



Factsheet  
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# Financial instrument to support innovation in enterprises and innovative enterprises: Loan combined with grant

fi-compass model





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# Abbreviations

Abbreviation	Full name
CPR	Common Provisions Regulation – Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021
EIB	European Investment Bank
ERDF	European Regional Development Fund
FI	Financial instrument
GBER	General Block Exemption Regulation
GGE	Gross grant equivalent
HF	Holding fund
ILFI	Innovation loan financial instrument
MA	Managing authority
SME(s)	Small and medium sized enterprise(s)
SF	Specific fund
STEP	Strategic Technologies Europe Platform
RDI	Research, Development and Innovation





# Introduction

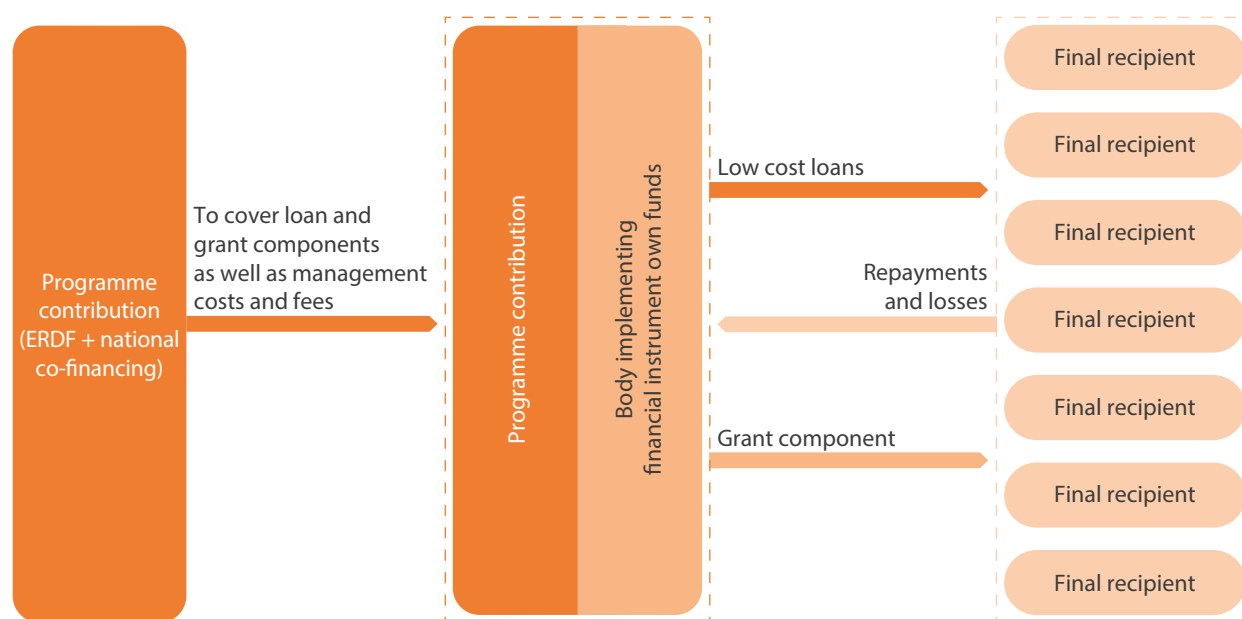
This document, developed by the Commission with the assistance of the European Investment Bank under fi-compass, aims to describe a model managing authorities may use to support innovation in enterprises and innovative enterprises that combine grants with loans in a single financial instrument operation. The model financial instrument is intended to provide a non-exhaustive insight into the potential for managing authorities to use the new flexibilities in Article 58(5) Common Provisions Regulation (CPR). The document does not constitute formal guidance, and the use of the models remains entirely under the responsibility of the managing authorities who have to ensure the correct application of the CPR under their own specific circumstances.

Managing authorities can use financial instruments to address specific market needs in their Member State, without crowding out other sources of finance. Several practical solutions are highlighted in this model, for example regarding the management of the different forms of support by a financial intermediary and/or holding fund (HF) manager; the mechanisms to be deployed in relation to the provision of the grants such as capital rebates; and reporting and monitoring arrangements. Further information regarding the use of grants in combination with financial instruments can be found in the fi-compass factsheet [Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period](#), which was published in May 2021, and the notes of the [fi-compass Knowledge Hub – implementation of grants and financial instruments combined in a single operation](#), published on 28 June 2023.

This model financial instrument provides an example of how the programming, design and implementation requirements can be applied to deliver market oriented financial instruments to innovation in enterprise and innovative enterprises. The model illustrates the type of approach managing authorities may wish to adopt when developing and implementing their proposals under the 2021-2027 programmes.



## Model for a financial instrument with a grant component to support innovation in enterprises and innovative enterprises



Structure of the financial instrument	<p>The Innovation loan FI (ILFI) takes the form of a combined risk-sharing loan and grant financial instrument to be managed by a body implementing FI on behalf of a managing authority, acting either directly or through a holding fund.</p> <p>The scope of the combined financial instrument should be defined in accordance with the scope of the priority under which it is being implemented and the ex-ante assessment carried out under Article 58(3) CPR or in a separate analysis. This ex-ante assessment or separate analysis may cover the nature and amount of grant support in accordance with Article 58(5) CPR.</p>
Financial instrument in the context of the smart specialisation strategy	<p>Supporting innovation and innovative companies is key to strengthening the EU's global competitiveness and resilience. By fostering technological advancement, scaling up breakthrough ideas, and enabling strategic sectors to thrive, this support helps drive sustainable economic growth, high-quality jobs, and digital and green transitions. It directly contributes to the goals of the Strategic Technologies Europe Platform (STEP) initiative by boosting Europe's capacity to lead in critical technologies, reduce dependencies, and ensure long-term strategic autonomy.</p> <p>The ILFI will be made available within the framework of the European Regional Development Fund (ERDF) policy objective 1, '<i>a more competitive and smarter Europe by promoting innovative and smart economic transformation and regional ICT connectivity</i>'. Financial instruments envisaged in the programmes and designed and set-up under specific objectives 1.1 '<i>developing and enhancing research and innovation capacities and the uptake of advanced technologies</i>' and 1.4 '<i>developing skills for smart specialisation, industrial transition and entrepreneurship</i>' need to be in line with the relevant smart specialisation strategy (S3).</p>



Smart specialisation strategies<sup>1</sup> are at the core of research and innovation (R&I) related investments, in particular as concerns prioritisation of investments under specific objectives 1.1 and 1.4 of policy objective 1.

