NET ZERO CITIES
SGA2-NZC

Report summarising engagements with public and private sector sources of capital for the purpose of de-risking investible opportunities

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Abbreviations and acronyms

Abbreviation / Acronym	Description
Capital Hub	Climate City Capital Hub
NCC	Neutral Capital Centre
Mission	EU's '100 Climate-Neutral and Smart Cities by 2030' Mission
NZC	NetZeroCities

Summary

This report draws on the work conducted to date within NetZeroCities to support European municipalities in accessing the finance needed to accelerate their climate transitions. While public funding remains essential, it is not sufficient on its own to meet the scale of investment required. Mobilising private capital is crucial to closing the financing gap, but many urban climate projects struggle to attract such investment due to a range of actual and perceived risks. To overcome this challenge, cities need clear and effective de-risking strategies and stronger relationships with private capital providers. This report outlines how a set of financial instruments and tools can be used to reduce or redistribute risk. By improving the risk-return profiles of municipal climate initiatives, these instruments help unlock access to commercial capital without compromising project objectives.

The report also provides an overview of the key institutions that are active in supporting urban climate project de-risking across Europe. Public actors such as the European Commission, the European Investment Bank, and national development banks play a foundational role by offering concessional capital, technical assistance, and guarantees. In parallel, philanthropic and private impact funds are increasingly supporting early-stage project development, helping to bring innovative but higher-risk initiatives to market readiness. Drawing from real-world examples, the report illustrates how these strategies have been applied in practice. The insights gained highlight that de-risking is not just a technical tool, but an important strategic lever for creating investable conditions. When aligned with local context, implemented with credible partners, and kept structurally simple, de-risking can play a transformational role in accelerating urban climate action and mobilising the flow of capital cities need to reach climate neutrality.

1. Introduction

This report is part of Work Package 2 - Finance and Investments (WP2), which is led by Bankers without Boundaries (BwB). The objective of this work package is to provide Mission Cities with comprehensive support in meeting their capital and finance needs, including financial advisory consulting services, and tailored expert financial structuring support to attract public and private sources of capital to achieve climate neutrality.

Drawing on first-hand experience of work carried out under WP2 and, more broadly, in NetZeroCities, the actual and perceived higher risks of innovative climate investments can be a significant obstacle municipalities' access to finance. De-risking mechanisms play a critical role in unlocking capital for climate-related projects at the city level, where the financial risks associated with political ties and innovative or unproven climate solutions often deter potential investors.

Cities face a unique set of challenges in accessing capital, including limited borrowing capacity, revenue volatility, and perceived governance or implementation capacity risks. De-risking enhances the risk-return profile of projects, thereby making them more attractive to a broader range of financiers. Tools such as guarantees, blended finance structures, and concessional funding reduce both perceived and real risks, catalysing private sector participation.

The public finance sector plays a crucial role by providing concessional finance and risk-sharing instruments, signalling political commitment, and anchoring investor confidence. Meanwhile, the private sector, including commercial banks, infrastructure funds, and institutional investors, brings essential scale and expertise in project execution and capital deployment. Effective collaboration between public and private actors is critical to structuring financing aligned with climate goals and commercial imperatives, enabling cities to access the investment needed to accelerate their transition to climate neutrality.

2. Financial Architecture for Urban Climate Projects: De-Risking Approaches and Instruments

To achieve the scale and speed required for urban climate transformation, cities must overcome barriers to accessing private capital markets for climate projects, including complex risk profiles that deter investors. De-risking strategies serve as a crucial bridge between municipal ambition and market expectations by systematically identifying and mitigating obstacles to investment.

Cities that take a proactive approach to risk mitigation are better positioned to unlock blended finance, attract institutional capital, and accelerate the implementation of their climate agendas[1]. Developing a robust de-risking strategy involves integrating a mix of financial instruments, technical assistance, and institutional mechanisms. Focusing specifically on financial instruments, these might include:

- Grants
- Concessional loans
- Guarantees
- First-loss capital
- Blended finance

[1] GPRBA (Global Partnership for Results-Based Approaches). (2018). 'New Perspectives on Results-Based Blended Finance for Cities: Innovative Finance Solutions for Climate-Smart Infrastructure'. World Bank, Washington, DC

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Such tools do not entirely remove risk but, used effectively, they can redistribute or absorb it in ways that make projects more appealing to commercial investors without compromising municipal priorities. The following section explores the key categories of de-risking instruments available to European municipalities and presents practical examples of how cities across the continent have structured projects to align with investor requirements.

