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MAKING EVERY PUBLIC EURO COUNT
HOW TO LEVERAGE PRIVATE TRANSITION INVESTMENT THROUGH THE EU'S MULTIANNUAL FINANCIAL FRAMEWORK (MFF)

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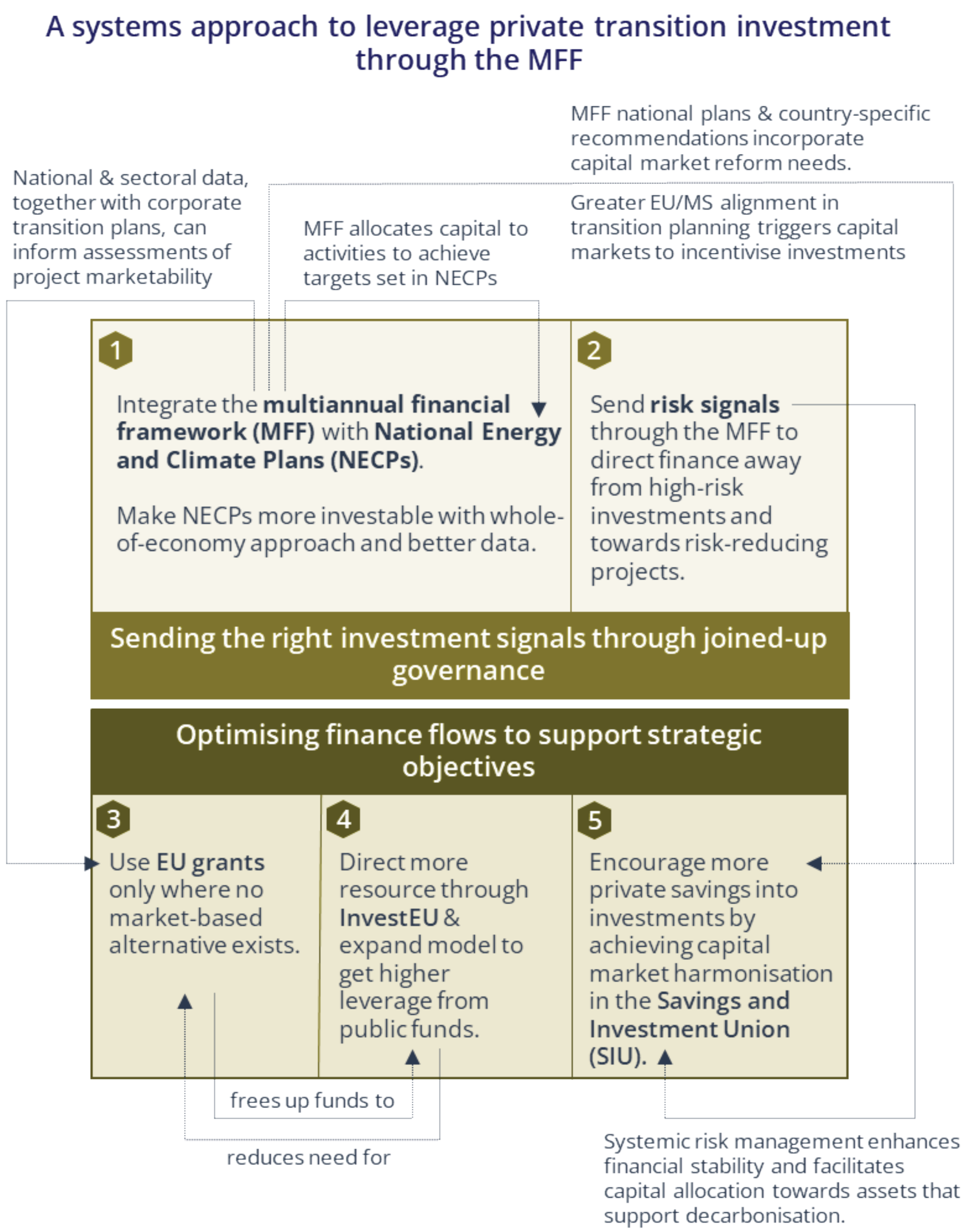
As the EU prepares its next multiannual financial framework (MFF), it must decide how to use limited public resources to forge a path towards security, resilience and competitiveness, with decarbonisation at the core. Despite rising investment needs, the current EU budget still struggles to crowd in private capital at scale. The solution lies in approaching the issue from all angles: both using this MFF cycle to send much clearer investment signals towards target areas, and using the MFF as a tool to improve the deployment of transition finance.

