advancing with EU shared management financial instruments

Model for a financial instrument with a grant component to support energy efficiency

a fi-compass model

May 2022

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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[1]
CF	Cohesion Fund
CHP	Combined heat and power
EC	European Commission
EEFI	Energy efficiency financial instrument
EIB(G)	European Investment Bank (Group)
EPBD	Energy Performance of Buildings Directive 2010/31/EU
EPC	Energy performance certificate
ERDF	European Regional Development Fund
ESCO	Energy service company
ESF+	European Social Fund Plus
EU	European Union
FI	Financial instrument
GBER	General Block Exemption Regulation - Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty[2]
GGE	Gross grant equivalent
HF	Holding fund
MA	Managing authority
MCF	Management costs and fees
nZEB	nearly Zero Energy Buildings[3]
PO	Policy objective and the specific objective of JTF, as defined in Article 5(1) CPR
PV	Photovoltaic
SMEs	Small and medium-sized enterprises

1 OJ L 231, 30.6.2021, p. 159–706
2 OJ L 187, 26.6.2014, p. 1–78
3 As defined in Commission Recommendation (EU) 2016/1318 of 29 July 2016. OJ L 208, 2.8.2016, p. 46–57

Foreword

Marc Lemaitre
Director General, Regional and Urban Policy DG, European Commission

The publication of this model financial instrument with a grant component to support energy efficiency (EEFI) is extremely timely. The new geopolitical reality requires us to drastically speed up the clean energy transition and to make our buildings more energy performant. Energy efficiency renovations are a key element to deliver on the REPowerEU initiative's goal of phasing our dependency on imported fossil fuels.

Currently the vast majority of Europe's building stock is not energy efficient and renovation rates are low, while buildings are responsible for about 40% of the EU's total energy consumption. Going forward, a push for deeper renovations and an increased focus on the energy performance of buildings is needed if we want to achieve a greener, more sustainable future.

The EEFI is flexible, providing potential models for Managing Authorities of Cohesion policy programmes, which can be tailored to their specific needs. As a financial instrument, the EEFI facilitates the more efficient use of public resources, doing more with less, and bringing in private investment. The grant component will help better project preparation and encourage deeper renovations, while also improving affordability for low-income households who are suffering from energy poverty. Its flexibility, efficiency, and wide applicability enables the EEFI to effectively contribute to the goals of both Cohesion Policy and REPowerEU in all Member States.

While its main focus is on energy efficiency, the EEFI also encourages the use of renewable energy sources whenever applicable – similarly to climate adaptation measures, which are incentivized throughout the model. As a model close to the market, developed by the Regional and Urban Policy DG of the European Commission and the European Investment Bank, the EEFI offers the attractive combination of grants and financial instruments in the area of energy efficiency long requested by practitioners.

The European Investment Bank, as the EU's Climate Bank, is committed to providing more financing for energy efficiency and renewable energy investment. This is coupled with our role in managing financial instruments, in several Member States and regions, as well as our advisory support via mandates with the European Commission, including fi-compass, JASPERS and the InvestEU Advisory Hub. Similarly, the European Investment Fund (part of the EIB Group) is also already active in delivering guarantees and other risk sharing solutions to financial intermediaries in support of energy efficiency and renewable investment of small and medium sized enterprises.

Jean-Christophe Laloux
Head of EU lending and advisory,
European Investment Bank

The investment needs in these sectors are immense, requiring an efficient allocation of the public funding made available for this purpose – not only under Cohesion policy but also through the Recovery and Resilience Facility. But even these large volumes of funding will not be enough and should therefore be used effectively to also mobilise private financial resources and expertise where possible. The model financial instrument proposed here has been designed to channel the shared management and other public funds alongside financing from EIB, other IFIs, national promotional banks and financial intermediaries. We encourage Member States to engage with us in developing their investment strategies in this regard, ensuring complementarity of funding and making the most efficient use of these public resources.

We hope that the proposed model instrument launched today will also benefit from the political commitment of Member State governments, as well as the support of Europe's network of financial institutions and energy agencies, including national promotional banks and institutions. Final beneficiaries need to be convinced of the benefits of such investment and provided with an efficient mechanism of delivering both financial and technical support to make this investment happen. We believe that the proposed model instrument does that in an integrated way, combining these elements of support and including a component of grant funding to incentivise and provide affordable financing to final beneficiaries, supporting those most vulnerable and affected by the dramatic recent increase in energy prices.

The EIB Group and the Regional and Urban Policy DG of the European Commission together stand ready to support the Member State managing authorities, national promotional banks and financial intermediaries in developing the necessary financial products, combined with grants and advisory support, dedicated to energy efficiency and smaller scale renewables. Never has the time been more opportune for us to accelerate our efforts in this regard.

1. Introduction

This document aims to describe models Managing Authorities (MAs) may use to support energy efficiency projects that combine grants with loans in a single financial instrument (FI) operation. The model financial instruments are intended to provide a non-exhaustive insight into the potential for MAs to use the new flexibilities in Article 58 of the Common Provisions Regulation (CPR). The document does not constitute formal guidance and the use of the models remains entirely under the responsibility of the MAs who have to ensure the correct application of the CPR under their own specific circumstances.

