

Unlocking the EU Innovation Fund: Speed, Scale and Strategic Focus

Policy Paper

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Executive Summary

The EU Innovation Fund (Fund) has committed €11.6 billion to 208 active grant agreements.¹ Yet only €332 million – 2.7% – has reached project promoters.² For one of Europe's largest instruments for scaling clean technologies, that gap should command attention.

Funded by EU ETS revenues, it is designed to bridge the valley of death between clean technology innovation and commercial-scale deployment. **Europe needs it to work: few other instruments can deploy public capital at comparable scale into first commercial projects that private finance still considers too risky.**

Yet the Fund is not deploying capital at the speed and scale Europe needs. Some delay is justified: public money should follow project progress. But the problem runs deeper. Funding novel technologies with high cost premia, nascent markets and uncertain paths to future competitiveness, while relying heavily on private co-financing, predictably leaves projects struggling to reach financial close and capital committed but undisbursed. The central challenge is therefore not execution at agency level, but an instrument not sufficiently designed to get projects financed and built.

The problem is not simply the amount of money available, but how the Fund selects, de-risks and supports projects. Four design issues stand out:

- **Costly applications with little dialogue.** Most funding is awarded through competitive grant calls held annually. Applicants invest substantial time despite low success rates, while the process provides little scope to test assumptions directly with project developers, equity investors or lenders. This can favour projects that score well on paper without adequately testing their path to financing and execution.
- **Technology risk is assessed separately from commercial bankability.** The Fund is designed to support the innovative component of projects, yet projects still need substantial private capital (not least due to rules on cumulation of public funds). Investors and lenders price commercial risks – such as construction, offtake, revenue and execution risks – alongside technology risk. An award process that does not test these risks together or chiefly tests for technology risk is more likely to select projects that struggle to reach financial close.
- **High green premiums and weak offtake can delay financial close.** Several priority areas supported by the Fund, including carbon management, clean hydrogen and e-fuels, can face large cost gaps and difficult offtake conditions. Some projects will therefore take time to become bankable; others may never secure the additional private capital required.

1. European Court of Auditors, Special Report 11/2026, Innovation Fund – High potential, but slow progress and little impact on emissions reduction, March 2026, paragraphs on Fund revenues, REPowerEU transfers, commitments and grant agreements (data as of June 2025).

2. ECA, Special Report 11/2026, on cumulative Innovation Fund payments to project promoters as of mid-2025.

→ **Project-level scoring does not by itself capture cost and scale potential or system value.** The Fund's GHG-avoidance methodology can favour technologies with readily attributable project-level emissions reductions while disadvantaging system-enabling technologies whose emissions impact is more indirect. Funding decisions should better account for technologies' potential to reduce costs across subsequent projects, scale, enable wider system benefits, and contribute to EU competitiveness and energy security objectives.

The Commission's July 2026 ETS proposal creates a near-term reform window. It extends the Fund into the 2031–2040 period and preserves broad flexibility over forms of support, but its instruction to “prioritise innovative technologies at a high level of technological readiness that are not yet commercially viable” risks leaving the commercial scale-up gap only partly addressed.³ These problems point to a reform agenda centred on four shifts:

Four priorities for reform

1. Focus on Scaling

The Draghi report made the challenge clear: Europe's problem is increasingly not invention, but scaling new technologies. Like many EU instruments, the Fund has focused heavily on innovation, reinforced in part by the ‘incentive effect’ requirement in EU state aid and budgetary rules, which requires public support to enable investment that would not otherwise occur. The EU should instead place greater emphasis on providing low-cost, predictable capital to technologies entering commercial scale-up. The Fund should retain grant support for high-risk demonstrations, while placing greater emphasis on commercial scale-up and matching instruments to the changing risks projects face as they move towards deployment. If adequately resourced and designed under the next MFF, an enlarged Horizon Europe could complement this by taking on a greater share of earlier-stage innovation. Proposed Article 10cb should therefore not centre the Innovation Fund exclusively on technologies that are “not yet commercially viable”.

2. Set a strategic framework for allocation

Prioritisation should be underpinned by robust techno-economic analysis of cost and scale potential, bankability and the conditions required for deployment, while integrating climate, competitiveness and energy security. The Fund should prioritise technologies with low or declining green premiums and a credible pathway to cost-competitive scale, while retaining scope to support higher-premium technologies where they deliver important strategic benefits. An EU equivalent of the US DOE Lifford Reports could create a shared fact base for policymakers, applicants

3. European Commission, Proposal for a Directive amending Directive 2003/87/EC and Decision (EU) 2015/1814 as regards driving competitiveness and cost-effective decarbonisation, COM(2026) 616 final, 17 July 2026, proposed Article 10cb(4).

and financiers on these pathways and their preconditions. This framework would enable trade-offs between technologies rather than allowing rigid award criteria to skew allocations in directions inconsistent with overarching Clean Industrial Deal priorities. This framework should also account for regulatory exposure, including the impact of future ETS price trajectories on project bankability and green premiums.

