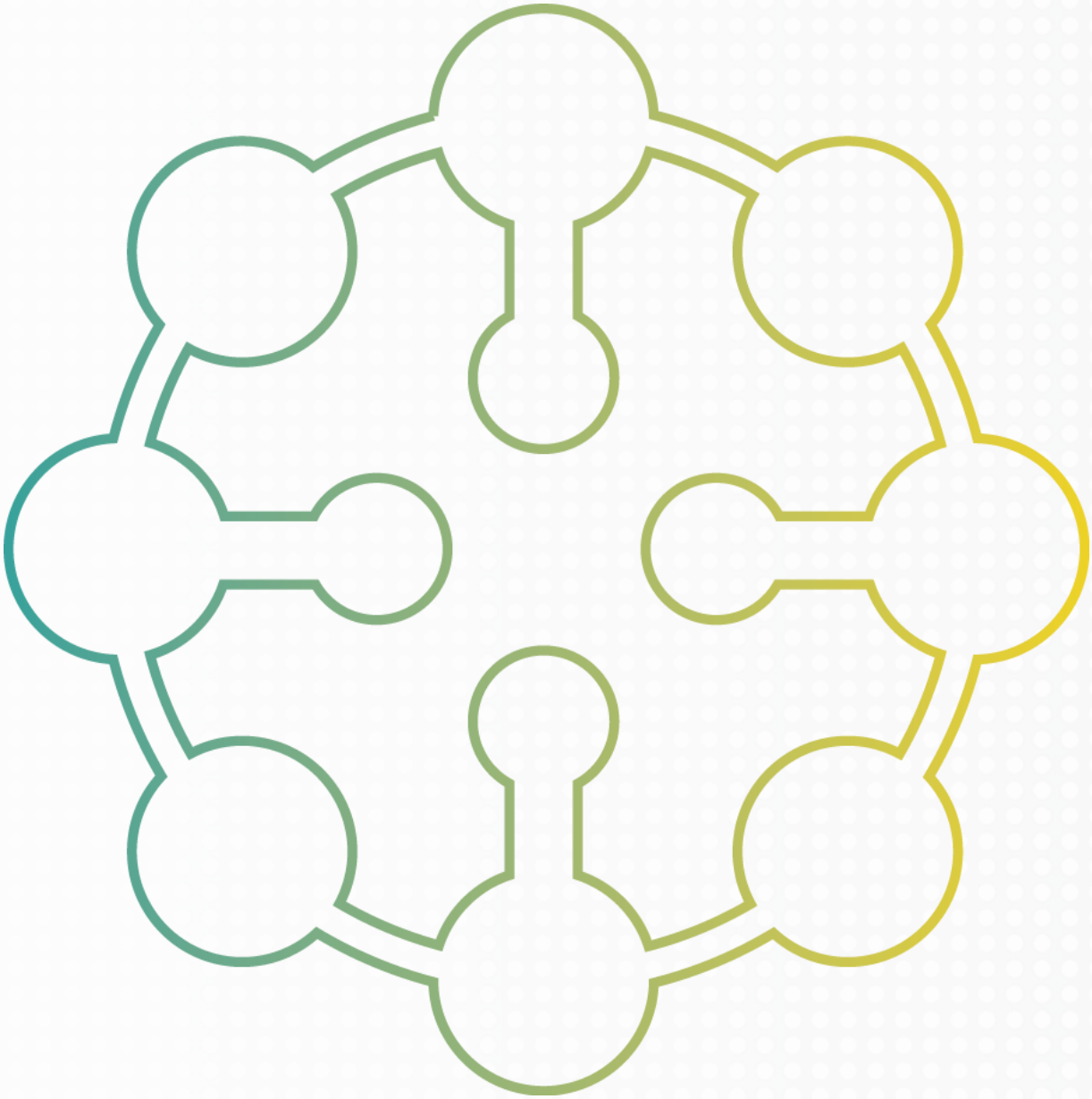

PROSPECT+

Report on the Project Finance Readiness assessment tool

January 10th, 2025

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Preface

PROSPECT+, building on the previous H2020 project PROSPECT, will enable capacity building in regional and local authorities in order to finance and implement effective and efficient sustainable energy plans, including their proper monitoring and verification and also ensuring that such plans are using synergies from other local plans. The learning programme will advance through 5 learning modules covering public buildings, private buildings, public lighting, transport, and cross-sectoral topics. PROSPECT+ will focus on improving decision-making of cities in project selection for financing and assessment to ensure that their projects are finance ready. The ambition is to ensure that over 200 EU cities in at least 20 EU MS will improve their capacities when it comes to implementing projects from sustainable energy and climate plans (SECAPs) and similar sustainable plans.

WHO WE ARE

	Participant Name	Short Name	Country	Logo
1	Institute for European Energy and Climate Policy Stichting	IEECP	NL	
2	European Federation of Agencies and Regions for Energy and the Environment	FEDARENE	BE	
3	EUROCITIES ASBL	EUROCITIES	BE	
4	Energy Cities/Energie-cites Association	ENC	FR	
5	University of Piraeus Research Center	UPRC	GR	
6	OÖ Energiesparverband	ESV	AT	
7	Energy agency of Podravje – Institution for sustainable energy use	ENERGAP	SI	
8	Tipperary Energy Agency	TEA	IE	
9	Ayuntamiento de Valladolid	INNOLID	ES	
10	Association of Energy Managers of Towns and Regions of the Czech Republic	SEMMO	CZ	
11	Adelphi research gemeinnützige GmbH	adelphi	DE	

Executive Summary

The main purpose of this report is to present the financial readiness tool, which was initiated within PROSPECT+ under the framework of the European Union's Horizon2020 Programme for research and innovation. The financial readiness tool was designed and implemented by adelphi within the scope of Work Package 5 - Sustainable local energy planning and decision making.

Overall, this report is not only intended to present and explain the tool, but also to point out the underlying needs, why this tool was created in the first place and the associated raison d'être. Thus, it presents the fundamental motivations that made the creation of the tool necessary in the first place as well as a detailed explanation of its functioning and the methodology behind it. An additional handbook on the development of financial readiness and how the tool can best be used and how it supports users in the development of the sustainable energy projects can be found on the PROSPECT+ website in the reports section.

In the introduction of the report, the connections between the project and the financial readiness tool are first established. This includes explaining the background of a given project and the extent to which energy efficiency measures are the main criterion for the tool's area of application.

