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A modernised Cohesion policy: The mid-term review

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The Treaties of the EU[1] establish the promotion of solidarity and cohesion, and in particular the reduction of disparities between the levels of development of regions, as a core objective of the Union. The political and economic relevance of cohesion policy has only increased over time, in tune with the progress of European integration, notably the establishment of the Single Market. The 2010 report on the Single Market indicated that "*market integration could be a win-win process only when complemented by action at EU level to correct structural imbalances at subnational level*". Despite strong and sustained efforts over several decades, the objectives of cohesion and of reducing regional disparities across Europe are today facing important challenges. The Letta Report highlighted the emerging perception of the negative distributional effects of the Single Market and that "*if left unaddressed, this perception could erode the public and political support that is vital to the continued success of the Single Market*".

As a radically transformed global environment brings with it asymmetric effects on people and territories, the costs of adjustment may fall disproportionally on certain EU regions and economic sectors, thus potentially widening territorial, social and economic disparities.

The Political Guidelines 2024-2029 set out by President von der Leyen, drawing on consultations with the European Parliament and the European Council's Agenda for 2024-2029, lay out the core new political priorities for the Union to address these challenges, including:

- A new plan for Europe's sustainable prosperity and competitiveness, including a Clean Industrial Deal
- A new era for European Defence and Security
- Supporting people, strengthening our societies and our social model
- Sustaining our quality of life: food security, water and nature
- Enhancing the EU's preparedness and readiness for future crises.

Cohesion policy has the inherent flexibility to contribute significantly to the above new and vital priorities, while delivering on the core objective of reducing disparities that is central to the European project.

The Commission proposes, in partnership with national, regional and local authorities, to use the mid-term review (MTR) of cohesion policy to maximise its contribution to the current and emerging political priorities of the Union and increase its impact on economic, social and territorial cohesion.

To facilitate the process, the Commission proposes targeted amendments to the regulatory framework of the cohesion policy funds[2] to (i) **align investment priorities** with the evolving economic, societal and geopolitical context as well as with our climate and environment objectives and (ii) **introduce greater flexibility and incentives** to facilitate the rapid deployment of resources and accelerate the implementation of the programmes.

[1] Article 3 of TEU and Article 174 of TFEU.
[2] Regulations (EU) 2021/1056, (EU) 2021/1058 and, adopted separately, (EU) 2021/1057.

1. Cohesion Policy 2021-2027: State of Play

Notwithstanding the launch of the negotiations on the 2021-2027 programming period early in 2019, and the Member States' ambitions to have programmes ready for adoption by the end of 2020, **implementation started effectively in 2023, more than a year later than envisaged**.

This was due to a combination of factors, notably the late adoption of the regulations governing the policy and the need to address successive crises, including the COVID-19 pandemic, the war against Ukraine and the resulting energy crisis, and the priority given to implementing the instruments of Next Generation EU, in particular the Recovery and Resilience Facility (RRF), which had shorter deadlines. Moreover, these factors strained the capacities of Member State authorities to design and quickly deliver investments.

The level of payments under the 2021-2027 programming period is similar to that at the equivalent stage after the adoption of the regulatory framework for the 2014-2020 programming period[3] but there is less time left to fully absorb the resources of the current cycle[4].

Cohesion policy has shown its ability to deploy substantial means at regional and local level and was an important vehicle of the EU's response to the COVID-19 pandemic[5]. It was then called again to respond to the fallout from Russia's war of aggression against Ukraine (with the Cohesion's Action for Refugees in Europe – CARE[6] and FAST-CARE[7], as well as SAFE[8] to support SMEs and vulnerable households facing high energy costs). When floods swept across Europe, increasing in intensity and size, cohesion policy responded by proposing RESTORE[9].

At the same time, the fact that a significant share of the cohesion policy envelope budget has not been contracted yet **provides an opportunity to use the flexibility and breadth of cohesion policy to refocus the programmes towards the urgent new challenges** facing the

[3] In December 2024, the net interim payment rate was equal to 4.2% of the total envelope 2021-2027 envelope, which is slightly higher than the payment rate in June 2017 (3.6%) which was when the equivalent time had lapsed following the adoption of the cohesion policy regulations.

[4] In the 2014-2020 MFF cycle, managing authorities had time until 3 years after the end of the cycle (i.e. 2023) to submit claims, while in the 2021-2027 cycle they have time until 2 years after the end of the cycle (i.e. 2029).

[5] Through the Coronavirus Response Investment Initiative and the Coronavirus Response Investment Initiative Plus, as well as REACT-EU.

[6] Regulation (EU) 2022/562 of the European Parliament and of the Council of 6 April 2022 amending Regulations (EU) No 1303/2013 and (EU) No 223/2014 as regards Cohesion's Action for Refugees in Europe (CARE) (OJ L 109, 8.4.2022, p. 1).

[7] Regulation (EU) 2022/2039 of the European Parliament and of the Council of 19 October 2022 amending Regulations (EU) No 1303/2013 and (EU) 2021/1060 as regards additional flexibility to address the consequences of the military aggression of the Russian Federation FAST (Flexible Assistance for Territories) – CARE (OJ L 275, 25.10.2022, p. 23).

[8] Supporting Affordable Energy measures under Cohesion policy, as part of REPowerEU. Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

[9] Regulation (EU) 2024/3236 of the European Parliament and of the Council of 19 December 2024 amending Regulations (EU) 2021/1057 and (EU) 2021/1058 as regards Regional Emergency Support to Reconstruction (RESTORE).

European Union stemming from an evolving global environment. Moreover, it allows for **targeted changes to the rules of cohesion policy** to enable Member State authorities to respond more quickly to urgent investment needs.

It is thus necessary to examine all possibilities to both adjust the focus and improve the effectiveness of the measures, while accelerating the implementation of the programmes.

2. Using the mid-term review to respond to emerging challenges

In recent years, geopolitical dynamics have been marked by profound uncertainty, necessitating a fundamental re-evaluation of the EU's strategic autonomy, resilience and preparedness. These shifts are unfolding alongside the green, social and technological transitions, which are rapidly reshaping the world around us. The challenges posed by these simultaneous transformations were comprehensively analysed in the Draghi report on the "Future of European Competitiveness", published in September 2024. The report underscores the urgent need to close the innovation gap, strengthen economic competitiveness with decarbonisation as growth opportunity, and reduce external dependencies by diversifying supply chains and investing in climate resilience, domestically produced green energy and critical sectors.