3. Move from sealed grant applications towards project-finance dialogue

Move towards rolling applications with a light first-stage screen followed by deeper due diligence for promising projects. The second stage should test commercial assumptions and financing needs directly with applicants, equity investors and lenders. This dialogue should not only screen for bankability but help identify what prevents a viable project from reaching final investment decision (FID) and in turn which form of public support is best suited to that risk. CINEA already has meaningful in-house financial and technical expertise alongside its external evaluators; the key institutional question is whether that expertise has sufficient discretion to be used iteratively (i.e., to engage with applicants and exercise professional judgement, as investors and project financiers do). In parallel, Project Development Assistance should become a more active pipeline-development tool, identifying and nurturing promising projects and strengthening their execution readiness.

4. Match instruments to risks and accelerate deployment

The Fund should use a broader toolkit – including grants, loans, guarantees and output-based support – and match instruments to project risks and maturity. Grants remain important where technology risk limits repayment capacity, while concessional loans and guarantees can mobilise greater private capital for more mature projects more efficiently than grants, allowing the Fund to support larger financing volumes under prudent provisioning rules. In parallel, support should be more flexible before FID, allowing greater engagement with projects as financing develops. Clearer milestones should function as decision points, not simply payment triggers, allowing the Fund to reassess stalled projects and continue, adapt or terminate support where appropriate. This would prevent capital remaining committed for years without being disbursed and allow it to be redeployed faster. The US Department of Energy's Office of Clean Energy Demonstrations (OCED) offers a useful reference for this approach, using phased milestone reviews and go/no-go decisions as projects progress.

About this paper

This paper is the product of research and extensive consultation conducted since December 2025, drawing on input from cleantech innovators, investors, banks and other market participants, as well as discussions with EU institutional stakeholders. It is intended as a starting point for the next phase of work: testing these reform proposals with stakeholders, examining their legal and operational feasibility, and translating the findings into practical changes to the Innovation Fund. The recommendations remain those of Cleantech for Europe and may evolve in the future.

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1. Introduction

The scale of the Fund – and of the gap between commitments and disbursement – is striking. By mid-2025, ETS auctions had generated around €18.7 billion of expected Innovation Fund revenues. Of this, around €6.7 billion was transferred to REPowerEU, leaving roughly €12 billion for the Fund itself. €11.6 billion of that is committed across 208 active grant agreements.⁴ But only €332 million has actually reached project promoters – only 2.7% of committed funds.⁵

Cumulative ETS-financed Innovation Fund revenues are estimated around €40 billion over 2020–2030, based on the auctioning of 530 million allowances and observed/projected carbon prices.⁶

The Commission's July 2026 ETS proposal would extend the Innovation Fund for 2031–2040 with revenues from the auctioning of 200 million allowances, compared with around 530 million allowances underpinning the current period. Even if higher carbon prices partly offset the difference, the proposed post-2030 allowance endowment is materially smaller.⁷

The Fund's future firepower will also depend on the ETS price itself. A credible carbon-price trajectory matters twice: it sustains the business case for clean technologies by narrowing their green premium, while generating the auction revenues available to finance EU funding instruments. Marginal abatement cost curves (MACCs) illustrate how many industrial decarbonisation technologies only become economically viable above certain carbon-price thresholds. Since investment decisions are made before those prices materialise, expectations of future carbon prices matter alongside prevailing prices.

A weaker expected price trajectory can therefore simultaneously reduce the resources available to the Fund while deteriorating the bankability of these technologies in the eyes of private capital providers expected to help finance these.⁸

This makes speed, leverage and capital recycling more important, not less: a smaller allowance base increases the value of matching instruments to risks, moving viable projects to FID faster and releasing funding from projects that no longer progress.

4. European Court of Auditors, Special Report 11/2026, Innovation Fund – High potential, but slow progress and little impact on emissions reduction, March 2026, paragraphs on Fund revenues, REPowerEU transfers, commitments and grant agreements (data as of June 2025).

5. ECA, Special Report 11/2026, on cumulative Innovation Fund payments to project promoters as of mid-2025.

6. European Commission, Climate Action – What is the Innovation Fund? (climate.ec.europa.eu/eu-action/eu-fund-ing-climate-action/innovation-fund). The Innovation Fund is endowed with revenues from the auctioning of around 530 million ETS allowances over 2020–2030 under Article 10a(8) of Directive 2003/87/EC, estimated at around €40 billion at observed and projected carbon prices.

7. European Commission, COM(2026) 616 final, proposed Article 10cb(2). Under the current framework, the Innovation Fund is endowed with revenues from the auctioning of approximately 530 million ETS allowances over 2020–2030; European Commission, What is the Innovation Fund?

