



Factsheet  
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# Combination with capital rebate for financial instruments in energy efficiency





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# Abbreviations

Abbreviation	Full name
AA	Authorised Agent
CPR	Common Provisions Regulation
EE	Energy Efficiency
EPC	Energy Performance Certificate
ERDF	European Regional Development Fund
ESCO	Energy Service Company
FI	Financial Instrument
GGE	Gross Grant Equivalent
HOA	Homeowners Association
HF	Holding Fund
MA	Managing Authorities
MCF	Management Costs and Fees
NPBIs	National Promotional Banks/Institutions
RDI	Research Development and Innovation
RE	Renewable Energy
RRF	Recovery and Resilience Facility
SMEs	Small and medium-sized companies



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# Introduction

The pressing need to accelerate energy efficiency (EE) renovations across the European Union has driven the **'Scale Up'** initiative aimed at increasing the use of financial instruments (FIs) combined with grants. This approach seeks to address operational challenges faced by Managing Authorities (MAs) and National Promotional Banks/Institutions (NPBIs) when establishing and managing financial instruments while simultaneously enhancing co-financing by private financial sector and International Financial Institutions (IFIs).

For **residential and public buildings**, the initiative operates through collaborative working groups of MAs and NPBIs. These partnerships facilitate collective reflection, experience sharing and operational solutions to EE FI challenges. The insights and outcomes from these groups are disseminated widely including to the fi-compass community, to foster broader knowledge sharing and implementation.

The initiative encompasses expert meetings with **four key workstreams**:

- Combining grants and financial instruments;
- Credit risk assessment of EE loans to individuals and housing associations;
- State aid;
- Eligibility and impact assessment.

This document relates to the first workstream, focusing on the design and practical implementation of EE **financial instruments combined with capital rebates**. This workstream looks to identify and address **operational challenges** associated with such combinations and offer **actionable solutions**. The expected outcomes include a presentation of operational options, practical examples and a set of clauses tailored for EE FIs. The proposed key terms and provisions for funding agreements targeting EE FIs in the public sector are based on best practices.

# 02 Design

## 2.1 Programming

- How are programme funds used to fund financial instruments and grants?
- What legal barriers impede capital rebates, and how can they be mitigated?

### Planned use of grant combination

An assessment of the need for a financial instrument including combinations with a grant component begins at programme level. The Common Provisions Regulation (CPR) for 2021–2027 introduced novelties to improve the integration of financial instruments (FIs) into programming and implementation from the outset of programmes. Under Article 22(3) of the CPR, programmes must include:

A **market assessment** that evaluates market failures, investment needs and synergies with other forms of support.

A **justification for the forms of support** (including grants), detailing the planned use of FIs for each Specific Objective. The programme should also describe the potential use of FI/grant combinations with their rationale.

Example:

### Environmental and energy efficiency programme plus (2021-2027) in Hungary

Priority: 4. Renewable energy economy

Specific objective: 2.1. Promoting energy efficiency and reducing greenhouse gas emissions under the European Regional Development Fund (ERDF).

Fund interventions:

[...] The energy efficiency renovation of business buildings should be financed **primarily in the form of a financial instrument**. [...]

Planned use of financial instruments - Article 22(3)(d)(vii) of the CPR:

The planned use of a financial instrument in interventions is primarily **for final beneficiaries of households, small and medium-sized enterprises (SMEs) and large enterprises**, as well as activities facilitating operation of the system. The economic justification for the use of the instrument is the partially **reimbursable nature** of supported activities.



Programmed EU funds by type of intervention under Article 22(3)(d)(viii) of the CPR:

Priority	Specific Objective	Fund	Category of region	Code	Amount (EUR)
4.	2.1	ERDF	Less developed region	03. Support with financial instruments: loan	258 555 000
4.	2.1	ERDF	Less developed region	05. Support through financial instruments: grants within a financial instrument operation	141 695 000

Source: <https://www.palyazat.gov.hu/programok/szchenyi-terv-plusz/kehop-plusz>.

The capital rebate mechanism has faced **legal challenges** in some EU Member States. In Hungary, Section 97(1) of the Act on Public Finances states that public entities, including state institutions and budgetary bodies, may only waive claims under legally defined circumstances. A concern was that a capital rebate could be seen as **waiving a financial claim, which is restricted by national law**. Stakeholders have resolved the issue by applying a fixed, non-performance-based grant component instead.

## 2.2 Ex-ante assessment

- What criteria should determine the types of grants that can be combined with financial instruments for EE investments?
- How can the ex-ante assessment evaluate the effectiveness of capital rebates in achieving programme objectives?
- How can managing authorities demonstrate that the grant is necessary to achieve the financial instrument's intended outcomes?
- What evidence can support performance-based capital rebates in EE investments?

### Defining the type of grants

An ex-ante assessment or analysis of a similar value is critical to integrating grants with FIs for EE renovations. This involves defining the type of grants and calibrating their application to ensure they contribute to programme objectives while complying with the regulatory framework, specifically CPR Article 58(5).

Available grant types, their rationale and role in enhancing the impact of FIs are:

- **Technical support grant:** these grants address project preparation costs such as coaching, energy audits and feasibility studies. They are particularly effective in fostering a robust pipeline of EE investment projects by reducing initial barriers for individuals and SMEs. Through this support, managing authorities can help potential beneficiaries navigate complex processes and enhance the quality and feasibility of proposed projects.



- **Interest rate and guarantee fee subsidies:** these improve access to existing loan financing or guarantee schemes for individuals and SMEs. By lowering borrowing costs or mitigating financial risks, such subsidies mobilise private capital and encourage long-term investment in EE projects. This approach effectively leverages private money while making financial instruments more accessible and appealing to a broader audience.
- **Capital grants:** such non-repayable support within a combined financial instrument can cover the estimated viability gap or costs of an investment project. This reduces the investment costs for final recipients, particularly where loan repayment capacity is constrained or the internal rate of return needs to be adjusted to attract private finance. These grants can also subsidise projects that generate significant positive externalities, such as reduced carbon emissions or lower energy consumption. The inclusion of capital grants helps address financial gaps, ensuring project viability and incentivising private sector participation.
- **Capital rebates:** these refer to the immediate or delayed conversion of an outstanding loan into non-repayable support based on the fulfilment of pre-defined criteria (e.g. investment performance, final recipient characteristics). For EE investments, capital rebates create performance-based incentives to achieve higher EE standards. The rebate is linked to the energy savings, as confirmed by independent audits or an external expert that the works have been carried out in accordance with the project documentation which stipulates the envisaged savings. This results-driven approach aligns incentives with policy objectives, driving higher performance and fostering behavioural change among beneficiaries.

Factors to consider when selecting the most suitable grant to combine with a FI include how much it incentivises policy effects and the potential to cover financing gaps.

Combinations with capital rebates in particular **incentivise policy outcomes** such as reducing reliance on grants to enhance the efficiency of public intervention, fostering innovation and encouraging high-performing interventions.

Combining grants with FIs can help unlock riskier markets, tailor products to the needs of specific final recipients and attract private investment. EE investments often face significant **financing gaps** due to high upfront costs and delayed returns. Capital grants or rebates can bridge this gap by subsidising a portion of the investment costs, reducing the financial burden on project promoters and end-users. Such grants are particularly effective in granular portfolios involving small-scale EE or renewable energy (RE) investments, where automatic grant percentages can simplify administration and support scalability.

Past initiatives show that integrating grants with FIs can also influence programme design and implementation helping managing authorities to identify best practices and address common challenges. In addition, surveys of target final recipients, stakeholder consultations and comparison with similar programmes in other regions (benchmarking) often help to determine optimal grant levels. Energy savings targets in a programme greatly influence the grant proportion to ensure that renovations are financially viable for homeowners.



