SUSTAINABLE BANKING COALITION

Reforming the 2028 - 2034 MFF: A Call from Europe's Future-Fit Banks

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EXECUTIVE SUMMARY

The Multiannual Financial Framework (MFF) is the European Union's (EU) key strategic tool to shape public finance, guide long-term investment, and ensure policy coherence across the political agenda. Considering increasing global instability and the urgency of the green transition, the next MFF must provide clear answers for aligning public resources with climate and resilience objectives.

To remain globally competitive and reach its climate targets, the EU must close a growing clean investment gap. To ensure Europe's industry and society are prepared for future generations and remain globally competitive, substantial investment of around €1.52 trillion is needed to fully realise the EU's ambitions. To address the scale and urgency of required investments, the next MFF should allocate 50% of its budget to climate and environmental spending. Despite programmes like InvestEU and the Innovation Fund, persistent barriers, ranging from regulatory uncertainty to limited access for smaller actors, are hindering capital mobilisation. Only by strengthening the role of public finance in de-risking private investments, innovation can be accelerated to secure a resilient and prosperous Europe that leads the way.

To achieve this, the MFF's strategic role must be reinforced by embedding financial instruments that are predictable, inclusive, and performance driven. Guarantees and equity tools targeted at sustainable retail banks that support the real economy can unlock significant private capital. These institutions bring proximity, credibility, and a deep understanding of transformative finance, yet they remain underserved by EU instruments to truly empower their role.

To ensure budgetary credibility and impact, the MFF must establish a more consistent framework for sustainable spending, with three key reforms needed:

1. **Strategic financial instruments must be scaled up** in the next MFF to de-risk clean investments, strengthen future-fit banks, and crowd in private capital, especially through guarantees and tailored equity tools.

2. **Sustainability must be structurally embedded in MFF governance** by ensuring climate considerations are consistently integrated across the budget, enforcing the Do No Significant Harm principle, and linking payments to measurable green and social outcomes.

3. **Public-private collaboration must be strengthened** through simplified procedures, inclusive design, and performance-based incentives, making EU funding and financial instruments more accessible to smaller, mission-driven financial institutions.

If properly structured, the next MFF can direct essential funding towards climate and environmental goals, strengthen Europe's strategic autonomy, and mobilise private capital for the green transition. This is the opportunity to align the EU's financial framework with its long-term vision for a simpler, more competitive, climate-neutral and just Europe.

1 The MFF and its role in EU public finance

The Multiannual Financial Framework (MFF) serves as the long-term financial plan of the European Union (EU), ensuring budgetary priorities to align with strategic policy objectives over a seven-year period. As the EU's primary financial planning tool, the MFF provides stability, predictability, and fiscal discipline.

Sustainability has become central to EU public finance, with the MFF increasingly focused on future-fit investments, climate resilience, and the transition to a low-carbon economy. Initiatives like InvestEU, which mobilizes public and private investment to support sustainable growth and innovation, are embedded in the MFF, ensuring that financial flows support climate neutrality while mitigating social and economic disparities.[1] In addressing global challenges such as climate change and digital transformation, the MFF is crucial in aligning financial resources with long-term sustainability goals and fostering economic convergence.

Guided by the European Pillar of Social Rights, the MFF also supports fair working conditions, equal opportunities, quality public services, and social protection. By funding initiatives that advance the EU's 2030 social targets, the MFF promotes inclusive growth and strengthens economic resilience.

2 Driving EU competitiveness through clean investment

The EU faces a critical juncture where enhancing competitiveness necessitates a steadfast commitment to clean investments. The EU must accelerate future-fit investments to maintain its global competitiveness, foster technological leadership, and achieve climate neutrality.

The green investment gap, the shortfall between needed and actual investment in clean technologies, poses a significant risk to Europe's economic resilience, endangering EU´s competitiveness and independence for critical sectors and materials.[2]

Continuing with the business-as-usual scenario means that around €30 trillion between 2024 and 2050 will be spent on financing the green transition. However, the collective investment required to finance all decarbonisation measures is estimated at €40 trillion, averaging €1.52 trillion yearly, by 2050. This leaves a €10 trillion investment gap that must urgently be addressed to stay on track.[3]

Despite initiatives such as InvestEU and the Innovation Fund, bureaucratic hurdles and regulatory uncertainty continue to slow private sector involvement. Addressing these bottlenecks in the MFF by simplifying access to funding, increasing risk-sharing mechanisms, and fostering public-private partnerships is essential to closing the investment gap. Crucially, public funding must be designed to attract and de-risk significant volumes of private capital, creating the scale of blended finance needed to deliver the transition.

