Federation for Innovation and Sustainable Competitiveness in SMEs (FICSIMM):

Proposal for a financial instrument for increasing energy efficiency and reducing greenhouse gas emissions through the technological upgrading of SMEs - ENERGO-IMM

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1. Context and general rationale

SMEs in Romania are currently facing an **almost dramatic economic and fiscal situation**, especially those engaged in **manufacturing and processing**, where operating costs are extremely high. In the absence of support measures tailored to their needs, these enterprises are forced to operate on **minimal profit margins**, in an unpredictable fiscal climate and under growing pressure from external markets. **Industrial manufacturers and food processors**, the backbone of the national economy, find themselves at an impasse, facing major difficulties in maintaining their competitiveness. Furthermore, **the high level of labour taxation** and legislative instability generate an additional burden, which hampers medium- and long-term planning.

To this difficult context is added **the pronounced volatility of the energy market**, which has become a critical factor for the functioning of SMEs. **The removal of the price-capping and compensation scheme for natural gas and electricity** has exposed companies to unpredictable fluctuations and to bills which, in many cases, have doubled or even tripled. This situation has particularly affected **manufacturing and processing enterprises**, where energy costs account for a significant share of total expenditure. The absence, to date, of a structural instrument to protect SMEs against energy shocks - the measures adopted or announced being temporary and aimed predominantly at household consumers and at large energy-intensive consumers - risks generating a wave of insolvencies and drastically limiting firms' capacity to invest in technological upgrading or development. In 2026, this context has worsened dramatically. **The conflict in the Middle East and the near-total closure of the Strait of Hormuz in March 2026**, through which roughly one fifth of world trade in liquefied natural gas transits, triggered a new global price shock: at the end of March 2026 the European Commission estimated increases of approximately **70% for natural gas and 50% for oil**, and on 19 March 2026 the European Council asked the Commission for a set of targeted temporary measures. In Romania, according to Eurostat data published on 30 October 2026, **the price of electricity for household consumers rose by 51.9% in the first half of 2026** compared with the same period of 2025 - the largest increase in the European Union -, and on 31 October 2026 the Ministry of Energy confirmed that **the day-ahead market price had at least doubled compared with the previous year** and announced the setting up of a working group on support schemes for non-household consumers. **Manufacturing SMEs, fully exposed to market prices, are thus entering the winter of 2026 - 2027 without any structural protection mechanism.**

The impact on the **state budget** could be major if SMEs are **forced to reduce their activity or temporarily suspend production**. These companies contribute substantially through **taxes, duties and social contributions**, and any disruption of their activity would diminish tax revenue at national level. Moreover, there is a risk that, in the absence of support measures, a significant number of **employees would be placed on technical unemployment**, which would generate additional costs for the budget and weaken social stability. In this scenario, the state would be doubly affected: on the one hand through lower revenue collected, and on the other through higher budget expenditure.

Beyond the immediate fiscal implications, **the effects on the labour market** would be dramatic, particularly in the regions where manufacturing and processing industries are the main source of jobs. The closure or downsizing of these SMEs could lead to **massive job losses**, with long-term social and economic effects. This would deepen **regional disparities** and contribute to labour migration, a phenomenon that is already alarming for Romania. Consequently, **ensuring the energy sustainability of SMEs** becomes an essential condition not only for their survival, but also for the financial stability of the state and for social cohesion at national level.

The climate dimension of this situation is as important as the economic dimension. **Energy-hungry equipment generates not only costs but also avoidable greenhouse gas emissions**: every MWh of natural gas burned needlessly in an outdated industrial furnace, dryer or boiler means approximately 0.2 tonnes of CO2 emitted, and every MWh of electricity wasted means additional indirect emissions in the national energy system. From 2028, the new European emissions trading system for buildings, road transport and additional sectors (ETS2) will introduce a **carbon price on fossil fuels released for consumption**, including for industrial installations not covered by ETS1. The obligation falls on fuel suppliers, but **the cost is passed on in the price paid by final consumers – that is, precisely by the manufacturing SMEs that use natural gas for technological processes**. **Every MWh saved through technological upgrading therefore means not only a lower cost, but also avoided emissions and reduced exposure to the future carbon price.** From this perspective, the proposed instrument is, in equal measure, a competitiveness instrument and an instrument for the decarbonisation of Romania's small and medium-sized industry.

