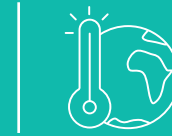


Innovative Financing for low emissions development: Revolving funds, Intracting and Community Funding. What do they mean?



2021

The energy transition is a multilayer, multistakeholder and transdisciplinary process that most often faces barriers in accessing funding. This is especially true for Local Governments, which often face budget constraints. Even where investments have quick paybacks and high returns, procedures to access upfront investment can undermine the efforts for action. This factsheet presents several examples of innovative financing schemes and strategies with a long track record of successful operations that overcame these obstacles.

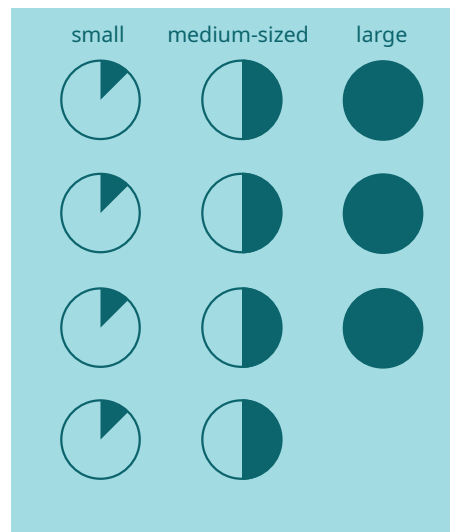
Innovative financing sources encompass different approaches, from strictly internal or public mechanisms to more widespread schemes with private stakeholders or direct community participation. Some examples of such mechanisms are shown below, with an indication of which option is more suitable for small projects/entities and which ones are better for larger projects/entities:

Example of innovative mechanism

Size of projects/entities

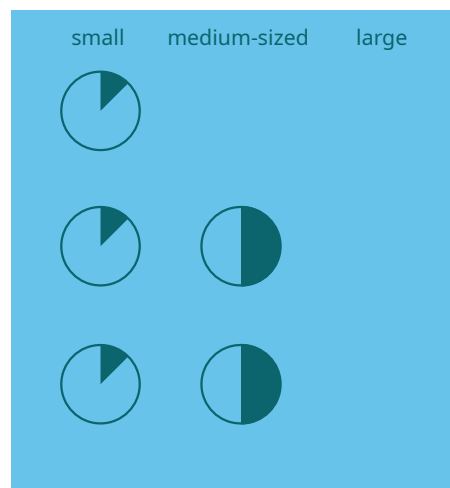
Decentralized climate funds, where international climate financing is channelled to community projects managed in cooperation with Local Governments.

- **Fundraising** experiences with the banking system.
- **Soft loans where risk**, guarantees and technical or process facilitation are supported by Local Governments with cooperation with local or socially responsible banking institutions.
- **Internal funding schemes** where savings are channelled to finance further sustainable investments, applying concepts/principles of energy performance contracts, without the need for external entities.



Community financing and community driven projects where crowdfunding, crowdlending and benefits sharing can boost local sustainable investment also with cooperation or support of public authorities.