## Ex ante assessment report for 2021-2027 in Latvia

Proposed financial product for EE projects in multi-apartment buildings: **Combined financial instrument**.

- **Grant** - grant component up to 50% of the total project amount. The grant component is necessary because savings generated by the renovation project may not cover all implementation costs.
- **Loan** - the loan component of at least 50% of the total project amount can finance various project activities, including large and complex projects. The loan may also finance other measures to improve joint ownership of the building.
- **Beneficiaries** - apartment owners (project applicants - municipal capital companies, apartment owner associations, etc.).
- **Planned funding** - EUR 131.25 million.
- **Planned leverage** - 1.17, which can change if part of the loan is funded by commercial banks.

Source: [https://www.esfondi.lv/assets/izv%C4%93rt%C4%93jumi/2021\\_2027/0\\_ex\\_ante\\_assessment-report\\_en.pdf](https://www.esfondi.lv/assets/izv%C4%93rt%C4%93jumi/2021_2027/0_ex_ante_assessment-report_en.pdf).

### Justification of the grant

According to Article 58(5) of the CPR, programme support in the form of grants must be **directly linked to and necessary** for the financial instrument to achieve its intended outcomes. The justification should consider the operational structure, programme objectives and the benefits of combining grants with financial instruments. The necessity of the grant does not have to be assessed for each investment but **at the level of the FI**.

The ex-ante assessment may include an analysis of why a combination of grants and FIs is necessary, outlining the **types of grants envisaged** and the **potential grant intensity** covering the costs, or the maximum **grant allowance**. Without this justification in the ex-ante assessment, managing authorities must provide a separate analysis to demonstrate why the grant is necessary and how it is going to be implemented.

Grants are particularly significant in the EE sector where financing costs are often (at least partially) offset by energy savings but there are **barriers due to the nature of the investments**, such as:

- Extended **payback periods** and low or negative **internal rates of return**;
- The need for significant **technical support** for project design and implementation;
- A lack of incentives for project promoters to implement **deep renovations**;
- Inadequate **market finance supply**, such as limited available products, high perceived risks;
- **Social issues**, such as limited financial capacity of the final recipients or energy poverty.

Combining grants with FIs helps to:

- Achieve ambitious **energy saving targets within an acceptable timeframe** by encouraging deeper renovations with more energy saving;
- **Reduce the cost of repayable financing** with capital grants or capital rebates tailored to EE objectives;
- **Decrease perceived risks** in market sub-segments such as homeowner associations, low-income individuals, or projects involving SMEs or Energy Service Companies (ESCOs);
- **Enhance the attractiveness** and feasibility of FIs, enabling more uptake of EE measures.



## Ex ante assessment report for 2021-2027 in Slovakia

Assessment of financial instruments/lessons learnt:

**Grants** combined with financial instruments in a single operation is highly beneficial for:

- **improving the profitability** of large-scale and costly renovations in the public and residential sectors;
- **motivating businesses to invest** in EE even though this has a lower priority in the sub-area.

**Technical support** when **preparing projects** to improve EE (e.g. energy audits, public procurement) is crucial to using financial instruments.

Justification for the implementation of financial instruments:

The proposal for financial instruments is justified by:

- **significant investment needs** that cannot be covered by grants alone, with investments likely to be postponed if left solely to market financing;
- **strong tradition** of applying financial instruments for EE in Slovakia;
- strong **interest of banks** in financing EE investments, enabling private resources under European Structural and Investment (ESI) Funds and strong government support for EE investments in all three sub-areas;
- need for accommodative financing to support investments in **EPC and off-balance sheet financing**;
- significant **potential to combine** a financial instrument and grants in one operation.

On the other hand, the risk of crowding out EE financial instruments by grants from the RRF and ESI Funds is high and should be mitigated.

Source: Ministry of Finance of the Slovak Republic.

### 2.3 Defining the product

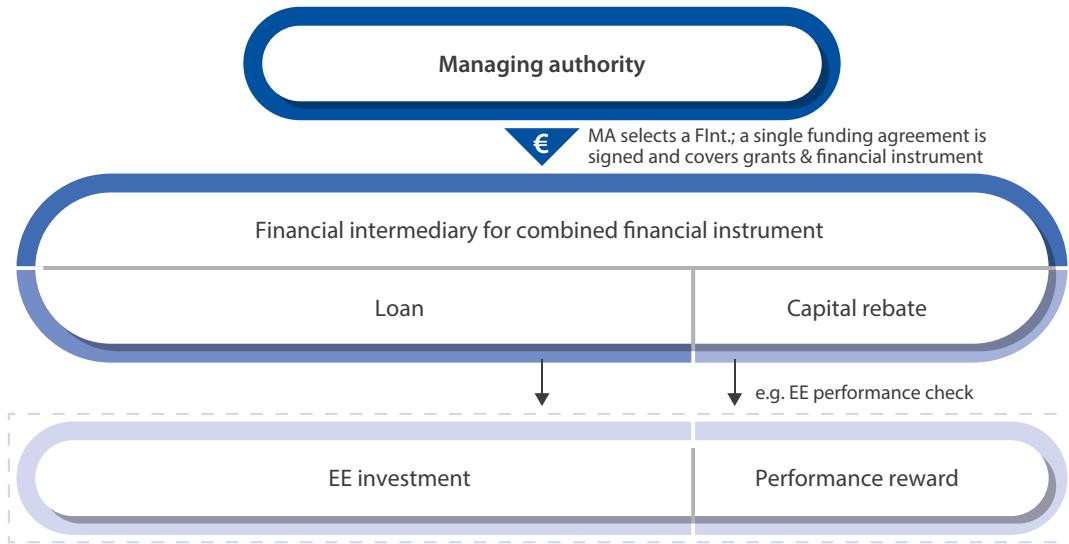
- How does the new CPR Article 58(5) facilitate the combination of grants and financial instruments in a single operation?
- How can financial instruments combine different types of grants, such as capital rebates and technical support?
- What methods can justify or compute grant amounts within combined FIs?
- Are there examples of modulating grant intensities for EE financing and how are these implemented?
- What are appropriate trigger criteria for capital rebates, and how can performance be verified for different types of investments?
- What are the practical steps for calculating grant amounts and addressing State aid implications, including the Gross Grant Equivalent (GGE) calculation and adjustments?

## Structuring grants and financial instruments in one operation

Article 58(5) of the CPR allows all types of grants to be combined with financial instruments in a **single financial instrument operation**, including capital rebates. The rules for financial instruments apply to that single financial instrument operation and both sources of funding are governed by a **single funding agreement** with certain conditions:

- The grant component must be **directly linked to and necessary** for the financial instrument;
- The value of the **grant must not exceed the value of the investment** supported by the financial product;
- **Separate records** must be maintained for each form of support.

Implementation of a FI/grant combination in a single operation is presented in the Figure below.



Source: fi-compass.

The above structure may include a Holding Fund, which will select financial intermediaries, and which may also take over the grant management responsibility. In the latter case, the operational agreements signed between the Holding Fund and the financial intermediaries may only cover the financial product part of the combined financial instrument.

