



# SHAPING A EUROPEAN BUDGET FIT FOR CLIMATE ACTION AND JUST TRANSITION

## ABSTRACT

The negotiations for the next EU multiannual financial framework (MFF) – the long-term budget at the centre of EU policy action – will involve difficult discussions in the coming years. With new political priorities arising, such as defence, and the European Commission's current focus on competitiveness, flexibility and simplification, concerns are growing that the European Green Deal is at risk and that the next MFF will not be fit to tackle climate and just transition challenges.

Based on the discussions emerging from a territorial just transition stakeholder meeting, the present policy brief explores five key elements for an EU budget that promotes sustainability, social cohesion and transparent governance:

- (1) a territorial approach to transformation,
- (2) social conditionalities in the next MFF,
- (3) environmental and climate conditionalities,
- (4) multi-level governance, stakeholder inclusion and accountability, and
- (5) funding for accession countries.

The concluding recommendations for the next MFF highlight, among others, the importance of maintaining the place-based approach developed in the just transition process, improving capacity building, prioritising projects that reduce climate, environment and health-related inequalities and that “do significant good”, and meaningfully involving local actors and civil society.

Overall, competitiveness, flexibility and simplification should be developed in a way that benefits the people and regions that need the most support, in line with a just transition and the objectives of the European Green Deal and the European Pillar for Social Rights.



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## **INTRODUCTION: A VISION FOR THE NEXT MFF**

by Anelia Stefanova

The next EU multiannual financial framework (MFF) – the long-term budget at the centre of EU policy action – is sparking political debate across Europe. Indeed, negotiations for the 2028-2034 MFF were formally launched in the first months of 2025 and will involve difficult discussions in the next years. The context has significantly changed since the last MFF negotiations. Different political priorities are weighing on budget matters, such as increased defence spending and the repayment of the €300 billion joint debt, contracted following the Covid-19 pandemic, set to begin in 2028. Two key problems identified for the EU budget include (1) its anticipated reduction by nearly half after the end of NextGenerationEU, unless additional resources are mobilised by the member states; and (2) the need to secure new own resources to fill the spending gap necessary to achieve environmental and climate objectives.

The 2024 Political Guidelines of the European Commission's President<sup>1</sup> and hearings of the new Commissioners<sup>2</sup> also indicated a shift towards competitiveness, flexibility and simplification, as confirmed by various documents that have been put forward by the European Commission in recent months.<sup>3</sup> This shift in priorities may even impact the current MFF; for example, Executive Vice-President for Cohesion and Reforms Raffaello Fitto launched a proposal on 1 April 2025 to amend the currently binding European Regional Development Fund, Just Transition Fund and Cohesion Fund regulations.<sup>4</sup>

While the commitment to decarbonise and achieve 90% reduction in greenhouse gas emissions by 2040 remains a priority for the new Commission,<sup>5</sup> concerns are growing that the European Green Deal, specifically the implementation of parts of the Fit for 55 legislative package, is at risk. This may especially be linked to threats of loosening clauses in regulations, for example, on building and car efficiency or the non-enforcement of ETS2 and the Carbon Border Adjustment Mechanism.

Simultaneously, the competitiveness agenda set out in the Commission's compass<sup>6</sup> and the newly set up Housing Task Force<sup>7</sup> attempt to tackle some of the main issues that European citizens and businesses are currently facing, such as a lack of affordable housing<sup>8</sup> and rising energy and heating prices.<sup>9</sup>

Therefore, to develop an ambitious and modernised MFF that supports Europe's efforts towards climate neutrality and ensures a safer and healthier environment for its citizens, it is now essential to discuss and define how the EU budget can support the implementation of the EU Green Deal while efficiently and effectively delivering on competitiveness and security objectives. It should be stressed that the perceived dichotomy between competitiveness and environmental provisions is misleading, as EU industry competitive advantages will irremediably fall behind without substantive progress on European Green Deal objectives.

### **A budget that prioritises sustainability**

As we face intensifying climate and biodiversity crises and escalating pollution levels, the very ecosystems that sustain our existence are under unprecedented threat. As floods, storms and droughts intensify, the economic losses between 2021 and 2023 in the EU amounted to €162 billion, with those years all in the top five of the highest annual economic losses since 1980.<sup>10</sup> The urgent need to phase out fossil fuels, switch to an efficient renewable energy system based on decentralised smart energy production and electrification, and ramp up adaptation measures can also be seen as a strategic choice to invest today in order to avoid losses in the future and increase the resilience of the EU economy. This requires significant and sustained investments, along with a bold vision, to ensure the long-term wellbeing of our citizens and the environment. While an efficient economy is essential, short-term economic considerations cannot override the need to support ecosystems, healthy citizens and a just green transition, all of which are essential preconditions for a sustainable and secure economy and integral parts of Europe's competitiveness.

