CEE Bankwatch Network

09 MAY 2025

On the Mid-Term Review Proposal for Amendments in the ERDF, CF and JTF regulations

Dear Sir or Madam,

We are writing to comment on the changes in the ERDF, CF and JTF regulations related to the mid-term review (2025/0084 (COD)), specifically with regards to the proposed amendments to the Just Transition Fund Regulation. We are well aware that on 5 May, the Committee on Regional Development voted adopting the Proposal for a Regulation amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review without any amendments [COM(2025)123 final - 2025/0084 (COD)]. We also know that on 7 May, an urgent decision on the Proposal was voted through by the European Parliament Plenary with a small majority.

In our opinion, the way in which this proposal has been pushed rapidly through the European Parliament also warrants much criticism, as it limits any possibility for providing an informed reaction within a democratic process. **We ask for amendments to be proposed at the plenary in June to weaken some of the issues that will be caused by the introduction of these changes, preferably preceded by a speedy assessment of the probable impacts of the modifications. If the Proposal is passed, we ask that the Commission take adequate measures to mitigate the potential risks and issues the amendments may cause.**

In addition, we would like to draw attention to the European Court of Auditors (ECA) opinion no. 02/2025 regarding the legislative proposals to amend the regulations, which flags 'certain risks and unclear aspects of the proposals that will affect the way they are applied'. Since no impact assessment or broader consultations were conducted of this mid-term review-related Proposal for adjustments to regulations, **we are very concerned about how they will impact the just transition process in various countries**.

Justification

While we see some potential for positive impacts emerging from the mid-term review proposal introducing changes in the ERDF, CF and JTF regulations, primarily linked to the alleviation of energy poverty issues through the new affordable housing priority or the focus on water resilience and nature-based solutions (the last one however not applying to the JTF regulation), we would also like to indicate some problems and threats linked to the proposal.

As organisations which have worked on the Just Transition Fund and related process since 2017, we have been participating in almost every aspect of the just transition process in coal, oil shale and peat for energy regions in the countries we cover through our work (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia) and beyond through our cooperation with other partner organisations (e.g., Greece, Italy, Spain, Germany). We participated in the creation of the Territorial Just Transition Plans and are members of the Monitoring Committees through which we monitor proper fund spending and implementation in accordance with EU regulations, while also supporting the development of capacities in the regions to implement change and design transformative projects. Based on our extensive expertise on the topic, we would like to provide the following comments on the proposal.

Most importantly, the proposal threatens to undermine the main objectives of the JTF. This would include:

- **The regional scope of the funds (especially as regards the JTF)**. The proposal plans to allow for the reallocation of the Just Transition Fund to areas outside of the initially agreed just transition regions. This is proposed in order to address new priorities. Such changes in the middle of the budgeting period undermine the coherence of European Union goals, especially those linked to cohesion policy. The impacts of the already conducted STEP reallocations should also be considered if we are to have an informed view of the real impacts of the introduction of similar such measures through the proposed amendments.

- **Providing support for economic diversification.** Especially in the case of regions with industries that are being phased out, a relatively high percentage of the allocations in such countries were planned for economic diversification measures aimed primarily at localised small and medium enterprises. In such cases, it is counterproductive to loosen the fossil fuel exclusion (*amendments proposed to Art. 9 point (d) of the JTF regulation*) or reallocate funds to support the large enterprises being phased out (*amendments proposed to Art 8(2) of the JTF regulation*). This, in fact, might lead to serious backlash if we consider that the MTR proposal suggests a 100% financing provision and 30% pre-financing for large enterprises, many of which in these regions are according to current EU regulations excluded from state aid.

- **Addressing the employment, economic, environmental and social impacts of the transition for carbon-intensive regions.** If funds are reallocated from the measures collectively agreed upon in the Territorial Just Transition Plans, they will perhaps be spent quickly (although the reallocation process itself poses a risk of delays), but it is highly probable they will cease to address the impacts they were initially supposed to address.

- **The participatory process of deciding on the JTF.** While this was not taken advantage of in all EU regions, in several member states the Territorial Just Transition Plans were developed based on extensive local analyses and consultations. Such reallocations bypass the process and undermine the trust of the stakeholders that were involved in the planning process.