Recent World Bank analyses confirm this dimension with precise data. According to the sectoral analysis report prepared for the Ministry of Investments and European Projects with a view to post-2027 programming, **approximately 65% of the emissions of Romania's business economy come from**

manufacturing, concentrated in a few sub-sectors - including **the food industry** -, and **emissions intensity is more than twice the EU27 average**, being driven, unlike in other countries of the region, not by the energy sector but by industry and services. **Romanian manufacturing generates almost double the European average of GHG emissions per euro of value added**; bringing this intensity down to the EU27 average would **reduce Romania's total emissions by 14%**, and if firms below the sector median brought their energy efficiency up to the median level, **private sector emissions could fall by 57%** (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, para. 246-247). The GRIN summary report by the same institution estimates **the emissions intensity of industry at 2.5 times the EU average** and a **decarbonisation potential of 43%** in industry and services simply by aligning firms below the median with the performance of firms of the same size (World Bank, GRIN - Inputs to Greening Romania's Industrial Plan, summary report, June 2026). **The proposed instrument targets precisely this broad mass of below-median firms, where the greatest potential for emissions reduction per unit of investment lies.**

2. Structural deficiencies and needs

Over the past **35 years, SMEs in Romania have not benefited from any national programme** enabling them to replace old production lines with modern, energy-efficient ones. In the absence of this type of support, the vast majority of enterprises in industrial sectors still operate with **outdated, energy-hungry equipment**, which generates very high operating costs. This reality keeps productivity well below the European average and prevents firms from developing their export capacity. **The lack of public policies focused on technological upgrading** has created a structural barrier, which significantly reduces SMEs' chances of competing with European or international firms.

Another major problem is the **pronounced energy inefficiency** of existing production lines. Many SMEs use equipment that consumes **twice as much gas or electricity** as new equipment compliant with current standards would. This situation leads to exorbitant operating costs, which affect profitability and limit the capacity to reinvest. In addition, the lack of **modern energy monitoring and management systems** means that enterprises have no clear picture of their actual consumption and cannot implement

effective measures to reduce it. This **technological and information gap** amplifies the vulnerability of SMEs to the volatility of the energy market.

The existing European programmes - such as **Cohesion Policy or the Just Transition Fund** - do not currently cover the need to **replace old equipment**. The current rules require existing equipment to be kept throughout the project implementation period (2 years), plus a further 3 years during the monitoring period, which makes it impossible to shut down energy-hungry lines during the financing. As a result, SMEs wishing to modernise their production process are forced to keep inefficient machinery in operation, which runs counter to the objectives of **energy efficiency and emissions reduction**. This lack of **alignment between financing instruments and the real needs of companies** constitutes a structural bottleneck in the modernisation of industry. Nor has the **Modernisation Fund** so far financed an instrument dedicated to manufacturing SMEs. The only industrial energy efficiency programme launched by the Ministry of Energy from this source (**Key Programme 7**, with a budget of EUR 150 million, launched in April 2025) is addressed exclusively to **installations covered by the EU ETS**, that is, the large emitters, while **the State aid scheme for energy-intensive industry** under preparation in 2026 (up to EUR 2 billion from the Modernisation Fund, by 2030, according to the draft government decision published in April 2026) targets large industrial consumers. **SMEs - which account for the vast majority of small industrial installations not covered by the ETS - thus remain outside the main European mechanism for financing the decarbonisation of industry. An instrument dedicated to SMEs, with emissions reductions measured and reported for each project, would substantially improve the climate profile of Romania's Modernisation Fund portfolio**, at a time when the European Commission has proposed the complete exclusion of fossil fuels from the Fund from 2031.

To address these deficiencies, SMEs in Romania urgently need a **financial instrument dedicated to technological upgrading**, which would complement the European schemes and allow **the immediate replacement of old, energy-hungry equipment**. A flexible solution is essential, one that includes **state guarantees, preferential interest rates and incentives for energy performance**, so that companies can invest without being burdened by unbearable risks. Such an instrument must also support the integration of **digital technologies and energy management systems**, in order to increase transparency and encourage data-driven decisions. Only through such a mechanism can the collapse of industrial competitiveness be avoided and a **solid foundation for the green transition** of the Romanian economy be created.

The World Bank also documents the **market failure** that justifies public intervention: “due to market misallocation, Romanian firms that improve their energy efficiency do not always see their market share increase”, with most companies that reduce their energy consumption gaining no competitive advantage; the report's conclusion is explicit - **“without policy mechanisms that turn energy efficiency into a competitive advantage, firms have little economic incentive to decarbonise”** (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, para. 248). The performance-conditional **capital rebate** component of the proposed instrument is precisely such a mechanism.

The same analysis shows why conventional bank financing alone cannot meet this need: **domestic credit to the private sector represents only around 26% of GDP, against an EU average of approximately 88%**, **only 39% of Romanian SMEs use bank loans (49% in the EU)**, **22.5% of firms have had a loan application rejected** - almost three times the regional average -, and collateral requirements remain high; shallow finance is considered “binding” precisely because it “limits the upfront investment needed for technology adoption, skills, energy efficiency and export upgrading, especially outside the capital” (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, p. 79).

The World Bank's Firm-level Adoption of Technology survey (FAT, 2025) completes the picture: **37% of firms cite finance as the main barrier to modernisation**, 58% overestimate their technological level, and the adoption of green technologies is “broad but shallow” - 88% use LED lighting, but only 7% use IoT temperature control (World Bank, GRIN - Inputs to Greening Romania’s Industrial Plan, summary report, June 2026).

