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> THE EU'S CLEANTECH TOOLBOX – NO. 1



Designing Grants for First-of-a-Kind Cleantech

The Innovation Fund

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EXECUTIVE SUMMARY

The Innovation Fund is the EU's main programme for helping new clean technologies make the leap from the lab to their first full-scale plant, and one of the largest of its kind in the world. The proposed revision to the ETS1 Directive, published in July 2026 and currently under debate, sets out how the Fund could change in the 2030s: a smaller fund, with grants focused on early-stage, high-risk technologies, and auctions and other financial instruments for scale-up and manufacturing. It also hands the Commission almost complete freedom to redesign how the Fund awards and manages its grants.

With that in mind, this paper examines how the Commission should use that new leeway to design better grants to support breakthrough cleantech projects. Its scope does not extend to the fixed-premium auctions or loans which the Innovation Fund has developed in recent years – tools that merit a separate analysis.

The literature and experience from other countries point to two lessons for funding first-of-a-kind plants. First, the public purse should back projects primarily for their potential to advance the technological frontier, not for how likely an individual project is to be commercially successful. Some will fail – in a study of demonstration projects since the 1940s, over a third of selected projects were cancelled¹ – but a programme succeeds if its projects, taken together, move the technology forward. Second, funds should be disbursed in stages, and each stage should be a moment for the government to decide if its support should continue. Japan does this, as the US did until recently, and the EU has started to trial it in Horizon Europe.

The Innovation Fund falls short on both counts:

- **It screens out the riskiest, most innovative projects.** Applicants are eliminated early if they cannot yet show a credible path to private investment, which the most novel technologies rarely can. The Commission's own evaluation finds this is the most common reason applications fail².

- **Once a grant is signed, the Commission has little opportunity to act if a project stalls.** Projects with little prospect of progress can hold onto their funding for years – money that would be better recycled and used to back new, more promising applicants.

This paper proposes two changes :

- 1 Change how projects are assessed and selected.** Breakthrough technology should not be ruled out simply because investors are not yet on board, and incremental, business model or system-integration innovation should be scored differently, so that they can no longer score as highly as genuine breakthroughs.
- 2 Build clear milestones into every grant, and give the Commission the power to act on them early.** Two should be mandatory: the first an early check on whether the technology is working, the second a check on whether the project can still secure investment. At each, the Commission should be able to continue funding, help the project find other EU support, or end the grant and reuse the money.

Neither change needs new primary legislation or a bigger fund, though CINEA will need more capacity. The Commission can make both through the rules for its next calls and its standard grant contract, as long as the co-legislators keep the new flexibilities that July's ETS revision proposal would give the Innovation Fund.

With a smaller budget and a new, high-risk mandate, the Innovation Fund 2.0 cannot afford to back projects that would have found private funding anyway, or to leave stalled ones holding funds for years. These changes would let it take bigger bets, with potentially transformative impacts for Europe's decarbonisation and innovation-led competitiveness, and act quickly when they do not pay off.

1. (Nemet, Zipperer and Kraus, 2018)

2. (European Commission, 2026a; European Commission and Ramboll, 2026)

I. THE INNOVATION FUND 2.0

Innovation in and rapid deployment of clean technologies remain crucial if Europe, and the world, is to reach a fully decarbonised economy. The hardest problems in high-emissions sectors – from freight shipping to ammonia production – still depend on an uncertain range of solutions working their way through the stages of innovation (IEA, 2026). The technologies that emerge could also underpin Europe's competitive sectors in the decades ahead.

Bringing those solutions to market is risky and capital-intensive. A firm proving a new technology in a market it would disrupt may struggle to build a business case that attracts private investment. That is why the demonstration stage depends on the public purse.

Established in 2019 with its first calls launching in 2020, the Innovation Fund has been Europe's leading programme to support demonstration and scale-up of the cleantech necessary for decarbonisation. Endowed with around 530 million ETS allowances to 2030 (€40 billion at an average carbon price of €75/tonne), it is, by the European Climate, Infrastructure and Environment Executive Agency's (CINEA) own description, one of the world's largest funding programmes for innovative net-zero technologies (CINEA, 2026).

This paper concerns the functioning of the “regular grant” calls of the Fund, which account for the bulk of that budget, rather than the fixed-premium contracts auctioned under the Hydrogen Bank and Heat Auction, which would require a separate analysis.

