



NET ZERO CITIES SGA2-NZC

Interim Better Funding White Paper

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Authors: Iryna Bakhcheva, Franco Crudi, Natalia Lewandowska, Naomi Odigbo (ICLEI Europe)



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Executive Summary

This Interim Better Funding White Paper presents early insights and policy recommendations derived from the first five national-level Better Funding Dialogues (BFD), held between April 2024 and June 2025 as part of NetZeroCities work within SGA2 WP2 “Finance & investment services to Mission Cities”. The BFDs are a component of the EU Mission on Climate-Neutral and Smart Cities, aiming to explore how public and blended finance can be more effectively mobilised and aligned with the investment ambitions laid out in cities’ Climate City Contracts (CCCs) and CCC IPs (CCC IPs).

European cities are at the forefront of transformative action toward climate neutrality. Yet the gap between their ambition and their financial capacity remains wide. The BFDs were conceived in response to a growing recognition that more funding, better funding structures, and deeper private sector engagement are needed if cities are to deliver on the climate, biodiversity, circularity, and equity dimensions of the green transition. This work therefore aims to better understand the systemic barriers cities face in accessing and deploying climate finance and to test whether multi-level and multi-stakeholder dialogue can offer a path to structural improvement.

The dialogues held in Sweden, Finland, Poland, Romania, and the Baltic region (Estonia, Latvia, Lithuania) were designed to reflect on a range of challenges within the multi-level governance models, funding systems, and urban contexts in the target countries. Through facilitated workshops, background research, interviews, and stakeholder engagement, the project team captured both structural bottlenecks and promising practices. Common challenges included fragmented funding landscapes, struggle to involve citizens and private actors in co-funding the climate transition, and an overreliance on EU structural funds. Smaller municipalities in particular struggle to access support despite being responsible for major parts of the local transition. Encouragingly, participants also pointed to emerging strategies: improved collaboration across municipalities, the value of national-level coordination efforts for simplifying the funding programmes, and growing interest in financial innovation such as de-risking tools, citizen financing, and blended public-private models.

Based on these findings, this deliverable offers early policy recommendations across three governance levels. At the EU level, it argues for simplified, more accessible and differentiated structural funds that recognise municipal diversity and provide the flexibility needed to deploy integrated investments. National governments are encouraged to improve cities’ access to funding processes, recognise and integrate CCCs into formal planning and investment frameworks, and support enabling regulatory environments for financial innovation. At the city level, municipalities are advised to diversify funding sources beyond EU grants, build capacity to engage private capital, and collaborate with small and medium peer local governments to pool knowledge and resources.

This Better Funding White Paper remains a living document. It builds on CCC IP reviews, national ecosystem mapping, and stakeholder interviews conducted in parallel with the dialogues, and will continue to evolve through the remaining BFDs across the EU. As such, it aims to support cities, national governments, and European institutions in shaping a more coherent, resilient, and impactful climate finance ecosystem — one that reflects the realities on the ground and matches the urgency of the mission to achieve climate neutrality.

Key words: Better Funding Dialogues, multi-level governance, sustainable financial governance, systemic change, Multiannual Financial Framework

Abbreviations and acronyms

Acronym	Description
BFD	Better Funding Dialogue
CAPEX	Capital Expenditures
CCC	Climate City Contract
EBRD	European Bank of Reconstruction and Development
EIB	European Investment Bank
EPC	Energy Performance Contract
ESCO	Energy Service Company
ITLE (Lithuania)	Lithuania National Development Bank
CCC IP	Investment Plan
KredeX (Estonia)	Housing and Business Support Agency of Estonia
MFF	Multiannual Financial Framework
NIB	Nordic Investment Bank
OPEX	Operational Expenditures
OSS	One-Stop-Shop
STEP	Strategic Technologies for Europe Platform
PPP	Public Private Partnership
SMEs	Small and Medium Enterprises
UMP	Union of Polish Metropolises
VTT (Finland)	Technical Research Centre of Finland
VC (Sweden)	Viable Cities

Introduction

Thanks to the EU Cities Mission and various EU initiatives and legislation that have encouraged cities to take ambitious action on decarbonisation and resilience, European cities and regions have been undergoing massive social, economic, and infrastructure transformations to reach climate neutrality in a way that is sustainable, resilient, fair, and resource efficient. This local transformation still requires going one step further—the mobilisation of public and private funds in a way that responds to integrated action and investment plan. As the triple planetary crises continues at a fast pace, a key question remains unanswered:

- What structural barriers prevent the effective mobilisation and implementation of public and blended funding for cities' Climate City Contracts (CCC) and Investment Plans (CCC IP) - and how can governance approaches, including multi-level and multi-stakeholder dialogue, help overcome them?

Given the clear gap between the investments required (BwB, 2025)¹ to achieve ambitious climate, biodiversity, resource efficiency, and circularity goals and the funds available in the public system, the discussion on financing the local transition centres on three key points: 1) More funding (availability and provision of public funds); 2) Better funding (structural changes within public funds); and 3) Mobilising private investment (aligning investment goals to action and CCC IPs) (ICLEI Europe & Fair Finance Institute, 2023). In order to kick-start such multi-level and multi-actor conversations, NetZeroCities partners, as part of the EU Mission for 100 climate-neutral and smart cities by 2030, have developed the *Better Funding Dialogues* (BFD) to be implemented in each of the 27 EU Member States.

This Interim Better Funding White Paper intends to present a preliminary version of the outcomes of the BFDs that have taken place until June 2025. The **purpose** of this 'living document' is to present preliminary insights drawn from the initial policy dialogues conducted in five pilot countries and regions. These insights are based on early findings and related activities that supported the implementation of the dialogues, including CCC IP analyses (Task 2.1.1, Deliverable 2.2), interviews with key stakeholders, and National Financial Ecosystem Reviews (Task 2.6.1). The document aims to analytically extract recommendations on how to improve public funding streams at the EU, national, and local levels. As such, it serves as an evolving resource that reflects early lessons learned from the pilots and is subject to refinement as the project progresses.

Building on the preliminary findings from the pilot dialogues, this preliminary deliverable pursues three **key objectives**:

1. to contextualise the BFDs within the current political and financial landscape in Europe, highlighting their relevance as well as the design and implementation processes that underpin them;
2. to provide analytical summaries of the five BFDs conducted in the pilot countries and regions to date; and
3. to offer early recommendations to the cities, national and EU governments on how to improve funding and financing structures, processes and frameworks across all levels of governance. This in turn, will provide necessary specificity and detail from the cities in the many different countries and mobilise relevant key stakeholders and political actors to influence financing policies.

This interim version presents three chapters based on the information on the specific national contexts of **Romania, Sweden, Poland, Baltic region (Lithuania, Latvia, and Estonia), and Finland**.

¹ In 2024, Bankers without Boundaries (BwB) used outputs from approximately 50 CCC IPs that had been validated for the purpose of awarding Cities Mission labels to calculate a total capital expenditure (CapEx) requirement of €650bn. Source if information: BwB, 2025.

Chapter I covers the current political and financial European context and outlines the key relevance of FD along with their design and implementation processes. Chapter II highlights the key developments and findings of the BFDs in the countries mentioned above. Based on the insights from the BFD, and Chapter III provide recommendations to:

- A) the national and EU levels of governance on how to better design structural funds that are aligned to the needs of cities. This will inform the ongoing discussion on the next EU Multiannual Financial Framework 2027-2034 (MFF);
- B) cities from these specific national contexts on how they can better absorb existing major EU structural funds to strengthen their CCC IP implementation & carbon-neutrality actions.

The timeline for this work spans from April 2024 to June 2025. This includes the conceptualisation of BFDs framework, database development on available public funding across all EU 27 countries captured in Deliverable 2.16 (CKIC & ICLEI, 2024), the review of the context from the selected countries and, the design, facilitation and follow-up of the workshops, and distillation and sense-making of outputs so far.

This deliverable has its limitations, as it presents interim findings from the BFDs: an ongoing and evolving process that is adapted to each national context and reflects the conditions at the time the dialogues were held. The outcomes shared here are therefore preliminary and may evolve as further dialogues take place. In addition, the success of the BFD depends on the gradual development of institutional and professional relationships of trust, which take time to establish and mature. While the process has been responsive to shifting political dynamics across the EU—making it more relevant and timelier—it also means that some deeper structural outcomes are still in progress and will be more fully captured in the final deliverable “Better Funding White Paper” to be submitted in December 2027.

Chapter I: Setting the Broader Context

Chapter I outlines the political and financial context shaping climate action in Europe and introduces the BFDs as a targeted response to key systemic challenges. It presents the rationale behind their design, implementation, and country selection, positioning them as a strategic tool to improve the effectiveness of public climate finance across diverse national settings.

1.1. Why now, why here: Setting the Stage for Better Funding Dialogues

Local governments are central to accelerating climate action, particularly by shaping policies that unlock both public and private financing to the CCC IP projects. As the impacts of climate change increasingly strain municipal budgets and public services, the role of cities in the sustainability transition becomes even more critical. At the same time, no single level of government can address these challenges alone. Effective collaboration across local, national, and European levels—as well as with stakeholders from the financial sector, business, academia, civil society, and citizens—is necessary to build robust, inclusive climate strategies. While natural disasters tend to be more strongly associated with adaptation, their economic impact on urban areas also underscores the urgency of proactive mitigation efforts (ECB, 2023). Cities are on the front lines of both climate risk and opportunity, but to succeed, they require stronger support from higher levels of governance to achieve climate neutrality, protect ecosystems, and build long-term resilience.