EU citizens are concerned about the future and demand accountability. According to a recent Eurobarometer survey on fairness perceptions of the green transition,<sup>11</sup> 88% of EU residents support the green transition, yet more than half doubt that it will be fair and affordable for everyone by 2050. This scepticism is grounded in a harsh reality: our fossil-fuel-based energy system left 9.3% of people in Europe unable to adequately heat and cool their homes in 2022, with Southern, Central and Eastern Europe hit particularly hard.<sup>12</sup> Decarbonisation, especially through the rollout of renewable energy and decentralised grids, provides solutions for both strategic autonomy and energy security. By providing access to affordable energy, it can boost competitiveness and increase the wellbeing of citizens.<sup>13</sup> However, for the transition to be socially accepted, it must be guided by the principles of social equality, the inclusion of the most vulnerable and active citizen participation.

### **A budget that is closer to the people**

No region should be left behind in the transition. Special attention must be paid to individuals and groups most affected by phasing out fossil-fuel-based energy sources and to energy-intensive industries that produce necessary goods. The Just Transition Fund has been a crucial instrument for supporting carbon-intensive regions across the EU as they phase out fossil-fuel industries. It is imperative to build on this support in the EU's next MFF, honouring the political commitment to significantly increase financing for the just transition, ensure continuity in EU policies and provide support to accession countries (the Western Balkans and Ukraine). By strengthening the types of actions made possible by the Just Transition Fund, we can ensure that vulnerable regions receive the financial and technical assistance needed to transition to sustainable economic models, thereby safeguarding jobs and livelihoods.

A transformative budget must be inclusive and ensure that all groups, especially in cities and municipalities, can access the resources needed to drive the transition at the local level. Local authorities

are responsible for the implementation of more than 70% of EU rules;<sup>14</sup> therefore, consideration should be given to strengthening direct funding mechanisms for cities of all sizes. This will enable them to implement participatory, innovative and tailored solutions that meet their specific needs and contribute to broader climate goals. The distribution of the current EU budget shows that, even if groups like smaller municipalities and civil society organisations are formally eligible for funding, they still face obstacles that are impossible to overcome, such as requirements for large financial contributions and unrealistic deadlines. These realities pose a major threat to cohesion.

Additionally, it is essential to provide targeted support for vulnerable groups, including low-income and energy-poor families. The EU's long-term budget must contribute to the implementation of plans for affordable housing, ensuring that the green transition is not only sustainable but also equitable. The Social Climate Fund should also fully serve the most vulnerable groups struggling with energy and transport poverty and be replenished through additional resources, such as Emissions Trading System (ETS) revenue channels. Research clearly shows that citizens are more likely to support the transition if they receive direct benefits from it.<sup>15</sup>

To ensure sufficient and well-targeted financing, it is crucial that we conduct quality assessments of energy and transport poverty among all families, particularly marginalised groups, such as the Roma, minorities and migrants. Maintaining consistency with other EU funds is also vital for identifying the most-pressing financing priorities. By putting the needs of those bearing the brunt of the current crises front and centre, we can ensure that the benefits of the transition are shared and redistributed, fostering social cohesion and long-term resilience.

## A sound, transparent, participatory and accountable governance system

Finally, the MFF should be functioning according to a sound, transparent, participatory and accountable governance system. Public participation must be strengthened by renewing the partnership principle and extending it to all European funds. Public oversight should be dynamic and diverse, with monitoring committees driven by engagement rather than formal decision-making processes. Multi-level dialogue, supported by systematic capacity building and technical assistance, could be the cornerstone of the budget to ensure a successful transformation in line with the European Green Deal. Within the EU, a separate, user-friendly mechanism should be established to allow for independent civil society monitoring actions, thus preventing the misuse of EU funds, particularly in relation to financing environmentally damaging activities. An accountable governance system that upholds planetary stewardship could be put in place, treating the planet as the main stakeholder and addressing its boundaries and restoration needs.