In July 2026, the Commission published its proposal for the revision of the EU ETS Directive. Negotiations between the European Parliament and the Council are taking place through the rest of the year and into 2027. The proposal rewrites the provision governing the Innovation Fund, which will apply from 2031.

The ETS revision sets out a new vision for the Innovation Fund. From 2031, the Innovation Fund 2.0 – cut down to 200 million allowances, €30 billion over ten years according to the Commission's own figures³ – is directed by the recitals at early-stage, high-risk technologies, while scale-up and roll-out in energy-intensive industries move to the new Industrial Decarbonisation Bank.

The Fund's scope nonetheless remains quite broad: cleantech manufacturing stays in, and support may take any form laid down in the Financial Regulation, with com-

petitive bidding for a production premium available alongside calls for proposals. **The Fund 2.0 therefore looks likely to maintain a two-pronged structure, with grant calls operating alongside other financial instruments, targeting different beneficiaries.**

The revision lifts most of the constraints that have shaped the Innovation Fund's grant calls to date (see Annex 1 for a full legal breakdown). The proportion of costs that a grant can cover, the maximum size of an award, the requirement that most of a grant depend on verified emissions avoidance, and many of the criteria against which an applicant to the Innovation Fund is currently assessed are all fixed in today's ETS Directive. None of them survive into Article 10cb and the Innovation Fund 2.0.

What replaces them is a wider delegated power, which now covers forms of support as well as selection. The design of the grant calls, in other words, moves almost entirely into the Commission's hands. **This flexibility forms the legal basis for the reforms proposed in the following sections.**

3. With an assumed average carbon price of €150/tonne in the 2030s (European Commission, 2026c).

II. WHAT A DEMONSTRATION INSTRUMENT NEEDS

Demonstration projects sit awkwardly between technology push and demand pull – beyond research, but not yet commercial (Nemet, Zipperer and Kraus, 2018). A demonstration plant is a tool used to progress knowledge (whether a given process works at scale), so that the design and management of commercial facilities (which seek to sell the output at a competitive cost) can be achieved at lower risk (Frishammar et al., 2015).

Three factors make that stage hard to finance privately:

- 1 The intellectual property a project generates spills over to firms that did not pay for it;
- 2 Novel technologies carry more uncertainty and larger potential spillovers than incremental ones;
- 3 Where the payoff depends on future policy (such as cleantech), low policy credibility weakens the incentive to invest at all.

Together, these create what is known as the valley of death, and it is what justifies public money being spent to support these projects.

In the language of project risk⁴, these demonstration-stage projects are usually dominated by technology risks (will a given technology work) or engineering risks (will the technology be as effective at industrial scale or integrated into existing processes). In this case, grants are the best tool for the job. They can cover all or some of a project's costs at these crucial early stages, when a bank or other institutional investor will not engage due to the unpredictability of the myriad ways in which the project can fail⁵.

Two principles recur across the literature and case studies on public finance design for demonstration projects.

First, projects should be selected based on what technological progress they can potentially deliver, not how likely they are to reach commercial success.

The objective of a demonstration fund is to advance the technological frontier – ideally a project will also succeed commercially, but even failures contribute to the overall objective. With this established, the metrics used to choose and continue projects should track technological progress rather than performance after entry into operation; indeed, performance-based metrics are identified as a specific weakness of NER300, the Innovation Fund's predecessor (Lupi3n and Herzog, 2013).

If technological advancement, not commercial success, is the selection metric, then it is reasonable to assume that some projects will fail. Technological risk brings with it the likelihood that a given process simply will not work. The evidence bears this out: Nemet et al. found that across 511 demonstration projects in electricity, industry and liquid fuels started between 1940 and 2015, 36% were cancelled – most after a period of operation, but 27% of these before ever coming online; public funding covered a median of 64% of costs (Nemet, Zipperer and Kraus, 2018).

A high failure rate does not mean the demonstration programme as a whole has failed, however – if the lessons learned from the projects in the portfolio accelerate the overall commercialisation of the target technology or achievement of the programme's mission, then the programme can be judged a success⁶.