Mario Draghi's report of September 2024 identified an annual €800bn investment gap for the EU to restore competitiveness.[1] In addition, in 2025 security also became a much higher priority for public spending in the EU. With public finances scarce, and an increased focus on defence spending putting more pressure on the public purse, leveraging private investment effectively is crucial to achieving the EU's strategic objectives.

The fundamental rethink of EU public finances in the context of the development of the next MFF provides an opportunity to consider how the MFF can be simpler, more effective at leveraging private investment, better aligned with EU priorities, and better absorbed in Member States. There are opportunities both

[1] Draghi, M., 2024, **A competitiveness strategy for Europe**

in how the MFF signals investment priorities, and in how EU public finances themselves work in conjunction with private finance. We present a framework of five building blocks to increase the impact of EU public finance on crowding in private finance to support the EU's priorities.



Systemic changes to signal investment priorities to investors

1. **Leveraging EU governance tools**: integrating the MFF with National Energy and Climate Plans (NECPs), and making NECPs more investable.
2. **Developing a resilient by design risk management approach** to signal both high-risk and risk-reducing investments in the MFF.

Optimising the deployment of finance in the context of MFF and NECP priorities

3. **Optimising the use of grants** in the next MFF to avoid replacing potential private investment, and bring nascent technologies to market readiness.
4. **Developing a stronger EU bank lending** system by scaling the InvestEU model and the EIB's role.
5. **Improving capital allocation** by developing the Savings and Investment Union (SIU).

Introduction

The European Commission has suggested that the post-2027 multiannual financial framework (MFF) will shift from a programme-based budget to a policy-based budget, to align EU public finances more with EU policy priorities and increase absorption at Member State level.[2] Decarbonisation and climate are at the heart of the EU's competitiveness and security objectives,[3] but also risk being in competition for funding. Reaching the European Green Deal objectives alone will require €477 billion per year until 2030, of which 80% should come from the private sector according to the European Central Bank.[4]

This briefing therefore investigates how EU public finances can be better connected with private investments for transition finance in particular.[5]

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[2] European Commission, February 2025, **The road to the next multiannual financial framework**

[3] E3G, September 2024, **Mario Draghi's recipe for competitiveness: decarbonise, invest, industrial policy, and more Europe**

[4] ECB, January 2025, **Investing in Europe's Green Future: Green Investment Needs, Outlook and Obstacles to Funding the Gap**. Additionally, the European Commission identifies substantial EU investment needs for the net zero emissions transition in the transport sector, as well as in energy supply (power grids and power plants) and energy demand (mainly the industrial and residential building sectors).

[5] European Commission, June 2023, **Facilitating finance for the transition to a sustainable economy** defines transition finance as the "financing of investments compatible with and contributing to the transition, that avoids lock-ins". This includes investments in line with EU climate benchmarks, the EU Taxonomy, investments in credible transition plans, and investments in companies in line with science-based targets.

Transition investments have transformational potential, given that the bulk of the EU economy is not yet green.

Opportunities for better public–private connections lie in three areas, which we have examined to develop the recommendations in this briefing:

> **Systemic approaches** involve sending appropriate investment and risk signals – through both the MFF and improved conditions for transition finance, by promoting tailored bank lending aligned with national contexts and fostering deeper capital markets where feasible.

> **Programmatic approaches**, including fund design, criteria for grant allocation, better structuring of capital types and using optimal blended instruments based on the marketability of each sector.

> **Deployment and implementation**, including scaling marketable projects and enhancing systemic absorption capacity at the national level, with the latter due to absence of administrative capacity but also lack of upfront liquidity among smaller beneficiaries.

The framework we present in this briefing is composed of five building blocks which complement each other, and will have the most impact when addressed simultaneously. Reforming the MFF governance framework and incorporating clear investment signals (Sections 1 and 2) will provide the environment in which recommendations to optimise the deployment of finance (Sections 3–5) will be most effective in supporting the priorities identified in the MFF and NECPs.

1. Leveraging EU governance tools: integrating MFF national plans with NECPs, and making NECPs more investable

The Commission's proposals for the next MFF mean Member States could end up presenting MFF national plans, linking investments to reforms and receiving payments contingent on compliance.[6] This use of the MFF can be strengthened by improvements to EU governance tools, and better interconnections with different parts of the governance and policy framework, which would make private transition finance flows more consistent.