In-depth discussion of potential risks

1. Introducing new rules in the middle of the budgeting period cannot be seen as simplification or as a way to counteract delays in fund spending

It is almost unprecedented for a proposal of amending and redirecting funding priorities to be introduced in the middle of a budgeting period. The Member States will need time to become acquainted with new aspects that will appear following this proposal. The introduction of new rules mid-process (one day after the deadline of the official mid-term review) introduces confusion and adds a lot to the Managing Authorities' plates. This can be seen as even **counter to the current European Commission proposal to introduce simplifications in the next MFF** as any change in regulations requires additional staff capacity and time to become acquainted with the modifications and how this will impact fund implementation. While we invite the concept of introducing certain flexibilities into EU funding, it is our opinion that such changes should take into account how they will actually impact the Member States and regions implementing the funds and whether the format will in fact help to achieve the goals set. We have already heard that in some countries there are ideas of reallocating already contracted funds to new priorities (Estonia) or to scrap work on planned calls for proposals to initiate a reallocation of the JTF to the proposed mid-term review's changed priorities. In our opinion, this will not speed up JTF absorption but, on the contrary, poses a risk of delaying the absorption further.

The fact that the Just Transition Fund regulation was introduced quite late (in June 2021) led to the launching of the implementation of all the funds only in 2023 (after the Territorial Just Transition Plans (TJTPs) were approved by the end of 2022). Monitoring Committees were only set up in 2023 in many of the countries we work in and this was when all procedures related to implementation began (e.g., agreeing on basic procedures, establishing project selection criteria and developing and launching calls for proposals). Within our work in the Monitoring Committees, we have observed that these processes necessarily take a lot of time if the calls for proposals are to be prepared well, fulfil all the necessary requirements, follow regulations, and meet with interest from potential beneficiaries. The Managing Authorities needed time to become acquainted with new aspects that appeared in the 2021-2027 budget horizon. The introduction of new rules mid-process introduces confusion and adds a lot to the Managing Authorities' plates, especially now that the necessary structures have finally been created and fund absorption has begun in most of the countries.

While we invite the concept of introducing certain flexibilities into EU funding, it is our opinion that such changes should take into account how they will actually impact the Member States and regions implementing the funds and whether the format will in fact help to achieve the goals the European Commission sets.

2. Risk of further delaying of fund implementation in some countries or backtracking on spending

In addition, from our perspective, even minor changes to the regulations can lead to further delays in the process, especially in countries which are already behind in fund spending. Another danger is that we will see backtracking on already committed funds, undermining a process that has been years in the making. We will highlight a few examples, to show you the potential negative impacts of introducing these changes:

The case of Hungary

Unfortunately, so far EUR 0 has been contracted under the JTF (KEHOP Plus priority 5). Hungary has EUR 250 million allocated under the Just Transition Fund, though currently, with the loss of funds due to non-compliance with conditionality: EUR 200 million- for 3 just transition counties: BAZ, Heves and Baranya.

Draft selection criteria and calls for proposals have been prepared for the diversification and transformation of SMEs and creating new value chains in green economy sectors. During the preparatory phase, SME project concepts that meet JTF requirements were identified, along with detailed analyses and investment types for energy savings in SMEs. In addition, local authorities and professional organizations developed concepts and models for household energy modernization to help phase out residential lignite use. Public consultations were also held on improving the environmental conditions and water resources after mining. **The SME call is almost ready to be launched with potential beneficiaries mostly prepared but losing their patience**.

It must be emphasized that the whole planning process was hindered and halted because **no roadmap for lignite-fired energy production phase out** (and related employment impacts) has been provided so far by the state-owned Matra Power Plant (MVM company). The draft **TJTPs**, which have been revised in the meantime, still **do not contain any specific details on the phasing out of lignite mining**, which also discourages potential beneficiaries. The date and roadmap for phasing out lignite-based power generation and mining have not been clarified, despite the European Commission's, Managing Authority's & the Monitoring Committee CSO members' requests.

The mid-term review proposal and the TJTPs that have been revised in the meantime bring further confusion and risks into this whole messy Hungarian situation, and rewards Matra Power Plant/MVM's (and linked suppliers') lagging and backtracking on decarbonisation and coal phaseout, which can jeopardise the whole just transition and phase out process in Hungary.