[1] European Commission, Climate mainstreaming, n/a, https://commission.europa.eu/strategy-and-policy/eu-budget/performance-and-reporting/horizontal-priorities/green-budgeting/climate-mainstreaming_en
[2] European Central Bank, Investing in Europe's green future, 2025, https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op367~16f0cba571.en.pdf
[3] Institute Rousseau, Road to Net Zero, 2024, https://www.greens-efa.eu/files/assets/docs/rtonz_-_full_report__embargo_version___3_.pdf

3 Barriers for clean investments

Clean and future-oriented investments often face structural barriers in accessing finance due to the way traditional financial institutions assess risk and returns. For instance, energy efficiency projects typically rely on future savings as the main source of return. However, these expected savings are rarely incorporated into financial models, as lenders often lack the technical capacity to evaluate the underlying technologies and their performance over time. Similarly, many green investments yield broader socio-economic benefits that are difficult to monetise at the project level. While these positive externalities enhance the overall value and resilience of the economy, they are not reflected in cash flow forecasts and are therefore excluded from credit assessments.

Moreover, green sectors are often perceived by financial institutions as niche markets characterised by higher risks, greater transaction costs, and limited scalability – contrary to latest market developments.[4] This perception leads to an underinvestment in sustainable solutions, as lenders are hesitant to engage with projects that do not conform to conventional profitability metrics. Addressing these barriers requires adapted financial instruments, better risk-sharing mechanisms, and more capacity within financial institutions to assess the real value of green investments - including their long-term economic, environmental, and social returns.

Europe's sustainable banks can lead the way and showcase how this can be done. For lenders, the lack of historical performance data and internal expertise frequently leads to conservative credit assessments, resulting in either credit denials or higher-than-market interest rates. This risk perception is compounded by the underdeveloped track record of many green segments and the limited capacity to evaluate feasibility and long-term viability.

Non-financial barriers further hinder green investments, particularly when regulatory frameworks are unstable or misaligned with sustainability objectives. A strong example is the continued existence of indirect fossil fuel subsidies, which distort market signals and undermine the business case for energy efficiency and renewable energy[5]. Generally, it is estimated that between €34 and €48 billions of EU funds are still used annually to subsidise activities harmful to nature[6].

Despite these challenges, green business models offer resilient, future-oriented value creation and are increasingly outperforming traditional sectors in terms of growth, innovation, and investor interest. The global energy investment is projected to reach a record €3.04 trillion in 2025, with around two-thirds flowing into clean technologies.[7] Green sectors like clean energy are not a niche market, it is the global investment priority, driven by competitiveness, innovation, and energy security. Supporting green business models is therefore not just a sustainability imperative, but a decisive economic strategy grounded in accelerating capital flows and systemic transformation.

[4] London Stock Exchange Group, Investing in the green economy 2025, 2025, https://www.lseg.com/content/dam/lseg/en_us/documents/sustainability/investing-in-green-economy-2025.pdf
[5] European Economic and Social Committee, Phasing out fossil fuel subsidies while ensuring European competitiveness, mitigating the cost-of-living crisis, and promoting a just transition, 2025, https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/phasing-out-fossil-fuel-subsidies-while-ensuring-european-competitiveness-mitigating-cost-living-crisis-and-promoting#downloads
[6] WWF, Can Your Money Do Better?, 2024, https://www.wwf.eu/?13738416%2FMember-States-use-billions-of-EU-subsidies-to-fund-nature-harming-activities---new-WWF-study=&utm
[7] International Energy Agency, World Energy Investment 2025, 2025, https://www.iea.org/reports/world-energy-investment-2025

4 The case for redirecting MFF funds

4.1 The leverage effect: Public finance to mobilise private capital

As Europe navigates far-reaching challenges, it is essential to leverage fiscal space within the EU budget effectively and efficiently to advance climate objectives. This can be achieved through a more mainstreamed use of financial instruments throughout the envisaged new MFF architecture.

The MFF allocates public funds to de-risk investments and attract private sector participation in strategic sectors such as green energy, digital infrastructure, and innovation. Initiatives like InvestEU leverage guarantees and blended finance to crowd in private investment by mitigating risk and enhancing financial viability. Structured equity instruments enable higher leverage, making a 7:1 private-to-public capital ratio achievable and consistent with international standards.[8] Many projects carry risks due to their innovative nature but have the potential for significant impact. Despite their low failure rate, they typically do not receive funding through conventional assessment processes.

Additionally, EU structural and cohesion funds offer co-financing that attracts private investment in regional development. These financial instruments within the MFF already help to create a more investment-friendly climate by aligning public funding with private capital to drive growth and meet EU policy goals.

