

Report summarising the need for a Special Purpose Vehicle for blended capital

Deliverable D2.19

Authors: Renata Haseth (BwB), Nidhi Singh (BwB)

Contributors: Delphine Queniat (BwB), Alison Shaw (BwB), Chris Smith (BwB)

AWAITING APPROVAL BY THE EUROPEAN COMMISSION

Disclaimer

The content of this deliverable reflects only the author's view. The European Commission is not responsible for any use that may be made of the information it contains.

Document Information

Grant Agreement Number	101139652
Project Title	SPECIFIC GRANT AGREEMENT N°2 TO SCALE THE CITIES MISSION PLATFORM
Project Acronym	SGA2-NZC
Project Start Date	1 January 2024
Related Work Package	WP2
Related Task(s)	Task 2.5
Lead Organisation	BwB
Submitted by	Tommaso Buso
Reviewed by	Task Partners
Submission Date	December 2025
Dissemination Level	Public

Table of contents

Introduction.....	6
1. Challenges in municipal climate finance	7
2. What is a Special Purpose Vehicle (SPV)?.....	8
3. What functions can SPVs perform for municipalities?	9
3.1 Ring-fencing.....	9
3.1.1 Example: London (TEG Biogas organic-waste facility)	9
3.1.2 Example: The Hague (HEID Fund)	10
3.2 Pooling of assets	10
3.2.1 Example: Porto (Household Energy Efficiency Loans)	10
3.2.2 Example: Rustenburg (Rustenburg Water Services Trust)	10
3.3 Off-balance-sheet financing.....	11
3.4 Using SPVs for municipal-led bonds	12
3.4.1 Example: Zagreb (sustainability-linked bond via Zagrebački Holding)	12
4. Risks and key considerations when utilising SPVs	13
5. Capital Hub support on SPV structuring	15
5.1 Example: Leuven (phased SPV and fund structuring approach)	15
5.2 Example: Barcelona (Sustainable Energy Mechanism and project SPVs)	16
Conclusion.....	16

List of figures

Figure 1. IP Analysis.....	7
Figure 2. Financing challenges for municipal climate projects	7
Figure 3. Municipal project finance in Rustenburg, South Africa: financial structure.....	11
Figure 4. Challenges to setting up and running an SPV in Europe	15

Abbreviations and acronyms

Abbreviation / Acronym	Description
Capital Hub	Climate City Capital Hub
Cities Mission	EU '100 Climate-Neutral and Smart Cities by 2030' Mission
ELTIF 2.0	European Long-Term Investment Fund Regulation (Revised)
EU	European Union
EIB	European Investment Bank
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
Mission Cities	Cities participating in the EU '100 Climate-Neutral and Smart Cities by 2030' Mission
PPP	Public-Private Partnership
SFDR	Sustainable Finance Disclosure Regulation
SPV	Special Purpose Vehicle
CSC	Corporation Service Company
ESCO	Energy Service Company
HEID	Holdingfonds Economische Investerings Den Haag (Holding Fund Economic Investments The Hague)
LGF	London Green Fund
SLB	Sustainability-Linked Bond
RWST	Rustenburg Water Services Trust
ZGH	Zagrebački Holding
UK	United Kingdom

Summary

This report provides an overview of the financial, regulatory, and operational challenges that European municipalities face in mobilising the scale of investment required to meet their climate objectives, and assesses how Special Purpose Vehicles (SPVs) can serve as an effective mechanism for structuring and attracting blended capital in this context. Cities continue to operate under significant fiscal constraints, including limited budgetary flexibility, national debt ceilings, and fragmented project pipelines, while also encountering low levels of private sector participation due to concerns around project scale, risk allocation, and long-term revenue certainty. These constraints highlight the need for alternative financing structures that can enhance project bankability, improve risk-sharing, and attract institutional investment.

Within this landscape, SPVs offer a flexible tool for municipalities to ring-fence project-specific risks, pool smaller or heterogeneous projects into investable portfolios, and establish governance arrangements that create clarity around cash flows, liabilities, and performance monitoring. Properly designed, SPVs can also facilitate off-balance-sheet financing arrangements and can serve as intermediary vehicles for issuing thematic bonds or channelling blended capital into climate initiatives. These features make SPVs valuable for cities seeking to address financing gaps while maintaining strategic oversight of climate investments.

Drawing on insights from cities participating in the EU ‘100 Climate-Neutral and Smart Cities by 2030’ Mission and examples from other European and international contexts, this report highlights the opportunities and limitations associated with SPV structures, as well as the regulatory, accounting, and capacity considerations that must guide their use. When appropriately structured, SPVs can play a catalytic role in unlocking blended finance and accelerating the delivery of municipal climate projects.

Keywords

Special Purpose Vehicle, Blended Finance, Municipal Climate Finance, Thematic Bonds, Investment Structures

AWAITING APPROVAL BY THE EUROPEAN COMMISSION

Introduction

Special Purpose Vehicles (SPVs) are increasingly recognised as a flexible financial and governance tool that can enable cities to attract private investment, share risks with non-public actors, and accelerate the implementation of complex projects. However, their design, use, and implications, particularly with respect to public sector accounting and control, **require careful consideration** within the European regulatory and statistical framework.

This report examines the **role and relevance of SPVs within European municipalities**, focusing on their potential to enhance the financing of climate mitigation and adaptation projects. Specifically, the report assesses how SPVs could serve as an effective mechanism to mobilise, structure, and manage blended finance for environmental and climate-related investments at the municipal level by cities participating in the '100 Climate-Neutral and Smart Cities by 2030' EU Mission (Mission Cities).