Investing in good governance, partnership and accountability brings several benefits. It contributes to discussing more broadly the features of specific schemes and calls for proposals, leading to higher-quality investments that meet identified needs and can be more impactful. It also contributes to increasing the acceptance and ownership of EU funds, as they are widely discussed and made known to stakeholders. Finally, it reduces the possible misuse of funds and accelerates absorption.<sup>16</sup>

## HOW CAN THE FUTURE BUDGET ADDRESS THE MOST IMPORTANT CHALLENGES OF CLIMATE ACTION AND A JUST TRANSITION?

In a closed-door stakeholder meeting organised by FEPS, FES, CEE Bankwatch Network and Solidar, members of trade unions, social partners, representatives of civil society organisations, academics, policy experts and institutional stakeholders from across Europe came together to

discuss how to better align the European budget and the EU Green Deal. The present section is a result of these discussions and subsequent desk research. It aims to showcase the learnings of the just transition process by analysing five key areas of interest:

- Maintaining the territorial approach to transformation in the next MFF.
- Integrating social conditionalities in the next MFF.
- Aligning investments and funding with European Green Deal policy objectives: environmental and climate conditionalities.
- Multi-level governance, stakeholder inclusion and accountability for democratic governance in the next MFF.
- Planning and funding the transformation for accession countries (the Western Balkans and Ukraine) in the next MFF.

## Maintaining the territorial approach to transformation in the next MFF

One of the key takeaways from the current just transition process in the EU is that transition is context-specific: changes occur in a particular place, impacting local communities, and thus, must be addressed in a way that reflects the specificity of the territory. The working group discussed the need to preserve and further strengthen the territorial approach in the next MFF, to ensure the continuation of tailored support for regions experiencing the social, economic and environmental impacts of a transition process. The participants explored strategies to better align available funding instruments with regional needs, foster inclusive stakeholder involvement and use the existing positive investment examples as blueprints for a just transition. They also discussed how simplifying the next MFF, in the context of the new Commission's priorities, could lead to better access to support and funding with a strong regional component and bottom-up approach.

The challenges of introducing such enormous change as that envisioned in the European Green Deal frequently need to be addressed at the level of territories that have already been under decades-long pressure resulting from the monopoly of declining industries. For many of these regions, economic regression; environmental degradation resulting from industrial exploitation; and negative social impacts linked to unemployment, mass migration, brain drain and an aging demography have been part of the landscape for many years, inhibiting the capacity to initiate and adapt to change. The way the EU supports regional transitions and assesses needs must take these situations into account. This has already been partially addressed in some regions; however, more needs to be done to shift from simply addressing the impacts of transitions to actually creating potential for transformation from the bottom up.

While it is often indicated that local municipalities lack knowledge about European processes and capacity to implement change, some local stakeholders also highlight that people working in Brussels have a relatively limited understanding of what is happening on the ground, in the regions and municipalities implementing the transformation. Nonetheless, the difficulties, challenges and achievements of the just transition regions, which, in fact, can be seen as the pilot projects of the European Green Deal, should be used to develop a better understanding of what is concretely needed to implement such massive changes at the EU level. But this would require in-depth analysis and learning from current projects, rather than limited assessments mainly based on fund absorption rates.

In addition, improving the implementation of cohesion policy can create opportunities. Indeed, the new competitiveness agenda should not only focus on well-established companies and developed municipalities functioning as state or regional centres, but should also include less-developed regions. Many current just transition regions frequently have a history of low levels of fund accession and/or absorption due in part to the high administrative, competency and financial burden placed on applicants. Direct funding to regions

impacted by the transformation (e.g., through the Just Transition Fund) has shown positive results compared to more centralised allocation models, for example, by changing mindsets, creating capacities where there were little or none, and allowing smaller communities and municipalities to access funds they would not get when competing with more established beneficiaries. Thus, it would be necessary to introduce checks for all EU funds to avoid a concentration of financial support and diversify beneficiaries.

One simple way in which this is already being done within the current just transition process is by improving administrative capacities and access to expertise at the local and regional levels, especially but not only among managing authorities. In many regions, more expertise on environmental and climate issues and decarbonisation is greatly needed, as well as knowledge about how to access European funds.

Generally, the funding needs of regions can be described with four key elements: predictability; stability; flexibility; and clarity. In light of current debates on the new EU budget, it is especially worrying that there is some uncertainty about the continuation of the Just Transition Fund. This indeed undermines the predictability, clarity and stability of funding needed to help regions develop their capacities for transformation over a reasonable period of time. The competitiveness agenda should be linked to cohesion objectives and should support local transitioning regions in becoming important parts of the newly developed value and job chains and green industries.<sup>17</sup> In fact, participants proposed that the positive experiences from the current Just Transition Fund, especially the tangible positive impacts of the place-based approach on building capacities for change, could be integrated into the general structure of EU policy and funding mechanisms in the next MFF. In terms of flexibility and clarity, EU funds also need to be more user-friendly for regions and local actors. Thus, simplification should be designed based on the needs of the beneficiaries of the funds.