Second, milestones should be decision points, not a payment schedule. Milestone payments – where support can be withdrawn or released as a project reaches a pre-agreed point in its development – are what make a high-risk portfolio manageable, provided the milestones are defined not only against commercial but also technological/engineering benchmarks. The US **Office of Clean Energy Demonstrations (OCED)** structured awards around phases of planning, design, construction and operation, with go/no-go decisions between them: the release of the next tranche and the decision on whether the project continued were the same event⁷.

Japan's Green Innovation Fund does the same through annual expert review, which may discontinue

4. For a fuller exploration of the different project risks and how they are assessed by private investors, see I4CE's 2026 paper *The Bankability Test* (Chaudhary, 2026).

5. As the technology matures, the case weakens. As commercial risks (is there a market for the technology and a path to profitability) begin to dominate, a fixed-sum grant sized against what were initially considered "relevant costs" becomes a fragile instrument: if project costs expand beyond those originally foreseen, its derisking effect is reduced proportionally in the eyes of a private investor. Here, tools such as loan guarantees or support to production through contracts or credits can be more effective at derisking a project with a clearer technical path to operation but an uncertain market position.

6. This depends on robust knowledge sharing provisions, however. If technical details behind failures or successes cannot be analysed in any way by the public, the technological spillover effect is weakened.

7. OCED has since been stripped of its budget and nearly all of its staff, and its functions dispersed across the Department of Energy (Gallucci, 2025). The design lesson is what survives it.

a project and recover a proportion of that year's receipts rather than the full award (METI, 2022; NEDO, 2026). What can be learned from these examples is not that paying in tranches is best practice – the Innovation Fund already does this. It is that money paid out is tied to a **project-specific** milestone and triggers an **active decision** on the continuation of the project, rather than simply dividing funds between generic project phases. Furthermore, a programme that can decide early on whether a project will still be supported can stop before the money is spent, redeploying committed capital to other projects rather than trying to recover it from a company that has already invested it.

The EU is moving gradually towards such a model, with the launch of the Clean Industrial Deal call under Horizon Europe. With a significantly smaller budget than

the Innovation Fund (around €540 million over 2026–27, compared with €2.9 billion in the Innovation Fund's IF25 call alone), the call funds first-of-a-kind industrial demonstrators, and requires each proposal to include “a clear go/no go moment ahead of the contracting and demonstration phase” (*European Commission, 2025*), with the timing of that decision chosen by the project. By that point the project must have delivered detailed engineering plans, a techno-economic assessment, all permits and a complete business plan.

Section 3 tests the Innovation Fund's current design of grant programmes against these principles in turn – selection and milestones – and Section 4 sets out what would have to change to bring the Innovation Fund 2.0 closer to best practice for demonstration funds.

III. WHERE THE CURRENT DESIGN FALLS SHORT

1. Selection: assessment screens out riskier breakthrough innovations

The Innovation Fund's assessment process favours bankable projects over breakthrough ones. The Commission's own evaluation finds financial maturity to be the most common reason applicants fail, with unsuccessful applicants reporting a bias towards established, lower-risk technologies at the expense of higher-risk breakthroughs (*European Commission, 2026a; European Commission and Ramboll, 2026*).

Today, a project that applies to the Innovation Fund regular grant calls is passed through an assessment process led by independent experts. Each award criterion is assessed in sequence: degree of innovation; GHG emission avoidance and project maturity; cost efficiency; and finally replicability. **If a project does not pass the first gate, or any of the others down the cascade, the assessment stops: the project is out of the running, and does not progress to ranking on the basis of aggregate scores** (*European Commission, 2026d*).

For a programme focused on supporting innovation, it is fitting that "degree of innovation" is the first such gate. Projects need to be judged to go beyond the state of the art, with breakthrough solutions with the potential to transform markets or industries scored most favourably – technologies that, due to their unproven nature, are most likely to fail without public support.

Novel combinations of mature technologies, scale-up and commercialisation projects can also receive an intermediate or strong score in this criterion. This includes an increase in the Commercial Readiness Level of a technology, which measures progress towards being able to sell the output, not towards the technology working at scale. A project with lower technology or engineering risk but higher commercial risk may therefore still score well. With the gate threshold set at 9/15 points (60%), many of these close-to-market projects can receive a passing grade.