8. EPICO KlimaInnovation and Forschungsstelle für Energiewirtschaft (FfE), The New Economics of Net Zero: Matching Policy Instruments to Europe's Decarbonisation Challenges, August 2026.

It is this lack of disbursement that forms the central failure of the IF. The European Court of Auditors' Special Report 11/2026 confirms what cleantech founders, investors and lenders have observed on the ground: the Fund commits a great deal of money but disburses very little.

Part of the problem lies in what and how the Fund finances. It selects projects whose maturity and commercial viability may be overestimated, including technologies with significant green premiums where securing offtake and bankability will be challenging. At the same time, Innovation Fund grants can cover only up to 60% of “relevant costs” – the extra cost of building and operating the clean project rather than a conventional alternative – leaving a substantial financing gap to be filled from other sources, notably private capital seeking an investable risk-return profile.

These problems are compounded by the lack of a clear strategic framework for allocating capital. Roughly one in five selected projects has been cancelled. Active projects are running an average of around 15 months late on the way to financial close, while the portfolio has delivered under 5% of the emission reductions the Commission projected for end-2024.⁹

The central hypothesis of this paper is that this is primarily a design problem rather than a lack of capability or faulty execution at agency level. The Fund combines grant-based competitive calls, formal evaluation criteria and procedural safeguards that limit iterative engagement with applicants. That architecture is poorly matched to the iterative, dynamic, and fast-moving reality of financing cleantech scale-up projects. CINEA itself has significant finance and engineering expertise, but limited discretion once applications are submitted. The reform question is therefore how to preserve equal treatment and transparency while enabling expert judgment, dialogue and faster recycling of capital.

Bridge the gap between technology and bankability. The financing gap is particularly acute for the first few commercial-scale projects. They are often too capital-intensive for venture capital or company balance sheets, yet too risky for conventional project finance. They also require costly and time-consuming project-development work – including permitting, engineering, grid connections, power contracts and offtake – for which technology developers may lack experience and struggle to secure financing upfront. **The Fund should therefore act as a partner through project development and the path to bankability, rather than simply subsidising technology risk.**

Smaller firepower raises the stakes. The ETS proposal keeps the Innovation Fund financed from ETS allowances as external assigned revenue but would reduce its allowance endowment after 2030. Demonstrating that the Fund can deploy this capital effectively is therefore essential: not only committing available funding but disbursing it faster to viable projects and recycling repayments and released commitments into new projects.

The same design choices will influence other EU de-risking instruments. Reforming the Fund is therefore also an opportunity to avoid hard coding suboptimal designs and processes into other EU funding instruments and establish a better model for EU project de-risking.

9. ECA, Special Report 11/2026: 40 of 228 selected projects cancelled before or after grant agreement; 56 active projects with missed deadlines; average delay of around 15 months on the way to financial close; portfolio delivering under 5% of expected emission reductions for end-2024.

The Commission's July 2026 ETS proposal¹⁰ sharpens the division of labour across EU instruments. The Industrial Decarbonisation Bank (IDB) and its Investment Booster (IB) are intended to support more mature industrial decarbonisation projects, which may deploy cleantech equipment and solutions, while the Innovation Fund supports commercialisation and FOAKs, including cleantech manufacturing, with a focus on technologies not yet commercially viable. These roles can be complementary, but the hand-offs must be clear so that commercial-scale cleantech manufacturing and early follow-on projects do not fall between innovation and deployment instruments.¹¹

There is also a material risk that European clean technologies and manufacturing fail to scale for lack of affordable capital. Projects supported by the IDB and Investment Booster may then turn to lower-cost non-EU equipment, undermining their industrial-policy objective. The Innovation Fund should therefore retain a clear mandate to support technologies through the transition to full commercial viability, on financing terms that address risks the market cannot yet price competitively.

2. The bankability gap

First commercial-scale projects and early follow-on deployments often fall into a financing gap. Their capital needs are too large for venture or growth investors and technology providers' balance sheets, while conventional project-finance investors may be unwilling to take technology, construction, offtake and policy risks simultaneously. This gap is particularly acute when moving from a successful demonstration to the first full-scale commercial project, and can persist through the first few deployments needed to prove bankability and bring costs down. Public support has the highest leverage where it can bridge this gap by retiring specific risks, improving execution readiness and crowding in private capital.

Three principles should guide that role:¹²

- **Budgetary efficiency and leverage.** Use public funding to mobilise private capital wherever possible, selecting the instrument that addresses the binding risk rather than defaulting to a grant.
- **Signalling to private capital.** Strong commercial and techno-economic due diligence, rigorous enough to be trusted by other capital providers, can make an Innovation Fund decision a more credible signal to co-investors and lenders, turning an IF award into a 'seal of bankability'.
- **Strategic coherence.** The Fund should complement demand-side measures (e.g. public procurement), trade and competition policy, and other EU financing instruments. Funding decisions should reflect the wider policy and market conditions required for technologies to scale, avoiding support for projects whose path to commercial deployment remains structurally implausible.