This reversal can also be seen in the recently revised TJTPs:

- Measures **supporting innovation and R&D activities in SMEs have been removed** from the TJTPs.
- **District heating** has been included in the TJTPs **without justification**, as the district heating systems operating in the regions are not affected by the transition, since they do use coal or lignite, and there are already Hungarian Modernization Fund calls for proposals that support district heating.
- Residential lignite use for heating is justified as a problem requiring treatment, but the measure addressing **the renovation of residential buildings has been deleted** from the new TJTP.
- Measures aimed at managing environmental impacts and **improving the state of the environment** as an important condition for the quality of local life have been **deleted** from the amended TJTP. Instead, a significant budget is concentrated on the infrastructure development of one industrial park only in two municipalities.
- The **development of infrastructure for two industrial parks** and associated large enterprise investments, **subtracting from the previously planned budget for the environment and nature**.
- The **management of the negative impacts of lignite mining on water resources** (depression caused by water abstraction) has been **deleted** from the TJTPs.

The case of Estonia

Based on our data and observations, the MTR proposal has also already created confusion in countries with relatively high EU fund contracting rates, such as Estonia. On one hand, receiving the Commission's MTR proposal right after the deadline for reviewing the spending programs *(Estonia submitted its mid-term review to the Commission on 28.03.2025)* means doubling work and in the words of the managing authorities, **could further delay the spending processes by months**.

On the other hand, **the managing authorities perceive that there is some pressure to make use of the possibility for redirecting funding** - to avoid the dissonance between the nationally adopted messages and demands to react to the geopolitical risks, as well as the size and shape of the next budget. For them, some compelling reasons to consider reprogramming include the opportunity to access enhanced support tailored to Estonia's unique security context as an eastern border state, including higher pre-financing and 100% EU funding for defence-related and dual-use investments. The first cabinet hearing was held on 24 April 2025 to discuss the topic, and the Ministry of Finance is currently consulting the central monitoring committee of the EU funds on the possibility to reshuffle the priorities and welcome more flexibility in the planning. **While the final decisions are yet to be seen, this could mean removing investment decisions that are already set in the pipeline, and considerably delaying the spending process.**

3. Threat of backtracking on phaseout commitments

As can be shown above on the Hungarian example, we have seen that in a few of the countries we follow, slow progress on the absorption of the Just Transition Fund is linked to a lack of progress on decarbonisation and phaseout commitments. Similarly, in Bulgaria, subsequent governments have for two years been postponing the adoption of reforms needed to receive the second round of funding from the Recovery Plan and the Just Transition Fund. Now the next government promises to propose these reforms for parliamentary approval, but it is unclear whether they will be adopted. This will most probably be further exacerbated by the discussed amendments to the regulations.

In our opinion, for some countries that have been slow to move forward on these matters, the mid-term proposal can be seen as **even a reward for large companies (which do not contribute properly to decarbonisation) and countries that have stalled the just transition and phase out process**. Thus, we see the MTR proposal as potentially acting counter to its professed aim of enhancing and accelerating the energy transition.

4. Potential negative impact of the loosening of JTF fossil fuel exclusion

The Just Transition Fund regulation has been exceptional in having a very clear and strong exclusion for providing any funding for projects linked to the production, processing, transport, distribution, storage or combustion of fossil fuels. It remains unclear why there is such a push for a change of this exclusion with the provision that 'these projects were attributed a Sovereignty Seal under the Innovation Fund' and little time has been given to analyse what this actually means. This increases the risk that stakeholders in regions with uncertain transition paths (such as Hungary or Bulgaria) will backtrack and revive their fossil fuel investment plans instead of decarbonising.

5. Threat of negative impact related to expansion of possibility of financing large industries

We do not fully agree with the statement in the introduction to the proposal about 'the role of large enterprises in regional development, as they steer research, innovation, knowledge, and technology transfer towards other companies and create demand and employment throughout the supply chain' (p. 3). It must be remembered that in many of those regions that are **phasing out** fossil fuel industries (especially in central and eastern Europe), the large companies will simply be closing down and taking with them related small and medium enterprises that provide services and parts for the industry. There are very low levels of economic diversification in many such regions due to the sometimes decade-long economic and industrial monopoly of e.g. coal mining and energy production companies. In many cases, such companies have in fact been an impediment to different economic development.

If we take the case of Hungary, since its Just Transition Fund was designed no large-scale investment project concept has been submitted that could create a significant number of jobs, certainly not for the affected workforce (e.g. lignite miners). In addition, large enterprise investments do not create a significant supplier network and activities within the region. The suppliers of large companies moving into the region come from outside and, in many cases, from other countries. If large enterprise investments are supported, they will not improve the economic and innovation activity of local small and medium-sized enterprises, especially those not linked to the coal industry, and they will not create jobs for miners. In addition, experience shows that large investments in these regions further increase structural unemployment, and SMEs have to make extra efforts to find workers and try to recruit them from other regions.

