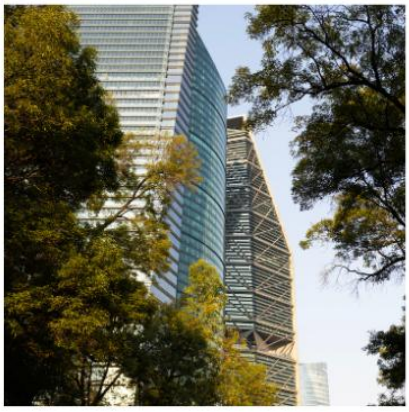
PROSPECT





Guarantee Funding – 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 Guarantee Funding, explaining how local and regional authorities (LRAs) can use risk-sharing mechanisms to mobilise private capital, overcome financing barriers and accelerate sustainable energy and climate investments. It introduces guarantee structures and their applications, highlighting how they can improve access to finance and enhance project attractiveness to investors and lenders.

1.1. What the full learning handbook covers?

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

- The fundamentals and operational principles of guarantee funding
- Guarantee arrangements, institutional types and risk-sharing instruments
- Key characteristics and financing structures
- Benefits and added value for LRAs
- Cross-sectoral applications and investment opportunities
- Main stakeholders, responsibilities and governance arrangements
- A step-by-step roadmap for designing and implementing guarantee schemes
- Critical success factors, barriers and risk management

By combining conceptual guidance with key implementation considerations, the handbook supports readers in understanding guarantee funding mechanisms, assessing their suitability and navigating the key steps for their effective design and implementation.

1.2. Who should use the full learning handbook?

The full learning handbook is designed for both newcomers and experienced practitioners involved in energy-related investments. Developed within the framework of the PROSPECT initiative, it primarily targets LRAs, including elected representatives, financial and budgetary officers, technical specialists, and legal and procurement experts. It is also relevant to energy agencies, One-Stop Shops (OSSs), financial institutions, fund managers and advisory organisations.

Its purpose is to help readers understand guarantee funding mechanisms, clarify stakeholder roles and make informed decisions on the design and implementation of guarantee schemes aligned with local energy and climate priorities.

2. What is guarantee funding?

Guarantee funding is a risk-sharing financial mechanism that improves access to finance by reducing lenders' exposure to potential losses. Rather than directly financing investments, guarantee schemes provide credit enhancement by covering a predefined share of losses in the event of borrower default, making otherwise viable but higher-risk projects more attractive to financial institutions.

Under a guarantee funding scheme:

- A guarantor assumes a predefined share of potential credit losses.
- Financial institutions provide loans to eligible beneficiaries under agreed conditions.
- Borrowers may benefit from improved access to credit, reduced collateral requirements or more favourable lending terms.
- Public guarantee resources can leverage larger volumes of private investment.

By addressing risk-related financing barriers, guarantee funding helps transform technically viable energy and climate projects into bankable investment opportunities, particularly where conventional lending remains constrained.

2.1. How does guarantee funding work in practice?

Guarantee schemes operate through contractual arrangements between a guarantor, a financial institution and the final beneficiary. A Guarantee Agreement typically defines eligibility conditions, coverage ratios and risk-sharing responsibilities, while the lender provides financing and retains part of the credit risk.

Two common operational configurations include:

- ESCO-based guarantee arrangements, where guarantees facilitate financing for projects implemented by Energy Service Companies (ESCOs), often combining credit enhancement with performance-based delivery.
- Commercial bank-based arrangements, where guarantees support lending to households, SMEs or public entities, typically through standardised loan products and portfolio-level risk coverage.

Beyond these configurations, guarantee mechanisms can be structured according to the type of risk covered:

- Credit guarantees, protecting lenders against a predefined share of borrower default losses.
- Performance guarantees, covering the risk of projects failing to achieve agreed technical or energy performance outcomes.

Credit guarantees may be issued individually for specific projects or across loan portfolios, with risk-sharing arrangements such as first-loss, pari-passu or counter-guarantees.

The appropriate structure depends on project scale, market conditions, beneficiary needs and the desired allocation of financial risks.

2.2. Where can guarantee funding be applied?

Guarantee funding can support a wide range of sustainable energy and climate investments where technically viable projects face financing constraints related to risk perception, limited collateral or long payback periods. Typical applications include:

- Public buildings: Deep energy renovations, heating and cooling upgrades, and rooftop solar installations.
- Residential sector: Building insulation, heat pumps and household renewable energy investments.
- Renewable energy: Solar, wind and distributed generation projects.
- Public lighting: LED retrofits and smart lighting infrastructure.
- Sustainable mobility: Electric vehicle fleets and charging infrastructure.
- Small and Medium-Sized Enterprises (SMEs): Energy efficiency improvements and clean technology investments.
- District energy: Heating, cooling and integrated energy infrastructure.

Individual guarantees are generally more suitable for larger or complex investments, while portfolio-based schemes facilitate financing for numerous smaller, standardised projects.

Guarantees can also complement grants, technical assistance and other financial instruments to strengthen project viability and investment readiness.

2.3. Why does guarantee funding matter?

Guarantee funding offers LRAs a strategic mechanism to unlock private investment, improve financing conditions and maximise the impact of limited public resources. Its main benefits include:

- Investment mobilisation and leverage: Unlocking private capital through targeted risk-sharing while maximising the impact of public resources.
- Fiscal flexibility: Potentially preserving borrowing capacity through appropriately structured contingent liabilities.
- Improved bankability: Reducing lender risk and facilitating access to finance for viable but underserved projects.

- Financial accessibility and inclusion: Enabling more favourable lending terms and broader participation among beneficiaries with limited collateral.
- Market development and scalability: Strengthening lender confidence and enabling larger investment programmes through portfolio-based approaches.

Realising these benefits requires well-calibrated risk-sharing arrangements, credible governance structures, robust project pipelines and effective monitoring systems. When these conditions are met, guarantee funding can help LRAs bridge financing gaps and accelerate the delivery of local energy and climate objectives.

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