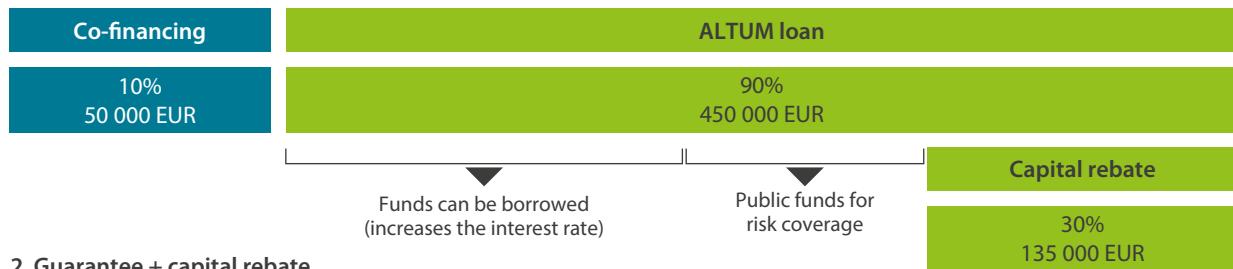
Combining grants and financial instruments within a **single operation offers advantages** over managing them as separate operations:

- There is no requirement to synchronise the **investment strategy** of the financial instrument with a separate grant call, as the grant is already integrated into the operation;
- Simplicity for final recipients, a single set of rules and a 'one stop shop' mechanism;
- The borrower or project promoter does not need to secure separate **bridge financing** for the grant as this is provided through the grant component (e.g. capital rebate);
- Loans with capital rebates reduce the **net loan**, lowering debt levels and improving the cash flow for borrowers.



Example of financing structures in Latvia.

### 1. Direct loan + capital rebate



### 2. Guarantee + capital rebate



### 3. Parallel loan + capital rebate



Source:Altum (17.05.2024).



## Combining capital rebate and other types of grants

When combining different types of grants in one operation, careful consideration must be given to their application, monitoring and integration with financial instruments. Linking capital rebates to **performance criteria** can help achieve specific policy objectives. Here, the grant is a performance reward that is contingent on meeting predefined criteria, providing a dual incentive to stimulate investment and deliver results.

Loans with capital rebates can also be combined with **interest rate subsidies**. Such subsidies reduce borrowing costs, making investments more financially viable, particularly for projects with long payback periods. Reducing both the principal repayment through capital rebates and the financing costs through interest rate subsidies increases the attractiveness and affordability of financing for final recipients.

For EE investment projects requiring audits to verify energy savings, **technical support** grants can complement capital rebates. These grants during project development should help final recipients improve the design of their initiatives and ensure a robust pipeline of investment-ready eligible projects designed to meet quality and energy performance standards. Technical support can also cover the cost of energy audits and be structured in several ways:

- Paid **directly to final recipients** to reimburse costs or upfront to pay for the energy audit;
- **Through the body implementing the FI**, which may contract companies to deliver support either free of charge to the recipient or with partial cost-sharing outside the programme contribution;
- **As a fixed amount** based on estimated costs of the covered activities, validated during the ex-ante assessment.

## Financial instrument combined with capital rebate and technical support in Latvia

In the current renovation programme implemented by Altum, financial support, in the form of a guarantee or of a loan, is combined with a capital rebate and a technical support grant.

- **Capital rebate:** covers 49% of eligible project costs, paid after project completion and achievement of EE objectives, verified through an energy certificate.
- **Technical support:** to prepare project-related technical documentation, covering 49% of eligible documentation costs, up to EUR 10,000. The application for this support is submitted together with the project support application and approved alongside the decision on an Altum loan or guarantee. Payment is made after the authorised person and Altum sign the support agreement.

Source: Altum.



## Trigger criterion of capital rebate

The **trigger criterion for releasing a capital rebate** is a key feature of financial instruments combined with this type of grant. The body implementing the FI must outline the precise requirements<sup>1</sup> for releasing the capital rebate in the contract with the final recipient. These **requirements should be objective, evidence-based and straightforward to manage**, ensuring transparency and effectiveness in their application. However, developing measurable and indisputable performance criteria can be challenging, particularly for results that may be subjective or vary across projects.

As with capital grants, the capital rebate **can be triggered immediately on contract signature** if it is linked to specific characteristics of the final recipient, that do not require ex-post performance verification. For instance, rebates might be granted to lower-income households or small companies acquiring green technology as an incentive for them to use financial instruments. In these scenarios, established banking practices such as early loan repayment or partial write-off can facilitate the rebate.

For more complex investments, the capital rebate is often provided later, subject to **ex post verification** of the requirements. In such cases, performance criteria are typically assessed at project closure, though they may include metrics measured 1–2 years after completion (e.g. increase in gross added value as illustrated by the Hungarian example). Performance verification can include **Energy Performance Certificates (EPCs)** submitted by the final recipient or an independent body, or confirmation by an external expert that the works have been carried out in accordance with the project documentation which stipulates savings targets, or direct checks by the body implementing the FI. These checks often follow a binary 'yes/no' approach to streamline the process.

A predefined improvement in building efficiency, such as achieving a class B or C rating, is a common trigger in financial instruments. Similarly, for investments in new energy-efficient machinery, verifying that the equipment has been purchased and is operational can be a trigger, if stipulated in the funding agreement with the final recipient.

Ongoing efforts to streamline verifications for standard investments use tools like the **Green Eligibility Checker** developed by the EIB aiding ex-ante estimates. Financial institutions often prefer assessments by independent third parties such as public sector agencies or private consultants, to ensure impartiality and credibility.

## Activation of capital rebate in Latvia

In the renovation programme implemented by Altum, the capital rebate is activated on achieving the required **EE improvements** in the apartment building. The rebate is triggered **after project completion**, provided the **temporary energy certificate** confirms **minimum primary energy savings of 30%**. The requirements for activation are:

- Implementation of construction and renewable energy measures;
- Building put into operation;
- Registration of the temporary energy certificate, confirming EE improvements;
- Submission of supporting documentation for eligible costs.

Source: Altum.

<sup>1</sup> The 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.



## Grant intensities

Article 58(5) of the CPR stipulates that the **grant component should not exceed the value of investments** supported by the financial product. Importantly, this is at the **financial instrument level** rather than for individual investments. In practice, the value of investments supported by the financial product should be interpreted comprehensively. For example in a guarantee FI combined with a capital rebate, the total value of grants provided at the FI level should not exceed the investments financed by the guaranteed loans, rather than being limited to the programme resources set aside for guarantee contracts.

The integration of grants and financial instruments must be carefully planned and justified in programmes. The need and structure of such combinations may be further assessed in the ex ante or equivalent assessment. **Funding agreements should quantify** the grant and financial product components. However, this division should remain **flexible, allowing adjustments** during implementation based on project applications.

Two principal models can guide the **capital rebate intensity**.

- The **fixed grant model** predefines rebate levels based on investment types or measurable outcomes, such as energy performance improvements. This model reduces ambiguity, facilitates automation and mitigates moral hazard in grant management.
- The **tailored grant model** involves project-specific evaluations, considering detailed financial assessments of project funding and the business plan to determine rebate intensity. This approach could be applied to more complex, large-scale projects such as urban development and RDI projects, though it requires substantial resources and expertise at the FI or holding fund level.

From a practical perspective, fixed grants are the better option for standard EE projects. Generally, commercial banks also prefer standardised grant levels with clear guidance from managing authorities, at least in the beginning. On the other hand, flexibility in determining grant amounts can be advantageous as bodies implementing the FIs gain experience and develop the expertise to manage more complex and resource-intensive grant schemes. While tailored approaches may incur higher administrative costs, they are justified for larger-scale investments that generate significant impact.

## Fixed grant model for the EE in SME FI implemented by HBOR in Croatia

CAPITAL REBATE				
%	15%	25%	35%	50%
<b>CONDITIONS</b>	min 30% energy savings and min 50.000 kWh	min 40% energy savings and min 100.000 kWh	min 50% energy savings and min 200.000 kW	min 67% energy savings and min 400.000 kWh and At least 1 measure/activity to new investment in RES.

