Plan4Climate

# D2.4 FINANCING THE NECP: EU INSTRUMENTS

## T.2.3 MONITORING AND SHARING GOOD PRACTICES ON NECPs FINANCING

Produced by

BOND BETER LEEF VOOR DE TOEKOMST MILIEU

DOOR

**November 2026**



**Produced by Bond Beter Leefmilieu & DOOR**

**Contributing organisations:** CDE (Czech Republic), ELF (Estonia), Focus (Slovenia), Germanwatch (Germany), ISD (Poland), MTVSZ (Hungary), WWF Italia (Italy), RAC France (France), SEO/BirdLife (Spain), ZERO (Portugal)




**Co-funded by the European Union**

The Plan4Climate project has received funding from the LIFE Programme of the European Union. The information and views set out in this document are those of the authors and do not necessarily reflect the official opinion of the European Commission.

# Contents


**Contents** **3**
**Executive summary** **4**
**Introduction & methodology** **5**
Methodology and Approach 6
**Funding situation** **7**
Overall sufficiency of planned NECP funding 7
Identified funding gaps and sectoral concentration 7
Structure and limitations of green and social earmarking 8
**Importance & structure of EU funding** **9**
Main EU funding sources 9
Role of EU funding sources 11
The structural and catalyzing role of EU funds 11
Importance of ETS revenues 12
Importance of RRF 13
The catalyst role of the RRF in early NECP implementation 13
Implications of the RRF phase-out after 2026 14
Transition to post-RRF funding structures and operational programs 15
**Importance of EU governance & principles** **16**
DNSH integration 16
Fossil subsidies 16
Economic Governance 17
Role of European Semester and EU Economic Governance 18
Links Between NECP Financing and Fiscal Planning 19
Examples of Successful Policy Integration 21
**Recommendations (EU level)** **23**

# Executive summary

The comparative assessment conducted across twelve EU Member States demonstrates that **financing remains one of the most critical and challenging dimensions of NECP implementation**.

A **major finding of the report is the widespread existence of significant funding gaps**. In most countries, available and planned financing is insufficient to achieve NECP objectives, especially under more ambitious WAM scenarios. Comprehensive funding gap assessments remain rare, methodologies are inconsistent, and many NECPs fail to establish clear links between identified investment needs and concrete financing pathways. This weakens both the credibility and implementability of national climate and energy strategies.

**The report also identifies important governance shortcomings.** Fragmented funding structures, overlapping institutional responsibilities, insufficient transparency, weak monitoring systems, and limited administrative capacities continue to constrain effective implementation. In many cases, NECPs remain disconnected from national fiscal planning and broader economic governance processes, reducing their strategic relevance and limiting long-term policy coherence.

**The findings also reveal that the social dimension of the transition remains underdeveloped.** While energy poverty and just transition challenges are increasingly recognised, targeted financing mechanisms for vulnerable households and affected communities are still limited and often inaccessible to those most in need. Without stronger social integration, there is a risk that climate policies could exacerbate inequalities and undermine public support for the transition.

**The analysis confirms that EU-level instruments continue to represent the backbone of NECP financing across most Member States**. The Recovery and Resilience Facility, Cohesion Policy Funds, the Just Transition Fund, ETS revenues, and other EU mechanisms have significantly accelerated investments in renewable energy, energy efficiency, sustainable mobility, and climate transition measures. However, this EU financing is now at risk, particularly as the RRF approaches its planned phase-out.

**EU governance interventions, including DNSH principles and the gradual improvement of fossil fuel subsidy monitoring, have also had a positive impact on national funding schemes.** Nevertheless, major inconsistencies persist between climate objectives and continued support for fossil fuel-related activities in many Member States, mostly coming from national budgets.

# Introduction & methodology

The implementation of National Energy and Climate Plans (NECPs) represents one of the central pillars of the European Union's climate and energy governance framework. NECPs define Member States' pathways towards achieving the EU's climate neutrality objectives, renewable energy targets, energy efficiency improvements, and broader decarbonisation commitments for 2030 and beyond. Achieving these objectives requires not only ambitious policy measures, but also sufficient, stable, and well-coordinated financing frameworks capable of supporting long-term investments across multiple sectors.

Financing plays a critical role in determining the feasibility and credibility of NECP implementation. Member States are expected to identify and mobilise a wide range of financing sources, including EU funds such as the Recovery and Resilience Facility (RRF), Cohesion Policy Funds, the Just Transition Fund (JTF), the Social Climate Fund (SCF), and revenues from the EU Emissions Trading System (ETS and ETS2), as well as national public budgets, dedicated climate funds, financial incentives, and private sector investments.

Within this context, Task 2.3 of the LIFE Plan4Climate project focuses on monitoring and sharing good practices related to NECP financing. The task aims to assess how Member States finance NECP policies and measures, evaluate whether planned funding is sufficient to achieve climate and energy objectives, track the disbursement and implementation of financial resources, and identify examples of effective and promising financing approaches. Particular attention is also given to governance aspects, including transparency, public participation, compliance with EU funding requirements, and the implementation of enabling reforms linked to EU financial instruments.

This briefing (D2.4) focuses specifically on EU funding instruments. It shows how these instruments help Member States implement their climate and energy policies. This work supports decision-makers during the current NECP implementation and helps with the upcoming revision of the Multiannual Financial Framework (MFF).

