

European Impact HUB

Finding the way to direct EU funding for cities

Mapping opportunities: case study Budapest

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Introduction

This report is the result of a research interest stemming from the case presented by the City of Budapest on the misalignment between EU funding opportunities and the interdependence of the national government. The main research question was “Which channels exist for a local or regional government to access EU funding directly, without the need for interference of the national government?”.

Recent political developments in Hungary have led to an increasing amount of budgetary challenges for the City of Budapest. Besides domestic factors, the European Commission’s decision to suggest to withhold cohesion and RRF funds to Hungary raises the question of what different avenues of direct EU funding instruments might be at the city’s disposal. Therefore, the aim of this research is to provide recommendations on what avenues the City of Budapest might want to invest in in terms of advocacy activities on the EU level.

We first conducted a desk research, mapping the current landscape of EU funding instruments under the direct management of the EU (the overview can be found in the appendix). Secondly, ten interviews were conducted in October and November 2022 with several multi-level stakeholders from the European Parliament, the European Commission, the umbrella organisation of cities in the European Union ‘Eurocities’, a Hungarian journalist and a regional representation in Central-Eastern Europe. Based on these conversations, we identified five main findings with corresponding recommendations for action.

Findings and recommendations

1. Time to act, there is momentum

The current debate in the EU over the rule of law conditionality mechanism being triggered against an EU member state is an opportune moment to discuss funding opportunities for local and regional entities. In EU member states where the national government is under close European scrutiny over failing to uphold the rule of law, cities will have the incentive to lobby for support directly from the European Union, as pointed out by the Humboldt-Viadrina Governance Platform¹.

¹ “Cities and municipalities’ lacking access to EU funds in countries where national governments withhold EU funding (often corresponding with rule of law problems) has added importance to the demand for an increase of direct management of funds and a larger influence of local authorities on EU funding mechanisms”,

The coming year, 2023, is an opportune time to collect evidence on the weaknesses of the current EU funding instruments for cities (and regions), and to explore in what ways the funding instruments of the EU could be improved upon to better suit the needs of cities. This not only relates to dealing with issues related to national rule of law concerns but also to the twin (digital and green) transition of cities.

Action points:

- The mid-term review of the current 2020-2027 Multiannual Financial Framework (MFF) by the Commission is due by January 2024. It is currently being written by that organisation, and it is therefore recommended to raise the issue of the need for direct EU funding for cities on the agenda for next round of the MFF, since there is little room for major configurations to the disbursement of funds under the current programming period. 2023 is therefore the ideal time for preparations to advocate the issue in the upcoming round. This could be advocated either through the capitals, which are preparing for the MFF review, or through the Commission and the EP which are involved in the Brussels' shaping process.
- The upcoming mid-term review of the MFF could be also an opportunity to try to advocate more EU funding instruments under the direct management of the European Commission.

2. Working together pays off

As European cities are becoming ever more important in tackling European challenges, cities and regions should similarly have an increased say in the EU's policy-making process. The voice of cities and regions is much better heard when it is the voice of many. When interests converge, a joint initiative increases the chances for change.

One interviewee, the Brussels representative of a regional authority, mentioned how increased direct EU funding opportunities would be beneficial not only for cities also for European regions. The desire for more direct EU funds differs for this region as compared to the city of Budapest. For example, the metropolitan region in question faces concerns over the system of distribution based on the economic development level. As a more developed area (>90% of EU's average per capita GDP) it is not eligible to receive regional funds. However, many of the people working in the metropolitan region do not live there, and thus do not pay taxes in the region, thereby creating a schism between revenues and the expenditures for the maintenance of public spaces and infrastructure. Therefore, it might make sense to cities and regions to jointly address the benefits of direct EU funding opportunities.

https://www.governance-platform.org/wp-content/uploads/2022/01/PolicyBrief_EUfunding_integration_cities_HVGP.pdf

As the above-mentioned dilemma illustrates, joint initiatives by cities, and regions, were strongly encouraged by the respondents. Some interviewees from official EU institutions discussed the way they see and understand the advantages of cities working together. This is a great opportunity for Budapest to approach other capital cities' officials to (continue to) work together to advocate for direct EU funding. This can be done by organising joint events, applying for calls together and diplomacy behind official meetings. Even though other cities might be facing different problems when it comes to funding, working together will have a bigger impact on the EU, as a Commission official confirmed.