After this, project maturity is scored (alongside greenhouse gas avoidance). It is worth a potential 15 points, the same as degree of innovation, shared equally between technical maturity (how well placed the developers are to handle the technology risks the project might pose),

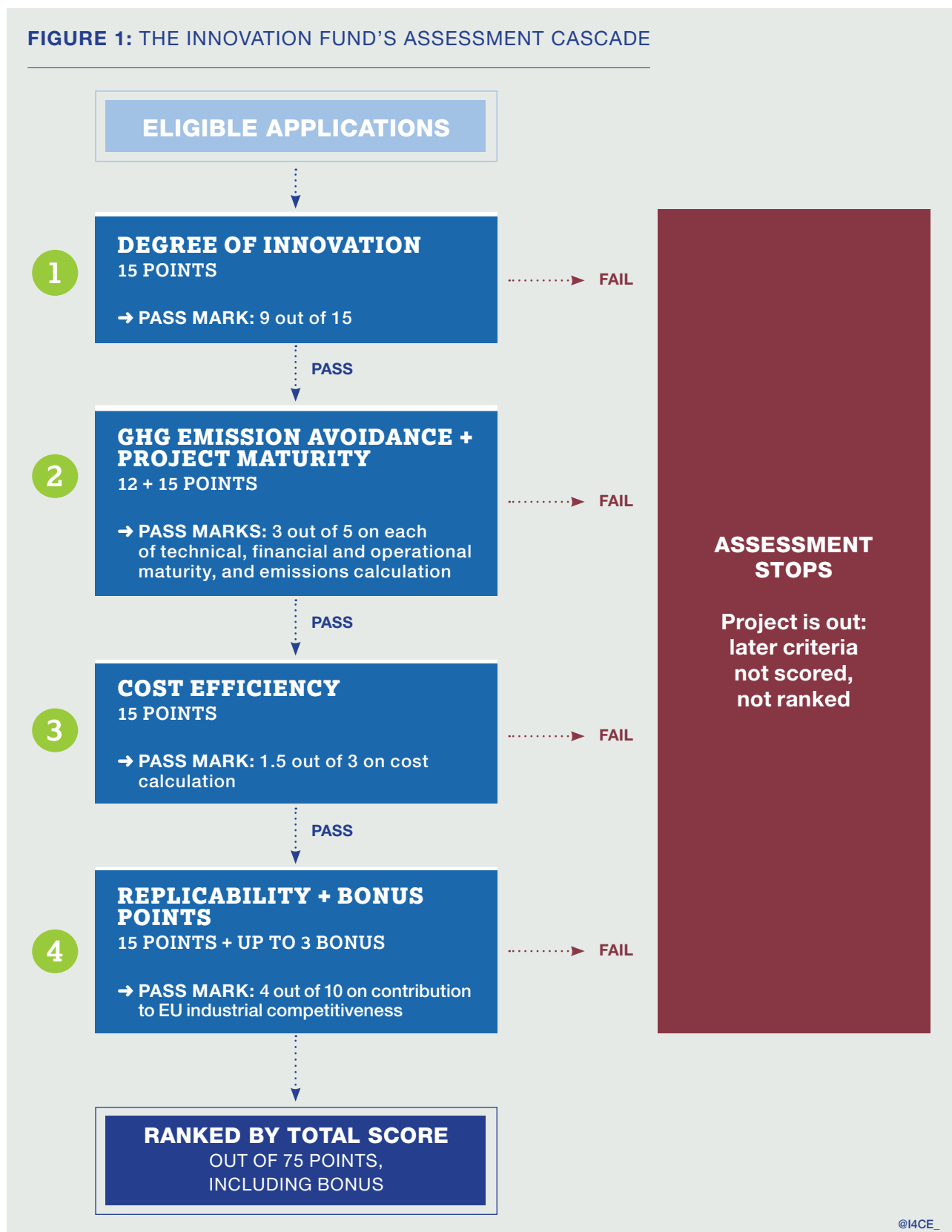
operational maturity (the implementation plan, permitting strategy and other measures of the developers' competence), and financial maturity. For each of these three sub-criteria a passing score of 3/5 must be achieved. If one falls below the threshold, the project is not further assessed.

Financial maturity focuses squarely on the commercial risks associated with a given project. Projects are assessed on whether they can reach financial close within four years, or ideally faster, how credibly they can secure offtake and supply contracts, and the availability of private funds through banks, investors and shareholders as well as public funds from Member States.