The relevance of this analysis extends beyond the technical assessment of financing instruments. The scale of investments required to achieve EU climate and energy targets is unprecedented, involving deep structural transformation of energy systems, buildings, transport, industry, and agriculture. Ensuring that adequate, transparent, and socially fair financing mechanisms are in place is therefore essential not only for meeting climate targets, but also for maintaining public support, reducing inequalities, strengthening energy security, and enabling a just transition across European societies.

## Methodology and Approach

This report is based on a qualitative and comparative assessment across twelve EU Member States: Belgium, Croatia, Czechia, Estonia, France, Germany, Hungary, Italy, Poland, Portugal, Slovenia, and Spain. To collect information, DOOR and BBL developed a common questionnaire with support from Germanwatch and CAN Europe. Project partners completed this questionnaire in a Word template based on their national contexts.

The questionnaire covered several main areas, including:

- Main EU and national financing sources
- The sufficiency of planned funding and identified investment gaps
- The role of the Recovery and Resilience Facility (RRF) and operational programmes
- The application of the Do No Significant Harm (DNSH) principle and fossil fuel subsidies
- The integration of climate goals into national budgets and economic governance

To answer these questions, partners used different sources. These sources included official NECPs, national recovery plans, operational programmes, government budgets, European Commission assessments, and studies from civil society.

There were some limitations to this research. The availability, transparency, and comparability of financing data vary a lot between countries. Many NECPs do not contain detailed financial information. Also, financing frameworks change quickly as countries transition away from the RRF. Therefore, this report is a qualitative comparison of the situation and not a fully standardized quantitative evaluation.

# Funding situation

## Overall sufficiency of planned NECP funding

The overall assessment of National Energy and Climate Plans across the twelve analyzed Member States reveals that **planned and available funding is generally insufficient or only partially sufficient to achieve stated 2030 climate and energy targets**. Most countries face substantial financial shortfalls, particularly when attempting to move beyond existing measures to implement more ambitious decarbonization pathways.

A central problem is the distinction between WEM (With Existing Measures) and WAM (With Additional Measures) scenarios. In several Member States, available public funding is barely adequate to support WEM scenarios, while **WAM scenarios often remain unfunded, incomplete, or entirely disconnected from concrete financing strategies**.

For example, Estonia's plan lacks a clear WAM financing pathway altogether, while Slovenia explicitly notes that non-repayable grant funds cover only a small fraction of the total investment needed for additional measures. Out of the twelve analyzed countries, only a few report even partial funding sufficiency, while major structural gaps or data deficiencies prevent clear evaluations in others.

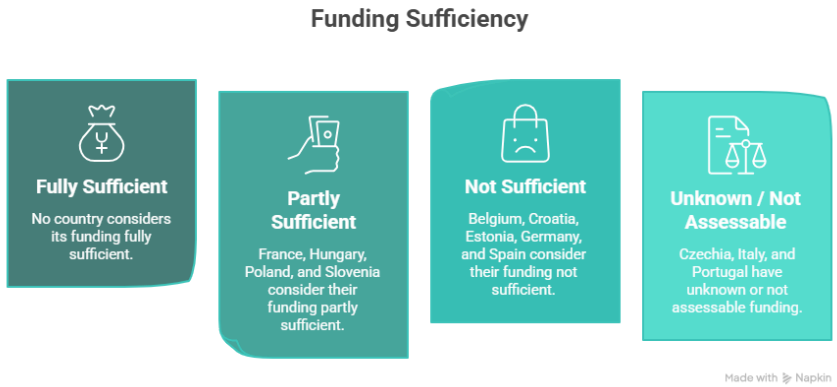



*Image 1 Representation of identified funding sufficiency in analysed MS*

## Identified funding gaps and sectoral concentration

Structured **assessments of the gap between total investment needs and available financial resources remain rare among Member States**.

France and Slovenia offer notable exceptions by using formal sectoral modeling to quantify their financing gaps. France estimates an additional annual investment need of

over 80 billion euros by 2030 compared to 2024 levels, while Slovenia identifies an unresolved funding gap of nearly 17 billion euros within its WAM plan. In most other countries, funding gaps are either unquantified, published only by external civil society organizations, or obscured by a lack of transparent financial data.

Where investment data exists, **funding gaps are heavily concentrated in capital-intensive sectors** that are essential for deep decarbonization:

- **Buildings and energy efficiency:** Comprehensive retrofitting programs require long-term capital that current public financing does not cover.
- **Renewable energy and grid infrastructure:** Massive private and public investments are needed to expand generation capacity, upgrade distribution networks, and support energy system flexibility.
- **Transport:** Funding shortfalls persist in low-carbon mobility, charging infrastructure and modal shift initiatives such as rail development.
- **Agriculture and land use:** Sustainable practices remain underfunded in countries with large agricultural sectors.

## Structure and limitations of green and social earmarking

**National green financing instruments**, such as climate funds, energy efficiency schemes, and targeted subsidies, are present across most countries, but they often form a **fragmented landscape**.

Instruments such as Germany's Climate and Transformation Fund, Croatia's Environmental Protection and Energy Efficiency Fund or the Polish National Fund for Environmental Protection and Water Management play a key role in financing the national transition, yet their long-term predictability is frequently undermined by annual budget changes, political shifts, and carbon price volatility. Furthermore, many green instruments struggle to mobilize private capital effectively, leaving them overly reliant on limited public grants.