Action points:

- Develop joint initiatives. Make use of already established city networks with shared interests, such as the Pact of Free Cities, Eurocities and other thematic networks. However, mapping the joint interests of regional representations might similarly increase the position when lobbying for change.

3. A problem of administration: additional costs matter

A key finding from the interviews refers to obstacles in the realisation of EU projects as a consequence of limited support for administrative capacity both within the city administration and as part of the EU funding structure. External expertise is vital for the proper execution of development projects in terms of planning, preparations, and administration. Hiring external staff significantly increases the costs of project implementation, a burden cities or regions often does not have the capacity to deal with.

The issue is rooted in the structure of the already existing funding opportunities. In general, financing covers the investment and development costs. Nonetheless, stakeholders articulated their struggle when it comes to the additional administrative capacity that come with the execution of European projects. This problem has been recognised by DG REGIO of the European Commission as well, of which the DG's *Roadmaps for administrative capacity building* is a good example².

Action points:

- Advocate for better alignment of funding opportunities for administrative capacity building with local needs, and make better use of current support mechanisms, such as ELENA³.

² https://ec.europa.eu/regional_policy/sources/policy/how/improving-investment/roadmap_toolkit.pdf

³ <https://www.eib.org/en/products/advisory-services/elena/index.htm>

4. Mix and match: private and public cooperation

Our research shows that a cross-sectoral cooperation is a worthwhile avenue to explore in terms of investment for the city of Budapest. As Mariya Gabriel, European Commissioner for Innovation, Research, Culture, Education and Youth, notes, “it is important to build the appropriate links with national and regional strategies, and to unlock private and public investments”⁴. The cited report – result of a cooperation between the European Investment Bank and the European Commission – reflects the strong desire to enable a multistakeholder approach to funding schemes.

The current financial situation of Budapest largely blocks possibilities for new loan requests, though this unusual financial status is a consequence of city's troubled relationship with Hungary's national government. These circumstances strengthen the case for Budapest to be granted further grants and loans from the EIB.

Action points:

- Invest more in exploring a cross-sectoral approach in dealing with local challenges. The interviews gave the impression that it is an avenue to explore.
- Benefit from the EIB's capability of circumventing national promotional institutions (NPIs) in member states⁵. Much of the EU's funding instruments are set up such that it can lend to member states (MS), which will then be subject to monitoring and can be fined in the case of misuse of finances. On the other hand, the EIB enables municipalities to borrow money which then counts as municipal debt. In other words, their risk-taking mechanism and funding ecosystem are simply more suitable for local authorities.
- Consider private channels complementary to public sectoral channels of funding. In general, the borrower is the city or the region, and they can on-lend the funds to urban or regional firms to create a cross-sectoral, more stable, and effective workload⁶.

5. RRF: what, when and how

The Recovery and Resilience Facility (RRF) was established in 2020 as an instrument to support the EU member states in recovering from the Covid-19-crisis. Nonetheless, it was brought to light that the

⁴ <https://www.eib.org/attachments/press/eib-and-new-eu-missions-framework-report-18-nov-en.pdf>

⁵ <https://www.eib.org/en/about/partners/npbis/index.htm>

⁶ The EIB's Factsheet for local authorities also highlights that opportunities by the EIB are also favourable as they can be combined with other EU funding schemes with the criteria of not exceeding 70% of the total investment in case of developed regions like Budapest. <https://www.eib.org/en/products/documents/mooc-factsheet-framework-loans.htm>

loans of the RRF are currently underutilized and solely directed at national governments⁷. Additionally, the European Parliament does not have a say in the RRF. We found that with the right of (re)allocation, these unspent long-term and low-interest loans would be of great benefit for local authorities.