The relevance of localized implementation and the need to develop local and integrated strategies and action plans are increasingly recognized, accepted and supported in the multi-level political system. As of today, 92 of the cities participating in the EU Mission for Climate-Neutral and Smart Cities have received the EU Mission Label after successful development and review of their Climate City Contracts, including a CCC IP². However, while the cities are encouraged and supported to develop integrated medium- and longer-term strategies along with plans on how to fund them, the national and sub-national support programmes for investments are following a sectoral structure and are often tied to a particular purpose. This translates into misalignments of timeframe and scope between such programmes and the action plans provided by cities (ICLEI Europe & Fair Finance Institute, 2023).

The implementation phase has started, and such CCC IPs bring a clear demand of financial resources that need to be met if cities want to get as close as possible to the 2030 climate neutrality targets. While funding availability is important, not all barriers are purely financial. Many of them are of a structural or systemic nature, such as the way climate programs at the EU and national levels remain uncoordinated and siloed by sectors, leaving with little to no investment funds available to implement holistic climate actions plans (Mengestu & Bakhcheva, 2025). This fragmentation of funding programs leads to considerable administrative effort, costs, and lack of efficiency for both the donor and the

² In total, 92 out of the 112 cities that participate in the Mission have by now received the label, with 39 awarded in May 2025, 10 awarded in October 2023, 23 in March 2024 and 20 in October 2024. Source of information: https://research-and-innovation.ec.europa.eu/news/all-research-and-innovation-news/european-commission-awards-eu-mission-label-39-new-cities-2025-05-07_en

recipient. It minimizes the impact it can achieve, and oftentimes funds are not absorbed due to the lack of flexibility³.

Climate actions, in many contexts, are not part of the mandatory municipal tasks and therefore are not prioritized when distributing already limited budget funds. Compounding this, cities and local governments often lack the capacity, financial expertise, and interdepartmental coordination to link their climate strategies with concrete CCC IPs that detail the financial needs of each action. One of the key underlying reasons is that municipal services are traditionally oriented toward budget planning—a process focused on allocating limited resources to the most immediate or pressing needs—rather than investment planning, which requires a long-term vision and a structured approach to defining objectives and identifying the investments needed to achieve them. These two approaches demand different capacities and mindsets. Not to mention the following step of finding appropriate blended or innovative finance instruments that respond to such needs and monitoring, evaluation and learning tools to calculate the impact.

Although several cities are starting to explore project bundling and portfolio's-based approach, most of them are rather planning their investments based on individual, fragmented, short-term, and siloed projects, in line with their available budgets and inter-budget transfers. The focus also goes towards the infrastructure and systems the public sector has agency over. In practice, it means that 90% of the emissions—attributed mainly to the private sector—are left out of CCC IPs and require direct engagement and involvement strategies with the private sector, including citizens and SMEs, in planning and co-financing the transition to climate neutrality (Mengestu & Bakhcheva, 2025).

1.2. What can Better Funding Dialogues bring to the discussion?

To address such key structural and systemic challenges and seek for mid-term innovative and collaborative efforts, NetZeroCities partners have developed the BFDs: a space and co-creation process designed to involve multiple levels of governance and key stakeholders within one or across multiple sectors in a specific country. These dialogues typically involve government officials, financial institutions, industry leaders, civil society organizations, academia, and international partners. The overall purpose of these BFDs is to create a more effective, sustainable, and just financial system that better supports the member states, their cities and citizens' needs.

Although each process is adapted to the specific conditions and political landscapes, the following overarching objectives are meant to guide the BFDs:

- Enhancing financial flows to the cities through strengthened cooperation between the EU, national and local levels of governance.
- Shifting the perception of local governments from alleviating risks towards being innovators and visionaries, which create opportunities to reshape the financial ecosystem.

³ "Multi-level governance" in practice: aligning public funding at all levels" — A session at the Cities Mission Conference (Vilnius, 8 May 2025, 11:30–12:45), exploring how collaboration across EU, national, regional, and local levels can enhance policy alignment and funding impact. Speakers included Karen van Dantzig (Dutch Urban Envoy), Benedetta Brighenti (President, Regional Energy Agency), Mohamed Ridouani (Mayor of Leuven), Alberto Gutiérrez Alberca (Deputy Mayor of Valladolid), Marcos Ros Sempere (MEP), and Matthew Baldwin (European Commission).

Organised by ICLEI and Energy Cities

See visual notes in Annex 2.

- Developing strategies and solutions for more effective, equitable, and sustainable funding and financing practices.
- Providing support and access to financial programs and frameworks through cooperation with financial institutions and projects.
- Mobilizing private stakeholders to actively participate in the transformation toward climate neutrality at the local level.

The BFDs form a unique opportunity to create alignments between key stakeholders by building relationships of trust. They also support such actors in identifying existing challenges and explore potential reforms, innovative financing models or new funding sources that could enhance the availability and distribution of funds. The dialogues aim to result in actionable recommendations or policies that can be implemented to improve the funding landscape alongside their strategies for the proposed funding reforms, including timelines, responsibilities, and monitoring mechanisms. A key element that encompasses the BFDs is a principle of inclusivity. NetZeroCities partners aim to implement these events by creating a safe space where diverse voices are welcomed in the discussions to promote equity and comprehensiveness in the solutions proposed.

Given the clear gap between the investments required to achieve ambitious climate, biodiversity protection and restoration, as well as resource efficiency and circularity goals, the discussion on how to finance climate actions at the local level essentially revolves around three points (BwB & NZC, 2025; ICLEI & Fair Finance Institute, 2023):

More funding

- Availability and provision of public funds that are directly accessible to cities and local authorities.
- Direct involvement of cities and local governments in financial and budgetary planning, strategies development and priorities setting that are currently defined by the national and regional governments.
- Shifting funds allocated to fossil fuel and other harmful subsidies into the transformation towards climate neutrality.

Better funding

- Structural changes to strategically pool programs and funds at various governance levels to target overarching strategic goals and reduce transaction costs.
- Providing resources for the implementation of existing climate action plans and strategies through technical assistance and capacity.
- More flexibility and long-term nature in funding programs that go beyond the general "annularity" of budgetary logics.

Mobilizing private investment

- Motivating and engaging private investors to pursue broader societal and ecological impacts and play a greater role in closing the existing investment gap.
- Aligning the long-term goals of local governments and private investors to understand climate inaction as a bigger primary risk to the city's infrastructure.

The BFDs are customized to address the financial needs, challenges, and opportunities in municipal climate action of each EU Member State, as identified in the preliminary National Financial Review exercise (Task 2.6.1). As part of this exercise, key stakeholders that have power and interest to work on the challenges are identified and interviewed. The concept for each country is also informed by the results from the Overview Analysis of CCC IPs submitted to date (Task 2.1.1), and previous deliverables and findings within NetZeroCities (NZC Deliverable 13.1, 7.1 & 7.3).

Subsequently, BFDs are organized in a way to facilitate conversations on innovative financing approaches for cities, fostering a platform for communication between national and local stakeholders (T2.6.2.). As a result of the dialogue series, recommendations document on 'Better Funding White Paper' (T2.6.3.) will be produced in a form of a 'living document', offering recommendations on improving the financial framework to better meet the needs of cities, including greater involvement of the private sector. This reports, presents a **preliminary version of such output**.

Thus, the effort from BFDs supports the NZC workstream on finance by looking at the medium-to-long term systemic and structural changes that need to occur within the public administrations at the local, regional, national and EU levels of governance. It also strengthens their relationships with key stakeholders that could contribute to make an effective use of existing funding mechanisms in support of cities' climate neutrality goals. It also plays a key role in identifying the most appropriate financial structure, instruments and public/private funding for cities to deploy impactful projects.

1.3. Geographical scope and key themes of pilot Better Funding Dialogues

The implementation of the BFDs depends on stakeholder willingness and interest and requires out-of-the-box thinking to address existing structural flaws as well as openness to address specific national contexts and framework conditions. The initial selection of countries to pilot the first BFDs were based on favourable political landscape (e.g., EU Polish Presidency in Poland), interest from Mission cities, the existence of National Platforms, recommendations from City Advisors, City Finance Specialist and key strategic partnerships among the NetZeroCities consortium partners. In some cases, important international events taking place (e.g., Viable Cities Event, Cities Mission Conference in Vilnius, m100 Climate Neutrality Forum), were key to determine the implementation of the first BFDs.

It is important to highlight that the past parliamentary and presidential elections in several countries along with the European elections, the new strategies presented from the European Commission and the ongoing discussions and negotiations around the Multi-Annual Financial Framework (MFF)⁴ and other key structural policies and funds, have influenced the agenda and recommendations within such first events. The following countries were targeted in this initial and first phase of the BFDs (see timeline in the annex 1):

- **Romania:** Focus on creating enabling conditions for Public Private Partnerships (PPP). While there is political will to attract private investment for climate projects, local capacity and readiness remained limited.
- **Sweden:** Centred around a discussion on how to make national public funding opportunities less fragmented and more accessible to cities, with additional emphasis on peer-to-peer support between municipalities to strengthen local fundraising capacity.

⁴ In the scope of the task 2.6 a high-level and multi-level panel discussion was held by ICLEI and Energy cities on 08.05.2025 at the Mission Cities in Vilnius. The insights from that panel discussion has strongly informed the recommendation part on MFF and was also used to support BFD in Poland. See Annex 2.

- **Poland:** Aim to prepare concrete recommendations to ensure that the voices of cities are more effectively represented in the design and programming of the next MFF. Additionally, investigating the less traditional sources of financing to mitigate the transitioning risks of transforming the cities' financial structures from grant-based to diversification of capital flows.
- **Baltic region (Estonia, Latvia, Lithuania):** Engaging private individuals in funding the renovation of highly privatized housing stock. Additionally, exploring regional cooperation mechanisms to scale up investments.
- **Finland:** Addressing scale-related barriers in climate finance by improving access for small municipalities. Promoting collaboration between smaller and larger municipalities to enhance project bankability and funding uptake.

