

# MODERNISATION FUND

## Frequently Asked Questions (FAQ)

The purpose of these FAQ is to provide relevant information on the operation of the Modernisation Fund. The information provided in this FAQ document does not prejudice the content of official documents. The information contained herein can be updated. In case of discrepancy, the legal acts published in the Official Journal prevail. These FAQ complement the [Modernisation Fund website](#).

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# 1. KEY FEATURES OF THE MODERNISATION FUND AS ESTABLISHED IN THE ETS DIRECTIVE<sup>1</sup>

## 1.1. WHAT INVESTMENTS CAN BE FUNDED BY THE MODERNISATION FUND?

The Modernisation Fund supports investments consistent with the 2030 climate and energy objectives of the Union, as well as the Paris Agreement. The majority of the resources of the Modernisation Fund (at least 70%) must be invested in priority areas specified in Article 10d(2) of the ETS Directive. Investments in these areas are referred to as **‘priority investments’**:

- generation and use of electricity from renewable sources;
- improvement of energy efficiency (including in transport, buildings, agriculture, waste, and except in energy efficiency related to energy generation using solid fossil fuels);
- energy storage;
- modernisation of energy networks (including district heating pipelines, grids for electricity transmission, increase of interconnections among Member States); and
- support to a just transition in carbon-dependent regions in the beneficiary Member States (including support to the redeployment, re-skilling and up-skilling of workers, education, job-seeking initiatives and start-ups, in dialogue with social partner).

All investments qualifying for the Modernisation Fund, but falling outside the priority areas are considered as **‘non-priority investments’**. The Modernisation Fund can cover up to 70% of the relevant costs of non-priority investments, as long as the remaining costs are financed by private legal entities.

The Modernisation Fund cannot finance investments, which involve solid fossil fuels. Exceptionally, under certain conditions, it can finance such investments relating to efficient and sustainable district heating in Bulgaria and Romania (Member States with a GDP per capita below 30% of the Union average in 2013).

## 1.2. HOW DOES THE ASSESSMENT OF PRIORITY AND NON-PRIORITY INVESTMENT PROPOSALS DIFFER?

The Modernisation Fund is geared towards priority investments, with a view to achieve the EU climate and energy targets, and therefore such investments benefit from a simpler, faster and cost-efficient pathway to funding. All other investments qualifying for the Modernisation Fund support but not falling into the priority areas are considered as non-priority and they follow a different and more complex procedure.

Once a priority investment is submitted to the EIB, the EIB confirms whether the investment falls into at least one priority area listed in the ETS Directive. On the other hand, the assessment of non-priority investments is more complex and requires more time and resources. Non-priority investments undergo in-depth technical and financial due diligence by the EIB. The EIB will provide more details on the assessments of both priority and non-priority investments to the Investment Committee.

After the EIB assessment, the Investment Committee issues a recommendation on the financing of the investment. The recommendations of the Investment Committee are issued by consensus, and failing this by vote. If the EIB does not recommend financing an investment, the Investment

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<sup>1</sup> [Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC](#)

Committee can issue a recommendation on its financing with a qualified majority comprising 10 out of its 15 members, excluding from the vote the EIB and the beneficiary Member State submitting the investment.

The confirmations by the EIB of priority investments and recommendations by the Investment Committee regarding non-priority investments will be made public, after exclusion of any commercially confidential information related to the project content.

When assessing Modernisation Fund proposals, the EIB follows the criteria established in the ETS Directive. The confirmation of priority investments by the EIB or the due diligence findings of the EIB concerning non-priority investments do not prejudice any possible co-financing by the EIB of a given project.

### **1.3. HOW MUCH MONEY DOES EACH MEMBER STATE HAVE IN THE MODERNISATION FUND?**

The revenues of the Modernisation Fund come from the auctioning of the ETS allowances. The amounts available to each beneficiary Member State are calculated according to its share in the Fund specified in Annex II b of the ETS Directive<sup>2</sup>.

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<sup>2</sup> [Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC](#)

## **2. OPERATIONS OF THE MODERNISATION FUND AS ESTABLISHED IN THE COMMISSION IMPLEMENTING REGULATION (EU) 2020/1001<sup>3</sup>**

### **2.1. HOW ARE MODERNISATION FUND RESOURCES ALLOCATED TO PRIORITY AND NON-PRIORITY INVESTMENTS?**

The ETS Directive foresees that at least 70% of the Fund resources are invested in priority investments. Priority investments can receive up to 100% of the relevant costs in funding, as long as the beneficiary Member State has sufficient available funds and the maximum funding is in line with EU State aid rules.

Consequently, a maximum 30% of the Modernisation Fund resources can be allocated to non-priority investments, provided that at the same time at least 70% is spent on priority investments. This '70/30 rule' applies to each beneficiary Member State, at each disbursement of funds. As foreseen in the ETS Directive, up to 70% of the relevant costs of non-priority investments can be covered by the Fund, as long as the remaining costs are financed by private legal entities, and provided that the maximum amount of funding is in line with EU State aid rules.