Source: HBOR.



## Fixed grant model for the FI implemented by Altum in Latvia

=30% energy efficiency increase	industrially produced wooden frame panels	40% of loan amount
	for at least three buildings within the block	50%
<30% energy efficiency increase	Latgale region	40%

Source: Altum.

If the grant intensity exceeds 50% at the financial instrument level, the combination would need to be implemented as two separate operations. This necessitates careful coordination of eligibility rules, beneficiary selection and funding streams. A conditionality clause could be included in the grant calls that would create an obligation to use FI funding to benefit from the grant.

### Calculation of the loan and grant amounts with capital rebates

When financial instruments are combined with capital rebates, the grant amounts are computed by **splitting the investment cost between the loan and grant components**. This ensures that the (guaranteed) loan does not cover the full investment cost but rather the net cost after the capital rebate. For reporting purposes, an **ex post split after performance verification** can be applied. This means the initial financing is provided as a full loan, covering the entire investment cost. The capital rebate is then provided only after the final recipient demonstrates compliance with the performance criteria. Once the performance verification is completed, the capital rebate is deducted from the outstanding loan balance or reimbursed to the recipient and only the net loan amount must be repaid.

For **guarantee financial instruments**, if the capital rebate percentage is unknown at the time of project appraisal, the guarantee amount to be reported can initially be calculated on the full loan amount and adjusted when the capital rebate is triggered. For instance, with an investment of EUR 100 000 and a EUR 40 000 capital rebate following verification, the eligible expenditure attributable to the guarantee will be reduced based on a multiplier. With a multiplier of 5, the eligible expenditure for the guarantee would be  $(\text{EUR } 100\,000 - \text{EUR } 40\,000) / 5 = \text{EUR } 12\,000$ .

**State aid** should be calculated when the agreement is signed with the final recipient. This calculation includes the Gross Grant Equivalent (GGE) of the loan and the discounted value of any grants payable under the loan contract, such as conditional capital rebates. 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>2</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>3</sup>.

2 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”.

3 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.



## 2.4 Market testing

- How do capital rebate models compare to upfront grants in terms of appeal to banks and what are the operational benefits of each model for them?

### Purpose of market testing

Market testing is critical to assess the **feasibility of proposed instruments**, identify **operational challenges** and **confirm the interest** of financial institutions. Market testing also highlights potential obstacles such as regulations, accounting rules and reporting requirements. Early engagement with potential bodies implementing the FI can help refine product parameters, secure participation by financial institutions and enhance uptake of the instrument.

### Advantages of capital rebates for financial institutions

Capital rebate models may appeal to banks as they offer **straightforward implementation**. Banks typically favour mechanisms that reduce risk exposure, improve portfolio asset quality, minimise administrative burden, provide long-term funding, or lower interest rates. Capital rebates are often seen as **more 'bank-friendly'** compared to upfront capital grants as they **reduce risk** by lowering outstanding loan balances or ensure partial loan repayment. At the same time, since capital rebates are typically conditional on achieving predefined criteria, they **integrate into standard loan accounting practices** without requiring additional cash flows.

Table 1: Operational benefits and disadvantages of capital rebates vs. capital grants for financial institutions.

Capital rebate	Capital grant
+ <b>Built-in risk reduction</b> by lowering credit exposure to which it is applied.	+ Improves <b>project bankability</b> through upfront <b>liquidity support</b> to borrowers, making it easier for banks to approve financing.
+ Easier to <b>integrate into standard loan administration</b> processes as they typically appear as early repayments or loan write-offs, eliminating the need for additional capital flow management.	- Requires <b>additional administrative oversight</b> to ensure compliance with eligibility conditions before disbursement.
+ Enables more <b>predictable cash flow planning</b> , since the rebate operates within the lifecycle of the loan.	- May distort borrower behaviour, leading to higher demand for grants rather than standard bank products, <b>potentially reducing a client network</b> .
- Could <b>reduce return on investment</b> , which can be mitigated with early repayment fees.	- Can create <b>complexities for banks</b> , as it may not reduce credit risk unless tied to collateral or combination arrangements.

# 03

## Set-up

### 3.1 Delivery mode

- How does the choice of delivery mode impact implementation of EE financial instruments, including capital rebate combination products?

#### Single or two separate operations

Selection of the delivery mode is an important decision for the managing authority before implementation of any financial instrument. It significantly influences the effective implementation, especially when combined with grants.

Where financial instruments are combined with grants, managing authorities must determine whether to implement the components through a single operation or two separate operations.

For a **two-operation model**, the financial instrument is managed by an implementing body, while the responsibility for the grant is retained by the managing authority as a separate operation. Although this model allows for clear separation of responsibilities and control systems, it requires **separate reporting and monitoring mechanisms** and strong coordination between the MA and the body implementing the FI to ensure combined support is aligned at the level of final recipients and there is no double support.

In a single operation model, if the **body implementing the FI also manages the grant component**, the process can be more streamlined, reducing administrative complexity and facilitating integration between grants and financial instruments. Most importantly, the combination in a single operation simplifies the process for final recipients with essentially a one-stop-shop, enabling a single financing application and a single set of rules that can be more flexible and easier to implement. However, challenges might arise in aligning grant and FI mechanisms, often due to the need for **advanced IT systems, accounting practices** and reporting procedures. Moreover, barriers such as limited **capacity in financial institutions** and the **complexity of EE renovation projects** must be addressed.



## 3.2 Governance

- What governance structure ensures effective management of a capital rebate within combined FIs?
- What are the possible roles of financial institutions in implementing combined support?

### Management of the capital rebate

Management of the capital rebate within EE financial instruments requires well-structured governance framework that clearly delineates roles and responsibilities for managing authorities and bodies implementing the FIs for both holding funds (HFs), and specific funds (e.g. financial institutions). This is essential when grant and loan components are combined in a single operation. For bodies implementing specific funds such as **banks, or non-banking financial institutions that provide the loans but do not manage the capital rebate**, a body implementing a holding fund can assume this responsibility, coordinating closely with financial institutions. Similarly, for guarantee instruments in the set-up with the holding fund it may be the holding fund manager that may administer the grant component. The banks typically handle loan origination and disbursement, while the HF oversees the verification of performance criteria and initiates the rebate disbursement upon achievement of agreed energy efficiency outcomes. This setup requires well-functioning coordination mechanisms, such as standard protocols between the HF and the banks.

When **banks deploy the grant** as well, the HF's role might include overseeing the grant disbursement process, monitoring compliance with performance criteria and ensuring alignment with programme objectives. **Coordination** between the MA, the HF, and financial institutions is important for the operational workflow including marketing, project appraisal and disbursement.

The optimal governance structure should correspond with the administrative capacities and experience of the managing authority and the body(ies) implementing the FI, the structure of the capital rebate, and the complexity of the target investment also prioritizing the minimum possible complexity for the final recipient.

There are various models to involve banks in grant management from full implementation to being a simple pass-through entity. Some banks may refrain from managing grants due to financial, legal or operational constraints such as the need to **upgrade IT systems**, or lack of **institutional capacity** to handle grants.