Thus, the BFDs are crucial to addressing the systemic barriers that prevent public and other sources of funding from reaching cities effectively — especially at a time when long-term climate goals depend on local infrastructure, thus accelerating local investment. By targeting structural issues and enabling peer exchange across governance levels, the BFDs complement efforts focused on increasing the availability of funding while shifting towards more efficient and agile practices. In the next chapter, we look more closely at each pilot country to unpack context-specific challenges and solutions that emerged from the dialogues.

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Chapter II: Key Developments and Insights - 1st Better Funding Dialogues

This chapter presents the main findings from the BFDs conducted in five selected countries and regions across the EU between September 2024 and June 2025. The aim is to capture how national-level public funding systems are evolving to support local climate action, and to highlight the structural, governance, and practical challenges that cities face in accessing and deploying funds for their CCC IPs. Each subsection with a country profile provides a geographical and thematic focus, reflecting both national financing priorities and local implementation realities. While the approaches vary, common challenges emerge, such as fragmented funding landscape, blending finance sources, and diversification of financing tools used.

2.1 Romania: Creating enabling framework for PPPs

On 30th October 2024, the first Romanian BFD was held in Bucharest, as part of the m100 Climate Neutrality Forum⁵. This Dialogue marked a pivotal moment in Romania's effort to address structural barriers in financing climate neutrality at the urban level, focusing specifically on the potential of PPP. The Dialogue convened 14 participants from cities, national ministries, financial institutions, civil society, and the private sector. It provided a unique platform for structured, multi-level discussion, combining presentations, interactive exercises, and co-creation formats.

The decision to focus on PPPs emerged from a clear recognition of the limitations of Romania's current public finance system (European Commission & Romanian Ministry of Finance, 2023). Despite the growing need for large-scale climate investments and the increasing availability of EU funds, many Romanian municipalities struggle with implementation due to systemic challenges, including limited administrative capacity, regulatory ambiguity, and a lack of confidence in PPP models. The BFD aimed to create a safe space for identifying these obstacles and co-developing pathways to address them.

Participants reflected on a wide range of challenges that cities face in designing and managing PPPs for climate projects. These included insufficient legal clarity and expertise, misalignment of municipal budget cycles with long-term investment horizons, limited local capacity, and the absence of best-practice examples or peer-learning opportunities. The session also exposed deeper systemic issues such as political discontinuity, mistrust in procurement processes, and a regulatory environment more suited to traditional public procurement than innovative blended finance solutions.

To move beyond diagnosis, the Dialogue was structured around solution-building. In four thematic working groups, focused on national frameworks, public trust, local governance, and business cooperation, participants developed concrete recommendations for policy reform and capacity-building. These included promoting transparency through better procurement practices, expanding local legal and technical expertise, safeguarding project continuity against political shifts, and establishing regular dialogue mechanisms between local administrations and the private sector. Participants also called for

⁵ See more information about the Romanian national platform m100 and the Forum here:

<https://m100.ro/index.php?&ddpN=4024262806&we=4e8975fd03a319eb96f9cb44c644ec60&wf=dGFCall&wtok=&wtkps=VY/BDolwDIbfZXem2wS2cvHi1Zj4BNMNQQZMBkJieHfLDiZemvZvvv5/NaTwCVjIPDYukOJcBBBAQm0IdiKHlM9L4/rMzbl1vrrrQXJpyjwsZdpV/etp21pkCdNVc+hUUUpYTb8eNZTkQY3x3ue644ElqxYSKiz2QfwVdjshoYFsYnAz/TRgGpjpyMNIHqIsmMiYZjfk6RmC28Q5atr2ZnKX98KDae+r1wwZ6ettuxO/WLw==&wchk=d48e20ca856bd389849c95648e7d8e4b54a952d0>

piloting projects under regulatory sandboxes and developing user-friendly decision-making tools that can help municipalities assess the right funding structures for various project types.

The Dialogue demonstrated a high level of interest and engagement, highlighting a growing appetite in Romania for practical, grounded discussions on innovative financing mechanisms. One of the clearest takeaways was that while PPPs offer significant potential, their success depends on much more than legal frameworks. **They require political continuity, cultural acceptance, and supportive ecosystems at both national and local levels.**

Following the clear need of the Romanian cities of Bucharest, Suceava, and Cluj Napoca, the NZC team organized the Better Funding webinar on 5 March 2025 in collaboration with the M100 National Platform as follow-up to the October Dialogue. This meeting focused on strengthening public-private partnerships in Romanian cities and was designed as a direct continuation of the Dialogue's momentum.

The webinar brought together over **50 representatives from Romanian cities** for a two-hour interactive session, featuring expert contributions from the Polish Ministry of Funds and Regional Policy, the Romanian Ministry of Finance, and experienced PPP practitioners from Poland. The session provided a comprehensive overview of Poland's PPP landscape, including national support mechanisms, successful case studies from Poznań and Gdańsk, and actionable recommendations for municipalities. The involvement of Polish experts offered a highly relevant peer-learning opportunity, demonstrating how cities in similar governance and economic contexts can effectively deploy PPPs for climate-related infrastructure.

The Romanian Ministry of Finance offered an in-depth explanation of the national legislative framework, clarifying available PPP tools and how municipalities can apply them in their daily work. A moderated Q&A and open discussion followed, allowing Romanian participants to reflect on the presented models and explore how these lessons could be translated into their own institutional realities. Importantly, the presence of a Romanian-Polish interpreter ensured smooth communication and mutual understanding, enabling active participation and a deeper engagement with the content across linguistic boundaries.

The enthusiastic engagement across both events confirmed that Romanian cities are eager to explore new approaches to finance the climate transition but require clearer tools, legal certainty, and political support to do so. The Dialogue and the follow-up webinar together laid the foundation for deeper work on funding structures and policy coherence, while also enhancing trust and cooperation among cities, ministries, and private actors.

2.2 Sweden: Addressing national public fragmentation to make public funding more accessible to cities

In Sweden, the dialogue took place in the framework of Viable Cities Days on 06th December in Stockholm. The thematic focus of the BFD was on scaling up national funding programmes and exploring how to make the diverse and fragmented national funding landscape more accessible and effective for Mission Cities and beyond. This theme was selected in response to Sweden's distinctive context: unlike many other countries, Sweden offers an abundance of national funding programmes. However, the volume of programmes does not automatically translate into ease of access or impact for cities.

As part of the preparatory work for the dialogue, reflected also in Deliverable D2.16 (CKIC & ICLEI, 2024), a mapping exercise was carried out of over 60 funding programmes related to sustainability, provided by 19 funds and 24 smaller private foundations. These programmes cover a wide range of thematic areas including energy, health and social affairs, the built environment, innovation and technologies, and transport (see Figure 1).

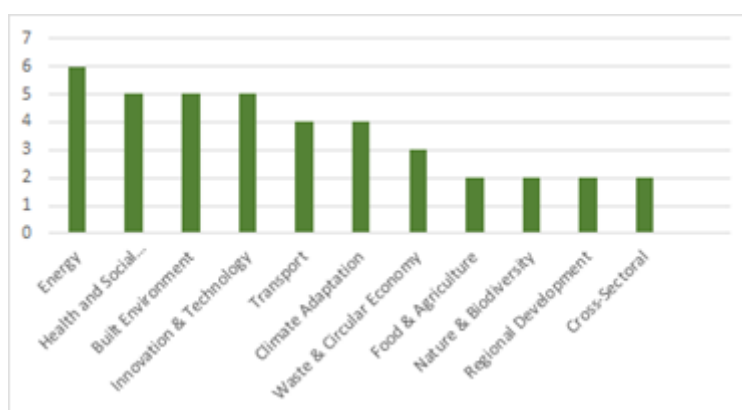


Figure 1: Thematic allocation of available public funding programmes in Sweden in November 2024

Despite the wide availability of funding, the landscape remains highly fragmented. Many programmes offer relatively small amounts of funding and involve complex application procedures with significant administrative burdens. One of the key challenges for cities is that most funding targets capital expenditures (CAPEX), while operational expenditures (OPEX), which are essential for sustaining climate-neutral projects, are often not covered. Participants in the dialogue also pointed to the need for better coordination among national funding agencies to improve alignment and reduce inefficiencies. These structural issues create significant barriers for municipalities and limit the effectiveness of available public funds.

The BFD brought together representatives from agencies focused on energy and environmental protection, alongside representatives of NetZeroCities and Viable Cities⁶, and the national platform supporting the climate transition in Sweden. Although cities were not directly represented throughout the entire event, insights into municipal needs were shared by city finance specialists, who presented analyses of CCC IPs and identified key funding challenges faced by Swedish Mission Cities. In addition, interactions with representatives from 48 cities took place during a parallel event, allowing for informal exchanges between dialogue participants and city actors. These interactions helped broaden the perspective of the discussion and link national-level considerations to local realities.

