

MECHANISM	MAIN FEATURES	ADVANTAGES	LIMITATIONS	PERFORMANCE RISK ALLOCATION
BUDGET FINANCING				
GRANTS	Investment costs funded by grant(s) from donor or national government	Indefinite term No financing costs	Limited grant funding available May encourage non-viable projects Not sustainable or scalable	Donor or government providing the grant
GENERAL BUDGET	EE project investment costs funded from general municipal revenues	Can build market capacity No additional financing costs	Budget resources often limited Sustainability not assured	Municipality
BUDGET CAPTURE	Financing to municipalities for EE projects from MoF, with repayment	Makes viability clearer Builds market capacity	Can be difficult to ring-fence May require recourse to budget	Municipality or financier, depending on extent of recourse
ENERGY EFFICIENCY FUNDS				
ENERGY EFFICIENCY FUNDS	Independent, publicly owned entity provides financing for EE to public clients, with repayments based on estimated energy cost savings	Financially self-sustaining Can finance municipalities that are not able to borrow Can leverage funds by pooling or bundling of projects and develop simple ESCO models	Recovering operating costs may be difficult in early funding years Reliance on good fund manager Needs municipal repayment mechanism	Fund in the first instance Ultimately, sponsors of the fund
PUBLIC SUPPORT FOR COMMERCIAL FINANCING				
DEDICATED CREDIT LINES	'Soft' public loans to commercial institutions for on-lending to municipalities for EE projects	Allows municipalities to undertake own procurement/implementation Can be scalable Funds can revolve	Serves creditworthy municipalities only Requires strong and willing bank partners to develop project pipeline	Entity providing the credit line, commercial financier and municipality, depending on sharing of losses
CREDIT AND RISK GUARANTEES	Risk sharing guarantee from donor or national government that covers part of commercial lenders' loss from loan defaults	Allows leverage of public funds Addresses risk perception of commercial lenders regarding EE projects	Can serve only a limited number of municipalities Requires strong and willing bank partners to develop project pipeline	Guarantor for the covered part of the loan and commercial financier for the uncovered part

COMMERCIAL FINANCING				
VENDOR CREDIT	Equipment vendor supplies EE equipment with payments spread over a period of time	<ul style="list-style-type: none"> Little or no requirement for collateral or recourse limit Mobilizes commercial financing Does not count against borrowing 	<ul style="list-style-type: none"> Limits choice of equipment to that offered by vendor Financing only available for short terms 	Vendor and/or municipality, depending on what collateral and recourse is provided
LEASE OF ASSETS	Financing of EE equipment under lease contract, usually with lease payments based on estimated energy savings	<ul style="list-style-type: none"> Provides a means of paying the costs of EE equipment over time Lease may not count against borrowing limit 	<ul style="list-style-type: none"> Relies on local banks and leasing companies for reasonable cost financing and to assume credit risks Serves creditworthy municipalities only 	Lessor and/or municipality, depending on what collateral and recourse is provided
COMMERCIAL LOANS	Commercial financing institutions lend money to municipalities for EE projects either directly or through ESCOs using the ESPC mechanism	<ul style="list-style-type: none"> Mobilizes commercial financing Can be scalable and sustainable Full project cycle is financed With ESPC, risks are transferred to the ESCOs 	<ul style="list-style-type: none"> Banks or ESCOs exposed to bear credit risk Serves creditworthy municipalities only ESCO industry hard to develop High due diligence costs 	Commercial financier, municipality, or ESCO
MUNICIPAL BONDS	Municipality issues bonds to private parties and use proceeds to finance EE projects	<ul style="list-style-type: none"> Mobilizes commercial financing Allows municipalities to undertake own procurement/implementation Can be scalable and sustainable 	<ul style="list-style-type: none"> Can have high transactions costs Requires a developed municipal bond market Limited to large and highly creditworthy municipalities 	Commercial financier

Table 6: Advantages and limitations of various financing mechanisms⁵

5. Source: Financing municipal energy efficiency projects, Energy management assistance program, knowledge Series 018/14 Link: http://www.simpla-project.eu/media/33033/final_mgn1-municipal-financing_ks18-14_web.pdf