[6] European Commission, February 2025, **Communication: The road to the next multiannual financial framework**

Overall, the framework must send coherent signals to investors in line with strategic priorities – including the transition – at both EU and Member State level. A revised governance structure to facilitate joint planning of EU public investment would additionally reduce regulatory burden and policy fragmentation, enhance long-term predictability, and strengthen the credibility of the EU's transition efforts.

To achieve this, **MFF national plans should identify reforms and optimal capital allocation to achieve comprehensive economy-wide climate and energy targets** set in National Energy and Climate Plans (NECPs), which themselves need to become more "investable".[7] The European Semester and the new Competitiveness Coordination Tool also need to be aligned with overall priorities and NECPs. An **EU-level Transition Committee could facilitate alignment and information flows across the relevant levels from EU- to private sector level.**[8]

Figure 1 shows how our suggested framework for MFF national plans, NECPs and the European Semester (discussed further below) sits within our wider proposed public investment governance framework for accelerating decarbonisation while strengthening EU competitiveness, resilience and security.[9]

Integrating MFF national plans and NECPs: reducing complexity while strengthening investment signals

Identifying the respective roles and objectives of MFF national plans and NECPs is the first step to their successful integration. The upcoming revision of the EU Governance Regulation, which could coincide with MFF negotiations, offers an opportunity to strengthen alignment between EU public finance and NECPs, whether through new binding plans or a stronger emphasis on reforms in the existing partnership agreement model.

[7] That is, systematically include the most relevant information to guide private investments, with a whole-of-economy approach that covers all the strategic sectors for economic transition.

[8] E3G & ECCO, November 2024, **Moving towards a holistic transition planning framework in the EU**

[9] For more on our wider proposed public investment governance framework, see: E3G, March 2025, **Improving climate and energy policy coordination through the next EU budget**.

Proposed governance to jointly plan public investment in the EU during the next MFF period

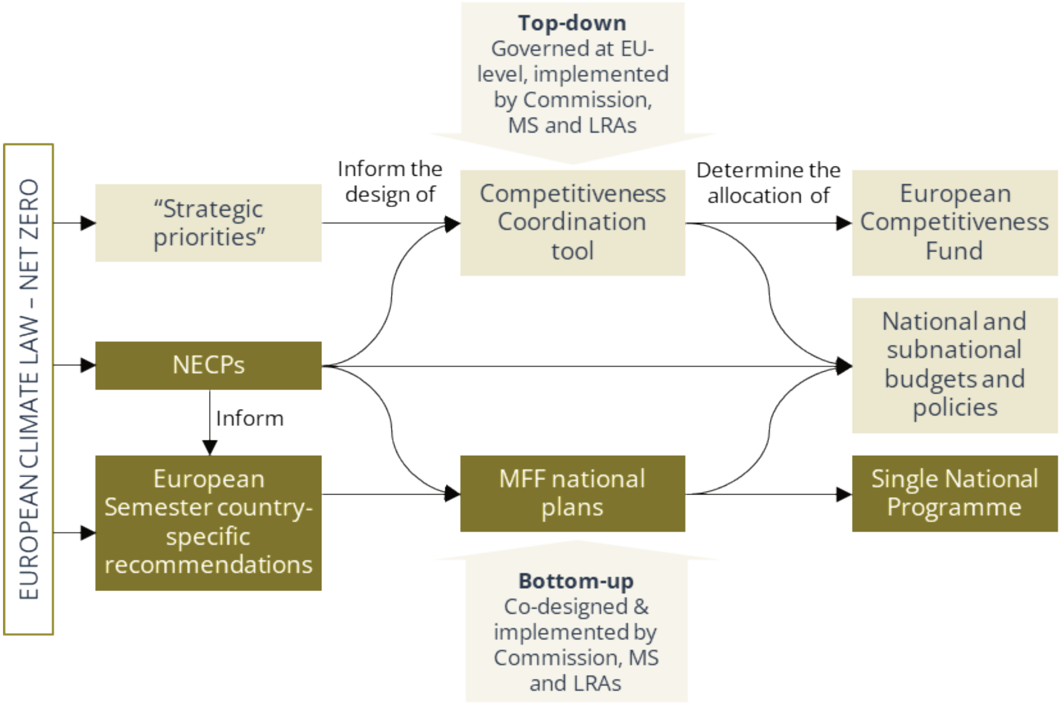

Figure 1: A framework aligning the roles of NECPs, MFF national plans, and the European Semester's country-specific recommendations should sit within a broader public investment governance framework that combines agile EU-level coordination with a joined-up and supportive approach to Member State-level planning.