4.2 Aligning MFF spending with EU objectives: The role of sustainable banks

While conventional banks often face limitations in serving the specific needs of sustainable enterprises, several financial institutions in the EU have long placed sustainability at the core of their operations[9,10,11]. These banks view credit and investment not merely as financial transactions, but as tools to shape a resilient and inclusive economy. Their primary aim is not profit maximisation, but the strategic allocation of capital toward socially and ecologically meaningful activities.

Sustainable banks continuously engage in forward-looking planning and maintain close ties to the sustainability discourse, enabling them to act as both financial partners and strategic advisors. They support entrepreneurs in developing business models that align economic viability with climate and social objectives, providing critical guidance on how future-fit ventures can operate.

Sustainable financial institutions integrate financial and environmental, social and governance (ESG) indicators into their risk and impact assessment processes. They see the financial benefits of sustainable investments – and the climate footprint of a loan portfolio holds a similar weight to its financial return. Sustainable banks operate based on clearly defined sustainable and ethical investment and financing principles, which effectively constitute a structured investment strategy.

Given their mission and methodology, sustainable banks are uniquely positioned to help align MFF spending with the EU's policy objectives. By leveraging their local presence, sectoral knowledge, and strong governance, they can improve the effectiveness and accountability of EU budget instruments.

[8] World Bank Group, The Why and How of Blended Finance, 2020, https://www.ifc.org/content/dam/ifc/doc/mgrt/202011-new-ifc-discussion-paper.pdf
[9] Sustainable Banking Coalition, 2025, https://www.sustainablebankingcoalition.eu/
[10] European Federation of Ethical and Alternative Banks and Financiers, 2025, https://febea.org/
[11] Global Alliance for Banking on Values, 2025, https://www.gabv.org/

5 Policy recommendations for the EU's 2028-2034 budget

[1] Strategic financial instruments for a future-proof MFF

Subsidies and grants consist entirely of public resources and can be subject to abrupt changes. This creates a high degree of uncertainty, undermining the long-term planning horizon that investors and financiers depend on. Such instability acts as a structural barrier to transformation, deterring private capital from entering green markets. Financial instruments can offer a solution by providing stable, predictable support regardless of short-term fiscal fluctuations. Embedding such instruments more systematically in the new MFF would increase the efficiency and leverage of the EU budget. To ensure climate integrity, all EU financial instruments must be aligned with the EU's climate goals.

Equity instruments for retail banks

Equity instruments represent ownership in a company or project, giving investors a share of profits and losses in exchange for their capital contribution. The equity instrument model deployed under InvestEU for venture capital should be adapted and extended to retail banks with a clear sustainability mandate. Providing equity-type support to retail banks would strengthen their capital base, enhance their lending capacity, and allow them to better finance long-term green and social investments. Structured equity instruments are effective in reaching higher leverage ratios, making a 7:1 private-to-public capital ratio realistic and aligned with international benchmarks.[12]

This approach would mirror InvestEU's structure: using EU budgetary guarantees and capital contributions, channelled through implementing partners such as the European Investment Bank (EIB) Group or national promotional banks. Key features would include eligibility criteria linked to the bank's sustainability profile, strong additionality requirements, and mechanisms to crowd in private capital. By tailoring such a facility to future-fit financial institutions, the EU can ensure more inclusive and regionally grounded financing.

Increased use of guarantees

Guarantees are financial commitments provided by a third party, often a public institution, to cover potential losses for lenders or investors, thereby reducing the risk of financing a project. Guarantees, particularly when delivered through instrument-structures like InvestEU, reduce transformation-related risks for investors while only drawing on public funds in the event of project failure, making them fiscally efficient. They provide a direct, transparent, and reliable mechanism for de-risking sustainable investments. This stability boosts investor confidence.

Recommendation 1: Strategic financial instruments for a future-proof MFF

- **Scale up EU guarantee instruments** for impact-focused retail banks to reduce investor risk while making efficient use of the EU's limited resources.
- **Expand equity instruments under the MFF** for retail banks to support climate-aligned SMEs, net-zero value chains, and innovative infrastructure projects.
- **Create dedicated equity windows** for impact-focused retail banks to strengthen their capital base and enable broader access to green finance at local level.

[12] World Bank Group, The Why and How of Blended Finance, 2020, https://www.ifc.org/content/dam/ifc/doc/mgrt/202011-new-ifc-discussion-paper.pdf

[2] Ensure a balanced use of the EU's budget

In a context of heightened geopolitical tensions, growing social demands, and competing recovery needs, pressure is mounting to stretch the EU's limited budget across a widening set of objectives. This must not come at the expense of the Union's long-term commitment to climate neutrality, environmental protection, and social as well as energy resilience. A truly balanced EU budget means recognising that sustainability is not an optional priority - it is the foundation of economic stability, strategic autonomy, and long-term competitiveness.