The dialogue was designed as an interactive and participatory meeting, facilitated through roundtable discussions, presentations, and open exchanges. The conversation centred on the mandate and strategic role of the Swedish Climate Contract Agencies (KKM) in supporting cities' climate investments. KKM is a collaborative structure that brings together several key national funding agencies, including Vinnova (Sweden's Innovation Agency)⁷, Tillväxtverket (Swedish Agency for Economic and Regional Growth)⁸, Trafikverket (Swedish Transport Administration)⁹, Energimyndigheten (Swedish Energy

⁶ Viable Cities is a national platform for Swedish cities that unites more than 100 partners across municipalities, academia, industry, and civil society to accelerate climate-neutral and sustainable cities by 2030. Source: Viable Cities website, <https://viablecities.se/>

⁷ Vinnova is Sweden's innovation agency, working to strengthen the country's innovation capacity for sustainable growth and societal benefit. Source: Vinnova website, <https://www.vinnova.se/en/>

⁸ Tillväxtverket is the Swedish Agency for Economic and Regional Growth, supporting sustainable growth and competitive companies throughout Sweden, with a focus on regional development and innovation. Source: Tillväxtverket website, <https://tillvaxtverket.se/>

⁹ Trafikverket is the Swedish Transport Administration, responsible for the long-term planning of the transport system and for the construction, operation, and maintenance of state roads and railways. Source: Trafikverket website, <https://www.trafikverket.se/>

Agency)¹⁰, and Naturvårdsverket (Swedish Environmental Protection Agency)¹¹. Separately, Viable Cities, the Swedish Energy Agency (Energimyndigheten), and the Swedish Environmental Protection Agency (Naturvårdsverket) were presented at the discussion. Together, these agencies play a vital role in shaping and financing Sweden's climate transition across different policy areas and governance levels.

The Swedish BFD offers several takeaways that could be relevant not only for Swedish context itself but also across the EU countries and cities aiming to strengthen the strategic use of public funds for climate action. The discussions revealed both systemic challenges and emerging solutions that can inform future design of national funding systems across Europe.

One of the central ideas was the **consolidation of smaller, fragmented funds into larger and more strategic funding calls**, enabling better alignment with long-term climate goals and making it easier for municipalities to access meaningful support. This way, cities could focus on implementing projects that are critical for their decarbonisation, rather than spending excessive time on reporting and preparing fundraising applications required by numerous small funding programmes. Allowing OPEX costs, such as staff salaries and operational expenses, to be included in funding is of key importance, as it ensures cities have the capacity to plan and execute climate actions effectively. This echoes broader EU-level concerns about funding complexity and can serve as a model for structuring integrated national climate investment programs (European Central Bank, 2025).

The **strengthening of an inter-agency and inter-ministerial coordination mechanism** also emerged as a promising strategy. Given that many national agencies operate under rigid, ministry-issued annual frameworks, establishing a dedicated space for dialogue and joint planning could help break down silos and foster cross-sectoral synergies. While Sweden has begun experimenting with such mechanisms, its experience can serve as a valuable case to watch—and potentially replicate—in other countries where coordination between state agencies and ministries remains limited.

This is particularly important because mitigation projects typically cut across multiple mandates (e.g. energy, transport, housing), and addressing them effectively requires an integrated approach. Moreover, to truly maximize impact, climate investments must consider broader co-benefits, such as improved public health, social equity, and just transition outcomes. This level of integration should be embedded not only in strategic goal setting, but also in the design and allocation of funding instruments.

The idea of establishing a **"one-stop-shop" or unified helpdesk** for cities to navigate the funding landscape resonated strongly. Although this model has not been implemented in Sweden, the concept has wide relevance. National governments across the EU could explore digital platforms or regional contact points to centralize access to support, especially for smaller municipalities with limited administrative capacity.

Building upon the last point, **peer-to-peer learning** was also highlighted as a cost-effective and impactful approach. Sweden's proposal to pair large, experienced municipalities with smaller, less-resourced ones could be piloted as a transferable model within the broader Mission partners. It emphasizes practical knowledge-sharing and mutual reinforcement, two elements often underutilized in climate governance.

¹⁰ The Swedish Energy Agency (Energimyndigheten) is a government agency for national energy policy issues, working to promote the development of a sustainable energy system through support for innovation, efficiency, and renewable energy. Source: Swedish Energy Agency website, <https://www.energimyndigheten.se/>

¹¹ The Swedish Environmental Protection Agency (Naturvårdsverket) is the national agency responsible for environmental issues, working to promote sustainable development through environmental policy, research, and coordination. Source: Naturvårdsverket website, <https://www.naturvardsverket.se/>

Tools like the **Viable Cities Finance Dashboard**¹², developed to support strategic CCC investment planning in Swedish municipalities, offer potential for adaptation and scaling across Europe. By integrating emissions data with action simulations and economic assessments, it helps cities understand trade-offs and plan effectively. Although tailored for the Swedish context, its logic and design are compatible with the NetZeroCities mission and can be extended to other Mission Cities.

2.3 Poland: Diversifying local climate finance in light of the next MFF

The first Polish BFD took place on April 11, 2025, in Warsaw. The event brought together 25 participants from across governance levels and sectors, including representatives of all five Polish Mission Cities: Warsaw, Kraków, Wrocław, Rzeszów, and Łódź, as well as officials from key ministries, regional authorities, financing institutions, and European city networks. The focus of the Dialogue was on how Poland's urban actors can more effectively engage in shaping the EU's next Multiannual Financial Framework (2028–2034) and how national and European public funding can better support the green transition at the local level.

The topic was chosen because of a pressing disconnect between the strategic climate ambitions of Polish cities (all of the Polish Mission Cities have already developed IPs under the EU Cities Mission and received their labels) and the systemic financial and governance constraints they face in turning these plans into action (Tessa Consortium, 2024). With Poland's fiscal model still highly centralized and cities often brought into consultation processes only at the final stages, there is a growing risk that urban transformation will be delayed or diluted (Polish Green Network, 2025). In this context, the Dialogue served as a platform to explore how existing public funding flows, both national and EU, can be restructured to empower cities, increase access to innovative instruments such as blended finance and guarantees, and clarify legal barriers such as the classification of ESCO (Energy Service Company) contracts as public debt.

The Dialogue was co-organized by the Union of Polish Metropolises¹³ (UMP) and NetZeroCities partners, with facilitation by ICLEI Europe and Climate-KIC. It was designed to be interactive and solution-oriented, with sessions combining expert inputs, moderated discussions, and collaborative drafting of recommendations. Participants represented all key levels of governance: from city climate and fund teams to ministries managing EU funds (Ministry of Funds and Regional Policy) and national climate strategies (Ministry of Climate and Environment), to regional actors (Pomeranian Marshal's Office) and public financial institutions such as the National Fund for Environmental Protection and Water Management.

Throughout the Dialogue, several important insights emerged. There was consensus that the shift away from grants toward repayable instruments (loans, guarantees, and performance-based models) is inevitable, but cities are largely unprepared for this transition due to a lack of financial capacity, limited legislative clarity, and insufficient experience with less traditional financial instruments. Participants

¹² The Viable Cities Finance Dashboard developed by the Stockholm Environment Institute (SEI) is an advanced, open-source online tool designed to aid Swedish municipalities in climate planning. Here's a description based on SEI's sources: See more here: <https://www.sei.org/tools/viable-cities-finance-dashboard/>

¹³ The Union of Polish Metropolises named after Paweł Adamowicz is a foundation established by the 12 largest Polish cities. As a think tank, it supports the development of local self-government and urban agglomerations by preparing analyses, expert opinions, and strategies that aid in making key decisions in urban and metropolitan policy. See more here: <https://metropolie.pl/o-nas>

highlighted the urgent need to support municipalities with capacity-building and technical assistance, and to address interpretative gaps in national legislation that discourage experimentation.

Cities also voiced frustration over their limited role in shaping national programming decisions. Despite having mature investment pipelines aligned with the Mission framework, they are often sidelined in favour of regional authorities or consulted only at the end of the process. This delays implementation, creates duplication, and undermines the principle of multi-level governance. There was strong support for empowering cities not just through consultation but through co-creation of national plans and designing innovative funding models.

The discussions around the Social Climate Fund underscored this tension. Although its objectives, which is reducing energy and transport poverty are inherently local, most of the fund is expected to be administered centrally, with cities playing only a limited implementation role (Ziółkowska, 2025). Participants called for greater transparency, timely information-sharing, and more substantial involvement of local governments in the design of such funds.

Importantly, the Dialogue was not only diagnostic. It helped define practical recommendations and concrete next steps. Cities called for a stronger role in EU fund governance, smart conditionality mechanisms that redirect unused national funds to regional and local levels, and more flexibility in the upcoming MFF legislation to ensure it accommodates local and regional specificities.

The Polish Dialogue offered lessons that extend well beyond the national context. First, it demonstrated the importance of structured, early engagement of cities in EU fund planning: **not just as stakeholders but as co-designers**. Second, it illustrated that **transitioning from a grant-dependent model to more complex financing requires not only new instruments but also a shift in administrative culture and public understanding**. Third, it revealed the risks of centralization at a time when **locally based approaches are essential for effective climate action**.

In this sense, the Polish case provides a compelling lesson for the European Commission and Member States: **if cities are to deliver on EU climate targets, they must be recognized and empowered as strategic financial actors**. Their CCC IPs should be embedded in national planning cycles. Their access to funding should be streamlined and supported. **Also, their voices must help shape not only the implementation, but also the architecture, of the next MFF**.

The Dialogue in Warsaw has already led to continued momentum: a second BFD took place on 20th May 2025 in Łódź, this time as a closed-door meeting exclusively among city representatives. The objective was to engage in a candid and strategic conversation about structural barriers to funding and how cities can navigate these constraints more effectively, both through technical approaches and more strategic dialogue with national authorities. Cities identified a number of institutional gaps, such as the lack of a "financial architect" role within municipalities and the absence of accessible, streamlined financial information. Discussions highlighted the need for a unified language and shared narrative when engaging with ministries and the European Commission, as well as a recognition that investment planning should be treated not as compliance-driven, but as **an opportunity for cities to shape their own futures**.