Technical and operational maturity screen out projects led by teams that cannot credibly advance the project, whereas financial maturity screens out projects that do not yet have private investors on board. For a Fund that seeks to use public funds to cover technology risk on the path to commercialisation, this screen appears counterproductive.

Projects are required to present a credible path to bankability and commercial success at the point of application. If they score below the 3/5 threshold, the assessment process ends there, regardless of how transformative a breakthrough solution might be. Replicability, including contribution to the Union's industrial leadership and competitiveness, is never assessed. Even in calls designed to privilege innovation to a greater extent, such as the pilot calls, which give degree of innovation a double weighting, financial maturity will make or break an application, because each criterion is a hard gate on progress.

FIGURE 1: THE INNOVATION FUND'S ASSESSMENT CASCADE



This assessment process creates a bias towards less innovative, more bankable projects in the Innovation Fund's choice of which projects to back. A truly breakthrough solution with below-average bankability

could score highly in a ranking where all criteria are judged in aggregate, but it never reaches that ranking, because its assessment ends midway through the cascade.

2. Milestones: nothing forces a decision when a project struggles

Once support has been awarded and the grant contract signed, there is no moment early in the grant's timeline that forces a decision on whether the support to the project should continue, as the review practices used in the US and Japan do. The result is that projects with no prospect of progress sit in the pipeline before financial close, absorbing committed but undisbursed funds that could be redeployed.

The Innovation Fund does disburse in tranches: up to 40% of a grant is payable at or before financial close. In practice, however, this milestone architecture functions as a payment schedule, rather than a moment where the public authority can decide whether support continues. Companies rarely set early milestones and so the majority of that 40% of the grant is unused until financial close is achieved and construction can begin.

Ahead of the financial close deadline - four years from grant signature – there is little the Commission can do except wait for the project to progress. The four-year deadline is a mandatory milestone, and missing it does open termination grounds – but nothing follows automatically. An extension by amendment is available where the delay can be justified – which, in a market the Commission itself describes as exceptionally challenging, it generally can be (*European Commission, 2026e*). Since many projects face delays and difficult market conditions, it has become more common for grants to be extended beyond the four-year deadline (*European Commission, 2026a; European Commission and Ramboll, 2026*).

Termination powers exist, but they are hard to use at the Commission's initiative. The Commission may terminate where a change in the project or in the beneficiary's technical or financial situation is likely to substantially affect implementation, or for serious breach of obligations including improper implementation (*European Commission, 2024*). It has used them, but rarely on its own initiative: of the 20 projects terminated after grant signature by mid-2025, only three were terminated by CINEA (*European Court of Auditors, 2026*). By end-2025 the total had reached 28, of which only four had reached financial close; most failed on cost escalation or a collapsed business case (*CINEA, 2026*) – **that is, once failure was already evident.**

Short of this clear level of project failure, the Commission must build a case, which takes time, and initiate a procedure against a beneficiary who wishes to continue. The promoter, meanwhile, has no incentive to withdraw early: a live grant costs nothing to hold and preserves the option. Neither party is pushed to

a decision by the structure of the grant itself (as in the US) or by the governance framework around it (as in Japan).

Furthermore, for a demonstration programme, both the disbursement schedule and the termination grounds are too commercially focused. Payments are tied to financial close and entry into operation; every termination ground turns on the beneficiary's legal, financial, technical or organisational situation. None depend on whether the technology is working, or on whether the public good the Fund exists to buy is being generated.

In short, milestones are rarely used; the mandatory ones in place are not built around the technological progress a demonstration grant is supposed to support; and it is very difficult for the Commission to unilaterally cut support, even if a project is clearly underdelivering at an early stage.

IV. WHAT SHOULD CHANGE IN THE INNOVATION FUND 2.0

1. Assessment: stop screening out risky breakthrough projects

Reforming the Innovation Fund's assessment approach, with its hard gate on project maturity, is the first condition for it to function as an effective demonstration instrument. Most of the changes below lie in the hands of the Commission in the design of individual calls, or at most depend on the revision of the Delegated Regulation.

First, score project maturity as a whole. Project maturity should be assessed as a single criterion rather than as three pass/fail sub-gates each requiring the same 60% score⁸. Operationally excellent teams leading high-risk projects would then be favourably assessed, retaining sufficient risk mitigation without penalising first-of-a-kind, unproven technologies, while a project weak on financial maturity and weak elsewhere would still fall short⁹.

