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CASH FOR WHICH REFORMS?
IMPROVING CLIMATE AND ENERGY POLICY COORDINATION THROUGH THE NEXT EU BUDGET

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The European Commission’s proposed “cash for reforms” approach to the next multiannual financial framework (MFF) could accelerate the decarbonisation of the economy, and contribute to strengthening competitiveness, resilience and security. Crucial to achieving that aim is a more holistic approach to policy coordination, with a stronger role for climate and energy policies. Governance must combine agile EU-level coordination with a joined-up and supportive approach to Member State-level planning.

Faced with unprecedented geopolitical headwinds, the EU is forging a path towards security, resilience and competitiveness, with a fair decarbonisation as a strong driver for all. To succeed, the EU needs to contend with a wide investment gap made worse by scarce national resources, inconsistent policy signals, additional defence spending needs, and exacerbated by the risk of an economic slowdown.

In this context, it is imperative for the MFF to become a more effective tool for making each euro count towards common European priorities. The Commission’s proposal to link disbursement of funds to reform commitments offers opportunities to make sure the budget more flexibly supports areas where EU spending creates the most added value. Moving away from programme-based funding means synergies between green transition, competitiveness and security goals can be more easily explored.

At the same time, the Commission needs to learn from experiences of the Recovery and Resilience Facility (RRF) and make sure lack of capacity and buy-in within Member States does not become a blocker to implementing reforms. Changes to the MFF's governance architecture would require careful balance to ensure they deliver simplification, consistency and predictability, while respecting the essential role of local and regional authorities in the design and implementation of policy measures.

Recommendations

Create synergies between climate, energy, competitiveness, resilience and security

Anchor climate and energy policies in the MFF national plans through inclusion of climate and energy in the European Semester, ensuring consistency with the national energy and climate plans (NECPs) and the European Climate Law.

Simplify reporting procedures and strengthen alignment with common priorities

Develop an agile top-down model through the proposed Competitiveness Coordination Tool, to address strategic priorities that transcend national borders, with a clear governance structure and reinforced analytical capacity.

Use EU coordination resources to support joined-up national planning

The EU budget can give Member States the means to produce MFF national plans in a holistic manner, to facilitate climate and energy mainstreaming.

Respect the essential role of local and regional authorities in the design and implementation of policy measures

Incentivising national policy reforms should not come at the expense of existing multilevel governance structures and the balance of competences between national, local and regional authorities.

Our vision for a successful governance framework for the next MFF is summarised in Figure 1.

Proposed governance framework for the next MFF

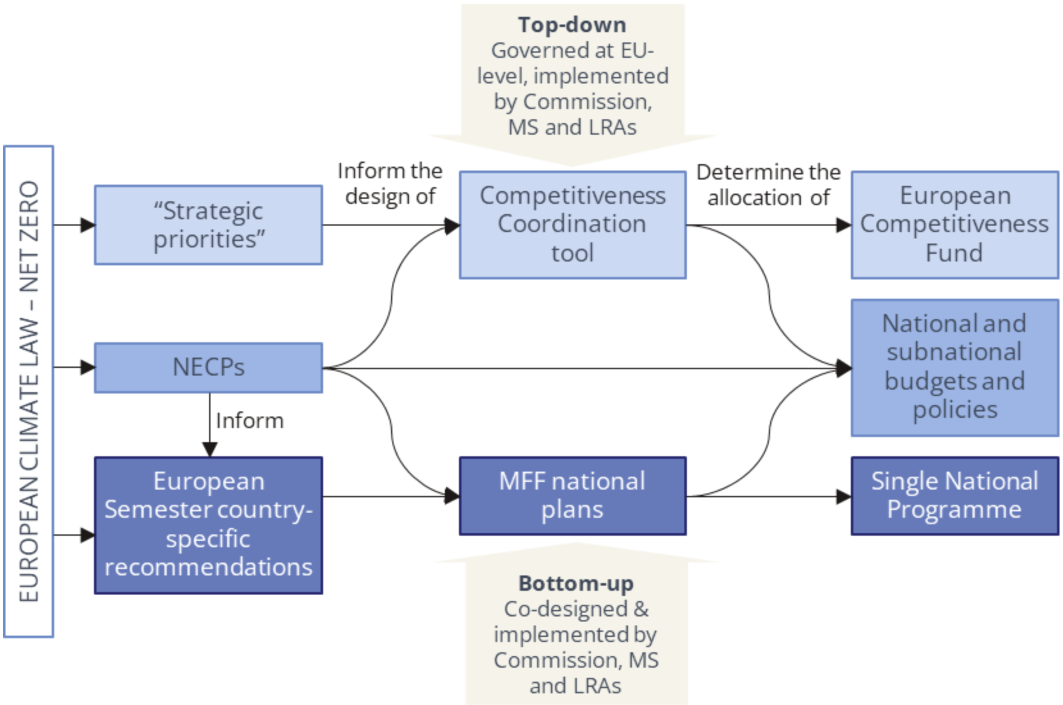

Figure 1: Accelerating decarbonisation while strengthening competitiveness, resilience and security depends on an effective governance framework, in which agile top-down processes and inclusive bottom-up processes work in harmony.