The policy objective 1 has therefore a key role to play with the new generation of smart specialisation strategies. Investments under specific objective 1 need to focus on supporting development and testing of innovation technologies and solutions for digital and green transitions and circular economy. Capital investment in SMEs under specific objective 3 should also take into account the green transition related issues, such as circular economy, green production processes with objective of developing new markets in environmental and climate service or products. These new concepts can be consequently up-scaled and developed under policy objective 2.

The choice of the type of investment will be different in different categories of regions, depending on the maturity of their innovation eco-systems. For example, in areas covered by smart specialisation strategies, less developed regions may privilege investment in lower TRL levels in order to generate research capacity whereas regions that are strong innovators may rather wish to strengthen connectivity in their innovation eco-system and secure business needs. Consequently, research projects that cannot demonstrate their contribution to the objectives of the ERDF or that do not fall within smart specialisation strategies cannot be supported under specific objective 1.1 and 1.4.

The key is the adoption of a broad understanding of innovation, beyond the traditional view limited to linear, technological innovation. Via smart specialisation, regions can find their own ways of innovation-led growth routes, including non-tech innovation potentials (e.g. social innovation, service innovation, etc.) and supporting incremental innovation adding to the region's technology endowment. This broad-based concept of innovation should embrace both public and private sectors in order to be able to address the economic and societal challenges.

The managing authorities during the development of the Investment Strategy of the financial instrument should focus on the S3 priority areas and clarify what are the criteria that the body implementing the financial instrument should respect in appraising and approving the investments for the programme support. Where appropriate, the criteria stemming from the relevant smart specialisation strategy, in particular for investments under specific objectives 1.1 and 1.4, should be translated in the funding agreement to ensure that fund managers during the project selection and appraisal verify their alignment with the smart specialisation strategy relevant for the programme and the respective priority. It is the role of the managing authority to provide those criteria to guarantee the concentration of the programme support on investments in S3 areas.

<sup>1</sup> Definition of smart specialisation strategy established by the Regulation (EU) N° 1303/2013 of the European Parliament and of the Council: 'Smart specialisation strategy' means the national or regional innovation strategies which set priorities in order to build competitive advantage by developing and matching research and innovation own strengths to business needs in order to address emerging opportunities and market developments in a coherent manner, while avoiding duplication and fragmentation of efforts; a smart specialisation strategy may take the form of, or be included in, a national or regional research and innovation (R&I) strategic policy framework.





<p>Aims of the financial instrument and the role of the body implementing the financial instrument</p>	<p>The ILFI is intended to support <b>innovative companies or innovations by companies</b> in the scaling phase between the initial research and development stage and commercialisation stage. The grant to be provided in the form of capital rebate incentivises promoters through a '<b>performance reward approach</b>', under which the capital rebate would be provided in case of success of the project, e.g. success of the innovation process. This approach may be suited for innovative investments and companies with a moderate risk of failure but in need of an incentive to prioritise innovation investments. Innovative companies may also be supported through financing that supports <b>technology input and improves their innovation capacity</b>.</p> <p>In addition, further <b>grant support</b> may be given in the form of an interest rate subsidy which may be applied to ensure the costs of the loan are affordable to companies during the scaling phase of product development.</p> <p>The aims of the combined financial instrument are:</p> <ul style="list-style-type: none"> <li>• to use programme resources to mobilise additional investment to finance innovative investments of all types of companies and/or to finance innovative companies to improve their performance, to promote sustainable growth and to boost their competitiveness;</li> <li>• to deploy grant in combination with the loan: <ul style="list-style-type: none"> <li>a. in the form of a capital rebate by transforming part of the loan into a grant, to offer incentives to innovate and to maximise the policy impact in terms of launching innovative investments, when: <ul style="list-style-type: none"> <li>- specified innovation or revenue levels are achieved in the company, or</li> <li>- technology input to innovative investments is carried out to facilitate competitiveness of the company;</li> </ul> </li> <li>b. in the form of capital grants also to incentivise the companies to innovate, by supporting the financial viability and mitigating the risk profile of the project;</li> <li>c. in the form of an interest rate subsidy to reduce the cost of borrowing;</li> <li>d. in the form of technical support to project promoters for business coaching, acceleration support, networking and/or to bodies implementing the financial instrument to employ a specialist support to assess the project alignment with S3. Specialist expertise assessing the project alignment with S3 may also be placed in another competent body. It will be then treated outside of the financial instrument without under the technical assistance of the programme.</li> </ul> </li> </ul> <p>The choice of the type of the grant component is optional, however, the main focus of the model is on loans with a capital rebate.</p> <p>The body implementing the financial instrument will be responsible for implementing both the loan and grant component of the ILFI. Its role will include the marketing of the products, identification of final recipients, appraisal of applications for support and disbursement of the grant and loan products in line with the rules.</p>
<p>Deadline for use of the programme resources</p>	<p>The ILFI loans, technical support, capital rebates, capital grants and interest rate subsidies which are to be covered from the 2021-2027 programme resources should be disbursed to or for the benefit of final recipients no later than on 31 December 2029. The capital rebate related to the amount disbursed by that date may be awarded also after that date.</p>