## Integrating social conditionalities in the next MFF

Economic objectives and indicators alone cannot promote a just transition and cohesion in the EU. The social implications of the green and digital transformation need to be addressed to ensure the wellbeing of all EU citizens. In this context, the MFF has an essential role to play in promoting social objectives and the European Pillar of Social Rights Action Plan.<sup>18</sup> However, there currently is no link between EU funding and accountability towards the common good of the Union and its citizens. Integrating social conditionalities in the next MFF could ensure that public funds are spent for the benefit of all EU citizens. Making the transition fair and improving the quality of life of EU citizens will also help with citizen ownership of the European Green Deal goals and counter growing polarisation of the policy debate. The working group therefore discussed how to define the social conditionalities that need to be anchored in the next European budget and the tools that could condition future EU funding and assess its contribution to social objectives.

Conditionalities can take on different forms: targets; principles; ex ante and ex post conditions; access conditions; and reforms. They can also be applied in different ways: mainstreaming throughout the EU budget; integration in EU trade deals; implementation through established procurement rules; and through European Investment Bank (EIB) financing. In all cases, adopting social conditionalities requires a participatory approach, a mechanism that facilitates and involves local actors in the design of these policies.

The key first element in all reflections on social conditionalities must be to question what we aim to address and what we can achieve by integrating new conditionality mechanisms into the MFF. Indeed, social conditionalities cannot solve every problem, but they can contribute to improving the social impact and effectiveness of EU funds by shaping and assessing the quality and relevance of projects from the perspective of fairness and accessibility. By doing so, social conditionalities could not only help EU funds better address the consequences

of the green transformation for those most at risk, but also increase the social acceptance of said transformation. Reflections on social conditionalities should also lead to rethinking our objectives. While job creation is a typical objective for employment initiatives and a measure of success, an alternative approach centred on the wellbeing of people could focus on how many long-term unemployed people found jobs as a result of the initiative and on the quality of jobs created.

The EU policy principle of “do no significant harm” (DNSH) should be a second key element in discussions on social conditionalities. The DNSH principle aims to ensure that EU policies and programmes do not have a negative impact on climate and environmental objectives. While it did not receive a warm welcome when it was introduced, it now plays a key role in shaping projects and investments. Implementing a similar principle to social objectives could be useful, thus begging the question of what the social equivalent of the DNSH principle could look like. However, the DNSH principle also presents limits, with some considering it as a “box-ticking exercise” and calling for more innovative approaches. Another possibility would be to bring back the principles of a social taxonomy.

A recent letter prepared by Fiscal Matters and co-signed by a number of organisations provides a useful overview of some key recommendations regarding various conditionalities, especially stating that

“Member states should agree on a minimal set of pre-conditions that should apply whether the funds come from national budgets, EU funds, tools regulated via EU laws such as public procurements, state aid, tax benefits, export credit and any other tool to de-risk private investments.<sup>19</sup>”

For example, similarly to subsidies for the Common Agricultural Policy, access to funds could be linked to compliance with minimum social and labour standards, such as engaging in collective bargaining, respecting collective agreements and supporting workers’ reskilling.

However, integrating conditionalities into the MFF and implementing them present challenges. Indeed, such an endeavour needs to take into consideration the multi-level implications of EU policy (i.e., European, national, regional and local levels), as well as the potential cost of enforcing social conditionalities. The limited competences of the European Commission on social matters could also constrain its capacity to design and enforce social conditionalities. Finally, the question of how to protect final beneficiaries remains open. With no tools to give “teeth” to EU rulings, we may still face infringements from member states. As we saw in recent policy developments, for example, in Hungary, the conflict between the national government and the EU has resulted in the marginalisation of some of its most vulnerable groups.

### **Aligning investments and funding with European Green Deal policy objectives: Environmental and climate conditionalities**

Aligning investments and funding with the European Green Deal policy objectives is essential to overcome the current spending gap and meet the EU’s ambitious climate and environmental targets. To maximise the benefit of public funds, it is critical to ensure that investments are transformative and contribute to long-term systemic change while not contradicting climate and environmental goals. The working group focused on bridging the gap between the environmental objectives of the European Green Deal and the significant investment needs required to achieve a transition that respects planetary boundaries. Ensuring sufficient funding is crucial to avoid undermining the EU’s climate and environmental ambitions, especially considering their contribution to longer-term competitiveness goals.

A significant challenge is the pressure for rapid fund spending. While efficient fund absorption is necessary, low administrative capacities and excessive speed can lead to poor investment decisions, hindering the funding of high-quality, transformative projects that require time to substantively link and address environmental, climate and social objectives. Several good examples of transformative investments exist

from current and previous funding programs, which is why enabling conditions are needed to facilitate cross-regional exchanges between member states. One such initiative is the Just Transition Platform, which should be maintained to support local authorities in selecting high-impact projects.

