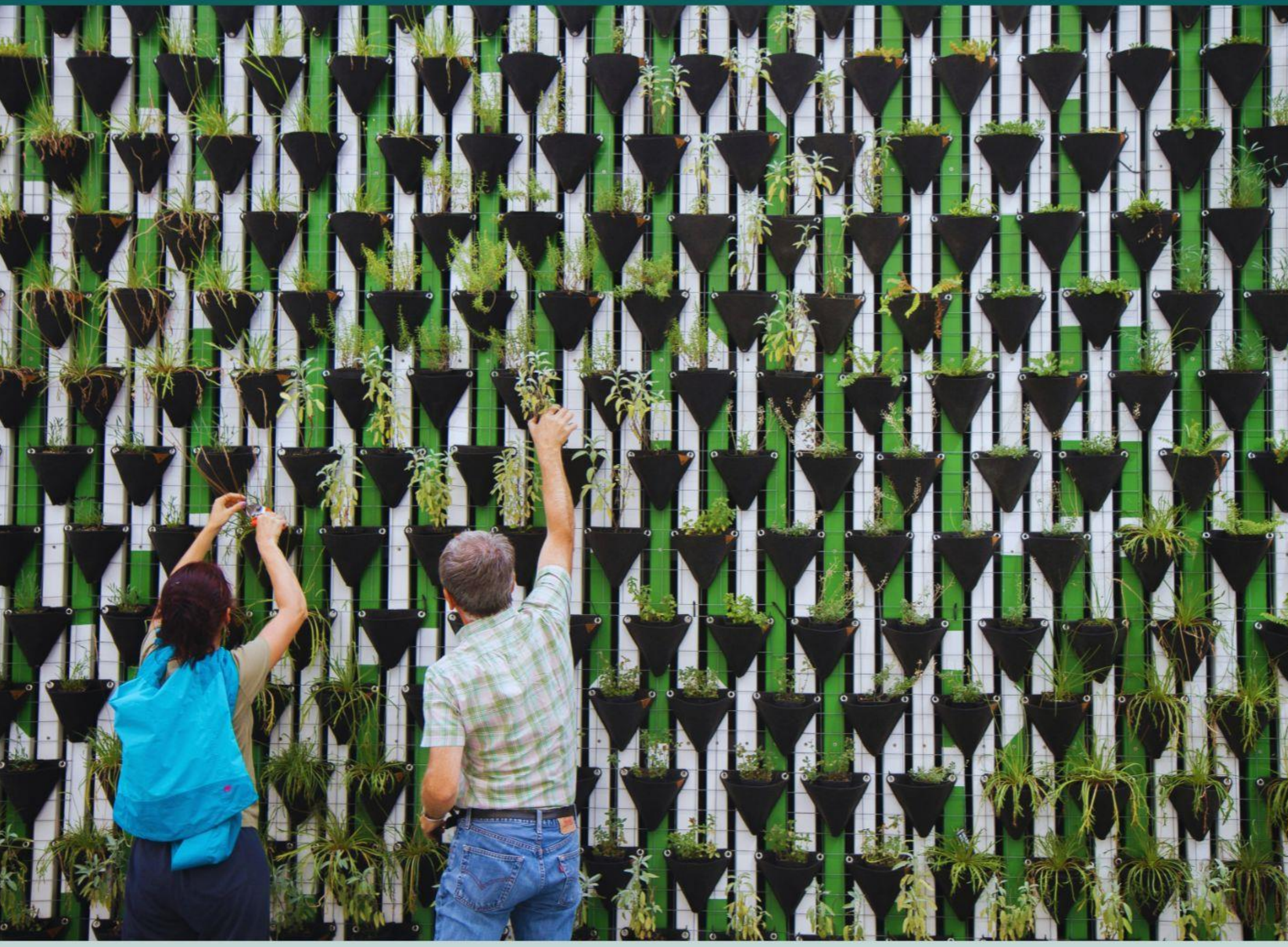
Cohesion policy at a crossroads

Navigating the 2025 mid-term review and the next EU budget



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Introduction – A critical moment

EU cohesion policy funding is one of the most important sources of public investment for countries in central and eastern Europe. The implementation of various cohesion policy programmes over the past year has been influenced by the increasing complexity, driven on the one hand by the introduction of the NextGenerationEU plan and its centrepiece, the Recovery and Resilience Facility, and on the other by the European Green Deal along with its corresponding directives and regulations. These additional financial resources have changed the way in which national authorities strategise, select, and implement projects, which has had spillover effects on cohesion policy programme outcomes. In parallel, the conditionalities and criteria of the European Green Deal ensure that these projects must align with long-term sustainability goals.

We have now reached a crossroads, presenting two different pathways. The first is to further integrate the Fit for 55 requirements into the cohesion policy while securing its climate component. The second involves reallocating funds to other priorities such as defence and competitiveness at the risk of derailing the European Green Deal.

EU Member States are required to conduct a review of their current cohesion policy programmes by March 2025. Given the direct consequences for future financing decisions, the outcomes of these assessments will be hugely significant. In this pressurised context, small-scale energy, climate, and environmental projects risk being jettisoned for those likely to deliver more immediate results and which may not meet, or even contradict, European Green Deal targets.

Coming at such a critical juncture, the mid-term review of cohesion policy programming should be approached with ambition and a clear direction, setting high targets to achieve carbon neutrality ahead of schedule, rather than focusing on reallocations that prioritise short-term gains at the expense of the environment, climate, and social cohesion.

Implications of crisis adaptation

Introduced in 2021, the mid-term review is a relatively new exercise that builds upon practices from previous programming periods.[1] Unlike a formal evaluation, the mid-term review does not employ independent bodies. Rather, its primary focus is on programme performance, giving Member States more flexibility to make improvements towards the end of the programming period.[2] In essence, it aims to provide a nuanced understanding of how micro and macro elements evolve over the programming period – from local developments to the broader structural and systemic issues highlighted in various studies – incorporating recommended changes where required.