3. Rationale for the proposed pilot sectors

We have chosen **furniture manufacturing** as one of the pilot sectors we propose because it is an **industry with a long tradition in Romania**, making a significant contribution to national exports and to employment. At the same time, it is a sector in which the production process is heavily dependent on **electricity and thermal energy**, used in particular for timber drying, cutting, pressing and finishing. Many SMEs in this sector operate with **old, highly energy-consuming equipment**, which leads to high costs and declining competitiveness on international markets. Modernising these production lines would increase energy efficiency and reduce the pressure on the prices of Romanian products.

At the same time, **food processing** has been selected as a pilot sector because it is of **strategic importance for national food security** and for domestic supply chains. This sector uses extremely **energy-hungry** equipment, such as that used for industrial refrigeration, pasteurisation, sterilisation, freezing and packaging. Energy costs account for a major share of the final price structure of products, and the volatility of the energy market makes business planning difficult. Food processing SMEs are particularly vulnerable to **sudden increases in gas and electricity prices**, which can lead to falling output and significant losses. The choice is supported by the World Bank's territorial analysis, according to which **food processing and the agri-food industry "remain among the most territorially rooted and economically relevant sectors for future broad-based upgrading"**, sustaining industrial activity "across a wide range of counties and urban centres", the main challenge being the shift from shallow to deep processing, stronger cold chains and logistics, and greater domestic value retention (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, p. 70); the same institution's note on social consensus lists **"a modernised food industry"** among the sectors with the greatest growth and employment potential (World Bank, Policy Note on Social Consensus, 2026 (draft), recommendation 66).

Another reason for choosing these two pilot sectors is that they concentrate a **very large number of active SMEs**, with a balanced territorial distribution, in urban areas as well as in rural or peri-urban areas. In the furniture industry, Romania is a recognised player on the European market, but its current competitiveness is threatened by the lack of investment in technological upgrading. In food processing, the impact is felt directly by consumers, since **food prices are influenced by the energy costs** borne by producers. Implementing a financial instrument tailored to these two sectors would provide a

demonstration effect with multiplier value for the rest of the economy. The World Bank observes that medium-light industries - "food processing, textiles, rubber and plastics, wood products" - are **more geographically distributed than advanced services or high value-added industry** and can help small and medium-sized towns to diversify (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, p. 151), and in the profile of the Nord-Est region it explicitly recommends that **traditional sectors - wood, paper, furniture, textiles, packaging - "be supported to move towards more productive and more resilient business models"**, as a production base "with regional roots, export relevance and SME participation" (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, Annex 1, pp. 220-221).

These two sectors also respond to the national and European strategic objectives of **green transition and energy efficiency**. By modernising their production lines, SMEs in furniture and food processing can achieve **significant reductions in energy consumption**, which would make them more resilient and more competitive in the long term. Moreover, they can contribute to **lowering CO2 emissions**, to improving product quality and to preserving jobs in a period of economic instability. Choosing these fields as a **pilot project** will allow the financial instrument to be tested and validated in a real environment, before it is subsequently extended to other industrial sectors.

The emission reduction potential is particularly high in both pilot sectors:

In the **furniture industry**, timber drying and heat generation traditionally rely on boilers and dryers fired with natural gas, often with low efficiency; replacing them with **high-efficiency dryers, industrial heat pumps and heat recovery systems**, powered to an increasing extent by electricity, directly reduces on-site emissions (scope 1).

In **food processing**, industrial refrigeration and freezing are the largest consumer of electricity, and old equipment frequently uses fluorinated refrigerants with a high global warming potential, whose use is being progressively restricted under **Regulation (EU) 2024/573 on fluorinated gases**; modernising refrigeration systems simultaneously reduces electricity consumption (scope 2 emissions) and direct emissions of fluorinated gases.

For each project financed, the emission reduction will be quantified in tonnes of CO2 equivalent avoided per year, on the basis of the initial and final energy audits.

4. The concrete proposal for a financial instrument

The proposal aims to launch an innovative financial instrument - ENERGO-IMM -, managed by the Investment and Development Bank (BID), which would give SMEs in the pilot sectors rapid and secure access to financing for technological upgrading. The structure of the instrument will be based on a **state-guaranteed loan**, designed to reduce the risk perceived by financial intermediaries and to facilitate lending on advantageous terms. Through this mechanism, SMEs will be able to replace their energy-hungry equipment with high-performance equipment, without being obliged to bear the investment risk in full.

The financial instrument will include a **conditional grant component**, which will be activated only if the beneficiary exceeds certain **minimum energy performance thresholds** set at the start of the project. Companies will thus be encouraged to achieve concrete results in terms of **energy efficiency and reduced consumption**. For example, if a factory achieves a reduction of at least **30% in energy consumption** on the upgraded production lines, it will benefit from a **capital rebate** (reduction of the principal) or from a **partial interest subsidy**. This model creates a **"pay-for-performance"** framework, which aligns the interests of SMEs with the national and European objectives on the green transition.