The second chapter is then broken down into two subsections. Under point 2.1, the background of Horizon 2020 is first explained in the context of the European Green Deal, and then the gap in funding for sustainable energy projects is identified. Thereby, it is explained why PROSPECT+ is considered helpful as a bridge-building tool. Under point 2.2, the PROSPECT+ capacity-building program is linked to the connotation of project finance readiness. In the process, the concept is first discussed and defined as such without context. With ever closer examination, the term can then be embedded in the context of sustainable energy efficiency and linked to the target topic. In this way, an understanding of "finance readiness" as it is used and understood in the PROSPECT+ language can be created, and thus the urgency for establishing this same financial readiness becomes tangible. This chapter also explains graphically where this financial readiness can be found in the project cycle and that it is important to take this step at the right moment.

As a third chapter of this report, the financial readiness tool is discussed in greater detail. In this context, it is first explained for which target group the tool is intended. Before continuing with the direct explanation of the respective subsections, it is briefly outlined which information should be available and for which stage of proficiency the application of the tool is intended. It is also clarified in advance what kind of results the users of the tool can expect after the application and for which use these results are intended and for which use they are not. In subsection 3.2.1, the report starts with the de facto description of the respective contents of the tool. Starting with the general information and the background that must be given to the tool in order to be able to perform the subsequent analysis correctly at all, the explanation of part 3.2.2 moves on to the fiduciary information. Subsequently, in subsection 3.2.3 the scope of proposal is explained and in 3.2.4 the whole area of project management. Subsection 3.2.5 then focuses on the area of promoters and stakeholders, where, among other things, information on all project participants should be presented. Section 3.2.6 then focuses on the legal and regulatory analysis, which is also one of the more important elements of the tool content. An extra chapter on additional information for EPC financing, which only needs

to be processed if the information that the EPC model is intended to be a financing method of the project to be evaluated was introduced at the beginning of the tool, is then addressed in subsection 3.2.7.

In general, it must be mentioned that the following report also shows and explains the points awarded in each case, so that it is comprehensible how many points would have been possible for which question and for which answer in each case under the various answer options. Each subsection adds up the total points within the section, but the number of questions and thus consequently also the number of total points of the respective chapters differ.

The fourth chapter of the report then adds a broader focus on the methodology of the tool. It also mentions the European City Facility (EUCF) as a fellow program that has made an important contribution to understanding the need to develop and apply this tool. There are clear overlaps between EUCF applicants for funding to develop energy efficiency measures within their own cities and communities and potential users of the PROSPECT+ financial readiness tool. In the further course of subsection 4.1, the manner in which the results and the tool as such generally function will be discussed. Subchapter 4.1.1 primarily addresses the summary of all results of the subareas together and the different feedback for different total scores. The evaluation section is also explained graphically and can support the understanding of the feedback.

In subsection 4.1.2, the scoring and feedback per section is discussed. It is important to understand that each subsection receives its individual scoring and specific feedback. This is important in order to enable the user to better distinguish and differentiate between subjects in which good preliminary work has already been done and those in which there is still room for improvement. In addition, this chapter explains the respective possible feedback texts that are displayed for the respective results achieved. Ultimately, this chapter also presents the limits for rather poor, acceptable or already very good financial readiness. This concluding chapter thus makes it clear once again how the user's results are composed, how different results are to be interpreted and how they differ from one another.

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1 Introduction

The PROSPECT+ Capacity-Building Programme (CBP) was fundamentally created with the objective of supporting local and regional authorities to interactively solve problems related to their specific sustainable energy projects in order to overcome potential capacity gaps. With a highly participatory framework, the CPB aims to engage and foster collaboration among public authorities to deliver, implement and monitor energy efficiency measures through innovative financing solutions. Ultimately, the goal is to develop the financial readiness of participants to best meet the needs of potential investors. The CBP also has the advantage of supporting public authorities in the establishment of competence networks and facilitating the selection of pioneers for the implementation of energy efficiency projects. The creation of synergies between policy makers, associations, technical experts and financial institutions to local projects also represents a significant resource in this respect.

The “Project Finance Readiness Tool” was developed in order to support the assessment and advancement of project financial readiness by the public authorities participating as mentees in the PROSPECT+ CBP. This report aims to provide information about the background and rationale behind the development of the tool as well as to present in detail its content and functionalities. Chapter 2 looks into the meaning of financial readiness in the context of the PROSPECT+ CBP, highlighting the reasoning behind the tool development and its relevance for building the capacity of public authorities to better understand the financial maturity of their projects. The following chapter explains in a stepwise the content and relevance of each section of the tool, including the specific questions to be answered by tool users. Last, chapter 4 describes the methodology behind the functioning of the financial readiness tool, highlighting the different possible scores that can be achieved and corresponding feedback provided.

The financial readiness tool was updated over the course of the PROPSECT+ project according to the results achieved and the feedback provided by mentees of the CBP and project partners. The final version of the tool was set up as an online tool and made available to the general public in December 2024 in order to be used by further public authorities than those participating in the CBP. The programming of the tool was implemented by the project partner UPRC to guarantee alignment with the Recommendations-Decision-Matrix. The tool is available through the PROSPECT+ website under https://h2020prospect.eu/project-finance-readiness-tool.

2 About project finance readiness

2.1 Bridging the gap for financing sustainable energy projects

Against the background of the European Green Deal, the European Union has committed itself to becoming the world's first climate-neutral continent by 2050. To achieve this goal, EU Member States pledged to reduce greenhouse gas emissions by at least 55% until 2030 compared to 1990 levels. Moreover, an important component of the European Union's decarbonization strategy is the improvement of energy efficiency throughout the energy value chain – from generation to consumption – with the ambitious target of achieving at least 32.5% energy efficiency by 2030 compared to projections for energy use for this year.

In this context, investments in the modernization and efficient use of energy in public and residential buildings, transport and public infrastructure, for example, play a key role in reducing carbon emissions and establish European regional and local authorities as vastly important players for advancing the energy transition. Public authorities have the capacity to promote the pooling of smaller projects into larger investment portfolios and mobilize the financial resources for the implementation of the actions foreseen in their climate and energy strategies. However, despite this very important potential, there are fundamental obstacles when it comes to understanding how to finance these actions. These are related to limited human resources and capacity, lack of experience of public authorities with innovative financing instruments and investment packages and a reluctance to invest time and resources in project preparation. In many cases, legitimate, robust, and sufficiently mature investment concepts or a degree of financial readiness are lacking for the mobilization of funds for project implementation. Sufficiently mature investment project proposals should include elements such as the identification of potential project pipelines, a legal analysis and a clear governance structure, as well as the envisaged financing strategies and roadmap for implementation and are prerequisites for accessing additional diversified sources of financing.