Energy efficiency investments can be structured in such a way that the cost of the works is at least partially covered by savings on energy expenses. In practice, grants are often necessary for funding parts of energy projects, particularly those which have low or negative internal rates of return, or if needed for social reasons or deep renovation purposes[4]. Hence, in the energy efficiency sector, grants may be combined with financial instruments to:

- improve quality of projects through technical support at the preparation phase and alongside the investment cycle;
- achieve ambitious energy saving targets within an acceptable timeframe, providing incentives for final recipients to engage in deeper renovation projects with higher energy saving impact than they otherwise would implement without such a grant component;
- reduce the cost and burden of financial instrument financing;
- decrease the perceived level of risks of specific market sub-segments, such as homeowners' associations, low-income individuals or energy efficiency projects involving Small and medium-sized enterprises (SMEs) and/or Energy service companies (ESCOs)[5];
- fight energy poverty, supporting households with low income.

MAs 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 disbursement 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[6], which was published in May 2021.

4 'Deep renovation' means a renovation which transforms a building or building unit:
- before 1 January 2030 into a nearly zero-energy building, in accordance with the Energy Performance of Buildings Directive (2010/31/EU)), i.e. 'a building that has a very high energy performance, as determined in accordance with Annex I [EPBD]. The nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on-site or nearby';
- as of 1 January 2030 into a zero-emission building, ref. Commission proposal for revision of the Energy Performance of Building Directive, (COM(2021) 802 final)

5 European Structural and Investment Funds (ESIF) and Energy Performance Contracting (EPC) | fi-compass: https://www.fi-compass.eu/publication/factsheets/european-structural-and-investment-funds-esif-and-energy-performance

6 https://www.fi-compass.eu/publication/factsheets/combination-financial-instruments-and-grants-under-shared-management-funds

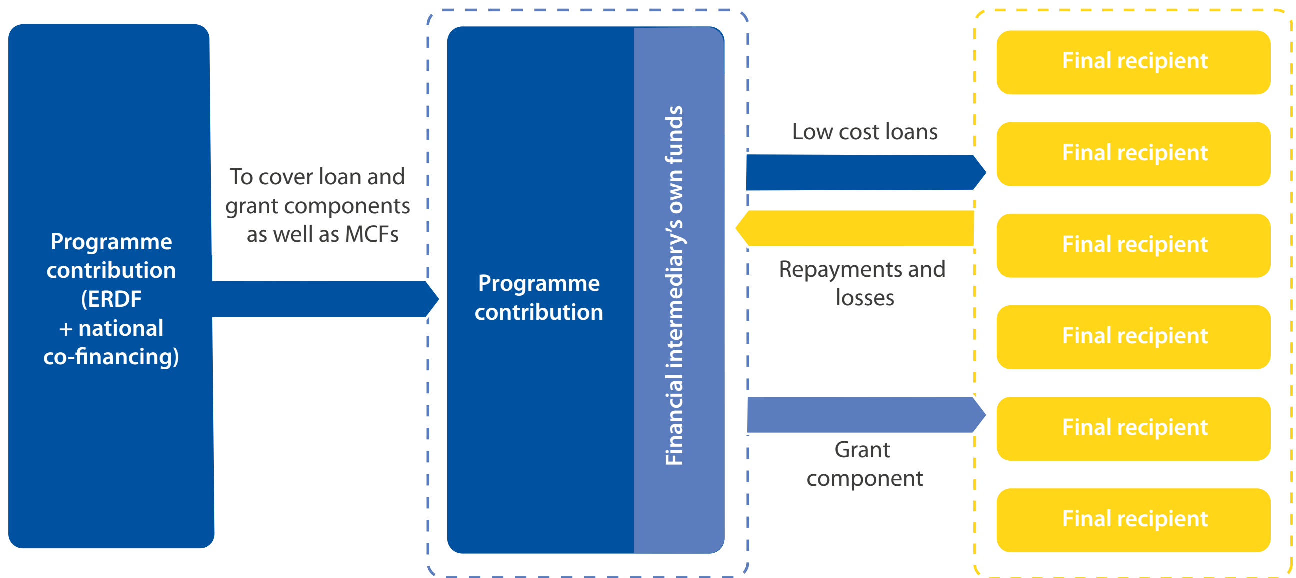
Financial instruments provide an economically efficient way of implementing energy efficiency investments[7]. In addition, introducing minimum savings thresholds to justify or determine the amount of grant could be used to ensure even more effective use of public resources. This parameter could be fixed at the level which corresponds to the specific regional and national conditions in such a way that it does not discourage deeper renovation and takes into account achievement of other social and economic objectives, in particular fighting energy poverty and including climate adaptation elements in the comprehensive renovation.

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 support energy efficiency projects, such as the financial instruments in Lithuania featured in a recent fi-compass case study.[8] The model illustrates the type of approach MAs may wish to adopt when developing and implementing their proposals under the 2021-2027 programmes.

7 ECA Special Report – Energy efficiency in buildings, 2020: https://www.eca.europa.eu/Lists/ECADocuments/SR20_11/SR_Energy_efficiency_in_buildings_EN.pdf

8 Residential energy efficiency financial instruments in Lithuania: https://www.fi-compass.eu/publication/case-studies/residential-energy-efficiency-financial-instruments-lithuania

2. A model for a financial instrument with a grant component to support energy efficiency (EEFI)



Structure of the financial instrument

The energy efficiency financial instrument (EEFI) takes the form of a combined loan[9] and grant financial instrument to be managed by a financial intermediary on behalf of a managing authority (MA), acting either directly or through a holding fund (HF).