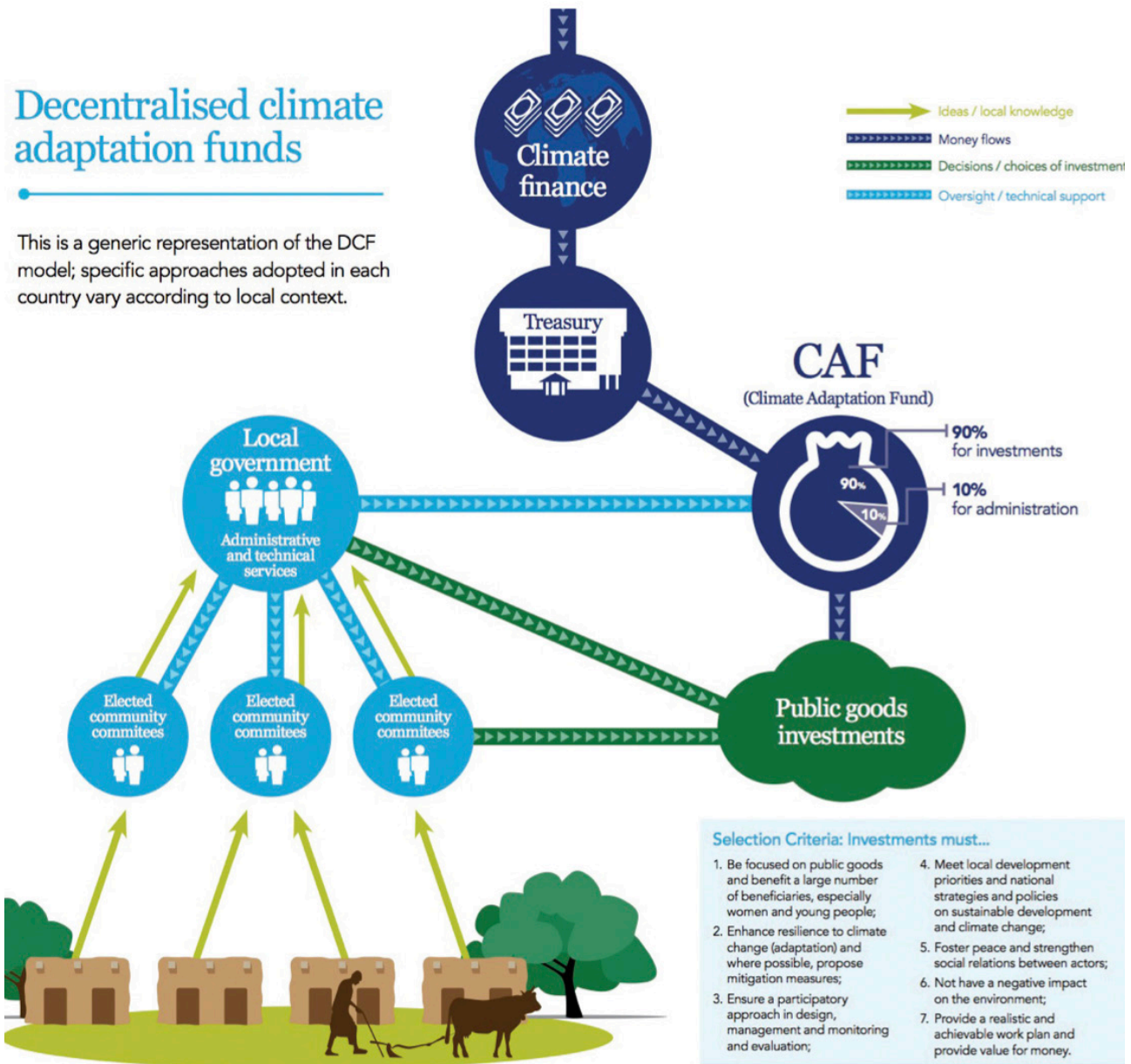
- **Intracting** or Internal performance contracting allows to significantly reduce the energy consumption of public owned or managed buildings via an internal agreement between municipal departments.
- **Revolving funds** where Local Governments replenishes the fund by repaying money used from the account.



Capturing international funds for local projects with local community – Kenya’s County Climate Change Funds

The County Climate Change Funds (CCCF) were developed to channel climate finance to the local level for investing in the priorities of local people in Kenya’s arid and semi-arid lands. These lands occupy 80 per cent of Kenya’s land mass, are home to over 10 million people, and are particularly vulnerable to climate change. Structural inequalities have exacerbated these vulnerabilities; a disconnect between local communities and national development planners inhibits local people from adapting effectively in areas where local and flexible resource management is crucial.

The CCCF enables local communities to add their knowledge on local climate resilience through the process of shared learning dialogues led by ward and county committees. This process builds capacity in local institutions and enables investments to increase climate resilience across the ward, county and country level.



This is presently being trialled in Kenya, Tanzania, Mali and Senegal, although the specific approaches adopted in each country vary according to the local context. [source](#)

Fundraising – an example from Brasília

The CITinova project is a Global Environment Facility (GEF) project and is part of the Federal District’s Strategic Plan Environmental and Climate Change axis. Although the GEF contribution is relatively small, the project is a perfect example of how a small-scale investment can be an accelerator to access additional funding. Within the Federal District, the CITinova project is coordinated by the Secretariat of the Environment (SEMA-GDF) and is divided into two action fronts, both of which participate in the collection of relevant data. To mobilize social engagement and raise awareness of the society towards the need of a more sustainable urban development, it is fundamental to involve various audiences and social sectors in topics such as waste management, renewable energy, water conservation, and climate governance. Furthermore, other themes like gender equality, poverty reduction, economic equality are built in and are continuously ensured in the project. Brasília’s fundraising strategy is based on interlinkages and on the connection between plans, projects and outcomes. [More info](#)