10. European Commission, COM(2026) 616 final

11. European Commission, COM(2026) 616 final, Explanatory Memorandum, pp. 4–5, and proposed Articles 10cb(1), (3)–(4) and 10cc(1).

12. [Cleantech for Europe, Making the new EU budget fit for the scaling journey](#) - January 2026

3. A six-pillar reform agenda

The reform agenda can be organised around six mutually reinforcing pillars. The July 2026 ETS proposal would provide significant legal flexibility. Several constraints currently fixed in Article 10a(8) of the current ETS Directive – including the 60% relevant-cost ceiling for grants and the requirement linking at least 60% of grant support to verified GHG emissions avoidance – do not appear in proposed Article 10cb. Instead, the proposal allows support to take any form available under the EU Financial Regulation – which already provides for loans, guarantees, equity and other risk-sharing instruments as well as output- and results-based grant support – and gives the Commission broader delegated powers over eligibility, forms of support, selection and procedural and financial rules. It also recycles repayments into the Fund and empowers the Commission to set detailed operational rules through delegated acts.

The ETS revision therefore opens substantial space to redesign the Fund without hard-coding a new operating model in primary legislation. Many reforms may therefore be achievable through the delegated act, call design and administrative practice. Parliament and Council should preserve this flexibility while ensuring that Article 10cb gives the Fund a sufficiently broad mandate across demonstration, commercialisation and scale-up. Where constraints arise from the Financial Regulation or wider EU budget rules, the post-2027 MFF negotiations provide an additional opportunity for targeted changes.

A key task for the next phase is to determine how this flexibility can best be operationalised and which remaining constraints require legal rather than administrative changes. Taken together, the six pillars would move the Fund from a largely grant-selection model towards a more iterative financing approach.

The six pillars at a glance

1. Focus on commercial scale-up and deployment	Prioritise commercial FOAKs and early follow-on deployments, especially FID-nearing projects where public support can unlock private finance. Retain a limited route for earlier demonstrations where the Fund is genuinely additional. Test execution readiness, a credible path to FID and co-financing rather than committing capital for years to projects unlikely to progress.
2. Anchor allocation in a strategic framework	Assess projects through climate, competitiveness and energy-security lenses, using common techno-economic evidence on cost, scale potential, bankability and deployment conditions. The framework should enable explicit trade-offs, consider system-level emissions and regulatory exposure, and de-prioritise technologies where pathways to competitiveness or deployment are implausible or other instruments and policies are better suited.
3. Introduce a two-phase, rolling application process with structured dialogue	Start with a 30-day eligibility and strategic-fit screen, followed by iterative due diligence and direct dialogue. Phase two should engage applicants, equity investors, lenders, the EIB and national promotional banks as appropriate to test commercial assumptions, financing needs and risks preventing FID, while preserving equal treatment. Rolling windows would let projects approach the Fund when financing decisions are being made.
4. Diversify the financial toolkit and build in flexibility	Match grants, concessional loans, guarantees, CfDs and output-based support to underlying risks and project maturity rather than defaulting to grants. Structure support more flexibly around risk retirement and project progress, particularly before FID. Repayable instruments can recycle capital and support greater financing volumes, while stalled projects should be reassessed and funding released where necessary.
5. Empower project-finance and technical capacity	Build on CINEA's existing finance, engineering and technology expertise, giving evaluators sufficient mandate and discretion to test assumptions, challenge projects and exercise project-finance judgement. Where gaps remain, complement internal capacity with the EIB, national promotional banks and external market or technology expertise.
6. Adopt a proactive project-enabling posture	Move from selecting projects to actively helping viable strategic projects reach FID. Identify promising projects, surface barriers early and help address permitting, grid, infrastructure, state-aid and project-development bottlenecks, including through senior Commission engagement where needed. Give major projects a clear accountable counterparty and publish predictable information on instruments, timelines, terms and portfolio outcomes.