While multiple amendments to the cohesion policy legal framework have allowed regions, cities, and national governments to promptly respond to various critical situations, they have also undercut some of the more strategic and substantial societal interventions. This has led to a surfeit of priorities and, while

[1] European Commission, 2021-27 mid-term review: Webinar for managing authorities, *European Commission*, 5, 23 September 2024.

[2] Ibid.

subsequent changes to the initial frameworks – Cohesion's Action for Refugees in Europe (CARE),[3] Flexible Assistance to Territories (FAST-CARE),[4] Supporting Affordable Energy (SAFE),[5] and Regional Emergency Support to Reconstruction (RESTORE)[6] – address legitimate emergencies, they also risk undermining the cohesion policy's long-term goal of promoting economic, social and territorial convergence, including through investments in the European Green Deal.

Requirements under the Common Provisions Regulation

According to the Common Provisions Regulation (hereafter, the Regulation), the mid-term review assessment must be submitted to the European Commission before 31 March 2025. This assessment must take into consideration the following: progress in implementing the national energy and climate plans (NECPs); challenges underlined in the 2024 country-specific recommendations; and territorial needs, factors.[7]

Beyond its importance in assessing the progress and advancement of the cohesion policy programme, the mid-term review is crucial due to its impact on flexibility amounts. These amounts, corresponding to 50 per cent of the contributions allocated for the years 2026 and 2027, are outlined in Article 86(1) of the Regulation. In other words, approximately 15 per cent of the total allocations are impacted by a process requiring Member States to review the implementation of programmes, potentially leading to the repurposing of funds or maintaining the original allocations.

Therefore, the mid-term review is an action required to release flexible amounts, whether through reallocation or continuing as initially planned. However, amendments to programmes unrelated to the mid-term review may still be submitted at any time, including prior to the review, in line with Article 24. This means that the mid-term review is not the only way to make programme changes.

Article 18(2) sets a clear deadline of 31 March 2025 for Member States to submit their mid-term review assessments to the European Commission. These assessments must include proposed allocations for the flexibility amounts for each programme. Additionally, Article 18(3) stipulates that, if new challenges are identified following the review, Member States must submit an amended programme together with the assessment. This provides Member States with the opportunity to reflect on their initial programming choices and consider changes in light of recent developments.

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[3] Regulation (EU) 2022/562.

[4] European Commission, FAST-CARE enters into force tomorrow: new flexibility in using Cohesion Policy funding, *European Commission*, 25 October 2022.

[5] European Commission, Commission welcomes political agreement on REPowerEU under the Recovery and Resilience Facility, *European Commission*, 14 December 2024.

[6] European Commission, Regional Emergency Support to Reconstruction - amending regulation proposal, *European Commission*, 16 October 2024.

[7] Regulation (EU) 2021/1060, Article 18(1).

Procedural complexities increase

The Regulation does not require the Commission to adopt additional implementing regulations providing information about the mid-term review. Therefore, the Commission assumes that no procedural guidance is necessary to operationalise Article 18 of the Regulation.[8] In other words, while Member States are expected to take the lead in conducting the review,[9] the Commission is tasked with interpreting the articles. Additionally, upstream consultations between managing authorities and programme authorities are strongly encouraged.

The mid-term review must also address the Commission's country-specific recommendations and country report, which are accompanied by a mid-term review box and 21 annexes. The country-specific recommendations are set to be officially endorsed by the end of 2024, provided the programme milestones for 2024 are met. However, with the final NECP recommendations not available until the first quarter of 2025, the mid-term review assessments cannot effectively begin until January 2025. Even for highly competitive managing authorities with enough capacity, disentangling NECP targets and analysing corresponding spillover effects on regional programmes, in addition to composing a draft document, presents a significant challenge. Alternatively, managing authorities may opt to focus on approved documents, bearing in mind the extremely tight time frame.

A number of uncertainties surrounding transparency and partnership remain. While the Common Provisions Regulation does not require monitoring committees to formally approve the mid-term review, the Commission does expect committees to examine certain elements of the review, or at least to analyse and discuss the mid-term review assessment.[10] The greatest source of confusion is what happens after the mid-term review assessment is submitted to the Commission. In theory, the Commission should then start the process of commenting and requesting further details, which may or may not involve consultations with monitoring committees – either during the dialogue phase or after an agreement is reached between the Commission and the managing authorities. This raises concerns that key decisions taken later in the process could significantly impact reprogramming without fully adhering to the partnership principle.

Balancing flexibility and oversight

The mid-term review is a useful tool that allows managing authorities to gain a holistic overview of their programmes and long-term trajectories. To a certain extent, the mid-term review process is designed to discourage the repurposing of strategic funds (allocated in this context for territorial cohesion and mainstreaming climate action) for short-term fixes or excessively flexible uses. It also encourages managing authorities to critically reflect on strategic documents like NECPs and on structural aspects identified in the country reports and country-specific recommendations. Therefore, the mid-term review is an instrument that strikes a balance between providing long-term programmes with agility and strategic flexibility, and considering the work of stakeholders responsible for managing shared funds.

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[8] European Commission, 2021-27 mid-term review: Webinar for managing authorities, *European Commission*, 5, 23 September 2024.

[9] Ibid., 5.

[10] Ibid., 29.

Mid-term review in context

The mid-term review is taking place amid a turbulent policy landscape. A number of initiatives have been launched since the start of the programming period in 2021 and the implementation of cohesion programmes – most of which were approved as late as 2022 or even 2023. The mid-term review requires Member States to assess the progress and performance of these programmes, which have either barely begun in some countries or made minimal progress.