USD 300 M REFUNDABLE

PARTNERSHIP WITH THE ENVIRONMENT SECRETARIAT AND THE BRASÍLIA REGIONAL BANK – BRB

to provide low cost financing for public companies and the private sector on climate adaptation

Public transport

Photovoltaic plants to energy generation for public buildings, companies and private buildings (residential and commercial), agriculture and houses – Brasília Solar

Water reuse system for houses and private buildings (residential and commercial)

Sustainable Infrastructure



PROJECT PREPARATION

BIODIVERSITY PRESERVATION – Protected areas infrastructure implementing and management

BASIN RECOVERY – Maranhão River, Preto River, Descoberto River

USD 150 M REFUNDABLE

Revolving Water Fund, Gwalior, India

A Revolving Water Fund (RWF) has been created as a pilot demonstration project in Gwalior. The Revolving Fund is being managed by the Municipal Corporations (MC). The RWF not only makes finances available for meeting the capital cost of the scheme upfront, but ensures the ownership and participation of the community in execution as well as the operational maintenance of the scheme. The community is provided a loan from the fund to meet the infrastructure development cost, which could be paid back by the community to the MC in easy instalments matching with their paying capacity, thus demonstrating a pro-poor governance approach. The MC will replicate and upscale these schemes in others slums of the city. [More info](#)

Community Funding – Citizens investments in local energy projects

Community energy production has huge potential. [A recent study, developed in 2016 by Dutch consultancy firm CE Delft](#) found that half of EU citizens – including local communities, schools and hospitals – could be producing their own renewable electricity by 2050, meeting 45% of their energy demand. Now, building on new EU community and citizen energy rights, the potential must be fully unleashed to put Europe on the path to the needed energy transformation. The community energy movement has recently received a boost, in the form of improved EU legislation, which newly gives communities and individuals the right to generate, store, share, aggregate, consume and sell their own energy. But these must now be put into practice in EU Member States.

Community Funding – an example from Croatia

The Croatian municipality of Križevci with its 21,000 inhabitants managed to raise in only 10 days the capital needed to install a 30 kWp PV powerplants on the roof of the business support centre. With the support of the Green Energy Cooperative (Zelena energetska zadruga, ZEZ) that developed the model, the amount of €31,000 needed to implement the project was collected from a total 53 investors through the cooperative's crowdfunding platform.

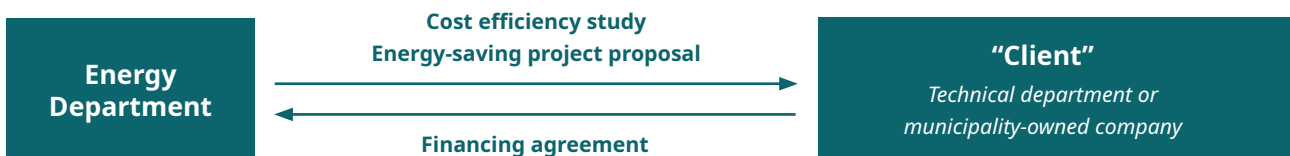
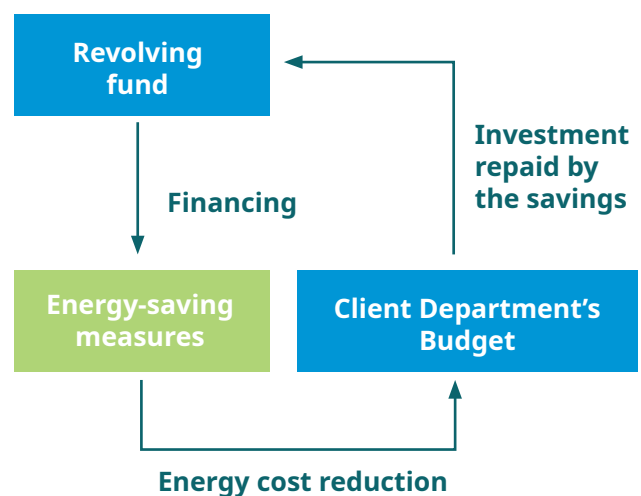
The municipality plays as main implementation partner and uses monthly savings deriving from the PV plant installation to pay back citizens that invested with a fixed interest of 4.5% while energy surplus is sold to the network. This have been possible also thanks to a cooperation with other local partners which supported by providing the solar equipment on lease to the city for 10 years, developing a cost-effectiveness analysis as well as the general design documentation needed. [More info](#)