To safeguard the transformative potential of public finance, environmental and climate conditionalities – such as climate earmarking (with an improved Rio marker system and potentially higher thresholds for climate and environment-related investments) and adherence to the DNSH principle – are crucial. These mechanisms ensure that public funds are directed toward projects that genuinely contribute to climate and environmental goals with due consideration for negative social externalities.

Climate and environmental conditionalities, which renew the commitment to phase out fossil fuels and create accountability for this phasing out, would further ensure that public institutions do not artificially prop up an obsolete model of competitiveness which fails to factor in the material impacts of economic activity. This, in turn, can lead to positive spillover for the EU’s longer-term competitiveness, by ensuring consistent market signals across the EU’s funding instruments. To this end, policy consistency across strategic documents remains essential to deliver a coherent and unified decarbonisation signal, particularly in alignment with the European Semester.

A major challenge that needs to be discussed when exploring environmental conditionalities lies in avoiding conflicts between climate and environmental goals and industrial expansion, particularly in sectors where finding sustainable alternatives is difficult. While reindustrialisation efforts pose environmental challenges, the deployment of renewables must also be carefully managed to prevent unnecessary land-use expansion to comply with the objective of biodiversity protection and restoration. For this transition to be truly sustainable, it must focus on replacing and repurposing existing infrastructure, rather than expanding and disrupting ecosystems further. As such, effective checks and balances are needed to prevent ecological harm while maintaining

project feasibility. One potential solution is to mandate community benefits for renewable projects developed near villages, ensuring local support and minimising disruption.

When considering environmental and climate conditionalities in EU funding, it is important to emphasise that these should go beyond surface-level actions, such as green travel. Ideally, each EU-funded project should contribute to long-term, structural changes that align with a socio-ecological transformation. The transition to clean energy must be pursued in a way that reverses ecological damage while maximising long-term benefits for both people and the environment.

A key principle that should guide the budget is prioritising the Energy Efficiency First principle, particularly given its intersection with social issues. Additionally, the prosumer model should be encouraged, as it simultaneously advances environmental, security and social objectives. While the DNSH principle provides a foundation for safeguarding environmental objectives, its scope remains limited to a logic of protection rather than regeneration and restoration, curtailing its effectiveness at preventing harmful projects.<sup>20</sup> To strengthen this principle, better enforcement mechanisms and independent evaluators are needed to conduct quality environmental assessments. Moreover, rather than merely preventing harm, EU policymakers should adopt a “do significant good” approach, actively rewarding projects that deliver on decarbonisation and enhance biodiversity and ecological resilience. For instance, additional funding or priority points could be allocated to projects with strong climate, ecological and biodiversity benefits.

Finally, it is imperative to uphold the EU’s highest commitments and prevent regression in environmental and climate policies. While budget simplification measures may be useful, they should not compromise on predictability, environmental integrity and delivering social advantages. For example, a concerning example of potential backtracking is present in the proposed Clean Industrial Deal,<sup>21</sup> which suggests including fossil

gas as an acceptable energy source, despite the severe climate impact of methane.

By ensuring robust funding mechanisms, enforcing strong conditionalities and prioritising high-impact investments, the EU can align its financial strategies with its climate and environmental goals, while developing a future-fit competitive market, securing a just and sustainable transition for all.

### Multi-level governance, stakeholder inclusion and accountability for democratic governance

Good governance, transparency and stakeholder involvement in decision-making should be anchored in the EU budget and can contribute to aligning the budget with the EU’s climate goals. The working group discussed strategies to strengthen democratic decision-making and foster accountability across all governance levels, as well as challenges for meaningful participatory processes and the use of both existing tools (e.g., monitoring committees) and new instruments.

Thanks to the legal provisions laid down in two pieces of EU legislation, the Common Provisions Regulation (CPR)<sup>22</sup> and the European Code of Conduct on Partnership,<sup>23</sup> member states are obliged to establish monitoring committees. As stipulated in Article 40 of the CPR, monitoring committees are empowered to track progress in the implementation of the programmes; issue recommendations; and, most importantly, discuss and approve the project selection criteria for all interventions under these programmes. As noted in a 2023 CEE Bankwatch briefing,

“Unlike other EU funding streams, the Common Provisions Regulation (CPR) that applies to the cohesion policy requires the involvement of public authorities at national, regional and local levels as well as economic and social partners and bodies representing civil society in accordance with the partnership principle.<sup>24</sup>”

Monitoring committees can thus be indicated as an exceptional opportunity to maintain public oversight over public finance.

