

The Modernisation Fund

The Innovation Fund just like its predecessor, NER300, is one of the world's largest funding programmes for demonstration of innovative low-carbon technologies and a key funding instrument for delivering the EU's economy-wide commitments under the Paris Agreement. It also supports the European Commission's strategic vision of a climate neutral Europe by 2050. The Innovation Fund will focus on:

- Innovative low-carbon technologies and processes in energy intensive industries, including products substituting carbon intensive ones;
- Carbon capture and utilisation (CCU);
- Construction and operation of carbon capture and storage (CCS);
- Innovative renewable energy generation;
- Energy storage.
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The revision for the fourth phase of the EU ETS Directive 2018/410, covering the period 2021 - 2030, introduced a number of important changes concerning the 'funding mechanisms' in the EU system. Among these changes, a new funding mechanism was put in place: the Modernisation Fund.

The Modernisation Fund is a totally new funding instrument that is meant to support investments proposed by the eligible EU Member States, 'including the financing of small-scale investment projects, to modernise energy systems and improve energy efficiency'. It will operate under the responsibility of the beneficiary Member State. As for now, the ten beneficiary member states are the following: Bulgaria, Czech Republic, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Romania and Slovakia.¹

The Modernisation Fund will be made up of two percent of the total quantity of allowances available during Phase 4, which shall be monetised between 2021 and 2030.

The European Investment Bank (EIB) will supervise the funding allocation mechanism and selection process.

In order to use the Modernisation Fund for financing investments, the Member State has to propose investments to the EIB first and to the 'investment committee'. This investment committee consists of 15 members: the ten beneficiary Member States, the European Commission, the EIB and three

¹ European Commission - DG Clima, Innovation and Modernisation Fund presentation, 12 September 2018, https://www.ictsd.org/sites/default/files/event/180912_if_and_mf_2.pdf

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representatives of other Member States. It will be chaired by the representative of the European Commission.

Priority investments

At least 70 % of Modernisation Fund will be allocated to the three main areas:

1. Modernisation of energy systems: renewables, networks (including district heating pipelines), interconnectors, energy storage;
2. Improvements in energy efficiency: energy generation (except solid fossil fuels), transport, buildings, agriculture and waste;
3. Just transition in carbon-dependent regions: re-deployment/up-skilling of workers, education and job-seeking, support to startups.

Geothermal energy projects

Considering the range of objectives of the Modernisation Fund, there is a great potential for financing the geothermal projects. The industry can specifically benefit from the deployment of geothermal energy solutions to reduce their CO2 emissions. One example in this sense would be the use of geothermal heat pumps that would be crucial in achieving the maximum limitation of carbon emissions.