Financial instruments for de-risking

Grants

Grants are non-repayable funds that are typically provided by public or philanthropic sources. They are often used to finance early-stage project development, feasibility studies, technical assistance, or to subsidise capital or operational costs. Grants play a crucial de-risking role by absorbing upfront risks or costs and catalysing follow-on investments from more risk-averse sources.

De-risking role: A grant could be used to fund pilot installations of nature-based solutions (e.g., green roofs, permeable pavements) in order to demonstrate their technical and financial viability, with the aim of attracting private capital for city-wide scaling through blended finance.

Concessional loans

Concessional loans are debt instruments offered at below-market interest rates and with more flexible terms such as grace periods or extended maturities. Development banks and international financial institutions typically offer these loans to improve the affordability and viability of climate projects, especially in contexts where commercial lending is limited.

De-risking role: By lowering the cost of capital, concessional loans make projects more financially viable and signal the project's credibility to private co-investors.

Guarantees

Guarantees serve as credit enhancement instruments. They protect lenders or investors from specific risks such as default, political instability, or construction delays. A financial guarantee is a non-cancellable promise by a guarantor to cover a borrower's debt or obligation if they default. Guarantees reduce lender risk and can improve the creditworthiness of borrowers, making it easier for the latter to access financing. Guarantees can be partial or full and are usually provided by development banks, export credit agencies, or public guarantee schemes.

De-risking role: Guarantees mitigate investor risk perceptions, thus making projects more attractive to institutional and private capital.

First-loss capital

First-loss capital is the initial layer of investment in a capital stack that absorbs losses first in the event of an investment underperformance or default. First-loss capital acts as a risk buffer, protecting more senior investors by bearing the highest risk. Given the higher potential risk it carries, first-loss capital often comes with higher potential returns.

De-risking role: First-loss capital catalyses participation from commercial lenders who might otherwise avoid investment exposure due to risk concerns.

3. Europe's De-risking Ecosystem

As part of the Capital Hub´s work within the Neutral Capital Centre (NCC), BwB collaborates with a wide range of public and private sector partners to address project de-risking. Understanding the roles and capabilities of these institutions is essential for developing effective financial solutions that are tailored to the specific needs of different municipalities. The Capital Hub has engaged with key stakeholders across all major areas of the de-risking spectrum, including public guarantee providers (e.g., European Investment Bank, European Bank for Reconstruction and Development), insurance companies (e.g., Zurich, Howden), development finance institutions (e.g., SDG Impact Finance Initiative), and philanthropic networks (e.g., Philanthropy Europe Association). These interactions have enabled us to test strategic assumptions, identify preliminary areas of alignment, and refine our approach.

Engagement summary: key European institutions and their de-risking capabilities

The following section provides details of the key institutions the Capital Hub has engaged with regarding urban climate projects in Europe, highlighting their specific de-risking capabilities and roles within the broader financial ecosystem.

European Commission

The European Commission de-risks innovative urban and environmental projects through grant funding and development tools such as the Horizon Europe Programme, LIFE Programme and the Innovation Fund. These instruments can lower upfront costs and financial risk, or help prove the business and investment case for certain activities, making projects more attractive to private investors.

European Investment Bank (EIB)

The EIB supports project de-risking across the EU and neighbouring Mediterranean countries by providing long-term loans, guarantees, and advisory services. It enhances the creditworthiness and technical readiness of public and private investments, particularly in sustainability and infrastructure. Key instruments include:

European Local Energy Assistance (ELENA): ELENA provides grants for technical assistance to help local and regional authorities prepare and implement energy efficiency, renewable energy, and sustainable urban mobility projects. By covering project development costs (e.g., feasibility studies, business plans), ELENA reduces financial uncertainty and accelerates investment readiness.