While, in practice, the structure and functioning of monitoring committees differ greatly across countries, they all provide great opportunities to monitor how funds are spent and can greatly increase the transparency of public finance. Unfortunately, there are many examples of these bodies not fulfilling their full potential. Indeed, common issues include under- or non-representation of some groups on the committees, poor communication, limited space and time for analysis and discussion of relevant documents, and low capacities among some of the members. Many monitoring committees also lack proper timelines regarding when calls for proposals will be launched, which limits the possibilities for analysing and commenting on the proposals. Documentation submitted to monitoring committees is notoriously difficult to analyse; it is either provided in very high amounts or without proper introduction and structuring. The language of these documents is frequently highly technical and high levels of engagement are required from the people within monitoring committees to be able to comment on what is being proposed.

Despite these shortcomings, the participation of civil society organisations in monitoring committees is essential, as it significantly increases oversight over governance structures and their accountability. Therefore, improving committee governance, and subsequently civil society participation and transparency, is necessary. Some suggestions for improvements include covering the real costs of participation for civil society representatives, enabling the possibility of issuing minority opinions, providing extensive capacity-building opportunities and improving access to expert analyses when checking proposals made within the monitoring committees.

While monitoring committees are a great example of how public oversight can be maintained over the spending of public funding, it is by no means the only tool. For instance, national strategic documents and legislation should be consulted on by a wide

range of stakeholders, including civil society organisations, but in practice such consultations can sometimes become box-ticking exercises, rather than meaningful participatory processes. Similarly, at the EU level, many of the decisions are made without providing access to or possibilities for interventions by civil society organisations and other stakeholders. The EU needs to lead by example and truly involve the beneficiaries of public funding in its decision-making processes and increase its own accountability.

It is expected that, in the future, more stakeholders will be able to monitor European funding processes, but lessons from current experiences need to be taken on board in a more structured manner and across the various levels. The best experiences could be gathered through a platform for best practices from monitoring committees. Reflection on how to harmonise monitoring processes to avoid discrepancies between various countries and governance levels is necessary.

### **Planning and funding for transformation within the next MFF for EU accession countries (the Western Balkans and Ukraine)**

Achieving the phasing out of fossil fuels and climate neutrality in Europe cannot happen without bringing on board all the countries on the European continent, including accession countries. The working group focused on the need to provide support in the next EU long-term budget for just transition planning and resource mobilisation in carbon-intensive regions in accession countries, zooming in on the situation in Ukraine and the Western Balkans (Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, and Serbia).

Key steps to move toward decarbonisation in these countries would include first developing Territorial Just Transition Plans (TJTPs) – or equivalent frameworks – to map local needs, engage communities in the process, and propose actionable strategies for decarbonisation and economic diversification. Indeed, such plans<sup>25</sup>

are critical tools to demonstrate a well-structured and inclusive approach to regional development, going beyond what has previously been set in the National Energy and Climate Plans (NECPs) and just transition diagnostic documents and roadmaps, where available (the case for the Western Balkans).

So far, most countries in the Western Balkans (except for Kosovo) have prepared diagnostic documents regarding their energy situation. North Macedonia has already adopted a national just transition roadmap, while other countries are preparing drafts, even if they are not prioritising their adoption. As a result of its climate ambition, North Macedonia received some funding for the just transition (a combination of a grant and credit line from the Climate Investment Funds Accelerating Coal Transition Programme),<sup>26</sup> but no dedicated funding is available yet for other countries. In Ukraine, several western regions are developing TJTP equivalents, which will soon have to be approved and implemented. More eastern regions do not yet have such plans, but various economic strategies involving just transition measures were developed in pre-invasion times. They would have to be revised into specific plans or roadmaps.

To move forward, regions in Western Balkan countries and Ukraine should all develop TJTP equivalents in the near future, followed by the provision of dedicated funding for their implementation.<sup>27</sup> Adopting a territorial approach would allow for tailored solutions to regional problems linked to carbon-intensive industries. The plans that are already ready should be supported without delay. The regions that are ahead can then be used as learning examples for regions that are at an earlier stage of the process.

In the context of climate change and decarbonisation policies, neither the Western Balkans nor Ukraine can plan a future based on coal. However, they need external support for developing and implementing TJTP equivalents in some regions, to ensure the sufficient protection of affected communities. The challenges lie primarily in the lack of appropriate funding, local expertise and capacities (including for organising the processes). The EU has a key role

to play and could introduce a support mechanism similar to what is provided to EU just transition regions under the current MFF for Western Balkan and Ukrainian carbon-intensive regions.<sup>28</sup> Concretely, this could take different forms:

- external funding (as part of the MFF), especially providing funds directly to municipalities, preferably in the form of grants and/or direct support;
- external experts providing meaningful support for planning, developing local capacities and implementation (through regional offices for technical assistance, and engagement with international financial institutions (IFIs), for example, the EIB's JASPERS program for technical assistance); and
- guidance on governing the transition and enhancing ambition for decarbonisation.