"The status quo is not an option": the Commission's reframing of the MFF debate

Given the European Commission's estimate of an additional €620 billion investments per year needed to meet the objectives of the European Green Deal and REPowerEU,[1] allocation of scarce national resources and the consistency of effective policy measures are essential. Concrete measures could include the systemic and swift phasing out of environmentally harmful subsidies, reducing the exposure of public budgets to fossil fuel price volatility, and including climate risks and damages in budgetary planning.[2]

With the right changes to its governance architecture and delivery model, the MFF could become a much more effective tool to improve policy coordination in

[1] European Commission, July 2023, **2023 Strategic Foresight Report** (PDF)

[2] E3G, March 2024, **Investing in Europe's prosperity**

the pursuit of common priorities, including competitiveness, security, resilience and a fair and fast transition.

The Commission has launched formal consultations on the next MFF (2028–2034) and confirmed its intention to present legislative proposals in July.[3] In its communication of 11 February, the Commission outlined a fundamental rethink of the purpose of EU funding and the way in which it is delivered, by **moving from a "programme-based" to a "policy-based" budget**. Drawing on the experience of the Recovery and Resilience Facility (RRF), the budget would be more adaptable to evolving priorities, simpler to implement and more consistent with common policy objectives. The Commission intends to refocus funds on areas where they believe EU-level spending creates the most added value and where no Member State can deliver on its own – "European public goods" – and link funding to the delivery of reforms.

Setting aside external funds for the purposes of this briefing, the proposed changes can be summarised as follows:

> **Funds would be consolidated**; separate policy objectives would instead be addressed through internal earmarking.

> Each Member State would commit to **a plan explicitly linking investments to reforms**, with payments withheld in the event of non-compliance.

> A new **European Competitiveness Fund** would be established as an investment capacity geared towards strategic sectors and critical technologies through support to research and innovation, and Important Projects of Common European Interest (IPCEIs).

The MFF communication should also be understood in light of the Commission's "Competitiveness Compass",[4] which explicitly endorses Mario Draghi's idea of a new coordination mechanism for common EU priorities:

> A new **Competitiveness Coordination Tool** would coordinate national investments in shared strategic priorities (e.g. grid infrastructure, AI or critical medicines), using financial incentives from the Competitiveness Fund.[5]

[3] European Commission, February 2025, **The road to the next multiannual financial framework**

[4] European Commission, January 2025, **A Competitiveness Compass for the EU**

[5] The Draghi Report proposes a "Competitiveness Coordination Framework", limiting the European Semester to budgetary matters and putting economic, employment, social, energy, climate and digital policy coordination into a new instrument.

Anchoring green policy objectives in EU coordination frameworks

Using the Semester for the preparation of MFF spending plans while simultaneously reassessing the priorities for EU funding offers an opportunity to develop a more holistic approach to country analysis and recommendations that gives greater consideration to energy and climate policies as well as the objectives of the European Climate Law and the targets set in the NECPs. At the same time, the announced Competitiveness Coordination Tool (CCT) could take on the role of driving targeted EU investment in common priorities with a clear pan-European dimension.

Greening the European Semester to simplify policy coordination

The European Semester has long been at the heart of EU policy coordination. Though intended to have a broad basis, drawing on in-depth country analysis of structural economic challenges, the Semester has become intrinsically associated with the eurozone debt crisis and repeated injunctions to cut public spending.

The in-depth country analysis that the Commission conducts as part of the Semester cycle, and the ensuing country-specific recommendations (CSRs) that are endorsed by the Council of the EU, **are serving as the reference framework for a growing number of EU policy coordination frameworks**. It is against these recommendations that Member States' growing number of reform and investment plans (RRF/Recovery and Resilience Plans,[6] Stability and Growth Pact/medium-term fiscal-structural plans and Social Climate Fund/Social Climate Plans) are being assessed.