A more far-reaching option would be to remove the cascade approach entirely, so that all eligible applications are assessed across all criteria and ranked in aggregate. Published criteria, weightings and thresholds would be unaffected, and every applicant would receive a complete score rather than a truncated one. This would be more resource-intensive for the Commission and CINEA, however.

Second, tighten the definition of innovation. If a business-model or system-integration innovation can score almost as well as a transformative breakthrough technology, those projects will outperform breakthroughs even with the

cascade removed: their relative strength in business model, and their more credible near-term emissions avoidance, competitiveness and jobs impacts, will bolster their aggregate score in the final ranking. **Incremental and system-integration innovation should not be able to achieve a strong score under degree of innovation; it should be capped at intermediate.** This would rebalance the assessment and give riskier projects a better chance of taking their share of a shrinking budget.

These changes push the Innovation Fund towards taking greater risks, and it should say so. For a demonstration fund, as seen in Section 2, this is normal: some failure is the expected cost of a portfolio built to advance the technological frontier. The Commission should continue to present the Fund as supporting early-stage, high-risk technologies, and be explicit that this mandate carries an expected rate of failure. Publishing that expectation would be an important public step in reorienting the grants portfolio towards innovation¹⁰.

However, for this to work, how the EU judges the Innovation Fund also needs to change. A programme judged on disbursement rates, delivered emissions and project completion – as in the latest Court of Auditors report (*European Court of Auditors, 2026*) – will behave conservatively. Success should instead be judged on technological advancement and commercialisation at the level of the technology, not the individual project¹¹.

8. The Commission already applies this rule elsewhere in the same programme. To qualify for project development assistance, a proposal must meet minimum thresholds for GHG emissions avoidance and degree of innovation, achieve at least 50% of points under the project maturity criterion as a whole, and be identified by evaluators as capable of improving its maturity through tailored assistance (European Commission, 2026a).

The three-way split and the 3/5 sub-thresholds are call design choices, and can be changed in the next call fiche at the Commission's discretion.

9. Loosening the maturity screen need not loosen scrutiny. The Court of Auditors found that most terminations stemmed from projects being less mature than evaluation had judged (European Court of Auditors, 2026): the current screen excludes risky breakthroughs without reliably catching polished over-promisers. One option would be to introduce a small senior panel to take a second look at proposals that are flagged as too good to be true. This check could be done before they enter the ranking.

10. This expectation could be part of a wider "value for money" framework used to assess the Fund's performance, building on examples such as the UK's Public Value Framework (HM Treasury, 2019).

11. For this, a new suite of metrics would need to be developed.

2. Milestones: build decision points into the grant

To unblock the project pipeline, the Commission needs a moment early in the grant's life at which someone must decide whether a project continues, and have the powers to act on that decision. Neither requires new legislation: both are possible through changes to the Model Grant Agreement and the call fiche¹².

Two mandatory milestones should be set at application, with individual calls free to set further milestones where the technology warrants it. These milestones should be both the points at which funds are released and the points at which a decision on further support is taken. Review should be **light-touch by default**: a project that meets a milestone on schedule and evidences the expenditure behind it should see funds released automatically, with Commission scrutiny only triggered when a milestone is missed.

The first is at least one technical milestone before financial close. The intermediate milestones the Commission currently allows (and which are rarely used) are all steps towards a successful financial close, and are therefore focused on commercial risk rather than on the technology learning milestones called for in the literature (Nemet, Zipperer and Kraus, 2018). This should change in a new innovation-focused Fund.

The technical milestone should be set against verifiable technical progress achievable before financial close, with the applicant setting an expected date, much as they currently do for financial close. If the milestone is not met by that date, it triggers a **decision point** focused on the learning the project is generating. Is the demonstration plant showing promise, even if higher costs or lower prices reduce its forecast profitability? The Commission can amend the grant to bring funds forward between work packages, ensuring the technical work is completed, or move towards termination if innovation outcomes are unsatisfactory. Released funds can be recycled to the reserve list (which should still be active if milestones are set early enough) or returned to the budget.