The EEFI will be made available within the framework of a programme co-financed by the European Regional Development Fund (ERDF) or the Cohesion Fund (CF) ('Programme'), as a part of priority under Policy Objective 2 *a greener, low-carbon transitioning towards a net zero carbon economy and resilient Europe*.

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. This *ex ante* assessment will cover the nature and amount of grant support in accordance with Article 58(5) CPR.

Aims of the financial instrument and the role of the financial intermediary

The aims of the combined financial instrument are:

- to use Programme resources to mobilise additional investment to provide low cost loans to finance the renovation of eligible buildings to make them more energy performant; and
- to deploy grant in combination with the loan to fund technical support to building owners, and/or provide an interest rate subsidy to reduce the cost of borrowing, and/or support a capital rebate that repays part of the loan on achievement of specified energy efficiency outcomes, and/or in order to extend financing to low-income individuals.

9 Depending on the outcome of the ex ante assessment, the financial product may also take the form of a guarantee.

	The financial intermediary will be responsible for implementing both the loan and grant component of the EEFI. 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 State aid rules.
Deadline for use of Programme allocation	The EEFI loans, technical support grants, capital grants and interest rate subsidies which are to be covered from the allocation under the 2021-2027 Programme should be disbursed to final recipients no later than on 31/12/2029. The capital rebate related to the amount disbursed by that date may be awarded also after the date. The EEFI may be also used to provide support to be covered from allocations of programmes of the subsequent programming period after 31/12/2029. In line with Article 68(2) CPR, where a financial instrument is implemented beyond the end of 2021-2027 period, support may be provided to, or for the benefit of final recipients, including management costs and fees, based on agreements made under the 2021-2027 programming period, provided that such support complies with the eligibility rules of the subsequent programming period.
Selection	The MA may directly award a contract for the implementation of a financial instrument to bodies set out in Article 59(3) CPR. When the body selected by the MA implements a HF, that body should further select other bodies to implement a specific financial instrument or financial instruments. The contract with the body or bodies implementing the financial instrument may envisage the possibility to cover duration going beyond the 2021-2027 Programme in case the decision to make use of Article 68(2) CPR and continue implementation in the subsequent programme is made later.
National co-financing	The co-financing may be provided through national financing at programme level, finance provided by the financial intermediary and other investors or finance paid by third parties at project level. In the case of a HF, the MA will entrust the HF to provide the EU (ERDF or CF or national public) Programme contribution to the financial intermediary or intermediaries. The HF may also contribute its own resources to the financial instrument. 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. 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 under Article 59(8) CPR, and excludes project promoter's own resources. The co-financing may be private or public. It shall not benefit from support under any other operations financed under the CPR nor another Union instrument.

Energy efficiency project

An energy efficiency project eligible for support should comprise a range of renovation works to an existing building or buildings to improve its/their energy performance. The investment should relate to the improvement of energy performance of one of the following:

i. residential buildings;
ii. buildings dedicated to the provision of education or social services;
iii. buildings dedicated to activities related to public administration;
iv. buildings referred to in (i), (ii) or (iii) and in which activities other than those mentioned in (i), (ii) or (iii) occupy no more than 50% of the internal floor area.
v. commercial buildings

These may include (subject to possibly more demanding criteria and exclusions included in the Programme or Programme-related documents such as investment strategy for the EEFI) the following measures which together induce a reduction in primary energy demand of at least 20%[10] compared to the situation prior to the investment in the renovation:

Standardised measures

A. Investments related to the building envelope:

i. Insulation
Investments in insulation materials (including water vapour barriers, weather membranes, measures to ensure air-tightness, measures to reduce the effects of thermal bridges and scaffolding) and products for application of the insulation to the building envelope (mechanical fixings, adhesive, etc.) and their installation costs;
ii. Windows and doors
Glazing and/or glazing enhancement, frame, gaskets and sealants and their installation costs.
iii. Other building-envelope related measures with impact on thermal performance.
This investment may include inter alia external shading devices, solar control systems, and passive systems and their installation costs.

B. Investments related to the building system:

These investments consist of one of the following individual measures provided that they comply with minimum requirements set for individual components and systems in the applicable national measures implementing Directive 2010/31/EU (Energy performance of buildings directive recast) and, where applicable, are rated in the highest two populated classes of energy efficiency in accordance with Regulation (EU) 2017/1369 and delegated acts adopted under that regulation (Energy labelling for energy related products):

i. Space heating: investments related to heat generation (e.g. boiler replacement, heat pump, heat generation controls), storage (e.g. storage tank), distribution (e.g. circulator, circuit valves, distribution controls) and dispersion (e.g. radiators, ceiling/floor heating, fan coils, controls). Installation of heat generation boilers fired by fossil fuels (e.g. coal, fuel oil, gas) is not eligible with the exception of gas condensing, which either are at least A-rated or have a seasonal efficiency of 90% or better;
ii. Domestic hot water: investments related to hot water generation (e.g. solar thermal systems, boiler (see before-mentioned limitation for boilers), heat controls), storage (e.g. storage tank), distribution (e.g. circulator, circuit valves/mixing valves, distribution controls, insulation of the system and pipes) and delivery (e.g. tap valves, shower heads);

10 20% minimum is required under draft GBER. Higher percentage could be proposed e.g. when such more ambitious target is provided by the programme. In the proposed model from the grant amount modulation [see further section], only 30% or more saving triggers the capital rebate, which is in line with the minimum threshold.