The Commission has regularly called for significant acceleration of the implementation of these programmes, which raises questions about the practicality of undertaking a review at this stage, as required by the Regulation. Nonetheless, the mid-term review remains a key exercise, providing a valuable opportunity to examine how cohesion programmes align with other key initiatives occurring in parallel or that have recently taken place. These include the Strategic Technologies for Europe Platform (STEP), the updates of the NECPs, the adoption or revision of legislation, and the planning and disbursement of other funding streams.

Strategic Technologies for Europe Platform: Channelling cohesion policy funds into innovative technologies

Aimed at boosting investments in strategic industrial technology sectors, STEP is an EU initiative established to quell concerns over the EU's competitiveness and strategic independence, following the adoption of new policies in other regions, notably the Inflation Reduction Act in the United States. Proposed by the Commission in June 2023, alongside the overall revision of the 2021–2027 Multiannual Financial Framework, STEP seeks to increase the EU's investment capacity for strategic technology.

However, STEP is not a new fund per se. Rather, it serves as a mechanism for reshuffling and leveraging funds from 11 existing programmes, including support schemes for innovation, defence, and health, as well as cohesion policy funds and other EU funding streams targeting national authorities. Speaking at the launch of the initiative, Commission President Ursula von der Leyen made it clear that STEP aims to establish 'a pipeline of projects that will be fast-tracked for funding from cohesion'.[11] Therefore, STEP has been positioned as a tool for tapping into cohesion policy funds. Member States now have the opportunity to redirect a portion of their cohesion policy funding to actions supporting STEP objectives under exceptionally favourable conditions, which include:

- a 100 per cent co-financing rate, representing a significant increase compared to the standard 85 per cent cap for central and eastern European countries;
- a one-time 30 per cent pre-financing option for amendments submitted by 31 March 2025, which coincides with the deadline for submitting the mid-term programme reviews; and
- expanded eligibility rules, such as allowing large companies to receive funding, which is not permitted under the cohesion policy regulation.

[11] Ursula von der Leyen, Press statement by President von der Leyen on the outcomes of today's College meeting, *European Commission*, 20 June 2023.

These conditions make STEP an attractive avenue for Member States to reallocate a portion of their national resources, even though such a move could potentially come at the cost of other previously identified priorities. Indeed, the Commission is actively encouraging Member States to make use of these provisions. For instance, the country-specific recommendations and country reports all refer to STEP, urging Member States to consider the potential benefits of leveraging the initiative in the context of the mid-term review.

Fit for 55 and REPowerEU: Adapting to new climate legislation changes

The Fit for 55 package is the EU's flagship initiative designed to set the bloc on the path to achieving a 55 per cent reduction in greenhouse gases by 2030. Proposed in July 2021, at a time when the cohesion policy programmes were being prepared, Fit for 55 provides a comprehensive set of legislation for various sectors, including energy, buildings, transport, and land use, establishing specific targets and standards to drive the green transition.

The REPowerEU plan, launched in response to Russia's invasion of Ukraine in 2022, amended the Fit for 55 framework to further accelerate the transition away from fossil fuels. Most of the proposed measures were agreed upon and formally adopted in 2023 and 2024. Most of these revised pieces of legislation are integrated as part of the cohesion policy regulations integrate, but in different ways. Some serve as pre-requirements for unlocking funding. For example, Member States are required to fulfil a number of enabling conditions listed in the Common Provisions Regulation, such as having a long-term building strategy in place as required by the Building Performance Directive. Others are used to determine which type of investment can be supported. For example, cohesion policy funds can be used to modernise district heating systems, provided the upgrades meet the criteria set out in the Energy Efficiency Directive.

However, cohesion policy funding does not automatically align with the Fit for 55 legislation. Ultimately, it is the responsibility of Member States to incorporate the specific obligations and standards derived from these pieces of legislation into their programmes and calls for proposals. This is why the mid-term review is so vital, as it provides Member States with an opportunity to assess the performance of their programmes against this evolving framework.

NECPs: Translating EU goals into national targets with the support of the cohesion policy

NECPs are mentioned in the Common Provisions Regulation as something that needs to be taken into account during the mid-term review. In particular, the regulation asks Member States to take into account their progress in implementing the integrated national energy and climate plan when preparing the review. NECP reports are regularly made to the EU, but alongside this, NECPs are also subject to an update that was begun in 2023 and should have been concluded by mid-2024. However, most Member States did not submit their plans to the Commission on time, and it is unclear to what level this exercise must be coordinated with the mid-term review, according to the regulation. It is still an opportunity to better align with national goals on climate and energy and to make sure that cohesion policy can contribute to this to the fullest extent. This is particularly true given that NECPs contain a section on investment needs with, among other key elements, the contribution of EU funds (including the cohesion policy).

Ensuring smooth coordination between cohesion policy financing and other funding streams

The cohesion policy has traditionally been used as the primary source of EU funding to support Member States, managed in partnership with EU and national authorities. However, since 2020, the funding landscape has become increasingly complex. The Recovery and Resilience Facility was established in the aftermath of the COVID-19 pandemic to strengthen the resilience of Member States. Despite functioning in a different way to the cohesion policy, the Recovery and Resilience Facility still supports the same types of projects. Their timelines are also misaligned: Recovery and Resilience Facility funds must be spent by late 2026, whereas the cohesion programming lasts until 2027, with potential spending permitted up to 2029.

The Social Climate Fund adds a further level of complexity. Introduced as part of the Fit for 55 package to mitigate the social consequences of the EU Emissions Trading System 2, particularly its impacts on the building and transport sectors, the Social Climate Fund requires Member States to submit a dedicated national social climate plan to the Commission by June 2025. This process partially coincides with the mid-term review of the cohesion policy, making strong coordination essential. Just as the findings of the mid-term review can inform the Social Climate Plans, initial reflections on the formulation of the national social and climate plans can meaningfully contribute to the mid-term review.