The peer-learning CBP of PROSPECT+ intends to overcome these obstacles by increasing capacities of local and regional EU authorities and empowering them to make smarter decisions about the implementation of energy efficiency measures with innovative financing. The focus on innovative financing mechanisms should contribute to foster the interest and employment of these financing opportunities by public authorities, decreasing the need for own capital for project implementation and allowing savings which generate higher yields. The Finance Readiness Tool is of particular assistance in this regard, checking the suitability and fitness of mentees' project proposals at exactly the appropriate stage in the project timeline.

2.2 What is Project Finance Readiness?

To demonstrate the relevance for financial readiness, especially in project proposals in which it is also a matter of acquiring external investors and funding, the definition of the term must first be set and established for the CBP.

Financial readiness can be understood in different perspectives and in different contexts. However, there are also different approaches to defining climate finance readiness. Kiremu et al., for example,

define climate finance readiness as the ability to plan, access, deliver, monitor, and report climate finance from international and domestic sources in a way that is both catalytic and fully integrated with national development priorities and the achievement of development goals.[1]

In this process, relevant influencing factors such as the political framework and the development of realistic climate finance and investment strategies are also of great importance. While this article mainly describes the intended state for climate investments for countries, a definition of the Pacific Center for Environment & Sustainable Development and the University of the South Pacific for the description of climate finance readiness in the Asia-Pacific region elaborates somewhat beyond this. The respective study develops an analytical, three-dimensional framework for identifying a readiness landscape: Policies and Institutions; Knowledge Management and Learning; and Fiscal Policy Environment.[2] Although this report also refers to finance readiness for countries and, in particular, developing countries, the three dimensions identified are nevertheless of importance in the area of project finance readiness, which is relevant for the CBP. Policies and institutions play an important role in supporting municipalities and local public entities. Knowledge management and learning are processes through which participants can either develop or enhance their finance readiness, and fiscal policy environment can of course contribute financial incentives to the adoption and diffusion of energy efficiency projects.

The European Commission defines financial readiness as ***the capacity of a project to solicit and secure financing within a certain timeframe, by demonstrating that all aspects a financial institution would expected to review to come to a positive assessment, are/ will be available within this timeframe***[3]. Depending on the sector, the main difficulty may be in attracting additional resources from private financiers by ensuring the financial viability and economic robustness and creditworthiness of each project. Financial readiness can be considered as an integral part of an overall project concept, in which different levels can be reached in order to achieve the ultimate goal: the financially successful completion of a project and the associated project implementation.

The first step for reaching financial readiness involves the identification of relevant or profitable new sustainable energy projects based on the local targets and strategies established by the public authority. The second step towards project implementation is what the financial readiness assessment tool also addresses: **evaluating the financial readiness of the respective project and what measures, if any, still need to be taken before the project can be submitted to financiers for evaluation and financial support**. The third stage consists of some sort of catalyst or accelerator for project financing, which can be represented by financial institutions, private donors or funding agencies. The final stage represents the successful completion and implementation of the project before the cycle starts again and new projects are identified. In this project development cycle, the financial readiness assessment therefore represents a decisive role in order to ensure the success of project development and the ability to estimate this at an early stage.

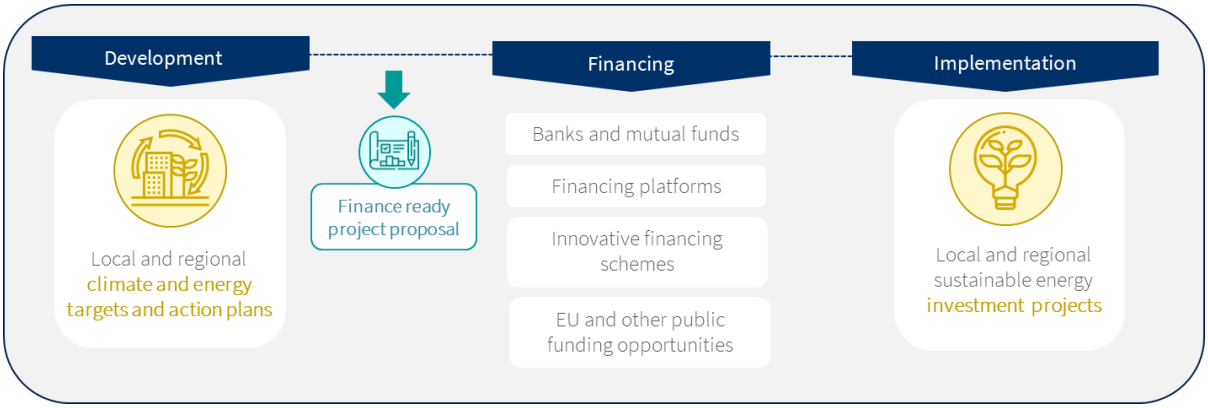
Figure 1 illustrates at which stage an assessment for finance readiness is appropriate in the project cycle:

[1] Cf. Kiremu et al. (2022), Climate finance readiness: A review of institutional frameworks and policies in Kenya. *Sustainable Environment* 2022, Vol. 8, No. 1, 1-10.

[2] Cf. Samuwai, S. & Hills, J.M. (2018), Assessing Climate Finance Readiness in the Asia-Pacific Region. *Sustainability* 2018, 10, 1192.

[3] Cf. European Commission (EC) (2017), Assessment of the Financial Readiness. *CEF Blending Info Day – 27 February 2017.*

Figure 1. Financial readiness assessment in the project development timeline



Within the context of the PROSPECT+ CBP, financial readiness **is achieved when the project is structured appropriately enough to be able to receive funding from public or private institutions**. Likewise, it is important to reference what financial readiness is not: Namely, an assessment of the bankability of the project - which may only be carried out by capital or bank market players. While financial readiness refers to the demonstration of all aspects expected to be reviewed by a financial institution in order to successfully receive funds, it does not encompass, however, a thorough assessment of the profitability or market readiness of a project[1]. The process of enabling such an assessment for bankability without the financial institution having to exclude missing factors is what successful financial readiness is all about.

However, why is the assessment and subsequent showcasing of project realizations to lenders relevant in the first place? Generally, a project with reliable returns and that uses proven technologies is less risky and more attractive to potential investors. Options for financing tend to increase as the technologies employed reach later stages of maturity, have a stable market and decreased risk, and when returns on investments become more predictable. With fewer risks and steadier returns or revenues, the more creditworthy, and therefore finance ready, a proposed project will be. By reaching later stages of financial readiness, a greater number of more complex financing schemes becomes available to public authorities. In basic terms, the financial readiness of a project proposal will depend on a combination of how much information has been gathered and how favorable the conditions are for the intended measures to be implemented.