In order to respond explicitly to the objectives of the Modernisation Fund and of European climate policy, **the initial energy audit will establish, in addition to the baseline energy consumption, the baseline greenhouse gas emissions of the production lines concerned** (tonnes of CO2 equivalent per year, for fuels burned on site - scope 1 - and for purchased electricity and heat - scope 2), using the emission factors recognised at national and European level. **The final audit will quantify the avoided emissions**, and the indicator "tonnes of CO2 equivalent avoided per year" will be reported for each project and aggregated at the level of the whole instrument, in the same format in which the Ministry of Energy reports the results of the programmes financed from the Modernisation Fund (GHG emissions reduced, in tonnes of CO2 equivalent per year, and energy saved, in MWh). The performance threshold for the capital rebate remains the energy one (a reduction of at least 30% in consumption), but **reporting of avoided emissions becomes mandatory for all beneficiaries**.

The proposed architecture corresponds, point by point, to the recommendations made by the World Bank in 2026. The GRIN report recommends, as a priority short-term action, **"rebalancing from**

grants towards blended finance and guarantees" and, for the decarbonisation of industry, **"redirecting grants towards audits; using blended finance and guarantees for equipment"** - "reserve grants for needs assessments and transformation plans; channel equipment financing through guarantees and concessional loans" -, as well as **"dedicated green finance for MSMEs: green credit lines and guarantees sized for smaller firms"** (World Bank, GRIN – Inputs to Greening Romania's Industrial Plan, summary report, June 2026, Recommendations).

The sectoral analysis report calls for public guarantee schemes "to make more intensive use of first-loss risk coverage, counter-guarantees through cooperation with the EIF and the EIB, **portfolio guarantees and co-lending instruments linked to innovation, digitalisation and green investment**", complemented by "blended finance combining grants with concessional lending, including **interest subsidies, longer grace periods and performance-based instruments**" (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, para. 610), and explicitly recommends "co-financing and de-risking instruments" so that firms in sectors such as **food processing** can integrate "energy efficiency solutions into production processes" (World Bank, Report D3 – Sectoral, socio-economic and territorial analysis, July 2026, para. 607). **The BID portfolio guarantee, the audit grant, the performance-conditional capital rebate and the grace period are precisely the instruments recommended.**

Two further findings of the World Bank validate the way in which the components are combined.

First, the analysis shows **that "firms receiving both financial subsidies and capacity-building support record a 12.5% increase in the use of digital tools, whereas those receiving financial support alone record no improvement"** (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, p. 78) - which is why the instrument links financing to the mandatory energy audit, to energy management systems and to the advisory support provided through business associations.

Second, GRIN finds that **100% of the EUR 2.35 billion renewables portfolio is delivered in the form of grants, "although the projects are commercially viable"**, that **less than 5% of the EUR 10 billion green portfolio had been disbursed by December 2024** and that over 60% of green funds sit within a single ministry, without specialised implementing agencies (World Bank, GRIN - Inputs to Greening Romania's Industrial Plan, summary report, June 2026, "Cross-cutting" section). **A guarantee instrument operated by BID through the network of commercial banks responds directly to this**

criticism: it multiplies public resources instead of consuming them and uses a distribution infrastructure that already exists.

The benefits for companies will be manifold: access to **preferential-rate loans**, a grace period of 6 to 12 months to adjust cash flows, as well as a **capped portfolio guarantee administered by BID, with a guarantee rate of 50% and a portfolio cap of 20%**, in line with the product sheet drawn up together with BID, to encourage commercial banks to finance the projects. In addition, SMEs will be able to use the resources for essential activities: carrying out **in-depth industrial energy audits**, **purchasing consumption monitoring systems**, **integrating Energy Management Systems** and, above all, **replacing old production lines with state-of-the-art equipment**. This combination of financial and technological support will lay the groundwork for a **rapid and sustainable transition** in the selected pilot sectors.

In the medium term, this financial instrument could be turned into a **revolving fund** operating on a sustainable basis, fed from the Modernisation Fund - which, according to the European Commission's proposal of 17 July 2026 to revise the EU ETS Directive, is to be **extended until 2040**, with the complete exclusion of support for fossil fuels from 2031 -, as well as from BID resources and other European sources.

Precisely because the Modernisation Fund is being structurally reoriented towards energy efficiency and decarbonisation, an instrument that delivers emission reductions measured at project level represents the most direct and most easily justified use of this resource.

Repayments made by SMEs could be reinvested to support new beneficiaries, thereby creating a significant multiplier effect.

Piloting this mechanism in **furniture and food processing** will also provide concrete data for adjusting it and extending it to other industrial sectors, such as automotive, construction or textiles. Ultimately, the instrument will represent a **practical and scalable solution**, capable of supporting the green transition of SMEs and reducing Romania's dependence on outdated, energy-consuming technologies.

5. Eligible activities for beneficiaries

A first type of eligible activity under the financial instrument is the performance of an **in-depth industrial energy audit**, both at the start of the project and at its end. The role of this audit is to identify the **critical points of consumption** and to establish the priority measures for making processes more efficient. By comparing the initial results with those obtained at the end, it will be possible to quantify exactly the **level of energy performance achieved**. Financing of the audit will be mandatory for each beneficiary, in order to ensure **transparency in the use of funds** and to demonstrate the impact of the investments on energy consumption and on greenhouse gas emissions.