Example of micro-lending based crowdfunding scheme for the PV power plant owned by beneficiary:



Intracting and Revolving Funds – Almada “Less Carbon” Climate Fund

Budgetary constraints, including the internal financial organisation of any authorities, have often blocked useful and necessary energy-saving investments, a situation that Local Governments' technical services have rarely been able to oppose even though the proposed energy-efficiency measures were economically viable. The concept of Intracting or Internal performance contracting, was first experimented and adapted by the City of Stuttgart, Germany and replicated by Almada, Portugal in the aforementioned “Less Carbon” Fund. Intracting proved highly efficient at reducing energy and water costs. It is the success of this financing model that prompted other cities and institutions to adapt it to their own context.



[The Almada Less Carbon Fund](#) was established in 2009 to support municipal climate mitigation actions by the municipality. The fund is managed by AGENEAL who also provide the expertise to ensure that the projects save money and reduce the municipalities carbon footprint. Since the fund was established, many projects have been implemented, for a total investment by the municipality of € 1 900 000. This has helped to reduce the carbon footprint by 1 000 tCO₂/year, reduce energy consumption by 3 000 MWhr/year and saves the municipality 375 000 €/year on energy costs.



The most important innovation of the fund is the shared benefits approach which assumes different sharing schemes between the fund and the client department based on the characteristics of the project. After seven years of successful operation, the fund is now being redesigned and upgraded to become a revolving fund. This means that the cost savings resulting from implemented energy efficiency measures will be returned directly to the fund, ensuring leverage of the fund, and boosting further investments in a clean energy transition.

Lessons Learned

The success of any funding or financing mechanisms is closely linked with the context of the municipalities where they would be applied. Some of the **most common critical barriers** (Legal, Political and Organizational) to setting up a local climate fund, or other innovative financing mechanisms include:

- Lack of clear legal and regulatory frameworks.
- Lack of staff capacity and of adequate funding sources starting from the prefeasibility stage, that hinder the set up and roll out of these mechanisms.
- Limited “ownership” and lack of clear responsibilities.
- Limited technical capacity and knowhow among the representatives.
- Volatility of priorities that can compromise the durability of such schemes.

These main barriers sometimes require significant changes in mindset compared to business-as-usual procedures. But these can be overcome by strong leadership and political willingness (it is fundamental to bring decision makers to the process from the beginning), together with cross departmental cooperation in order to increase the technical capacity and know-how of the staff.

Also, the “low hanging fruit” concept can be applied: identify projects on energy efficiency/renewables applicable to each organization, prioritizing the smaller investments which are simpler and can act as catalysts for future, more complex projects (low hanging fruits are small investments easy to make; bulk fruits on top are bigger investments but with high impact).

Also, whenever possible financial and legal expert colleagues should be involved in the core team from the beginning.

Whilst there is no one silver bullet, there are a few steps that should be taken into account to guide the selection, preparation, and implementation of local financing mechanisms.

- Prepare the ground and explore a variety of examples of innovative financing schemes and strategies with a long track record of successful operation.
- Evaluate top-down innovative financing mechanisms and grassroots propelled projects with direct community participation.
- Understanding and adapting to the local context is key. It is essential for the region/municipality to clearly identify EE/RE projects to be funded by its financing scheme. Any financing mechanisms developed must be tailored to the local/regional context to increase the chances of success.

- The set-up of the management and operation of the scheme by establishing and defining a Core Team (at Political, Management, Operational and Technical Level) must take place at the first stage of the process to guarantee a smooth, transparent implementation.
- Political representation should be included - this must include not only the Mayor/Councillors, but also community leaders. Without a clear political buy-in, the chances of success are low.
- At the management level, the finance and planning departments are key enablers -representatives from the environmental, energy and climate department and the energy agency should be included both at the management and technical level.
- Both at the management and operational level, the core team should comprise representatives from treasury and accounts department.
- Local Governments should and can play the role of mediators/support agents between project ideas and the community but their capacity is often hindered by lack of direct access to funds (e.g. International funding).
- In the case of a model driven by public and private funds, with a strong role from Local Governments and focus on the benefits for the community, private companies should not be direct beneficiaries. The objective is not to exclude them, since they are critical for success, but it is worth exploring other options to support private companies.

Example of a Climate Fund developed in the ICLEI Urban LEDS II Workshop in 25th February 2021