Consequently, the question of the (re)allocation of these loans is currently on the agenda in Brussels. This was evident, not only from the conducted interviews, but also from the tone and content of official documents, that there is a willingness for a future reconfiguration of the RRF budget to also be accessible for subnational authorities.

Action points:

- Use the mid-term review of the MFF as a window of opportunity to lobby for a reconfiguration of the current RRF. The upcoming mid-term review might offer a small window for change in the MFF. Therefore, focus on a strong message about the value of extending the RRF to cities and regions and advocate in all EU capitals in order to convince the EU institutions in Brussels and the 26 other national governments.

Conclusion

The question of direct EU funding instruments for cities is high on the agenda of European cities and regions. Subnational authorities might have diverging reasons to advocate for such realignments, whether it is over rule of law concerns on the national level, absorption of migrants or facilitating the green transition. In terms of the timing of the debate, both the mid-term review of the current Multiannual Financial Framework (MFF) of the European Union (end of 2023) as well as the discussions in preparation of the next MFF (2023-2024), present an opportune moment to investigate the added value of direct EU funding instruments for cities. This short report gives a first impression of which avenues cities, and specifically Budapest, might want to invest in in terms of putting EU funding under the direct management of the European Commission on the policy-agenda. A follow-up project could look in more detail at the past and current configurations of funding in the EU budget and at what could be possible in terms of reconfiguring the budget, such that the EU's funding instruments are better equipped to help cities tackle with their (g)local challenges.

⁷ https://epc.eu/content/PDF/2022/EU_economic_governance.pdf

Appendix

Overview of EU direct funding initiatives for cities				
Funding initiative	Objective	Budget (loan/grant, EUR)	Max per grant (EUR)	Submission criteria
European Urban Initiative (EUI), part of ERDF (launch Q3 '22)	The European Urban Initiative shall, regarding sustainable urban development, consist of the following two strands: a) support of innovative actions; b) support of capacity and knowledge building, territorial impact assessments, policy development and communication.	€ 450 million - Support of Innovative Actions (75%) - Support of Capacity and Knowledge Building, Territorial Impact Assessments, Policy Development and Communication (25%)	EUI-IA: co-finances up to 80% of project's activities and can provide with up to €5 million ERDF to implement project	<p>Strategic assessment (80% weighting) → five selection criteria</p> <ul style="list-style-type: none"> • Urban innovativeness (something that has not been tried before but based on tests it can work in the specific urban area) • Partnership and co-creation: with target groups and/or citizens • Measurability of results: expected impacts; define their own indicators and targets • Sustainability and scaling-up: identifying all sources of funding • Transferability <p>Operational assessment (remaining 20% weighting)</p> <ul style="list-style-type: none"> • Removing or refining criteria that overlap with the strategic assessment (e.g. value for money, monitoring of results) • Considering other slight adjustments: increasing the weighting of this phase (20% vs. 80% for the strategic assessment currently), establish a minimum operational score, or stop combining scores from both phases.
Urban Innovative Actions → part of EUI	Experiment with new and innovative ways to tackle urban challenges	EUR 500 million	maximum of EUR 5 million per project	
Just Transition Fund (JTF , Pillar 3 (PSLF))	To address the social, economic, and environmental costs of the transition to a climate-neutral and circular economy, where any remaining greenhouse gas emissions are compensated by equivalent absorptions.	€ 1.525 billion in grants, € 10 billion in loans	grant shall not exceed 15 % of loan provided by the finance partner under the Facility.	(a) the projects achieve a measurable impact, and include output indicators where appropriate, in addressing serious social, economic and environmental challenges deriving from the transition towards the Union's 2030 climate and energy targets and the objective of climate neutrality in the Union by 2050 at the latest and benefit territories identified in a territorial just transition plan, even if the projects are not located in those territories;