Another category of eligible expenditure is the purchase and installation of **equipment for measuring and monitoring energy consumption**, applicable across the entire production chain. This equipment will provide real-time data on the **consumption of electricity, natural gas and other resources**, at machine or process level. Its implementation will allow SMEs to have an **accurate picture of the energy behaviour of the factory** and to identify more quickly the areas where savings can be made. In addition, these systems will contribute to **standardised reporting of energy performance**, an element increasingly demanded by international customers in value chains as well.

The financial instrument will also cover the costs of purchasing **specialised software**, capable of analysing energy data and providing **automated recommendations for optimising consumption**. By integrating these digital solutions, SMEs will be able to take data-driven decisions on making production processes more efficient. In addition, this software can generate **comprehensive energy management reports**, useful not only for internal management but also for reporting to authorities or financial institutions. Beneficiaries will thus be able to demonstrate the improvement in their energy performance and will have a tool for the continuous monitoring of the investments made.

The most important eligible activity is the purchase of **new, state-of-the-art production lines**, allowing the **decommissioning of old, energy-hungry equipment**. These investments will have the greatest impact on reducing energy consumption and increasing productivity. SMEs will be able to integrate modern technologies with **high energy efficiency and low emissions**, adapted to current European standards. The financing will also include **Energy Management Systems (EMS)**, through which factories can manage all internal processes centrally and intelligently. In this way, the financial

instrument will contribute to a **structural transformation** of the production capacities of Romanian SMEs.

In order to maximise the impact on greenhouse gas emissions, the instrument will give **priority to investments that electrify thermal processes or eliminate the burning of fossil fuels**: medium- and high-temperature industrial heat pumps, electric furnaces, dryers and boilers, waste-heat recovery from processes, high-efficiency air compression systems, variable-speed motors and drives, refrigeration systems using natural refrigerants and thermal storage solutions.

Also eligible will be the **measuring equipment needed to quantify emissions** (process-level gas and electricity meters, consumption monitoring systems), without which the reporting of tonnes of CO2 equivalent avoided cannot be verified.

In line with the rules of the Modernisation Fund and the “do no significant harm” (DNSH) principle, **investments in new fossil-fuel-based energy generation equipment will not be eligible**, and investments that maintain natural gas consumption will be accepted only if the audit demonstrates a net reduction in emissions compared with the baseline.

6. Anticipated benefits and macroeconomic impact

The implementation of this financial instrument will generate direct benefits for the beneficiary SMEs, starting with a **significant reduction in energy consumption** and, implicitly, in operating costs. Through the **modernisation of production lines and the integration of digital energy management systems**, enterprises will be able to achieve **savings of up to 30–40% on energy bills**. By integrating technologies such as **heat pumps** and **solutions for industrial heat recovery**, SMEs can achieve further reductions in consumption and an increase in competitiveness. This will allow them to redirect their financial resources towards investment in expansion, innovation and the development of new products. In addition, SMEs will become more **competitive on international markets**, where energy efficiency and sustainability have become essential criteria for access to global value chains.

At the level of the national economy, the major benefit will be the increased **resilience of the SME sector** and the consolidation of its contribution to the **state budget**. SMEs that are healthy in energy terms automatically become **healthy in financial terms as well**, which translates into higher taxes and duties collected by the budget. At the same time, the risk of firms entering insolvency or suspending their activity during periods of energy crisis will be reduced, which would protect both tax revenues and overall economic stability. In this way, the proposed instrument becomes not merely a one-off support measure but a **strategic investment in the sustainability of the economy**.

Another important impact will be on the **labour market**, since the modernisation of SMEs will make it possible to preserve and even create new jobs. Without this support, many companies would be forced to cut staff or resort to **temporary lay-offs**, especially in the cold season. By securing energy efficiency, SMEs will be able to protect their employees and offer stability to the local communities in which they operate. This measure acts as a **barrier against regional socio-economic decline**, preventing widening disparities and labour migration. The financial instrument therefore has not only an economic dimension but also a highly important **social and territorial** one.

In the long term, the macroeconomic benefits will be reflected in the increased **overall competitiveness of Romania** and in the improvement of its position on the European market. Modernised SMEs will be able to compete on an equal footing with firms from other Member States, narrowing the current productivity gaps. Likewise, by reducing energy consumption and lowering emissions, Romania will contribute to achieving the **climate and energy objectives of the European Union**. Last but not least, the success of this pilot project will set a positive precedent for extending the instrument to other industrial sectors, generating a **multiplier effect** with an impact on the entire national economy. In this sense, the proposal is not only timely but also **absolutely necessary** for the future of SMEs and of the Romanian economy.