3.1. Focus on commercial scale-up and deployment

The Fund should focus scarce public risk-bearing capacity where it can unlock commercial deployment. The Commission's July ETS proposal defines the Fund as supporting innovation brought to market and the scale-up of low- and zero-carbon technologies, but also instructs it to prioritise high-TRL technologies that are 'not yet commercially viable'. That formulation should not exclude commercial FOAKs and early follow-on projects that are technically proven but still face financing and execution risks. For future calls, the priority should be projects with a credible path to FID, while avoiding long-term earmarking for projects that are unlikely to progress.¹³

- Projects should have a credible path to Final Investment Decision within a defined period. A 24-month benchmark is one option for future calls, but it should be paired with readiness support where execution gaps are remediable rather than treated as an automatic exclusion.
- Execution readiness should be tested across permitting, grid connection, engineering/EPC strategy, offtake and project governance, with the Fund able to distinguish remediable gaps from fundamental barriers.
- For commercial scale projects, co-financing should be evidenced through credible commitments from equity sponsors and debt providers and tested through direct engagement during due diligence, rather than relying only on caveat statements on paper in an application.
- The Fund should concentrate on commercial FOAKs and early follow-on deployments (TRL 8-9) where public risk-bearing is most additional, while retaining a limited grant route for demonstration projects (TRL 6-7) where technology and engineering risks make grants the appropriate instrument.

Financial maturity should therefore not be a one-size-fits-all threshold. For high-risk demonstration projects, weak financial maturity may be inherent to the technology risk that grant funding is intended to absorb and should not automatically exclude promising projects. For commercial FOAKs and early follow-on deployments, however, financial maturity remains essential – particularly if the current 60% cap on relevant costs is retained through secondary legislation and state-aid and cumulation rules continue to constrain public co-financing. Such projects will typically still need to mobilise substantial private capital seeking an adequate return. The Fund should therefore test financial maturity through iterative due diligence and direct engagement with prospective financiers, rather than primarily through static application criteria.

The objective is not to move high-risk demonstration out of the Innovation Fund. Scaling demonstrated technology to gigawatt and megaton volumes is currently the stage most underserved by the private sector, hence where EU institutions can have the highest leverage impact. The Fund should retain a dedicated grant route for capital-intensive demonstration projects where technology and engineering risks cannot reasonably be financed by private capital, while developing a broader toolkit for commercial FOAKs and early follow-on deployments as technology risk gives way to financing, execution and market risk. An

13. European Commission, COM(2026) 616 final, proposed Article 10cb(1) and (4).

enlarged Horizon Europe under the next MFF could, if adequately resourced and designed, take on a greater share of earlier-stage cleantech innovation. Horizon Europe's Clean Industrial Deal calls already offer grants of a similar order to the Innovation Fund's small-scale calls – crucially, through a lighter application process that may be more proportionate for smaller innovative companies. Most importantly, the public funding architecture must provide a continuous pathway from demonstration through commercial deployment, rather than creating new gaps in the scaling journey.

3.2. Anchor allocation in a strategic framework

The Fund needs a strategic framework that makes explicit **how climate, competitiveness and energy security** inform allocation, underpinned by a common techno-economic evidence base on technologies' pathways to scale and bankability.

One option is an **open architecture**, in which projects remain broadly eligible but are filtered through rigorous techno-economic and bankability analysis. This would preserve technology neutrality while allowing the Fund to distinguish credible deployment pathways from those dependent on unrealistic cost, demand or policy assumptions. **EU equivalents of the US DOE Liftoff Reports could provide the shared evidence base for these decisions**, giving policymakers, evaluators, applicants and financiers a common understanding of technologies' pathways to scale and the conditions required.¹⁴

Alternatively, a closed architecture could identify priority sectors or technologies ex ante. This could sharpen allocation and concentrate resources where Europe sees the greatest strategic value but would raise harder questions around technology neutrality and Member State energy choices, and increase the risk that allocation priorities reflect incumbent industries' interests rather than techno-economic evidence.

Whichever architecture is chosen, **the Fund cannot avoid making trade-offs**.

Its framework should answer questions such as:

- How should **regulatory risk** be treated where project viability depends on sustained high ETS prices, mandates or other uncertain policy support?
- Should CCS/CCU be supported where commercially viable alternatives could substantially decarbonise production by replacing fossil-based inputs or processes? A narrow focus on project-level GHG abatement can overvalue carbon management that prolongs reliance on imported fossil energy, while undervaluing alternatives with greater competitiveness, energy-security and system-level benefits.
- Should the Fund support sectors whose underlying economics prevent competitive production in Europe under current policies, or should complementary policy conditions be established first?
- Should **supply-chain resilience affect** allocation where technologies provide similar functions but create materially different or lower dependencies?

14. You can find an overview of these reports [here](#). Most of the Liftoff Reports were removed from the Official DOE website under the current US administration.

- What enabling conditions – such as permitting, grid access or implementation of EU legislation – should be required before committing substantial funding in a project's jurisdiction?

Two disciplines should then apply across the portfolio. First, an **additionality and leverage test**: does public support move a viable project across a risk threshold the market cannot cross alone and mobilise additional private capital? Second, **risk discipline**: the Fund should retain expert judgement but establish clear rejection points where technology, construction, offtake and policy risks compound to make deployment implausible. Project selection and instrument choice should remain separate decisions: **the instrument should follow the risk profile, not the reverse**.