Assessing risks and opportunities across EU Member States

Some of the bottlenecks hindering the implementation of cohesion policy programming are likely to extend beyond the mid-term review and the reprogramming of funds. Member States will need to roll out strategic and decisive reforms to resolve key issues such as project approvals, State aid rules, the complexity of adhering to the General Block Exemption Regulation, managing tendering and legal disputes, and the precarious implementation of the 'do no significant harm' (DNSH) principle. Additionally, despite the tendency of managing authorities to reprogramme funds in ways that might seem easier to implement projects and increase the spending, these challenges may reduce the effectiveness of these efforts. In this context, then, the mid-term review is not a silver bullet for transferring funds to less complex areas.

Recent cohesion policy changes in response to natural disasters should also be put in perspective. The Commission's proposed RESTORE initiative aims to revise several cohesion policy fund regulations to accelerate support for regions affected by climate catastrophes. While it is legitimate to unlock emergency mechanisms and redirect existing funding for immediate relief from climate disasters, which will increase in frequence and intensity, relying on cohesion policy funds to play an insurance role could dilute their original purpose. Instead, cohesion policy should place more emphasis on the DNSH principle, restoring natural capacities to mitigate the effects of these disasters, and addressing the root causes of extreme weather conditions and climate change.

Unfortunately, recent programme amendments in many countries reveal a trend towards reallocating funds from climate-focused measures to other urgent issues, such as competitiveness via STEP or defence and security.[12] The rollout of climate measures, which typically involves identification, consultation, permitting, and setting aside adequate resources and materials, is perceived as a protracted process that

[12] Paola Tamma, Brussels to free up billions of euros for defence and security from EU budget, *Financial Times*, 11 November 2024.

fails to deliver immediate economic returns. Where possible, emergency spending should still consider territorial cohesion and climate resilience by prioritising assets that remain viable over the long term.

Data gaps and strategic alignment

A major obstacle to effective programming is the lack of comprehensive, aggregated, and readily accessible energy-related data, particularly on energy performance certification. This shortcoming makes it difficult to assess the magnitude of investment needs at local, regional, and national levels. Additionally, this hinders the ability to align the objectives of cohesion policy programmes, particularly at the regional level, with the goals of the NECPs and Social Climate Fund.

Managing authorities face an uphill battle

An emerging concern is the tendency for programme and managing authorities to rely on detailed instructions for matters that could be more easily resolved at the local level. The DNSH principle is a prime example of this trend. Among their many tasks, managing authorities are responsible for coordinating funds, which requires fostering cooperation, incentivising multi-stakeholder involvement, and ensuring the alignment of strategic documents across ministries. In the broader context of cohesion policy funds, managing authorities are also expected to prioritise sustainable development. However, they face systemic challenges in obtaining advice from experts or small communities of practice to help them navigate and evaluate complex environmental management practices such as climate proofing and land contamination.

These challenges are exacerbated by the scepticism and low ambition that characterise the approach of managing authorities to the mid-term review process. This caution, coupled with fears of losing funds, restructuring, and programmes being transferred between ministries, poses significant risks. Additionally, methodological confusion, the bypassing or superficial consultation of monitoring committees, and the general perception of the mid-term review as being a burden rather than an opportunity for learning and critical reflection further hinder the process.

Despite these obstacles, there are significant opportunities to ensure that cohesion policy programmes better align with the Fit for 55 package, which includes the Renewable Energy Directive, the Energy Efficiency Directive, and the Energy Performance of Buildings Directive, and that regional programmes align with the NECPs. In theory, managing authorities that take the initiative to identify and consider vulnerable sectors within the NECPs in a territorial context are better positioned to deliver effective sectoral policies at the regional level.

Additionally, gaining a more nuanced understanding of the territorial consequences of the macroeconomic policy issues discussed during the European Semester could help cohesion policy programmes mitigate regional imbalances and drive transformative change at the local level. This increased knowledge will enable managing authorities to strengthen their capacity to make programmes more resilient to emerging developments and adapt to upcoming policy updates and competing funds.

Recommendations for the next Multiannual Financial Framework

To maximise the benefits of the cohesion policy, managing authorities should view the mid-term review as an opportunity for reflection and strategic orientation. The mid-term review assessment should be ambitious, strategic and transformative, matching the energy and commitment invested in the process. Even in the context of low spending and delayed programme starts, the review provides an opportunity to challenge existing strategies, conduct a minimalistic foresight exercise, and revitalise partnerships. Even if programmes remain unchanged, having carried out a comprehensive assessment will equip managing authorities with an updated situational understanding that can expedite programme implementation.

On this point, the Commission can do much more to motivate managing authorities to think creatively and align their programmes with the European Green Deal priorities, acknowledging the dynamic nature of policy and the need to respond to a rapidly changing world. In particular, managing authorities must address their consistent neglect of climate action and its role in complementing territorial cohesion in central and eastern Europe.

Historically, the cohesion policy has been the EU's main investment channel. However, the policy now faces considerable challenges in smoothing the implementation process while competing with other EU funding instruments. In short, the EU now stands on the threshold of possibly the most important budgetary reshuffle in its 40-year history, likely to involve a massive revamp of priorities and the introduction of new mechanisms for delivering benefits to end beneficiaries. Encouragingly, the EU boasts an impressive track record of overhauling the approaches of national administrations to strategic funding decisions.

