

## **DECISION AUTHORISING THE USE OF LUMP SUMS FOR PROJECTS UNDER THE INNOVATION FUND**

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Commission Delegated Regulation (EU) 2019/856 of 26 February 2019 supplementing Directive 2003/87/EC of the European Parliament and of the Council with regard to the operation of the Innovation Fund<sup>1</sup> (the ‘Innovation Fund Regulation’), and in particular Articles 5 and 6 thereof,

Having regard to Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union<sup>2</sup> (the ‘Financial Regulation’), and in particular Articles 125 and 181 thereof,

Whereas:

- 1) The Innovation Fund is one of the key Union financing programmes contributing to the achievement of the European Green Deal objectives. The Innovation Fund aims at supporting the demonstration of highly innovative technologies, processes or products that are sufficiently mature and have a significant potential to reduce greenhouse gas emissions.
- 2) With a view to making adequate financial resources timely available to the selected projects, the emphasis should be put on the performance and results, and grant disbursement should be based on simple rules.
- 3) Simple funding rules reduce the administrative costs for participation and contribute to the prevention and reduction of financial errors. In this respect, the use of lump sums is appropriate to simplify the calculation of grant amounts, to significantly decrease the workload of both the beneficiaries and the granting authority as well as to accelerate payment procedures.
- 4) The use of lump sums should therefore be authorised for all projects applying for grants awarded on the basis of Article 12 or 12a of the Innovation Fund Regulation.

THE FOLLOWING HAS BEEN DECIDED:

### *Sole Article*

The use of the Union contribution in the form of lump sums contribution is authorised for the projects under the Innovation Fund for the reasons and under the conditions set out in the Annex.

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<sup>1</sup> OJ L 140, 28.5.2019, p. 6.

<sup>2</sup> Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p.1).

Done at Brussels,

*(Electronically signed)*

**Kurt VANDENBERGHE**  
Responsible Authorising Officer

<b>HISTORY OF CHANGES</b>		
<b>Version</b>	<b>Publication date</b>	<b>Changes</b>
<a href="#">1.0</a>	02.07.2020	Initial version.
2.0	[...]	<ul style="list-style-type: none"> <li>• The first section (<i>Forms of the Innovation Fund grant and relevant costs</i>) has been amended to: <ul style="list-style-type: none"> <li>○ Clarify that this Decision only authorises the use of lumpsum contribution to grants awarded under Articles 12 and 12a of the Innovation Fund Regulation.</li> <li>○ Remove the reference to small-scale projects which, with the revision of the Innovation Fund Regulation in November 2023, are subject to the same definition of relevant costs as large-scale projects.</li> </ul> </li>   <li>• Section 2 (<i>Justification</i>) has been amended to: <ul style="list-style-type: none"> <li>○ Indicate that transport sectors are now included in the scope of the Innovation Fund (in line with the revision of Directive 2003/87/EC in June 2023).</li> <li>○ Align the wording on mitigating the risks of fraud and irregularities to better align with the requirements of Article 181 of the Financial Regulation.</li> </ul> </li>   <li>• Section 3 (<i>Method to determine and update the amount of the Innovation Fund grant in the form of lump sum contributions</i>) has been amended to: <ul style="list-style-type: none"> <li>○ Align this Decision with the Innovation Fund Regulation, which now allows the Commission to choose between two relevant cost calculation methodologies for each call for proposals.</li> <li>○ Update the list of information that applicants must provide to the granting authority.</li> <li>○ Remove the methodologies' calculation details, which may vary from one call for proposals to another and which are therefore better specified exhaustively in the relevant call documentation.</li> <li>○ Merge sections 3.2.1 to 3.2.7 into a single section 3.2.</li> <li>○ Remove references to general grant management practices in section 3.2 (such as grant reduction rules).</li> <li>○ Specify that the relevant costs of the selected projects will be audited when they enter into operation.</li> </ul> </li> </ul>

## Annex

### **1. Forms of the Innovation Fund grant and relevant costs**

The Union contribution for the projects selected under Article 12 or 12a of the Innovation Fund Regulation shall exclusively take the form of lump sum contributions.