In response, several major initiatives have already been launched to enhance the EU's economic resilience and strategic autonomy. These include "REPowerEU" which was the Commission's response to the socio-economic hardships and global energy market disruption caused by Russia's was of aggression against Ukraine and the "Strategic Technologies for Europe Platform" (STEP), which aims to strengthen Europe's technological leadership. These complement interventions already underway via cohesion policy programmes and the "Recovery and Resilience Facility" (RRF), to support structural changes in Member States and regions as well as to enhance their resilience. Member States could benefit from additional resources to introduce REPowerEU chapters in their Recovery and Resilience Plans (RRPs), with the aim to boost reforms and investments that diversify the EU's energy supplies, accelerate the green transition and support vulnerable households. The Preparedness Union Strategy adopted on 26 March 2025 will further contribute to strengthen the EU's resilience.

As the EU's main investment instrument within the Multiannual Financial Framework (MFF), cohesion policy plays a crucial role in supporting these priorities. It drives targeted investments that contribute to economic, social and territorial cohesion while at the same time addressing emerging challenges.

However, the regulatory framework governing the 2021-2027 cohesion policy funds was drafted, negotiated and adopted in 2019-2021 and programmes were adopted before the series of major geopolitical and economic events that have reshaped some of the EU's strategic political priorities.

Similarly, the Partnership Agreements and the national and regional cohesion policy programmes were developed and approved within this same timeframe, hence reflecting the priorities set at the time and **based on economic fundamentals that have changed significantly** due to unanticipated exogenous shocks such as the energy crisis and the evolving global trade and security environment.

Against this backdrop, and based on the Political Guidelines 2024-2029, **since December 2024** the European Commission has **initiated an extensive consultation with Member States, regions and local authorities** with a view to obtaining their input on their political priorities and how cohesion policy could be adjusted to better respond to them. Discussions were held both in Member States and in Brussels with representatives of national governments, regions, including outermost regions, cities and non-urban areas such as islands. Furthermore, the Commission engaged with the European Parliament and the European Committee of the Regions[10].

The consensus from these consultations was that the mid-term review can be used to (i) bring the EU's new priorities already <u>within the 2021-2027 cohesion programmes</u> and (ii) accelerate investment through simplification.

To achieve these dual objectives, **targeted amendments are required** to the Regulations governing the cohesion policy funds that are in the legislative proposal accompanying this Communication. These amendments and the new opportunities they create for cohesion policy actors to align their programmes with the new priorities are described in the following sections of this Communication. **The focus of these amendments is on policy areas that were highlighted as the most pressing by several stakeholders** during the above-mentioned consultations.

In addition to describing the proposed regulatory amendments, the sections below highlight other ways in which Member States can maximise the impact of their cohesion policy investments in achieving our common priorities.

Closing the innovation gap, strengthening competitiveness and decarbonisation

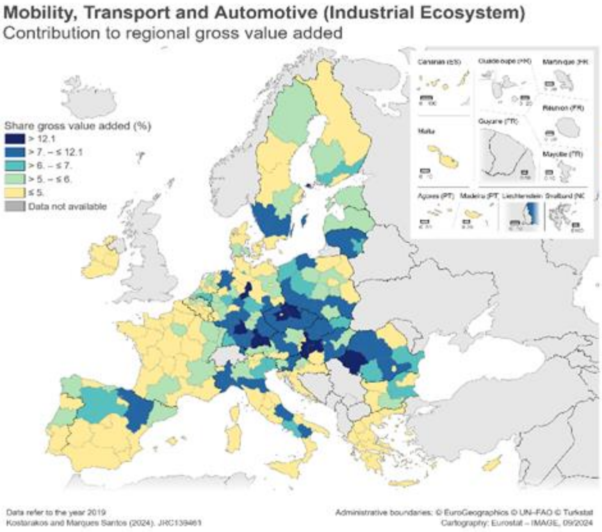
The Competitiveness Compass recently adopted by the Commission sets the direction for the next five years to reignite economic dynamism in Europe. The Compass should therefore inform the discussion on the MTR of Cohesion policy by refocusing programmes adopted in 2022 and based on the regulatory priorities negotiated and agreed between 2019-2021 on the urgent challenges of today, namely closing the innovation gap, decarbonising the economy to increase competitiveness and decrease dependencies, and investing in new growth sectors, considering the economic fabric of regions.

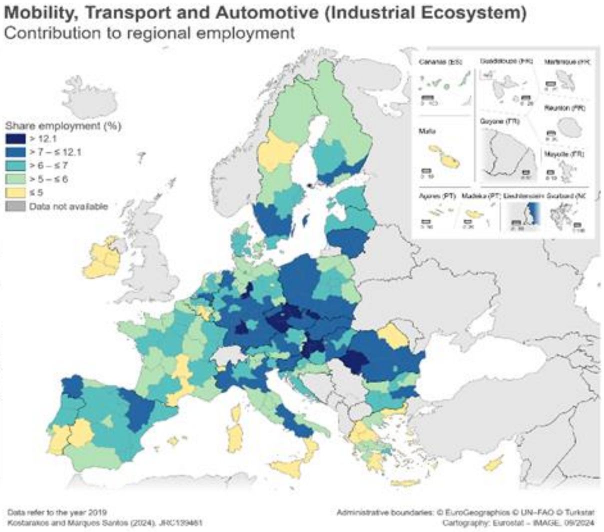
It is therefore timely for Member States and regions to examine what more can be done to close the innovation gap, and to accelerate the technological readiness, the projection on international markets and the competitive position of SMEs.

Global dynamics and the industrial transitions hit some regions harder than others. Regions that are overly dependent on one industry, possibly an energy intensive industry, whose innovation ecosystem is tailored and locked-in, face multi-faceted challenges to transition towards growth and prosperity.

[10] In particular, Executive Vice-President Fitto engaged in an exchange of views with the European Parliament's Committee of Regional Development (REGI) on the future of cohesion policy on 27 January 2025 and participated in the plenary session of the Committee of the Regions on 20 February 2025.

For instance, automotive, construction and manufacturing industries in many regions need to transform, deploying low-carbon technologies, more circular processes and digitalising their processes to remain competitive.





In the 2021-2027 period, almost EUR 34 billion of Cohesion funding helps develop and enhance research and innovation capacities, the uptake of advanced technologies, and specialised skills.