Selection of bodies implementing the financial instrument	<p>The managing authority should select the body(-ies) implementing the financial instrument in line with the applicable law (e.g. public procurement or direct award of a contract).</p> <p>When the body selected by the managing authority implements a holding fund, that body should further select other bodies to implement a specific fund or funds.</p> <p>The funding agreement signed with the body or bodies implementing the financial instrument may envisage the possibility to cover a duration going beyond the 2021-2027 programming period in case there is an intention to make use of Article 68(2) CPR and continue implementation in the subsequent programming period.</p>
National co-financing	<p>The national co-financing may be provided at programme level, by the body implementing the financial instrument (holding fund or specific fund), by other investors at the level of the bodies implementing the financial instrument or by third parties at project level.</p> <p>When the national co-financing is provided at the level of investments in final recipients, the body implementing the financial instrument should keep documentary evidence demonstrating the eligibility of the underlying expenditure.</p> <p>Special eligibility rules for financial instruments are set out in Article 68 CPR. National co-financing refers to the external financing provided for the same investment as set out in Article 59(8) CPR and excludes the project promoter's own resources. The national co-financing may be private or public.</p>
Innovation projects and innovative enterprises	<p>Cohesion policy investments under this policy objective are place-based and centred around a broad understanding of innovation, in line with the Oslo manual<sup>2</sup>. In practice, the activities in which enterprises engage to develop innovations are as broad as the definition of innovation. They include research and development (R&amp;D) and engineering, as well as design and other creative activities.</p> <p>Final recipients may use the programme resources to invest in producing, developing or implementing new or substantially improved:</p> <ul style="list-style-type: none"><li>• products, processes or services;</li><li>• production or delivery methods; or</li><li>• organisational or process innovation including business models that are innovative<sup>3</sup> where there is a risk of technological, industrial or business failure as evidenced by an evaluation carried out by an external expert.</li></ul> <p>Beyond the activities directly involved in the development of products, services or processes, innovation activities can also include marketing and brand equity activities (i.e. those activities that raise the public value of a brand), as well as activities related to protection and exploitation of intellectual property. These may also include activities that support innovation, such as employee training, software development or database-related activities (including data analysis) and the purchase (or lease) of tangible assets.</p>

<sup>2</sup> <http://www.oecd.org/science/oslo-manual-2018-9789264304604-en.htm>.

<sup>3</sup> As defined in the paragraphs 15(y) and 15 (bb) of 1.3 Definitions of the Communication from the Commission C(2014) 3282 of 21 May 2014 on the Framework for state aid for research and development and innovation.



While sustainability may not be the primary focus under policy objective 1, yet investments should focus on supporting innovative technologies and solutions for green transitions and circular economy.

The Investment Strategy of the financial instrument should describe the type of innovation project(s) or innovative enterprises in scope of the financial instrument and will reflect the target final recipients identified in the programmes, findings of the ex-ante assessment and market testing. For example, technology readiness levels 4-8<sup>4</sup> could be taken into account when defining the type of innovative projects to be supported by the financial instrument. Or the Investment Strategy may focus on providing financing to acquire physical capital and equipment, where this is linked to upgrading technological capacities, improvement of management practices and workplace skills.

The combined loan with capital rebate aims to fill a financing gap that may be generally observed for innovative companies in the scale up phase by providing access to investment funding that may not be available from market lenders. In terms of common eligibility rules, the following would apply:

- Targeted final recipients are entities of all sizes (including SMEs, mid-caps and entities with 3 000 employees or more) in support of research, development and innovation (RDI) activities;
- Eligible expenditure is internal and external expenses directly related to the development of innovation including industrial research and/or experimental development activities;
- The combined financial instrument may finance the production of prototypes, pre-series, pilot or demonstration installations, intellectual property expenses (e.g. filing and extension of patents) or updating standards, the design approach, market studies tests, updating of the business plan for the commercial launch.

The eligible areas of support are further defined in the programmes and S3 if investments take place under specific objectives 1.1 and 1.4.

Financial intermediaries should ensure that the final recipients, the transactions and the portfolio as relevant comply with a set of eligibility criteria set out in the funding agreement.

4 TRL 4 – technology validated in lab;  
TRL 5 – technology validated in relevant environment (industrially relevant environment in the case of key enabling technologies);  
TRL 6 – technology demonstrated in relevant environment (industrially relevant environment in the case of key enabling technologies);  
TRL 7 – system prototype demonstration in operational environment;  
TRL 8 – system complete and qualified.



## Combination with grant

The loan will be combined with a grant in compliance with the provisions of Article 58(5) CPR:

- capital rebate;
- technical support grants;
- interest rate subsidies.

The combination should be identified in the programme as a possible form of finance for the specific objectives concerned. If not, the programme should first be amended.