Participants discussed how to balance grants and loans, how to use grant funding as seed capital in blended finance structures, and how to better identify which projects are "bankable." It was widely agreed that climate-related loan forgiveness mechanisms and revolving instruments could increase cities' willingness to take on alternative financing. However, local administrations still struggle with fragmented information systems, overlapping application rules, and a lack of transparency, even in major metropolises. The group stressed the need for pilot programmes that can test new financial instruments in lower-risk settings, and for differentiated support tailored to both large and small municipalities. Finally, cities exchanged insights on how to reshape the discourse with central government actors (who often claim cities are underutilising available funds) so that local voices are not only heard, but able to influence policy design and negotiation positions, including Poland's stance within EU dialogues.

2.4 Baltic region (Estonia, Latvia, Lithuania): Engaging households in funding decarbonisation & enhancing inter-country collaboration

Improving public funding structures is essential for delivering climate action at scale, especially in sectors like residential buildings, where public funds must act as guarantees or stimuli to trigger private investment. In the Baltic region, housing renovation is a key priority in the CCC IPs of Mission Cities such as Tartu¹⁴, Tauragė, Liepāja, Rīga, and Vilnius. These cities identified decarbonising existing buildings as both urgent and underfunded. The challenge lies not only in the scale of investment needed but also in mobilising private homeowners, who own over 75% of the region's housing stock (Interreg Baltic Sea Region, 2023).

Across Lithuania, Latvia, and Estonia, much of the built environment is outdated, energy inefficient, and fragmented in ownership (OECD, 2022; Lux et al., 2015).¹⁵ Making these buildings fit for a net-zero future will require coordinated public funding strategies that can mobilise and support millions of individual decisions. At the same time, all three countries face similar structural barriers, and their housing sectors reflect a shared legacy of post-Soviet development (Novikova et al., 2020)¹⁶. These commonalities make the case for regional coordination particularly compelling.

This topic was chosen for its strong policy relevance and alignment with local priorities. It features prominently in the CCC IPs of Baltic Mission Cities and was reinforced through expert interviews with cities, local banks, and housing practitioners. Key issues include limited access to finance, low homeowner engagement, and the need for simpler support tools. All of these factors are central to improving public funding programmes in residential building renovation. With national renovation plans due under the revised Energy Performance of Buildings Directive (EPBD) by end-2025, the timing is critical (EC on National Building Renovation plans, 2024).

The cross-countries dialogue that was held in Vilnius on the 6th of May 2025, focused on two interconnected themes (see Annex 1 for the timeline). First, how to better stimulate citizen-side investment in renovation, particularly through a **“one-stop-shop” (OSS) model** to streamline public funding and support planning. Second, how to scale these efforts via **a regional fund across the three Baltic countries** by pooling resources, aligning priorities, and enabling more strategic, cross-border investment in energy-efficient buildings.

To explore these questions meaningfully, the workshop convened a strategically diverse group of stakeholders from across the Baltic region's public sector, including national ministries responsible for climate, finance, and economic development, practitioners from Mission Cities, relevant utilities and

¹⁴ While the city has not yet been officially awarded the Mission label, it is a Mission City and has been actively engaged in the Better Funding Dialogues.

¹⁵ In Lithuania, approximately 90% of multi-family dwellings were constructed before 1993 and are considered energy inefficient, consuming about twice as much energy as newer buildings. Source of information: https://www.oecd.org/en/publications/policy-actions-for-affordable-housing-in-lithuania_ca16ff6d-en/full-report.html In Estonia, around 70% of dwellings are located in low-energy-efficiency apartment blocks built between the 1960s and 1980s, leading to higher energy consumption compared to other EU member states. See more here: https://www.researchgate.net/publication/282849203_The_State_of_Housing_in_the_EU_2015

¹⁶ The large-scale privatization of housing in the 1990s across the Baltic states led to most apartments being individually owned. This has resulted in a fragmented ownership structure, where individual apartment owners often act independently, leading to poorly coordinated renovation efforts and challenges in maintaining and improving housing conditions. See more here: https://link.springer.com/chapter/10.1007/978-3-030-23392-1_1?utm_source=chatgpt.com

In Latvia and Lithuania, buildings constructed between 1945 and 1990 dominate the housing stock and are now obsolete in meeting stringent energy performance criteria, resulting in higher energy use shares than the EU average. https://www.mdpi.com/2075-5309/13/8/1916?utm_source=chatgpt.com

local agencies, and national associations coordinating local implementation. Their participation ensured strong alignment between policy direction and implementation needs. The discussion was further enriched by financial actors, including local financial institutions like KredX from Estonia¹⁷, SwedBank representing the Association of Latvian Banks¹⁸, and ILTE, a national development bank from Lithuania¹⁹ along with international public banks – European Investment Bank (EIB) and European Bank of Reconstruction and Development (EBRD), bringing both national specificity and broader financial expertise from the European level. This mix of actors enabled a grounded yet forward-looking exchange on aligning funding tools with the practical realities of deep renovation. However, the absence of homeowner groups and private-sector actors highlighted a gap that future dialogues will need to address.

The dialogue surfaced four key insights for improving renovation funding in the Baltic region. First, the **over-reliance on EU funds creates unstable investment cycles**. If the public funding streams will decrease for the next MFF cycle starting from 2027 (Prospect+, 2025), then cities and countries should already work on the funding sources **diversification strategies** as we have seen in the previous subchapter with Polish case study. Diversifying sources could provide more stable, long-term financing. The diversification could be achieved through various financial models i.e. municipal bonds, PPPs, and renovation-specific platforms.

Secondly, **OSS models** were seen as vital for encouraging household co-investment in renovation across the Baltics. Promoting peer exchange among OSS operators, on governance models, private sector partnerships, bundled services, and alternative financing tools like debt-free options or energy service contracts, could strengthen their role and impact.

Third, exploring cross-country collaboration through a regional renovation platform can help countries with similar challenges exchange know-how, align standards, and boost homeowner engagement. A more formalised regional fund could pool resources, manage joint project pipelines, and support capacity-building, particularly in less developed areas, while allowing flexibility across national contexts. However, such a structure requires high upfront investments, not only financial, but also political and administrative. Establishing shared governance mechanisms, harmonising regulatory frameworks, and ensuring long-term commitment from participating countries will be essential to make such a platform effective and sustainable.

Fourth, addressing social and behavioural barriers i.e., mistrust from the side of citizens or loan aversion, is essential to unlocking homeowner investment. A shared communication strategy, paired with guarantees and inclusive financing tools to de-risk the investments, is needed to build trust, shift mindsets, and reduce perceived risks. This also requires sustained public engagement, locally tailored messaging, and partnerships with trusted local intermediaries to effectively reach and mobilise diverse homeowner groups. The intermediaries could entail municipalities, civil society organisations, and community leaders.

¹⁷ SA KredEx is an Estonian foundation that supports entrepreneurship, housing, and energy efficiency by providing loans, guarantees, and grants. It was formed through the merger of KredEx and the Enterprise Estonia Housing Foundation to streamline support services for sustainable development and business growth. Source: KredEx website, <https://kredex.ee/en/who-we-are/sa-kredex>

¹⁸ Latvijas Banku asociācija is a voluntary organization that unites banks registered in Latvia and branches of foreign banks. Established in the late 1990s, it represents the interests of its members, contributes to the improvement of banking legislation, promotes good banking practices, and cooperates with regulatory authorities to protect consumer rights and prevent money laundering. Source: Latvijas Banku asociācija website, <https://www.bankasoc.lv/en/about-us/>

¹⁹ ILTE is Lithuania's national development bank, created by merging four promotional institutions to better support businesses and municipalities with loans, guarantees, and advisory services. See more here: ILTE website

While tailored to Lithuania, Latvia, and Estonia, these findings hold value for other EU member states, particularly those with fragmented ownership, aging housing stock, and legacy infrastructure from centralised socialist planning systems.

2.5 Finland: Overcoming scale barriers to support small municipalities

The Finnish dialogue focused on a challenge shared by many countries with decentralised governance: How to make climate finance work for smaller municipalities? Compared to many European countries, Finnish cities are relatively small in size. This scale poses a challenge for them to fully utilise instruments that have minimum investment thresholds. Other size-related challenges include limited awareness, resources, and expertise in accessing and utilising existing climate funding opportunities.

Despite Finland's strong institutional capacity and relatively well-functioning funding landscape, many municipalities — especially those with fewer than 20,000 residents — face difficulty accessing and deploying available instruments for climate investment (Schoenefeld, Hildén, Schulze, & Sorvali, 2023)²⁰. In the CCC IPs of Finnish Mission Cities such as Espoo, Helsinki, Tampere, and Turku, themes variety ranges from energy retrofits to electric mobility. Yet smaller cities often lack the capacity to act on similar ambitions. This dialogue was designed to address that gap: how can public funding structures be better adapted to different local scales, and what role can national or European actors play in helping small cities and municipalities make climate investment a reality?

The session was held at the Finnish Municipalities Climate Conference in Turku on 22nd May 2025. It gathered 20 participants for the dialogue itself and over 120 across the wider conference. The format combined expert briefings with a participatory workshop. In the first part, representatives from the EIB, Business Finland²¹, and national funding agency MuniFin²² presented EIB's Advisory services and available financing options, including , Munifin's sustainable development loans, and Business Finland's innovation procurement grants, all of which are not yet fully utilised by municipalities. In the second part, participants worked in small rotating groups with these institutions to explore financing options for concrete local climate investments. The dialogue brought together a diverse set of actors, including

²⁰ A study published in Regional Environmental Change highlights that in Finland, smaller municipalities often struggle with limited personnel and financial resources, as well as unclear responsibilities within multilevel governance structures. Because of the lack of resources some smaller municipalities do not even apply for available funding. Source of information: (Schoenefeld, Hildén, Schulze, & Sorvali, 2023).

²¹ Business Finland is the Finnish government organization responsible for promoting innovation, business development, and international growth. It supports companies in accessing funding, networks, and expertise to strengthen Finland's competitiveness and sustainability.