While reducing disparities between EU countries and regions remains a key objective of the Treaty on European Union and a cornerstone of the cohesion policy, a new delivery model is now needed. As it prepares its next Multiannual Financial Framework, the Commission is likely to draw inspiration from the Recovery and Resilience Facility model. The mid-term review is one of the final opportunities to reassess the effectiveness of the cohesion policy and to ensure it better reflects new priorities and today's challenges before the EU considers an alternative approach to managing EU funds. Fortunately, there is still time to learn from these important processes and to build on the substantial benefits that cohesion has already delivered for both people and the environment.

Annex: Country Insights

How is the cohesion policy driving the energy transformation and what risks and opportunities does the mid-term review present?

Bulgaria: Poor preparation leads to significant delays

The current situation in Bulgaria is problematic for several reasons. Firstly, programming was implemented using low-quality strategic documents, which has ultimately led to a pipeline of projects lacking in maturity. Additionally, Bulgaria's authorities have listed many project proposals as being far more advanced than they actually are.

These shortcomings, coupled with technical issues generated by slow-moving institutions, tendering processes ending up in court disputes, and complicated administrative procedures, have created perfect conditions for the present backlog. As a result, public participation in monitoring committees is typically viewed as a formality, with input rarely considered, making even basic improvements to the strategic documents a challenge. Corruption and a low appetite for reforms add extra layers of complication.

The reprogramming of Bulgaria's transport operational programme has also been beset by significant delays. There is also a suspicion that lower-quality projects could be pushed into the planning stages to avoid losing funds, despite calls from civil society organisations for more projects to align with Bulgaria's NECP and the Social Climate Fund. These organisations are also pushing for the elimination of harmful projects, particularly those contained in the transport operational programme focusing on road infrastructure. A lack of alignment with the NECP has also been flagged as a concern.

The European Commission has been informed of assessments containing low-quality, inaccurate, or false DNSH files, particularly for road projects, which pose the most environmental risk. Yet these projects have yet to be withdrawn from the list. On a more positive note, some harmful projects have been delayed, while others will not proceed at all. In the future, it is expected that all parties, including the Directorate-General for Regional and Urban Policy, will strengthen DNSH practice.

Czech Republic: Reducing bottlenecks while searching for solutions

The implementation of Policy Objective 2, based on information obtained from the managing authorities and the Czech Ministry of Industry, is progressing satisfactorily compared to Policy Objective 1. This is despite a number of bottlenecks, including the 'not in my backyard' approach to windfarms, inconvenient construction approval processes, competing priorities, compliance with State aid rules, and the ongoing complexity of the General Block Exemption Regulation.

The Ministry of Regional Development has been actively involved in assisting managing authorities with the mid-term review process, particularly in relation to requirements under Article 18 of the Common Provisions Regulation. The Ministry has also conducted an analysis of the application of financial instruments across the country's operational programmes and, in collaboration with the managing authorities, has begun to systematically monitor progress in meeting the milestones for output and result indicators. Currently, discussions are focusing on the technical options available to managing authorities as they seek to address the implementation status of programmes in light of altered funding needs.

The monitoring committee for the Technologies and Application for Competitiveness Operational Programme has been asked for additional clarification on the proposed reallocation of funds. This involves shifting resources from investments in research and innovation development to the construction of wind farms, which has been identified as the current priority by managing authority leadership. For the moment, this programme amendment was not approved. Meanwhile, discussions are ongoing about potential programme adjustments following recent natural disasters in central, eastern, and southern Europe, including the Czech Republic, which will require significant infrastructure reconstruction. In any event, managing authorities are primarily focused on preparing their review reports, which must be submitted to the European Commission by the end of March 2025. These materials will be discussed with monitoring committee members early in the new year prior to submission.

There is, however, a notable delay in certain initiatives overseen by the Ministry of Industry, with the Ministry of Environment stepping in to take over their implementation. The Ministry of Environment's recently established Decarbonisation Unit is now involved in analysing the energy efficiency of buildings as part of its work in implementing the fourth revision of the Energy Performance of Buildings Directive. A significant challenge is the continuing absence of adequate data on building energy performance, as many buildings either lack an energy performance certificate or default to the lowest G standard. The Ministry of Finance is currently collecting this data to assess the scale of the renovations required. Additionally, the Ministry of Environment is leading discussions with energy distribution companies to resolve connectivity issues through acceleration zones.

Despite efforts to prioritise environmentally ambitious projects, challenges remain in the application of the DNSH principle, which not only requires avoiding significant environmental damage but also mandates that projects have no negative environmental impacts and are adapted to climate change. For instance, projects should not be implemented on contaminated sites, but there is no uniform definition of contamination or how to assess it. This lack of clarity creates administrative burdens, particularly for EU-funded projects, as existing construction certification procedures do not address this issue. A notable example is the designation of large regions, such as parts of South Moravia's Pálava region, as contaminated due to historical oil testing and flooding.

Stakeholders argue for a set of standardised EU-wide indicators to ensure consistent application and tangible environmental benefits. Currently, the fragmented approach leads to questionable added value, given that preventing significant environmental damage is already embedded in the existing legislation. As it stands, the DNSH application appears to be more of an administrative hurdle than an effective tool for achieving climate and environmental goals.

Estonia: Slow progress on spending and policy objectives

Estonia is experiencing delays in the implementation of its cohesion policy budget and achieving its policy objectives. While 61 per cent of the overall budget has been committed to projects, only 8 per cent of the funds have been disbursed to beneficiaries. Specifically for Policy Objective 2, a mere 6 per cent of the allocated budget (EUR 48.2 million out of EUR 780.8 million) has been paid to beneficiaries. Progress varies significantly across project types. For instance, energy efficiency projects show the most advancement, with 9.97 per cent of the funds disbursed as of 8 November, covering 861 approved projects. Climate adaptation projects have seen far less activity, with only 27 projects approved. Similarly, limited progress has been made in the circular economy, with 46 projects approved. Notably, no spending has been reported for renewable energy projects, and just a single project has been initiated for sustainable transportation.