Similarly, the digitalisation of public services and the integration of Artificial Intelligence (AI) in the public and private sectors are levers for competitiveness. Cohesion policy already provides significant support to the digital transition with projects of EUR 31 billion, such as the Internet of Things, edge computing, Artificial Intelligence, robotics and augmented reality, or eGovernment and eHealth.

Finally, access to secure and sustainable sources of critical raw materials and net zero technologies is essential for the competitiveness of all downstream industries. The Commission selected on 25 March 2025 the first list of Strategic projects under the Critical Raw Materials Act. Such projects become eligible under STEP.

Given that the challenges for competitiveness affect all regions in the EU, the **Commission proposes that ERDF/CF support for projects within the scope of STEP is made possible in all regions**, including in the more developed regions of Member States of the Union with GDP per capita above the EU-27 average. Furthermore, the Commission proposes that the ceiling set at 20% of the ERDF allocation for reprogramming towards STEP is removed. The deadline for submitting STEP amendments is extended by up to two months after the entry into force of the regulatory changes proposed together with this Communication.

It is important to recognise and strengthen the **role of large enterprises** in regional development, as they steer research, innovation, knowledge, and technology transfer towards other companies in their value chain. Cohesion policy already allocates EUR 9 billion to large enterprises and steady progress is visible with more than a quarter of planned resources allocated to individual R&I projects in large enterprises. Ten Important Projects of Common European Interest (IPCEI) have been financed so far across Europe. This includes, for instance, hydrogen projects in Estonia, Netherlands and Poland, or microelectronics projects in Greece, Poland and Italy. The Commission supports Member States in identifying support for future potential IPCEI projects.

With the objective to maximise the impact of EU support to boost growth and competitiveness, and insofar Union State aid rules as set out in Articles 107 and 108 TFEU and in applicable guidelines are complied with, **the Commission proposes to expand the scope of support for productive investments in enterprises other than SMEs under the ERDF** in cases where the financial resources are used for (1) supporting investments contributing to the objectives of **STEP**, (2) enhancing the industrial capacities to foster **defence** capabilities, (3) contributing to a **European defence project of common interest**, or (4) facilitating industrial **decarbonisation**, such as for energy intensive industries or in the automotive industry. Investments in projects directly participating in an IPCEI as approved by the Commission pursuant to Article 107(3), point (b), TFEU, in line with Communication C(2021) 8481 in enterprises other than SMEs may also be supported. Support for enterprises, other than SMEs, is also facilitated under the Just Transition Fund by not requiring a gap analysis.

Europe's competitive strength lies in its people. Our human capital is key to the EU's prosperity, its economic resilience to increasing our productivity growth, and to fostering cohesion. **The Union of Skills**[11] has among its objective the provision of up and reskilling opportunities, inter alia, through the establishment and roll out of **Individual Learning Accounts**. The Commission will develop a **Skills Guarantee** pilot. This scheme will offer workers involved in restructuring processes, or at risk of unemployment, the opportunity to develop further their careers in another company or another sector. In this context and in order to facilitate industrial adjustment linked to the decarbonisation of production processes and products, **the European Social Fund Plus (ESF+)**, further to the already existing possibilities for support, **is modified through a separate legislative proposal to** facilitate the skilling, job maintenance and job creation throughout this process by providing flexibilities to implementation.

To further enhance the **leverage of InvestEU**, the EU flagship programme to boost investments in critical industries, and further the transfer possibilities already provided by the legislation, **the Commission proposes to make possible the transfer of resources from the ERDF and the Cohesion Fund to InvestEU** Member State compartments, for implementing a new InvestEU financial instrument for the achievement of cohesion policy objectives, as included in the proposal for an amendment of the InvestEU Regulation[12].

In addition, projects directly participating in an approved IPCEI may experience delays when Member States choose to fund such projects through cohesion funds. The application procedure for ERDF funding, in particular the organisation of and application in calls comes on top of the selection procedure for IPCEI projects (also involving open calls) that is organised on national level for the selection of beneficiaries of State aid pursuant to Article 107(3), point (b), TFEU. Therefore, it is proposed that Member States are allowed in line with State aid rules to grant support from ERDF and ESF+ to projects directly participating in an IPCEI approved by the Commission pursuant to Article 107(3), point (b), TFEU and to Communication C(2021) 8481.

[11] COM(2025) 90 final.
[12] COM(2025) 82 final.

Besides what becomes possible through legislative changes, **the Commission urges Member States and regions**, when reprogramming under the MTR, to:

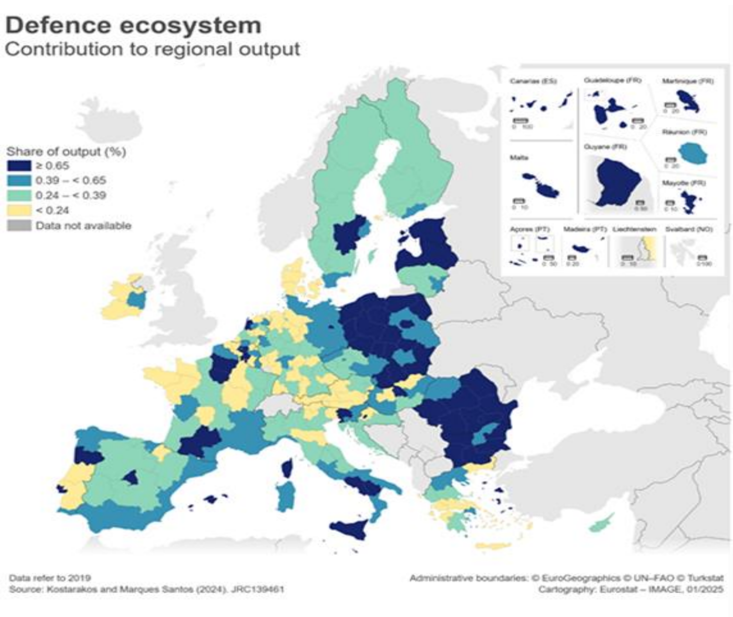
- **increase support to STEP**, on top of EUR 6 billion of Cohesion funding already redirected towards investment in Europe's strategic sectors and technologies;
- **be more selective in granting aid to firms**. When funding to SMEs is too broadly distributed, its impact can be diluted. More selectivity allows to better support the modernisation and diversification of regional economies by linking, for example, support to SMEs in promising industrial sectors to investments in R&I, the adoption of digital technologies, by strengthening local clusters and local parts of EU value chains promoting circular processes, or by making a better use of innovative public procurement;
- **focus on breakthrough, innovative companies**, to enable the diffusion of innovation, advanced decarbonised manufacturing capacities, clean technologies, the uptake of AI, helping those companies that contribute to Europe's strategic sectors and value chains, such as artificial intelligence, semiconductor and quantum technology, advanced materials, decarbonisation, biotech, defence, or space technologies. This should include making full use of the opportunities for budgetary transfers and to support Seals of Excellence and STEP seals awarded by the European Innovation Council which selects high potential startups and SMEs in these areas.
- **enhance support to digital capacities** such as AI, cloud and giga-factories to enable companies to have access to cutting-edge service infrastructures necessary for innovation and competitiveness.
- **recognise and strengthen the role of large enterprises** in regional development, as they steer research, innovation, knowledge, and technology transfer towards other companies in their value chain.
- **provide financing to strategic projects selected under other EU instruments**, which do not have sufficient financing to support them all and may be taken up by cohesion policy programmes when they are mature enough to ensure implementation within the time framework of the policy and when they serve the industrial strategy of the country and/or region. It is the case, for example, of the projects selected under the Innovation Fund, or of Important Projects of Common European Interest (IPCEI), or of Strategic projects under the Critical Raw Materials Act, the Critical Medicines Act and the Net Zero Industry Act. Member States and regions should strive to simplify and fast-track financing procedures under cohesion rules for such projects that have already undergone stringent assessment procedures.
- Support the scaling up of innovative SMEs into **Small Midcaps**.
- Ensure that investments with cohesion funding **increase climate resilience**, also in line with the Preparedness Union Strategy and the concept of preparedness and security by design that should be embedded into all EU policies.

Defence and Security

The new geopolitical environment calls for a strong focus on the resilience of our economies, preparedness and our defence capabilities as well as reducing our dependencies. The European Union must now make crucial decisions to increase its support for the development of its defence capabilities and the competitiveness of the EU defence industry. This effort will enable the Union to address the urgency of supporting Ukraine while ensuring the continent’s long-term security.

The Commission has proposed to the European Council an immediate response — the REARM Europe plan[13] — which could reach at least EUR 800 billion over the next four years for defence investment, including the expenditure financed by the EUR 150 billion from SAFE. Among these levers, the Union budget can further contribute to this collective effort. In this respect, the Commission announced that it would put forward proposals to make existing EU instruments more flexible to allow greater defence investment.

Cohesion policy is already **funding security and defence-related investments contributing to regional development**. These investments support dual-use technologies and infrastructure to enhance military mobility, as well as the defence industry as such, through funding of military technology innovation, production capacity enhancement, and supply chain infrastructure as well as projects to address energy supply bottlenecks and projects for the supply of energy infrastructure[14]. Defence industries often create research and development and industrial ecosystems which benefit Europe’s regions and communities. The territorial focus of the policy is particularly relevant to foster regional synergies and alignment with local strengths, responding to a very diverse European defence ecosystem.



National, regional and local authorities can **voluntarily use the mid-term review of cohesion policy to allocate funds within their current programmes** towards emerging priorities, including strengthening defence capabilities. In line with the conclusions of the European Council of 6 March 2025, to provide additional possibilities and incentives to Member States wishing to invest in their defence capabilities consistent with cohesion policy

[13] White Paper for European Defence Readiness 2030 - JOIN(2025) 120 final.

[14] Cohesion funds also contribute through a broad range of investments to the EU’s internal security, thus promoting a comprehensive and mainstreamed approach to security and the preparedness.

objectives, the **Commission proposes to create two new specific objectives** within the existing scope of the European Regional Development Fund (ERDF) and Cohesion Fund support. These specific objectives also help Eastern border regions.

- The first new objective allows Member States to voluntarily **reprogramme**, under their 2021-2027 programmes under the Investments for Jobs and Growth goal, **amounts for enhancing productive capacities in enterprises in the defence sector without restriction in terms of geography or size of the enterprise**, while ensuring full respect of State aid rules, which remain applicable. This will reinforce Europe's overall defence and preparedness capacities, in line with the cohesion policy's overall objectives of narrowing economic, territorial and social disparities across the EU.

- The second new specific objective related to defence contributes to **building resilient defence or dual use infrastructure to foster military mobility in the Union**.

In light of the European Council's call to accelerate the mobilisation of financing for investments in the Union's defence, **the Commission proposes that investments in this priority which are supported by a reallocation, benefit from pre-financing of 30% in 2026 and an EU co-financing rate of 100%**.

The right skills are crucial to an effective defence capacity. The Union of Skills sets out actions to address skills gaps and shortages in Europe; its Pact for Skills, notably, has established a large-scale partnership on the defence ecosystem[15]. Through skills forecasting, it supports collective anticipation of the skills gaps Europe will face, taking into account industry skills needs and demographic skills forecasts for the next five to ten years. It aims to upgrade upskilling and reskilling programmes to make them more attractive by better engaging and developing talent and improving the retention of skilled individuals. In this context, the ESF+ will also facilitate the development of skills in the defence industry by providing further flexibilities to implementation **with the addition of a third new priority to the ESF+ Regulation as put forward in a separate legislative proposal**. The ESF+ shall mobilise all instruments available in support of this, including support to Vocation Education and Training (VET) and for the life-long learning.

Furthermore, the Commission will propose in a forthcoming legislative proposal to amend the STEP Regulation and related legislation covering several EU programmes to add a fourth STEP sector targeting defence that could be supported by existing EU instruments, notably Horizon Europe and the Digital Europe Programme.

Finally, Member States are also encouraged to **use the possibility foreseen in the current legal framework of voluntarily transferring resources allocated to them in shared management to directly managed programmes with defence and security objectives**. In this context, transfers to the Connecting Europe Facility (CEF) Military Mobility envelope would ensure coordinated interventions along the military mobility corridors highlighted in the White Paper on Defence. The CEF Regulation will be amended in order to reflect the same advantageous pre- and co-financing rates.

