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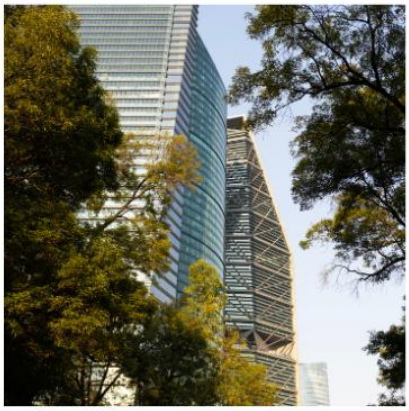












Soft Loans - Learning Handbook at a Glance

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Technical information

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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 Soft Loans, introducing concessional financing instruments that offer more favourable borrowing conditions than conventional commercial loans. It explores how local and regional authorities (LRAs) can use soft loans to overcome financing barriers, improve investment affordability and accelerate sustainable energy and climate projects.

Drawing on the experience of the PROSPECT initiative and the broader European practices, the publication outlines key financing arrangements, applications and implementation considerations for effective soft loan schemes.

1.1. What the full learning handbook covers?

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

- The fundamentals and operational principles of soft loans
- Financing arrangements, loan types and key characteristics
- Benefits and added value for LRAs
- Sectoral applications and investment opportunities
- Main stakeholders and their respective roles
- A step-by-step roadmap for designing and implementing soft loan schemes
- Critical success factors, barriers and risk management considerations

By combining conceptual explanations with practical guidance, the handbook helps readers assess the suitability of soft loans, select appropriate financing models and adapt implementation approaches to local needs and institutional capacities.

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 PROSPECT initiative, it primarily targets LRAs, including local and regional decision-makers, financial and administrative departments, technical specialists, and legal and procurement advisors. It is also relevant to energy agencies, One-Stop Shops (OSSs), financial institutions, funding bodies, Energy Service Companies (ESCOs) and project developers.

Its purpose is to help readers understand soft loan mechanisms, identify the roles and responsibilities of key stakeholders, and facilitate the effective delivery of sustainable energy investments.

2. What are soft loans?

Soft loans are concessional financing instruments that provide repayable capital under more favourable conditions than conventional commercial lending. They are designed to improve access to finance for investments delivering environmental, social or economic benefits, particularly in energy efficiency (EE), renewable energy sources (RES) and sustainable infrastructure.

Unlike grants, soft loans need to be repaid. However, they can reduce borrowing costs and improve affordability through favourable financing conditions and complementary mechanisms, such as:

- Reduced interest rates that lower borrowing costs through below-market, subsidised or near-zero rates.
- Extended repayment periods that spread investment costs over time.
- Grace periods that defer repayment obligations and provide beneficiaries with greater financial flexibility.
- Complementary support that combines soft loans with grants, guarantees, technical assistance or other risk-sharing mechanisms.
- Revolving financing that allows repaid capital to be reinvested in subsequent projects, supporting successive investment cycles.

Soft loans can be tailored to specific sectors, beneficiary groups and policy priorities, allowing LRAs to address financing gaps while supporting broader local energy and climate objectives.

2.1. How do soft loans work in practice?

Soft loan schemes operate through financing arrangements that connect public authorities, financial institutions, technical support providers and final beneficiaries. Depending on the model, LRAs may act as borrowers for investments in public assets or as coordinators, facilitators or co-financiers supporting investments by households, businesses and other local actors.

Three main operational arrangements can be distinguished:

- Direct public lending: LRAs or dedicated public funds provide loans directly to beneficiaries, retaining greater control over eligibility criteria, financing conditions and policy targeting. This model requires sufficient public capital and administrative capacity.
- Intermediated commercial lending: Public or international financial resources are channelled through participating commercial banks, which manage credit assessments, loan disbursement and repayments. This arrangement uses existing banking infrastructure to expand programme reach.

- Third-party and ESCO-led arrangements: Soft loans are integrated with Energy Performance Contracting (EPC), combining financing with technical implementation and performance commitments. Energy savings may support repayment, while specialised Energy Service Companies (ESCOs) assume defined technical and performance responsibilities.

Soft loans can also take different forms, including subsidised-interest loans, zero-interest loans, revolving loans, blended loan-grant instruments, dedicated credit-line loans and on-bill repayment schemes.

In practice, implementation involves identifying eligible investments, selecting suitable financing structures, securing capital, establishing governance and lending procedures, supporting project preparation, and managing disbursement, repayment and performance monitoring. The choice of arrangement depends on local market conditions, institutional capacity, available financial resources, beneficiary needs and the scale and complexity of the planned investments.

2.2. Where can soft loans be applied?

Soft loans can support a wide range of sustainable energy and climate investments, particularly where high upfront costs, long payback periods or limited access to conventional credit prevent projects from moving forward. Typical applications include:

- Public buildings, including energy renovations, heating and cooling upgrades, and rooftop solar installations.
- Residential buildings, including insulation, heat pumps and renewable energy systems.
- Commercial buildings and SMEs, supporting energy efficiency and renewable energy investments.
- Public infrastructure, including street lighting, smart energy systems and municipal facilities.
- Sustainable mobility, including electric vehicle fleets, charging infrastructure and shared mobility.
- District energy and large infrastructure, including district heating and cooling and integrated energy systems.
- Cross-sectoral investment programmes, aggregating projects across sectors or beneficiary groups.

Their application can also extend to climate adaptation and resilience projects where suitable financing and repayment arrangements can be established.

2.3. Why do soft loans matter?

Soft loans provide LRAs with a flexible financing instrument to address investment barriers, mobilise additional capital and accelerate the implementation of sustainable energy and climate actions. They may operate as standalone financing instruments or as part of blended financing structures combining public support, private capital and technical assistance, offering several key benefits:

- Improved affordability and access to finance by reducing borrowing costs and enabling investments that may be difficult to finance under conventional market conditions.
- Efficient use of public resources by supporting capital recycling through revolving structures and leveraging additional private or institutional financing.
- Strategic policy alignment by directing financial support towards local energy and climate priorities, including energy efficiency, renewable energy and decarbonisation.
- Social inclusion by improving financing opportunities for low-income households, vulnerable groups and underserved beneficiaries.
- Investment mobilisation and scalability by facilitating larger renovation programmes, project aggregation and broader market participation.
- Local capacity and market development by strengthening cooperation among LRAs, financial institutions, technical advisors, ESCOs and other implementation actors.

Realising these benefits requires appropriate financing conditions, reliable capital sources, effective governance, strong project pipelines and adequate technical support. When properly designed and managed, soft loan schemes can help LRAs bridge financing gaps while supporting long-term financial sustainability and local energy transition objectives.

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