A well-integrated "MFF–Investable NECPs" framework should:

> **Reduce investment risks** by linking public finance to clear spending commitments.[10]

> **Make NECPs more enforceable and improve national capital allocation**, by ensuring funding decisions in the MFF national plans reflect the targets and measures in NECPs. With more information (ideally at asset level) and more technological maturity awareness, the capital allocation process can be optimised. Examples have been developed of using ex-ante assessment and

[10] See more on risk management in Section 2.

ready to be activated financial instruments (EU Financial Instruments as a Service – EU FIaaS).[11]

> **Enhance investor confidence** by embedding climate, energy, and just transition goals into EU and national policy frameworks, providing more clarity on next steps for investments at national level – ideally in the form of national structured investment roadmaps (see point above).

Next, the European Commission, in partnership with designated national ministries, should define clear relationships and information flows between EU public finance and NECPs, preventing climate and energy considerations from being overshadowed by budgetary constraints.

Public investment signals from Member States would be further reinforced by stronger references to the NECPs coming from the European Semester – the annual cycle through which the Commission and Council monitor and enforce Country-Specific Recommendations (CSRs).[12] More specific, enforceable CSRs would accelerate national action. The Union's shared investment priorities should be articulated through the new Competitiveness Coordination Tool, in particular in areas where Member States agree to greater coordination (e.g. R&I, energy infrastructure, cross-border steel value chains, etc).

Towards more investable NECPs

As a national roadmap for how Member States will achieve their energy and climate targets under EU law, NECPs are the main vehicle for the government to inform the private sector and investors of the next steps of the transition, thereby informing their investment plans. Regardless of whether MFF national plans become a political reality, NECPs can become more investable by taking a whole-of-economy approach and providing information that can help the private sector, as well as setting stable policy commitments and predictable national spending priorities. Information that would help guide private investment includes:

[11] According to Climate & Strategy, the EU FIaaS templates can simplify and streamline ex-ante assessment. All Member States would need to do is identify (a) where a climate investment gap exists, (b) the specific asset that should be deployed, (c) the maturity level of the asset, and d) the end-beneficiary. The most relevant EU FIaaS can then fill the gap, if the asset is mature and if an opportunity exists to leverage private investments from the end-beneficiary. Climate & Strategy, March 2025, **EU Financial Instruments as a Service for an efficient and strategic European Budget**

[12] E3G, March 2025, **Improving climate and energy policy coordination through the next EU budget**

> **Key national investment gaps at sectoral level**, with data on the financial needs and analysis of the type of capital that should be used to cover the gap.[13]

> **Sectoral scenarios with spending priorities and technological roadmaps**, with information on the marketability of such technologies, to guide and incentivise private capital allocation.[14]

> **A national engagement strategy** for sharing information and next steps regarding the main national projects with key actors implementing the transition, notably national promotional banks.

Making these improvements will result from a combination of efforts, from the Commission to change the structure of NECPs and from national ministries to include the necessary information.

The Commission also needs to do further work to understand how the private sector can provide useful information for policymakers to inform NECPs and other national strategies. For example, corporate data on bottlenecks, which can be aggregated at sectoral level could give a clearer picture of the marketability of the needed investments in specific sectors.

Establishing an EU-level Transition Committee could be extremely beneficial to facilitate alignment and coherence across transition planning requirements at international, EU, national and entity levels, additionally serving to reduce redundancy in line with the EU's simplification agenda.[15] The Transition Committee could, among other things, work on ensuring a proper feedback loop of relevant data from private transition plans to national strategies and vice versa. This can be done by:

> **Ensuring corporate transition plans contain credible data**, including the identification of their own sectoral bottlenecks. The Committee would ensure that the EU sustainable finance reporting and due diligence

[13] NECPs should ideally provide more information at asset specific level (e.g. the number of solar panels and solar parks, or residential and commercial building renovations needed). Combined with analysis of the technological maturity of strategic sectors this will aid understanding and forecasting who the end beneficiary of the national projects would be, as well as the potential for leveraging private finance.

[14] One good example is ADEME, the French Agency for Ecological Transition, which developed scenarios for the nine most energy intensive sectors in France in line with the French decarbonisation targets. Using the knowledge gained from carrying out these sectoral transition plans, ADEME created a **methodological guide** to aid other stakeholders in carrying out their own sectoral transition plans.