In addition, **the instrument will generate a flow of verified data on avoided emissions** - for each project and at aggregate level -, which can be used directly by the Ministry of Energy in its reporting on the use of the Modernisation Fund, in updating the National Integrated Energy and Climate Plan and in demonstrating Romania's contribution to the **European Union's new 2040 climate target (a 90% reduction in net emissions compared with 1990)**, definitively adopted in March 2026.

The productivity benefits are confirmed by the World Bank's analyses. Simulations based on the FAT survey show that, if firms below the median were to reach the sector's median level of digitalisation, **their productivity could rise by up to 15% and their energy efficiency by up to 13%**, with the gains stemming from "general adoption of digital technology, such as automation", not only from specifically green technologies (World Bank, GRIN - Inputs to Greening Romania's Industrial Plan, summary report, June 2026). The D4 macroeconomic report shows that, in all post-2027 programming scenarios, **total factor productivity is the main driver of growth** (4,4 - 4.5 percentage points of the 8.5 points of cumulative GDP growth in the baseline scenario) and that the priority must be "facilitating adoption, not supporting research into new technologies" - "diffusion before invention" (World Bank, Report D4 - Macroeconomic analysis, July 2026, pp. 6, 60 and 112). The Social Consensus Note adds the competitiveness argument: **wage growth has outpaced productivity gains, raised unit labour costs and reduced external competitiveness**, while the labour shortage is estimated, for 2026, at **more than 220,000 positions, with a potential productivity loss of EUR 9.5 billion** (World Bank, Policy Note on Social Consensus, 2026 (draft)) - which makes technological upgrading the only way to maintain output without depending on an increasingly scarce workforce.

The fiscal argument is also supported by the World Bank: with a **budget deficit of 9.3% of GDP in 2024, the highest in the EU**, and with public investment projected at 8% of GDP in 2026 - a level considered "unlikely to be sustained over the medium term" -, Report D4 stresses that leveraged investments "mobilise a substantially larger volume of investment than the domestic contribution alone could support, while part of the expenditure returns to the public sector through taxes and social contributions", so that **"the net budgetary burden is lower than the gross co-financing requirement"** (World Bank, Report D4 - Macroeconomic analysis, July 2026, pp. 1 and 15-16; World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, p. 30). **The guarantee from the Modernisation Fund, with no additional national budget allocation, is the most fiscally efficient form of this reasoning.**

7. Alignment with European strategies and policies

The proposed financial instrument is fully aligned with **the European Union's objectives on the green transition and energy efficiency**, as set out in the **Energy Efficiency Directive (EU) 2023/1791**. By encouraging SMEs to replace their old, energy-hungry equipment, Romania contributes directly to reducing energy consumption and to meeting the decarbonisation targets assumed at European level.

In addition, financial support conditional on reaching minimum energy performance thresholds introduces a **"pay-for-performance"** mechanism, in line with the good practices promoted by the European Commission.

This instrument will accelerate the adoption of efficient technologies and will support **the competitiveness of Romanian SMEs** in the European single market.

The relevance of Directive 2023/1791 became concrete in 2026: under Article 11, enterprises with an average annual energy consumption of more than 85 TJ (average of the last three years) must implement a certified energy management system by 11 October 2027, while those with a consumption of more than 10 TJ that do not have such a system are required to carry out an energy audit by 11 October 2026, repeated thereafter at least every four years. A significant share of medium-sized SMEs in the pilot sectors exceeds the 10 TJ threshold, and the energy audit grant component and the financing of energy management systems under the instrument turn a compliance obligation into an investment opportunity with measurable results in terms of emissions.

The instrument also ties in with **the Draghi Report and the Letta Report**, which underline the importance of supporting SMEs so that they become more resilient and can cope with major economic transformations. Both reports make clear that **investments in technological upgrading and energy efficiency** must become strategic priorities in order to avoid a loss of competitiveness at global level. Through this pilot programme, Romania responds to these recommendations by developing a mechanism tailored to local specificities, yet fully compatible with European directions.

In addition, the instrument is also aligned with the proposed architecture of the **Multiannual Financial Framework 2028-2034**, in which the new **European Competitiveness Fund** - on which the Council set its partial position on 16 June 2026, with negotiations with the European Parliament ongoing - is to support, among other things, energy efficiency and decarbonisation through grants, repayable support and technical assistance.

Although the implementation period of the National Recovery and Resilience Plan ended in 2026, the objective of **Milestone 128 of the NRRP** remains a relevant policy orientation, as it provided for the integration of solutions for **recovering non-recyclable wood waste as a raw material for the production of thermal energy**. In the field of **furniture manufacturing**, a significant share of the waste generated by the production process can be reused to generate the thermal energy needed for wood drying or other industrial stages. By encouraging SMEs to adopt modern equipment and to use these internal resources, the proposed instrument contributes directly to **the circular economy**, to reducing energy costs and to meeting the milestones assumed by Romania under the NRRP.