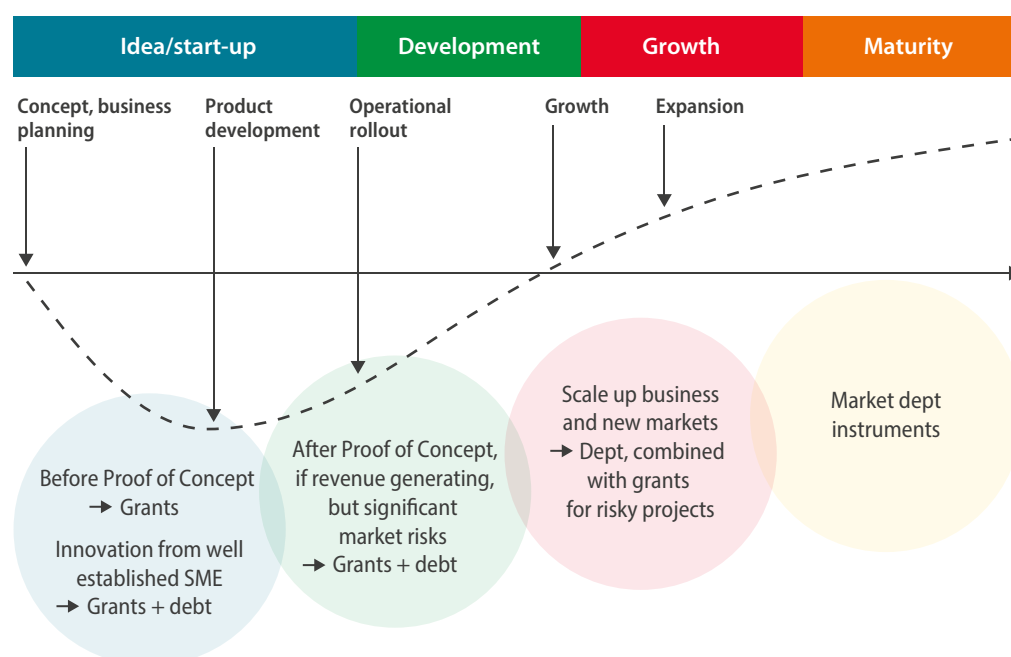
### 1. Capital rebate

#### *'Performance reward approach'*

The grant in the form of a capital rebate would lead to the decrease of the outstanding loan amount due by the final recipient. Part of the loan would then be converted into a grant element after the capital rebate has been triggered.

The amount or the percentage and triggers of capital rebates shall be clearly set out in the loan agreement signed with the final recipient. When applied, the capital rebate leads to a write-off or early repayment of the loan on the side of the body implementing the specific fund. Under the **'performance reward approach'**, the capital rebate would aim to provide incentives to companies to prioritise more innovation projects by enhancing the expected rate of return of the projects thanks to the conversion of part of the debt amount due into a grant in case of success. This approach would be suited for projects in the later phase of the innovation process with good prospects of commercialisation.

Under this approach, the amount of capital rebate may be up to 20-30% to the loan amount given that the main objective is to provide incentives to invest in innovation and that the company would already benefit from an upside in terms of revenues and potential gains of market shares in case of success of the project. This approach may be more suited for innovation projects in the development and growth phases displayed in the chart below.







#### *'Approach based on technology input and investment spent according to the contract'*

The approach is based on the enterprise finance where the capital rebate is granted based on the final recipient demonstrating that the investment was used as in the financing contract and that certain technological steps were achieved. The loan may be used for material and investment costs (e.g. new machinery, acquisition of a new site, etc.) or working capital (e.g. staff costs, advertising costs, external consultancy, IT development costs, etc.). The aim is to support start-ups to develop, implement and market innovative products and services and to promote sustainable growth. The aim is to increase the innovation capacity and competitiveness of the supported enterprises and to generate positive effects on income and employment.

Under this approach, the amount of capital rebate may be up to 5% to the loan amount given.

The capital rebate may be accounted as a write-off or an early repayment of the corresponding part of the loan exposure.

#### *Sustainability criteria*

Where the enterprises aim to deploy innovative technologies and solutions for green transition and circular economy, and green production processes, the capital rebate may be increased by another 10 %. For example,

##### a. Innovation in:

- Products, services, process, business models that pursue the transition to the 'green'/ 'sustainable' economy, including but not limited to investments, processes and technologies with measured climate/environmental impact (reduction in GHG emissions, decrease in energy use, reduction in raw materials, etc.);
- Processes of recycling and goods from recycled materials to enable high quality of recycling, reuse, recovery and/or valorisation (e.g. reuse, repair, refurbishing, repurposing and remanufacturing of end-of-life or redundant products, movable assets and their components that would otherwise be discarded);
- Development of tools, applications and services enabling circular economy business modes (e.g. digital solutions for traceability of materials to support future recycling, etc.);
- Other sustainability measures as set out in the programmes and the S3.

##### b. Innovative enterprises operating in sectors:

- Providing nature-based solutions (e.g. producing sustainable biomaterials for construction (e.g. timber frames) or food preservation (e.g. edible coatings);
- Sustainable tourism and nature-based solutions for health and wellbeing, solutions that improve the environmental performance or reduce the environmental impacts, including eco-tourism and nature-based or forestry tourism;
- Other sectors as set out in the programmes and the S3.

The green performance targets based on which the capital rebate will be granted are to be decided in the Investment Strategy of the financial instrument.



### *Capital rebate triggers*

The amount and criteria of the capital rebate should be set out in the combined loan financing agreement signed with the final recipient. Clearly defined innovation project's milestones may therefore be used to trigger the conversion of a part of the loan into a grant element.

The success or failure of the project may be defined:

- **on a technological basis.** Milestones and targets may be defined based on the innovation process typically followed in the sector and applicable to the type of investment. For instance, the success may be witnessed by the ability of the company to bring its investment project from an initial Technology Readiness Level (e.g. from the TRL 4, corresponding to basic technological components being integrated) to a higher TRL (e.g. TRL 8 stating that the technology is completed and qualified through test and demonstration.) In the case of a company producing medicine, the success may be assessed based on the project development phase reached, for instance starting from a 'study phase' and successfully reaching a 'clinical trial phase';
- **on a financial or commercial basis.** The grant may be triggered when a predetermined financial or commercial milestone is achieved, such as reaching a certain level of revenue, share in new market or closing a subsequent financing round;
- **on investment used according to the contract to increase innovation capacity of the enterprise.** The grant is triggered when the final recipient has demonstrated that certain technological input according to the financing contract was achieved. The verification is based on the contract (not invoices) and the list of expenditure that was necessary. In case of working capital used to support innovation, it is sufficient to request the list of activities the programme support was used for.

When applied, the capital rebate would lead to a write-off or early repayment of the loan on the side of the body implementing the specific fund while the conversion of the grant leads to a decrease of amount of the loan to be repaid.

### **2. Capital grant**

A capital grant can be defined as a non-repayable provision of financing that aims to finance part of an investment (on specific cost or on a pro-rata basis) or at covering a viability gap in an innovation project. Capital grants can be used, in combination with the loan financial product, to support innovation by, for example, covering a portion of the costs associated with research and development (e.g. lab equipment, prototyping, testing, and development of new products or services), technology acquisition (purchasing or licensing new technologies, software, or patents) or investing in infrastructure and equipment (specialized machinery, IT systems, facilities).

