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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE EVALUATION

on the operating rules of the Modernisation Fund

{SWD(2026) 197 final}

EN EN

The Modernisation Fund was established through the 2018 revision of the EU ETS Directive[1] as a solidarity instrument to support the modernisation of energy systems and improve energy efficiency in lower income EU Member States between 2020-2030. The Fund currently re-distributes revenues from the auctioning of EU ETS allowances to 13 beneficiary Member States, as Portugal, Greece and Slovenia were added to the original 10 Member[2] States as a result of the 2023 revision of the EU ETS Directive[3].

This evaluation was conducted according to Article 10d(11) of the EU ETS Directive and Article 15(1) of the Fund's Implementing Regulation[4]. It covers the five compulsory evaluation criteria of the Better Regulation Guidelines. Conducted halfway through the Fund's ten-year lifetime and based on data for the first four and half years, the evaluation's focus is the design and governance of the Fund. It was underpinned by a supporting study by external experts, combining desk research, surveys, interviews, case studies, quantitative data analysis and stakeholder consultations during 2025. The results of the evaluation will inform the impact assessment of the upcoming revision of the EU ETS Directive and related Commission proposal.

EFFECTIVENESS

The Fund effectively supports investments to meet the 2030 climate and energy targets. By mid-2025, it backed 194 projects across 12 Member States, disbursing EUR 18.9 billion, or 33% of the Fund's total budget. Investment approvals have grown steadily since 2021. By the end of 2024, 55% of the amount disbursed to beneficiary Member States had been contracted to end-beneficiaries and 11% paid, with variations across Member States.

By end of 2024, early impacts were modest with two investments completed and 44% under construction. The pace of implementation differs across beneficiary Member States, due to differences in institutional preparedness and experience with the Fund.

The governance of the Fund, and more specifically the distinction between priority and non-priority areas[5] fosters investments aligned with the EU climate and energy targets. The Investment Committee efficiently manages non-priority investment approvals and voting rights granted to non-beneficiary Member States help maintain the integrity of the Fund.

Investments are expected to generate substantial climate benefits: 1.15 billion MWh of energy savings and 25 GW of renewable capacity over the 10-year fund lifetime and across beneficiary Member States. GHG reductions are estimated at 83.7MtCO_2eq average annually, or 32% of emissions from electricity, gas, steam and air-conditioning sectors emissions in 2020. However, data comparability on environmental impacts is low and developed by Member States without a harmonised methodology making comparisons of

(1) Directive (EU) 2018/410 of the European Parliament and of the Council of 14 March 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814.

(2) Bulgaria, Czechia, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia.

(3) Directive (EU) 2023/959 of the European Parliament and of the Council of 10 May 2023 amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system

(4) Regulation (EU) 2020/1001 of the European Parliament and of the Council of 20 June 2020 establishing measures necessary for climate target implementation

(5) Investments in generation and use of energy (electricity, heating and cooling) from renewable sources; energy efficiency; energy storage and the modernisation of energy networks (including demand-side management, district heating pipelines, grids for electricity transmission, the increase of interconnections between Member States and infrastructure for zero-emission mobility); support for low-income households to address energy poverty; and a just transition in carbon-dependent regions are listed in the EU ETS Directive as investments in priority areas.

effectiveness more difficult. Similarly, figures on private co-financing are largely underestimated as this data is not mandatory to report.

EFFICIENCY

The administrative burden for approving investments corresponds to their alignment with the EU climate framework. Priority investments have a streamlined process whereasnon-priority investment proposals face stricter requirements to ensure contribution to the Fund's objectives and EU climate and energy targets.

Beneficiary Member States have set up efficient structures, and end beneficiaries are broadly satisfied with national implementation. First payments to end beneficiaries occur on average eight months after signing the contract. Improvements to reduce end beneficiaries' burden include digitalisation and streamlined reporting.

Administrative costs at Member States' level compares to 0.13% of the total Fund, varying across Member States. Some face challenges due to limited staff or administrative capacity. The Fund does not cover national-level administrative costs. Doing so could reduce the funds available for projects and diminish overall efficiency. Most end beneficiaries found complying with national monitoring requirements moderately burdensome and spend on average 10 working days applying to the Fund.

COHERENCE, RELEVANCE AND EU ADDED VALUE

Within the EU ETS context, the Modernisation Fund is one of several solidarity mechanism designed for redistribution to lower-income EU Member States. It is also part of a broader funding ecosystem including Cohesion Policy, the Recovery and Resilience Facility (RRF) and national funding sources, which can partially fund similar activities. Beneficiary Member States use them in a complementary way, depending on internal coordination mechanism.

Fund-supported investments are strongly aligned with the EU's climate and energy framework and the National Energy and Climate Plans. Beneficiary Member States can also use the EU ETS revenues for similar purposes. When transferring their own ETS revenues to the Fund, investments are automatically strongly aligned with EU climate objectives.

The design of the MF is balancing considerations of solidarity and the need for convergence**.** Priority investments represent 94% of funds disbursed, significantly exceeding the regulatory minimum. Non-priority investments have declined and are concentrated in four Member States. The 2023 EU ETS revision further aligned the Fund with EU policy objectives by reducing the possible share of non-priority investments, limiting importantlygas-supporting investments and requiring application of the Do No Significant Harm principle.

High estimated investment needs to achieve the 2030 target underscore the EU added value of the Fund, particularly for lower-income Member States. The Fund corresponds to 49% of the estimated additional investment needs in the relevant energy sectors identified in the

2015 Impact Assessment[6] underpinning the 2018 EU ETS revision. However, in the context of the Fit for 55-package, REPowerEU, the 2040 and 2050 climate targets, the estimated investment needs have further increased. Seventy percent of end beneficiaries stated their projects would not proceed without its support.

CONCLUSION

In conclusion, the Modernisation Fund is an important solidarity instrument under the EU ETS and crucial for addressing the 2030 climate and energy investment needs of lower income Member States. Beneficiary Member States, still substantially reliant on fossil fuels, require substantial clean energy transition support. Redistributing revenues from the auctioning of EU ETS allowances, the Fund serves as a tool that ensures lower income Member States receive focused financial assistance.

The evaluation highlights options for improvements regarding comparability of environmental impact data, which lack a harmonised methodology among Member States, affecting conclusions drawn on GHG emissions, energy savings, and renewable capacity. Although the Fund's governance functions well, data quality can improve, specifically regarding Green Deal indicators and abatement costs. Private co-financing datawould also benefit from more systematic reporting.

([6]) Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC to enhance cost-effective emissions reductions and low-carbon investments (COM(2015) 337 final) of 15 July 2015