**The social dimension of climate financing remains one of the weakest components of current NECP architectures**. While most plans acknowledge energy poverty and the importance of a just transition, dedicated financial mechanisms targeting vulnerable households, low-income transport users, and affected workers are limited or poorly integrated. In many Member States, public subsidies for building renovation or clean technology require substantial upfront co-financing, which makes them inaccessible to low-income groups and risks directing public funds toward wealthier households. Strengthening social earmarking through national budgets and upcoming EU instruments, such as the Social Climate Fund and Just Transition Fund, is therefore vital to ensure a just transition.

# Importance & structure of EU funding

National Energy and Climate Plans (NECPs) across the assessed countries rely on a broad mix of financing sources, with a **clear predominance of European Union (EU) funding instruments**. While national and private sources are present in all cases, their role, structure, and level of detail vary significantly between countries.

## Main EU funding sources

**EU funding instruments constitute the core pillar of public NECP financing** in a majority of analysed countries.

The **Recovery and Resilience Facility** (RRF) is the most consistently referenced instrument, appearing in nearly all national plans and often serving as a central vehicle for financing key reforms and investments. In addition to the RRF, **Cohesion Policy Funds** (ERDF, ESF+, CF) and the **Just Transition Fund** (JTF) are widely used, particularly in Member States with greater structural investment needs. Several countries also reference the **Social Climate Fund** (SCF), especially in the context of addressing the social impacts of the energy transition.

A broader range of EU instruments - including the LIFE Programme, Horizon Europe, the Innovation Fund, and the Connecting Europe Facility (CEF) - are included in some NECPs, though their use is less consistent. These instruments tend to play a complementary role and are more frequently cited in countries with more diversified financing strategies.




*Image 2 Representation of available funding mechanisms*

Overall, **the findings (see Table 1) indicate that EU funds represent the primary financing backbone of NECP implementation**, particularly in Central and Eastern European countries, where reliance on EU support is especially pronounced.

Despite the common reliance on EU funding, there are notable differences in the breadth and **diversity of instruments** used across countries. Some countries, such as Croatia, Estonia, and Poland, demonstrate a relatively comprehensive approach, referencing a wide array of EU instruments, including both mainstream funding streams and more specialised programmes. This suggests a more strategic effort to mobilise diverse sources of EU financing.

In contrast, other countries, such as Czechia and Spain, refer to a more limited set of instruments. In these cases, NECPs tend to focus on a narrower group of funds, with less emphasis on complementary or sector-specific EU programmes.

There are also instances where certain relevant instruments appear to be underreported or omitted. For example, some NECPs make little or no reference to programmes such as LIFE, despite their relevance for climate and environmental action.

These differences point to varying levels of administrative capacity, strategic planning, and experience in accessing and combining EU funding sources.

*Table 1 Review of the main sources of funding identified in each analysed country's NECP*

| | Belgium | Croatia | Czechia | Estonia | France | Germany | Hungary | Italy | Poland | Portugal | Slovenia | Spain |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Recovery and Resilience Facility (RRF)* | X | X | | X | X | X | X | X | X | X | X | X |
| *Cohesion Policy Funds (ERDF, ESF+, CF)* | | X | | X | X | X | X | X | X | X | X | X |
| *Just Transition Fund (JTF)* | | X | X | X | X | X | X | X | X | X | X | |
| *Social Climate Fund (SCF)* | X | X | X | X | | X | | X | X | | | |
| *Modernisation Fund* | | X | X | X | | | | | X | | X | |
| *LIFE Programme* | | X | | X | X | | | | X | | | X |
| *Horizon Europe* | | X | | X | X | X | | X | X | | | X |
| *Innovation Fund* | | X | | X | X | X | | X | | X | | |
| *Connecting Europe Facility (CEF)* | | X | | X | X | X | | X | X | | | |
| *Common Agricultural Policy (CAP) funds (EAFRD, EAGF)* | X | | | X | X | X | | X | X | | | X |
| *Other EU instruments* | | X | | | | | | | | X | | |

## Role of EU funding sources

### The structural and catalyzing role of EU funds

**European Union funding sources serve as the primary financial backbone for implementing National Energy and Climate Plans (NECPs)** across the majority of analyzed Member States. Rather than acting merely as supplementary aid, EU funds provide the necessary public financing to drive large-scale capital investments in the climate transition. In many countries, particularly in Central and Eastern Europe, national public budgets are insufficient to cover these structural investment needs on their own. As a result, national resources are primarily used to co-finance EU-funded operational programs or to fill specific funding gaps where EU resources are insufficient. For example, Croatia reports a high dependence on EU financing, with national resources primarily used to complement EU support and cover remaining funding needs.

Beyond providing direct capital, **EU funding plays a crucial role as a catalyst for broader financial mobilization**. By offering initial public grants, risk-sharing guarantees, and technical assistance, EU financial instruments significantly lower the financial risks for project developers, financial institutions, and private investors. European public investment banks, such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), are vital actors in this ecosystem. They complement EU grants by providing long-term loans, guarantees, and specialized financial instruments that crowd in private commercial banks for large-scale energy efficiency, grid, and renewable energy projects.