When combined with a financial instrument in one operation, the capital grant will be provided following the financial instrument rules. It may therefore be paid upfront (not as a reimbursement of incurred costs like traditional grants) or alongside the loan, to or on behalf of the final recipient, to cover part of the investment costs or of the financing needs of the innovative company.



### 3. Technical support grant

A technical support grant may be provided as a cash grant to (or for the benefit of) the final recipient. The grant may be used to fund specified activities such as feasibility studies, business coaching services (i.e. business, organisational, financial development<sup>5</sup>); business acceleration support (connecting with investors, procurers and other business partners alike; possibilities of networking and learning opportunities); and/or supporting participation of enterprises in support networks. Technical support may also be used to employ a specialist to assess the project alignment with S3. Expertise of assessing the alignment with S3 may be provided by a competent body outside the financial instrument from the programme technical assistance.

### 4. Interest rate subsidy

An interest rate subsidy may be provided to reduce the cost of the private sector co-financing, providing a discount to ensure the cost of borrowing does not exceed a specified ceiling. In the ILFI accounts, the interest rate subsidy may be accounted as part of the interest payable by the final recipients.

#### *Cumulation of grant components*

In accordance with Article 58(5) CPR, the total grant support may not exceed the value of the investments supported by the loan. This rule should be verified at the level of the financial instrument and not in relation to each supported investment. The funding agreement should include specific arrangements for ensuring monitoring of fulfilment of this requirement. They should consider the nature of the financial instrument and the expected total costs of the different grant components which are planned in line with the ex-ante assessment or separate analysis and market testing (expected technology levels achieved, increased innovation capacity achieved in enterprises, needs for technical support, etc.).

5 Business development: focused on the identification, analysis and evaluation of business opportunities, including Value Proposition and Business Model development, industry and market analysis, strategic partnerships and marketing;  
Organisation development: mobilising enterprise's resources on entrepreneurship, leadership and team building to recruiting, organisation building, manufacturing management and distribution channels;  
Financial development: to support enterprises with investment readiness and financial planning, including revenue/cost structure and cash flow management.



State aid or <i>de minimis</i> aid	<p><i>At the level of the body implementing the financial instrument, HF and the SF:</i></p> <p>State aid is normally excluded if the following cumulative conditions are satisfied:</p> <ul style="list-style-type: none"><li>• The co-investing body implementing the specific fund and the managing authority or holding fund carry out the investment on a <i>pari-passu</i> basis, i.e. under the same terms and conditions, at the same time (via the same transaction), they bear at any time the losses and benefits in proportion to their contributions (pro-rata), hold the same level of subordination in relation to the same risk class and there is an economically significant participation of the independent and private co-investors, e.g. body implementing the financial instrument in the risk-sharing loan<sup>6</sup>. However, this cannot occur when a grant is provided in combination with the loan, e.g. for capital rebate and capital grant which would vitiate the <i>pari-passu</i> principle;</li><li>• The remuneration (i.e. management costs and/or fees) of the body implementing the specific fund and the holding fund as well as the loan pricing structure of the body implementing the specific fund reflects the current market remuneration in comparable situations, which is the case when both have been selected through a competitive, transparent, non-discriminatory and unconditional selection procedure<sup>7</sup>. If there is no competitive, transparent, non-discriminatory and unconditional selection procedure, the market conformity of the remuneration may still be shown by other means;</li><li>• The financial advantage of the programme public contribution is quantified and then fully passed on to the final recipients in the form of an interest rate reduction and/or a decrease in collateral requirements compared to the market rate<sup>8</sup>. The market rate can be either the appropriate market benchmarks for the specific risk and the sector, or the market proxies set out in the Reference Rate communication.</li></ul>
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- 6 Investments by a private and public investor can be considered *pari passu* if:
- (i) the investments are made under the same terms and conditions (i.e. private and public investors are exposed to the same risks and rewards and are subject to the same level of subordination in case of a layered funding structure);
  - (ii) the investments are done simultaneously;
  - (iii) the private investment is economically significant (as a rule of thumb, it should represent minimum 30% of the total investment made);
  - (iv) the private and public investor should be in a comparable starting position with regard to the investments.
- For further guidance, see section 4.2.3.1 of the Commission Notice on the notion of State aid as referred to in Article 107(1) of the Treaty on the Functioning of the European Union, C/2016/2946, OJ C 262, 19.7.2016, p. 1–50.
- 7 However, bodies covered by Article 59(3) of the Common Provisions Regulation (CPR) to which an MA may directly award a contract for the implementation of the FI (e.g. EIB or national promotional banks (NPBs)) are not selected through a competitive tender. However, if the implementation of the FI combined with a grant is entrusted to an NPB, the EIB, the European Investment Fund (EIF) or an international financial institution (IFI), then such bodies are not considered State aid beneficiaries if:
- (i) they act exclusively within the public remit (in the case of NPBs);
  - (ii) they do not co-invest or provide funding (i.e. they merely act as an implementing vehicle);
  - (iii) they are not overcompensated for the service they provide;
  - (iv) the fee they receive does not spill over to their commercial activities (if any).
- 8 Full pass-on of the advantage requires a quantification of the aid that is contained in the FI and then passed on to the final recipients via sub-commercial financing terms (such as an interest rate below the market rate). The gross grant equivalent (GGE) of aid contained in support provided to final recipients should be the same or higher than the GGE of aid contained in a financial instrument provided to bodies implementing the FI (e.g. financial intermediaries) to demonstrate that all aid has been passed on to the final recipient and no aid remains behind at the level of the bodies implementing the FI.