iii. Ventilation systems: Investments related to heat recovery equipment (e.g. heat exchanger, pre-heater, heat recovery unit, heat generation controls), distribution (e.g. fans, circulators, valves, filters, distribution controls) and dispersion (e.g. ducts, outlets, controls).
iv. Cooling: investments related to cooling generation (e.g. air conditioning generators, heat-cold pump, compressors, generation controls), distribution (e.g. circulator, circuit valves, distribution controls) and dispersion (e.g. ceiling/floor/beams; fan coils, controls). Passive cooling measures (e.g. insulation of roofs, external shading) should also be eligible as building envelope-related measures;
v. Lighting: investments related to efficient light sources and luminaires;
vi. Building automation and control: investments related to building management systems which introduce supervising functions, technical intelligence, controls (e.g. centralised control of generation, distribution, emitters, circulators) and required communication systems (e.g. wires, transmitters);
vii. Connection to energy supplies: investments related to the connection to energy grid or storage facilities (e.g. district heat, PV-system) and necessary related installations;
viii. Decentralised renewable energy production: investments related to the supply systems based on energy from renewable sources installed within or on the building;
ix. Installation of charging stations for electric vehicles inside or attached to buildings;
x. Investments related to renewable energy (e.g. photovoltaic systems), not connected to buildings;
xi. Other costs directly related to investments in energy efficiency.

The above list indicates what would possibly be eligible under energy efficiency investments to be supported by the financial instrument but deviations from it remain possible where appropriate to achieve Programme objectives.

In addition, the definition of energy efficiency investments could consider the relevant technical screening criteria as defined under relevant activities specified in Annex I of the EU Taxonomy Climate Delegated Act[11]. These include the technical screening criteria under:

- activities 7.1-7.3 related to the construction of new and renovations of existing buildings as well as the installation, maintenance and repair of energy efficiency equipment and,
- activities 7.4-7.6 covering individual renovation measures, which contribute to improving the energy performance of the buildings.

Non-standardised measures

i. High Efficiency Micro CHP plant (combined heat and power plant < 50 kWel capacity) plant should be eligible if class A or above or, if no label available, the plant should reach a global, annual efficiency of 90%.
ii. Other investments identified by an energy audit in line with EN 16247 European Standards (or equivalent) and/or by an energy performance certificate in line with the Energy Performance of Buildings Directive 2010/31/EU (the "EPBD"), provided that they comply with the applicable country minimum energy performance requirements for renovated buildings.
iii. Other clearly identified expenditure concerning climate adaptation, such as green roofs, dry proofing[12], which does not fall under other categories.

11 Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139&from=EN
12 For examples of possible adaptation measures, please see RESIN Adaptation Options Library, Climate App – Adaptation Options, or chapter 3 of the EEA report – Urban Adaptation of Europe.

In the case of projects consisting of investments that are in the scope of energy efficiency and non-energy efficiency related measures, not less than 70%[13] of the expenditure should comprise energy efficiency measures such as those listed above, recognising the need to include in the scope of the project general measures to ensure the works complete the modernisation of the property. As an example, earthquake proofing measures, rainwater retention or broadband connection investments could fall under the threshold allowing for investments to be supported by the EEFI without justification required for their energy efficiency nature.

Online tools may be made available to support financial intermediaries and final recipients in checking investments' eligibility and assessing expected related energy savings and other output indicators.[14]

Lending policy

Disbursement from the MA or HF to the financial intermediary:

Under the funding agreement between the MA or HF and the financial intermediary, the public contributions from the Programme are committed to the financial intermediary to establish EEFI. The Programme contribution relates to both the loan and grant components of the combined financial instrument.

Origination of a portfolio of new loans:

The financial intermediary should be required to originate within a pre-determined limited period a portfolio of new eligible loans in addition to its current loan activities, (partly) funded from the disbursed funds under the Programme in line with the conditions agreed in the funding agreement.

Eligible loans for final recipients (according to pre-defined eligibility criteria on a loan-by-loan and portfolio level) should be automatically included in the portfolio, by way of submitting inclusion notices at least on a quarterly basis.

The financial intermediary should implement a consistent lending policy, enabling sound credit portfolio management and complying with the applicable industry standards, while remaining aligned with the MA's financial interests and policy objectives.

The identification, selection, due diligence, documentation and execution of the loans to final recipients should be performed by the financial intermediary in accordance with its standard procedures and in accordance with the principles set out in the relevant funding agreement.

Combination with grant

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

The grant component may consist of one or more of the following elements:

- Technical support grant;
- Interest rate subsidy;
- Capital grant for households with low income;
- Capital rebate or capital grant linked to performance.

13 Optional: the MA may set the threshold at the level of 60% for projects in which clearly identified climate adaptation measures constitute at least 10% of total eligible costs.

14 An example of such online tools is the "Green Eligibility Checker" developed by EIB with funding from the European investment Advisory Hub (see EIB Green Eligibility Checker: https://greenchecker.eib.org/). Eligibility rules embedded in the Green Eligibility Checker are based on EIB Green criteria for intermediated debt products, which are aligned with the technical screening criteria for substantial contribution principle as defined in the EU Taxonomy Climate Delegated Act and hence compatible with cohesion policy.