Concerning the mid-term review process, the monitoring committee has been notified about the state of play in written form; however, no meetings have been held on the subject. Overall, managing authorities appear sceptical about the mid-term review, as there is insufficient data on the results. It seems to be regarded more as a mandatory checklist exercise, with no significant changes planned.

The Ministry of Finance holds the position that there is no need for Estonia to significantly overhaul the operational programme during the mid-term review or introduce entirely new actions to address emerging challenges or recommendations. Such changes, they argue, would increase pressure on fund absorption. Instead, to accelerate the pace of spending, managing authorities appear to favour refining existing conditions and removing ineffective measures. Additionally, they are considering more substantial amendments to the Recovery and Resilience Facility to tackle slow absorption rates, indicating a stronger focus on directing their efforts there rather than on the operational programme.

In the context of Estonia's country-specific recommendation, the Ministry's priorities focus on improving the availability and quality of long-term care and advancing the deployment of the STEP initiative. Regarding Policy Objective 2, the Ministry of Finance has outlined two potential interventions:

1. Exclusion of the Kiviõli district heating measure from the Just Transition Fund (EUR 5 million), as the measure did not materialise as planned.

2. Development of a decoupled funding model for building renovation grants, aimed at simplifying the implementation of measures and reducing the administrative burden.

The remainder of the interventions remains unspecified. The monitoring committee is expected to receive the Ministry's recommendations in mid-January, coinciding with Estonia's submission of the mid-term review assessment to the European Commission. Notably, the proposals will not be discussed among the monitoring committee before submission.

Hungary: Small wins amid complexity and reshuffling

In Hungary, the overall situation remains complex, with numerous challenges hampering progress. The implementation of Policy Objective 2 is particularly slow, largely due to the freezing of EU funds – currently affecting 55 per cent of the Energy and Environment Operational Programme and two other operational programmes – until compliance with horizontal and thematic enabling conditions is achieved. Under the Energy and Environment Operational Programme Plus, approximately one-quarter of the budget has been announced. However, the N+3 rule and implementation difficulties are adding pressure on the utilisation of operational programme resources.

Managing authorities are seeking ways to minimise the risk of losing funds through measures such as segmenting projects, restructuring managing authorities, and reshuffling projects. A significant step has been the restructuring of the managing authority system, in agreement with the European Commission, resulting in the creation of a new legal entity, the National Development Centre, governed by its own separate legislation. In terms of project reshuffling, the Annual Development Frameworks are being updated, such as the continuation of the Home Renovation Programme in its second round under the

Energy and Environment Operational Programme Plus, which was initially launched under the Recovery and Resilience Facility. At the Energy and Environment Operational Programme Plus monitoring committee meeting on 30 October 2024, the mid-term review was notably absent from the agenda. Managing authorities are still grappling with planning, finalising, and issuing calls for proposals.

Several issues are driving the presumed reprogramming of funds and strategies. These issues include efforts to minimise the loss of EU funds through restructuring and reshuffling, the government's decision to delay the lignite phase-out, requiring adjustments to the Energy and Environment Operational Programme Plus and Territorial Just Transition Plans once a viable coal phase-out timetable is established, and the submission of Hungary's updated NECP in mid-October 2024. A detailed non-governmental organisation analysis of the more-than-200-page document is ongoing. The foundation of the plan, which focuses on reindustrialisation, new combined-cycle gas turbines, expansion of the Paks 2 nuclear power plant by 2035 or 2040, gas import diversification, hydrogen testing, carbon capture, utilisation, and storage, and energy storage, appears unchanged. However, the energy efficiency and renewable energy targets have reportedly been strengthened.

The urgency to issue energy-transformative calls for proposals is evident, but significant complexities remain. The government acknowledges that even if Hungary's allocations under the Recovery and Resilience Facility and the Multiannual Financial Framework become fully operational, they will not substantially accelerate the energy transition. This is partly due to significant spending on prestigious investments, such as Budapest Airport and Vodafone Hungary. While the Ministry of Energy is optimistic that a considerable portion of Recovery and Resilience Facility funds can extend beyond 2026, recent reshuffling suggests that the government is preparing for potential fund losses.

Some progress has been achieved by eliminating harmful practices. For example, limited support for gas boilers under the Home Renovation Programme, an optional project element with a capped budget, ended entirely on 31 October 2024. In the second round, financed under the Energy and Environment Operational Programme Plus, no support for fossil fuels will be provided.

A key concern is that the recent restructuring may not yield significant improvements, and the time and spending pressures are translating into monitoring committees being forced to make decisions more quickly. Non-governmental organisations and subcommittees are still perceived as obstacles in the planning process due to their constructive criticism and regular recommendations to improve draft calls and selection criteria. Non-governmental organisations continue to advocate for transparency, early and meaningful consultation, and the consideration of their recommendations.

Latvia: Increased support for business and defence at the expense of climate

Latvia benefits from EUR 4.4 billion from cohesion policy funding. It is a key source of financing for climate measures such as increasing the energy performance of buildings and helping households to better overcome the challenges of the green transition. As mentioned in the Commission country report in June

2024,[13] energy efficiency and renovation programmes in Latvia are dependent on EU funding. In fact, the Commission encourages the country to enable more private investments in this area.

Among the specific recommendations for Latvia in the implementation of cohesion funding, the European Commission notes the large disparities between the capital and the rest of the country, in particular in Latgale in the east. It also requests that particular attention be paid to energy efficiency in buildings and businesses and proposes using the STEP initiative to support the transformation of industry, particularly wind energy.

The mid-term review process is underway, and proposals from ministries must be sent to the Ministry of Finance. From what is known, funds should be diverted to defence, while ensuring they can still contribute to the existing priorities (including the climate and environmental ones). The Ministry of Transport is seeking to use flexibility funding and divert existing funding to the flagship Rail Baltica project.