The CSRs do not currently offer a sufficiently holistic picture of the challenges facing each Member State. CSR1 addresses fiscal policy, CSR2 addresses RRF implementation and cohesion policy, while CSR3 (and CSR4 where applicable) addresses further outstanding issues related to competitiveness challenges. In 2024, only 24% of CSR3–CSR4 addressed energy and the green transition.[7] Their excessive focus on budgetary criteria prevents them from fulfilling their role of addressing the structural economic conditions of a Member State by linking the green transition with the opportunity of sustainable growth pathways, improved competitiveness and security.

[6] While this is true in principle for the RRF, in practice the RRPs were compiled in an emergency situation and relied on Member States' already planned policy commitments. REPowerEU chapters addressed this shortcoming.

[7] European Parliament, 2024, **2024 Country-specific recommendations: Stylised facts and figures**

In the context of a new MFF governance structure, **more specific, operationalisable and enforceable CSRs could speed up the delivery of national measures addressing competitiveness, resilience and climate action**, without requiring legislative change. These would make use of the more detailed analysis produced by the Commission in the country reports and strengthen the connection to the NECPs and their post-2030 replacement.

In addition, **the CSRs should give greater weight to the challenges of climate adaptation, energy independence and the just transition**. Member States are already expected to address these issues in their NECPs and Social Climate Plans. Instead of being relegated below contradictory budgetary recommendations, they should form part of a balanced and holistic monitoring process. Tying them to the EU budget and standardising indicators could serve to better embed them within the national policymaking process, streamlining the delivery and monitoring of EU climate and energy targets,[8] reducing the reporting burden on national and subnational administrations and strengthening buy-in.

The forthcoming revision of the Energy and Climate Union Governance Regulation will run parallel to the MFF negotiations and will determine the post-2030 framework, offering a timely opportunity to reinforce horizontal consistency with MFF national plans and other multiannual policy coordination frameworks. Any reform of the Governance Regulation should ensure that NECPs serve as investment roadmaps, helping to coordinate public and private finance as well as EU and national-level public investment. Furthermore, while financing needs are crucial in shaping investment decisions, the commitment to coherent and long-term policy planning is even more significant. Aligning policy frameworks with investment strategies ensures that economic decision making is driven by stable and predictable policy commitments, reducing fragmentation and reinforcing the credibility of climate and energy transition efforts.

An EU-level "Transition Committee" could serve to identify opportunities for further vertical alignment of international-, Member-State- and entity-level transition planning requirements.[9] Such a Transition Committee could notably help identify the role and objectives of these policy and governance tools, as well as their interconnections, to avoid overlaps in line with the EU simplification agenda.

[8] European Climate Neutrality Observatory, January 2024, **Towards an EU net zero monitoring framework. A review of the European Commission's assessment of progress**

[9] E3G, November 2024, **Moving towards a holistic transition planning framework in the EU**

Carving out a niche for the Competitiveness Coordination Tool (CCT)

The proposed introduction of a CCT offers the opportunity to rationalise policy coordination by distinguishing those immediate challenges where Member States agree that stronger coordination would provide significant benefits, from those that would benefit from more tailored approaches to ensure national and subnational buy-in. Applied to the objectives of the green transition, the former might include clean technologies (where EU-level coordination of R&I policies could benefit the EU's position), energy infrastructure (which transcends borders),[10] or industries such as steel where better integration of certain EU regions in value chains could result in significant competitiveness advantages.[11]

Defining the right governance structure for the CCT will be paramount, specifically regarding the identification of strategic priorities according to which the CCT will incentivise joined-up planning by mobilising the European Competitiveness Fund in connection with fiscal and financial incentives. There is limited capacity within the Commission to conduct the necessary analytical work for this exercise, therefore creating a reliance on external inputs. The CCT could promote better data collection, which is essential in this regard.[12] An independent advisory body, following the model of the European Fiscal Board or European Scientific Advisory Body on Climate Change, could be a way forward to support the quality of decision making.[13]

The CCT strategic priorities would benefit from an endorsement by the Council of the EU, following the logic of the Semester's CSRs. The interaction between the CCT and the Semester will require a clear hierarchy, in particular as regards the potentially contradictory injunctions of fiscal responsibility on the one hand, and public investment needs on the other. Likewise, the CCT will need to maintain consistency with the EU's existing energy and climate objectives. Applying the CCT to the delivery of energy infrastructure, particularly cross-border, will require consistency with existing plans under the NECPs and TEN-E/T regulations. In line with the simplification agenda, reporting synergies could be leveraged by using the Semester cycle and its accompanying dialogue between national authorities and the Commission to monitor the investment and policy decisions made according to the strategic priorities.