The **capacity to leverage EU funds and public investment banks as a catalyst varies significantly across Member States**. In Spain, market-based mechanisms such as the Energy Saving Certificates (CAEs) have successfully leveraged private capital to fund a significant share of total NECP energy efficiency objectives. In Poland, EU funds and backing by international financial institutions complement domestic market-based

mechanisms such as renewable energy auctions, capacity market contracts, and energy efficiency certificates. Conversely, in countries like Croatia, private sector involvement remains largely confined to smaller projects with short payback periods, while larger or riskier investments continue to depend almost entirely on public grants.

Other countries, such as Hungary, currently lack detailed strategies to crowd in private capital alongside EU resources. This highlights that while EU funding and public banks can successfully spark private sector participation, their effectiveness as a financial catalyst depends heavily on stable national regulations, clear long-term market signals, and targeted financial instruments.

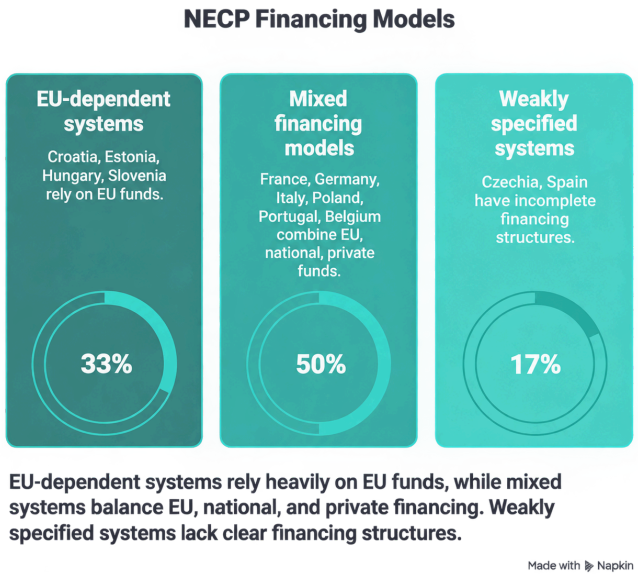



*Image 3 Representation of different identified NECP financing models in analysed MS*

## Importance of ETS revenues

Revenues generated from the EU Emissions Trading System (EU ETS) and the upcoming extension to heating and road transport under ETS2 represent a **vital, dedicated source of financing for climate action and green instruments.**

In several Member States, ETS auction revenues are directly channelled into dedicated extra-budgetary national climate funds or targeted subsidy schemes. For example, instruments such as Germany's Climate and Transformation Fund (KTF), as well as national climate funds in Slovenia, Croatia, and Portugal, rely heavily on carbon pricing revenues to finance energy efficiency initiatives, clean mobility, and renewable energy incentives.

Furthermore, specialized EU-level mechanisms funded through ETS revenues, such as the Modernisation Fund and the Innovation Fund, provide critical resources for modernizing energy systems and scaling up innovative low-carbon technologies.

The forthcoming Social Climate Fund (SCF), which is also linked to ETS2, will be essential to ensure that carbon revenues are earmarked for targeted social support and structural measures to protect vulnerable households and transport users.

A drawback of this funding source is that it can be **very susceptible to volatility**. Because carbon market revenues depend inherently on fluctuations in ETS allowance prices and broader economic conditions, the annual income generated for green financing instruments can be volatile and unpredictable. In times of falling carbon prices or broader market uncertainty, national climate funds tied to ETS revenues may experience unexpected budget shortfalls.

Additionally, in some countries, there is an ongoing risk that carbon revenues are absorbed into general state budgets or diverted to address immediate short-term fiscal deficits rather than being strictly ring-fenced for transformational climate investments. Poland, for example, only spent 3% of its ETS revenues properly in 2023.

To ensure that ETS income effectively supports long-term NECP implementation, **Member States require more predictable, legally protected earmarking mechanisms** and robust long-term financial strategies that insulate green investments from carbon market volatility.

EIB prefinancing schemes play a key role in solving these challenges by providing Member States with stable and early funding before actual ETS auction revenues come in. This early cash flow protects national climate budgets from carbon market volatility and helps fill the large funding gap left by the RRF phase-out after 2026. Additionally, these schemes allow governments to speed up social support for vulnerable households and reduce risks for green projects, which encourages private banks and businesses to co-finance long-term NECP investments.

## Importance of RRF

**The catalyst role of the RRF in early NECP implementation**

The Recovery and Resilience Facility (RRF) has played a **pivotal role in accelerating the early implementation of National Energy and Climate Plans (NECPs)** across the European Union.

Established as a temporary crisis response, the RRF has acted as a major catalyst by providing direct grants and loans to fund clean transition projects. Its importance varies across Member States, but it has been considered crucial in countries such as Croatia, Estonia, Hungary, Poland, Slovenia and Spain. There, RRF funding has enabled immediate, large-scale investments in building renovation, renewable energy deployment, electricity grid modernization, and sustainable transport infrastructure.