Figure 2: Financing schemes for different financial readiness levels

Debt		Soft Loans Revolving Funds	Green Bonds
Equity	Citizen Finance (Crowdfunding and Cooperatives) Internal Contracting (Intracting)		Third-party Financing
Other			Energy Performance Contracting Guarantee Funds

Assessing financial readiness is part of the proposal process, mainly focusing on the components of the project proposal itself and determining its completeness, maturity and ability to mobilize resources to close the funding gap. Assessing financing readiness can also contribute to increasing the transparency of a project, understand the financing challenges and potential pitfalls of the proposal as well as weakness or potential risks, which are the most appropriate combinations of financing for the project, and lastly, reduce risks. By developing a complete and detailed project proposal, public authorities can attract resources from both public and private investors and ensure that the proposed project is economically sound and financially viable.[4] Additionally, understanding and effectively communicating project details can help to pinpoint the best financing options available for a project and ease the application process for funding opportunities.

3 The financial readiness assessment tool

3.1 Objectives of the financial readiness assessment tool

The PROPSECT+ team has developed a project finance readiness tool in order to support mentees of the CBP to assess the financial maturity of their projects and determine areas for improvement and further steps that need to be taken in order to provide potential financiers with a high-quality proposal. The tool includes a number of questions and criteria, aimed at providing further guidance to mentees on how to present their project proposals to financiers.

The financial readiness tool provides thus a helpful, flexible and user-friendly methodology for mentees to promptly carry out self-test of the financial maturity of their projects as well as to better understand the different stages and components of a project proposal with necessary funding support, making clear classifications and indicating to the user the areas where improvements should be made.

In order to apply to a variety of investment projects and financing schemes, the tool was deliberately developed as non-specific to the envisaged financing structure, while still constructed specifically enough to address the different needs of as many mentees and users as possible. With this, the tool can be replicated for a wide variety of financial use cases, generating results for the users' own status in the financing preparation process depending on their ability or inability to meet certain requirements.

In particular, this tool is well suited for building capacity of public authorities working on their sustainable energy project proposals. A common problem is that the individual components of a financial project proposal are not understood or taken into account well enough, lacking relevant details for potential investors and financiers. The tool provides assistance in understanding the individual sections and being able to comprehend what may be of particular or negligible importance, providing a compilation of all the important aspects that need to be considered in an application process for external funding sources.

The financial readiness tool was designed as a supporting self-assessment tool for public authorities to allow for a simple and rapid assessment of the development status of their sustainable energy projects

[4] European Commission (EC). (2017). Assessment of the Financial Readiness. *CEF Blending Info Day – 27 February 2017.* https://ec.europa.eu/inea/sites/default/files/8._gc_cefblending_27_02_17_last_version.pdf

for financing. Therefore, tool users do not have to provide any individual answers to the questions included in the tool. Instead, drop-down menus provide options for the user to selected from, making its use by public authorities more straightforward and allowing for a standardized assessment and rating of different investment projects.

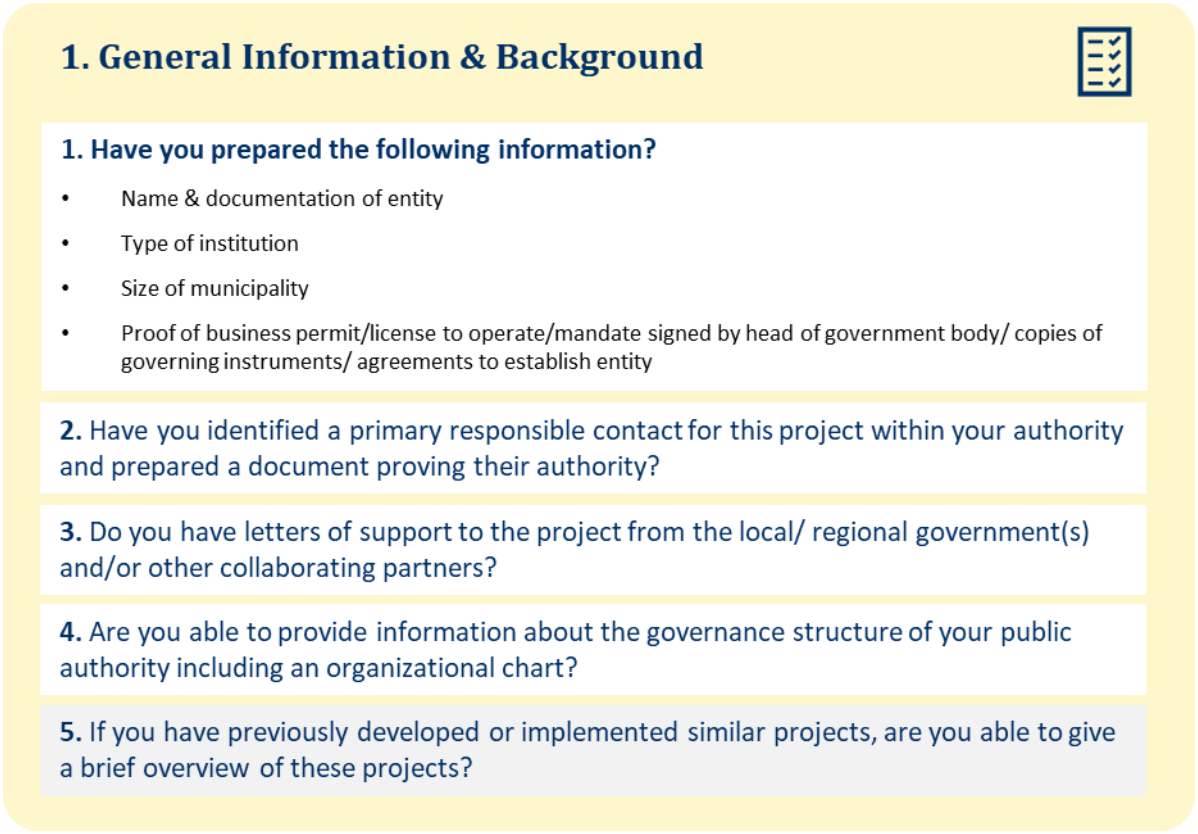
3.2 Content of the financial readiness tool

The following chapter deals in more detail with the different subsections of the financial readiness tool developed for the PROSPECT+ CBP. Thereby, it is explained step by step how the tool works, which subsections it includes and why these subsections are of importance. Furthermore, it will be explained how the assessment of the financial readiness by the user of the tool can turn out and how the result is structured. The different levels of financial readiness that can be achieved within the tool are determined based on the answers provided to the questions in each section. In the following sub-chapters, the individual sections of the financial readiness tool are presented in detail.