3.3. Introduce a two-phase, rolling application process with structured dialogue

The annual sealed-bid structure is poorly aligned with project-finance timelines and provides limited scope to test commercial assumptions after submission. The institutional challenge is to create more dialogue without compromising equal treatment, transparency or conflict-of-interest safeguards.

Rolling applications would allow projects to approach the Fund when financing decisions are actually being made, rather than waiting for a single annual deadline.

A two-phase, rolling architecture should replace it:

Phase 1 – Eligibility and strategic fit (target: 30 days). A short, resource-light screen would test strategic fit, credible abatement and obvious red flags on execution, commercial viability and financing. The outcome would be a go/no-go to deeper due diligence or referral towards a more appropriate instrument, screening out projects with a low likelihood of selection before applicants invest significant time and resources in a full application.

Phase 2 – Iterative due diligence and project readiness. Selected projects would enter a structured dialogue with the IF team, drawing on CINEA, EIB and national promotional bank expertise as appropriate. Engagement with equity investors, lenders and relevant public authorities would test whether private capital is seriously willing to commit, identify the risks preventing FID and determine the most efficient instrument. **Where gaps are remediable, the Fund should help build bankability** – for example through support on governance, contracting, offtake structuring and commissioning plans – rather than merely screen projects out. This could be delivered through a dedicated Project Readiness-style programme alongside CINEA, EIB or NPBs. This approach would also return to ideas raised during the Fund's original design: the Commission's 2017 expert consultation found broad support for a light first-stage screen followed by detailed technical and business due diligence, with direct feedback between the Fund and applicants.¹⁵

15. European Commission, Summary Report of Expert Consultations: Finance for Innovation – Towards the ETS Innovation Fund, June 2017. Experts favoured a two-stage process with a light first stage followed by detailed technical and business due diligence, and called for direct Innovation Fund feedback with applicants; continuous applications were also discussed.

3.4. Diversify the financial toolkit and build in flexibility

The current grant model back-loads support, with only up to 40% available against pre-defined milestones before entry into operations and the remaining 60% or more disbursed during set-up and operation. This limits the Fund's ability to de-risk projects at the stage where financing risk is often highest, particularly before FID. Rigid milestones can also be poorly matched to innovative projects whose design, financing or commercial arrangements evolve during development, leaving equity providers to absorb unforeseen costs while grant payments remain unavailable. This risks turning the logic of de-risking on its head: private capital is left to absorb unforeseen risks precisely when public support should be helping projects overcome them. **Support should therefore be structured more flexibly around actual risk retirement and project progress, rather than administrative milestones alone.**¹⁶ Crucially, milestones should function as decision points rather than simply payment triggers: at key stages, the Fund should actively decide whether to continue, adapt or terminate support, allowing capital to be redeployed before stalled projects become stranded commitments.

The Fund should match instruments to risks and use a broader toolkit, including:

- **Concessional loans.** Long-tenor (e.g. 7+ years), low-interest (e.g. 2–3%) senior or subordinated loans can unlock projects with a credible prospect of repayment where commercial financing remains too expensive or unavailable. Repayments can be recycled (even under prudent budgeting rules) allowing the Fund to support greater financing volumes than through grants alone.
- **Guarantees and first-loss structures.** Standardised guarantees can cover debt, working-capital or technical-performance risks that lenders or insurers struggle to price, helping unlock private financing while limiting the Fund's upfront capital commitment.
- **Two-way Contracts for Difference.** For technologies with sufficiently mature product markets, such as renewable hydrogen, low-carbon ammonia and sustainable fuels, CfDs can provide long-term price certainty and reduce revenue risk. Where mature offtake markets do not yet exist, they may need to be complemented by double-sided auctions or other forms of offtake intermediation.
- **Fixed unit-of-output contributions.** A transparent euro-per-unit premium (e.g., per kg of green hydrogen, per kWh of cell, per km of HVDC cable, etc.), paid against verified production, can provide predictable and bankable support while linking public expenditure directly to actual output (e.g., CEF AFIF). Standardised terms and caps per company could keep the instrument administratively simple and limit concentration.

16. European Commission, Innovation Fund call documentation and CINEA grant agreement template: up to 40% of the grant may be paid against pre-defined milestones (typically anchored on financial close), with the remaining ≥60% disbursed during set-up and operating phase against verified delivery and emission reductions.

- **Equity and quasi-equity.** Catalytic minority stakes can help strategic scale-ups crowd in private growth capital, but should only be used where clearly additional to EU vehicles specifically designed for this purpose, such as the Scaleup Europe Fund, ETIC 2.0 or the European Competitiveness Fund.