²² Municipality Finance Plc (MuniFin) is Finland's primary provider of financing for the public sector, including municipalities, wellbeing services counties, and affordable social housing organizations. It offers long-term loans and other financial services to support infrastructure and public services. MuniFin is owned by Finnish municipalities, the public sector pension fund Keva, and the State of Finland, and its funding is guaranteed by the Municipal Guarantee Board.

Mission City representatives, smaller Finnish cities and municipalities, the Association of Finnish Municipalities (Kuntaliitto)²³, regional councils, Motiva²⁴, and VTT²⁵.

Key insights emerged around scale, capability, and uptake. First, many funding instruments remain inaccessible to smaller municipalities due to minimum thresholds or complex procedures. Tools like ELENA are designed for large-scale programs, leaving smaller cities without a pathway to participate. Participants discussed the need for intermediary structures, such as municipal coalitions or regional aggregators, that could bundle smaller investments into fundable portfolios. Second, innovative public procurement remains underused. Business Finland's grants for sustainable procurement were seen as promising but poorly understood mechanism. Myths and misconceptions, such as the belief that pre-tender dialogue with suppliers is forbidden, continue to deter municipalities from experimenting with this approach. Third, the dialogue highlighted a need for stronger institutional support and knowledge-sharing. Municipalities require ongoing guidance to navigate an evolving funding landscape, understand criteria, and identify the right tools for their context.

At a more general level, fragmented resources and expertise in utilising available financing mechanisms remain a challenge. The climate funding landscape is constantly evolving, and for smaller cities, it can be difficult to allocate resources to effectively track and leverage emerging opportunities. To address this issue, Motiva—the state-owned company promoting sustainable development—offers a dedicated support service and hosts regular online roundtable events for Finnish cities focused on climate funding (Motiva, n.d.B).

While specific to Finland, these findings resonate more broadly across the EU. Many member states face a similar challenge: strong national-level ambition coexists with fragmented local capacity. This issue becomes a crucial one, especially when the cities mission increasingly extends its impact beyond the Mission Cities. The Finnish case underscores the importance of designing funding pathways that match the administrative and financial realities of small and mid-sized cities. For the European Commission, this raises the question of how existing instruments might be made more inclusive — through intermediated access, flexible eligibility criteria, or capacity-building support.

2.6. Summary of Better Funding Dialogues

The five pilot countries and regions—Sweden, Finland, Poland, Romania, and the Baltic states—represent diverse challenges and approaches to public and blended finance in the context of urban climate transitions. While the political, institutional, and financial frameworks vary significantly across these settings, several shared issues emerged during the dialogues. These included fragmented and complex funding landscapes, an overreliance on EU structural funds, and limited capacity—particularly among smaller municipalities—to navigate and deploy available financial instruments.

²³ The Association of Finnish Local and Regional Authorities is a membership organization representing all Finnish municipalities. It advocates for local self-government, supports municipal development, and provides services to enhance the vitality and viability of local authorities across Finland.

²⁴ Motiva Oy is a Finnish state-owned company dedicated to promoting the efficient and sustainable use of energy and materials. It provides expert services to the public and private sectors, aiming to accelerate sustainable development through energy audits, efficiency agreements, and the administration of environmental labels such as the Nordic Swan and EU Ecolabel in Finland.

²⁵ VTT Technical Research Centre of Finland Ltd. is a state-owned, non-profit research and technology organization that provides applied research and innovation services to both private and public sectors. Operating under Finland's Ministry of Economic Affairs and Employment, VTT focuses on areas such as energy, materials, digital technologies, and sustainable development, aiming to drive systemic and technological solutions for global challenges.

The BFDs were structured to surface both systemic bottlenecks and emerging practices through a combination of background research, stakeholder mapping, and participatory workshops. In many cases, the dialogues revealed a gap between the scale of ambition articulated in CCCs that includes CCC IPs, and the actual ability to mobilise and manage funding effectively in a short period of time to reach the set goal before 2030. Discussions also highlighted a need for stronger coordination between governance levels, earlier engagement of cities in shaping funding instruments, and clearer pathways for aligning public funding with private investment.

Across all national contexts, specific attention was drawn to the role of smaller and medium-sized cities, which often face greater barriers due to limited administrative and technical capacity. At the same time, promising models are taking shape, such as inter-municipal collaboration to improve project fundability and peer-to-peer support, digital platforms to simplify funding access, and interest in citizen finance and blended financial instruments as a complement to traditional public funding. These insights inform the preliminary recommendations in Chapter III, offering a foundation for more targeted interventions at national, EU, and city levels.

AWAITING APPROVAL BY THE EUROPEAN COMMISSION

Chapter III: Recommendations

This chapter outlines preliminary recommendations to strengthen municipal climate finance and accelerate the implementation of local climate action. The proposals reflect the current status of climate financing in Europe and will be updated for the final Deliverable (to be submitted in December 2027) as relevant developments unfold at both EU and national levels. The chapter is structured into three parts: Part 1 focuses on recommendations for the EU level, including a dedicated section on the Multi-Annual Financial Framework; Part 2 addresses the role of national governments; and Part 3 offers guidance for cities themselves. Together, these recommendations aim to support more coherent, accessible, and effective financing for climate-neutral urban transformation.

Further insights from upcoming BFDs will be incorporated in the next iteration of the Better Funding White paper, ensuring that the recommendations remain relevant, practice-oriented, and aligned with the evolving needs of municipalities across Europe.

3.1. Recommendations to the EU Level

To achieve the objectives of the EU Mission for Climate-Neutral and Smart Cities, the European Union must urgently reform how governance and funding structures support implementation. **Cities are frontlines for action: they are where the impacts of climate change are most visible, where innovation takes root, and where the majority of the population lives.** Yet, despite their readiness to lead, cities face persistent barriers that prevent them from delivering at scale. These include fragmented funding streams, misaligned national-local priorities, and insufficient access to flexible financing mechanisms (Local Alliance, 2025A).

Structural funds, while substantial, are often difficult for cities to access due to uneven implementation of partnership principle across member states, and lack of administrative capacity at the local level. These funds require significant coordination and co-financing, which many under-resourced local governments struggle to meet.

Meanwhile, directly managed EU funds—such as those targeting innovation or pilot projects—are more accessible to agile city actors but remain limited in scope and hard to scale up in some instances. They often offer little possibility for blended finance or de-risking tools that cities need to attract private investments to scale up.

Essentially, the Cohesion Fund remains the key EU instrument for long-term investments that strengthen territorial, economic and social cohesion across all regions. Its role in fostering inclusive transformation is irreplaceable. **Yet the Cohesion Fund is under increasing threat from shifting political priorities** (Eurocities, 2024; Financial Times, n.d.; Union of Polish Metropolises, 2024; Polish Green Network, 2025; Budapest, 2025). Undermining this pillar of European solidarity could erode trust in the EU and jeopardise long-term investments in human capital and place-based development, especially in vulnerable regions. The following recommendations address these challenges by focusing on four priority areas: improving cities' access to EU funding, aligning financial instruments with local implementation needs, and institutionalising multi-level governance in a way that delivers tangible results. These proposals aim to support a more coherent, effective, and city-focused approach to climate action and cohesion in the next EU programming cycle.

Without simplified, better-aligned funding mechanisms and stronger coordination across levels of government, the ambitions of Climate City Contracts (CCCs) risk remaining unfulfilled.

Encourage Member States to officially recognise CCCs as tools for enabling climate action and unlocking funding

The EU should support the implementation of CCCs by encouraging Member States to provide specific support for CCCs, such as integrating them into national climate policies or funding frameworks. By formally recognising CCCs as instruments for catalysing transformation, the EU can help raise awareness and understanding of their value at the national level²⁶.

Forge coherence between funding and policy instruments

In line with the principle of subsidiarity, EU action should complement and empower national, regional, and local capacities—ensuring that interventions are best positioned to deliver impact. To this end, EU funding programmes should be more closely aligned with local policy instruments. CCCs provide a structured framework for cities to coordinate climate ambition and investment planning and should be recognised as a gateway to both research and implementation funding. As part of the Cohesion Policy mid-term review, CCCs can help guide the strategic use of reprogrammed funds—ensuring that cohesion investments are locally grounded, climate-aligned, and implementation-focused.

Integrated and holistic EU funding tools should be made available

CCCs are integrated, holistic actions based on local needs, ambitions, resources, skills, and opportunities. For the implementation of CCC, tools and funding programmes such as Integrated Territorial Investment (ITI) strategies²⁷—introduced under Cohesion Policy to streamline and bundle funding lines into cohesive thematic or sectoral packages—should be made available. ITIs help minimise administrative burdens and support all stages of project development and implementation.

Review the MFF term with a prioritisation of the Cohesion Policy

The EU is asked to evaluate the implementation of the Cohesion Policy and Cohesion Funds with the view to provide frameworks for cities to access these funds directly, in order to support the absorption of these funds.

In this context, Cohesion Policy Mid-Term Review should enable investments in CCCs. The 2025 mid-term review of EU Cohesion Policy presents a strategic opportunity to bolster the implementation of CCCs by aligning cohesion funding more directly with urban climate initiatives. The European Commission's proposal encourages Member States and regions to reallocate up to 15% of their programme allocations towards emerging priorities, including the energy transition and decarbonisation efforts. This flexibility should be used to accelerate climate action by integrating CCC objectives into reprogrammed cohesion funds.

