DIGITAL POLICY BRIEF

Financial Instruments

European Financial Instruments

Existing Financial Instruments

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

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

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

Innovative Financial Instruments in Future

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

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

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

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

National Financial Instruments

Existing Financial Instruments

“In the case of the Lubelskie Voivodeship, the axes of the Regional Operational Programme in accordance with the main objective of the FIRECE project regarding SMEs are Priority Axis 4 Environmentally friendly energy (Measure 4.2. Production of renewable energy in enterprises) and Priority Axis 5 Energy efficiency and low-emission economy (in particular Measure 5.1. Improvement of efficiency energy enterprises). In both Measures 4.2. and 5.1. RPO LV in the 2014-2020 period only subsidy support was used. It is also the most preferred and expected form of investment support by beneficiaries.

Financial instruments such as loans or guarantees are relatively simple in terms of administrative preparation and application, but they are associated with serious inconvenience regarding the assumption of all investment risk by the beneficiary. For this reason, he may not be motivated to implement innovative projects, but with a high risk of failure. It is also worth verifying two other potential disadvantages of using Financial Instruments, i.e. high service costs as well as direct and indirect costs of financial intermediation.

Innovative Financial Instruments in Future

The development of an innovative financial instrument results from two premises. Firstly, it involves the decision to use a repayable instrument that allows more projects and beneficiaries to be supported through the return of capital to the Managing Authority, and also provides greater than non-returnable instruments multiplier effects. In the next financial perspective, this will probably be the recommended form of support for various investments, including renewable energy sources and energy efficiency.”