3.2.1 General Information and Background

The general information and background is the first user interface of the financial readiness tool, including the first five entry fields which the user has to fill in. Overall, the main purpose of this section is to determine the extent of the efforts already undertaken in advance to collect background information about the public authority responsible for the project. Following questions must be answered by the tool user about the general information and background of the proposed investment project.

Figure 3. Questions included in section 1 of the financial readiness tool – General information and background



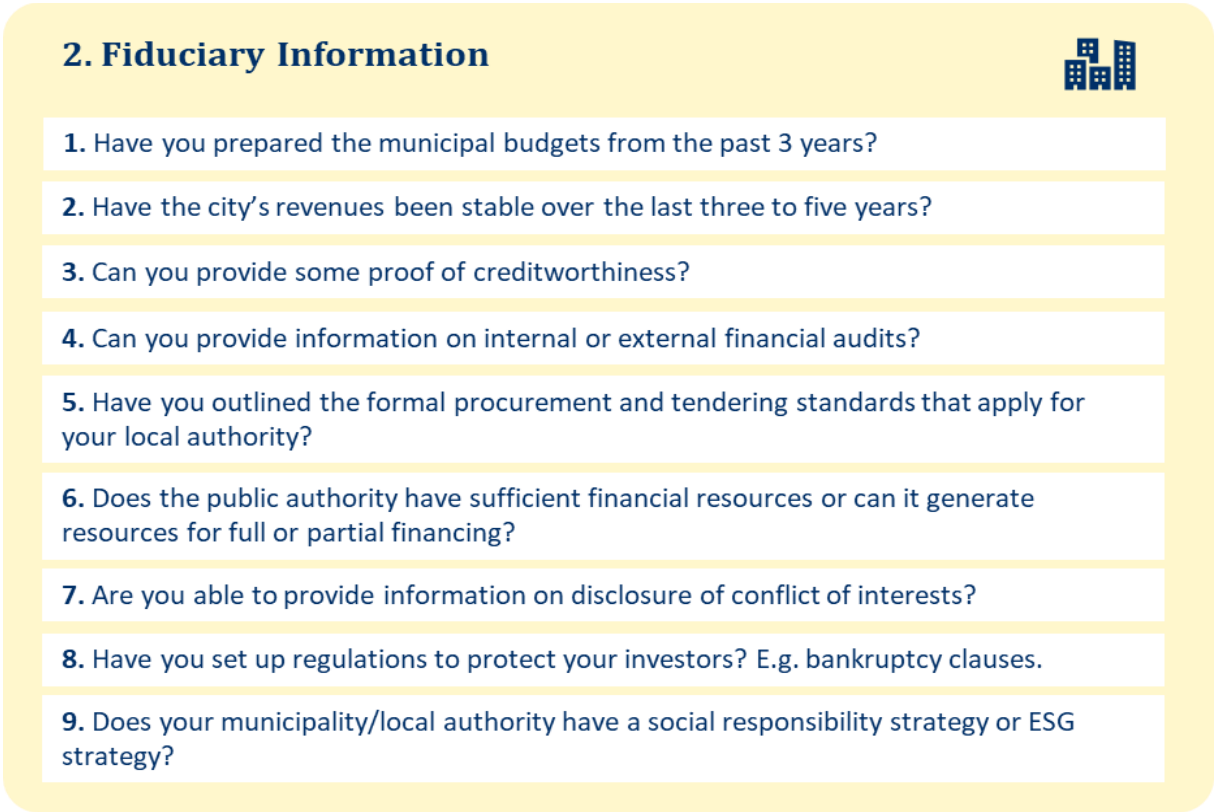
The first question asks about the preparation of basic information about the responsible entity, such as operating licenses of the institution and type and size of the public authority. The second question asks for a designated primary responsible party or point of contact/person within the authority and whether a designation letter is available for this party. The third question asks for additional relevant letters of support from collaborating partners for the development of the investment project, which can be important to demonstrate their interest and support in it. Question four asks whether the user of the tool is able to provide information about the governance structure of the public authority and an organizational chart, which allow external investors to be able to understand the structure of the investment beneficiary's institution.

The fifth question in this section addresses the possible development or implementation of similar projects in the past, i.e., experience in such an undertaking. Previous experiences with the development and implementation contribute to demonstrate the public authority's proven record and expertise in the field and increase the confidence of investors. While an overview of previous experiences can make a difference for the user in accessing financing opportunities, it is considered here as an extra asset to the proposal rather than a critical element for financial readiness.

3.2.2 Fiduciary Information

The second user interface of the financial readiness assessment tool deals with the fiduciary information that the respective user may have to demonstrate in order to access financing opportunities. In this section, eight questions are asked, as displayed in Figure 4.

Figure 4. Questions included in section 2 of the financial readiness tool – Fiduciary information



In the first question, the user must indicate whether the municipal budgets for the last three years are available. These financial statements are of particular importance for investors in order to increase their confidence by presenting a solid cash and a sustainable financial operation flow.

The second question concerns the stability of the revenues of the public authority. The revenues of the last three to five years should be able to be connoted as stable in order to achieve the full three points. Stable revenues are important for predictable budgets and an important indicator of the creditworthiness of an investment recipient.

The third question in this section deals with the creditworthiness of the applicant. The objective here is to verify if the user is able to provide proof of creditworthiness. Requesting this information is essential, as it concerns the repayment potential of the beneficiary. Proof of creditworthiness can include, for example, a comprehensive analysis of the local governments' financial position, an assessment of the local economy in which the municipality operates and an assessment of the national macroeconomic situation of the environment. One way of fundamentally highlighting creditworthiness involves ensuring that income exceeds expenses in the local budgets in the long term and on a sustainable basis.

Question four asks about the provision of information on internal or external financial audits. Providing evidence of internal or external financial audits can help support the public authority's own project and its support by investors.

Question number five is based on the local procurement and tendering standards of the public authority, meaning that formal guidelines are in place and can be followed.

In question number six, the user is asked to provide information on sufficient financial resources the public authority has in order to finance the project fully or partially. This becomes even more important, whenever the occur financial difficulties with investors or divergence from originally planned financing schemes.

