



Modernisation Fund - First evaluation of the monitoring rules

Brussels, 26 May 2025

Carbon Market Watch commends the aims of the Modernisation Fund as an important tool for Europe to achieve its climate targets in a fair and effective way. As outlined by Bankwatch in their recent assessment of the fund, there are positive improvements on the transparency of the fund however room for improvement remains around the financing of fossil fuel projects.

The failure to account correctly for emissions reductions potential within the classification of projects as priority or non priority investments has led to the persistent funding of fossil gas, waste incineration (Poland and Czechia - EUR 1.88 billion) and biomass projects which are not compatible with the goals of the fund, the climate or energy sovereignty goals of the EU (EU Climate Law, RepowerEU). As the recent [research of Bankwatch](#) highlights the Fund has distributed at least EUR 4.2 billion or 27 per cent of the spending so far to investments which are clearly not aligned with its supposed aims. More ambitious benchmarks when it comes to emissions avoided are needed as a comparison vs coal to avoid the lock in of further fossil gas projects which put people at risk both in terms of planetary warming and in continuing reliance on imported fossil fuels in geopolitically uncertain times.

The improvement of the functioning of the Modernisation Fund to help lower income member states to decarbonise is particularly important in light of the upcoming ETS2, carbon pricing for buildings and road transport in 2027. By ensuring the fund does not lock people into rising fossil fuel prices as they must soon pay for pollution in their homes and vehicles, fossil fuel projects must be explicitly excluded. Instead the funds should be increasingly channeled into grid improvements, renewables (only EUR 2.5 billion of the fund to date) & heating uptake, building renovation, energy communities and public transport electrification. In this way the Modernisation Fund can complement the Social Climate Fund in highlighting the social benefit of carbon pricing in the lives of people.

Contact

Eleanor Scott

Policy Expert on EU carbon markets

eleanor.scott@carbonmarketwatch.org