Natural Capital Financing Facility (NCFF): The NCFF blends EIB financing with European Commission support to assist projects that promote biodiversity and ecosystem services, such as green infrastructure and nature-based solutions. By taking on higher risk profiles and offering flexible financing, it makes innovative natural capital projects more viable for investors.

Private Finance for Energy Efficiency (PF4EE): PF4EE improves access to finance for energy efficiency investments by sharing risks with local banks. It combines EIB loans with credit risk protection and technical support, incentivising financial institutions to lend to smaller-scale or less conventional energy efficiency projects that might otherwise be considered too risky.

Together, these tools significantly reduce technical, financial, and credit risks, encouraging greater participation from private financiers and accelerating the implementation of climate-aligned urban projects.

The Capital Hub actively engages with the EIB on current assignments and, more broadly, on the role the EIB could play in designing new financial instruments to help manage municipal credit risk and reduce risks associated with Special Purpose Vehicle (SPV) structures.

Swiss Investment Fund for Emerging Markets (SIFEM)

SIFEM catalyses private sector investment in emerging markets by absorbing early-stage risks through tools such as first-loss equity guarantees to make otherwise high-risk projects bankable.

European Bank for Reconstruction and Development (EBRD)

The EBRD helps municipalities in Southeast Europe and the Eastern Mediterranean de-risk climate infrastructure projects and mobilise private investment. It blends sovereign lending, donor grants, and technical assistance to improve project bankability and financial viability. Key instruments include:

Green Cities Programme: The Green Cities Programme supports municipalities in developing and implementing Green City Action Plans (GCAPs) that identify priority investments in sustainable urban infrastructure. It combines concessional financing, co-investment, and technical support to reduce project risks and attract private capital.

Green Economy Financing Facility (GEFF): GEFF provides credit lines to local banks for on-lending to businesses and households investing in energy efficiency and renewables. By incorporating risk-sharing mechanisms and advisory support, GEFF strengthens local green finance markets and indirectly supports municipal climate goals.

Council of Europe Development Bank (CEB)

The CEB helps de-risk social investment projects by providing long-term, low-interest financing and technical assistance, thereby improving project bankability and attracting additional public and private co-financing. Its involvement often signals strong project credibility, reducing perceived risk for other investors.

Caisse des Dépôts Group (CDC)

CDC is France's public financial institution dedicated to serving the public interest, with a strong mandate to support local governments in delivering sustainable infrastructure. It helps de-risk municipal climate projects by providing long-term, low-interest loans, equity investments, and co-financing solutions, especially in areas such as energy transition, urban regeneration, and mobility. Through its subsidiaries (notably Banque des Territoires), CDC supports project preparation, offers concessional finance, and partners with private investors to enhance project bankability. Its early-stage involvement often reduces financial and technical uncertainties, making urban climate initiatives more attractive to private capital.

Danish Green Investment Fund (Danmarks Grønne Investeringsfond)

The Danish Green Investment Fund is an independent public investment fund established to accelerate Denmark's green transition by financing projects that reduce greenhouse gas emissions, enhance resource efficiency, or promote environmental sustainability. It plays a catalytic role in de-risking climate-related investments by offering long-term, flexible loans to public and private actors, including municipalities, utilities, and SMEs. By entering early and assuming part of the financial risk, the fund enables projects that might otherwise struggle to secure market-rate financing. Its strategic involvement improves project bankability, lowers capital costs, and helps attract commercial co-investors.

Philanthropy Europe Association (Philea)

Philea is a leading European umbrella organisation representing philanthropic institutions – including foundations and networks – that are working to advance social and environmental causes across the continent. It provides a collaborative platform for knowledge exchange, advocacy, and strategic partnerships among philanthropy actors. Philea is playing a growing role in de-risking municipal climate projects by mobilising philanthropic capital and fostering cross-sector collaboration. Through initiatives such as the European Philanthropy Coalition for Climate, Philea encourages foundations to fund early-stage project development, capacity-building, and technical support – areas that are often underfunded but critical to reducing investment risk.