[15] For more see: E3G & ECCO, November 2024, **Moving towards a holistic transition planning framework in the EU**

framework set these expectations for private transition plans. The Committee could also help establishing feedback loops between corporate transition plans and the design of industrial policy, ensuring that aggregated insights from private actors (technology roadmaps, investment incentives need, permitting, etc.) inform real economy policy making.

> **Identifying principles for Member States to ensure NECPs take a proper whole-of-economy investable approach** – such as involving finance ministries to identify the financial mechanisms needed to fill investment gaps – as well as identifying possible amendments to the EU Governance Regulation to ensure NECPs will be more investable.

2. Resilient by design risk management: signalling high-risk and risk-reducing investments through the MFF

Climate-related extreme events caused €170 billion in losses between 2018 and 2022 in the EU. The cost of inaction is high: between 2031 and 2050, the cumulative additional GDP loss under a high global warming scenario could reach €2.4 trillion in the EU, compared to a pathway aligned with the 1.5 °C target of the Paris Agreement.[16]

In line with a proper risk management approach, the **MFF should send coherent risk signals to the private sector**, to direct financial flows away from high-risk investments and towards sustainable and resilient projects.[17] This should include purposefully excluding investments in high-emitting assets, which are financially risky in the long term.[18] [19] A decrease in potential stranded assets translates to better management of system risks and long-lasting financial stability.

Identifying financially risky and risk-reducing assets would involve closer coordination between the Commission, the European Central Bank (ECB) and the European supervisory authorities (ESAs) for banking and insurance (EBA and EIOPA).[20] EBA, according to its mandate under the Capital Requirement

[16] Enrico Letta, 2024, **Much more than a market**

[17] Such as infrastructures to improve flood resilience, water management, and soil health.

[18] OECD, September 2023, **Mechanisms to Prevent Carbon Lock-in in Transition Finance**

[19] EIOPA, November 2024, **Prudential Treatment of Sustainability Risks**

[20] Other key actors include Member State central banks, which can play a pivotal role by pushing for implementing measures such as differentiated or lower capital requirements for climate finance.

Directive, should produce as a priority an analysis of the risk profile of fossil fuel investments similar to that recently published by EIOPA, to provide the banking sector and investors with clearer information on the risks. Classifications of high-risk and risk-reducing investments identified by the ESAs and ECB should be integrated into EU public finance decisions through the MFF.

Operationalising this risk management approach across all EU spending could be achieved by **mainstreaming the Do No Significant Harm (DNSH) principle**, as outlined in the DNSH Commission Guidance for Public Finances, in a uniform way across all EU funds, ideally under a single legal instrument.[21] The Commission should produce a legally binding document and incorporate the following: an exclusion list applicable across all EU funds;[22] explicit decarbonisation requirements for strategic sectors; sunset clauses at a sector-specific level (notably gas);[23] and a list of risk-reducing investments, which can be helpful for meeting the objectives of the upcoming EU adaptation strategy and for building resilience.

3. Optimising use of grants under the next MFF

To maximise the impact of every euro spent from EU grants, the allocation process for MFF funding must be refined. The EU must make sure to accelerate the market deployment of technologies that are supporting the decarbonisation, without using grants if private finance can be found – a principle that is currently not always followed.[24]

The optimal financial instruments largely depend on a project's level of market readiness. Grants or blended finance instruments may be preferable in sectors

[21] DNSH is already included in the revised Financial Regulation, Art33(2)(d), and it will therefore apply to all funding in the next MFF, "where feasible and appropriate". DNSH is also applied under the EU Taxonomy and other EU regulations; under discussion here is the use of the principle for EU public funds.

[22] This list should prohibit support for projects with significant carbon lock-in potential, such as unabated fossil fuel infrastructure, unless accompanied by robust decarbonisation pathways and safeguards, including detailed implementation plans for phase-out or retirement. The list should also include investments causing maladaptation. JRC have already made a proposal for a common list: JRC, 2023, **The implementation of the 'Do No Significant Harm' principle in selected EU instruments**.

[23] Requiring transition to renewable alternatives within a defined timeline, and including periodic reviews to ensure compliance.