Climate mainstreaming across the MFF

The next MFF must go beyond political headline targets and establish climate mainstreaming - the systematic integration of climate change considerations into policymaking, planning, and implementation across all sectors - as a structural principle. The current 30% climate spending target relies on input-based tracking using fixed coefficients, with limited ex-post assessment and no systematic exclusion of harmful investments. The next framework should adopt an outcome-oriented approach, backed by robust climate impact assessments and alignment with EU climate legislation - including the Climate Law. Phasing out inconsistent spending and ensuring policy coherence are critical to credibility and impact[13]. To meet environmental goals, EU funding must be sufficient and well-targeted, with at least 50% of the MFF allocated to the climate and environmental transition.[14]

Application of the DNSH principle

The Do No Significant Harm (DNSH) principle must be applied consistently across all MFF programmes, not only selected instruments. This requires clear guidance, harmonised application across funding streams, and independent oversight. When done effectively, DNSH ensures that EU funds do not contradict environmental objectives, reduces legal and reputational risks, and streamlines compliance through simplification and clarity.

Performance-based payments

EU budget allocations should be linked to the delivery of measurable sustainability outcomes. Performance-based payments, whether in cohesion, agriculture, or innovation, can incentivise Member States and beneficiaries to achieve tangible progress on e.g. climate and inclusion. This shift from compliance to impact strengthens the effectiveness and legitimacy of EU spending.

Recommendation 2: Ensure a balanced use of the EU's budget

- **Avoid trade-offs between short-term political priorities and long-term sustainability** by embedding safeguards and thresholds for green and social spending in the MFF.
- **Anchor climate mainstreaming as a structural principle** across all MFF programmes, moving beyond input-based targets towards an outcome-focused approach.
- **Apply the DNSH principle uniformly across all instruments**, with clear operational guidance, harmonised implementation criteria, and monitoring mechanisms.
- **Introduce performance-based payments** linked to sustainability and social outcomes, rewarding progress on measurable indicators.

[13] Bruegel, Greening the EU budget: why climate mainstreaming needs reform, 2025, https://www.bruegel.org/analysis/greening-eu-budget-why-climate-mainstreaming-needs-reform
[14] WWF, 2025, An Investment Commission for the Green Transition, https://wwfeu.awsassets.panda.org/downloads/wwf-mff-position-paper.pdf

[3] Strengthen and simplify public-private collaboration

Sustainable banks continue to face significant barriers in accessing EU-level funding instruments. While national promotional banks and the European Investment Fund (EIF) offer products that are relatively accessible to smaller institutions, the EIB remains largely geared toward serving major commercial banks. Although EIB financing lines for SMEs exist, they are typically channelled through conventional intermediaries, making them difficult to access for smaller, mission-driven banks, often SMEs themselves, due to high minimum thresholds and burdensome procedures.

To ensure the commitment of EIB/EIF translates into tangible impact, operational processes must be better aligned with policy goals. Programmes such as InvestEU remain particularly challenging for smaller institutions. The level of documentation and administrative effort required often exceeds what these actors can reasonably deliver. A streamlined application process tailored to their capacities is needed, along with sufficient internal resources within the EIB/EIF to manage both large and small applications with equal diligence.

Access to EIF instruments must become more inclusive, to create a more level playing field. This should involve making documentation available in all official EU languages, lowering the minimum size of guarantee tranches, and simplifying and clarifying application procedures. Such changes would foster fairer competition and better leverage the local expertise and tailored financing approaches of sustainable banks.

Performance-based incentives should be introduced to further incentivise inclusive and targeted lending. Financial institutions that meet specific green or social lending targets could benefit from more favourable conditions, such as lower interest rates or enhanced risk-sharing. This would align financial mechanisms with policy objectives and help direct credit flows.

The governance of programmes like InvestEU must be strengthened, ensuring that EU funding delivers on its full potential. This includes enhancing transparency, simplifying access for smaller beneficiaries, and reinforcing the monitoring of implementation outcomes. These improvements are essential to ensure that EU resources effectively support those financial institutions best placed to deliver inclusive and sustainable finance across Europe.

Recommendation 3: Strengthen public-private collaboration

- **Tailor funding access procedures** to the needs of smaller financial institutions by reducing complexity and scaling documentation requirements proportionally.
- **Ensure documentation is available in all EU official languages** to support equal access and reduce language-based barriers.
- **Streamline and increase transparency of application procedures**, particularly for guarantees and credit lines under EIB/EIF frameworks.
- **Introduce performance-based incentives** for financial intermediaries meeting sustainability and social-related lending targets.

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Co-signatories

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