Introduce Smart Conditionality in the absorption of EU funds

If EU funds are blocked due to conditionalities (such as Rule of Law conditionality) there should be a smart conditionality or a safeguarding mechanism that still enables regional or local levels to these funds to be able to continue implementing the EU's common goals. Funding blocks should be applied to the

²⁶ Recommendation from the Cities Mission Mayors Advisory Group (Position Paper, 26 May 2025) also highlights the need to recognise CCCs as a foundation for financial planning. It calls on the European Commission to formally adopt Climate City Contracts as flexible tools for channelling EU funding and recommends introducing Urban Mission Contracts to support integrated, locally driven solutions for diverse urban challenges.

²⁷ An Integrated Territorial Investment (ITI) is a Cohesion Policy instrument that enables integrated funding across multiple priority axes and operational programmes for a specific territory or functional area. ITIs allow for the bundling of resources to support place-based strategies—such as urban development or inter-municipal cooperation—by delegating parts of implementation to local authorities. This ensures coordinated, complementary investments. ITIs may also include elements of community-led local development. Source: URBACT, 2025.

level of governance that fails to meet the agreed conditions. For example, if a condition is not fulfilled at the national level, the suspension of funds should apply only to national-level investments, without penalizing regional or local beneficiaries.

Establish dedicated funds for Mission Cities

The EU should create dedicated, directly managed funds to provide predictable and tailored financial support for pioneering cities, enabling them to spearhead climate action and innovation. Such funding would incentivise more cities to engage with the Mission's vision for climate-neutral cities, helping to scale climate action across Europe.

These dedicated EU funds could support cities to test and innovate before scaling up through structural or national funds. At the national level, the EU should encourage Member States to integrate decarbonisation projects from CCCs into National Energy and Climate Plans, aligning national and local objectives. The EU should also ensure the Social Climate Fund, from 2026 onwards, finances CCC projects with co-benefits like reducing energy and transport poverty. Ideally, these national funds should be streamlined into a single funding structure acting as a one-stop shop for Mission Cities and their peers.

Institutionalize Multilevel Governance Structures

Cities and metropolitan areas must be recognized as full-fledged actors in the design and implementation of policies. Currently, their involvement is introduced too late and remains insufficiently defined. Strengthening co-governance between EU, national, regional, and local levels is essential to avoid bottlenecks, which primarily affect programme beneficiaries at the local level, including cities.

Support the development of de-risking tools and scalable blended finance models

To unlock private capital for local climate action, the EU should strengthen its role in de-risking investments through instruments such as InvestEU and the Strategic Technologies for Europe Platform (STEP). This includes providing clear guidance on risk assessment and supporting the development of open-access databases on the technical and financial performance of decarbonisation projects in sectors such as buildings, transport, and industry.

InvestEU can serve as a central instrument to deliver this support. Through its Sustainable Infrastructure window, it can offer guarantees and first-loss mechanisms to reduce investment risk for private actors. Its Advisory Hub should become more accessible to local governments, helping cities prepare bankable project pipelines and structure blended finance approaches. InvestEU's collaboration with financial intermediaries—such as national promotional banks—should be scaled to aggregate smaller municipal projects and ensure funding reaches the local level efficiently.

STEP can complement these efforts by directing additional resources to InvestEU and other EU instruments, while promoting the deployment of strategic clean technologies in urban settings. Aligning STEP with city-led innovation under the Climate City Contracts would help position cities as key actors in advancing Europe's climate and industrial resilience.

Furthermore, the EU should explore innovative financial mechanisms—such as limited debt forgiveness or first-loss guarantees—particularly for projects that are not yet commercially viable but are essential for achieving long-term climate goals. These tools would enable cities and local actors to structure blended finance models, attract private co-investment, and accelerate project pipelines aligned with CCCs.

3.2. Recommendations to the National Level

Delivering climate finance at scale requires action not only from cities and the EU, but also from national governments, which sit at a critical junction between policy ambition and implementation capacity. In many Member States, national authorities oversee the allocation and design of EU structural funds, set the regulatory conditions for municipal finance, and control key infrastructure assets such as energy grids and institutional and public service buildings.

Local governments, with strong support from regional and national levels, can become leaders in accelerated climate action to achieve net-zero and resilience by unlocking financial streams and performing innovative activities. But to do so, they need more enabling national frameworks—ones that match their ambition and unlock practical pathways to act.

This chapter identifies key regulatory and institutional reforms that national governments could undertake to improve access to finance for municipalities. These recommendations are based on insights from BFDs and reflect shared challenges across countries.

Improve access to national and EU-managed funds via simplification of application procedures and eligibility criteria

Results from BFDs highlighted in Chapter II suggest that simplifying eligibility rules, increasing flexibility in co-financing requirements, and aligning open calls with cities' real investment cycles will ensure more cities will have access to the public funding support. Moreover, a more city-friendly design and scheduling of open calls will help reduce the bureaucratic burden and barriers for cities. This, in turn, will allow them to focus more on implementation rather than reporting and developing lengthy application forms.

Formally recognise CCCs and IPs from the Mission cities as strategic implementation tools within national policy and funding frameworks.

CCCs offer a unique mechanism that enables multi-level cooperation and accelerate the delivery of climate objectives. To unlock their full potential, national governments should formally acknowledge CCCs as planning and delivery instruments, integrate them into relevant funding programmes planning, and ensure their alignment with national climate and investment strategies. This would reinforce CCCs and CCC IPs as actionable policy vehicles.

At the national level, decarbonisation projects and investments within the CCCs could be integrated in the National Energy and Climate Plans to align both the national and local decarbonisation objectives and the CCC IPs.

Involve local governments and regions in consultations on plans and strategies well in advance.

As we have seen from the section 2.3, information about public funding programmes often arrives too late and cities are long overdue included in the consultation process. Involving the cities in the formulation of requirements for existing and new funding programmes would increase the effectiveness of the deployment of funds at the local level.

Support Multi Level Governance structures

Develop meaningful mechanisms to ensure local governments participate in a timely manner in the design of annual and multi-annual national budgets. Support and strengthen multi-level governance structures that facilitate cross-city cooperation, represent local realities, and engage local governments

in national and international decision-making. This includes existing National Platforms²⁸, as well as other governance bodies that bring together local authorities at the national level.

Such structures already operate in several EU countries, with Sweden, Spain, and Romania among the frontrunners. Multi-level dialogues on improving regulatory frameworks and restructuring open calls for structural funds should take place within these governance platforms where they exist. National-level support for building and developing such inclusive multi-level governance mechanisms is strongly encouraged where they have not yet emerged.

Explore and develop “one-stop-shop” models to support municipalities in navigating the complex funding landscape

As discussed in Chapter II, the concept of a unified helpdesk or digital platform resonated strongly during the dialogues. One-stop-shop would provide a centralized point of access to information and guidance on available funding opportunities. National governments should consider establishing such platforms, or alternatively, regional contact points, especially to support smaller municipalities with limited administrative capacity, thereby simplifying application processes and enhancing access to climate finance²⁹.

Create opportunities for regulatory sandboxes where relevant and needed

When designing and implementing national and EU funding mechanisms, territorial diversity and the needs of individual cities and regions should be taken into account in order to ensure the effectiveness of local actions. To support effective local decarbonization efforts, creating opportunities for regulatory sandboxes³⁰—where relevant and crucial—can provide the necessary flexibility and regional specificity.

Provide enabling conditions for combining public and private funds

It is necessary to adapt national regulations to the specific nature of less traditional financial instruments and to prepare appropriate support systems for local government units, including an advisory system, model agreements and the adaptation of control instruments to the specific nature of new models of urban investment financing. Local governments need more effective opportunities to combine grants with repayable instruments and innovative financial instruments (including energy performance contracts - EPC/ESCO, green bonds, renewable funds, guarantee funds, loans).

Support the development of financial skills of local government staff

Increase local government access to EU technical assistance programmes, and support, develop and fund financial training programmes for local government staff, including more financial architect roles. This would strengthen local governments’ capacities to better tackle investment challenges, create comprehensive strategies and engage with private investors as well as citizens.

²⁸ National platforms are country-specific ecosystems that complement and sometimes enhance the NZC by creating national versions of the EU Cities Mission. They foster joint learning among cities facing similar challenges, adapt NZC guidelines to local contexts and languages, and support the development and implementation of CCC. These platforms also help scale good practices and coordinate support with NZC for emerging city inquiries, among other roles.

²⁹ This recommendation echoes the Mayors Advisory Group’s Position Paper (26 May 2025) for the EU Agenda for Cities, which calls for a single, accessible ‘One-Stop-Shop’ platform to streamline funding information and support, reducing administrative burdens and boosting uptake—especially for smaller municipalities.

³⁰ Here we mean a controlled, experimental environment where new technologies, solutions, and innovations related to urban development and management can be tested and refined before being deployed on a larger scale. Source: (McCullough, 2024).

3.3. Recommendations to the City Level

To successfully implement their CCCs, including CCC IPs, cities must strengthen their financial preparedness and explore a broader range of funding and financing strategies. While public funding—especially EU structural and national grants—has played a central role so far, it is neither stable nor sufficient to fully deliver on cities' ambitious climate goals. Cities therefore need to become more proactive financial actors: diversifying their funding sources, engaging a wider range of investors (including households), and improving their capacity to design and manage innovative financing models. These recommendations highlight what cities can undertake to future-proof their IPs.

Diversify funding sources for climate action

A general consensus is that public funding alone is not sufficient to cover all the ambitions that cities have outlined in their CCCs and CCC IPs (ICLEI Europe & Fair Finance Institute, 2023). Cities should diversify their financing portfolios for decarbonisation projects now rather than depending solely on EU structural funds or national grant schemes. Without doing so, the risk to fail the implementation phase increases, given the shifting nature of priorities and limited public resources. Alternative instruments such as green bonds, energy performance contracts (EPCs), revolving funds, or blended finance can provide more stable and resilient capital flows to implement CCCs and CCC IPs ambitions (Prospect+, 2025). Public funds should increasingly be seen as catalytic resources.