[24] For example, in analysis of Italian Recovery and Resilience Fund measures, ECCO identified an investment in electric smart grids that was eventually financed with grants from EU public resources, despite being a necessary infrastructure investment that could have attracted private financing or been funded through blended finance. ECCO, 2025, **Learnings from the Italian NRRP to inform the next MFF**

and projects where market viability is still developing.[25] However, in sectors and projects where the private sector can lead on the scaling process, public finance allocation should be limited to operations to further de-risk the investment environment, such as loans or guarantee-based instruments. This could go hand in hand with a clear and supportive regulatory and governance environment (see Section 1). A study has found that there is already market readiness to implement green technologies capable of meeting the EU's 2030 and 2040 climate goals.[26]

Optimising the EU's grant allocation process must start with the **Commission establishing clear principles and guidance for the use of EU public finance**, to inform development of a framework for assessing where grants should be used. Principles could include a mandatory ex ante positive impact assessment for big projects, specifically tailored to use of EU grants. This should include assessment of their marketability and what financial instruments would be necessary to make the projects marketable, ensuring that grants are used only where necessary (for market or social reasons) and in cases where no market-based alternative exists.[27]

Regardless of how MFF national plans will evolve post-negotiation, they and the NECPs can play a key role in gathering national and sectoral level data regarding sectoral market viability and technological readiness, thereby supporting the above assessments.

[25] The Alternative Fuels Infrastructure Facility (AFIF), under the Connecting Europe Facility (CEF) Transport program, stands out as a successful example of blending EU grants with financial instruments. AFIF, with the help of more than 10 National Promotional Banks and Institutions (NPBIs), along with entities like the European Investment Bank (EIB) acting as implementing partners, combines CEF grants with financing from financial institutions including loans and equity, to enhance the impact of investments in alternative fuel infrastructure. This model demonstrates how strategic blending of grants with financial instruments, coupled with the involvement of experienced implementing partners, can effectively mobilise resources and expertise to advance the EU's decarbonisation goals.

[26] A substantial portion of EU grants is currently allocated to projects that are already market ready: Climate Strategy & Partners, 2024, **Filling the EU Climate Investment Gap more efficiently**

[27] Climate Strategy & Partners, 2025, **EU Financial Instruments as a Service for an efficient and strategic European Budget**

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4. Develop a stronger EU bank lending system by scaling the InvestEU model

To ensure the efficient use of EU public finance, the next MFF should channel more resources into existing funds that have performed well in supporting climate and energy investments. Creating an even more complex patchwork of EU funding instruments is unnecessary and would risk causing delays and bottlenecks. Programmes critical for achieving transition objectives such as InvestEU, Horizon Europe, the European Innovation Council (EIC), the Innovation Fund, and the Connecting Europe Facility[28] are currently oversubscribed and significantly underfunded relative to the scale of the challenges they are meant to address.

The InvestEU model is particularly promising, and has proven effective in scaling marketable clean projects. A combination of approaches to optimise the use of EU resources through InvestEU and similar models would increase impact, as well as help to reduce the use of grants (see Section 3):

> **Expanding InvestEU resources by increasing the budgetary guarantee**, which should be a priority during the upcoming MFF negotiations.

> **Increasing the number and level of engagement** of stakeholders implementing the model.

> **Using InvestEU's legal and policy framework as a reference** for the design of future investment programmes such as the forthcoming EU Competitiveness Fund.

InvestEU builds on the proven effectiveness of budgetary guarantees to crowd in private capital in EU priority areas, notably those affected by market failures and suboptimal investment conditions.[29] Through the current InvestEU Fund (a €26.2 billion EU budgetary guarantee), the Commission provides guarantees to implementing partners (IPs), which then deploy financial products aligned with

[28] Civil society, research and clean industry groups urge the Commission to deliver impactful simplification and flexibility via an efficient EU budget for climate security and clean competitiveness, 13 May 2025, **A targeted European Competitiveness Fund to deliver climate and energy security for European citizens and SMEs: Four principles for impactful simplification, efficiency and flexibility**

[29] The current InvestEU Fund supports investments in four policy windows: (1) Sustainable Infrastructure; (2) Research, Innovation, and Digitalization; (3) SMEs and Medium-Sized Enterprises; and (4) Social Investment & Skills. The Fund currently addresses a wide spectrum of investment needs, ranging from large infrastructure projects to financing different stages of a company's growth (from startup to scale-up). This includes, for example, support for clean manufacturing, in line with the State Aid Temporary Framework.

EU policy priorities.[30] InvestEU's policy windows and related projects offer a variety of financial products, including debt and guarantees, covering different levels of innovation risk.