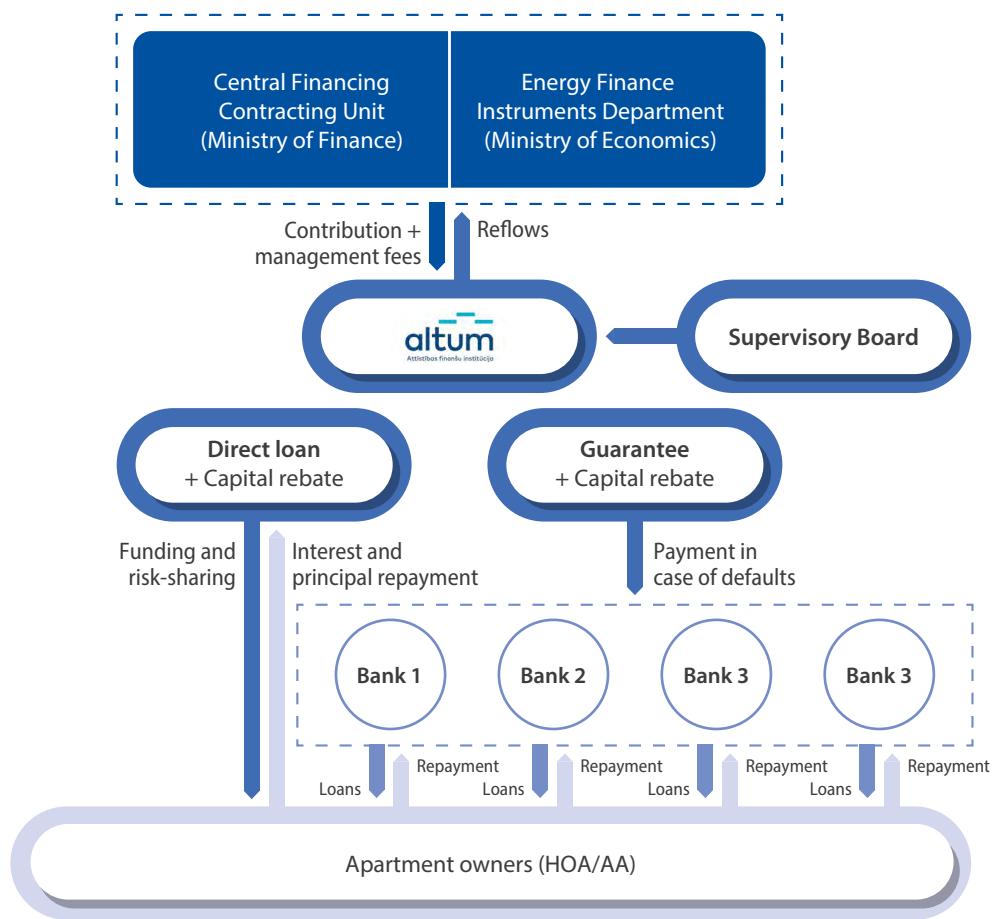
To address these challenges, MAs should engage local market actors to identify **practical solutions** for grant management. Using simplified, harmonised forms and procedures (e.g. pre-approved eligibility checklists or model energy audit templates) can help financial institutions avoid errors and duplicate assessments. Clear implementation manuals, eligibility examples and checklists can also reduce the burden on loan officers unfamiliar with grant scheme as well. Where banks do not manage rebates directly, the HF can be the central point for documentation and verification, while banks share data only during implementation. In all cases, defining clear governance in funding agreements fosters better cooperation among stakeholders.

The following **two examples** show different governance approaches to manage the grant component. In **Latvia**, the specific fund retained management of the capital rebate under both types of financial instrument, while the commercial banks provide only the underlying loans to apartment owners under the guarantee product. In **Croatia**, HBOR manages the holding fund and both loans and grants are managed by the financial institutions.



## Governance of the EE combination products implemented in Latvia

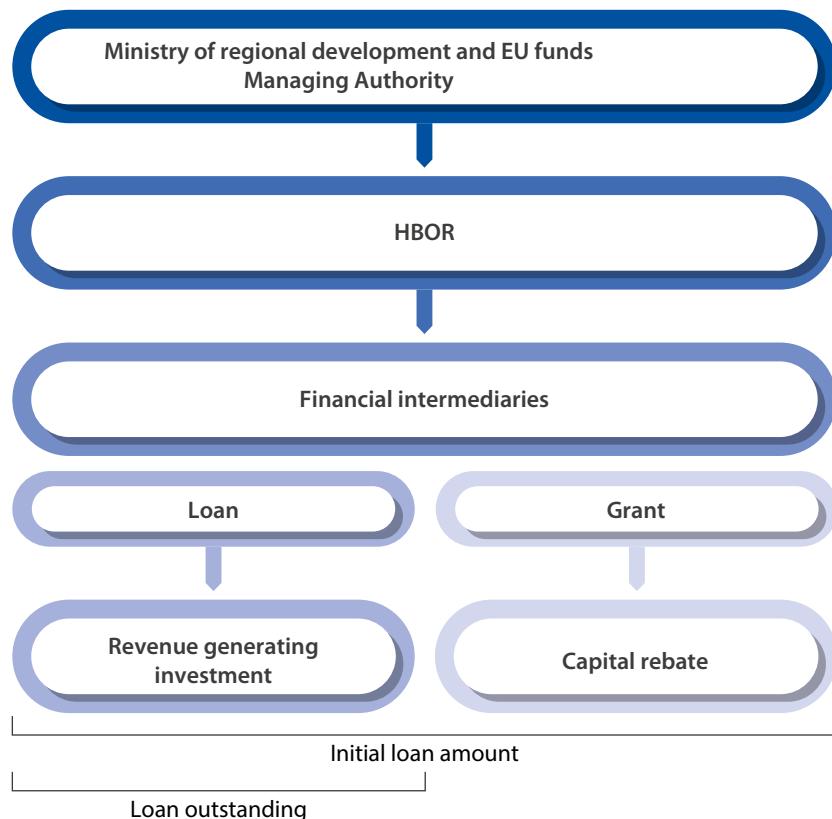
- The body implementing the FI is **Altum**, as a specific fund partnering with commercial banks to provide loans to apartment owners.
- It also manages the capital rebates under financial instrument rules.
- The loans are provided either directly by Altum or indirectly via the commercial banks.
- For direct loans, both loan and grant contracts are signed by Altum. For guarantees, the loan contract is signed by the bank while the capital rebate contract is signed by the HOA/AA and Altum.



Source: Altum.

## Governance of the EE combination products implemented in Croatia

- The Financial instrument includes an investment loan combined with a performance-based grant component in the form of capital rebate.
- The body implementing the FI is **HBOR** as Holding Fund partnering with commercial banks selected through public procurement.
- The commercial banks manage both the loans and grants with respect to final recipients.
- Part of the loan is converted into a grant depending on the energy savings and is accounted for as a loan write-off or pre-payment.



Source: HBOR.



### 3.3 Funding agreement

- What are the key elements of a funding agreement for combined FIs?
- What provisions are specific to the capital rebate for combined Financial instruments in EE?

#### Provisions related to capital rebate

The funding agreement contracting parties are the MA and the body implementing the HF and/or the specific fund. Annex X of the CPR lays down the required elements of a funding agreement.

The elements to be included in the funding agreement as described below are neither exhaustive nor compulsory. Some flexibility may facilitate implementation and attract the interest of financial intermediaries.