[15] https://pact-for-skills.ec.europa.eu/about/industrial-ecosystems-and-partnerships/aerospace-and-defence_en

Affordable housing

Housing is not just a basic need – it is a fundamental right. In her Political Guidelines 2024-2029, President von der Leyen stressed that "*we urgently need to address the housing crisis facing millions of families and young people*" and that there is a significant and growing investment gap in social and affordable housing. This is key for supporting people, strengthening our societies and our social model, while promoting Europe's competitiveness and protecting our democracy.

Since the end of the financial crisis, demand for housing has increased while supply of new and renovated housing has not grown at a similar pace. This has resulted in significant increases of both housing prices and rents in general but in a more acute way in some regions and cities. At the same time, wages have not increased at as much as the cost of housing. This uneven evolution has created a widening gap between the availability of affordable housing and the needs of the population[16].

While the issue varies in severity from country to country and region to region, its impact is widespread. High housing costs force many households to allocate a disproportionate share of their income to rent or mortgages, leaving less for other necessities like food, healthcare, and education – with a risk of falling into poverty. In 2023, one out of three households that are at risk of poverty spent 40% or more of the household disposable income on housing. In addition, concerted actions to create more affordable and sustainable housing will also help people facing the serious situation of energy poverty. In 2023, 10.6% of Europeans were unable to keep their homes adequately warm. At the same time, people need housing that is climate resilient.

The lack of sufficient affordable housing puts an increasing number of households under severe difficulties, but it also has a competitiveness angle. Indeed, European companies in some areas start to have problems to attract workers because the costs of housing and living in those areas are disproportionately high as compared to income.

High prices are also putting public services in certain cities under pressure due to difficulties in attracting essential public workers (teachers, nurses, police, etc.). Lack of affordable housing could have wider social effects, such as preventing young couples from settling down and starting a family, or prospective students lacking affordable student accommodation to choose alternative career paths. To support Member States in addressing these issues, the Political Guidelines proposed a coordinated approach, to be set out in a '**European Affordable Housing Plan**'. The European Parliament established in January 2025 a Special Committee on the Housing Crisis in the European Union whose objective is to examine the root causes of the housing crisis and put forward policy recommendations on possible solutions to be developed at EU level. These recommendations will be taken into consideration when putting forward the European Affordable Housing Plan.

As part of this overarching initiative, the Commission committed to **enabling Member States to double the planned cohesion policy investments in affordable housing**. Cohesion policy already contributes to improving the EU's housing sector with EUR 7.5 billion allocated in the 2021-2027 programming period, notably to energy and resource efficient buildings and social housing, and more than half of the allocation is already awarded

[16] https://unece.org/sites/default/files/2025-02/ECE-HBP-225_Housing%20Affordability_E_web.pdf

to projects. Given the magnitude and the urgency of the needs and the high uptake of support by Member States so far, **the effort to double cohesion policy's support to affordable housing must start with the mid-term review**.

Accordingly, the **Commission proposes legislative changes to address the growing investment gap by widening the possibilities for Member States to reprogramme under their 2021-2027 programmes towards investments that promote access to affordable housing**. Investments under the New European Bauhaus should make full use of these new possibilities provided.

The corresponding additional specific objectives related to affordable housing will be included under three policy objectives thus allowing flexibility for Member States and regions depending on their programming structures and the focus of the housing interventions.

To ensure an adequate incentive to Member States to increase funding to affordable housing within the available cohesion funds allocations, **the Commission proposes that investments reallocated towards this priority area benefit from pre-financing of 30% in 2026 and an increased EU co-financing rate of 100%**.

The Commission services have also prepared jointly with the European Investment Bank (EIB) a model financial instrument for combining cohesion policy funding with resources from the EIB and other international financial institutions, national promotional and commercial banks to support investments in affordable housing. This model financial instrument can increase substantially the impact of cohesion policy resources on the supply of affordable housing by leveraging private and concessional financing, providing a further incentive to national and regional authorities to contribute to the target of doubling cohesion policy's contribution to affordable housing in the 2021-2027 programming period.

In summary, **the Commission urges Member States and regions**, when reprogramming under the MTR, to:

- **double the funding allocated in the programmes to affordable housing** in the 2021-2027 cycle;
- **leverage such funding through financial instruments, including through the forthcoming pan-European Investment Platform for affordable and sustainable housing**;
- **accelerate and streamline permitting and planning rules** at local and city level to accelerate delivery and ensure that investments can yield results in a fast way which then lead to long-term sustainable benefits, for example for low-income tenants and first-time buyers or accommodation for students.
- **support housing projects consistent with the New European Bauhaus initiative**.

Water resilience

Water is a vital resource for the security of our food, energy and economic systems, yet both at EU and global level, water resources are facing mounting pressures from pollution, biodiversity loss and climate change, which are already taking a toll on water resources.

Protecting and restoring water and marine ecosystems is essential to ensure water quality and water quantity. Healthy water ecosystems, green, blue and grey water infrastructure and water management systems are critical infrastructures and paramount also for our competitiveness, quality of life, security and defence capabilities, in the same way as energy infrastructure. Our water systems are at risk of more frequent and severe floods and droughts, as well as malicious attacks, including cyberattacks. Lack of effective water infrastructure and insufficient water resilience may undermine EU's food security and food production. The EU must protect these ecosystems and infrastructures by scaling up investments and consider water supply and infrastructure through the lens of ensuring access to and supply of water to our citizens and societies in all circumstances.

The EU has established a strong legal framework for the sustainable and secure management of water, but further progress in implementation is essential and more decisive action is urgently needed. Water resilience requires a shift from reactive crisis management to proactive, risk-based management and increased preparedness.

In the 2021-2027 period, almost EUR 13 billion are being invested in water services and improved wastewater collection and treatment in cohesion policy programmes. But additional efforts from the public and private sectors are needed to ensure sufficient progress.

Therefore, to properly emphasise the importance and focus of investments in water resilience, the **Commission proposes to include a specific objective related to promoting secure access to water, sustainable water management and water resilience**.

To ensure an adequate incentive to Member States to increase funding to water resilience within the available cohesion funds allocations, **the Commission proposes that pre-financing for such investments in this priority which are supported by a reallocation, is increased to 30% in 2026 and that those investments benefit from an increased EU co-financing rate of 100%**.

Furthermore, **the Commission urges Member States and regions**, when reprogramming under the MTR, to:

- **build a water resilient society**, through increased restoration of water bodies, deployment of nature-based solutions to reduce floods risk and increase the capacity of ecosystems to store water, improved control of water abstractions and increased water efficiency, increased digitisation of water infrastructure and water reuse, mitigation of drought and desertification impacts as well as of (cyber)security risks, pollution reduction, including achieving compliance with the EU water acquis including the Urban Wastewater Treatment Directive.