A broader toolkit can allow the Fund to support greater financing volumes from the same ETS revenue stream while better accommodating the cost overruns, timing changes and other risks inherent in cleantech projects. Most importantly, it allows the instrument to follow the project's risk profile, rather than forcing diverse projects into a one-size-fits-all grant model.

The Commission's ETS proposal already creates a broad legal basis by allowing support in any form available under the Financial Regulation. The priority should therefore be to operationalise that flexibility through the delegated act and implementation rules, including direct use of loans, guarantees and other risk-sharing instruments where appropriate.¹⁷

3.5. Empower project-finance and technical capacity

Reform should start from the capacity that already exists. The CINEA team administering the Fund already includes substantial project-finance, engineering and technology expertise. The central question is whether that expertise has sufficient mandate and discretion to evaluate and challenge projects as project financiers would, rather than relying primarily on information submitted against predetermined grant criteria. Where gaps remain, additional capacity should be built internally or complemented by the EIB, national promotional banks and external technical expertise. The objective should be a strong in-house capability able to identify, assess and help advance the most promising projects.

Three conditions are essential.

1. First, evaluators need sufficient discretion to test assumptions, challenge projects that appear stronger on paper than they are in practice, and exercise project-finance judgment, while preserving equal treatment and transparency. Current procedural safeguards can constrain this.
2. Second, the team needs a clear strategic framework to guide that judgment, including recognition that some technologies and project types inherently carry higher risk premiums, longer lead times and greater cancellation risk.
3. Third, CINEA should be able to draw on external market and technology expertise where its internal team cannot reasonably track the latest innovations, commercial applications or performance history.

Over time, this capacity could also support Member States deploying national budgetary envelopes through Financial Instruments “as-a-Service” (FlaaS), including by providing project-finance expertise and supporting loan underwriting. This could amplify the scale of national support while avoiding 27 parallel, disconnected institutional learning curves.

17. European Commission, COM(2026) 616 final, proposed Article 10cb(5) and (9). Article 10cb(5) allows Innovation Fund support to take any form laid down in the EU Financial Regulation and provides for repayments to be recycled into the Fund; Article 10cb(9) empowers the Commission to set detailed rules through delegated acts.

3.6. Adopt a proactive project-enabling posture

The Fund currently takes around 10 months from call closure to project selection and around a further year to grant agreement signature.¹⁸ Moreover, during and after that lengthy process, it largely remains a passive observer of permitting, grid connections, community engagement, or other bottlenecks that can delay or ultimately derail projects. The Fund should take a more active role in identifying these barriers early and helping viable projects overcome them.

A more proactive model should focus on getting viable strategic projects to FID, rather than simply selecting them for funding. Inspired in part by the US Loan Programs Office's (LPO) project-enabling approach, the Fund should:

- **Proactively identify promising champions and projects and engage them directly on what they need to scale faster in Europe**, using transparent market outreach rather than relying exclusively on applicants to come to the Fund.
- **Escalate permitting, grid-connection, infrastructure and complementary state-aid bottlenecks** through DG CLIMA and, where necessary, senior Commission engagement with Member States when EU-supported projects are at risk.
- **Provide a clear, accountable project champion** for major projects, able to coordinate across Commission services and help address value-chain and project-development issues.
- **Routinely and transparently publish clear information** on instruments, decision timelines, terms and portfolio outcomes so applicants and private capital can plan around the Fund with greater confidence.

4. What works today – and should be preserved

Reform should build on what works. The Fund already provides large-scale capital that is difficult to access elsewhere in Europe. Its competitive output-based auctions – using sealed bids and fixed premiums per unit of output – represent a genuine design improvement over conventional cost-reimbursement grants by linking support directly to delivery. The Battery Booster Facility¹⁹ similarly demonstrates scope to experiment with loan-based support, while post-award flexibility, where exercised, has helped preserve viable projects as circumstances change. These innovations should be carried forward and expanded into a broader, more diversified toolkit that better matches the risks and needs of individual projects. The Investment Booster proposed in the July 2026 ETS proposal will provide a useful test of a different delivery model, notably its 'first in, first served' allocation approach.

18. ECA, Special Report 11/2026, on Innovation Fund evaluation and contracting timelines: typically around 10 months from call closure to project selection, plus around 12 months to grant agreement signature.

19. European Commission, Climate Action – Battery Booster Facility (climate.ec.europa.eu/eu-action/eu-funding-climate-action/innovation-fund/battery-booster-facility); see also CINEA, IF24 Battery Call results. See also European Commission, COM(2026) 616 final, proposed Articles 10cc(1) and 10cd(1), on the Investment Booster and its "first in, first served" allocation.

5. Spillovers: lessons for the IDB, the ECF and Member States

The Fund should be reformed on its own merits, but the lessons are relevant to instruments now being designed elsewhere in the EU architecture.