The Urban Resilience Fund (TURF)

TURF is a blended finance impact fund launched by Meridiam in partnership with The Rockefeller Foundation and the United Nations Capital Development Fund. TURF helps cities in Europe and Africa to advance critical resilient infrastructure by absorbing early-stage development risk. It includes a catalytic capital fund that provides grants and concessional financing for project preparation, feasibility studies, and structuring – activities that are often too risky or costly for private investors. By facilitating blended finance and partnering with city authorities, TURF ensures projects are bankable and aligned with ESG and climate goals, making them more attractive for follow-on private investment.

Zurich Insurance Group

Zurich provides political risk insurance and credit risk insurance tailored for public infrastructure and climate-related projects. Municipalities or their project SPVs can leverage these instruments to cover risks such as:

- expropriation or contract breach by national/regional authorities;
- currency inconvertibility or transfer restrictions; and
- default by public or semi-public counterparties.

By securing Zurich's insurance cover, municipalities can guarantee revenue streams or investor returns in scenarios where political instability or payment failure could deter private financiers. This provides debt and equity investors with the comfort required to commit capital to complex climate infrastructure, especially in regions with governance uncertainties.

Howden Insurance

Howden provides tailored risk transfer solutions that help municipalities unlock private investment for climate infrastructure. By insuring key project risks such as regulatory delays, extreme weather, or underperformance, Howden makes complex, climate-related infrastructure more bankable. Through its Climate Risk and Resilience team, Howden develops bespoke and parametric insurance products that protect revenue streams and mitigate early-stage development risk. These tools give private investors and lenders greater confidence to finance resilient urban projects. By reducing uncertainty, Howden helps cities attract capital, accelerate implementation, and build infrastructure aligned with climate and ESG goals.

Continuing engagement strategy

Building on the insights gained through our interactions with key institutions in the de-risking space to date, are transition is taking place to a more structured engagement phase. This new phase will be progressively rolled out through to the end of June and further refined towards year-end, ensuring remained responsiveness to partner feedback and emerging opportunities. Planned actions under this new phase include engaging directly with European development finance institutions to discuss de-risking funding structures and gain their perspectives and participation in joint discussions with de-risking providers in collaboration with other relevant Horizon Europe projects (e.g., DesirMED).

Moreover, through the NCC the Capital Hub intends to reach out to non-financial providers of de-risking solutions, including institutions such as the International Institute for Applied Systems Analysis, the Value Balancing Alliance, index product creators, and sustainability verification organisations such as FAST-Infra Label. Through this extended outreach, the aim is to identify how these entities might contribute to de-risking strategies in the context of cities. Additionally engagement opportunities during relevant public forums such as London Climate Action Week will be utilised to further broaden and deepen our understanding of the latest views and priorities of various types of private investors.

4. Proven in Practice: case studies of de-risking urban climate investments

EIB – Social housing public-private partnership (PPP) in Dublin and surrounding counties (Ireland)

Project: Ireland's first social housing PPP.

De-risking mechanism: The EIB provided €120 million in long-term financing to support the development of 534 social housing units across Dublin, Louth, Wicklow, and Kildare. As a cornerstone lender, the EIB helped reduce financial risk and improve project credibility. Its backing was critical in attracting other lenders and enabling the PPP model, which transferred construction and operational risks to the private consortium.

Private investment mobilised: The EIB's participation helped unlock funding from Bank of Ireland, Korea Development Bank, and private equity partners led by Macquarie Capital, facilitating a successful financing structure for this milestone social infrastructure project.

CDC – Eco-district in Lyon (France)

Project: Lyon Confluence urban regeneration project.

De-risking mechanism: The CDC, through its Banque des Territoires, played a pivotal role in the Lyon Confluence project by providing long-term financing and participating in the project's governance. This involvement mitigated financial and operational risks, making the project more attractive to private investors. The CDC's support included funding for sustainable infrastructure, energy-efficient buildings, and public spaces, aligning with the project's environmental and social objectives.

Private investment mobilised: The CDC's commitment and financial backing instilled confidence in private investors, leading to substantial private investment in residential, commercial, and public infrastructure developments within the eco-district.