Although the InvestEU network covers all EU Member States, geographical and regional gaps in investment deployment are a particular issue. InvestEU's open architecture allows participation from national promotional banks and institutions (NPBIs) and international financial institutions (IFIs), alongside the European Investment Bank (EIB) Group, which implements 75% of the InvestEU guarantee. This provides valuable flexibility in developing nationally tailored approaches and projects. Yet the InvestEU design functions most effectively in regions with well-developed capital markets and/or sophisticated commercial bank networks.

While expanding the InvestEU model should be prioritised for project areas where this type of instrument has already proven effective, **efforts should be made to allow better deployment in underserved areas** and maintain regional balance. The following should be considered:

> **Expanding the InvestEU Advisory Hub** to support high-priority projects, particularly in regions where financing networks are weaker. This approach would also allow all IPs who have concluded a Contribution Agreement with the Commission to provide technical assistance services.

> Explore ways to **actively expand the network of IPs** and allow commercial banks to be IPs under certain conditions.

> **Expanding Member States' contributions to the InvestEU Member State Compartment** by continuing to incentivise transfer of money from other funds (such as cohesion funds or Recovery and Resilience Facility resources), which would increase Member States' opportunity to attract greater investment using well-established financial products under InvestEU. To maximise this potential, national ministerial capacity[31] should be boosted to have access to these opportunities (via regional hubs and/or one-stop shops).

[30] The total guarantee available is more than €30bn when also considering: (i) the Member State compartment (through which Member States can transfer their cohesion funds or RRF resources); (ii) the contributions to InvestEU from other EU programs and (iii) the contribution from third countries, namely Norway and Iceland.

[31] Letta (2024, **Much more than a market**) suggests that the EU establish a new facility for a Pact enhancing European Administrations Cooperation and Expertise (PEACE). This facility should aim to boost both investments and reforms of public administrations.

Three further improvements to InvestEU would enhance the impact of a scaled-up model at national and regional levels.

> For a more tailored approach at national level, a **permanent platform could be established among EIB, IPs and selected commercial banks** to design targeted action at national, regional and sectoral levels, in collaboration with proximity banks and sector-specific specialised retail channels.[32] A topic to discuss could be addressing the mismatch between the InvestEU guarantee's purpose and the risk-averse nature of many IPs, which limits support for innovative, higher-risk projects with EU added value.

> **Expanding the use of funded financial instruments**, and combinations of grants and repayable forms of support (via InvestEU IPs and/or managed directly by the Commission's services). Pragmatic ideas include the Financial Instruments as a Service for Member States (EU FlaaS), designed by the EIB in consultation with national promotional banks and other key actors. EU FIaaS should ideally be designed for the target asset. Such an approach requires integrating asset-specific risk ratios and potential leverage factors which may vary depending on sector and technology/solution (e.g. lower risk for housing renovations vs. higher risk for innovative cleantech).[33]

> **Simplifying reporting obligations** while reinforcing the principle of proportionality and increasing reliance on pillar-assessed IPs.[34]

5. Better capital allocation by developing the Savings and Investments Union (SIU)

The reform, governance tools and processes of the MFF can be leveraged to advance the development of Europe's capital markets and the achievement of the Savings and Investment Union (SIU), which will unlock significant private capital for the transition.

The EU is already actively working to further integrate its national capital markets, and specifically to better connect its €37 trillion in private savings of

[32] Climate Strategy & Partners, 2025, **EU Financial Instruments as a Service for an efficient and strategi European Budget**

[33] Climate Strategy and Partners, 2024, **Filling the EU Climate Investment gap more efficiently**

[34] Entities wishing to work with EU funds under the indirect management mode must undergo a comprehensive "pillar assessment" (i.e. an assessment of the systems, rules and procedures of persons or entities).

households[35] with transition investments needs. The enhancement of the Capital Market Union (CMU) and the creation of a Savings and Investments Union (SIU), as called for by the Letta report, together could unlock many transition investments, notably in those sectors with untapped potential and funding constraints in the context of the sustainable and climate transition (i.e. where bank lending is not able to cover, usually in equity and debt investments).[36] This is a crucial move, considering the way innovation risk will be priced by financial market participants. Important factors in this process will be the successful delivery of the Clean Industrial Deal objectives to lower market frictions.[37] The Commission has recently stated that it will explore ways to ensure the SIU and MFF reinforce each other.[38] Potential points of alignment include **using the MFF to encourage Member States to advance reforms that further integrate EU capital markets** (see recommendations below). Upcoming consultations with Member States should help **identify critical reform needs, which should then be incorporated into country-specific recommendations** (CSRs) of the European Semester. These reforms should also be linked to broader structural changes and included in upcoming MFF national plans.