1. Technical support grant

The technical support grant would be provided to the final recipient either:

- as a cash grant to the final recipient to fund specified activities, such as the preparation of an energy audit (including energy performance certificate (EPC) to be used for the capital rebate – see Point 4), or specification for the works, based on reimbursement of up to 100% of the real costs incurred for such activities by a final recipient, provided applicable rules, including State aid rules are respected;
- as a cash grant for the benefit of the final recipient provided by the body implementing the financial instrument. This body may select a company or companies to provide such support either at no charge for final recipient, or with the final recipient paying for a certain part of the costs outside the Programme contribution ("one stop shop"/"integrated energy services");
- as a fixed amount paid to or for the benefit of the final recipient to fund the above-mentioned activities, with a methodology based on estimated costs of such activities verified as part of *ex ante* assessment or in another document. The expenditure supported by such a lump sum should not benefit from any other EU support.

Only the activities paid for after the decision to award the financing should be eligible. The funding agreement should include arrangements to ensure that minimum standards concerning the energy audit, (where an audit is appropriate), and other activities are fulfilled. The arrangements can be based on existing mechanisms (such as authorised list of energy auditors etc.). If the scope of eligibility covers climate adaptation (see: non-standardised measures), the technical support grant can be also used to perform a climate risk and vulnerability assessment to identify relevant climate change adaptation measures, as described in the *Technical guidance on the climate proofing of infrastructure in the period of 2021-2027*[15].

The funding agreement may provide that the technical support grant remains eligible even in case the energy efficiency investment is financed from non-programme resources or is not financed at all. This is the case when the results of the energy audit show that the investment is not feasible/ economically justified (e.g. it is not possible to achieve the minimum required savings), but it might be also used to encourage preparing such investments without the risk of formal liability.

In order to reduce barriers to investment and provide incentives to project promoters, EPC or energy audit costs should be fully or to a large extent covered by the technical support grant.

2. Capital grant for households with low income

The funding agreement should define criteria to be used based on *ex ante* assessment and the Programme where such provisions are included.

Depending on the criteria and subject to applicable rules, the grant could be used to cover up to 100% of the costs of investments attributable to a given low-income household, with the loan used only for the other households. However, under Article 58(5) CPR the grant component cannot exceed the value of investments supported by the financial product. It should be paid as a capital grant provided to low-income households as a part of the financial instrument operation and should concern either households located in the same multi-family dwelling, or households within a specific other geographic designation (in the context of social housing, grant operations might be more suitable).

15 OJ C, C/373, 16.09.2021, p. 1, CELEX: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021XC0916(03)

3. Interest rate subsidy

The interest subsidy would be used to reduce the cost of the private sector co-investment, providing a discount to ensure the cost of borrowing does not exceed a specified ceiling.

The interest rate subsidy may be made through a single capital payment to the financial intermediary at the time of signature of the loan agreement with the final recipient.

4. Capital rebate or capital grant linked to performance

The amount or the percentage and conditions that trigger the capital rebates should be clearly set out in the loan agreement signed with the final recipient. Typically, capital rebates may be related to the achievement of specific energy savings as a result of the works carried out and as established by an energy audit, or any other transparent and proportionate method[16]. When applied, the capital rebate leads to a write-off or early repayment of the loan on the financial intermediary side.

The agreement may provide for capital grants to be used instead of capital rebates[17], with the grant amount based on expected energy savings, as explained in the table below. In such a case, the loan covers the remaining investment costs.

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

Capital rebate triggers:

An *ex ante* estimation of the energy performance of the building and of the improvement in the form of an EPC 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 should be used. For example standardised average cost can be used to calculate the amount of m^2 floor space renovated or kW installed capacity of renewable energy. It is necessary for MAs to regularly adjust the standardised average prices and communicate this to the HF and/or the financial intermediary.

The capital rebate will be triggered following the *ex post* verification or control of the delivery (or non-delivery) of the renovation works that will either:

- take the form of new EPC (*ex post* EPC), or
- check completed works against the *ex ante* estimation (with the deviations which do not result in decreasing its policy impact allowed).

The EPC should identify the energy savings and subsequent greenhouse gas emissions reduction, including the review of the invoices and the amount of the investments dedicated to energy efficiency measures to ensure that the minimum savings are respected.

16 For example, online tools such as the Green Eligibility Checker can be considered proportionate and transparent methods in the case of investments with low performance risks.

17 Capital grants could be more appropriate when the part of investment covered by it is subject to a very low performance risk, e.g. purchase of equipment with known characteristics. In such a case, covering the costs directly might lower the overall costs of financing, and ex post checks of achievement of the results as a general rule would not be needed.

When the *ex post* EPC is completed, it would constitute the objective basis on which the capital rebate will be triggered by the financial intermediary, which will, in turn, lead to the conversion of part of the loan into a grant, thus reducing the loan outstanding amount for the borrower.

Indicatively, taking into account rebates paid from non-EU resources during the programming period 2014-2020, the following capital rebates are proposed on the eligible loans:

Energy savings	Capital rebate [% of the eligible loan amount]
30%	15%
40%	25%
50%	35%
60% or nZEB	higher rebate possible, as established in ex ante

Source: examples 2014-2020 ESIF financial instruments, fi-compass

The amount of the capital rebate could be increased by additional 5 percentage points if the scope of supported investment covers also identified climate adaptation measures which account for at least 10% of the total eligible costs.