- **Industrial Decarbonisation Bank / Investment Booster.** Build on output-based support, project-finance capability and strategic allocation rather than reproducing rigid grant processes.
- **European Competitiveness Fund.** Use bankable, predictable instruments and continuous engagement with private capital, with disbursement and deployment as core performance measures.
- **Financial Instruments as a Service.** A reformed IF could allow Member States to deploy national funding through common EU instruments and expertise, reducing administrative duplication and facilitating national co-funding. CISAF's simplified state-aid approval for national support to projects positively assessed by the Innovation Fund provides a useful precedent for aligning EU and national funding.²⁰

6. Priority actions for EU policymakers

The following recommended actions provide a starting point for discussion in the 2026–2027 institutional cycle:

To the European Commission

1. Develop a Strategic Framework for IF allocations, applying climate, competitiveness and security filters and setting out how technological scope, cost and scale potential, regulatory risk and leverage will be assessed.
2. Pilot a two-phase, rolling application process, with a rapid first-stage screen and an iterative second-stage due-diligence and project-readiness dialogue. Before doing so, clarify what changes are required to the IF delegated act, Financial Regulation procedures, call designs or CINEA mandate.
3. Use the broad flexibility in proposed Article 10cb of the Commission's ETS proposal and the subsequent delegated act to operationalise a diversified toolkit, including concessional loans, guarantees, revenue-support instruments (e.g. two-way CfDs) and output-based contributions, with repayments recycled into future Innovation Fund support.

20. European Commission, Clean Industrial Deal State Aid Framework (CISAF), adopted 25 June 2025, in force until 31 December 2030 (competition-policy.ec.europa.eu). CISAF allows simplified clearance of Member State aid for projects positively assessed under the EU Innovation Fund.

4. Build a dedicated in-house project finance team empowering and expanding the existing CINEA team, drawing on EIB, national promotional bank and external expertise for specific gaps.
5. Actively identify and help resolve permitting, grid-connection, state-aid or other project-development barriers facing projects, including through senior Commission engagement with Member States where needed.

To the European Parliament and Council

1. **Preserve a broad mandate for commercial scale-up.** Amend proposed Article 10cb so that prioritisation is not limited to high-TRL technologies that are “not yet commercially viable”, preserving an explicit role for commercial FOAKs, early follow-on deployments and cleantech manufacturing scale-up.
2. **Preserve and operationalise a diversified financial toolkit.** Retain Article 10cb’s flexibility to use the full range of instruments available under the EU Financial Regulation, including repayable and output-based support, and recycle repayments into the Fund. Use the subsequent delegated-act review to enable more iterative, project-finance-oriented procedures with appropriate safeguards. Preserve the flexibility created by Article 10cb, including by avoiding the reintroduction of prescriptive GHG-avoidance requirements for grant disbursement.
3. **Align timelines and funding rules with project development.** Review the four-year financial-close deadline for existing grant-funded projects where it unnecessarily strands viable projects, while introducing appropriately shorter timelines for future projects that are supported through repayable instruments. Funding should be capable of being redeployed quickly where projects are no longer progressing.
4. **Build a coherent post-2030 industrial-finance architecture.** Ensure a clear division of labour between the Innovation Fund, Industrial Decarbonisation Bank (including the Investment Booster in its first phase) and the European Competitiveness Fund (ECF) so projects do not fall between innovation, commercial scale-up and deployment. The architecture should build on lessons from the Fund on output-based support, project-finance capacity, instrument flexibility and faster deployment of capital. Given the proposed 200-million-allowance IF endowment, preserve its ETS revenue stream and maximise leverage and recycling.
5. **Share data and performance metrics.** Require transparent reporting not only on commitments and disbursements, but also on leverage, time-to-FID, time-to-disbursement, follow-on deployment and other measures of whether public support is improving bankability and scale.

To Member States

1. Treat permitting and grid readiness as part of the financing pathway for projects entering deep due diligence and establish accelerated administrative pathways for strategically important projects to identify and resolve permitting, grid, infrastructure or state aid bottlenecks.
2. Use Financial Instruments as a Service (FlaaS) to deploy national funding through common Innovation Fund instruments and expertise where appropriate, facilitating national co-funding with EU support while avoiding duplicated administrative capacity.

7. Closing perspective: from disbursement to deployment

The Innovation Fund's strategic logic remains compelling: ETS revenues can help finance the early commercial deployment of technologies that decarbonise and strengthen Europe's industrial base. The central question is how that financing is delivered.

This paper deliberately sets out a starting hypothesis rather than a finished blueprint. The next phase should test the six pillars with companies, investors, lenders, CINEA, DG CLIMA, the EIB, national promotional banks and other stakeholders; map the legal and procedural constraints in detail; and refine which changes require legislation, secondary legislation or administrative practice. The objective is a Fund that deploys capital faster, builds bankability and learns from projects as they move from FOAK to repeat deployment.