Element	Capital rebate provisions
Investment strategy	The investment strategy should define the envisaged combination with the capital rebate. It would specify arrangements to meet minimum standards such as energy audits. If the capital rebate is coupled with technical support, the investment strategy may also include provisions for the technical support grant to remain eligible even if the EE investment is financed using non-programme resources or not financed at all.
Business plan	The business plan should clearly define the method for applying the capital rebate (e.g., write-off), enabling the financial instrument to account for the rebate as a grant rather than a loan. The funding agreement should govern the trigger for the capital rebate. This may involve direct payments to banks, accounted as an early repayment of part of the loan, or converting part of the loan into a non-repayable amount (i.e. a write-off) in case the bank manages the grant itself. The business plan must clearly specify implementing body responsibilities in the event of default <sup>4</sup> .
Monitoring	The body implementing the combined financial instrument and capital rebate must have monitoring that prevents double financing. To facilitate implementation and monitoring of a combined financial instrument, where a single funding agreement covers multiple FIs, the MA may include detailed elements in other binding documents (e.g. a national legal act or supplementary documents outlining the combined FI's implementation structure and characteristics).
Audit	Specific audit trails for the capital rebate must be maintained, including verification of compliance with grant conditions, evidence of the trigger and provision of the capital rebate.

<sup>4</sup> For more information on the implications of final recipient defaults, please refer to section 5.2 Irregularities in the fi-compass Knowledge Hub, 'Implementation of grants and financial instruments combined in a single operation' here: [https://www.fi-compass.eu/sites/default/files/publications/KH\\_CombiNote\\_Factsheet\\_RTW\\_2.pdf](https://www.fi-compass.eu/sites/default/files/publications/KH_CombiNote_Factsheet_RTW_2.pdf).



Management costs and fees (MCF)	MCF apply also to the capital rebate if it is managed within the FI operation. The grant is included in the calculation for management fees, respecting the regulatory ceilings for the product type. In case the capital rebate is managed by a HF, the latter will receive MCF for the grant part. In that case, the financial intermediary will receive MCF on the loan part only.
Termination of the contract	Conditions under which the grant must be repaid in cases of mismanagement or non-compliance with funding terms should be clear. This could apply where the loan and the capital rebate are managed by different entities, (e.g. the holding fund and the financial intermediaries).
Independence of the implementing body	Grant management functions such as verification procedures and disbursement coordination must be carried out independently and in accordance with professional standards.
Selection of bodies implementing specific funds	Implementing bodies must be authorised to manage the grant and comply with the relevant standards and legislation. They must have the administrative capacity to manage grants (which may exclude certain entities from the selection process).

# 04 Implementation

## 4.1 Project appraisal

- What are the project application steps?
- How is the combined financing package structured and delivered to final recipients?
- What key elements should agreements with final recipients include for the capital rebate?

### Application process - the Latvian example

The typical application process begins with a **discussion among apartment owners** to agree on participation in the programme and authorise a representative. **Technical documentation** is then developed to support the project's implementation.

The next step involves **selecting service providers** and finalising the technical documentation including a calculation of costs. Associations and private companies managing multi-apartment buildings perform a simplified selection of suppliers in the form of market research. Municipal companies are subject to Public Procurement Law. The implementing body or other dedicated institution (e.g. State agencies) reviews service provider procurement documents to ensure there are no conflicts of interest, fraud, or corruption.

After this assessment final recipients **submit an application** to the body implementing the FI. In many cases, this is a single financing application covering both the loan and the grant. The body implementing the FI conducts a thorough **appraisal of the application** in line with standard banking practice. They evaluate the project's eligibility and financial viability and assess its compliance with programme objectives, including potential energy savings or innovation milestones.

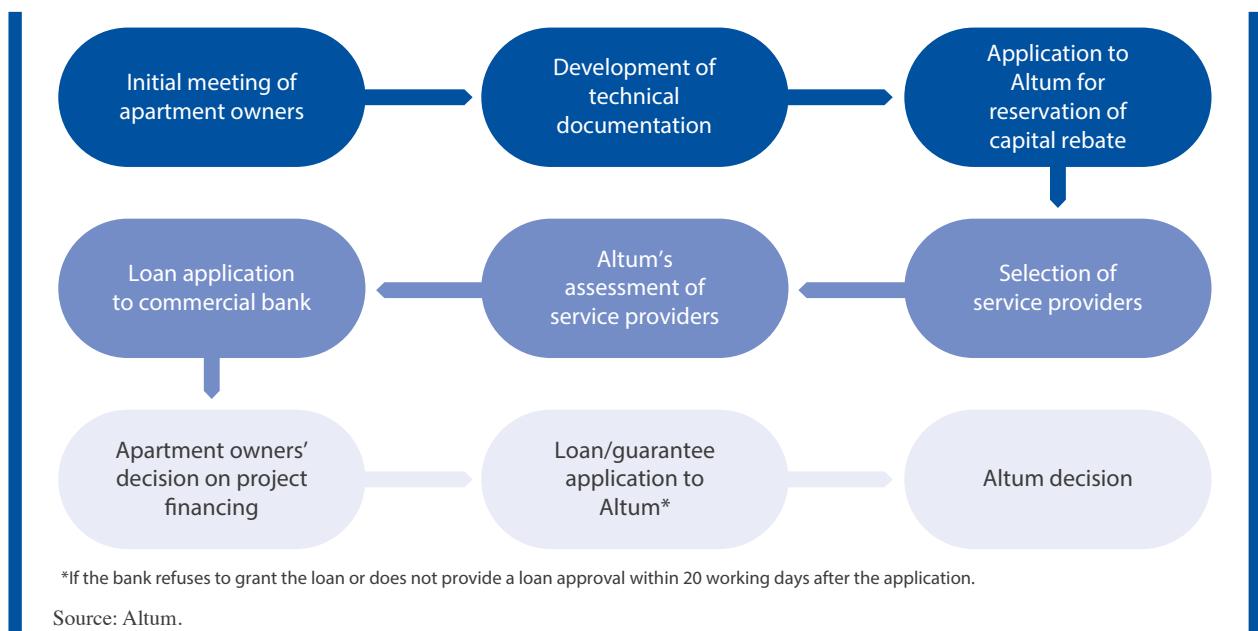
Finally, the body implementing the FI **decides on the support** and signs the financing contract with the final recipient.

For example in **Latvia**, under the renovation programme for apartment buildings, the application procedure follows the following steps:

- **Step 1 – Agree on participation in the programme:** the apartment owners also authorise a representative and prepare technical documentation including an energy audit.
- **Step 2 – Develop technical documentation** for project implementation: including a cost summary, calculation of savings, a building energy certificate from an independent expert and a technical survey opinion prepared by a construction specialist.
- **Step 3 – Apply to Altum to reserve a capital rebate:** for a defined amount of the capital rebate. Technical documents are submitted and Altum provides an initial opinion within three months, valid for nine months.
- **Step 4 – Select service providers:** private associations and companies conduct market research, while municipal companies follow procurement regulations. If using a joint design and build contract, supplier selection and contracting must be completed before applying for a capital rebate.

- **Step 5 – Altum assesses service providers:** the authorised person submits procurement documents for evaluation and Altum checks for conflicts of interest, fraud, or corruption and provides an assessment, in case it is subject to Public Procurement Law as a public company.
- **Step 6 – Loan application to commercial bank:** by the final recipient to a partnered bank (SEB, Citadele, Swedbank). If approved, Altum provides a loan guarantee covering eligible project costs.
- **Step 7 – Apartment owners decide:** A second general meeting is held to approve costs, loans, suppliers and authorisations.
- **Step 8 – Apply to Altum:** If the commercial bank denies the loan, final recipient may apply directly to Altum for financing. They submit the required forms, including apartment owner lists and SME declarations. A technical support grant for 49% of technical documentation costs (up to EUR 10 000) can be requested alongside the loan application.
- **Step 9 – Altum decision:** Altum issues a guarantee if the project is financed by a bank, or provides a loan if Altum finances directly. Altum can provide an alternative loan for non-eligible costs.