The report is structured in five main sections:

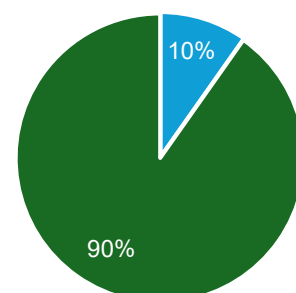
- Section 1 provides an overview of the financial challenges faced by municipalities, combining findings from desktop research with practical insights gained through the NetZeroCities project.
- Section 2 introduces the concept and fundamental characteristics of SPVs.
- Section 3 uses the insights and concepts presented in sections 1 and 2 to explore how SPVs could be applied by Mission Cities to accelerate the delivery of climate investments. It discusses potential use cases and presents illustrative examples.
- Section 4 identifies the key risks and considerations associated with SPV use.
- Section 5 concludes the report with key findings and recommendations, summarising the opportunities and limitations of SPVs as instruments for climate finance within the European municipal context.

Scope: The analysis presented in this report is based on a combination of desktop research conducted by financial professionals and practical engagement with Mission Cities. The geographical scope is primarily European, although relevant international examples are included where they provide useful comparative insights. It should be noted that the legal structure and applicability of SPVs depend heavily on the relevant national regulatory framework. As the preparation of this report did not involve legal experts, the analysis should not be seen as providing legal advice or interpretation.

1. Challenges in municipal climate finance

Municipalities play a critical role in delivering Europe's climate objectives, as many climate actions occur at the local level. However, municipal budgets alone are insufficient for cities to meet their climate objectives. An analysis of the Climate Implementation Plans of 28 Mission Cities indicates that only about 10%¹ of the total funding required for Mission Cities to achieve net-zero emissions by 2030 is expected to come from municipal sources. In addition, many cities face structural challenges that limit their ability to increase municipal spending. Based on the 2024-2025 European Investment Bank (EIB) Municipalities Survey, which interviewed 1,002 municipalities across the EU, a lack of funding or financing is one of the biggest obstacles for cities in moving forward with climate or social infrastructure initiatives.²

€307bn funding forecast¹



■ Municipal Funds ■ Non-municipal Funds

Figure 1. IP Analysis

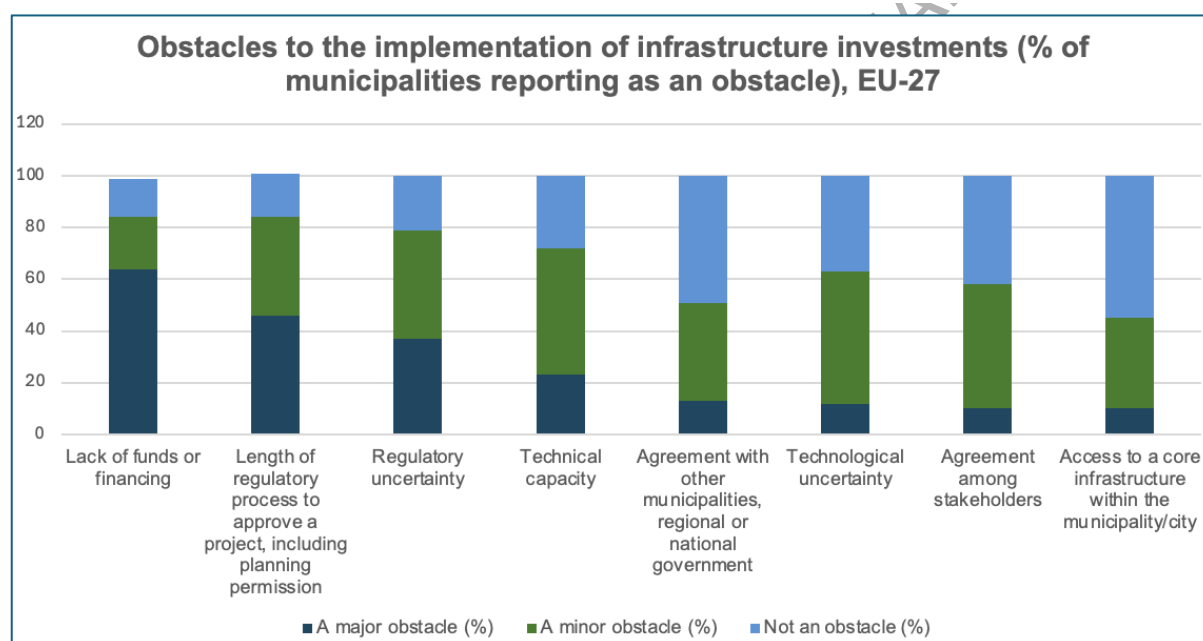


Figure 2. Financing challenges for municipal climate projects³

One major challenge is the widespread existence of debt ceilings imposed by national or regional governments. Most European municipalities have legal limits on how much debt they can carry. Following a significant increase in municipal debt during the Covid-19 crisis, many European cities, including Mission Cities such as Vilnius, have been focusing on bringing down their debt burdens in

¹ Bankers Without Boundaries. IP Analysis.