There is a serious risk of JTF being used for industrial park development, which might turn out to be much less positive than some seem to think. There are many existing industrial parks in Hungary and their utilisation is often low. The infrastructure development of industrial parks is very investment-intensive and the costs are disproportionately high compared to the size of the Hungarian JTF. The newly revised TJTPs in BAZ and Heves concentrate only on the development of infrastructure for one industrial park each (one location per region). This concentration of financial resources and investment will not improve regional diversity and will increase the economic and social disparities that already exist in the region.

The development of industrial park infrastructure provides benefits to businesses (suppliers and subcontractors) closely linked to lignite mining, which has an uncertain future, thus contradicting the objectives of the JTF. Neither the newly revised TJTPs nor the prior consultations were able to justify that the industrial parks would be able to provide employment for the miners concerned.

Such is also the case of Bulgaria, where the government has agreed to finance large enterprises in the Stara Zagora region. However, in this region, there is the greatest need for support for small and medium-sized businesses in order to have a successful energy transition and new jobs outside the coal industry.

An interesting case in point is the STEP reallocation of the Just Transition Fund in Romania, where money initially planned to support start-ups and the decarbonization of two large ETS companies in the just transition regions of Galați and Mureș was reallocated to STEP. While the reallocations for the ETS projects in the regions maintain their purpose under STEP, it is unclear how the procedure works or how the rest of the STEP money will be spent. The Managing Authority of the Just Transition Programme in Romania launched an expression of interest call for STEP projects in JTF regions last year, yet no follow up on proposals was made. The lack of transparency, impact assessment and correlation of STEP governance with national industrial or innovation initiatives risks becoming a missed opportunity for the JTF regions to create alternative high added-value jobs and thus become part of the European value chains of strategic industries, with potential negative impact on the wider economy and cohesion objectives. This exercise at reallocation (STEP) should have been fully assessed before introducing similar and more extensive changes into the JTF regulation. For now, little is known about how exactly the STEP reallocation has worked in the different countries and thus providing it as an example for the proposed amendments seems to be quite premature.

Recommendations

To reiterate the requests we made at the beginning of this letter, we would like once again to state that **we feel appropriate amendments should be proposed at the plenary in June to counteract some of the issues that will be caused by the introduction of these changes, preferably preceded by a speedy assessment of the probable impacts of the modifications.**

Primarily, we recommend:

1. **Deleting the amendment loosening the fossil fuel exclusion.**
2. **Deleting amendments redirecting the JTF to large companies, especially those provisions that provide exceptionally beneficial financing conditions.**

We would also like to express our strong support for the Court of Auditors' opinion that if the Proposal is passed, '**the Commission should take adequate measures to mitigate the risk that the implementation of these new priorities weakens the place-based approach and negatively affects the effectiveness of the policy resulting in increasing regional disparities'.** We also support its recommendation concerning the need to "carry out an *ex post* evaluation of the impact of the new measures on cohesion policy, and ensure that major amendments to the cohesion policy framework in the future are preceded by an appropriate impact assessment".

We therefore call also on the European Commission to:

- **Prepare clear guidelines and an outreach program targeting Managing Authorities and stakeholders to ensure consistency between the priorities proposed in the new Commission proposal** (2025/0084 (COD)) **and the priorities for the mid-term review as outlined in art. 18 of the Common Provisions Regulation Reg EC 2021/1060** (Art. 18 CPR: "1. For programmes supported by the ERDF, the ESF+, the Cohesion Fund and the JTF, the Member State shall review each programme, taking into account the following elements: o (a) The new challenges identified in relevant country-specific recommendations adopted in 2024; o (b) The progress in implementing the integrated national energy and climate plan, if relevant; o (c) The progress in implementing the principles of the European Pillar of Social Rights; o (d) The socioeconomic situation of the Member State or region concerned, with special emphasis on territorial needs, taking into account any major negative financial, economic, or social development.")

- **Take measures to ensure the partnership principle is implemented in and beyond the mid-term review process.** Bankwatch warned the European Commission in its report "Cohesion policy at a crossroad" in December 2024 that the ongoing mid-term review process was not well informed and participatory, which could undermine the quality and the ownership of the proposed changes in the National spending plans.

- **Encourage Member States to conduct a thorough evaluation of the gaps and bottlenecks** of the implementation of the ERDF, CF and JTF, taking into consideration the outcomes of the mid-term evaluation of the 2021-2027 cohesion policy programmes (commissioned by the European Commission).

With regards,

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CEE Bankwatch Network