## Application process for the EE renovation programme in Latvia



Source: Altum.

## Contracting

The final loan and grant will be detailed in an agreement between the final recipient and the body implementing the FI. This will include the terms of the loan and parameters of the grant (a **single financial package** when combined in a single operation). The loan contract specifies **key triggers for capital rebates** including the amount that can be claimed under the pre-agreed grant percentage, linked to specific outcomes.



## Loan FI combined with capital rebate in Croatia

The contract signed by the financial intermediary and the final recipient details the **loan covering the entire value of the investment**.

The amount and/or percentage along with **conditions that trigger capital rebates** should be clearly set out in the loan agreement.

Following **ex-post verification**, the capital rebate clause in the loan contract is triggered and part of the loan is converted into a grant.

The capital rebate is a **write-off/early repayment**, with no early redemption fees for parts of the loan that benefit from the rebate.

The final recipient thus benefits from a **reduced loan** and will repay the outstanding amount following a **revised repayment plan**.

Source: HBOR (01. 29. 2025).

The final recipient includes an **expected performance** result in the application. This details the scenario for the loan and grant with the **repayment schedule**. The final financing amounts (repayable and non-repayable) depend on the **performance measurement**.

## Legal structure in the final recipient contract in Hungary

Text that will be automatically completed in the final recipient contract for EE projects when the final recipient undertakes higher performance than the minimum:

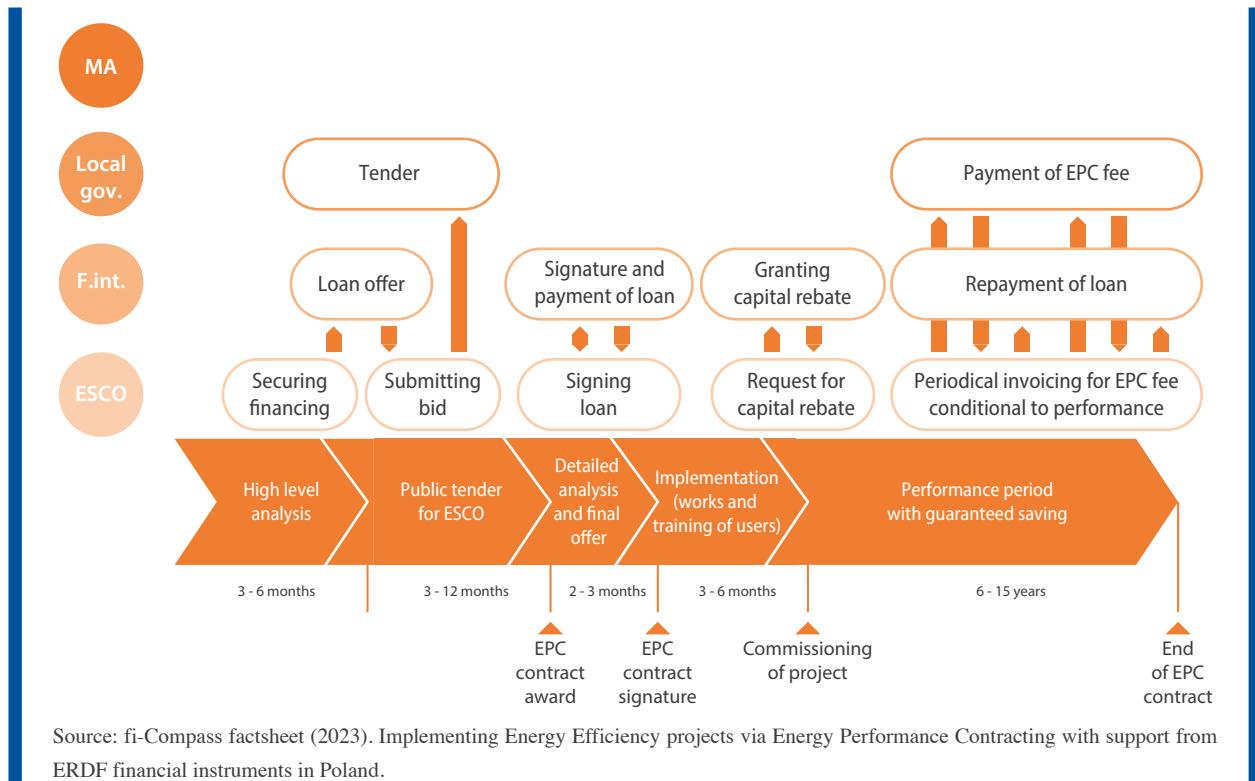
*"The amount of the Grant is [.....] HUF, the amount of the Loan is [.....] HUF, with the provision that if the performance committed by the final recipient does not reach the higher value at the time of the performance measurement, but reaches the minimum performance criteria, the amount of the Grant will be changed to [.....]- HUF, and the amount of the Loan will be changed to [.....]- HUF at the time of the successful performance measurement, without formal contract amendment."*

Source: MFB.

An alternative type of contract for EE projects involves **Energy Performance Contracting (EPC)**<sup>5</sup> usually provided by an Energy Service Company (ESCO). The EPC provider will be the final recipient of the financial instrument and the grant and responsible for repaying the loan. A competitive tender procedure ensures that the benefits of the grant are passed on to the EPC client. On commissioning, a third party verifies that the project has been completed according to the agreed specifications. The verification report is submitted to the financial intermediary, triggering a write-off for part of the loan based on the project's success.

<sup>5</sup> Energy Performance Contracting is a contractual arrangement between the beneficiary and the provider of an EE improvement for works, supply or service in relation to an EE improvement or other energy performance criterion such as financial savings which are verified and monitored during the whole term of the contract.

## Combining grants and financial instrument to support EPC projects in Poland



Source: fi-Compass factsheet (2023). Implementing Energy Efficiency projects via Energy Performance Contracting with support from ERDF financial instruments in Poland.

## 4.2 Disbursement of funds to final recipients

- How should the disbursement be structured to align with project implementation needs while ensuring compliance with the CPR?
- What mechanisms should be in place to recover grant funds in the event of default?

### Payment process

The financial intermediaries disburse funds to the final recipient or directly to the construction company **based on invoices submitted** to them. The financial instrument and grant support are provided only for elements of the investments not physically completed or fully implemented before the investment decision.

On project completion, energy performance may be verified through an independent **energy audit**, or by an external expert confirming the works comply with the project documentation which stipulates the envisaged savings. These can be based on an **ex ante assessment** aligned with construction standards that demonstrates expected energy savings. This ex-ante assessment of the energy performance of the building and of the improvement in the form of an energy performance certificate or any other transparent and proportionate method should be carried out. For standard measures in energy efficiency, the verification requirements should be kept light and where possible statistical methods and online tools, such as the EIBG Green Checker should be used.



If the EE targets are met (e.g. 30% primary energy savings), the capital rebate is triggered. It implies that the corresponding part of the capital due to the financial intermediary is treated as a **write-off or early repayment** in the financial instrument accounts and the **repayment schedule is revised**.

If there is a **grace period** during construction, no repayments are required from the final recipient until the final loan/grant ratio is established on performance verification.

Some public development banks **apply the rebate to the final capital repayments**, reducing the loan term accordingly. Under this scheme, the final recipient continues to make scheduled repayments until the loan is fully amortised, which occurs earlier due to the capital rebate.

In **Croatia**, under the instrument implemented by HBOR, the capital rebate is applied only to the ERDF portion of the risk-sharing loan, so the co-financing part of the financial intermediary is excluded. The capital rebate is treated as a write-off/ early repayment with no early redemption fees. The final recipient repays the remaining loan under a revised repayment plan.