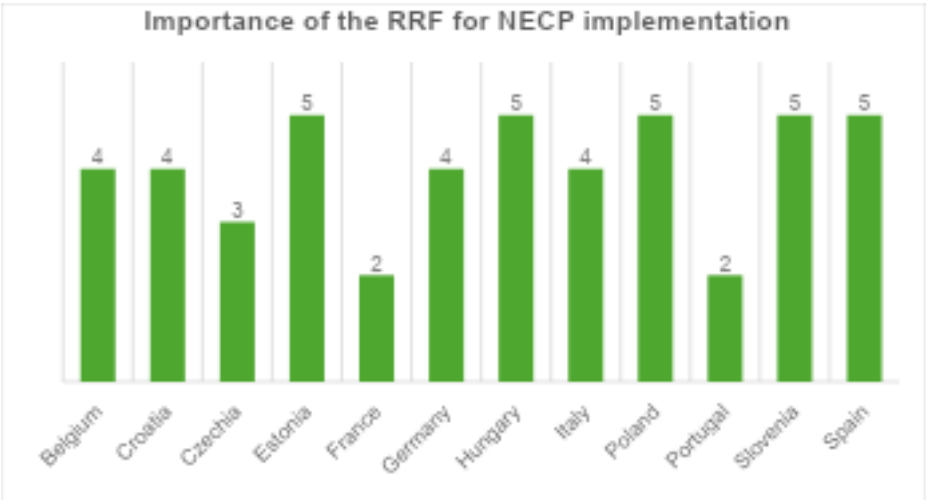



*Figure 1 Importance of the RRF for NECP implementation, ranging from moderate (2) to crucial (5)*

A unique strength of the RRF has been its **strong link between financial disbursements and structural reforms**. To receive funds, Member States had to achieve specific milestones and targets, which helped drive key policy changes that had previously faced domestic resistance. For example, in Slovenia, RRF funds accounted for nearly half of recent public investments in energy efficiency and renewables. In Croatia, the facility is perceived as an essential accelerator, bridging critical investment gaps before long-term structural funds could be fully operationalized.

### Implications of the RRF phase-out after 2026

Because the RRF is a temporary instrument scheduled to end in 2026, its planned phase-out presents serious challenges for long-term climate financing. The withdrawal of RRF funding creates a substantial **risk of investment gaps and slowed policy implementation**, particularly for capital-intensive infrastructure projects.

For countries like Italy and Poland, where the RRF covers a large portion of climate spending, the lack of a clear replacement strategy introduces significant uncertainty. Poland, for example, faces an estimated financing gap of 10% to 18% in capital expenditures for the 2026-2030 period once RRF support ends.

The **phase-out also shifts the financial burden back toward national public budgets and private investors**. In several Member States, strict fiscal constraints, debt limits, or political instabilities make it difficult for national budgets to replace missing EU grants. Furthermore, there is a risk that governments may lose momentum on key structural reforms once the direct financial incentives tied to RRF milestones are no longer active.

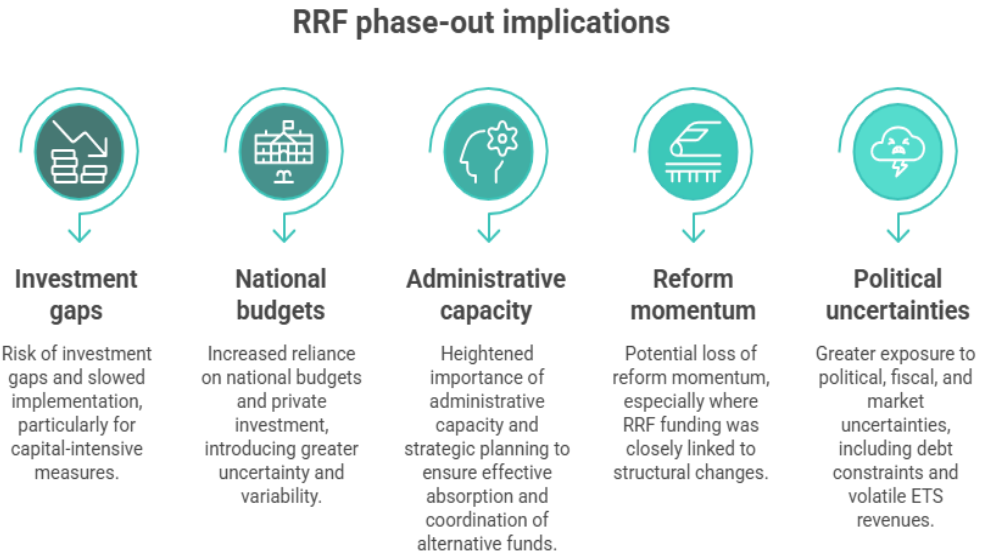



*Image 4 Representation of RRF phase-out implications*

### Transition to post-RRF funding structures and operational programs

To prevent a sudden drop in green investments after 2026, Member States must transition smoothly from the RRF to other multiannual financial sources. Cohesion policy funds, such as the European Regional Development Fund, are expected to serve as a main structural pillar for sustaining NECP implementation. However, merging cohesion policy funds with other EU instruments into National and Regional Partnership Plans (NRPPs) creates a significant risk that climate and social earmarking objectives will be diluted. Furthermore, dedicated targeted mechanisms like the Just Transition Fund (JTF) are scheduled to be discontinued post-2027, leaving a financial gap for vulnerable regions.

Operational programs financed through EU cohesion policy (such as the European Regional Development Fund and the Just Transition Fund) will become the main structural pillar for sustaining NECP implementation. However, **operational programs often face administrative complexities, slower absorption rates, and strict co-financing requirements** that can limit their immediate impact.

In addition to cohesion policy, **alternative EU funding mechanisms will need to play a larger role.** These include auction revenues from the ETS, the Modernisation Fund, and the incoming Social Climate Fund. Some countries are also developing transitional solutions at the national level. For instance, Spain has recently created a national public-private investment fund ("España Crece") to leverage remaining RRF resources and crowd in private capital.