Last but not least, the proposal fits within the logic of the **energy independence** objectives at European level. The SMEs supported through this instrument will contribute not only to reducing consumption and emissions, but also to strengthening **Romania's energy resilience**, an essential objective in the current geopolitical context. Alignment with European strategies is not merely formal but also functional, since every investment made through this programme will bring benefits both at microeconomic level (for companies and employees) and at macroeconomic level (for the state budget and the EU's climate objectives). In this sense, the financial instrument becomes an **example of good practice**, with potential for replication in other Member States.

Developments at the level of the European institutions in 2026 reinforce, point by point, the rationale for the instrument. **The 2040 climate target** - a 90% reduction in net emissions compared with 1990 - was definitively adopted through the amendment of the European Climate Law (the Council gave its final vote on 5 March 2026), and the application of ETS2 was set for 2028. On **10 March 2026**, the Commission adopted the **Clean Energy Investment Strategy (COM(2026) 116)** and a package dedicated to energy efficiency financing - the Report on energy efficiency financing in Europe (COM(2026) 118) and **Recommendation (EU) 2026/537 on unlocking private investment in energy efficiency** -, which **call on Member States to put in place innovative financing schemes, with risk**

sharing and results-based incentives, precisely the model proposed here; **The European Energy Efficiency Financing Coalition**, in which financial institutions from across the Union take part, held its second general assembly on 5 May 2026.

In response to the 2026 energy crisis, the Commission adopted on **22 April 2026 the AccelerateEU Communication** - which places energy efficiency and electrification at the heart of the European response to the price shock -, followed on 13 May 2026 by a catalogue of replicable national measures to reduce gas and oil consumption, and on 29 April 2026 by the **Temporary State aid Framework for the Middle East crisis**, applicable until 31 December 2026. This temporary framework, however, also confirms the limits of emergency interventions: they ease bills, but do not reduce consumption and emissions. On **17 July 2026**, the Commission presented the **revision of the EU ETS Directive (COM(2026) 616)** - which extends the Modernisation Fund until 2040, excludes fossil fuels from the Fund from 2031, establishes the EUR 100 billion Industrial Decarbonisation Bank, with guaranteed access for lower-income Member States to the "ETS Investment Booster" instrument, and proposes that 50% of national ETS revenues be directed towards decarbonisation - as well as the **Electrification Action Plan (COM(2026) 595)**, with an indicative electrification target of 46% by 2040. The investments financed through the proposed instrument - industrial heat pumps, electrified thermal processes, energy management systems - are exactly the type of investments that these documents prioritise.

Finally, the **Industrial Accelerator Act (COM(2026) 100)**, proposed by the Commission on 4 March 2026 and currently under debate in the European Parliament, aims to raise industry's share of the Union's GDP to 20% by 2035 and introduces preferences for low-emission products made in Europe. **An industrial base of modernised SMEs, with low and documented emissions, is the condition for Romanian manufacturers to benefit from these preferences rather than be excluded by them.**

The instrument also meets **the evaluation criteria proposed by the World Bank for the selection of investments under the National and Regional Partnership Plan 2028 - 2034**: "private capital mobilisation" (reduces risk, attracts firms, uses financial instruments), "productivity and transformation" (modernisation of firms, energy efficiency) and "climate, environmental and social effects" (reduction of emissions and resource intensity) (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, Table 10, p. 198), while the key indicators recommended by the same

institution for the implementation phase - **"leverage ratios of financial instruments", "energy savings achieved", "number of industrial modernisations initiated"**, with "development finance institutions" as suggested leads (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, Tables 14-15, pp. 214-216) - are exactly the indicators that the instrument will report. The World Bank's presentation to the Working Group on the future of cohesion policy of 6 October 2026 proposes, for private capital mobilisation, a mechanism in which **"guarantees and risk sharing"** rank first, alongside "clean transition - efficiency, energy and adaptation of industrial processes" as a pillar of the national firm modernisation package.

8. Proposal for inter-institutional collaboration

The success of such a financial instrument can only be ensured through **close collaboration between state institutions and the private sector**, each with a complementary role. **The Ministry of Energy** should coordinate the definition and implementation process, while the **Investment and Development Bank (BID)** will administer the fund and provide the guarantee mechanisms. Employers' organisations that consistently and genuinely represent the interests of small and medium-sized entrepreneurs will contribute through expertise and through a direct connection with the real needs of SMEs. This **institutional triad** guarantees both the relevance and the effectiveness of the proposed intervention.

For this mechanism to be operational, a **clear governance structure** is needed, with well-defined responsibilities. **The Ministry of Energy** should define the general policies and criteria, **BID** should manage the financial resources and the relationship with commercial banks, and **employers' organisations** should provide a channel for permanent consultation with final beneficiaries. In addition, such an architecture would allow **rapid and effective communication**, reducing bureaucracy and increasing SMEs' level of trust. Inter-institutional collaboration is therefore not merely recommended, but **absolutely necessary** for the success of the project.

As the **national implementing authority for the Modernisation Fund** (under Government Emergency Ordinance No. 60/2022), the Ministry of Energy may propose to the European Investment Bank that the instrument be confirmed as a **priority investment in the field of energy efficiency**, which

allows the use of the simplified procedure applicable to priority investments, while project-level reporting of avoided emissions, built into the design of the instrument, directly meets the Fund's monitoring and reporting requirements.