## Writing off the principal on the total amount of the loan with the reduction in the amount of ERDF loan via capital rebate in Croatia

ERDF		Commercial bank	
ERDF loan	500 000 EUR (50%)	Commercial bank loan	500 000 EUR (50%)
Capital rebate	350 000 EUR (35%)		
Total loan amount due after capital rebate	650 000 EUR		
ERDF loan outstanding	150 000 EUR	Commercial bank loan outstanding	500 000 EUR
Interest rate	0,00 EUR	Interest rate	121 523,51 EUR
Principal + interest rate	150 000 EUR	Principal + interest rate	621 523,51 EUR
Monthly annuity	833,33 EUR	Monthly annuity	3 452,91 EUR
Total monthly annuity	4 286,24 EUR		
Total interest rate	121 523,51 EUR		
Total loan repayment amount (principal + interest rate)	622 356,83 EUR		

Source: HBOR.

## Event of default

Default may or may not extend to the capital rebate. **After successful performance measurement**, the outstanding loan typically has to be repaid. However, if the default occurs after project closure but **before the performance measurement**, the full outstanding amount prior to the capital rebate trigger, would be reclaimed.

However, financial intermediaries would not be required to recover the grant beyond standard banking practice.



## 4.3 Monitoring and reporting

- How can managing authorities effectively track and report grant components in financial instruments to avoid discrepancies in annual reporting?
- What mechanisms prevent double financing?
- What are the recovery procedures for grants in case of irregularities?

### Separate records

At the level of the body implementing the combined FI, financial instruments and grants shall be **recorded separately** for monitoring and reporting purposes in accordance with **Article 58(6) CPR**. This helps ensure that the capital rebate is linked to measurable outputs and there is no double counting or overcompensation of support.

Information on disbursed or written-off grants should be **recorded at the time of payment or write-off**, which means annual adjustments for rebates.

While potential (but not yet provided) capital rebates are not included in reporting to the Commission, they should be recorded to help the managing authority monitor the **50% ceiling on grant components**. The **estimated nominal amount of future grants** should reflect the maximum possible grant under the loan agreement.

The total **loan amount eligible** for EU budget reimbursement is the same **before and after the capital rebate**. This is because part of the loan is transformed into a grant, without increasing or reducing the support at the end of the period. As described in the table above, the amount declared to the EC in payment claims is not modified when the capital rebate is triggered.

In contrast, for capital rebate combinations with **guarantee instruments**, the trigger of the capital rebate impacts eligible expenditure. With the initial investment, the eligible expenditure, i.e. resources set aside for guarantee contracts, is based on a multiplier ratio in accordance with Article 68(1)(b) CPR. The capital rebate, however, reduces the amount of the loan that is guaranteed. The resources set aside as a guarantee for this loan must be reduced to avoid double-financing. Meanwhile, with the capital rebate mechanism, part of the loan is converted into a grant while the reduced guarantee constitutes eligible expenditure. Under a combined FI, the final eligible expenditure is the reduced guarantee amount plus the grant(s) funding the capital rebate(s). This may differ from the initial guarantee amount set aside at the start of the FI implementation.

The resources set aside for guarantee contracts are eligible for programme support only if the underlying loans are disbursed to final recipients.



## Avoiding double financing

A key principle of combination is that the total support for each investment, including financial instruments and grants, must not exceed the total expenditure costs. This means that the underlying investment must be split between the (guaranteed) loan and the capital rebate grant. For **guarantee FIs**, the guarantee is calculated only on the loan and not on the capital rebate.

Additionally, **grants cannot reimburse support provided through a FI, and FIs cannot be used to pre-finance grants**. For guarantees, compliance of the requirement is automatic if the capital rebate is committed at the same time as the loan.

Implementing bodies must ensure compliance with **Article 58(5) CPR**, which states that the grant cannot exceed the value of the investments supported by the financial product. Where individual projects receive **grants exceeding 50% of the project cost**, the balance between grant and FI contributions **must be closely monitored** to ensure compliance.

## Information to be reported to the Commission

MAEs report grant data combined with the financial instrument using **CPR templates** (Table 2, 12, Annex VII). Once a capital rebate is confirmed and paid, the reported data must be updated, alongside the loan and grant breakdown.

ERDF indicators<sup>6</sup> for EE and renewable energy include:

### Outputs:

- **RCO18:** Energy-efficient dwellings (number of dwellings).
- **RCO19:** Energy-efficient public buildings (square meters).
- **RCO22:** Additional renewable energy capacity (MW).

### Results:

- **RCR26:** Annual primary energy consumption reduction (MWh/year).
- **RCR31:** Total renewable energy production (MWh/year).
- **RCR29:** Estimated GHG emissions reduction (tonnes CO2 eq./year).

<sup>6</sup> Annex I of Regulation (EU) 2021/1058 on the European Regional Development Fund and on the Cohesion Fund

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## Notes

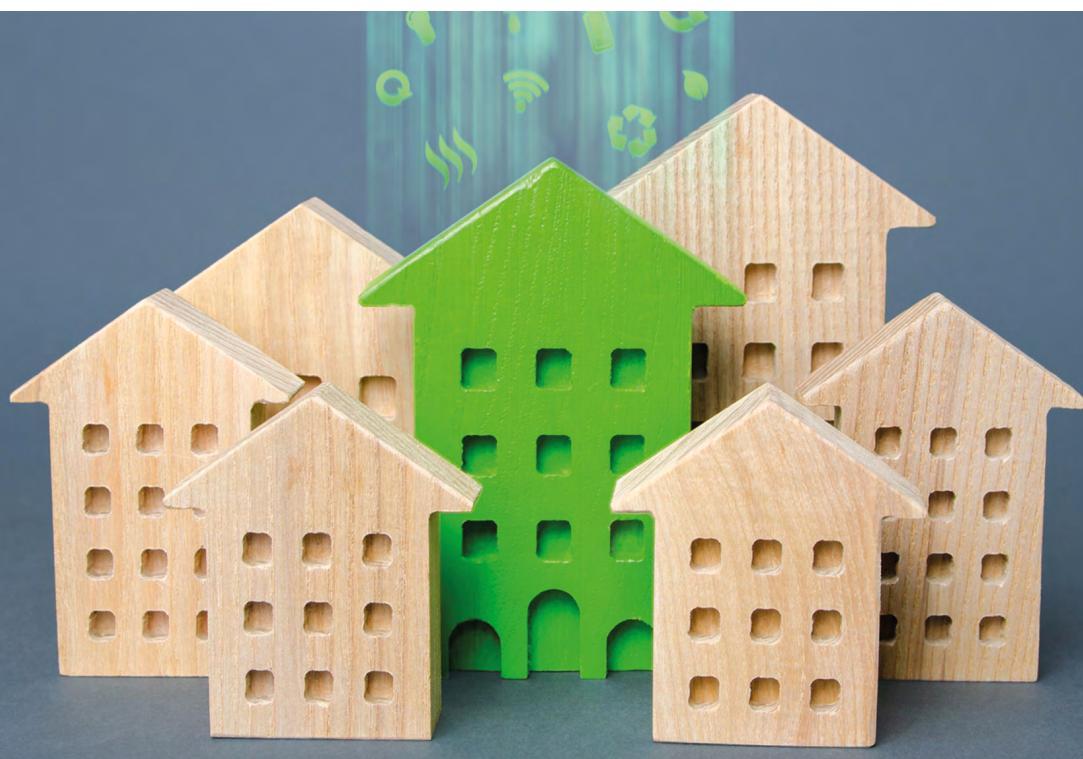


## Notes



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