The lump sum contribution shall cover a part of the projects' relevant costs, which are defined as the net extra costs that are borne by the project proponent as a result of the application of the innovative technology related to the reduction or avoidance of the greenhouse gas emissions.

The payment of the lump sums shall be subject to the achievement of the defined outputs in accordance with Annex 1 to the grant agreement during the period which will be set in the grant agreement.

The applicants shall be required to provide, in their application, the estimated relevant costs and the lump sum contributions they apply for, broken down by participant and work package. The applicants shall describe the activities that are covered by the lump sum contribution for each work package and, based on requirements of the text of the call, the conditions that need to be met in order to consider the work package completed (the milestone, in the meaning of Article 6(1) of Commission Delegated Regulation (EU) 2019/856, is achieved). This description will become part of Annex 1 to the grant agreement.

The amount of each work package making up the lump sum contributions shall be paid if the corresponding work packages of the action have been properly implemented in accordance with Annex 1 to the grant agreement.

The amounts of the lump sum contribution shall be calculated in accordance with point 3.

### **2. Justification**

Lump sum contributions are considered appropriate with regard to:

#### 2.1. The nature of the supported projects

The Innovation Fund is one of the main instruments to achieve the Green Deal objectives and secure the Union transition into the carbon neutral economy by 2050 through the funding of highly innovative low-carbon technology demonstration projects in energy-intensive industry, transport sectors renewable energy, energy storage, carbon capture, use (CCU) or storage (CCS).

The main aim of the Innovation Fund is to bridge the financing gap of eligible projects by providing rapid and timely support. This can only be achieved through the simplification of procedures and reduction of administrative burden.

Unlike the reimbursement of actual costs, results-based lump sum funding has considerable potential for administrative simplification. It eliminates all obligations on reporting costs actually incurred and financial audits, thus removing a major part of the administrative burden on beneficiaries and enabling efficiency gains in the implementation of the Innovation Fund. At the same time, lump sum funding strongly increases the focus on the performance and output of projects, thus improving the quality of results.

In addition, the use of lump sums substantially reduces the risk of error for beneficiaries.

The payment of the lump sums is strictly output-based. In other words, the lump sums shall be only paid out upon the completion of the work packages.

## 2.2. Risks of irregularities and fraud and costs of control

The lump sums are output-based, and the risk of fraud is mitigated since payment is subject to the timely achievement of the pre-defined outputs which are clearly described in the grant agreement and easily subject to verification. The granting authority will verify compliance with the achievement of the outputs following reporting by the beneficiary (through technical checks, reviews or audits).

The risk of irregularities will be minimised due to the fact that there is no reporting of actual costs. Beneficiaries will have no obligation vis-à-vis the granting authority to document costs incurred for the action but they remain subject to the financial reporting obligations and accounting rules under the applicable national law.

Checks, reviews, and audits will instead focus on achievement of results and the proper implementation of the action, in particular on the fulfilment of the essential conditions for triggering payment of the lump sum contribution per work package.

The costs of controls for the actions are also reduced by the lack of reporting on financial costs and the focus on achievement of outputs.

## **3. Method to determine and update the amount of the Innovation Fund grant in the form of lump sum contributions**

### 3.1. Definition of relevant costs

Applicants will have to indicate in their submission form the amount of the Innovation Fund grant requested. In accordance with Article 10a(8) of the Directive 2003/87/EC<sup>3</sup>, this amount cannot exceed 60% of the project's relevant costs. Therefore, applicants must also present and calculate the relevant costs of their projects so that the granting authority can verify compliance with this ceiling.

The relevant costs shall be the net extra costs that are borne by the project proponent as a result of the application of the innovative technology related to the reduction or avoidance of greenhouse gas emissions.

### 3.2. The calculation of relevant costs and adjustment of the lumpsum contributions

The net extra costs shall be calculated in accordance with one of the following two methodologies:

- The 'Reference Plant' methodology, whereby net extra costs shall be the difference between (i) the best estimate of economic costs (covering investment and operation) and economic revenues and operational benefits, and (ii) the best estimate of the economic costs and revenues and operational benefits of a project using a conventional technology with the same capacity in terms of effective production of the analogous final product.

