

EARTO Response to the EC Consultation on the Renewed Sustainable Finance Strategy: focus on the future role of R&I part

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EARTO and its members very much welcomed the European Commission's [stakeholder consultation on the Renewed Sustainable Finance Strategy](#) published in April 2020, as it aims to provide the policy tools to ensure that the financial systems genuinely supports the transition of businesses towards sustainability in a context of recovery, including R&I investments. The insights of RTOs preparing, providing, implementing the sustainable solutions of today and tomorrow are important. In order to ensure that financial markets and their participants invest in sustainable projects supported or generated by entities like RTOs, EARTO feedback specifically focuses on the questions addressing the future role of R&I in the Renewed Sustainable Finance Strategy. Accordingly, EARTO members would like to put forward comments on the following questions:

Question 63: The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models. How could the EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities?

Reducing the adjustment cost of investments in R&I

To EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities will require for InvestEU to aim at enhancing the transfer and successful deployment of R&I into bankable opportunities.

InvestEU should then aim at increasing the availability of funding (public, private) for companies to invest in R&I during financially constraining periods, i.e. not limiting these types of investments to companies with liquid reserves. This will become a priority to reconcile recovery of economies after the COVID-19 crisis and accelerating R&I and uptake of deployable technologies as enablers for the objectives of the Green Deal. Here some aspects should be especially looked at such as:

- The need to enhance the access of SMEs to R&I funding (equity and debt financing) and to consider the coherence between InvestEU instruments and HEU funding, e.g. to create a continuity of investments after grant financing is no more available to bridge periods of lack of maturity and profitability to allow technologies under development to eventually reach the market; ensure the fitting of state aid rules and facilitate the access to IPCEI to this end.
- The need to consider the geographical diversities in the EU and their respective investment priorities as well as the diversities in the technologies to be deployed.

Strengthening the credibility and stability of markets for clean technologies, products and processes

The EU actions should also aim at strengthening the credibility and stability of markets for clean technologies, products and processes to enhance attractiveness of investments in R&I through climate, industry and product policies. A credible Emission Trading Scheme lowering emission allowances, addressing risks of carbon leakages and innovation funds is an element to this.

Introducing a category "R&I" into the EU taxonomy

To guide and raise investments in R&I to accelerate sustainable development and the achievement of objectives of the Green Deal, the introduction of a category "R&I" into the EU taxonomy is a necessity to clarify the contributions to climate change mitigation and adaptation, environmental and social objectives. Since it is not possible to establish a list of R&I activities that could be considered as contributing to sustainability objectives, principles and criteria would need to be established to assess and inform about positive impacts.

Creating Alternative funding schemes based on pooled funding

'Synergies and pooling financial resources' are necessary to meet the ambition of capital-intensive industrial projects. The magnitude of the investment challenge requires mobilising both the public and private sector, and it is true that the EU needs broad-based innovation investments. Therefore, heavy investments in research and innovation are needed, to back up the 'right' industrial investment decisions. Conventional approaches that sometimes tend to place 'research & innovation' in the budget category 'spending', outside the hard-core investment, are not enough anymore. In this context, alternative funding schemes based on pooled funding could be promoted by provision of financial vehicles using the opportunities of new business models.

Funding of R&I is particularly challenging at mid TRL levels when different technological options are still open and require crossing the so-called “valley of death”. When technology feasibility is uncertain, it needs to be cleared up through pilots and demonstrators at real scale in operational conditions often becoming a high risky endeavour. It may require complex partnerships of research organizations and industry to enable technological options reach the high TRL levels needed for scaling up and diffusion in market and society.

For this, the EU budget alone cannot be enough to meet the massive R&I investment needed. Member States and private actors will need to provide the scale. However, we still need to work on effective solutions to cumulate funding from different sources (EU, Member States, Regions, private). Appropriate fitness checks for State-aid rules play a crucial role in this respect. Although grants under European, national or regional programs can reduce the risks, financial instruments in the form of pooled funding would be very helpful to supplement the funding of these kind of long-term application-oriented R&I. Public European institutions should be able to offer guarantees enabling to leverage private capital and debt from development financing entities, thus providing additional funds for high risk R&I.