### **2.2. WHAT TYPE OF INVESTMENTS CAN BE FINANCED UNDER THE MODERNISATION FUND?**

The following two types of investments can be distinguished:

- individual investments;
- multiannual schemes.

An individual investment or a multiannual scheme can either fall under the category of priority investment or of non-priority investment.

### **2.3. WHAT ARE MULTIANNUAL SCHEMES?**

Multiannual schemes have the following characteristics:

- have consistent set of priorities coherent with the objectives of the Modernisation Fund;
- have a national or regional scope;
- have a duration of more than one year;
- aim to support more than one public or private person or entity.

Special rules apply to the financing of multiannual schemes. A scheme undergoes a comprehensive assessment only once, when the first disbursement to the scheme is requested. When the next disbursement(s) are requested, the checks are limited to verification of the available funds and, for non-priority investments, to the ratio of non-priority investments in the total investment portfolio of the beneficiary Member State and the financing not exceeding 70% of the relevant costs.

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<sup>3</sup> [Commission Implementing Regulation \(EU\) 2020/1001 of 9 July 2020 laying down detailed rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards the operation of the Modernisation Fund supporting investments to modernise the energy systems and to improve energy efficiency of certain Member States](#)

## **2.4. WHAT IS THE OVERVIEW OF INVESTMENTS?**

The beneficiary Member States organises the planning and submission of investment proposals at the national level. Each year, each beneficiary Member State provides the EIB and the Investment Committee an overview of their planned investments for the following two years. This overview is non-binding. It helps the EIB and the Investment Committee to organise their work. In addition, it enables the EIB to project the timeline and volume of funds needed to be disbursed, hence it facilitates the management of assets available to each beneficiary Member State. The overview can be updated as frequently as needed, ideally ahead of each meeting of the Investment Committee.

## **2.5. HOW CAN A MEMBER STATE SELECT AND SUBMIT INVESTMENTS FOR MODERNISATION FUND SUPPORT?**

Beneficiary Member States are responsible for selecting investment proposals (individual investments or multiannual schemes) and submitting them to the EIB and Investment Committee.

For all investments, the Member State needs to provide the following information:

- specification of the investment area (priority or non-priority);
- general description of the investment, including the objectives and targeted beneficiaries, technology and/or capacity (if relevant) and estimated duration of the investment;
- justification for the Modernisation Fund support;
- specification of costs to be covered by the Modernisation Fund;
- description of the support instruments used;
- requested amount of the financing from the Modernisation Fund;
- contribution from other EU or national instruments;
- existence of State aid, and if applicable, status of the State aid clearance/exemption or expected date of notification of the aid measure to the Commission;
- Member State's declaration of compliance with applicable EU and national laws;
- Information about the expected contribution of the investment to a specific just transition plan, when the investment aims at implementing a territorial just transition plan under the European Green Deal.

For multiannual schemes this information has to be complemented with the name of the managing authority, an indication whether the proposal concerns an existing scheme and the total volume of the scheme.

For individual investments, this information above has to be complemented with the name of the project proponent, the location of the project, the total investment costs, the development stage of the project (from feasibility to operation) and a list of mandatory permits obtained or to be obtained.

For non-priority investments, the beneficiary Member State has to provide additional information:

- quantitative data on the construction and operation phases, including proposal's contribution to the objectives of the Modernisation Fund, the Union's 2030 climate and energy policy framework and the Paris Agreement;
- certified financial forecast, including intended financial contribution from private sources;
- description of any other targeted performance indicator, as requested by the EIB;
- other relevant information related to the project proponent, the investment, the general market conditions and environmental issues.

Investment proposals can be submitted at any time. Beneficiary Member States are strongly encouraged to submit documents in English as submission in other languages will require translations which will slow down the procedure.

## **2.6. HOW DOES THE MODERNISATION FUND RELATE TO STATE AID RULES?**

Investments funded from the Modernisation Fund are not exempted from the State aid rules and may need to be assessed under applicable State aid guidelines, for instance the [Guidelines on State aid for environmental protection and energy](#). Furthermore, other State aid rules, such as the [De minimis Regulation](#) or the [General Block Exemption Regulation](#) may also apply.

When State aid clearance is required, and in order to speed up the process, beneficiary Member States can submit the investment proposal to the Directorate-General for Competition for State aid assessment prior to, or in parallel with the submission of the proposal for the funding under the Modernisation Fund. Prior State aid clearance is a condition for EIB to complete its assessment and for the investment to receive the support from the Modernisation Fund.

## **2.7. HOW DO THE INVESTMENTS UNDER THE MODERNISATION FUND RELATE TO OTHER EU AND NATIONAL LAWS?**

Investments financed from the Modernisation Fund have to be in line with any applicable EU laws, such as, for instance, the [Renewable Energy Directive](#), the [Energy Efficiency Directive](#). Likewise, the investments must comply with the applicable national laws. Prior to submission of an investment proposal for the financing from the Modernisation Fund, the beneficiary Member State needs to verify compliance of the investment with any applicable laws. The investments submitted for the Modernisation Fund support should be coherent with Member States' [National Energy and Climate Plans](#) (NECPs) and be in line with the objectives of the Union's 2030 climate and energy policy framework and the long-term objectives as expressed in the Paris Agreement.