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<sup>3</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, OJ L 275 25.10.2003, p. 32

- The ‘No Reference Plant’ methodology, whereby net extra costs shall be the difference between the best estimate of (i) the economic costs (covering investment and operation) and (ii) the economic revenues and operational benefits.

For each call, the granting authority will indicate and further specify in the call documentation the applicable methodology or methodologies.

The key parameters that the applicants will be required to use in the calculation of the relevant costs will be based on standard financial information that typically forms the basis of a project financing model. Applicants will be required to provide the necessary financial information in order to fill out the following items of the mandatory Financial Information File published as part of the call documentation:

1. A Financial Model Summary Input Sheet including an overview of the financial projections of CAPEX, OPEX, revenues, operational benefits, Maintenance CAPEX and WACC of the project.
2. Detailed inputs in to CAPEX calculations
3. Additional inputs to Relevant Costs calculation when “Reference plant” methodology is applied.
4. A table with Innovation Fund grant breakdown per work package and beneficiary/affiliated entity.

Applicants must provide a complete set of data in order to accurately calculate relevant costs.

In addition, the relevant costs calculation shall be checked and its correctness confirmed by a statement from an independent auditor when the project enters into operation. If the relevant costs have decreased and, as a result, the grant amount exceeds 60% of the recalculated costs, the grant amount will be reduced so that it will stay within the limits of 60% of the relevant costs.

### 3.3. Evaluation of the proposal

Applicants shall be required to follow the relevant costs calculation methodology provided in the call text. Detailed calculation of relevant costs, including the justification of the assumptions and data sources used for the calculation, shall form a part of the application. The budget for each work-package should be proportional to the activities covered by the work package.

The applications shall be evaluated by external evaluators, selected by the granting authority. These external evaluators will use publicly available benchmark data and follow the methodology described in the guidance attached to the call.

In the evaluators’ selection procedure, particular attention is given to their knowledge and capacity to assess complex projects from technical, financial and legal point of view. The external evaluations shall have operational experience in the sectors of the Innovation Fund and shall need to be proven free of Conflict of Interest.

Each proposal will be evaluated by at least 3 external evaluators who will be given appropriate time to assess the proposal individually and during a consensus meeting with other evaluators.

### 3.4 Calculation of the lump sum contribution amount

The evaluators will assess whether the total lump sum amount requested does not go beyond the 60% ceiling and is determined correctly based on the relevant cost calculation and appropriately reflects the funding needs estimates included in the application form.

The final amount of the lump sum contribution shall be set in the grant agreement.

#### **4. Sound financial management and co-financing principles and absence of double financing**

The methodology described in Section 3 complies with the principles of co-financing and absence of double funding as required by the Financial Regulation.

The co-financing principle is complied with by fixing the lump sum contribution ex ante taking into account the reimbursement rates (up to 60% of the relevant costs) provided for in Article 10a(8) of Directive 2003/87/EC.

Double funding shall be avoided by excluding ineligible contributions for activities already funded under other EU grants (or grants awarded by a Member State, third country or other body implementing the EU budget), except where the grants are part of jointly coordinated synergy actions and the funding under the grants does not go above 100% of the costs and contributions declared to them. For this purpose, applicants will be requested to indicate, in the application form, any other public support provided to the project. Where the application indicates additional Union support, the granting authority shall, where necessary, consult concerned Commission services and shall adjust, where necessary, the final amount(s) of EU contribution(s) accordingly.

Sound financial management is ensured because the eligible costs of the project will be assessed by the Commission as being a reliable proxy of the real costs. This will be ensured through a thorough and extensive evaluation process, as detailed in point 3.3. Moreover, the Innovation Fund contribution will cover only 60% of relevant costs. In accordance with the fourth sub-paragraph of Article 10a(8) of Directive 2003/87/EC, the grant will be complementary to substantial co-financing of the project proponent, i.e. the majority of the total project costs will be borne by the project proponents.