Engage private investors through de-risking mechanisms

To close the funding gap for climate investments, cities must engage private investors (ICLEI Europe & Fair Finance Institute, 2023; Mengestu & Bakhcheva, 2025). One effective strategy is to use limited public finance as a de-risking tool. This includes leveraging guarantees, subordinated debt, or concessional capital within blended finance structures to improve the risk-return profile of climate projects. Instruments like EPCs and municipal guarantees can make smaller or less conventional projects more attractive to investors.

Expand the concept of the “private investor” to include households

Cities often focus on institutional investors and corporates when considering private capital—but households also play a critical investment role, especially in the residential sector. As seen in the case study from the Baltic region (Chapter 2, section 2.4), energy-efficient renovations in privately owned housing can be accelerated by incentivizing household-level investment. Mechanisms such as subsidies, tax relief, or technical support help mobilize personal savings for climate action.

This observation is reinforced by findings from Deliverable 2.2 (Mengestu & Bakhcheva, 2025), which emphasize that household engagement—both financial and participatory—is key to scaling renovation and renewable energy initiatives in highly privatized contexts (Ibid, p. 29). Aside from co-financing, citizen engagement is essential for accelerating the transition. Behavioural changes, such as shifting to active mobility or taking steps to apply for subsidised energy efficiency renovations for one's house, require increased buy-in of the general population in the climate mitigation journey.

Promote financial and social buy-in of citizens in the net-zero transition

Increase access to subsidies or loans with low or no interest rates, to support citizens' financial buy-in. Subsidies for smart-grid technologies and development of green innovation districts contribute to job creation, which is a key driver of social buy-in.

Social buy-in can also be fostered through communication of connected benefits, “co-benefits” of low-emission transport, energy and housing. Improved health, reduced congestion and enhanced quality of life in cities are examples of such co-benefits. Co-benefit indicators, such as those recommended by the NZC Monitoring Evaluation and Learning framework can provide data to communicate upon.

Strengthen collaboration between municipalities

Cities should actively pursue inter-municipal cooperation as a strategic pathway to improve access to funding, build capacity, and implement large-scale climate initiatives. As seen in the Finnish and Swedish BFDs (see Chapter 2), collaboration is not a zero-sum game—it creates win-win outcomes. Larger municipalities can increase project scale and bankability, while smaller municipalities gain access to expertise, administrative capacity, and funding opportunities they might otherwise miss.

This model of shared benefit is particularly relevant where smaller municipalities face structural barriers to accessing climate finance. Pooling resources, staff, and project development efforts enhances resilience and can accelerate the implementation of CCCs and CCC IPs.

Mission National Platforms (see section 3.2) could serve as vital enablers of such collaboration. By facilitating dialogue, sharing knowledge, and helping align strategies across local contexts, these platforms can amplify collective impact and unlock funding streams that reward scale and coordination.

Conclusion

The findings and reflections emerging from the first phase of the BFDs underscore a clear opportunity: local governments, supported by coordinated action at EU, national, and regional levels, can become frontrunners in accelerating climate action and advancing the transition to NetZero and resilient cities. However, this potential remains on hold if persistent structural barriers— including fragmented funding landscapes, limited to no involvement of local authorities in the development of national and regional finance instruments, insufficient inclusion of smaller municipalities, and limited engagement of private and citizen finance—do not find adequate answers.

Unlocking new financial streams and fostering innovative financing mechanisms requires a multi-level governance approach. It needs cross-sectorial efforts that simplify access to funds, aligns regulatory frameworks, and actively integrates municipal CCCs into broader investment planning. Equally important is enhancing the capacity of cities themselves to diversify their funding portfolios and engage a wider range of stakeholders.

While challenges are significant, the first BFDs have also highlighted promising pathways forward. Enhanced collaboration between municipalities, national platforms acting as facilitators, and growing experimentation with blended finance and de-risking instruments illustrate a shared commitment to overcoming obstacles and delivering transformative outcomes.

As the BFDs progress, continued engagement across different levels of governance, adaptation to each national context, testing and learning from successes and failures will be crucial to refine these insights and translate them into effective policies and practices. Ultimately, a strengthened and more coherent climate finance ecosystem, responsive to the diverse needs of cities, will be instrumental in ensuring that the ambitious goals of the EU Mission on Climate-Neutral and Smart Cities become a reality.

Upcoming BFDs include France in June and Spain in July 2025. Such Dialogues will help to not only bring new insights but also broaden the geographical scope with new regions within Europe that will strengthen the recommendations outlined in this first interim report. As an extra initiative, the outputs will be taken forward to the EU-level event in Brussels between in July 2025. Upcoming BFDs in 2025 are being planned for Italy, Slovenia, Czechia, Denmark and The Netherlands. As following and crucial steps, besides implementing the previous events along with NZC partners, the coordinating team will work on finding linkages with the policy workstream at NZC and other strategic partnerships at the EU level.

There is still a long way to go, but with these collaborative efforts and continued multi-level engagement, we can ensure that European cities not only drive but also embody the transition to a climate-neutral, resilient future.

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Annexes

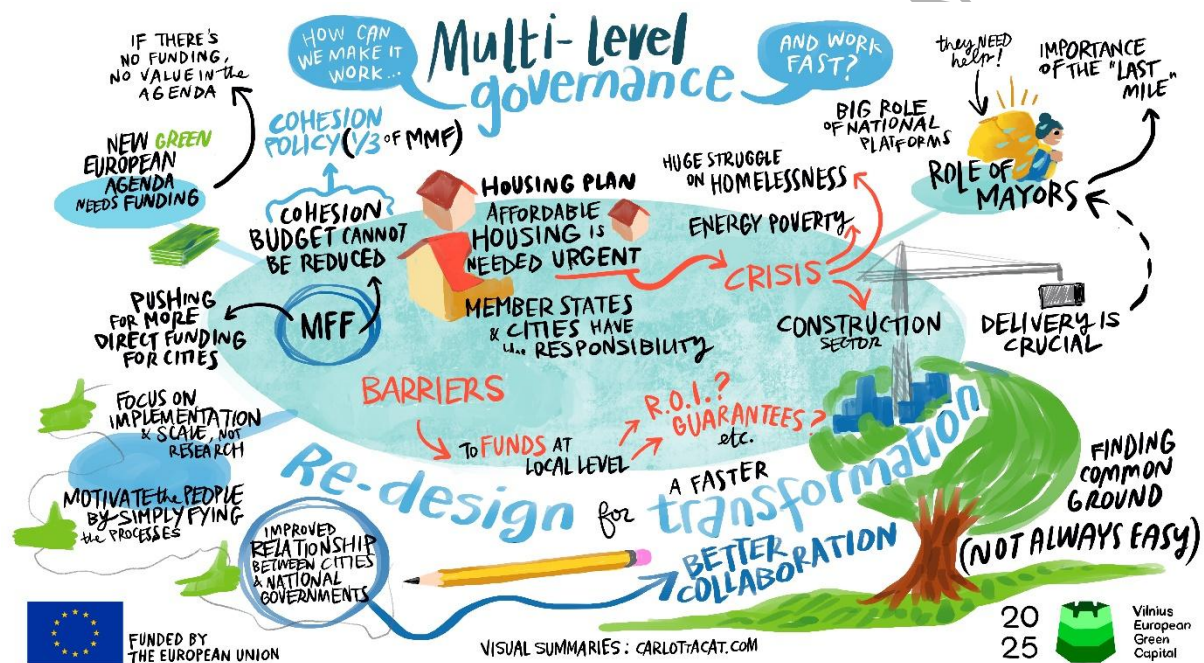
Annex 1 – Summary of BFDs in 2024 – first half of 2025

Country/Region	Dialogue Number	Date	Location	Thematic Focus
Romania	1st Dialogue	30.10.2024	Bucharest	Creating enabling conditions for Public-Private Partnerships (PPP). Despite political will, local capacity and readiness for climate investment remain limited.
	2nd Dialogue	05.03.2025	Online	Continuation of PPP enabling discussions and capacity-building for local investment.
Sweden	1st Dialogue	05.12.2024	Stockholm	Making national public funding less fragmented and more accessible to cities; peer-to-peer support among municipalities to boost local fundraising.
Poland	1st Dialogue	11.04.2025	Warsaw	Preparing recommendations to better represent city voices in the next MFF; exploring less traditional financing to shift from grant-based funding to diversified capital flows.
	2nd Dialogue	20.05.2025	Łódź	Deepening discussion on diversified financing and risk mitigation in financial transformation.
Baltic Region (Estonia, Latvia, Lithuania)	1st Dialogue	06.05.2025	Vilnius	Engaging private individuals in funding renovation of privatized housing; exploring regional cooperation for scaling investments.
Finland	1st Dialogue	22.05.2025	Turku	Addressing scale-related barriers in climate finance; improving access for small municipalities and promoting collaboration with larger ones.

Annex 2 – Visual notes from a panel discussion “Multi-level governance” in practice: aligning public funding at all levels”

These visual notes present insights from a panel discussion “Multi-level governance” in practice: aligning public funding at all levels”. A session was held at the Cities Mission Conference (Vilnius, 8 May 2025, 11:30–12:45), exploring how collaboration across EU, national, regional, and local levels can enhance policy alignment and funding impact. Speakers included Karen van Dantzig (Dutch Urban Envoy), Benedetta Brighenti (President, Regional Energy Agency), Mohamed Ridouani (Mayor of Leuven), Alberto Gutiérrez Alberca (Deputy Mayor of Valladolid), Marcos Ros Sempere (MEP), and Matthew Baldwin (European Commission).

Organised by ICLEI and Energy Cities.



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