Conversion of a capital grant into a loan when conditions for awarding the grant are not fulfilled:

In case capital grant linked to expected energy savings is provided, the loan agreement may provide for *ex post* verification or control of delivery (or non-delivery) of the renovation works that will either:

- take the form of new EPC (*ex post* EPC), or
- check completed works against the *ex ante* EPC (with the deviations which do not result in decreasing its policy impact allowed). Such *ex post* verification might not be needed e.g. in case the grant is used for equipment with known characteristics.

If the verification or control of delivery envisaged in the loan agreement requires cancellation or the decrease of the already paid grant amount, but the loan still fulfils the criteria for a support in the form of the loan, the financial intermediary may convert the affected amount from the grant component to loan financed from Programme resources. The repayment schedule and reported amounts should be revised accordingly.

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 and every supported investment. This funding agreement should include specific arrangements for ensuring monitoring of fulfilment of this requirement. They should take into account 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 (expected coverage of low-income households, expected average energy savings, needs for technical support).

Example of methodology for establishing the grant component **(optional)**	While loans are cost-effective by their repayable nature, when grant components are used, their level should be commensurate with the achieved energy savings and in line with the target values for the indicators in the Programme. This could be measured by the ratio of the performance-related part of the grant to the estimated savings in primary energy consumption, as established in EPC. The maximum euro cost of the unit of savings could be estimated: • as a part of or based on the *ex ante* assessment, or • by simple transposition of the target values and indicative allocations included in the Programme, or • based on good practices, national benchmarks or historical data. Separate values could be set for a limited number of categories with different levels of savings (e.g. 30/40/50/60%, in line with the categories used for capital rebates), so as not to discourage more ambitious renovations. Or, if methodology for establishing the target values does not provide such granular data, a single coefficient linked to the more ambitious investments could be used. Such a coefficient would define the maximum allowed amount of grant per percentage of energy savings achieved. The coefficient(s) would be a part of the investment strategy. Verification by the financial intermediary would be limited to comparing the amount of the grant to the maximum allowed based on a coefficient for a given category of projects. The parameter could be revised when market conditions change based on the request from financial intermediary.
State aid or *de minimis* aid	*At the level of the financial intermediary and the HF, for the loan component:* State aid is normally excluded when **one of the following conditions** is satisfied: • the co-investing financial intermediary and the MA or HF carry out the investment on a *pari-passu* 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. the financial intermediary, in the risk sharing loan. 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 pari-passu principle. • the remuneration (i.e. management costs and/or fees) of the HF and the financial intermediary as well as the loan pricing structure of the financial intermediary reflect the current market remuneration in comparable situations, which is the case when both have been selected through an open, transparent, non-discriminatory and objective selection procedure; or • the financial advantage of the programme public contribution to the instrument 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. The market rate can be either the appropriate market benchmarks for the specific risk and sector, or the market proxies set out in the Reference Rate communication.

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 persons which are not carrying out economic activity[18] and therefore fall outside the scope of the State aid.
- In addition, where the final recipient is a very small business, an assessment should be made whether the support under EEFI 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 Marinvest decision of the ECJ provides an example of the type of businesses that fall outside the State aid rules[19].
- 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[20], the gross grant equivalent (GGE) of the aid (including both the loan component and the grant component) may be calculated following the methodology set out in Article 4 of the de minimis Regulation. Alternatively provisions of Article 4(3) and 4(6) of the de minimis regulation may be applied.

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

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.

The capital rebate payable on achievement of a milestone should be calculated as part of the total grant at the time of the signature of the financing agreement based on the maximum possible additional grant in the year in which it is paid to the final recipient. In case the decision is taken not to award the capital rebate, the total amount granted to the undertaking could be adjusted accordingly.

For calculating net present values, the reference rate[21] 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.

18 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.
19 See Judgment of the General Court of 14 May 2019, Marinvest v European Commission, T-728/17.
20 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.
21 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.

(ii) *An acceptable proxy for computing the GGE of the loan* = Nominal amount of the loan (EUR) × difference between the market rate and the effective interest rate × Weighted average life of the loan (Years)

This methodology applies to senior fixed rate loans only. For other types of loans, Member States should notify the calculation methodology for GGEs of loans as specified under Article 4 of the de minimis Regulation.

The total amount of aid calculated with the GGE must not exceed EUR 200 000 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, Article 38 (Energy Efficiency) 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.

Where neither *de minimis* Regulation or GBER apply, Member States must notify an aid scheme or individual measure, notably under the Climate, Energy and Environment aid Guidelines or Regional aid Guidelines.

Pricing policy

The financial intermediary 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:

I. the interest rate on the financial intermediary participation is set at market basis (i.e. according to the financial intermediary's own policy),
II. the overall interest rate, to be charged on loans to the eligible final recipients included in the portfolio, is reduced proportionally to the allocation provided by the public contribution of the Programme. This reduction should take into account eventual interest and other costs that the HF/financial intermediaries might charge on behalf of the MA.
III. Where the overall interest rate exceeds a maximum interest rate threshold[22], 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.
IV. the GGE calculation as presented in the State aid or *de minimis* aid section is applied on each loan included in the portfolio.
V. the pricing policy and the methodology remain constant during the inclusion period, unless amended as described in section *Evaluation*.

If relevant, the financial intermediary 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.

The financial intermediary 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.

22 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.