Energy transition

Another area where cohesion policy investments contribute to EU priorities is climate action and climate transition, where the policy invests more than EUR 110 billion.

The Commission presented in the Competitiveness Compass, the Clean Industrial Deal and the Affordable Energy Action Plan a concrete path for Europe to regain its competitiveness and secure sustainable prosperity, with decarbonisation and circularity as drivers of growth.

Cohesion funds can already support investments in climate objectives, but efforts should be further accelerated in order to ensure that decarbonisation is a driver for growth for European industries and the prosperity of Europeans. In light of the significant investment needs of the clean transition, Member States need to continue investing in the transition in line with existing climate expenditure targets.

Sizeable support is being provided to projects in the fields of energy efficiency, renewable energy, urban transport infrastructure and railway investments that will directly contribute to reducing emissions in the EU. Cohesion policy invests, for example, EUR 24 billion in energy efficiency, including a sizeable share in the housing sector.

Investments in clean, affordable energy sources, and investments in using energy more efficiently are crucial for the transition to a decarbonised economy and for Europe's capacity to compete globally, as the energy price weighs heavily on industrial costs. The 2021-2027 programmes already plan investments for more than EUR 15 billion.

In this vein, and to accelerate the decarbonisation of industry that is necessary for reaching the EU climate objectives, **the Commission proposes to enlarge the scope of support from the ERDF to decarbonisation projects**. This is particularly important for **projects selected under the Innovation Fund established by the Emissions Trading System** (ETS) that have been awarded a 'Sovereignty Seal'.

To properly emphasise the importance and focus of investments in enhancing energy security, and accelerating the energy transition and also to boost clean mobility, **the Commission proposes to include a specific objective related to promoting energy interconnectors and related transmission infrastructure, and the deployment of recharging infrastructure** from ERDF and Cohesion Fund resources.

The Commission proposes that pre-financing for such investments in this priority which are supported by a reallocation is increased to 30% in 2026 and that those investments benefit from an increased EU co-financing rate of 100%.

This enhanced investment effort will enable energy-intensive sectors to access more stable and diverse energy sources in a less fragmented internal energy market, buttressing their sustainability and competitiveness. Moreover, expanding the ERDF's support for decarbonisation projects will allow energy-intensive industries to prioritise high-impact innovations aligned with EU climate objectives. As regards recharging infrastructure, the support will complement the Alternative Fuel Infrastructure Facility established under the Connecting Europe Facility.

The Commission urges Member States and regions, when reprogramming under the MTR, to:

- **scale up support to clean-tech and the transition to clean energy, to accelerate the roll-out of clean energy and manufacturing**. A key component in this is the modernisation of electricity grids, interconnectors and energy storage facilities to ensure a true Energy Union, as well as the diffusion of recharging points for electric vehicles, which is an important priority in line with the Industrial Action Plan for the Automotive Sector. Cohesion policy dedicates almost EUR 9 billion to clean-tech in the 2021-2027 programmes and more than a third of this amount has already been contracted to projects;

- **support decarbonisation** of production processes and products, **especially for regions with energy-intensive industries**, by supporting the industrial transition through the different cohesion instruments, including the Just Transition Fund. This concerns in particular sectors covered by the EU ETS, but also sectors like the automotive sector going through significant industrial transformations;
- **reinforce investment in climate-related disaster preparedness**, adaptation and mitigation, also building on the RESTORE proposal and on the build-back-better principle;
- **contribute to the Clean Industrial Deal**, for instance by promoting the development of lead markets in the EU, by redirecting resources towards de-risking and accelerating the uptake of hydrogen production in the EU, as well as **to the Affordable Energy Action Plan**, providing support to the completion of energy communities, the modernisation of EU's electricity grids and interconnectors, supporting the development of offsite construction or energy efficiency measures in housing, enterprises and public infrastructure, as reducing energy demand is a key contributor to affordable housing and industrial competitiveness.
- **strengthen support for collective and citizen-driven energy actions**, for example the creation of energy communities, through increasing administrative capacities to provide technical and financial advice.

Eastern Border regions

The **Eastern border regions of the EU** - bordering **Russia, Belarus and Ukraine -** face the dual challenge of enhancing security while revitalising their economies that have been negatively impacted as a direct or indirect consequence of Russia's war of aggression against Ukraine.

With the mid-term review, cohesion policy resources of the concerned programmes can be re-allocated to increase investments in defence and the competitiveness of the broader economy to boost their recovery.

To strengthen incentives to frontload investments in these regions, **the Commission proposes that the programmes covering regions on the Union's Eastern borders benefit from**:

- a co-financing rate of 100%,
- a further pre-financing of 9.5% of the total programme allocation in 2026,
- and a pre-financing rate of 30% in 2026 for the amounts reallocated towards the new priorities of the mid-term review (STEP, defence, housing, water resilience and energy transition).

These incentives only apply if the reallocation to those new priorities reaches at least 15% of the total programme allocation. This does not apply to national programmes of Member States that have both national and regional programmes.

Foster prosperity and the right to stay in all territories, with tailored policies for each place

The changing socio-economic and geopolitical environment has very asymmetric effects on Member States and regions, depending on their economic specialisation, geographic situation, and demographic structure.

Many regions in Europe face challenges related to **stagnant or declining growth** and prosperity, impacting on the quality of local services and opportunities for citizens. The Commission and Member States together should strive for all citizens to have an effective **right to stay** in the place they call home by ensuring availability of good jobs, and access to basic public services such as education and health. This is particularly important in **non-urban territories** (rural, inner and remote areas) and in the areas identified as falling in a Talent Development trap[17]. In this respect, a stronger complementarity between cohesion policy programmes and the LEADER initiative under the CAP, as well as actions to promote sustainable tourism, would help local communities to find local solutions, as also highlighted in the recent Vision for Agriculture and Food. Actions would facilitate sectors beyond farming and fisheries to foster other business and economic opportunities, while managing migration flows also to counter de-population.

Urban areas face their own challenges linked to affordable housing, societal integration, congestion and pollution. Out of total Cohesion policy, EUR 24 billion is invested in **urban development**, with cities at the forefront of decarbonisation efforts. The role of cities and the urban-rural links should be better exploited, to drive a balanced regional development, and the **Commission will present an ambitious Agenda for Cities** later this year.