The seventh question asks for evidence of a disclosure on conflict of interests. Since the avoidance of such conflicts of interest is important, especially for public entities, a potential investor may be interested in such information.

With question eight, the tool user must indicate whether any regulations are in place for the protection of investors. For instance, bankruptcy clauses can be specified here.

Question nine looks at whether the municipality or local authority of the applicant has or is pursuing a social responsibility strategy or ESG strategy. If this is the case, the potential investor will be better able to understand the ambitions of the user and may possibly determine a certain intrinsic motivation, regardless of profitability of the proposed investment project.

3.2.3 Scope of Proposal

In the third user interface, the focus is placed on the scope of the project in order to present it in a tangible and understandable manner to potential investors. The objective of this section is to assess the completeness of the information prepared by the tool user about the details of the planned sustainable energy project. This section includes 22 questions.

Figure 5. Questions included in section 3 of the financial readiness tool – Scope of proposal

3. Scope of proposal

1. Have you defined the measures that you intend to implement in your project?

2. Have you created an outline for your project including the information listed below?

- Detailed project/ programme description;
- Project background, context and rationale;
- Location of planned investment;
- Sectors involved;
- Stakeholders of the project;
- Main goals and objectives of the project/programme
- Planned measures for implementation of the project/programme

3. Has a baseline energy consumption been determined?

3. Was the baseline energy consumption determined through an energy audit or do you plan to do this through an energy auditor?

5. Have you determined the impacts of your project in terms of energy savings and/or renewable energy production?

6. Have you determined additional impacts such as CO_2 emissions avoided or further positive impacts for stakeholders?

7. Have you estimated the expected lifetime of the measures to be implemented?

8. Have you calculated the total investment costs for the project?

9. Have you defined your own financial contribution for the investment?

10. Have you already defined potential funding sources for your project?

11. Have you developed a budget with all the costs for your project?

12. In your budget have you considered all of the expected operating costs that will occur through the lifetime of your project?

13. Have you set up a cash flow plan of the expected costs and revenues over the lifetime of your project?

14. Do you have a sound understanding of which factors should influence the revenue streams of your project?

15. Have you calculated the expected revenues from energy savings and/or the expected revenues from selling the renewable energy generated by your project over its lifetime?

16. Has your municipality conducted any financial modelling analyses for the proposed project?

3. Scope of proposal

17. Have you provided information on the calculations of energy savings, revenues, financial indicators such as assumptions, baselines and conversion factors?

18. Have you determined your project's profitability?

19. Have you determined the payback period for your project?

20. Have you assessed the market conditions for your project including incentives and potential barriers?

21. Have you developed a risk analysis of potential risk or negative impacts your project may have?

22. Have you developed a risk mitigation plan to prepare for or avoid those risks?

Question one seeks to know the predefined measures that are planned to be implemented in the project, focusing on the measures aimed at saving energy or producing renewable energies. A clear understanding of the intended measures is essential for estimating the expected impacts of the proposed project, as well as its costs and revenues.

The second question requests a draft or outline of the intended project, which should include the following items: detailed project description, project background and context, position of the planned investment, the sectors involved, other stakeholders of the project, the main objectives of the project and the planned implementation measures. This question is especially useful for potential investors to better understand the elements that should be addressed in the overall project concept.

The third and fourth questions deal with energy consumption. On the one hand, a baseline energy consumption should be available before the implementation of the measures in order to assess the project impacts. On the other hand, it is important to know whether the predetermination of the baseline energy consumption was carried out through an energy audit by an official auditor, as this increases the credibility of the results.

The fifth question relates primarily to the impacts in the area of energy savings and renewable energy production to be achieved by the implemented measures. Additional impacts such as avoided carbon emissions or further positive impacts for stakeholders are asked in the related question six. As further impacts do not necessarily impact the generation of revenues and financial readiness of the project, no additional points are awarded for a positive response regarding the definition of additional impacts.

Question seven asks about the total duration of the project, that is the lifetime of the implemented measures, which is an important aspect of the cash flow plan. The total investment costs asked in question eight are similarly relevant to the extent that they inform investors of the overall financial size of the project. In question nine, the user is asked whether the public authorities' own financial contribution to the project has been defined and in question 10, whether potential funding sources for the remaining investment amount have been identified. In question 11, the tool user must state whether a budget with all costs for the project has already been developed.

Furthermore, question 12 asks about considerations about the operating costs (OPEX) that are expected during the project duration, while question 13 focuses on whether a cash flow plan has already been prepared which covers and estimates the expected costs and revenues over the entire life of the project. In question 14, the user is asked to answer whether the factors potentially influencing the project's revenue streams have been identified and assessed.

At best, the user of the tool has already calculated expected revenues from energy savings and/or revenues from the selling of renewable energy at the time of the utilization of the tool, which is asked for in question 15. Question 16 asks whether the public authority has carried out any kind of financial modelling analyses for the project beforehand. The availability of information on the available calculations, estimates or conversion factors of energy savings, revenues, financial indicators is asked in question 17.

Question 18 concerns the assessment of project profitability. Within the CBP, a template for calculating financial indicators was developed to support for mentees to conduct a rough assessment of key financial figures of the project. Likewise, important for investors, question 19 asks whether the payback period has been estimated for the project. The previously mentioned template of the CBP, publicly available on the PROSPECT+ website, can be used for calculating this indicator as well.

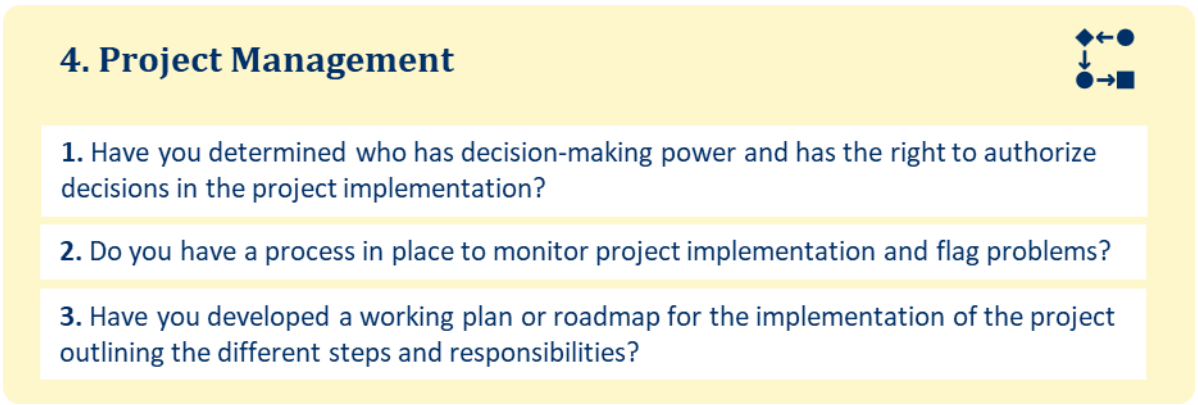
Question 20 addresses a slightly more macroeconomic perspective of the project, that is whether the market conditions for the project have already been considered and analyzed, including the identification of potential incentives and barriers. Question 21 asks whether a risk analysis has already been developed for possible risks or negative impacts of the project. The final question then proceeds to look into the preparation of a risk mitigation plan to avoid, prevent or reduce any risks that may arise.