² European Investment Bank. (2025). 'Figure 8' in *The state of local infrastructure investment in Europe: EIB Municipalities Survey 2024-2025*. European Investment Bank.
<https://www.eib.org/en/publications/online/all/eib-municipalities-survey-investment-2025>

³ European Investment Bank. (2025). 'The state of local infrastructure investment in Europe: EIB Municipalities Survey 2024-2025'. European Investment Bank. <https://www.eib.org/en/publications/online/all/eib-municipalities-survey-investment-2025>

recent years.^{4,5} These debt restrictions significantly impede the ability of cities to finance capital-intensive climate projects through traditional borrowing.⁶

Many city administrations also feel constrained in their ability to independently manage municipal finances. For example, a 2025 EuroCities survey of 86 mayors across major European cities found that only 28% feel their city has high fiscal autonomy⁷. Raising taxes to fund climate initiatives is politically sensitive and economically challenging, particularly in economically diverse urban settings. This lack of fiscal flexibility is a major reason why cities cannot rely solely on their own revenues to cover the substantial upfront costs of projects. This issue is compounded by the fact that investments in projects such as energy retrofits, renewable infrastructure, and nature-based adaptation generally have long payback periods. Financial returns and other benefits are often only realised over many years or even decades, creating a fundamental mismatch with short-term municipal budgeting cycles.

Given the limitations on municipal finance, additional sources of capital are essential for city climate projects to advance. However, private sector participation currently remains low⁸. Investors often perceive these projects as high risk due to concerns such as uncertainty over long-term revenue streams, small project sizes, and lack of standardisation. Institutional investors generally prefer large-scale, stable investments and therefore often shy away from funding individual city projects unless they are aggregated and attractively structured.⁹

2. What is a Special Purpose Vehicle (SPV)?

Considering the challenges discussed in section 1, blended finance could offer a promising solution. By combining public funds with philanthropic and private capital, cities can reduce risks and attract more private investment. Public or philanthropic funds can absorb first losses or provide guarantees, making the overall financial structure more attractive to risk-averse investors. SPVs can be a tool for cities looking to bring in more blended financing.

According to the EU, a Special Purpose Vehicle (SPV) is a legally constituted entity – such as an enterprise, limited partnership or joint venture – that is formally registered with a national authority and subject to the fiscal and legal requirements of its jurisdiction. SPVs are established to carry out specific, narrowly defined activities functions, typically limited either in scope or duration, and usually involve one or a small number of primary creditors.¹⁰

An SPV typically has minimal operational substance, possessing few or no non-financial assets, few employees, and little or no physical presence beyond a registered address. It is usually linked to another corporation, frequently as a subsidiary, and often incorporated in a different jurisdiction from its parent company.

The residence of an SPV is determined by the laws of the country where it is registered. Its core business activity generally consists of financing the parent company and its related entities (i.e., the

⁴ Network of Associations of Local Authorities of South-East Europe (NALAS). (2011). 'Guidelines on local government borrowing and recent developments in NALAS countries'. NALAS. <https://www.nalas.eu/guidelines-on-local-government-borrowing/>

⁵ Vilnius Investment Plan.

⁶ NetZeroCities. Investment Plans. (n.d.).

⁷ Eurocities. 'Eurocities Pulse Mayors Survey'. <https://monitor.eurocities.eu/eurocities-pulse-mayors-survey/>

⁸ European Investment Bank. (2025). 'The state of local infrastructure investment in Europe: EIB Municipalities Survey 2024-2025'. European Investment Bank. https://www.eib.org/attachments/lucalli/20250028_080425_municipalities_survey_en.pdf/

⁹ NetZeroCities. (2023). 'D14.5 City finance and Investment Policy'. NetZeroCities. https://netzerocities.eu/wp-content/uploads/2023/11/D14.5_City-finance-and-Investment-Policy.pdf

¹⁰ European Commission. (n.d.). 'Glossary: Special-purpose entity (SPE)'. Eurostat.

[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Special-purpose_entity_\(SPE\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Special-purpose_entity_(SPE))

wider company group) operations or holding their assets and liabilities, serving mainly to channel funds (often between non-residents) while playing only a limited role in management or operational activities.

3. What functions can SPVs perform for municipalities?

SPVs offer municipalities an effective mechanism for structuring investment and overcoming the structural constraints of conventional municipal financing frameworks. When appropriately designed, SPVs can unlock benefits such as new funding pathways, improved risk allocation, and focused delivery capacity. This section sets out four key functions that SPVs can fulfil to support the needs of Mission Cities.

3.1 Ring-fencing

An SPV can be established to separate and manage specific financial risks associated with a project or investment. By creating an SPV, a municipality can attract multiple investors to share both the risks and returns while ensuring that potential liabilities do not affect the municipality's broader finances. In line with the principle of 'bankruptcy remoteness', the SPV functions as an independent legal entity, safeguarding the municipality from financial exposure in the event of project default or insolvency.¹¹

The use of SPVs also enhances transparency and governance. By ring-fencing the financing, operations, and risks of climate projects, SPVs provide clarity for investors and stakeholders, facilitating accountability and efficient project management.