## **CONCLUSIONS: TOWARDS THE NEXT MFF**

Discussions of the different working groups allowed a few key themes to emerge on how to shape the next MFF. While the current MFF needs improvements, including simplification (especially with a focus on the beneficiaries of EU funds), existing ambitions and achievements of the European Green Deal, cohesion policy and the just transition process should be maintained. European funds should be simultaneously predictable and flexible, consistently following a coherent and well-defined pathway and adapting to circumstances and needs on the ground. Lessons from the current funding period, such as the effectiveness of the place-based approach or the positive results of a stronger partnership principle, should be highlighted and expanded in the next MFF. By adopting strong social and environmental conditionalities aligned with ambitious climate and social objectives, and extending them to EU accession countries, we can illustrate the core vision for a just, safe, healthy and prosperous Europe.

## Final recommendations

Based on the discussions, the following recommendations are proposed in the hope of improving ongoing and future climate action and just transition processes and their funding through the EU budget:

- The place-based approach that was implemented within the just transition process should be retained and extended to other funding streams, especially aspects related to improving the provision of technical assistance and capacity-building opportunities in the regions undergoing transformation, as introducing change requires skills and knowledge.
- The competitiveness agenda should not lead to the implementation of solutions focused solely on supporting well-established centres, but it should also create and develop potential for change, innovation and transformation outside of the “centres”.
- While some reforms are necessary for the next MFF, the predictability, stability, flexibility and clarity of European funding should be maintained and/or improved. Simplification, including the universal and simplified application of minimum requirements across funding programmes, should be beneficiary-centred, especially focused on those most in need of support in implementing change.
- The EU should adhere to at least the highest commitments set thus far with regards to climate, environmental and social conditionalities. Funding earmarked for achieving the EU’s climate and environmental objectives should be substantially increased and monitored, using improved markers to ensure that funds are being spent in accordance with their aim. Funding to reduce climate, environment and health-related inequalities should be prioritised, as well as dedicated funding for biodiversity and nature restoration.
- The future EU budget should be policy- and reform-based and closely linked to planned social, environmental and climate reforms and targets, for example, through the prioritisation of objectives related to the Energy Efficiency First principle or the encouragement of the prosumer model, as these solutions enable social and climate objectives to be addressed simultaneously.
- Social mainstreaming and conditionalities are crucial elements of the transformation process occurring within the EU, and they need to be significantly strengthened within the next MFF through conscious adherence to the social pillar objectives as a cornerstone for the EU’s development.
- The DNSH principle, as applied to climate and environmental objectives, should be better enforced and implemented. The DNSH narrative should evolve from discouraging harmful investments to promoting projects that benefit all, namely, those that do “significant good”. A strengthened DNSH principle should also be introduced for social aspects of European fund spending. This will aid in alleviating social unrest and frustration linked to the transformation.
- Public oversight over the spending of European funds needs to be strengthened and improved at all levels with higher accountability of public institutions. This includes harmonising how monitoring committees function across different member states, increasing transparency of fund-spending and decision-making processes, and expanding the participation of various stakeholders.
- The involvement of civil society should be ensured in all stages of the MFF development and implementation process, including at national and local levels. Increased dedicated funding should be provided to support the timely and meaningful engagement of civil society in the development and implementation of EU policies, including national implementation and enforcement. This includes institutional frameworks that ensure greater transparency, accountability and participatory forms of governance, such as public consultations.

- Finally, Western Balkan and Ukrainian carbon-intensive regions need to be included as beneficiaries of similar support to that provided in the current MFF for EU just transition regions. Decarbonisation that does not include our direct neighbours will not fulfil its promise. Most importantly, it is necessary to:
  - 1) ensure targeted support (technical and, more importantly, financial) as part of the new MFF to the most advanced regions in accession countries, which can then be used as good examples for others; and
  - 2) create competence centres as part of a new support platform for Ukraine and the Western Balkans, preferably regional offices for technical assistance to support the municipalities/regions in their fundraising, engagement with IFIs and provide direct support for strengthening the regions.

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## About FES Just Climate

In 2021 the Friedrich-Ebert-Stiftung launched its competence center for Climate and Social Justice, based in Brussels. Climate and social policies must be two sides of the same European coin in the future. We need to develop climate-neutral energy systems and industries. Simultaneously, we need to safeguard and strengthen the welfare state, local participation and workers' rights.