Beyond the mid-term review, Latvia's authorities have entered into negotiation with the Commission to amend the Latvian operational programme in such a way that it will further impact the investments for climate, energy and the environment. Worryingly, the measure for promoting energy from renewable energy resources would be replaced by a new one designed to support the creation of new jobs for export-oriented businesses. This is particularly unsettling since it is the only measure designed for energy communities, apart from biomethane energy communities, for whom specific support is still planned.

This removal is justified by the existence of similar renewable energy measures in other programmes, namely the Modernisation Fund, and the need to support the creation of new jobs and strengthen Latvia's economic competitiveness in global markets. Additionally, the Ministry of Economics argues that export-oriented companies create more added value in the long term and increase state budget revenues. However, this would only reinforce the imbalance of the programme in favour of economic rather than environmental goals. The move also ignores the strong economic and social benefits of energy communities.

Taking their cue from the European Commission, Latvia's authorities are also proposing to add new measures under the STEP initiative, including a new measure to support the production and assembly of offshore wind technology in the port of Riga. This aligns with the STEP objective to support the manufacturing of technologies critical to the green transition. However, there are concerns about the governance and management of the project in the port of Riga, since the inclusion of the measure was preceded by a seemingly unnecessary veil of secrecy, and also due to historical issues concerning Riga port management and related political scandals.

As for energy efficiency, the government envisages amending the measure for promoting energy efficiency and the reduction of greenhouse gas emissions by replacing single-family dwellings within the eligible recipients' group with state municipal capital companies, state universities, scientific institutes and derived public entities. Alongside these changes to the eligible recipients who can benefit from the measure, the government will also lower energy efficiency targets. This will lead to a decrease in the number of buildings, particularly affecting citizens vulnerable to energy poverty, with a 25 per cent reduction in the number of homes receiving energy efficiency improvements. Additionally, the scope of energy efficiency

[13] European Commission, Commission Staff Working Document 2024 Country Report Latvia, *European Commission*, 19 June 2024.

improvements in public buildings will decrease by almost 50 per cent. It is not entirely clear whether the change is due to inflation or the increased costs of building renovation.

Poland: Momentum gains after early implementation setbacks

Following the unlocking of cohesion policy funds in early 2024, the implementation of programs is gaining momentum in Poland. The managing authorities are pleased with the progress of the European Funds for Infrastructure, Climate, and Environment programme, with 14.7 per cent of the EU allocation contracted as of 13 October 2024.

Although the delayed launch of the 2021–2027 funding cycle means it is still early on in the implementation phase, the mid-term review process has begun as required by law. The partnership agreement committee has been informed about the process, following instructions from the Ministry of Development Funds and Regional Policy, which emphasized the need for active involvement of partners in the monitoring committees.

However, according to reports from various committees, the level of partner involvement varies significantly. National managing authorities tend to be more open to involving monitoring committee partners than regional authorities. The assessment and proposal for programme amendments are nearing completion. To streamline the assessment, the Ministry has circulated a uniform questionnaire based on Article 18 of the Common Provisions Regulation to all managing authorities.

In the public debate, one of the few demands from regional governments is the replacement of financial instruments with grants for renewable energy projects, aimed at increasing beneficiary interest and accelerating spending. Civil society organisations are also presenting recommendations, such as ensuring their eligibility for EU funds through state co-financing and sufficient operational costs.

Given the minimal progress in implementation, the government prefers to avoid significant changes to the programs, except for adjustments in areas affected by flooding from heavy rains in September. Authorities are considering reallocating funds for infrastructure reconstruction (energy, transport, water sewage) and adaptation measures. There is concern over river regulation and reservoir construction, which are part of the plans of the hydrological authority, Polish Waters, but currently not eligible under the partnership agreement.

Although the Ministry contends that the mid-term review will not affect the application of the DNSH principle regarding changes to the partnership agreement or programmes, new investments will need to be assessed against this principle, as it evolves with the preparation of Commission guidance under the Social Climate Fund. Recent experience with applying the DNSH principle presents an opportunity to better screen new measures and ensure strong climate and environmental criteria are applied.

The mid-term review could also serve as an opportunity to align cohesion policy programmes with the updated NECP, but since the final submission of the NECP has not yet occurred, the Ministry is currently basing its analysis on the existing plan, which has been in place since 2019.

Romania: A sluggish start for existing programmes

Based on information presented at the last meeting of the Partnership Agreement monitoring committee in September 2024, the implementation progress of the operational programmes is as follows: As of the third quarter of 2024, calls for projects have a total value of EUR 30.7 million, with the EU contribution amounting to EUR 20.9 million. By the end of 2024, an additional EUR 12 million in project calls are estimated to be launched, with EUR 9.03 million from the EU contribution. Additionally, financing guides for projects worth approximately EUR 77 million are still under public consultation.

At the operational programme level, project proposal calls account for 65 per cent of the total allocation. Within Policy Objective 2, these calls represent 33 per cent of the total allocation, while Policy Objective 3 follows with 27 per cent. The total value of approved projects submitted during the overall call amounts to EUR 19.5 million.

However, several bottlenecks continue to hinder progress, particularly the limited administrative capacity of managing authorities, which slows the launch of calls for proposals and projects. Bureaucratic hurdles persist in some cases, although specific examples are difficult to pinpoint. Additionally, reduced communication regarding the availability of funds and how to access these resources remains a significant challenge.

In terms of the mid-term review, public information available on the website indicates that all operational programmes have adopted the review plan and established a review/evaluation steering committee during the monitoring committee meetings. A report revising the programmes is expected to be submitted to the European Commission by 31 March 2025, though no additional documents or detailed information are currently available.

