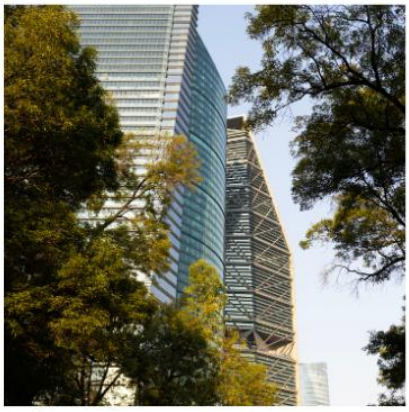
PROSPECT





Third-Party Financing (TPF) – Learning Handbook at a Glance

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About the project

PROSPECT aims to strengthen the capacity of local and regional authorities (LRAs) across Europe to implement sustainable energy and climate actions by reducing reliance on public funding and increasing the use of innovative financing schemes (e.g., one-stop-shops, energy agencies, energy communities). The project offers a peer-to-peer Capacity Building Programme (CBP) tailored to the needs and time constraints of LRAs, available in multiple languages and structured in adaptable learning modules. Through large-scale outreach, including very small and remote LRAs, PROSPECT CUBE acts as an entry point to EU programmes and financing opportunities for authorities with limited experience in the field.

PROSPECT CUBE builds upon two successful Horizon 2020 initiatives: PROSPECT (2017–2020) and PROSPECT+ (2022–2025).

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1. About this guide

This concise guide highlights the key concepts, applications and takeaways of the full PROSPECT CUBE Learning Handbook on Third-Party Financing (TPF), explaining how local and regional authorities (LRAs) can mobilise external capital and expertise to deliver sustainable energy and climate investments while overcoming upfront financial constraints. Beyond traditional Energy Performance Contracting (EPC), it explores alternative financing and delivery models, their applications and the key requirements for effective implementation.

1.1. What the full learning handbook covers?

The full learning handbook is structured as a modular learning and reference resource covering:

- The fundamentals of TPF and its operational principles
- Contractual arrangements, financing structures and main TPF models
- The relationship between TPF, EPC, PPPs and complementary financing instruments
- Benefits and added value of TPF for LRAs
- Cross-sectoral applications across energy and climate investments
- Key stakeholders, responsibilities and governance arrangements
- A step-by-step roadmap for designing and implementing TPF schemes
- Critical success factors, implementation barriers and risk management

Drawing on previous PROSPECT initiatives and broader European experience, the publication combines conceptual guidance with practical insights to support informed decision-making and project development.

1.2. Who should use the full learning handbook?

The full learning handbook is designed for both newcomers and experienced practitioners involved in planning, financing, managing or implementing energy-related investments. Developed within the framework of the PROSPECT initiative, it primarily targets LRAs, including elected officials, technical, financial, legal and procurement teams, as well as energy agencies, One-Stop Shops (OSSs), financial institutions and technical advisors.

Its purpose is to help readers explore financing options, assess institutional readiness and navigate the TPF process, from project preparation and contractual structuring to implementation and performance monitoring.

2. What is Third-Party Financing (TPF)?

Third-Party Financing (TPF) is an innovative financing mechanism through which an external partner provides all or part of the capital required for energy and climate investments, often assuming technical and operational responsibilities. Rather than financing assets directly, LRAs enter into long-term contractual arrangements and pay for the services, energy supplied or performance outcomes delivered.

Under a TPF scheme:

- External partners mobilise upfront investment capital.
- Technical and operational responsibilities and associated risks are allocated among the parties.
- Payments are structured around service provision, energy generation or verified savings, depending on the model.
- LRAs can implement investments with limited upfront expenditure, potentially preserving borrowing capacity.

Depending on contractual arrangements, risk allocation and applicable accounting rules, TPF projects may qualify for off-balance-sheet treatment, although this is not automatic. More broadly, the instrument offers LRAs a flexible pathway to accelerate sustainable energy investments, leveraging external capital and performance-based delivery models to overcome public budget constraints.

2.1. How does TPF work in practice?

TPF operates through contractual arrangements linking the LRA, external financiers and specialised technical providers. Depending on how financing and delivery responsibilities are distributed, schemes may follow an ESCO-led structure, combining financing and technical implementation, or a financier-led arrangement, where capital provision and service delivery are undertaken by separate actors.

The main TPF models include:

- Power Purchase Agreements (PPAs), enabling LRAs to purchase renewable electricity from externally financed generation assets under long-term contracts.
- Leasing and “As-a-Service” models, providing access to equipment or infrastructure through periodic payments rather than direct upfront purchase.
- Vendor financing, where technology suppliers facilitate financing for equipment and related investments.

Additional repayment mechanisms can complement TPF arrangements, including:

- On-bill financing, integrating investment repayments into utility or energy bills.
- On-tax financing, linking repayments to property-related tax mechanisms.

Across these approaches, financing and repayment structures are tailored to the investment, with risks and responsibilities allocated according to the contractual model. Public grants, guarantees and technical assistance may also complement private capital to improve project viability.

2.2. Where can TPF be applied?

TPF is not a one-size-fits-all solution; its strength lies in its adaptability across sectors and investment scales, with distinct models delivering value through energy supply, equipment use or service provision.

Typical applications include:

- Public buildings: Energy efficiency upgrades, photovoltaic installations and building renovation.
- Public lighting: LED retrofits, smart lighting and associated infrastructure.
- Renewable energy: Solar and wind installations, including on-site and off-site generation.
- Sustainable mobility: Electric vehicle fleets, charging infrastructure and related services.
- Residential buildings: Energy renovation and efficiency improvements.
- District energy: Heating, cooling and integrated energy systems.

The suitability of each model depends on project scale, technical requirements, revenue or savings predictability and the capacity to aggregate investments into bankable portfolios.

2.3. Why does TPF matter?

TPF offers LRAs a flexible pathway to accelerate sustainable energy and climate investments while reducing dependence on upfront public expenditure. Its main benefits include:

- Investment mobilisation: Unlocking projects constrained by limited municipal budgets.
- Fiscal flexibility: Potentially preserving borrowing capacity through appropriately structured agreements.
- Risk optimisation: Allocating technical, financial and operational risks to the parties best equipped to manage them.
- Budget predictability: Supporting long-term financial planning through structured payment arrangements.
- Technical expertise: Providing access to specialised providers and innovative technologies.

- Project scalability: Enabling investment aggregation and larger-scale implementation.
- Performance accountability: Linking contractual obligations to measurable outputs and service standards.

Realising these benefits requires clear contractual frameworks, reliable project data, sound financial planning, effective risk allocation and sufficient institutional capacity. When these conditions are met, TPF can help LRAs translate their climate and energy ambitions into bankable, long-term investments.

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