ELENA – Energy Efficiency Finance Facility for Residential Buildings (EEFFRB) (Poland)

Project: Energy efficiency renovation of residential buildings.

De-risking mechanism: ELENA provided technical assistance to Bank BGŻ BNP Paribas SA to support energy efficiency investments in residential buildings across Poland. The assistance included energy audits, preparation of technical documentation, and specialised technical advice to housing associations. This support reduced project development risks and enhanced the bankability of the investments.

Private investment mobilised: The technical assistance facilitated the mobilisation of approximately €78 million in private investment for energy efficiency refurbishments in residential buildings.

Danish Green Investment Fund – European Energy solar park in Aabenraa (Denmark)

Project: Development of a large-scale solar park.

De-risking mechanism: The Danish Green Investment Fund provided a €40 million loan to European Energy, a Danish renewable energy company, to support the construction of a large-scale solar park in Aabenraa. This financial support helped the project attract total additional investment that is many times the amount of the loan. The fund often enters projects at an early stage, takes a long-term perspective, and, in many cases, encourages banks and pension funds to participate.

Private investment mobilised: The fund's involvement helped increase market confidence, culminating in Japanese conglomerate Mitsui & Co acquiring a 49% equity stake in the project and its adjacent e-methanol facility – representing a major infusion of private capital.

TURF – Dakar Bus Rapid Transit (BRT) project (Senegal)

Project: Development of a 100% electric bus rapid transit system.

De-risking mechanism: TURF provided early-stage financing and technical assistance for the Dakar BRT project. This included support with project preparation, stakeholder engagement, and risk assessment, which helped to mitigate financial and operational risks associated with the project's development.

Private investment mobilised: TURF's involvement attracted additional private investors by enhancing the project's bankability. The fund's backing signalled its confidence in the project's viability, which helped drive increased private sector participation, including a €85.4 million loan provided in equal parts by Proparco, the private sector subsidiary of Agence Française de Développement, and Emerging Africa Infrastructure Fund.

5. De-risking Strategies and Structures: Insights and Recommendations

De-risking strategies are powerful tools for mobilising private capital by addressing real and perceived risks in climate investment opportunities. Several important lessons can be drawn from their use to date:

- Risk-sharing must be appropriately aligned among stakeholders. Successful structures often involve layered financing – for example, using philanthropic or public capital as a 'buffer' that will absorb any early losses to make investments more attractive to commercial financiers. However, this must be carefully managed. If risk absorption is overly generous or misaligned, it can distort markets and reduce incentives for rigorous due diligence by private investors.
- De-risking structures should be as simple as possible while being sufficiently reliable. While complex de-risking mechanisms are theoretically robust, in practice they often result in a lack of investor appetite and/or delays in project execution. Straightforward guarantees, first-loss protections, or insurance products are typically more scalable and replicable than heavily customised instruments.
- The credibility and transparency of the de-risking entity really matters. Investors must trust the intermediaries or guarantors providing risk coverage. Organisations that can demonstrate strong governance, clear mandates, and a track record of upholding commitments are more effective in catalysing private capital flows.
- De-risking strategies must be context specific. Solutions that are effective in one geography, sector, or market can easily fail if simply transplanted wholesale into another context. Tailoring structures to local market, regulatory, and stakeholder environments is essential for success.
- De-risking can unlock substantial investment flows, but its deployment must be carefully calibrated to avoid creating dependencies, market distortions, or other unintended consequences.

Used effectively, a diverse toolkit of de-risking instruments, including grants, concessional loans, guarantees, and blended finance, can play a transformational role in creating investible conditions for urban climate action. These instruments not only mitigate financial risk, but can also help build capacity, foster confidence, and facilitate partnerships that can be scaled across Europe. The case studies provided in this report demonstrate that well-structured, strategic de-risking can crowd in substantial private investment, accelerate project delivery, and contribute to long-term climate resilience. As cities continue to advance towards net-zero goals, embedding de-risking strategies into local and national financial planning will be essential to achieve the scale of investment required to meet ambitious climate objectives.