologies
- Enable significant **CO₂ emissions reductions** across the vehicle supply chain

This transaction showcases how **project finance blended with multilateral support** can drive forward Europe's clean tech manufacturing capabilities. It also demonstrates BBVA's commitment to sustainable infrastructure and green industrial innovation.

[More info \(click here\)](#)

Use case 15 – Better Lending Conditions for SMEs

Type of blended finance instrument: Guarantee.

Programme:

Arion Bank signed a guarantee agreement with EIF in 2024 with backing from the InvestEU programme. The EIF-guarantee will enable Arion to award up to €100 million in new lending to local SMEs on more favourable conditions.

Three different fields are targeted under the programme:

- Sustainability investments. Roughly 29% of the guarantee is earmarked for sustainability investments.
- Lending for innovation and digitalisation.
- Iceland's cultural and creative sector.

EIF guarantees in part, repayment of a principal amount and a loan if certain conditions are met. The EIF guarantee reduces the risk associated with financing the projects in question, allowing Arion Bank to offer better terms or more funding than would otherwise be possible and, in some cases, finance projects that would not fit the bank's risk-return profile.

Arion bank has, for example, marketed green car loans for SMEs for low and zero-emission vehicles on better terms than would be possible without the EIF guarantee.

Use case 16 – Solar Panels and Wind Parks

Size: EUR 480m total financing volume + uncommitted Accordion TBD

Purpose: Financing of the costs in connection with the development and maintenance of the portfolio assets (PV and wind)

Structure: Long-term facility with strong off-take arrangements (EAG and long-term PPAs) with a large portion of contracted revenue over the entire loan life (>70%)

MLA with a significant capital commitment and Hedge counterparty

Along other local and European financing partners, the Transaction was supported by the European Investment Bank with 50% of the financing volume.

Transaction overview:

- Non-recourse renewable portfolio financing in Burgenland, for the refinancing of a portfolio asset (480m total value). The pipeline includes 33 projects (724MW) – 18 PVs (590MW) and 15 wind parks (133MW).
- Uncommitted Accordion Facility of EUR [770-820]m for remaining Capex of the full 1.3 GW investment program expected in 2026

Sponsor:

- (49% of share) is an Austrian experienced publicly owned utility company and RES operator. It is #1 market leader in the region of Burgenland and the biggest wind developer in Austria.
- **Federal State of Burgenland (“Land Burgenland”)** (51%) is the major shareholder, with AA rating
- The **JV HoldCo holds 100% in OpCo (the Borrower)**, which builds, finances and operates all PV and wind projects.

This landmark financing deal supports the region's energy transition goals by 2040.

End notes

¹ The Commission is currently proposing a relaxation of the fiscal rules so that States can allocate greater investment to Defence

² Please see Annex 1 for key proposals of the Clean Industrial Deal and Invest EU Directive.

³ See p. 19-20. [Here](#)

⁴ See [here](#)

⁵ We note that these figures may represent a conservative approach given the challenges in using the taxonomy. Some firms may not classify investments as taxonomy aligned given the lack of certainty about the DNSH criteria evaluation and adherence.

⁶ See p.10-11: [here](#)

⁷ ECB Green Finance paper, p. 19.

⁸ See “National budgets also will need to be mobilised” [here](#) and [here](#)

⁹ See [here](#)

¹⁰ See [here](#)

¹¹ See p. 6. [here](#)

¹² See [here](#)

¹³ Omnibus II – COM(2025)84 [here](#)

¹⁴ ECB Green Finance paper, p. 44-45.

¹⁵ KMPG and Standard Charter, 2024. Guide for Adaptation and Resilience Finance. and World Resource Institute, 2023. accessed [here](#)

¹⁶ Vestas warns wind industry is falling behind global climate goals. Financial Times, Tuesday 29 April 2025, page 6.

¹⁷ ECB Green Finance paper, p. 42-43.

¹⁸ ECB Green Finance paper, p. 41-42

¹⁹ See p. 20 and 59. [here](#)

²⁰ ECB Green Finance paper, p. 44-45.

²¹ See p. 64 [here](#)

²² See p. 18 [here](#)

²³ See p. 19, 23 and 28 [here](#)

²⁴ See p. 42 and 84-87 [here](#)

²⁵ See [here](#)

²⁶ Example: ww.get-invest.eu is an EU-funded tool for developing countries. It could be an inspiration for an EU-specific tool or expanded.

²⁷ ECB Green Finance paper, p. 18.

²⁸ ECB Green Finance paper, p. 17.

²⁹ An example of where that's been done in practice by European DFIs : [check here](#)

³⁰ See [here](#)

³¹ See [here](#)

³² See [here](#)

³³ See [here](#)

³⁴ See [here](#)

³⁵ See [here](#)

³⁶ See [here](#)