The second milestone is the project's own declared financial close date, often well before the four-year deadline (European Commission, 2026a). If financial close is reached on schedule, no assessment is required and committed funds are released as the project advances. If

the date is missed, the **decision point** turns on commercial risk: the Commission assesses how far the committed grant is still likely to carry the project to bankability, **and where it is judged insufficient, whether more support can be found.**

Within the Fund, a project judged to need further support could be redirected towards the auctions or supported through the auction-as-a-service mechanism. Beyond it, the Competitiveness Seal and the proposed ETS revision's requirement that the Fund seek synergies with Horizon Europe and the European Competitiveness Fund open the space for a clearer interface between parts of the EU funding architecture. If project assessment is harmonised between funds or the Seal is well recognised as a mark of quality, a project would arrive at another programme with the assessment already done, accelerating the path to further support (European Commission, 2026b).

By contrast, the proposed Industrial Decarbonisation Bank is not a realistic destination: a commercially distressed innovative plant is a poor candidate for mature OPEX support and will not fare well in a competitive call. **If no feasible route to further support is available, the Commission should have grounds to terminate** – releasing the pipeline currently clustered around financial close and allowing funds to be redeployed.

Across both milestones, the Commission could also give a green light for continued progress and on-schedule disbursement, or issue a holding decision pending the other milestone. Once both have been triggered, it will have an early view of the project's technical success and its path to financial close, and can decide on that combined basis. Terminations at this stage would in most cases still come earlier than the current four-year deadline, increasing the flexibility of a Fund operating on a reduced post-2031 budget. Earlier decision points would also discipline the current tendency to set overambitious financial close deadlines in order to win support (European Commission and Ramboll, 2026).

Acting on these decision points requires wider grounds for termination than the Fund currently has. The Model Grant Agreement reserves a space for additional, programme-specific termination grounds, which

12. These new powers and milestones require greater capacity at CINEA. The Fund's direct management costs run at 0.9% of budget, against 3–4% for LIFE and Horizon Europe, alongside persistent capacity shortages, remuneration too low to retain external evaluators, and knowledge-sharing data handled manually (European Commission, 2026a; European Commission and Ramboll, 2026). Ramboll notes that its own recommendations would require substantial reinforcement of existing teams. A smaller Fund making more active decisions needs proportionally more capacity, not less.

the Innovation Fund marks as not applicable (*European Commission, 2024*). Filling it with language tied to the two milestones would let the Commission act on both the learning benefit of a project's continuation and its prospect

of reaching financial close. Where a project is terminated, any final payment should be conditional on a knowledge-capture deliverable, so that the learning the grant paid for is not lost with the project.

►► **BOX 1: BEYOND 2031 – A TAILORED APPROACH WITH PROGRAMME MANAGERS**

Early-stage innovation agencies such as the US ARPA-E, and in Europe the EIC and SPRIND, rely on programme managers: sectoral experts who shape a portfolio, select projects, and stay with them – adjusting milestones and deciding whether support continues. At ARPA-E, this active management has been linked to better project outcomes (*Goldstein and Kearney, 2016*).

A future version of the Innovation Fund, moving towards the risk-taking, more active posture this paper suggests, could integrate similar programme managers – giving them the authority to continue, redirect or terminate support. Selection could run in two stages, with programme managers working alongside shortlisted breakthrough projects to help them through technical challenges and towards commercialisation. While a two-stage call was tried in 2020 and dropped, it would be worth looking at again in the context of a more innovation-focused Fund.

Whether this model works for a portfolio of first-of-a-kind plants costing hundreds of millions is untested, and it would need new staffing and legal change. As the Fund is reimagined for the next phase of the ETS, however, these more fundamental changes deserve exploration.

V. SUMMARY OF RECOMMENDATIONS

The proposals set out above are two of the highest-leverage and most feasible changes to the Innovation Fund's operation that would push it towards taking greater risks on potentially transformative technologies, in line with its proposed new mandate. New milestones and enhanced termination powers in particular would give the Commission the agency to act early, ter-

minating or bringing in other public support where a project needs it – addressing the current challenges of the stuck project pipeline and allowing for effective response if an innovation bet does not pan out.

The table below summarises these recommendations, alongside the legal or institutional vehicle for the change.