FES Just Climate acts as a think tank about current and coming trends, and a policy advisor in ongoing debates. We support FES offices and their partners in shaping the industrial revolution of our times. We focus on energy, industrial, structural and labor policies, and the European Green Deal.

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## About the CEE Bankwatch Network

The CEE Bankwatch Network gathers 16 member groups in 14 countries in central and eastern Europe, the Caucasus and Russia into the largest network of grassroots, environmental and human rights groups in central and eastern Europe. CEE Bankwatch has its headquarters in Prague, Czechia, but their staff is based in offices across the region and in Brussels

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SOLIDAR is a European network of Civil Society Organisations (CSOs) with a global reach working to advance social justice through a just transition in Europe and worldwide. Our over 50 member organisations are based in 24 countries (19 of which are EU countries) and include national CSOs in Europe and abroad. Our greater family also entails partner organisations active at the international level as well as local organisations spread across more than 40 countries in Latin America, Asia and Africa. SOLIDAR represents and amplifies the voices and demands of its members and partners at the European and international level. SOLIDAR organises its work for lifelong and life-wide learning through the SOLIDAR Foundation for progressive education and citizenry participation. The network is brought together by its shared values of solidarity, equality and participation, and its mission that we achieve more together in solidarity. SOLIDAR voices the concerns of its member organisations and partners to the EU and international institutions across three main policy areas: social affairs, international cooperation, and lifelong learning.

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**POLICY PROPOSALS FOR THE  
EU JUST TRANSITION AGENDA**

**ABSTRACT**

If climate policies do not also consider socio-economic inequalities, implementing them will be much harder. While the EU's just transition agenda is a welcome step in this direction, this policy brief highlights several areas for improvement. Monitoring Committees play a central role in ensuring the transparent and inclusive disbursement of the Just Transition Fund, but they suffer from limitations, such as a lack of representation and technical expertise, which would call for further capacity building and increased stakeholder participation. The focus of just transition funding on preserving jobs in transitioning industries raises concerns about support for other vulnerable groups and the pace of funding, highlighting the need for measures to stem brain drain, extend funding duration and streamline access. This is especially relevant to enhance the transformative potential of just transition funding.

The proposal for a European socio-ecological welfare model aims to prevent welfare state erosion amid environmental crises by aligning with the European Pillar of Social Rights and integrating social and environmental goals. Efforts to institutionalise the just transition within the European Commission's workplan require increased involvement of decisionmakers, recognition of local contributions, and integration of long-term vision and communication strategies to fight disinformation.

While the just transition movement is composed of a variety of actors, such actors often come with diverging views. Building trust and substantive dialogue among actors, highlighting the importance of understanding local realities and identifying common ground can go a long way in advancing a coherent and more impactful agenda.



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**POLICY BRIEF**  
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**COHESION FOR  
COMPETITIVENESS**

**How place-based and cohesion policy  
are essential determinants of success  
for a European Industrial Strategy**

**ABSTRACT**

The European Union is currently grappling with a range of interlinked challenges, including decreasing competitiveness, climate change, demographic shifts, rising inequality, and geopolitical pressures, all within a constrained fiscal environment.

This policy brief analyses how a place-based approach can contribute to achieving the three main priorities of the EU's industrial strategy: competitiveness, strategic autonomy, and decarbonisation. Furthermore, the risks are outlined for reducing cohesion policies to mobilise the required resources for an ambitious industrial strategy.

A place-based approach is essential for the EU's industrial strategy to address these combined challenges effectively. Only by tapping into the full potential of each of its regions can the EU mobilise the resources required for the desired transformation.

A successful industrial strategy needs to develop each region's comparative advantages, unlock its capabilities and resources through improving physical, digital and social connections, and foster international cooperation between regions and businesses.

To fully realize its industrial strategy and address regional inequalities, Europe must not only focus on emerging industries but also continue strengthening its place-based and cohesion policies. The academic evidence, recent reports and opinions by European institutions underscore the importance of cohesion policy in fostering economic convergence and regional integration. They also provide valuable advice on how existing policies should be updated to better align with Europe's evolving goals of competitiveness, strategic autonomy, and decarbonization. Integrating cohesion policy more deeply into these objectives will be essential for achieving a prosperous Europe for everyone.



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MARKET EFFECTS  
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THE POTENTIAL OF LABOUR POLICY  
FOR JUST TRANSITION REGIONS

Milan Petit, Mikhail Sirenko, Michael Obersteiner, Kevin le Merle



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