Ultimately, managing the post-RRF transition requires Member States to build stronger administrative capacity, streamline project approvals, and create stable regulatory environments that attract long-term private investment. Yet, new RRF-like funding sources on an EU level remain key to financing national climate investments.

# Importance of EU governance & principles

EU funding has not just been important in its own right, as a source of finance. Governance principles attached to EU financial instruments and economic frameworks, have also had a structuring influence on the design of domestic funding instruments. However, the practical implementation of these governance tools has remained highly diverse across member states.

## DNSH integration

The Do No Significant Harm (DNSH) principle has become a central formal governance requirement within the European Union climate financing architecture. Primarily introduced through the Recovery and Resilience Facility (RRF) and Cohesion Policy operational programs, DNSH requires Member States to prove that funded investments do not cause significant harm to any of the EU's six environmental objectives. Before this EU requirement, many Member States did not systematically check the environmental impact of public spending.

In practice, this principle has improved project selection criteria, heightened institutional awareness of environmental impacts, and strengthened technical screening in several countries. For example, in some countries, project applications must now include technical calculations of environmental impacts instead of simple statements. In certain cases, DNSH rules stopped environmentally damaging projects from getting EU money, such as highway developments through protected areas or new fossil fuel investments (e.g. Estonia).

Despite these positive developments, **the practical application of the DNSH principle remains uneven and frequently procedural**. In many countries, DNSH checks rely heavily on basic self-declarations by project applicants without robust, independent monitoring after projects are completed. Furthermore, because DNSH is strictly enforced only for EU-funded programs, it is rarely extended to national budgets. This creates a loophole; if a harmful project cannot get EU funding due to DNSH rules, governments can simply finance it via their national public budgets. As a result, DNSH acts as an administrative requirement for EU funds rather than a full national strategy.

## Fossil subsidies

This procedural approach to environmental safeguards is closely linked to the **persistent issue of fossil fuel subsidies** across the EU. While, thanks to EU governance principles, transparency regarding environmentally harmful expenditures has improved

in countries like Belgium, France, and Italy through annual subsidy catalogs, explicit phase-out strategies remain largely underdeveloped.

Support for fossil fuels continues through energy tax exemptions, transport subsidies, and crisis-response compensation measures. Although EU instruments such as the Just Transition Fund and Modernisation Fund are actively financing coal phase-outs and energy diversification, the continued presence of direct and indirect fossil fuel subsidies undermines the transformative potential of DNSH and delays long-term climate targets.

## Economic Governance

The integration of NECPs into broader economic governance frameworks is increasingly recognised as a key prerequisite for achieving the European Union's climate and energy objectives. Effective implementation of NECPs requires not only sectoral climate and energy policies, but also their systematic alignment with national fiscal planning, budgetary processes, public investment strategies, and wider macroeconomic governance mechanisms.

At EU level, the Governance Regulation, the European Semester process, Recovery and Resilience Plans (RRPs), and cohesion policy frameworks all provide important opportunities to strengthen the integration of climate and energy objectives into economic decision-making. The growing emphasis on green budgeting, sustainable finance, fiscal sustainability, and climate mainstreaming reflects the recognition that the energy transition must become an integral part of economic governance rather than a separate policy domain.

However, the degree to which NECPs are embedded into national economic governance structures varies significantly across Member States. In some countries, NECP priorities are increasingly reflected in national budgetary planning, public investment frameworks, and recovery programmes. In others, NECPs remain relatively isolated strategic documents with limited influence over fiscal and economic policy decisions. Weak institutional coordination, fragmented governance structures, political instability, and insufficient monitoring systems further limit policy coherence and long-term planning capacity.

*Table 2 The degree to which NECPs are embedded into national economic governance structures in analysed MS*

| | EU Semester influence | Fiscal–NECP integration | Policy integration examples |
|---|---|---|---|
| Belgium | Strong | Partial | Strong |
| Croatia | Partial | Partial | Partial |
| Czechia | Weak | Weak | Weak |
| Estonia | Weak | Weak | Weak |
| France | Strong | Strong | Strong |
| Germany | Partial | Partial | Partial |
| Hungary | Weak | Weak | Weak |
| Italy | Weak | Weak | Weak |
| Poland | Partial | Partial | Partial |
| Portugal | Partial | Weak | Weak |
| Slovenia | Partial | Weak | Partial |
| Spain | Partial | Partial | Partial |

**Role of European Semester and EU Economic Governance**

Across the twelve countries surveyed, the influence of the European Semester and broader EU economic governance instruments on NECP financing varies considerably, ranging from meaningful and documented to negligible or entirely absent. No single model of integration prevails, and the depth of engagement appears to be shaped by national administrative cultures, political will, and the degree to which EU funding conditionality creates binding incentives.

**Where influence has been most concrete,** it is often traceable not to the Semester recommendations per se but to the **conditionality embedded in the Recovery and Resilience Facility (RRF)**. **Belgium** stands out as one of the clearest cases of direct governance influence: the reform of company car taxation, a measure explicitly flagged in European Commission recommendations as environmentally harmful, was significantly shaped by EU pressure, and attempts to dilute the reform were constrained by the threat of losing approximately €200 million in RRF grants. The Semester recommendations in Belgium's case thus functioned less as voluntary guidance and more as a binding fiscal constraint, creating a credible enforcement mechanism. **Poland** similarly reports that Semester recommendations have influenced the design and financing of NECP measures, particularly through their linkage to RRF milestone conditionality, which creates indirect but systemic pressure to align national investment priorities with EU expectations.