In total, the user of the tool can achieve up to 63 points in this section by answering all questions completely and without any deficiencies. This section of the tool is therefore an essential part of the assessment and should not be neglected in terms of positive response capability. This reflects as well the importance of the scope of information in the preparation of a project proposal, which is essential in order to allow for a clear understanding of the proposed investment.

3.2.4 Project Management

This section requires the user to determine whether the project management structure for the intended project has been thoroughly planned and whether personnel responsibilities have been assigned. Three questions are included in this section as presented in figure 6.

Figure 6. Questions included in section 4 of the financial readiness tool – Project Management



The first question to be answered deals with personnel responsibility. Specifically, it examines whether actors with decision-making power and authority to make implementation decisions have already been identified within the project.

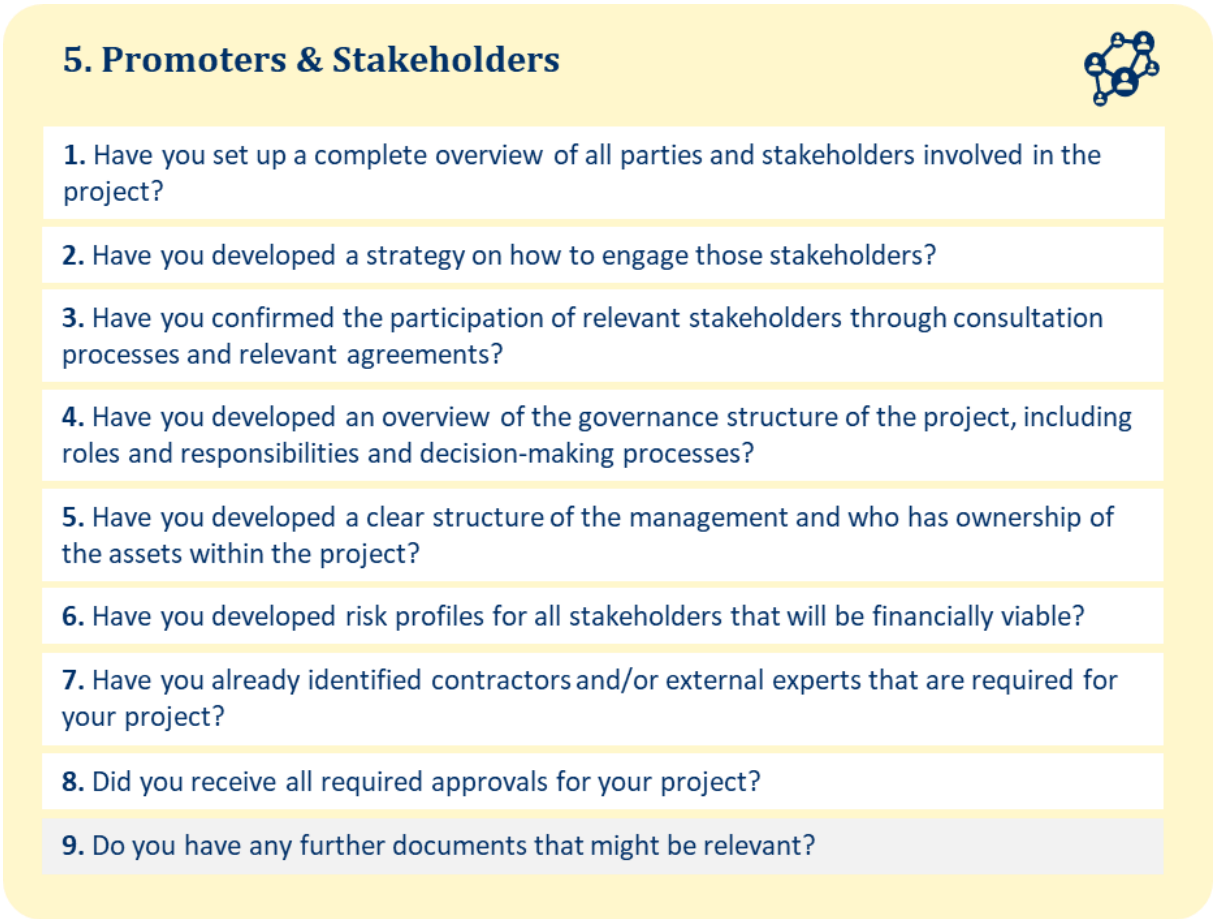
The second question asks whether the public authority has an already prepared a scheme or process to monitor the implementation of the project and flag potential problems. This question is particularly important, as a monitoring system allows to better address problems arising during project development and implementation as well as to solve them more quickly through a predefined procedure.

The third and last question in this category asks for an already developed working plan or roadmap for the implementation of the different steps within the project including the predefined assignment of responsibilities. In terms of project management, this allows, among other measures, the overall goal or even intermediate goals of the project to be better pursued through a clear agenda.

3.2.5 Promoters and Stakeholders

The fifth user interface in the financial readiness tool addresses promoters and stakeholders of the project and thus investigates the coherence of the governance structure for project planning as a whole. The preliminary definition of relevant stakeholders is therefore important, as they should be included in the project planning process as early as possible in order to create a viable structure and to achieve the best possible project results by means of custom fit. This section includes eight questions as presented in figure 7:

Figure 7. Questions included in section 5 of the financial readiness tool – Promoters and stakeholders



The first question regarding external actors inquires about the availability of an overview of all involved parties and stakeholders of the project. Based on this, the next question focuses on the engagement of these stakeholders. A strategy for this involvement should be in place highlighting the interest and influence of each stakeholder in the project and the foreseen actions and communication instruments to promote engagement.

The third question of this section is designed to indicate whether stakeholders in the project are aware of and have confirmed participation in the project through relevant agreements and consultations. This obtaining of confirmation is an essential basis for the functionality and consistency of the project and contributes to reducing the potential risks perceived by investors regarding stakeholders' support to the project.