A recent analysis by the European Commission suggests that there is a critical momentum for the EU together with Member States to be more ambitious, exploring with relevant national and regional stakeholders a shared vision and jointly developing a European strategy for technology infrastructures to support industry scale-up and diffusion of (green) technologies across Europe. Technology infrastructures require high investment both in the set-up and in the keeping up with the state-of-the-art. A reform of performance indicators is needed to make better monitoring of the medium- to long-term impact of policy measures and investments.

Creating a dedicated R&I advisory hub under Invest EU R&I Window

In addition, investments in R&I require extensive expert knowledge, which is costly, while their positive knowledge spill-over effects have been demonstrated. R&I projects would benefit from an involvement of technical, commercial and financial advisory to help an early transition to bankable projects ready to be accelerated towards industrialization and commercialization.

In general, R&I is essentially an uncertain process with uncertain results and investment in new products/processes tends to have unfavourable risk/benefit profile. R&I activities at low levels of TRL neither allow to anticipate how the potential results will pay off, making very difficult to pose an investable-bankable case. At some measure, the success of the R&I process to reach an investable application depends on an early approaching of those complimentary activities directed to mitigate technical, commercial and financial risks. When the research has gone through proof of concept and first lab tests, once the most fundamental uncertainties have been overcome, the R&I project needs to be transformed in an investment project. This transition entails to evaluate technical and commercial risks, set the subsequent phases in terms of minimizing risks, improve bankability and analyse different funding options to approach the pilot and scaling phases conducive to commercialization.

R&I projects need to be approached in a more systemic context where the technological development is going along with complimentary activities oriented to reduce commercial and financial risk, improve bankability and search suitable funding schemes. Expert advisory should help to accelerate the transition from research projects to investment/bankable applications. Accessibility of expert knowledge and information could be freely made available to all types of companies and investors, e.g. through a dedicated advisory hub, possibly at the EIB, using knowledge among other RTOs for support.

Question 64: In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?

Yes. R&I is used in very broad terms so some classification and specification would be very useful to avoid misunderstandings. This should include some definition for “Innovation” and different forms of innovations from fundamentally new ideas to improvements in existing technologies. Innovation does not apply to products only but also to manufacturing processes, supply chains and business processes/models. There should be differentiation and clarity about a variety of “Readiness Levels” specifications that would be useful covering areas such as TRL (Technology), MRL (Manufacturing) and SCRL (Supply Chain).

Question 65: Where do you consider that the EU should take further actions?

Questions	YES	NO	Don't know/no opinion
Bringing more financial engineering to sustainable R&I projects?	X		
Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors	X		
Better identifying areas in R&I where public intervention is critical to crowd in private funding?	X		
Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds?	X		
Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)?	X		
Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication?	X		
Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions?	X		
Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks?	X		

Comments:

Some kind of pooled green fund for R&I as proposed before (see question 63) would also help to build new forms of cooperation among different industries and RTOs facilitating sharing of information and experience regarding successful low carbon business models, research gaps and innovative solutions. To increase the capacity of EU entrepreneurs and SMEs to innovate and take risk requires to channel funds into teams with "skin in the game" as well as funding the R&D projects linked to early-stage opportunities. Teams could have some future commitment with the project to push it forward should certain technological milestones were reached.

Another possibility would be to foster the venture builder concept (as implemented in Israel in early 90s) pushing for public-private schemes to identify promising technologies across different RTOs in Europe; negotiate licensing in deals with the venture builders who would hire ad hoc teams and provide some initial financing with the ultimate goal of finding smart capital to invest in deep-tech opportunities with well-rounded teams already in place.