MA's liability	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).
Liability of bodies implementing FIs	The bodies implementing the 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. The bodies implementing financial instruments may not reimburse to Member States the irregular amounts in accordance with second subparagraph of Article 103(6) CPR.
Inclusion period	The typical duration to create the portfolio of loans is recommended to be in the range of 4 to 5 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 MA in the funding agreement signed with the financial intermediary.
Accounting for the capital grants, capital rebates and interest rate subsidies	The capital grant should be provided during the disbursement period of the loan. An interest rate subsidy and/or 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 disbursed to a final recipient not later than 31 December 2029 in case of loans to be financed from 2021-2027 programmes. It is recommended that: • in the case of an interest rate subsidy, it is provided as a single capital payment to the financial intermediary at the time of signature of the loan agreement with the final recipient; and • in the case of a capital rebate, it is implemented by way of a write-off of part of the final recipient's indebtedness in line with the funding agreement, allowing the financial intermediary to account for the rebate as grant rather than loan (and therefore not liable to be repaid by the financial intermediary).
Eligible financial intermediaries	Public and private bodies established in a Member State which are legally authorised to provide loans to the types of final recipients targeted by the Programme operating in the jurisdiction of the Programme which contributes to the financial instrument. Such bodies are financial institutions, and, as appropriate, microfinance institutions or any other institution authorised to provide loans and grants following the financial instrument rules.
Management costs and fees	Management costs and fees are calculated on the combined amount of grants and loans, which enables the compensation of financial intermediaries implementing the combined financial instrument for the additional management costs incurred for the grant components. Where bodies implementing a HF and/or specific funds, pursuant to Article 59(3) CPR, 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 should be subject to a threshold of up to 5% of the total amount of Programme contributions disbursed to final recipients in loans and grants.

	According to the fourth subparagraph of Article 68(4) CPR, where bodies implementing a HF and/or 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. In the case of a combination of a loan with a capital rebate, the management costs and fees proposed in the competitive tender should apply to the total amount of fund contribution, i.e. to the grant and the loan without distinction.
Eligible final recipients	The final recipients will be eligible under the relevant Programme and funding agreement. They may comprise, but are not limited to private individuals, homeowner associations, housing cooperatives, SMEs, mid-caps or larger enterprises, which comply with all relevant eligibility criteria. Financial intermediaries should ensure that final recipients (both as the borrower and the recipient of the grant), the transactions and the portfolio, as relevant, comply with the eligibility criteria set out in the funding agreement.
Products	The financial intermediary should deliver to final recipients the loans that contribute to the objective(s) of the Programme. The loans should be used exclusively for the following purposes: • investments in tangible and intangible assets, • other costs related to renovation of the building not exceeding 30% of the total cost as described in the Energy efficient project section, • working capital related to the eligible activities, without the need to provide justification, not exceeding 10%. Loans included in the portfolio should: • be newly originated, with the exclusion of the refinancing of existing loans. • have a repayment schedule, including regular amortising and/or bullet payments. • not finance pure financial activities or real estate development when undertaken as a financial investment activity and shall not finance the provision of consumer finance. Loans to finance comprehensive renovations should typically have a minimum maturity of 60 months including the relevant grace period (if any). Their maturity should however not exceed the economic life of the asset financed or the depreciation period according to generally used accounting standards. Market best practice examples show maximum loan tenors of 30 years, depending on the type of assets financed and of the renovation works carried out. If the *ex ante* assessment identifies and properly justifies the need for specific financing conditions, shorter or longer loan tenors may be used.

Recovery of defaulted loans and grant	The financial intermediary 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 MA and the financial intermediary according to risk-sharing rate. The Financial Intermediary should enforce any security in relation to each defaulted loan in accordance with its internal guideline and procedures. The grant should be provided on terms that require the repayment of all or some of the funding to the Financial Intermediary in specified circumstances such as fraud or significant breaches of the financing agreement, including events of default under the loan agreement. The bodies implementing financial instruments should reimburse to the MA Programme contributions affected by irregularities, together with interest and any other gains generated by these contributions, in line with Article 103 of the CPR.
Re-use of resources	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 investment 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 a certain pre-defined minimum threshold of the resources returned is reached, with the new inclusion period starting at that moment.
Reporting and targeted results	Financial intermediaries shall provide the MA or HF (if applicable) with information in a standardised form and scope at least twice a year, by 30 June and 31 December, with the cut-off date at the end of preceding quarter. It shall include all the relevant elements for the MA to comply with Article 42 CPR. Reporting should be based solely on the following information provided by financial intermediaries, in line with the loan agreements signed by the financial intermediaries with the final recipients (in particular, when envisaged using statistical information as described in section *Capital rebate triggers* above): • disbursement of loan and, where applicable, capital grant/interest rate subsidy component, • after verification by the financial intermediary confirming fulfilment of conditions for the award established in the loan agreement, the amount converted into a grant component The technical checks by the financial intermediary shall be completed by the cut-off date, as in line with the loan contract the disbursement/trigger for award of capital rebate is required prior to the disbursement/award. *Reporting on policy impact* It is recommended that the following common indicators provided by the ERDF and CF regulation which concern energy efficiency and renewables are used, when included in the Programme: **Outputs:** • RCO18 Energy: Dwellings with improved energy performance (dwellings) • RCO19 Energy: Public buildings with improved energy performance (square metres)

- RCO22 Energy: Renewable energy capacity (additional production capacity for renewable energy (of which: electricity, thermal)) (MW)

Results:

- RCR26 Energy: Annual primary energy consumption (MWh/year)
- RCR31 Energy: Total renewable energy produced (of which: electricity, thermal) (MWh/year)
- RCR29 Climate: Estimated GHG emissions (tonnes CO2 eq./year)

The description of these indicators is provided in Annex 1 of European Commission Staff Working Document (2021)198 of 8 July 2021 (link).