*At the level of the final recipient, for the combined financial instrument (loan and grant components):*

- State aid may be excluded where the final recipients are natural or legal persons which are not carrying out an economic activity<sup>9</sup> and therefore fall outside the applicable State aid;
- In addition, where the final recipient is a purely local business acting on a purely local market, an assessment should be made whether the support under ILFI is liable to affect trade between Member States. Where it is concluded that there is no impact on trade, for example, due to the nature and size of the business, the support also falls outside the scope of the State aid rules. The Marininvest decision of the ECJ provides an example of the type of businesses that fall outside the State aid rules<sup>10</sup>;
- A distortion of competition and an effect on trade can also be excluded in cases of very limited amounts of aid (so-called "*de minimis* aid"). Aid is considered to be *de minimis* if the total amount of aid granted per Member State to a single undertaking does not exceed EUR 300 000 over any period of three fiscal years and the other conditions laid down in the *De Minimis* Regulation are respected;
- Where State aid may not be excluded, the support must comply with the applicable State aid rules (either exempted from notification under the GBER or notified under the applicable State aid guidelines) or *de minimis* aid rules.

State aid to the final recipient/beneficiary can take the following forms:

- In case of a capital rebate or a capital grant, the support takes the form of both a loan and a grant, from which the amounts of the joint support should be cumulated;
- In case of a technical assistance grant, the support takes the form of a regular grant;
- In case of reduced interest rate, the support takes the form of a subsidised loan.

**Under the *de minimis* Regulation<sup>11</sup>**, the gross grant equivalent (GGE) of the aid (including both the loan and the grant component) may be calculated following the transparent methodology set out in Article 4(1) of the *de minimis* Regulation.

The discounted (or net present) value of the grant should be included in the calculation of the amount of aid being provided under the *de minimis* as follows.

<sup>9</sup> Natural persons who undertake a business activity (e.g. real-estate investor, business angel, etc.), would typically be considered as an undertaking for the purpose of State aid control.

<sup>10</sup> See Judgment of the General Court of 14 May 2019, *Marinvest v European Commission*, T-728/17.

<sup>11</sup> Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid.



GGE = (i) Discounted amount of the grant + (ii) GGE of the loan

where:

(i) *Discounted amount of grant* = Net present value of grant committed under the financing agreement, including the technical support grant, investment grant and interest rate subsidy.

In the context of a capital rebate, the normal approach is to consider the nominal value of the convertible part of the loan as a grant<sup>12</sup>. For the present value of the grant, the maximum possible capital rebate should thus be assumed. In case the decision is taken not to award the capital rebate, the total amount granted to the undertaking could be adjusted accordingly<sup>13</sup>

(ii) *GGE of the loan* = the sum of the discounted values of the difference in interest payments stemming from the difference between the market-conform interest rate<sup>14</sup> and the actually applicable interest rate should be calculated.

For the calculation of the GGE of the loan, only the non-convertible part of the loan should be taken into account.

Alternatively to this calculation of the GGE of the loan, the provisions of Article 4(3) and 4(6) of the *de minimis* aid regulation may be applied to determine the GGE of a loan and guarantee instrument, respectively, in a simplified manner.

For calculating net present values, the reference rate<sup>15</sup> is to be used as a discount rate. To that end, the base rate increased by a fixed margin of 100 basis points has to be used.

The total amount of aid calculated with the GGE must not exceed EUR 300 000 over a 3-years fiscal period. In addition to the threshold, all other requirements of the *de minimis* Regulation need to be fulfilled.

**Under the GBER**, Articles 21, 22, 28, 29 or any other provision or combination of provisions may apply, provided that all conditions of the GBER are met and that the highest aid intensity/ amount that is applicable is not exceeded.

For Articles 28, 29 or any other article that provide for limits in terms of aid intensities or amounts, the GGE of the aid must be determined (see above) and the aid amount must meet the conditions of the maximum aid intensity. Articles 21 and 22 do not require a GGE calculation but the maximum financing amounts are subject to nominal limits<sup>16</sup>. Both Article 21 or Article 22 can cover the aid element in the subsidised loan to the final recipient.

Where neither *de minimis* Regulation or GBER apply, Member States must notify an aid scheme or individual measure under State aid Guidelines, notably under the Risk Finance Guidelines.

12 The convertible part of the loan can be considered a repayable advance within the meaning of Article 2(21) GBER: “*repayable advance*’ means a loan for a project which is paid in one or more instalments and the conditions for the reimbursement of which depend on the outcome of the project”.

13 Under the *De Minimis* Regulation, as opposed to under the GBER, it is possible to adjust the aid amount after the granting of the aid, when the initial amount did not correspond to the aid actually disbursed. For the Member States using the *de minimis* register at the EU level (eAid Register for *de minimis* aid), the tool would allow corrections of aid awards already granted. Member States should ensure that *de minimis* aid granted does not exceed the relevant ceiling.

14 The market-conform interest rate can be determined on the basis of the Commission’s Communication from the Commission on the revision of the method for setting the reference and discount rates, OJ C 14, 19.1.2008, p. 6–9.

15 As meant in the Communication from the Commission on the revision of the method for setting the reference and discount rates, OJ C-14, 19.1.2008, p. 9.

16 Article 21 does not cover grants, so the grant part of the aid instrument must be covered by another aid basis (e.g. *de minimis*), subject to applicable cumulation rules. Article 21 also requires a co-investment of independent private investors. Articles 22, 28 and 29 may cover combinations of loans and grants in the form of interest rate subsidy, technical support subsidy, capital grant and capital rebate.