An essential component of the collaboration is the involvement of **regional and sectoral business associations**, which can provide relevant data on the needs of SMEs in the regions. In the pilot sectors - **furniture and food processing** -, there are numerous professional associations and clusters that can support the identification of viable projects and the monitoring of results. This would allow a **decentralisation of implementation**, in line with the principle of subsidiarity promoted by the European Union. It would also create a direct link between government policies and **realities on the ground**, reducing the risk of the programme being perceived as a rigid and inaccessible mechanism. This approach is also recommended by the World Bank, according to which "portfolios of firms developed through chambers of commerce, clusters, business associations, RDAs and local economic development structures can help to channel support instruments towards enterprises with modernisation potential" (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, para. 626), while training and reskilling "should be developed in cooperation with sectoral associations" (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, para. 605).

The territorial dimension is equally important: **the share of employment in energy-intensive industries is higher in the less developed regions, in particular South-West Oltenia and North-East**, which makes "the structural adjustment cost of the green transition proportionally higher" there (World Bank, Report D4 - Macroeconomic analysis, July 2026, p. 117), while the gap between Bucharest-Ilfov (190% of the EU average GDP per capita in 2023) and North-East (47%) is "among the largest in the EU" (World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026, p. 24). **Distribution of the instrument through the banks' territorial network and through regional business associations is therefore the condition for firms in these regions - not only those in the metropolitan poles - to be effectively reached.**

In the long term, this inter-institutional collaboration can generate a **model of participatory governance**, replicable in other fields as well. The Ministry of Energy, BID and employers' structures can set up a **permanent working group** to monitor the implementation of the instrument and propose adjustments based on results. In addition, the involvement of employers' organisations in the consultation and dissemination phase will ensure a **high absorption rate** and will strengthen SMEs' trust in public

policies. This public-private partnership could become an **example of good practice at European level**, demonstrating that Romania can build effective and inclusive mechanisms to support SMEs.

9. Conclusions

Given **the critical situation of Romania's SMEs**, in particular those in the **manufacturing and processing** sectors, we consider the rapid launch of a dedicated financial instrument absolutely necessary. The extreme volatility of energy prices, the absence of national technological upgrading programmes over recent decades and the limitations of existing European programmes justify an **urgent intervention tailored to the specificities of the Romanian economy**. Through this proposal, we wish to bring to the fore a realistic, scalable and coherent mechanism capable of supporting **the green transition** and ensuring the survival of SMEs in an extremely difficult economic context.

Through this initiative, we ask the Ministry of Energy to support, together with the **Investment and Development Bank (BID)**, the pilot launch of the proposed financial instrument, with initial applicability in the fields of **furniture manufacturing** and **food processing**. The choice of these sectors is not accidental, as they represent strategic industries both for exports and for food security and social stability. Implementing such a pilot will make it possible to obtain **measurable and immediate results**, which will form the basis for the subsequent extension of the mechanism to other industrial sectors.

We stress that the success of this instrument will contribute not only to **reducing energy consumption and emissions**, but also to **strengthening the state's fiscal base**, to **preserving jobs** and to **increasing economic resilience**. In addition, the programme will facilitate the achievement of major national and European objectives, including the **Energy Efficiency Directive (EU) 2023/1791** (with the audit obligations applicable from October 2026), the **European 2040 climate target**, **the Clean Energy Investment Strategy and Recommendation (EU) 2026/537**, **the Electrification Action Plan**, as well as the recommendations of the Draghi Report and the Letta Report.

Our request is thus not merely a one-off measure, but a concrete contribution to **Romania's alignment with European policies and to strengthening the competitiveness of SMEs**.

In November 2026, the arguments in favour of this instrument are stronger than at the time the initial proposal was drawn up, in October 2025:

- **The energy crisis rekindled in 2026 has shown that the only lasting protection against price shocks is reducing consumption**;

- ETS2 will, from 2028, bring a carbon price for the fuels used by small industrial installations;

- The Modernisation Fund is being extended until 2040 and refocused exclusively on clean investments; and

- The European institutions have explicitly called on Member States to put in place financing schemes with risk sharing and results-based incentives.

We therefore ask the Ministry of Energy to approve the portfolio guarantee from the Modernisation Fund for the ENERGO-IMM instrument, as a priority investment in energy efficiency, with quantified, independently verified greenhouse gas emission reductions reported for each financed project.

Last but not least, **the instrument operationalises the recommendations made in 2026 by the World Bank for Romania - grants for audits and guarantees for equipment, portfolio guarantees linked to green investments, performance-based instruments and mechanisms that "turn energy efficiency into a competitive advantage" - in a field in which the same institution has measured a private-sector emission reduction potential of up to 57%** (World Bank, GRIN - Inputs to Greening Romania's Industrial Plan, summary report, June 2026; World Bank, Report D3 - Sectoral, socio-economic and territorial analysis, July 2026).