3.1.1 Example: London (TEG Biogas organic-waste facility)

One example of how this is done is the TEG Biogas project in London in the United-Kingdom (UK). TEG Biogas established an SPV, TEG Biogas (London) Limited, which is incorporated as a dedicated project company, to build and operate an organic-waste facility in the London Sustainable Industries Park in Dagenham Dock, East London. TEG Biogas (London) Limited was structured as a ring-fenced SPV so that the risks and liabilities of the waste facility would be isolated from TEG Group plc. Quercus Assets Selection, an impact investor, invested £2 million in equity, joining private investment firm Foresight Environmental Fund (FEF) and the London Green Fund (LGF) alongside other UK Pension Funds who committed £9 million to the project. Importantly, municipal capital was also involved: the City of London supported the project through the London Green Fund, managed by the London Waste and Recycling Board, which provided senior debt financing together with international banking and wealth management group Investec. The total equity amounted to roughly £13 million, complemented by approximately £4-8 million in debt.¹²¹³¹⁴

Ring-fencing through the SPV (TEG Biogas (London) Limited) brought several benefits. It limited the exposure of the parent company and its other operations to the project's construction and operational risks, while giving investors and lenders confidence that their returns would be determined solely by the project's revenues. It also allowed for clear contractual arrangements, including a long-term operation and maintenance agreement between TEG Group and the SPV. When TEG Group later entered administration in 2014, the project's ring-fenced structure ensured that investments made via TEG Biogas (London) Limited, including municipal funds, remained protected. This demonstrates how an

¹¹ Trade Finance Global. 'SPV financing'. <https://www.tradefinanceglobal.com/legal/spv-financing>

¹² Quercus Real Assets. 'Quercus invests £2 m in TEG Group project to construct a new organic waste processing facility in Dagenham'. <https://quercusrealassets.com/quercus-invests-2m-in-teg-group-project-to-construct-a-new-organic-waste-processing-facility-in-dagenham/>

¹³ ReLondon. *TEG secures funding for £21m organic waste facility in Dagenham*. ReLondon. <https://relondon.gov.uk/latest/teg-secures-funding-for-21-organic-waste-facility-in-dagenham>

¹⁴ Green Investment Group. (2014). *London's first commercial anaerobic digestion plant: TEG Biogas opens for business*. Green Investment Group. <https://www.greeninvestmentgroup.com/en/news/2014/londons-first-commercial-anaerobic-digestion-plant-teg-biogas-opens-for-business.html>

SPV can safeguard both private and public capital, enhance project bankability, and ensure that infrastructure investments continue to deliver environmental and economic benefits independently of the parent company's financial position.¹⁵

3.1.2 Example: The Hague (HEID Fund)

Within the Climate City Capital Hub (Capital Hub), work is underway to examine the potential use of SPVs as ring-fencing mechanisms to support a variety of city-level investment initiatives. One example is the ongoing analysis of the HEID fund in the Mission City of The Hague, where a detailed review of the fund's current structural arrangements is being conducted. One of the main reasons for considering ring-fencing through SPVs in such contexts is their capacity to facilitate increased participation from private investors by improving the clarity of revenue streams and risks allocation among the parties involved. By clearly separating and isolating the underlying assets and associated cash flows, SPVs offer a transparent representation of the specific activities, obligations, and risks linked to the investment. This transparency can help mitigate investor concerns, strengthen confidence, and ultimately improve a fund's overall ability to attract and mobilise additional capital.

3.2 Pooling of assets

Municipalities can also use SPVs to pool projects together or to securitise receivables related to their projects. Aggregation of multiple smaller projects into a larger portfolio achieves economies of scale, reducing transaction costs and increasing investor appeal. Cities often struggle to finance individual building energy retrofits or small-scale green infrastructure projects, but when bundled into an SPV, they represent an investment size that can attract institutional capital.¹⁶

3.2.1 Example: Porto (Household Energy Efficiency Loans)

For example, one ongoing Capital Hub assignment involves aggregating numerous small loans provided to households for energy-efficiency improvements in Porto (Portugal) into a consolidated investment fund. This pooled structure is designed to be financed through a mix of public and private capital. The municipality aims to attract private investors to participate alongside public contributions, thereby expanding the initiative's overall financing capacity. By grouping the household loans according to predefined criteria, the structure enables investors to commit larger amounts of capital as they do not need to assess every single small loan individually but they assess and take on the risk of the portfolio as a whole. This approach improves scalability, reduces the overall administrative burden, and creates a more predictable and transparent investment framework for private sector participation.

Securitisation involves transforming financial receivables into tradable securities. The potential benefits of this approach for municipalities include the ability to mobilise capital more efficiently, manage credit exposure more effectively, and attract a broader range of investors to support public projects.¹⁷

3.2.2 Example: Rustenburg (Rustenburg Water Services Trust)

One example is the case of Rustenburg in South Africa, where the municipality established the Rustenburg Water Services Trust (RWST) in 2003 as an SPV to finance and manage the expansion of Rustenburg's bulk water infrastructure. RWST was structured to pool multiple sources of revenue within a single entity, creating a predictable and creditworthy cash flow that could support private financing. Although the SPV did not issue asset-backed securities, this case provides a good illustration of the securitisation of future cash flows. The structure enabled RWST to secure a commercial bank loan of

¹⁵ London Assembly. *Anaerobic digestion*. Greater London Authority.

<https://www.london.gov.uk/who-we-are/what-london-assembly-does/questions-mayor/find-an-answer/anaerobic-digestion-5>

¹⁶ World Bank. (2017). *Compendium: Small-scale municipal PPPs*. World Bank / Global Platform for Sustainable Cities. <https://www.thegpsc.org/knowledge-products/gpsc-compendium-small-scale-municipal-ppp/>

¹⁷ Trade Finance Global. (2018). *SPV financing*. <https://www.tradefinanceglobal.com/legal/spv-financing/>

approximately ZAR 120 million (around US\$ 18 million) from ABSA Bank, one of South Africa's largest financial institutions.