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[10] Pinkus et al., March 2024, **Coordination for EU competitiveness**

[11] Agora Industry and Wuppertal Institute, June 2023, **15 insights on global steel transformation**

[12] Jacques Delors Centre, February 2024, **Flying blind? Why EU administrations need better data and analytical capacities**

[13] E3G, CISL, Zoe Institute, May 2024, **Building a new European Competitiveness Deal: Six tests for a prosperous, resilient, fair and green economy**

Stronger policy coordination as a bottom-up process

Using EU coordination resources to promote joined-up national planning

Implementation of the RRF experienced major challenges due to a lack of administrative capacity at national and subnational level.[14] Improving national buy-in to EU-level policy coordination and planning cannot be achieved with funding incentives alone.

Member States' climate and energy policy planning benefit from a joined-up government approach. Considering the wide-ranging implications for economic strategy and labour market dynamics, governments need dedicated coordination structures and personnel to ensure all matters related to EU funds do not become centralised within finance ministries. Governments also need a broader shared knowledge base and shared language around climate and energy policy to mainstream objectives across policy areas. The EU's Technical Support Instrument (TSI) programme offers one model for the promotion of joined-up planning in the service of green objectives, though instruments more explicitly targeted at local and regional authorities could also be considered.

> One flagship TSI project for 2025, "ComPAct – Pillar III – Greening Public Administration", is designed to equip participating authorities with the tools and skills to overcome institutional fragmentation and further deploy green budgeting tools. So far, 7% of the TSI's budget has been spent on projects that promote climate mainstreaming, including helping 17 Member States to identify measures to phase out Russian fossil fuels. The 2024 call for projects was heavily oversubscribed: 170 out of 604 projects were selected, delivering 307 reforms.[15]

Multilevel governance and the implementation of the Green Deal

Changing the governance architecture of the next MFF should remain sensitive to the political balance that underpins adherence to the European project, and in particular the Green Deal. While it is widely acknowledged that the existing delivery model of funds under shared management between the Commission, Member States, and local and regional authorities creates excessive reporting burdens on managing authorities and does not sufficiently consider the

[14] European Commission, 2024, **Report on the Implementation of the Recovery and Resilience Facility**, p.34

[15] European Commission, "**Technical Support Instrument – Performance**" (accessed March 2025)

effectiveness and efficiency of spending,[16] the Cohesion Policy funds have the merit of providing consistent and predictable funding to address structural challenges, with notable success in the least developed regions.[17]

Applying the cash-for-reforms model in its entirety to these funds risks creating situations in which a national government's failure to deliver a particular reform would deprive local and regional authorities of previously predictable sources of funding. This would have significant consequences for regions engaged in territorial just transition plans underpinned by EU support, and prevent them from leveraging their full potential in the green economy.[18] While the responsibility would formally land with the national government for failing to deliver something that it had committed to, there would be a significant opportunity for the emergence of anti-EU and anti-Green Deal narratives.

The EU budget's role as an (albeit imperfect) instrument of social and territorial convergence should be protected. Applying the cash-for-reforms model in its entirety to the full budgetary envelope available to local and regional authorities risks jeopardising this. Establishing a more granular partial payment system, as has been deployed for the RRF from 2023 onwards, will help implementation proceed by tackling obstacles in a more incremental way. Transparency and clarity will be paramount to the acceptance and functioning of such a system.[19] So that local and regional authorities do not face political obstacles due to centralisation of fund management, the Commission should introduce safeguards that allow those authorities to receive direct payments, notably in the context of the rule of law conditionality mechanism.[20] This would also help address concerns about the application of conditionality to cross-border projects, in the event that payments are withheld from one government.

[16] European Commission, February 2024, **Forging a sustainable future together – Cohesion for a competitive and inclusive Europe – Report of the High-Level Group on the Future of Cohesion Policy**

[17] European Commission, 2024, **A RHOMOLO assessment of 2014-2027 cohesion policy**

[18] E3G, May 2023, **Making clean technology value chains work for EU economic convergence**

[19] European Parliament Research Service, September 2024, **Partial payments under the Recovery and Resilience Facility: An overview**

[20] Local Alliance, January 2025, **A grounded EU budget: Investing in Europe, our local communities and citizens for a competitive, resilient and fair future**

Conclusion

The next MFF offers a unique opportunity to revisit the relationship between the cash-for-reforms model and the promotion of national climate and energy policies that are in line with the objectives of the European Climate Law. By identifying a governance architecture with the right combination of top-down and bottom-up frameworks, better anchoring green transition objectives across these frameworks and giving national, local and regional authorities the right incentives and tools, the new MFF has the potential to create greater EU value-added by delivering more effective climate action in the face of greater fiscal constraints.

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We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.

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