**France** represents a model of procedural integration: the Finance Ministry systematically incorporates Semester recommendations into the annual draft budgetary plan, which since at least 2020 has included a dedicated section tracking country-specific recommendations related to the ecological and energy transition. This institutionalised reporting practice, regardless of the substantive ambition of the measures reported, demonstrates that EU governance instruments have been internalised into national budget cycles at least at the level of process.

**Several countries, however, report only marginal or indirect linkages. Germany** notes no explicit reference to Semester recommendations in its updated NECP, though thematic alignments exist, particularly regarding transport decarbonisation and rail investment. **Croatia** acknowledges that Semester recommendations on investment capacity and administrative reform have not been effectively implemented, and no direct causal link between recommendations and NECP financing decisions has been established. **Czechia** reports no awareness of such reforms, while **Estonia** describes its NECP as a political aggregate of pre-existing strategic documents rather than an active planning instrument, meaning that Semester recommendations may influence broader policy and budget cycles without reaching the NECP level in any traceable way.

**Italy** presents a more adversarial dynamic: the national government is described as demonstrating growing reluctance to invest in the energy transition, while EU-level signals are weakened. The partial dismantling of elements of the Green Deal are reportedly reinforcing the Italian Government's position. This bidirectional negative feedback, where weakening EU ambition legitimises national inaction, represents a significant governance failure that is distinct from simple implementation gaps.

Portugal and Slovenia occupy an intermediate position. **Portugal** acknowledges real influence from the Semester, particularly in guiding fossil fuel subsidy reform and structuring the PRR/RRF disbursement framework, but notes that the European Commission itself considers national implementation incomplete, particularly regarding a credible phase-out plan for fossil fuel tax benefits before 2030. **Slovenia** shows some responsiveness to EU governance signals, including guidance from the Technical Support Instrument on specific reform areas, but describes the integration as partial and non-systematic, especially on fossil fuel subsidy timelines and renewables targets. **Spain** notes that NECP revisions were directly shaped by Semester feedback, specifically the criticism that the original draft lacked sufficient detail on mobilising private finance, though one senior official commented that a more binding EU Governance Regulation would be more effective than the Semester process as currently structured.

Taken together, the evidence suggests that **the European Semester functions most effectively as a governance instrument when it is paired with direct financial conditionality, as in the RRF framework, rather than as a standalone advisory mechanism.** In the absence of such conditionality, its influence on NECP financing tends to be diffuse, difficult to trace, and dependent on the national administration's own disposition toward climate ambition. Furthermore, the **social dimension of the Semester remains structurally weak**. The governance framework primarily focuses on fiscal discipline rather than delivering positive societal outcomes. This narrow focus risks undermining just transition objectives across Member States.

#### Links Between NECP Financing and Fiscal Planning

The integration of NECP priorities into national fiscal and budgetary planning remains one of the most significant structural gaps identified across the surveyed countries. In

the majority of cases, NECP-related climate and energy investments are financed through earmarked EU funding streams and dedicated national funds rather than through the mainstream budget cycle, resulting in a fragmented and project-based approach that lacks systemic fiscal grounding.

**Poland** is illustrative of this predominant pattern: NECP priorities are financed primarily through the Modernization Fund, the National Fund for Environmental Protection and Water Management, and the EU Structural Funds, but this financing is described as largely programmatic and disconnected from the national budget act, tax policy, and multi-annual public finance planning. There is no formal green budgeting framework, and ETS revenues are not strategically allocated for transformational investment. A similar characterisation applies to several other countries, where climate objectives are reflected in spending programmes connected to EU co-financing vehicles but do not systematically penetrate the core of national fiscal planning.

**Croatia** offers a partial counter-example: its mid-term fiscal strategy explicitly references climate and energy goals aligned with NECP targets, including $CO_2$ reduction, renewables expansion, and energy efficiency, and ties these to the investment priorities of the national RRP. This structural embedding, where NECP targets appear in a document that formally guides medium-term budget priorities, represents a more advanced form of integration than mere programmatic alignment. Whether this translates into genuine prioritisation in practice, however, remains uncertain given the implementation challenges noted elsewhere in Croatia's responses.

**France** has developed arguably the most institutionalised fiscal-NECP link among the surveyed countries. The publication of both a national Multiannual Green Transition Financing Strategy and an annual Green Budget alongside the Budget Bill represents a deliberate effort to make climate financing visible and accountable within the national fiscal architecture. This goes beyond tracking EU co-financing and attempts to situate the full scope of the energy and climate transition within the broader structure of public expenditure, though the robustness of the methodology and the ambition of the underlying measures are separate questions.

**Germany's** approach is noteworthy for its use of a dedicated off-budget mechanism: revenues from the national carbon pricing system (BEHG) are channelled directly into the Climate and Transformation Fund (KTF), which operates separately from the federal budget. This creates a ring-fenced financing stream with enhanced transparency and insulation from competing fiscal pressures, though it also raises questions about democratic accountability and the fund's vulnerability to judicial or political challenge.