TABLE 1: PROPOSED CHANGES TO THE INNOVATION FUND GRANTS

	CURRENT PRACTICE	PROPOSED CHANGE	WHO CAN ACT, AND HOW
ASSESSMENT	Criteria assessed in a cascade. Project maturity splits into technical, operational and financial, each a 3/5 hard sub-threshold – a project failing financial maturity is not assessed further. Incremental and system-integration innovation can score strongly on degree of innovation.	Score project maturity as one criterion. Cap incremental and system-integration innovation at intermediate scores in degree of innovation. Publish an expected failure rate.	European Commission (DG CLIMA). Make changes to future call fiches and internal assessment procedures.
MILESTONES	Intermediate milestones before financial close are optional and applicant-proposed; most projects set none. Milestones work as a payment schedule tied to financial close and entry into operation, not as decision points on technical progress. Termination grounds depend on the beneficiary's situation or a breach of obligations, so the Commission rarely acts on its own initiative, and missed financial close deadlines are usually extended.	Two mandatory review points set at application: one technical milestone before financial close, one at the project's own declared financial close date. Wider grounds for termination specific to the Innovation Fund, tied to the learning a project is generating and its prospect of reaching financial close. A knowledge-capture deliverable as a condition of the final tranche on termination. Easier cumulation with other sources to support struggling but promising projects.	Co-legislators on the ETS Revision. Retain provisions that empower the Commission to set milestones, and on cumulation and synergies with other funds in the revision. European Commission (DG CLIMA). Require intermediate technical and commercial milestones in future call fiches. Model Grant Agreement should be updated with new termination grounds.

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The Commission can act on most of this directly. The assessment changes belong in the next call fiche, the new termination grounds in the Model Grant Agreement. Co-legislators should keep Article 10cb of the revised ETS

Directive as drafted, preserving the new leeway that allows for this redesign. With these changes, the Innovation Fund can take a step closer to its new mandate – supporting the next wave of cleantech innovation in Europe.

VI. ANNEXES

ANNEX 1 - Summary of changes to the ETS1 Directive relevant to the Innovation Fund under the proposed 2026 revision (*ETS Directive, 2024; European Commission, 2026b*)

	CURRENT ART 10A (8)	PROPOSED ART 10CB	WHAT IT CHANGES FOR GRANT CALLS
Funding rate	Up to 60% of relevant costs for grants; up to 100% for competitive bidding and technical assistance	Removed – the term “relevant costs” disappears from the article	Funding rate and what counts as a relevant cost both become decisions for the Delegated Regulation or individual calls
Tying funding to GHG emissions avoidance	At least 60% of funds awarded must depend on verified emissions avoidance	Paragraph 5: “Grant funding shall be disbursed subject to pre-determined milestones in line with project advancement”	The GHG connection is now gone: milestones to be defined in future, perhaps project-by-project or call-by-call
Selection criteria	Climate and energy targets, zero pollution, circularity, emissions well below benchmarks, potential for widespread application or cost reduction all named in the text	Climate and energy targets and circularity only, all sectors should be fairly covered, and selection should be simple and accessible	Much more flexibility in defining selection criteria
Concentration	No project above 15% of the Fund’s allowances	No equivalent provision	How large the support to any one project can be is now a call decision
Forms of support	Grants, blending, competitive bidding	“Support may take any form laid down in [the Financial Regulation]” with competitive bidding expressly mentioned in the article	Increased flexibility in financial instrument use
Cumulation	Duty to seek synergies with Horizon Europe	Express right to combine Innovation Fund support with another Union programme’s; Competitiveness Seal; European Competitiveness Fund (ECF) InvestEU route	Cumulation becomes an entitlement rather than something the Commission is merely obliged to seek
Guarantees	Deposits available for competitive bidding only	Bid bonds and completion bonds, expressly extended to calls for proposals	Opens the possibility of using bonds in grant calls
As-a-service	Not mentioned in the directive although developed alongside the Hydrogen Bank.	Member States may fund projects that meet all selection criteria but cannot be funded from the call budget, on notice before closure	As-a-service enters into the ETS legislation itself
Retroactivity	Costs before submission ineligible	Costs may cover actions started before submission where the project is essential for security and economic resilience	Allows support for projects already under way, where they are deemed essential for security and economic resilience
Delegated power	Selection procedure and criteria; eligible sectors; technological requirements	Governance, eligibility, forms of support and related conditions, selection procedure, selection criteria, procedural, organisational and financial rules	“Forms of support and related conditions” opens the way to a redesign of Innovation Fund grant calls

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