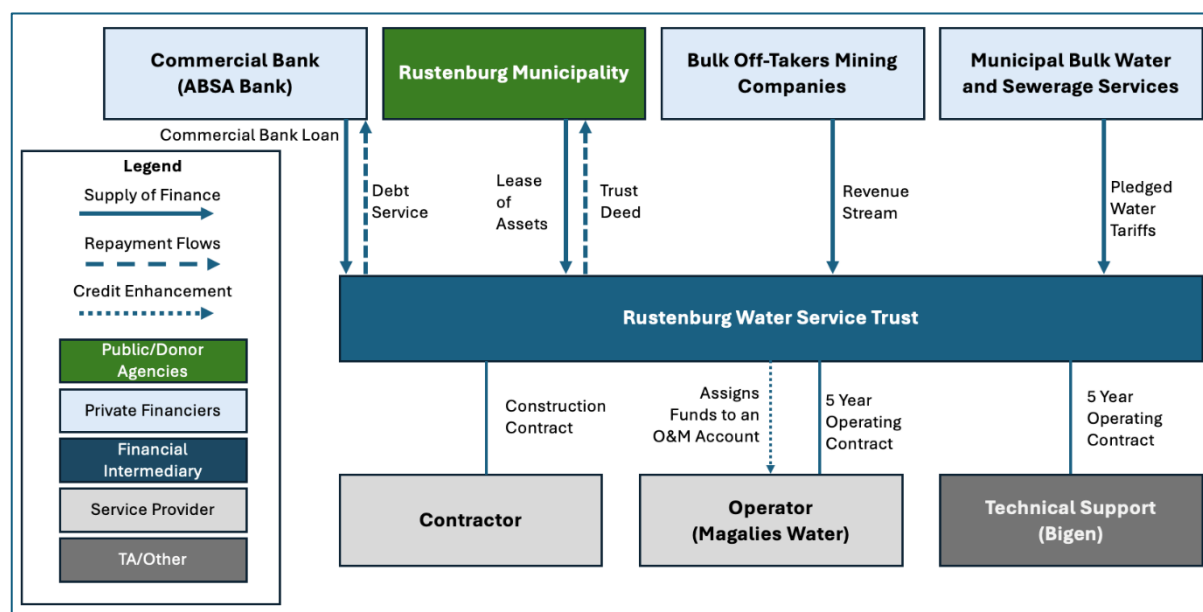


Figure 3. Municipal project finance in Rustenburg, South Africa: financial structure

Although the municipality of Rustenburg remained the principal shareholder and sole beneficiary, RWST was governed by an independent board of trustees comprising representatives from the municipality, Magalies Water, ABSA Bank, and Bigen Africa. RWST's financial design blended two stable revenue sources: payments from nearby platinum mining companies under long-term off-take agreements for bulk water supply, and household tariff revenues collected through the municipality. These combined income streams were pledged to service the bank loan, providing lenders with reliable repayment assurance. Public funds were primarily used to structure the transaction and mitigate early-stage project risks. This arrangement demonstrates how even smaller or financially constrained municipalities can leverage private capital when diverse revenue streams are strategically consolidated within a dedicated SPV. The partnership between Rustenburg, the Department of Water Affairs, and private sector stakeholders played a central role in shaping RWST's success. The RWST arrangement demonstrates how municipalities can use SPVs to blend multiple income sources, enhance financial credibility, and attract commercial investment for essential infrastructure projects.^{18,19,20}

3.3 Off-balance-sheet financing

Another strength of using an SPV is that project debt can be kept off a municipality's balance sheet, thereby avoiding an increase in its overall debt burden. Moreover, this arrangement enables financiers to invest directly in a specific municipal project without having to invest in the municipality itself. This approach is commonly used to finance large-scale public infrastructure projects. According to the International Financial Reporting Standards (IFRS), for an SPV to be treated as off-balance-sheet, the municipality must demonstrate that it does not control the SPV's operations, and that the risks and

¹⁸ World Business Council for Sustainable Development (WBCSD). *A Special Purpose Vehicle for addressing municipal and industrial water challenges*. WBCSD.

<https://wbcsdpublications.org/a-special-purpose-vehicle-for-addressing-municipal-and-industrial-water-challenges/>

¹⁹ World Bank. (2016). *South Africa Economic Update: Promoting Faster Growth and Poverty Alleviation*. World Bank. <https://documents1.worldbank.org/curated/en/917591468185330593/pdf/103057-WP-P148373-Box394849B-PUBLIC-SAEU8-for-web-0129e.pdf/>

²⁰ University of Stellenbosch. (n.d.). *[Academic thesis or research document]*. Stellenbosch University. <https://scholar.sun.ac.za/server/api/core/bitstreams/75922552-708c-44e5-a109-6b369e8054fc/content/>

rewards associated with the assets held by the SPV have been transferred outside the municipal entity. Essentially, control requires:

- power over the investee;
- exposure, or rights, to variable returns; and
- ability to use power to affect returns.²¹

To avoid control, independent governance structures, distinct financing arrangements, and clearly defined contractual risk-sharing are recommended. For example, if a municipality enters into a public-private partnership with a private partner and the private entity controls the SPV, the project would be recorded off-balance-sheet for the municipality. However, determining whether an SPV is controlled by a local government is often a matter of degree and requires careful assessment of each case based on its specific facts and circumstances.²² Off-balance-sheet financing is inherently technical and requires careful structuring to meet accounting and regulatory requirements, which can make it opaque. As a result of this complexity rather than any lack of transparency, most well-documented applications are found in the corporate sector, while its use by cities remains limited.