Lending policy	<p><i>Disbursement from the managing authority or the body implementing HF to the body implementing the specific fund:</i></p> <p>The managing authority or body implementing the holding fund and the body implementing the specific fund commit the programme contribution in the funding agreement to establish ILFI. The programme contribution relates to both the loan and grant components of the combined financial instrument.</p> <p><i>Origination of a portfolio of new loans:</i></p> <p>The body implementing the specific fund should be required to originate within a pre-determined limited period of time a portfolio of new eligible loans in addition to its current loan activities.</p> <p>Eligible disbursed loans for final recipients (according to pre-defined eligibility criteria on a loan-by-loan or portfolio level) should be automatically included in the portfolio by way of submitting inclusion notices to the managing authority or the body implementing the holding fund at least on a quarterly basis.</p> <p>The body implementing the specific fund should implement a consistent lending policy, enabling a sound credit portfolio management and complying with the applicable industry standards, while remaining aligned with the managing authority's financial interests and policy objectives.</p> <p>The identification, selection, due diligence, documentation and execution of the loans to final recipients should be performed by the body implementing the specific fund in accordance with its standard procedures and in accordance with the principles set out in the relevant funding agreement.</p>
Pricing policy	<p>The body implementing the specific fund should present a pricing policy and methodology to ensure the full pass on of the financial advantage of the programme public contribution to the eligible final recipients, including the grant elements. The pricing policy and the methodology should ensure that:</p> <ul style="list-style-type: none"> <li>• the interest rate of the participation provided by the body implementing the specific fund is set at market basis (i.e. according to the body implementing the specific fund own policy), while the ERDF contribution should be lower or even zero;</li> <li>• the overall interest rate, to be charged on loans to the eligible final recipients included in the portfolio, is taking into account the impact of the reduced interest rate of the ERDF contribution. This reduction should take into account the eventual interest and other costs that the body implementing the financial instrument might charge on behalf of the managing authority;</li> <li>• where the overall interest rate exceeds a maximum interest rate threshold<sup>17</sup> the interest rate subsidy is applied to reduce the amount payable by the final recipient to the maximum interest rate threshold. A reduction of the interest rate by 100 to 200 bps will typically be sought and the rebate should not result in a negative interest rate;</li> <li>• the GGE calculation as presented in the State aid or <i>de minimis</i> aid section is applied on each loan included in the portfolio;</li> <li>• the pricing policy and the methodology remain constant during the inclusion period.</li> </ul>

<sup>17</sup> This threshold corresponds to the maximum interest rate level to be charged on the loan to the final recipient based on the ex-ante assessment outcome and/or as defined in the funding agreement.



	<p>If relevant, the body implementing the specific fund should also present a collateral policy and methodology to ensure the full pass on of the financial advantage of the programme public contribution to the eligible final recipients.</p> <p>The body implementing the specific fund should reduce the overall effective interest rate (and collateral policy where appropriate) charged to the final recipients under each eligible loan included in the portfolio reflecting the favourable funding, risk-sharing conditions as well the provision of a capital rebate to the risk-sharing loan.</p>
Managing authority's liability	<p>The losses covered are principal amounts due, payable and outstanding and standard interest and already granted subsidies' amounts (but excluding late payment fees and any other costs and expenses).</p>
Liability of bodies implementing the financial instrument	<p>The bodies implementing financial instruments concerned should support final recipients, taking due account of the programme objectives and the potential for the financial viability of the investment as justified in the business plan or an equivalent document. The selection of final recipients should be transparent and should not give rise to a conflict of interest.</p> <p>The bodies implementing financial instruments may not reimburse to Member States the irregular amounts in accordance with the second subparagraph of Article 103(6) CPR.</p>
Inclusion period	<p>The typical duration to create the portfolio of loans is recommended to be up to four years from the date of signature of the funding agreement. The duration to create the loan portfolio can be however defined on a case-by-case basis by the managing authority in the funding agreement signed with the body implementing the financial instrument.</p>
Accounting for capital rebates and interest rate subsidies	<p>The capital grant should be provided during the disbursement period of the loan. A capital rebate may be provided between the date of the signature of the loan agreement and the final date of the trigger indicated in the agreement with the final recipient, including after 31 December 2029 on a loan provided to a final recipient no later than 31 December 2029 in case of loans to be provided from 2021-2027 programmes.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"><li>• in the case of an interest rate subsidy, it is provided as a single capital payment to the body implementing the specific fund at the time of signature of the loan agreement with the final recipient (i.e. during the eligibility period); and</li><li>• in the case of a capital rebate, it is implemented by way of a write-off of part of the final recipient's indebtedness, together with an adjustment in line with the funding agreement, allowing the body implementing the specific fund to account for the rebate as grant rather than loan (and therefore not liable to be repaid by the body implementing the specific fund).</li></ul>
Eligible bodies implementing the financial instrument	<p>Public and private bodies established in a Member State which are legally authorised to provide loans as well as grants, if needed, to the types of final recipients targeted by the programme which contributes to the financial instrument.</p> <p>Such bodies are financial institutions, and, as appropriate, microfinance institutions or any other institution authorised to provide loans and grants, if necessary, following the financial instrument rules.</p>





Management costs and fees	<p>Management costs and fees are calculated on the combined amount of grants and loans.</p> <p>Where bodies implementing a holding fund and/or a specific fund, pursuant to Article 59(3), are selected through a direct award of contract, the amount of management cost and fees paid to those bodies that can be declared as eligible expenditure to the Commission shall be subject to a threshold of up to 5% of the total amount of programme contributions disbursed to final recipients in loans and grants.</p> <p>According to the fourth subparagraph of Article 68(4) CPR, where bodies implementing holding fund and/or a specific funds are selected through a competitive tender in accordance with the applicable law the amount of management costs and fees must be established in the funding agreement and must reflect the result of the competitive tender.</p>
Products	<p>The body implementing the specific fund should deliver to final recipients the loans for the investments that contribute to the objective(s) of the programme.</p> <p>The loans should be used exclusively for the following purposes:</p> <ul style="list-style-type: none"> <li>• investments in tangible and intangible assets;</li> <li>• working capital related to development or expansion or innovation activities.</li> </ul> <p>Loans included in the portfolio should:</p> <ul style="list-style-type: none"> <li>• be newly originated, with the exclusion of the refinancing of existing loans;</li> <li>• have a repayment schedule, including regular amortising and/or bullet payments;</li> <li>• not finance pure financial activities or real estate development when undertaken as a financial investment activity and should not finance the provision of consumer finance;</li> <li>• loans should have a typical maturity of usually up to 7 years, possibly up to 10 years in more exceptional cases depending on the required innovation lead-time. If the ex-ante assessment identifies and properly justifies the need for specific financing conditions, shorter or longer loan tenors may be used.</li> </ul>
Recovery of defaulted loans and grant	<p>The body implementing the specific fund should perform the servicing of portfolio of loans, including monitoring and recovery actions. Recoveries net of recovery costs (if any) are shared pro-rata between the managing authority and the body implementing the specific fund according to risk-sharing rate.</p> <p>The body implementing the specific fund should enforce any security in relation to each defaulted loan in accordance with its internal guidelines and procedures.</p> <p>The grant should be provided on terms that require the repayment of all or some of the funding to the body implementing the specific fund in specified circumstances such as fraud or significant breaches of the funding agreement, including events of default under the loan agreement.</p> <p>The bodies implementing the financial instrument shall reimburse to the managing authority programme contributions affected by irregularities, together with interest and any other gains generated by these contributions, in line with Article 103 CPR.</p>
Re-use of resources	<p>The funding agreement should include provisions providing for the use of resources paid back, before the end of the eligibility period, to financial instruments from investments in final recipients, including capital repayments and any type of generated income that is attributable to the support from the Funds in the same financial instruments for further investments in final recipients. Such a possibility should be explicitly provided for in the agreement and be automatically triggered when the committed programme amounts are disbursed and certain pre-defined minimum threshold of the resources returned is reached, with the new exclusion period starting at that moment.</p>