Recognising the important role of cities in delivering EU objectives, in addressing local challenges and in strengthening the urban-rural links to drive a balanced regional development, the **Commission proposes to reinforce the European Urban Initiative by introducing the possibility of transferring resources from the ERDF to the European Urban Initiative**. Such amounts would support actions for the benefit of Member States initiating the transfer. The **Commission also proposes to establish a Seal of Excellence for the European Urban Initiative**, thus enabling support under cohesion policy programmes for EUI projects that have been selected but could not receive funding due to insufficient resources. Member States would also have the **possibility to transfer ERDF resources from their programmes** under the Investment for Jobs and Growth Goal **to the Interregional Innovation Investment Instrument** thus having more flexibility in the use of resources.

Islands and outermost regions face specific challenges related to the higher costs of raw materials and energy, in particular after the beginning of the war in Ukraine, on top of the inherent constraints stemming from their physical disconnection and remoteness from mainland affecting labour market, transport and mobility, access to raw materials, as well as energy supply. This geographical disconnection also renders the clean transition of such territories towards a climate-neutral economy significantly more difficult. Furthermore, the seasonal employment created by tourism often hides a lack of attractive employment opportunities for local people. Finally, a number of islands and outermost regions have

[17] As identified in the Communication on Harnessing Talent in Europe's regions https://ec.europa.eu/regional_policy/information-sources/publications/communications/2023/harnessing-talent-in-europe-s-regions_en

suffered extreme natural disasters that call for significant investments not only in post-disaster recovery but also in climate adaptation and resilience. To support islands and outermost regions address these multi-faceted problems, the Commission will launch a consultation on the development of a Strategy for Islands and on an updated Strategy for Outermost Regions.

Therefore, **the Commission urges Member States and regions**, when reprogramming under the MTR, to:

- **reinforce the role of cities in delivering many EU objectives**, for example by transferring funds reinforcing the European Urban Initiative or by increasing resources dedicated to cities. In parallel, the Commission will seek to encourage a wide-ranging debate in the context of the Urban Agenda, on how cities can contribute to EU priorities;
- **materialise their commitments to contribute to the New European Bauhaus** (NEB), only partially achieved until now. All Member States committed to contribute to NEB's delivery with their 2021-2027 programmes and 18 Member States mainstreamed the NEB principle in selection criteria and calls for projects. NEB values naturally accompany support to affordable housing and sustainable urban development, including town centre redevelopment, cultural heritage renovation, and green infrastructure improvement.

3. Stronger administrations with simpler, more flexible and more effective rules

To ensure that cohesion policy supports the achievement of its objectives, it must leverage the capacity of both the public administration and the private sector in the delivery of the policies and the investments that cohesion policy funds can mobilise. This requires actions to reinforce the administrative capacity of the actors involved in implementing policies, in broader terms, not just related to cohesion policy implementation; at the same time reducing administrative burden through simplification can speed up and facilitate the pick-up of Cohesion funding.

Reforms and administrative capacity

Experience shows that the capacity of public administrations to manage EU funding is a pre-condition for the efficient and effective use of those resources. A lot has been done, whether with the technical assistance of the cohesion programmes, the RRF and other initiatives of the Commission, or dedicated programmes to reinforce and modernise the administrations managing the funds.

Roadmaps with dedicated action plans to improve administrative capacity of the entire Cohesion policy ecosystem are now being implemented or finalised in 15 Member States and notably by those administrations that had experienced challenges related to their capacity to use EU funding over time. The 'Roadmaps for Administrative Capacity Building' are strategic documents that include an analysis of needs and challenges, actions on how to address them, and responsible actors, aiming at achieving a more strategic approach to the use of resources for Technical Assistance and capacity building. The MTR is an opportunity to examine progress in the implementation of these strategies, to take a clear commitment to accelerate it, and to set up appropriate flanking measures through technical assistance including through Technical Support Instrument.

In order to help public administrations improve their capacities and effectiveness, **it is clarified in the Commission proposal that costs related to preparatory actions for reforms will be eligible including for self-standing reforms** (i.e. not accompanied by investments).

Accelerating investment through simplification and flexibility

At the same time, the Commission is aware that to deliver more agile and better focussed support, further efforts are needed to simplify the regulatory architecture.

Simplification and alleviation of the administrative burden for beneficiaries, and most importantly for economic operators like SMEs, are key priorities of the Commission. As anticipated in the Competitiveness Compass, the Commission will deliver an unprecedented simplification effort, including under Cohesion policy.

Together with this Communication, **the Commission is tabling** via the legislative proposal **a series of simplification and flexibility measures** in the following areas:

- **Ensure that reallocation of resources to EU priorities can happen smoothly**, easing the current rules requiring a significant portion of the allocations to be tied to specific focus areas. The Commission proposes to introduce **more flexibility in the thematic concentration requirements in respect of the allocations to the new priorities**[18] and as regards the calculation of the climate contributions across the ERDF and the Cohesion Fund (while respecting the overall requirements).
- To ensure that the framework for completing the newly introduced investments and for claiming and reimbursing payments is fit for purpose and does not act as a disincentive to better target and modernise the policy, **the Commission proposes** to provide **a one-off pre-financing of 5% to all programmes that reallocate at least 15% of their programme allocations in the framework of the mid-term review to investments related to STEP, defence, affordable housing, water resilience and energy transition; as well as to extend by one year the end date for eligibility of cohesion policy for these programmes**[19].
- To ease the implementation of the **Just Transition Fund, restrictions regarding the modification and functioning of its programmes are removed**:
  - ➢ The **Seal of Excellence mechanism** will be applied to the JTF, allowing a **simplified selection procedure** for projects selected under other EU instruments, which do not have sufficient funding.
  - ➢ **The** Commission **aligns with the possibilities for projects supported under the Innovation Fund**, allowing investments related to the production, processing, transport, distribution, storage or combustion of fossil fuels, **provided these projects were attributed the 'Sovereignty Seal'** under the Innovation Fund.

[18] In light of the significant investment needs to achieve the decarbonisation and competitiveness objectives, Member States need to continue investing in projects directly contributing to the climate and energy transition in line with the requirements set out in Article 6 of Regulation (EU) 2021/1060 which will continue to apply to maintain the level of climate related investments.