Regarding potential content changes in the programmes, in line with the Fit for 55 or beyond initiative, it is recommended that investments in gas capacities be removed. One such example is the investment included in the Sustainable Development Operational Programme, which proposes a switch from coal to gas at the Motru power plant in Gorj. Bankwatch Romania has suggested replacing these investments with sustainable district heating solutions.

Another suggested change is to increase the financial resources allocated to energy efficiency renovations of residential buildings. Furthermore, specific investments supporting the creation of energy communities would be beneficial once the legislative framework for this type of solution is improved.

Slovakia: Significant changes to Programme Slovakia would be counterproductive

The spending for Programme Slovakia has been critically postponed due to political reasons. By 4 October, 65 per cent of the allocation had open calls, 22 per cent was contracted, but only 2.16 per cent of finances within Policy Objective 2 had been spent.[14] The overall performance of Programme Slovakia has been even worse, with calls open for 56 per cent of the allocation, 24 per cent contracted, and only 1.38 per cent

[14] Ministerstvo investícií, regionálneho rozvoja a informatizácie, Prezentácia program, *Ministerstvo investícií, regionálneho rozvoja a informatizácie*, 14 October 2024.

spent.[15] In addition, significant reallocations of unspent EU funds were activated during the previous programming period.

Slovakia subsidised fossil fuels to the tune of EUR 1.6 billion in 2023, utilising hundreds of millions in EU taxpayer money. This direct and indirect support for heating and electricity from coal, fossil gas, and other fossil fuels was the highest seen in the last 15 years. [16] In comparison, the average subsidies for fossil fuels were EUR 307 million between 2011 and 2021.[17]

It is very unfortunate that the slow pace of spending in Slovakia during the previous financial period allowed politicians to divert flexible finances towards reducing energy bills for all households. The untargeted measure disproportionately benefitted the wealthy, who typically consume excessive amounts of energy, while offering limited support to those who save energy or cannot afford adequate heating and living conditions. This regrettable approach to subsidising energy bills directly undermines the EU's joint efforts to promote energy efficiency and replace fossil fuels with renewable sources of energy.

As for the mid-term review, a discussion with socio-economic partners in the committees started in spring 2024. In parallel, the Office of the Plenipotentiary of the Government of the Slovak Republic for the Development of Civil Society collected 17 recommendations for the mid-term review for the Ministry of Investment, Regional Development and Informatization in May 2024. Of these, nine recommendations were related to Policy Objective 2. The latest information about the mid-term review was formally presented to the Programme Slovakia monitoring committee on 14 October.[18]

However, the scope of the changes being considered cannot be fully assessed from the publicly available documents. The reprogramming could be potentially triggered by the new political priorities of the current government. Non-governmental organisations have repeatedly asked the committees not to remove civil society organisations from the eligible beneficiaries or from participatory consultations.

Though it is not directly linked to the mid-term review, there is a strong push to reallocate funding from national to regional and local levels. This could split the usable resources into fragments, which do not allow for practical financing. For instance, water pipeline infrastructure costs cannot be indefinitely divided.

The NECP has not yet been updated, and the revised draft document was submitted for public consultation only on 16 October. Therefore, it is not possible to assess its impact. Overall, the NECP is a low-quality document that still supports fossil gas as an environmental measure, lacks information on the fossil fuel phase-out and energy poverty, and fails to adequately address the Social Climate Plan.[19]

While Programme Slovakia was prepared relatively well, the main request is that it continue to not support new equipment and technologies for the use of fossil gas. The socio-economic, geopolitical and climate

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[15] Ibid.

[16] Udržateľné, Analýza zmien v dotáciách do fosílnych palív v roku 2023 a 2024 na Slovensku, *Udržateľné*, 25 September 2024.

[17] Miroslava Hricišínová, Kamil Boros, Ako dotujeme fosílne palivá?, *Inštitút hospodárskych analýz*, 2022.

[18] Ministerstvo investícií, regionálneho rozvoja a informatizácie, Zasadnutie Monitorovacieho výboru pre Program Slovensko 21 -27 - 14. október 2024, *Ministerstvo investícií, regionálneho rozvoja a informatizácie*, 14 October 2024.

[19] Ministerstvo spravodlivosti SR, Aktualizácia integrovaného národného energetického a klimatického plánu na roky 2021 – 2030, *Ministerstvo spravodlivosti SR*, 29 October 2024.

situation tends to gradually reduce the use of fossil fuels, including fossil gas. EU Directive 2023/959 of 10 May 2023[20], which defines the upcoming revision of EU's Emissions Trading System, to be launched in 2027, is particularly important. It would not make sense to subsidise new fossil gas-burning installations on the one hand and at the same time internalise their externalities (climate change impacts in particular) through the Emissions Trading System.

Supporting energy efficiency and renewable energy in buildings and district heating is essential for municipalities to meet the new obligations from the revision of the Energy Efficiency Directive and the Energy Performance of Buildings Directive. A compatible combination of support from Programme Slovakia under the European Structural and Investment Funds, the Recovery and Resilience Facility, and the Modernisation Fund is strongly desired.

Friends of the Earth Slovakia has requested that the current Programme Slovakia framework be maintained. Regarding the readiness of support schemes, such as Green Households, as well as related programmes and projects, minimal technical improvements to Programme Slovakia are required. More serious interventions would reduce the speed of the contracting and subsequent absorption of European Structural and Investment Funds. In addition, managing authorities should better incorporate the government's strategic water policy document as part of the adaptation measures.[21]

[20] European Parliament, Directive 2023/959 of 10 May 2023, *EUR-Lex*, 15 May 2023.

[21] Ministerstvo životného prostredia SR, Koncepcia vodnej politiky do roku 2030 s výhľadom do roku 2050, *Ministerstvo životného prostredia SR*, 2022.