The “MFF–Investable NECPs” framework introduced in Section 1 can be leveraged to achieve further benefits to the CMU and SIU projects, in particular by addressing the need for greater consolidation between EU, Member State and private sector transition governance frameworks. Such consolidation should **inform the reforms needed to harmonise the EU national capital markets**, finding ways to facilitate private capital allocation towards assets which are in line with the NECPs’ objectives (and not towards assets in general). The EU and Member States could work first on specific harmonisation measures to ensure some CMU and SIU objectives are met:

> **Supporting the harmonisation process** of national insolvency laws and withholding tax procedures and systems for investors. This would substantially reduce administrative and legal costs.

[35] Eurostat, October 2024, **Households - statistics on financial assets and liabilities**

[36] Europe currently faces two major cleantech funding gaps: at the startup phase, with a need for more early-stage and late-stage equity for growth (R&D, operations expansion, talent recruitment), and even more acutely at the scale-up, First-Of-A-Kind (FOAK) and commercial expansion phase, where access to late-stage debt through private credit, loans from banks or project finance structures is critical. Cleantech for Europe, 2025, **Mobilising Private Finance to Scale European Cleantech**

[37] Cleantech for Europe, 2025, **Mobilising Private Finance to Scale European Cleantech**

[38] European Commission, March 2025, **Savings and Investments Union A Strategy to Foster Citizens’ Wealth and Economic Competitiveness in the EU**

> Deepening EU capital markets by **enhancing national pension systems**, for example auto-enrolling workers in private pensions, as a supplement to national pensions.[39]

These suggestions cover a general harmonisation of national capital markets. A crucial element to be discussed at EU and national levels however is the **gradual, bottom-up establishment of a single supervisor at EU level**, as advocated by the ECB and the Banque de France.[40] With an appropriate initial check in the ESMA governance system, possible initial roles could include the direct supervision of major entities as it happens with the ECB, as well as the supervision of a unified and simplified Initial Public Offerings (IPO) EU access point for mid-cap companies (as suggested by Enrico Letta in his report). This is crucial for many EU startups which do not find in the EU a large stock exchange to raise the capital they need. The Commission's SIU communication, however, does not clarify next steps regarding these crucial elements.[41] Further developing the CMU and the **SIU might therefore require the Commission to take the lead and facilitate the creation of a coalition of willing Member States**, where crucial developments, such as unified stock exchanges under a single supervision, could be accelerated.

Conclusion

Making every euro of the EU budget count for the climate transition requires a coherent and mutually reinforcing approach across the five building blocks set out in this briefing. Each building block plays a distinct role but only reaches its full potential when supported by the others.

Clarity on what to invest in is foundational. By aligning the EU budget with more investable NECPs, public finance can give strong decarbonisation signals to markets. This alignment is critical to building private sector confidence and ensuring capital flows toward transition activities.

[39] Improving retail investors' access to EU capital markets is of utmost importance. Indeed, most EU retail savings are parked in bank deposits or invested in international funds (particularly the US). The introduction of an EU-wide scheme with tax incentives for investments in illiquid assets, as suggested in the Letta report, could encourage private savers to invest in alternative funds.

[40] Banque de France, in **The Savings and Investments Union**, supports a "single European supervision to guarantee a common legal framework and prevent regulatory fragmentation across the 27 national markets".

[41] European Commission, March 2025, **Savings and Investments Union A Strategy to Foster Citizens' Wealth and Economic Competitiveness in the EU**

Clarity on what not to invest in is equally essential. Addressing inappropriate risk signals, through a "resilient by design" approach involving the ECB and ESAs, can reduce distortions in capital allocation and safeguard the effectiveness and credibility of EU budget as a tool for private investments.

Finally, resources need to be deployed in the most effective way. This includes optimising grant allocation, expanding the InvestEU model and EU bank lending architecture, and leveraging the MFF as a tool to support the development of the Savings and Investment Union. Each of these mechanisms helps to mobilise private capital at scale while reinforcing the strategic priorities which should be set out in EU, national and private sector transition plans (such as NECPs, MFF national plans, corporate transition plans, etc.).

These five building blocks are interdependent levers. Governance tools such as NECPs can enhance the effectiveness of private investments. Smarter private finance is a function related also to the design and reduced reliance on grants. Better risk management makes transition plans more credible. Strengthening the logic that binds these elements together will be key to unlocking the full potential of EU public finance in driving the transition.

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