[19] For Eastern border regions, the incentives indicated in the specific section of this Communication continue to apply, and these are not cumulative to the ones indicated in this paragraph.

- ➢ **The modification of indicator targets** in the Just Transition Plans will be feasible throughout the implementation period, while maintaining the commitment to climate neutrality and fossil fuel phase out.

In addition to the above legislative simplification measures, **the Commission urges Member States and regions**, when reprogramming under the MTR, to:

- **facilitate the use of performance-based mechanisms**, such as the rules on the Simplified Cost Options (SCOs) and the Financing Not Linked to Costs (FNLC);
- **identify by June 2025 the projects under the RRF that are at risk of non-completion by August 2026 and that could be considered for funding from ERDF/CF**. The possible amendments of ERDF/CF/JTF programmes under the MTR - to be submitted as soon as the legislative proposal accompanying this Communication is adopted by co-legislators – could hence take account of these projects. For projects that are to be funded by ERDF/CF/JTF, Member States need to request a related amendment of their RRPs and include provisions that ensure that such projects are not subject to double funding.

When implementing the new possibilities proposed in section 2 of this Communication in favour of undertakings, Member States must ensure compliance with applicable Union State aid rules, and ensure that funding is necessary to address identified needs and limited to the minimum needed. In this context, the Commission has launched a public consultation on the scope of the Clean Industrial Deal State Aid Framework that would enlarge the possibilities to support SMEs and to support undertakings in assisted areas, and would also allow aid for large enterprises in non-assisted areas under certain conditions.

4. Conclusions

In the next MFF, the status quo is not an option. The next long-term budget will have to address the complexities, weaknesses and rigidities that are currently present and maximise the impact of every euro it spends, focusing on EU priorities and objectives where the EU action is mostly needed.

Yet, that MFF will start delivering only in 2028. The Union cannot wait. It needs to act now, and make the best and the most out of the current funding cycle. As Cohesion policy is the main investment arm of the Union, it is therefore **crucial to seize the opportunity of the mid-term review to modernise the policy** so that it addresses both the existing and the new priorities, and accelerate its implementation to have a stronger impact as soon as possible.

This Communication invites Member States to adjust their existing programmes to maximise the contribution of cohesion policy investments to the Union's political priorities.

The largest part of the investment supported by Cohesion policy remains aligned with the new EU priorities, whether it is the need to close the innovation gap and strengthen competitiveness, enhance support for decarbonisation and a circular economy, or finance key infrastructures and net zero technologies. **But more can be done, as explained in this Communication**.

In the areas of competitiveness and innovation, the digital and green transitions, security and strategic autonomy including defence, or in the provision of better tailored polices including essential public services to more remote places, the policy can be more selective, more targeted, with more European added value.

It is also **crucial to further enhance the principles of cohesion to achieve higher impact, more effectiveness, through simple and flexible rules, following a place-based approach and tailored policies**. In this endeavour, it is key to implement the **principle of partnership** with national, regional and local authorities, where regions and cities have an important role to play.

The Communication is accompanied by a legislative proposal which would enable the modernisation of Cohesion policy already now, for the current programmes. To have the highest impact on the effectiveness and relevance of Cohesion policy in the light of the current geopolitical circumstances, **it is necessary to have the legislative proposals adopted as soon as possible by the co-legislators**.

The Commission invites Member States, regions, managing authorities, as well as the European Parliament and the European Committee of the Regions to engage constructively in this discussion and for the Member States and the European Parliament to accelerate the legislative work to ensure that the principle of Cohesion and Cohesion policy continue to remain at the centre of the European project.

The Commission will consider putting forward, by the summer, **guidelines on the scope for simplifying reporting to the Commission and on interpretation of existing provisions** to reduce uncertainty which may be dissuading investment supported by cohesion funds.

Member States and regions are urged to submit their amendments to the programmes <u>within two months from the entering into force of the revised legislation</u>. The Commission is ready to support national and regional authorities in their preparation of amendments to the programme. The Commission will assess the proposed amendments and engage closely with the authorities to ensure that the revised programmes are adopted within two months from the submission of the amendments by the national or regional authorities. **The objective is to conclude the process of reprogramming under the mid-term review as soon as possible and by the end of 2025**, so that Member States, regions and local authorities can start implementing the adjusted programmes as of 2026 and over the second half of the current MFF cycle[20].

In addition, **the Commission encourages Member States to introduce a joint monitoring of key investments** supported by cohesion funds across the national and regional levels, and in close coordination with the Commission. This would centre on important focus areas, to better steer and accelerate implementation and secure their timely delivery. This should remain light and will be accompanied by a simplification of data transmission and reporting from Member States to the Commission, through a wider interconnection of national and EU financial reporting systems.

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[20] A request for the whole additional pre-financing arising from the application of the new legislation can be submitted by the managing authority as soon as a modified programme reallocating amounts to new priorities is adopted by the Commission. The amount of pre-financing requested in 2025 will count against the N+3 targets for 2025.

The Commission will also convene by July 2025 an **Implementation Dialogue**[21] with stakeholders dedicated specifically to cohesion policy. This Dialogue, a new tool, will help to evaluate the progress of the implementation of cohesion policy by taking stock of achievements, identifying best practices, and recognising obstacles in existing rules and their implementation. Furthermore, the dialogue will seek specific recommendations to improve and simplify implementation processes, ensuring stronger alignment with EU objectives.

As outlined in the 'The road to the next multiannual financial framework'[22], shaping the next long-term EU budget requires a shared analysis on the underlying challenges and close cooperation, in view of the preparation of the Commission proposal. A strong and effective EU budget is a common interest. Therefore, the proposal for the next financial framework will build on a broad consultation, with input at political, institutional and stakeholder level, alongside with active citizens' involvement and consideration of the prospective membership of the EU.

Continued and structured dialogue with Member States' representatives, at different levels, across Europe will be crucial to determine 'what' and 'how' to finance our joint future. Against this background, the Commission will engage at different levels in an inclusive process as part of its preparation for the next multiannual financial framework.

The next multiannual financial framework **must lay the groundwork for a stronger and future-oriented Union**.

[21] Defined in the Communication on implementation and simplification for a simpler and faster Europe - COM(2025) 47 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025DC0047

[22] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - *The road to the next multiannual financial framework* - COM(2025) 46 final, 11.2.2025.