## **2.8. WHAT IS THE TIMELINE FOR THE ASSESSMENT OF INVESTMENTS?**

The timeline for the assessment depends on the type of the investment (priority or non-priority), complexity of the proposal, and completeness of the submitted file.

### **2.8.2. PRIORITY INVESTMENTS**

The beneficiary Member State needs to submit a priority proposal at least six weeks before the meeting of the Investment Committee. The EIB has four weeks after submission to either confirm the investment as priority, or inform the beneficiary Member State that the proposal qualifies as a non-priority investment or does not qualify for the financing from the Modernisation Fund. At the latest two weeks before date of the meeting of the Investment Committee, the EIB issues the confirmation and notifies the beneficiary Member State. Following the meeting of the Investment Committee, the Commission adopts a disbursement decision and the EIB pays out the funding.

### **2.8.3. NON-PRIORITY INVESTMENTS**

The beneficiary Member State needs to submit a non-priority proposal at least 10 weeks before the meeting of the Investment Committee. The EIB needs at least eight weeks to carry out a due-diligence

assessment of the proposal. At the latest two weeks before the date of the meeting of the Investment Committee, the EIB issues the due diligence report and at its meeting, the Investment Committee issues the recommendation concerning the proposal. Following the recommendation of the Investment Committee, the Commission adopts a disbursement decision and the EIB pays out the funding.

#### **2.8.4. ADDITIONAL INFORMATION REQUESTED FOR INCOMPLETE FILES**

If the file concerning the proposal is not complete or requires clarifications, the EIB may request from the beneficiary Member State additional information or documents, which – depending on the time available – may result in postponing the assessment to the next biannual cycle.

#### **2.9. HOW ARE FUNDS DISBURSED?**

The disbursement process is organised in two 6-month (i.e. biannual) cycles (linked to the two meetings per year of the Investment Committee), and the milestones of this process are set by the date of the meeting of the Investment Committee.

Before every Investment Committee meeting, the EIB calculates the funds available at the disposal of each beneficiary Member State. This includes the amount held with the EIB, but not yet spent by the beneficiary Member State and any amounts from discontinued investments, minus the amounts already committed but not yet spent, and minus the applicable EIB fees.

Following the meeting of the Investment Committee and without undue delay, the Commission adopts a single disbursement decision for all priority and non-priority proposals to be financed. The disbursement decision is published and notified to the beneficiary Member State(s) concerned.

Within 30 days of the date of the disbursement decision, the EIB transfers the relevant amounts to the beneficiary Member States. The beneficiary Member States are responsible for payments to the final beneficiaries according to national procedures.

#### **2.10. WHEN DOES AN INVESTMENT NEED TO BE COMPLETED? CAN AN INVESTMENT BE DISCONTINUED?**

Investments financed by the Modernisation Fund need to meet the following deadlines:

- the investment has to be financed at least once every two consecutive years – e.g. the project proponent or the scheme managing authority have to provide proof of financial activity (e.g. paid invoices) on the project or within the scheme; and
- the total amount received by an individual investment needs to be spent within five years from the disbursement decision; this deadline does not apply to multiannual schemes, which can last longer than five years, provided that there is a proof of payment at least every two years.

If an investment fails to respect these deadlines, it is considered discontinued. Any unspent funds from discontinued investments will need to be returned to the Modernisation Fund and directed to other investments of the beneficiary Member State.

## **2.12. CAN DISBURSED FUNDS FOR AN INVESTMENT BE RECOVERED?**

Funds that have been disbursed for an investment under the Modernisation Fund will be recovered by the respective beneficiary Member State if:

- the investment is considered discontinued because it fails to respect the implementation deadlines, and
- amounts of disbursed funds have been unduly paid because, by ways of effective checks of the beneficiary Member State concerned, irregularities related to fraud, corruption or any other illegal activity are detected. Recoveries will be implemented in accordance with the legislation of the beneficiary Member States.

Any unspent funds related to discontinued investments, or recovered amounts due to irregularities will be used by the respective beneficiary Member State to finance its future investments under the Modernisation Fund, and will be notified by the Member State to the Commission, so to adjust the funds to be disbursed through the next disbursement decision.

## **2.13. WHAT INFORMATION RELATED TO THE IMPLEMENTATION OF THE MODERNISATION FUND WILL BE PUBLICLY AVAILABLE?**

According to the ETS Directive and the Commission Implementing Regulation (EU) 2020/1001, as the implementation of the Modernisation Fund advances, the following documents will be made available to the public on the dedicated website of the Modernisation Fund, after exclusion of any commercially confidential information:

- confirmations by the EIB of priority investments;
- recommendations by the Investment Committee on non-priority investments;
- disbursement decisions of the Commission;
- the names and affiliations and declarations of interest of the members of the Investment Committee;
- annual reports submitted by beneficiary Member States, which include information on the investments financed from the Modernisation Fund;
- annual reports submitted by the Investment Committee, which will include information about recommendations issued;
- reviews of the Modernisation Fund by the Commission.