**Slovenia's** NECP envisages reforming the existing $CO_2$ levy into a dedicated investment mechanism linked to climate neutrality objectives, and the recently adopted Climate Law requires alignment of national strategies and development plans with climate targets, both of which suggest a growing orientation toward systemic fiscal integration, even if implementation is at an early stage.

At the other end of the spectrum, **Estonia** describes NECP as essentially a post-hoc aggregate of existing strategic and funding documents, with no regulated process for translating Semester recommendations or climate targets into fiscal adjustments. Public investment priorities are guided primarily by political will, and the NECP does not function as a strategic planning tool in the sense that would allow for meaningful fiscal integration.

#### Examples of Successful Policy Integration

Notwithstanding the structural limitations described above, a number of positive examples of policy integration emerge from the survey data, most of them partial, context-specific, and often qualified by significant caveats.

**Belgium** stands as one of the clearest cases of direct governance influence: the reform of its company car taxation, a measure explicitly flagged in European Commission recommendations as environmentally harmful, was significantly shaped by EU pressure, and attempts to dilute the reform were constrained by the threat of losing approximately €200 million in RRF grants. The Semester recommendations in Belgium's case thus functioned less as voluntary guidance and more as a binding fiscal constraint, creating a credible enforcement mechanism. However, the broader company car scheme remains problematic on several accounts, such as social equity, fiscal cost and environmental and urban impact by stimulating private car use over active mobility.

**Croatia's** alignment of its National Recovery and Resilience Plan with NECP objectives offers a model of how crisis-response financing mechanisms can be used to anchor climate and energy investment priorities in broader economic reconstruction agendas. The explicit linkage between the RRP and NECP targets, covering building renovation, renewables deployment, energy efficiency, and sustainable transport, illustrates how EU funding vehicles can provide both the financial resources and the institutional framework to operationalise climate commitments. The lesson drawn by the Croatian respondent, that embedding NECP targets in macroeconomic instruments helps institutionalise climate goals beyond nominal strategy documents, captures a broader dynamic visible in several other countries as well.

**France's** green budgeting architecture, including the annual Green Budget and the Multiannual Green Transition Financing Strategy, represents an ambitious attempt to create systematic visibility of climate-related public expenditure. **Spain** has undertaken a similar exercise through the "Alignment of the General State Budget with the Ecological Transition" reform embedded in its RRP, developed jointly by the Ministry of Finance and the Ministry for Ecological Transition with EU technical support. However, both the Spanish and French experiences also illustrate the methodological challenges inherent in green budgeting: Spain's 2023 exercise was criticised for excluding key budget components, such as such as pensions and regional transfers, and neglecting environmentally harmful expenditure, while the subsequent brown budgeting exercise was released without public visibility and with its own methodological shortcomings.

These examples suggest that the formal existence of green budgeting tools does not guarantee analytical rigour or political accountability.

**Germany's** earmarking of national carbon pricing revenues into the KTF offers a structurally distinct model, one that removes climate financing from the annual competition for budget resources and creates a dedicated and visible funding stream. The Flemish regional climate strategy in **Belgium** provides an analogous example at the sub-national level: the inclusion of financial KPIs and annual monitoring of green heating subsidies demonstrates how performance-based tracking can strengthen the link between spending and climate outcomes.

**Poland's** use of the climate component of the National Recovery and Resilience Plan and the European Funds for Infrastructure, Climate and Environment programme illustrates how EU co-financing can serve as the primary vehicle for NECP implementation in contexts where domestic fiscal integration remains underdeveloped. However, this heavy reliance on external resources does more than just reveal a dependency that limits the long-term credibility of national climate commitments. Between 2020 and 2023, it created a harmful political incentive for the government to contrast strictly monitored, targeted EU green funding with discretionary national funding that could be spent without stringent environmental criteria. This mechanism not only undercut the coherence of climate policy, but also laid the groundwork for the growing anti-green and anti-EU political backlash observed in subsequent years.

The overall picture that emerges is one of **incremental and uneven progress**. The most successful examples of policy integration tend to share several features: clear financial stakes that make EU governance instruments credible; institutionalised processes that embed climate reporting into regular budget or fiscal cycles; and dedicated financing mechanisms that reduce year-to-year political discretion over climate expenditure. Where these features are absent, NECP integration into economic governance tends to remain nominal, siloed within energy ministries, or dependent on the continuation of specific EU funding programmes rather than on durable domestic fiscal commitments.

# Recommendations (EU level)

- Strengthen requirements for integrating detailed financing strategies and funding gap assessments into NECPs through a standardised methodology.
- Develop more standardised methodologies for tracking climate-related expenditures in national budgets and assessing financing adequacy for meeting NECP targets.
- Improve coordination and complementarity between respective EU funding instruments, for instance between MFF and ETS funds and the European Investment Bank.
- Ensure continuity of climate financing beyond the RRF period through both a larger EU budget with an ambitious climate mainstreaming target, and through the creation of new joint borrowing instruments for climate action.
- Strengthen stringency, transparency, monitoring, and reporting obligations related to DNSH implementation and fossil fuel subsidies.
- Expand support for technical assistance and administrative capacity-building, particularly for regional and local authorities.
- Maintain dedicated and ambitious climate and social earmarking within 2028-34 MFF funds to prevent the dilution of transition objectives in respective financing instruments.
- Rebalance the European Semester framework to ensure that fiscal discipline rules do not override social fairness and just transition targets.