3.4 Using SPVs for municipal-led bonds

SPV structures can also support municipal access to capital markets. A growing number of municipalities across Europe are exploring the use of thematic bonds (e.g., green, sustainability-linked, resilience) to mobilise capital for climate investments. However, many face structural constraints such as debt ceilings, fragmented or small project pipelines, and limited credit strength. A SPV can help municipalities overcome these limitations by ring-fencing project risks, aggregating assets, enabling blended finance, and, when governance conditions allow, keeping liabilities off the municipal balance sheet. As such, SPVs can play a complementary role in facilitating municipal access to thematic bond markets in addition to their project delivery functions.

3.4.1 Example: Zagreb (sustainability-linked bond via Zagrebački Holding)

In 2023, the city of Zagreb in Croatia structured a sustainability-linked bond (SLB) through Zagrebački Holding (ZGH), a city-owned utility company that effectively operated as an SPV-like intermediary. This structure enabled Zagreb to raise capital for climate-related investments despite national restrictions on direct municipal borrowing.

Although not formally established as an SPV, ZGH performed analogous functions:

- Ring-fencing its credit profile from the municipal balance sheet.
- Using operational revenues (from utilities, transport, and waste) as the repayment base.
- Providing a governance structure suitable for KPI-based bond commitments.
- Allowing for blended capital, including catalytic or subordinated tranches.
- Aggregating heterogeneous climate investments into a single financing programme.

The SLB linked financing costs to environmental KPIs such as waste diversion and fleet electrification, requiring transparent performance monitoring. ZGH was able to fulfil this role more effectively than the municipal authorities, as operational performance tracking and reporting formed a core part of its mandate across clearly defined service areas.

²¹ Grant Thornton. (2017). *IFRS 10: Control — A guide to applying IFRS 10*. Grant Thornton International Ltd. <https://www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2017/ifrs-10-guide-under-control.pdf>

²² European PPP Expertise Centre (EPEC) & Eurostat. (2016). *A Guide to the Statistical Treatment of PPPs*. European Investment Bank. https://www.eib.org/files/publications/thematic/epec_eurostat_statistical_guide_en.pdf

Key lessons for municipalities

1. SPVs facilitate access to capital markets under debt constraints

Zagreb used its intermediary entity to raise financing without breaching debt ceilings. Investors received exposure to operational assets rather than the municipality's general budget.

2. SPVs create the structural conditions for blended finance

Sustainability-linked instruments often require first-loss capital, guarantees, or KPI-driven pricing. An SPV provides the governance, cash-flow segmentation, and transparency required for these features.

3. SPVs allow the aggregation of diverse climate projects

Zagreb's SLB financed investments across waste, circularity, and mobility. An SPV structure makes this type of multi-project financing more accessible for institutional investors.

In summary, for cities seeking to issue green bonds or SLBs, particularly where blended finance is required, an SPV can:

- Avoid breaching debt ceiling limits.
- Aggregate small projects into an investable portfolio.
- Provide a clear use-of-proceeds and KPI framework.
- Structure junior/senior tranches to crowd in private investors.
- Improve creditworthiness and investor confidence.
- Ensure transparent governance, monitoring, and reporting.²³

4. Risks and key considerations when utilising SPVs

Establishing SPVs for municipal finance in Europe involves navigating a fragmented and evolving regulatory landscape. Municipalities face significant challenges due to the complexity of EU and national regulations governing financial instruments, public procurement, and transparency.

This difficulty is not confined to the public sector. Corporation Service Company (CSC)'s SPV Global Outlook 2024, which surveyed private market professionals, found that 69% of respondents viewed complying with economic substance regulations and responding to regulatory changes as major hurdles, while 71% highlighted access to suitably qualified staff as a significant challenge. The growing complexity of frameworks such as the revised European Long-Term Investment Fund Regulation (ELTIF 2.0), the Alternative Investment Fund Managers Directive, the Sustainable Finance Disclosure Regulation, the Digital Operational Resilience Act, the Sixth Anti-Money Laundering Directive, and ultimate beneficial owner registration contribute to these challenges, many of which must be implemented at the national level, adding jurisdictional nuance. As the CSC report notes, regulation remains both a headwind and tailwind: while it can drive investment through initiatives like ELTIF 2.0, it also demands continuous compliance and local adaptation.²⁴

²³ European Bank for Reconstruction and Development (2024). Financial Report 2024. EBRD.
https://www.ebrd.com/content/dam/ebd_dxp/assets/pdfs/communications-department/financial-report/2024/ebd-financial-report-2024-english.pdf/

²⁴ CSC Global. (2024). SPV Global Outlook 2024: Charting the Course for Growth in Private Markets. CSC Global. <https://www.cscglobal.com/cscglobal/pdfs/SPV-Global-Outlook-2024.pdf>

Legal complexity is a central part of this environment. In Europe, municipalities must comply with an evolving framework of EU directives, national laws, and local governance requirements, while maintaining fiscal discipline and transparency. Although SPVs help attract private investment and diversify funding, they demand strong governance and technical capacity. A key difficulty lies in Europe's fragmented regulatory landscape. Each Member State interprets and applies EU rules differently, creating inconsistencies in how SPVs are recognised, regulated, and taxed. This fragmentation extends to financial supervision, state-aid compliance, and procurement rules, all of which influence whether an SPV is classified as public or private.²⁵