Information on these indicators should be updated twice during implementation, in line with procedures for verification of delivery described in the model, namely:

1. When the loan (and a capital grant where applicable) is disbursed the expected results are included for the first time, on the basis of estimates included in the EPC or equivalent documents used to approve the support;
2. When the conditions for granting the capital rebate or the capital grant are verified and the capital rebate/grant is definitely granted and paid (or the decision not to convert the grant into loan is taken in case of performance-related capital grants), the reported value of the indicators should be updated if needed at the same time as the breakdown between the loan and grants is updated (or definitely confirmed).

As a general rule, use of those three indicators should be sufficient to ensure alignment with the specific objectives of the relevant priority of the Programme contributing to the financial instrument and with the expected contribution of the financial instrument to the achievement of specific objectives specified in the *ex ante* assessment. Any additional requirements need to be carefully considered and be clearly indicated in the funding agreement.

As a general rule, all standardised energy efficiency measures should be reported under the following intervention categories

- 042 "Energy efficiency renovation of existing housing stock, demonstration projects and supporting measures compliant with energy efficiency criteria".
  (If the objective of the measure is to achieve, on average, at least a medium-depth level renovation as defined in Commission Recommendation (EU) 2019/786.)

- 045 "Energy efficiency renovation or energy efficiency measures regarding public infrastructure, demonstration projects and supporting measures compliant with energy efficiency criteria".
  (If the objective of the measure is to achieve, on average (a) at least a medium-depth level renovation as defined in Commission Recommendation (EU) 2019/786 or (b), at least a 30 % reduction of direct and indirect greenhouse gas emissions compared to the ex-ante emissions.)

When the project covers non-standardised measures, additional categories may be used, in particular category 055 "High efficiency co-generation, efficient district heating and cooling with low lifecycle emissions" and 041 "Energy efficiency renovation of existing housing stock, demonstration projects and supporting measures". In such a case breakdown of the total investment costs among the categories shall be provided.

Reporting on grant elements

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.

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 MA to the Commission, but it should be readily available and may help the managing authority in monitoring the 50% ceiling applicable to grant components.

Information on the disbursed grant elements should be included at the moment of payment or write-off.

Estimated nominal amount of foreseen grants should be reported 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 *de minimis*, 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.

It is also recommended that the reporting provides a break-down of both disbursed and future grants by type and purpose, as follows:

- technical support grant;
- interest rate subsidy;
- capital grant for households with low income;
- capital grant/rebate linked to performance;

This information is not a part of reporting by the MA 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.

In accordance with Article 42(3)(d), the report must include information on any interest and other gains generated by support from the Funds to financial instruments as referred to in Article 60 CPR.

Example of reporting when capital rebates are used

The EEFI financial intermediary should ensure a distinct accounting and reporting of loans and grants, as described earlier in this section. The reporting by the MA for the grant is part of the financial instrument requirements and should take place 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 of Annex VII. 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 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 Table 12 of 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 MA 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:

<table>
<tr><th></th><th colspan="3">BANK</th><th colspan="3">MA</th><th colspan="3">MA</th></tr>
<tr><th>Risk-sharing loan + capital rebate + interest rate subsidy</th><th colspan="3">Combined FI accounts</th><th colspan="3">Declared to EC under FI in payment claims</th><th colspan="3">Reported to EC in Annex on FIs (cumulative)</th></tr>
<tr><td></td><td>Y1</td><td>Y2</td><td>Y3</td><td>Y1</td><td>Y2</td><td>Y3</td><td>Y1</td><td>Y2</td><td>Y3</td></tr>
<tr><td>Risk sharing loan</td><td>100</td><td></td><td></td><td rowspan="3">101</td><td rowspan="3">1</td><td rowspan="3">1</td><td>100</td><td>100</td><td>70</td></tr>
<tr><td>Capital rebate</td><td></td><td></td><td>30</td><td>0</td><td>0</td><td>30</td></tr>
<tr><td>IR subsidy</td><td>1</td><td>1</td><td>1</td><td>1</td><td>2</td><td>3</td></tr>
</table>

3. Further information

Further information on the use of combination of financial instruments to support the modernisation of buildings to improve their energy efficiency can be found on the fi-compass website. Relevant materials include:

- Factsheet: Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period
  https://www.fi-compass.eu/publication/factsheets/combination-financial-instruments-and-grants-under-shared-management-funds
- Factsheet: The potential for investment in energy efficiency through financial instruments in the European Union
  https://www.fi-compass.eu/erdf/potential-investment-energy-efficiency-through-financial-instruments-european-union
- Case study: Residential energy efficiency financial instruments in Lithuania
  https://www.fi-compass.eu/publication/case-studies/residential-energy-efficiency-financial-instruments-lithuania
- Case study: Energy Savings in Existing Housing Programme, Greece
  https://www.fi-compass.eu/publication/case-studies/case-study-energy-savings-existing-housing-programme-greece
- Knowledge Hub: Notes of Workshop - Combination of financial instruments with grants
  https://www.fi-compass.eu/publication/factsheets/fi-compass-knowledge-hub-combination-financial-instruments-grants
- Video Case Study: Energy efficiency loans for Lithuanian homes
  https://www.fi-compass.eu/video/energy-efficiency-loans-lithuanian-homes

Notes

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