Reporting and targeted results	<p>The body implementing the specific fund should provide to the managing authority or holding fund (if applicable) with information in a standardised form and scope about the relevant elements for the managing authority to comply with Article 42 CPR.</p> <p>Reporting should be based solely on the following information provided by the body implementing the financial instrument, in line with the loan agreements signed by the body implementing the financial instrument with the final recipients (in particular, when envisaged using statistical information as described in section 'Capital rebate triggers' above):</p> <ul style="list-style-type: none"><li>• disbursement of loan and, where applicable, award of capital rebate, disbursement of interest rate subsidy component;</li><li>• after verification by the body implementing the financial instrument confirming fulfilment of conditions for the award established in the loan agreement, the amount converted into a grant component.</li></ul> <p>The technical checks by the body implementing the financial instrument should be completed as in line with the loan contract. The disbursement/trigger for award of capital rebate is required prior to the disbursement/award.</p> <p>Separate records must be maintained for each form of support, i.e. for the loan and the grant parts of the combined financial instrument, in order notably to:</p> <ul style="list-style-type: none"><li>• verify if the conditions set out in Article 58(5) CPR are fulfilled; and</li><li>• for audit purposes.</li></ul> <p><i>Reporting on grant elements</i></p> <p>In accordance with Article 58(6) CPR, separate records must be kept for each form of support, i.e. for the loan and the grant parts of the combined financial instrument.</p> <p>Disbursed grants should be reported separately from the grants which might be paid in the future. Information on foreseen (but not yet paid/awarded) grant components is not a part of reporting by the managing authority to the Commission, but it should be readily available and may help the managing authority in monitoring the 50% ceiling applicable to the grant components.</p> <p>Information on the disbursed grant elements should be included at the moment of payment or write-off.</p> <p>Estimated nominal amount of foreseen grants should be reported by the body implementing the specific fund to the managing authority or holding fund on the basis of maximum grant amount which could be provided in line with the loan agreement. For the support subject to State aid or <i>de minimis</i>, this amount should normally reflect the nominal amount of the grant element used in calculation of GGE. In the case of capital rebates, the estimated amount of future grants should not be deducted from the reported loans unless the loan is definitely converted into grant.</p>
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It is also recommended that the reporting from the body implementing the financial instrument to the managing authority provides a break-down of both disbursed and future grants by type and purpose, as follows:

- capital rebate linked to performance or other criteria;
- capital grant linked to the projects financial viability;
- technical support grant;
- interest rate subsidy.

This information is not a part of reporting by the managing authority to the Commission, but it should be readily available and may help the managing authority in monitoring and checks of the elements of support which serve different purposes.

*Example of reporting when capital rebates are used*

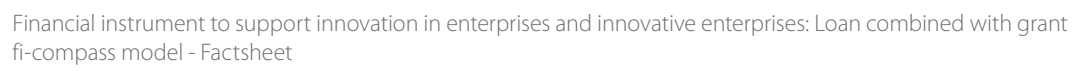
The body implementing the financial instrument should ensure a distinct accounting and reporting of loans and grants as described earlier in the section. The reporting by the managing authority for the grant is part of the financial instrument requirements and occurs following the templates defined in the CPR (Table 12 Annex VII).

In this case, when granted, the full amount of the loan will be reported using the template set out in Table 12 Annex VII CPR. When the capital rebate is triggered, part of the loan will be converted into a grant and reported as such. The amount initially reported as a loan and as grant will, therefore, be split between the remaining loan and the new grant parts as shown in the example below. For the grant part the specific column of the Table 12 of the Annex VII mentioned above 'Grants within a financial instrument operation (form of support code for FI)' should be used.

The declaration of expenditure made by the managing authority for payment to the Commission will not be split by form of support. The grants and financial products are reported as a single contribution as indicated in the model of the payment claim.

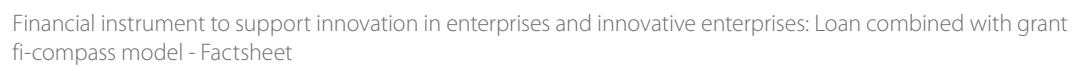
Reporting example:

	Bank			Managing authority			Managing authority		
Risk-sharing loan + Capital rebate + interest rate subsidy	Combined financial instrument accounts			Declared to EC under financial instrument in payment claims			Reported to EC in Annex on financial instruments (cumulative)		
	Y1	Y2	Y3	Y1	Y2	Y3	Y1	Y2	Y3
Risk-sharing loan	100			101	1	1	100	100	80
Capital rebate			20						20
Interest rate subsidy	1	1	1				1	2	3





[illegible]







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