If the governance is not structured correctly by the municipality when setting up the SPV, accountability gaps can emerge, especially where private investors, development banks, and local authorities share control.²⁶ While SPVs can isolate risk and leverage private finance, municipalities must ensure that any contingent liabilities, guarantees, or revenue-support mechanisms do not undermine long-term fiscal sustainability. The Eurostat Manual on Government Deficit and Debt provides specific criteria for determining whether SPV debt is classified as public sector debt and if the SPV is on- or off-balance-sheet. Misclassification could result in liabilities being re-consolidated onto municipal balance sheets, affecting compliance with national debt ceilings and EU fiscal-surveillance mechanisms.²⁷

Capacity and expertise remain persistent constraints. Many municipalities lack the specialised financial, legal, and risk-management skills required to establish and operate sophisticated financing vehicles. Recruiting or outsourcing these capabilities can increase transaction costs, potentially eroding the efficiency gains SPVs are meant to deliver. Smaller cities, in particular, may find it difficult to attract advisors familiar with structured finance or securitisation, especially under constrained administrative budgets.²⁸

²⁵ Maples Group. (2023). *Structured finance SPVs and choice of jurisdiction*. Maples Group.

<https://maples.com/wp-content/uploads/2023/10/Structured-finance-SPVs-and-choice-of-jurisdiction.pdf>

²⁶ Bavoso, V. (2019). *Harmonising Disclosure Regulation for Securitization in the EU: Towards a Comprehensive Regime*. University of Sheffield. White Rose Research Online.

<https://eprints.whiterose.ac.uk/id/eprint/145481/>

²⁷ European PPP Expertise Centre (EPEC) & Eurostat. (2016). *A Guide to the Statistical Treatment of PPPs*. European Investment Bank.

https://www.eib.org/files/publications/thematic/epec_eurostat_statistical_guide_en.pdf

²⁸ UNDP. (2024). *Ideas to Enhance Finance Course 54*. United Nations Development Programme.

<https://www.undp.org/sites/g/files/zskgke326/files/2024-11/ideastoenhancefinancecourse54.pdf/>

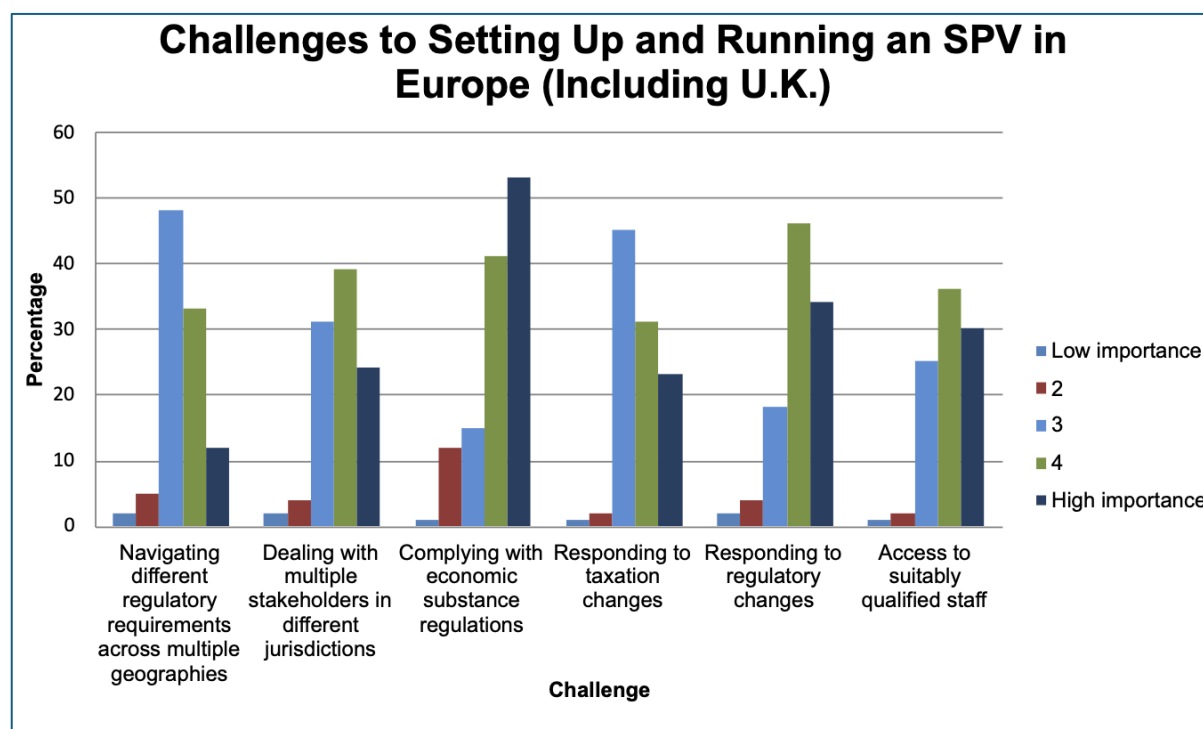


Figure 4. Challenges to setting up and running an SPV in Europe²⁹

5. Capital Hub support on SPV structuring

The Capital Hub's scope in relation to SPVs is not confined to technical analysis. A key support offering is assisting municipalities with determining whether an SPV, a fund, or a hybrid structure is the most appropriate vehicle for mobilising climate finance in their specific context, and how to sequence these in time. This assessment is essential because the optimal structure depends on factors such as the degree of municipal control desired, the need for blended capital, balance-sheet constraints, administrative capacity, expected revenue streams, investor appetite, and regulatory considerations. In addition, as some of these factors change over time – particularly where such structures are part of a longer-term scaling-up process (such as in the Leuven example presented below) – the Capital Hub also helps municipalities to design the various operational phases to minimise the risks and costs of transitioning from one structure to another as investment scales up.