				<p>(b) the projects do not receive support under any other Union programmes;</p> <p>(c) the projects receive a loan by a finance partner under the Facility; and</p> <p>(d) the projects do not generate sufficient streams of revenues to cover their investment costs, in order to prevent the replacement of potential support and investment from alternative resources;</p>
European City Facility (EUCF)	Build a substantial pipeline of sustainable energy investment projects across local authorities and local public entities in Europe		€ 60,000	In the linked guideline Article 2.2 contains all eligibility criteria
DIGITAL (Part of the Horizon Europe)	It will provide funding for projects in five crucial areas: supercomputing, artificial intelligence, cybersecurity, advanced digital skills, and ensuring the wide use of digital technologies across the economy and society.	€ 7.6 billion, €1.1 billion for ensuring the wide use of digital technologies across the economy and society		At least 50,000 habitants (general criteria for the ERDF)
European Local ENergy Assistance (ELENA) though the EIB	ELENA provides technical assistance for energy efficiency and renewable energy investments targeting buildings and innovative urban transport.	€132 million	90% of the development costs of the given project are covered by them; the investment should be 10 to 20 times bigger than the subsidies that the project would get from ELENA	<p>Should relate you one of the following services:</p> <ul style="list-style-type: none"> • technical studies, energy audits • business plans and financial advisory • legal advice • tendering procedure preparation • project bundling • project management
European Energy Efficiency Fund Under the EEPR	Aims to support the climate goals of the European Union (EU 2030 framework for climate and energy			

	and the climate-neutral objectives of the European Green Deal) to promote a sustainable energy environment and foster climate protection by enabling projects in European cities, regions and communities to build resilient infrastructure.			
EFSD+ (part of Global Europe NDICI)	EFSD+ will raise financial resources (both grants and loans) for sustainable development from the private sector for inclusive economic development.	€13 billion. The European Commission is proposing a specific 'Global Gateway window', which focuses on sectors like sustainable energy, clean transport and digital.	Art. 12.1 which states that the guarantee should not exceed 1.5 billion euros	In the link attached to the name of the funding, criteria is included in Art. 35
EU Justice, Rights and Values Fund C(2021) 2583 final	<ul style="list-style-type: none"> to protect and promote EU values to promote equality and rights, including gender equality, anti-discrimination and the rights of children to promote citizens engagement and participation in the democratic life of the EU and to raise awareness of the common European history to fight violence, notably against children and women 	- justice programme will have a budget of €305 million - The rights and values programme will have an overall budget of maximum 1.55 billion	A total of 101 grants were signed in 2021 from the 2021 calls, amounting to EUR 17.6 million. 267 grants are still to be signed in 2022 from the 2021 calls, amounting to EUR 48.9 million Consequently, the	C(2021) 2583 final Art. 2.1 describes eligibility criteria

	<ul style="list-style-type: none"> to facilitate and support judicial cooperation in civil and criminal matters and to promote the rule of law independence and impartiality of the judiciary to support and promote judicial training, with a view to fostering a common legal, judicial and rule of law culture to facilitate effective and non-discriminatory access to justice for all, including by electronic means, and to support the rights of victims of crime as well as the procedural rights of suspects and accused persons 		average amount of a grant is around 180,000 euros.	
Life + Program COM(2021) 499 final (EU) 2021/783	<ul style="list-style-type: none"> Nature and Biodiversity; Circular Economy and Quality of Life; Climate change mitigation and adaptation; Clean energy transition. 	€5.43 billion	EUR 15 million	(EU) 2021/783 Chapter II covers the eligibility criteria
URBACT IV		The programme is co-financed by the European Regional Development Fund (ERDF) with a budget of EUR 79 769 000 and by the Instrument for Pre-Accession	Assistance with a budget of EUR 5 000 000 for the period 2021-2027.	