5.1 Example: Leuven (phased SPV and fund structuring approach)

A strong illustration of this advisory work is the Capital Hub's vehicle structure assignment for the city of Leuven in Belgium. The city's aim was to design an investment mechanism capable of launching a range of climate-aligned municipally led projects as well as stimulating investment in other related initiatives such as energy-efficiency upgrades and decentralised renewable energy deployment. The Hub worked closely with city officials and partners to compare the strengths and weaknesses of a dedicated municipal SPV, a series of project SPVs, and an externally managed investment fund, including analysis of different versions of each option and in different phases. This included an assessment of governance requirements, on- versus off-balance-sheet implications, pathways for private investor participation, potential for catalytic public capital involvement, risk-sharing arrangements, long-term operational sustainability, and administrative and operational burden and costs. The Hub mapped this analysis to key milestones (e.g., the enrolment of a fund manager or

²⁹CSC Global. (2024). *SPV Global Outlook 2024: Charting the Course for Growth in Private Markets*. CSC Global. <https://www.cscglobal.com/cscglobal/pdfs/SPV-Global-Outlook-2024.pdf>

reaching a certain investment volume) to suggest a phased approach between different vehicles as the project pipeline develops. A key additional consideration was to ensure that the initial structure, which broadly consisted of a series of project SPVs, could be easily nested or incorporated into later fund structures, with minimal jurisdictional, contractual, tax, and governance complications.

Through this structured evaluation, the Capital Hub provided Leuven with a clear understanding of the advantages and trade-offs of each option, helping the city to identify which phased structure best aligned with its policy priorities, legal context, and financing needs. This advisory approach reflects the broader support the Hub offers to all Mission Cities: ensuring that SPVs, funds, and blended finance vehicles are chosen for their strategic, financial, and operational strengths in city-level contexts and that they are appropriately sequenced within a broader long-term climate investment plan.

5.2 Example: Barcelona (Sustainable Energy Mechanism and project SPVs)

The Capital Hub is also supporting several other official assignments in which SPVs are being used or considered. These include the Barcelona Sustainable Energy Mechanism (MES Barcelona), which aims to accelerate the city's energy transition through investment in solar installations and energy-efficiency upgrades across the city in partnership with private investors. While MES Barcelona functions as a municipal investment mechanism rather than a single-purpose entity, its delivery model involves the use of project-specific SPVs.³⁰ The Capital Hub has held consultations with key stakeholders, including the Barcelona Energy Agency, the municipal company TERSA, and five accredited investors, to identify gaps and opportunities in the current model, resulting in the production of a set of recommendations. Advisory work on next steps to strengthen and modernise the mechanism is ongoing.

In addition to its formal assignments, the Capital Hub is engaged in several discussions on initiatives where the use of an SPV could be an effective approach. For example, a number of Dutch cities that are exploring the establishment or expansion of energy service companies (ESCOs) as part of district heating project solutions could potentially benefit from using an SPV structure. ESCO models typically involve long-term contracts and performance-based payments. Placing an ESCO or its contracting programme within an SPV would allow the cities to bundle activities into a single, professionally governed entity that manages contracts, revenues, and financing. This would help simplify delivery, strengthen accountability, and improve the bankability of the programme for private and institutional investors. For municipalities with limited administrative or financial capacity, SPVs can provide the operational framework needed to run a scalable, city-wide ESCO initiative.

Conclusion

Mission Cities continue to face significant challenges in mobilising the level of investment required to deliver their climate agendas, particularly in the context of persistent fiscal constraints, limited borrowing capacity, and fragmented project pipelines. In this environment, SPVs provide a pragmatic and effective means of structuring, financing, and delivering climate projects when municipal resources alone are insufficient. They offer the ability to ring-fence risks, bring together different capital sources, and create a stable institutional framework that gives private investors confidence while allowing municipalities to maintain strategic oversight.

Given the legal complexity involved in structuring such arrangements, cities are strongly advised to engage appropriate legal expertise throughout the process. Learning from the SPV structures and approach implemented in other Capital Hub initiatives can be helpful, but national and even regional

³⁰ IESE Business School. (2023). *MES Barcelona: Driving the energy transition through public-private partnerships (ST-0645-E)*. IESE Business School.
<https://www.iese.edu/media/research/pdfs/ST-0645-E>

legal frameworks vary significantly and must always be carefully considered. Where a municipality aims to secure off-balance-sheet treatment for a project by using an SPV, specialist accounting advice should also be sought. As discussed above, such outcomes are difficult to achieve, and the relevant structures are rarely publicly disclosed. Nonetheless, under certain conditions, these approaches can support cities facing debt-capacity constraints.

While acknowledging that these complexities and legal constraints must be carefully managed, this report demonstrates that SPVs are a valuable instrument in the financing toolkit available to Mission Cities – offering robust governance, enhanced transparency and accountability, flexible risk-sharing arrangements, and the ability to aggregate smaller projects into larger portfolios – all factors that can support greater participation by private capital.

Supported by the expertise available through the Capital Hub and from other professional advisors, municipalities should carefully assess whether an SPV structure aligns with their project objectives and delivery context. Where deemed suitable, SPVs are a powerful and effective way for Mission Cities to unlock investment for ambitious, high-impact climate projects.