Following on from this, the governance structure of the project, including the associated roles and responsibilities in the decision-making and finding process, is addressed in question four. In the development of a project proposal, all roles in this administrative and governance structure must be clearly defined in order to make responsibilities easily identifiable and resolvable, even in the event of incidents.

The clear assignment of responsibility for the management and ownership of the assets within the project also presents a very important element for a project's clarity and accountability as well as for means of financing, legal compliance and taxation. Question five asks whether the public authority has management structure in place including the clear definition of assets ownership.

The next question refers to the development of risk profiles for the respective stakeholders involved in the project. As they are linked to the project, they may run the risk of losing their assets, therefore the development of risk profiles is essential. Risk profiles help to minimize the negative impact of potential problems in the project development. In general, they include the types of risks a stakeholder is most likely to face, the degree of that likelihood, and the extent to which they may impact the project as well as the costs associated with each risk and strategies to minimize these potential threats.

In question seven, the tool user is asked about a possible and, if so, already completed identification of further contractual partners who are associated with the project. This also includes external actors, such as contracted experts. If identification is complete, three points are again awarded.

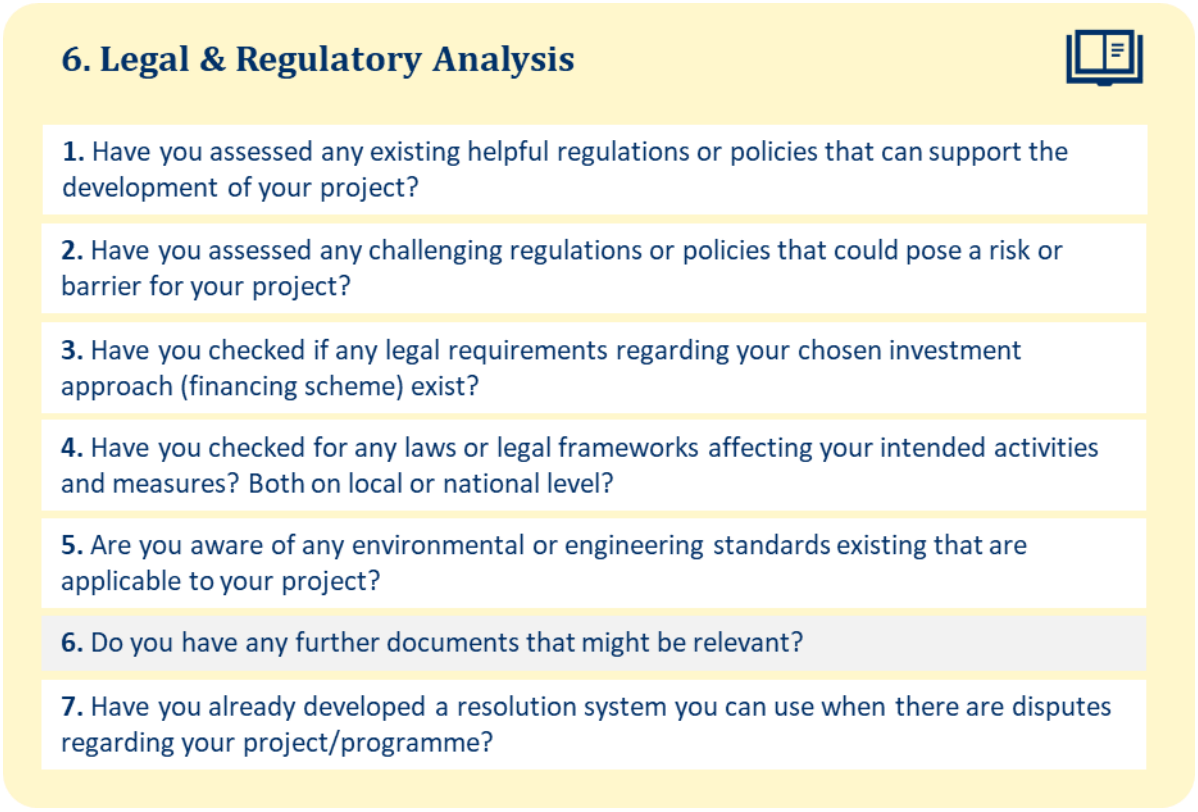
Question eight then asks about the required approvals that might already have been received for the lawful and orderly implementation of the project. Clearly, the approval reception is a process that takes time and processing, however, they are a necessity when it comes to the realization of the project.

Following this, in question nine, there is an option to mention other necessary documents, such as letters of support, letters of commitment, and so forth.

3.2.6 Legal and Regulatory Analysis

In order to incorporate the legislative area, a detailed assessment of the regulatory framework is indispensable for ensuring the successful development and implementation of the project. Section 6 of the financial readiness tool looks therefore into the legal and regulatory analyses conducted for the proposed project by asking the tool user seven questions as presented in figure 8.

Figure 8. Questions included in section 6 of the financial readiness tool – Legal and regulatory analysis



The first question in the regulatory analysis refers to potential supporting regulations and policies in place that have already been assessed and could support the project development. In addition, question six refers to the assessment of potential regulations that could pose a risk to the implementation of the project. Legal framework conditions can often represent barriers for innovative projects, therefore this aspect is particularly relevant as a preventive measure, also in order to inform potential investors of such risks and to demonstrate the own planning capability to handle them. Being aware of the regulatory and policy framework conditions demonstrates a thorough project preparation and planning to potential investors.

In the next section, the user is required to answer whether any legal requirements for the project proposal have already been identified. Thereby, it is especially important to understand, if applicable, which laws and regulations may affect the intended investment project. This would include, for example, whether a comprehensive analysis has been carried out to determine which criteria exist for setting up green bonds within the national borders.

The fourth question of the regulatory chapter deals specifically with the influence of country-specific laws or regional framework conditions that could affect the planned project operations or measures. This involves such aspects as compliance with norms and standards in a particular construction project. Such legal standards, especially in the context of the building sector, often cause additional costs in case of non-compliance and can impact cost calculations, therefore this preliminary planning is particularly relevant.

The fifth question of this section addresses environmental aspects in terms of engineering standards and norms. If such standards exist, they must be identified and taken into account for the development of a project.

In the following question six looks at other documents that could be relevant for the legal feasibility of the project. These would include, for example, Environmental Impact Assessments (EIA) or Strategic Environmental Assessments (SEA). No additional points are be awarded for this question, as these documents are not a prerequisite for financial readiness and do not apply to all types of projects.

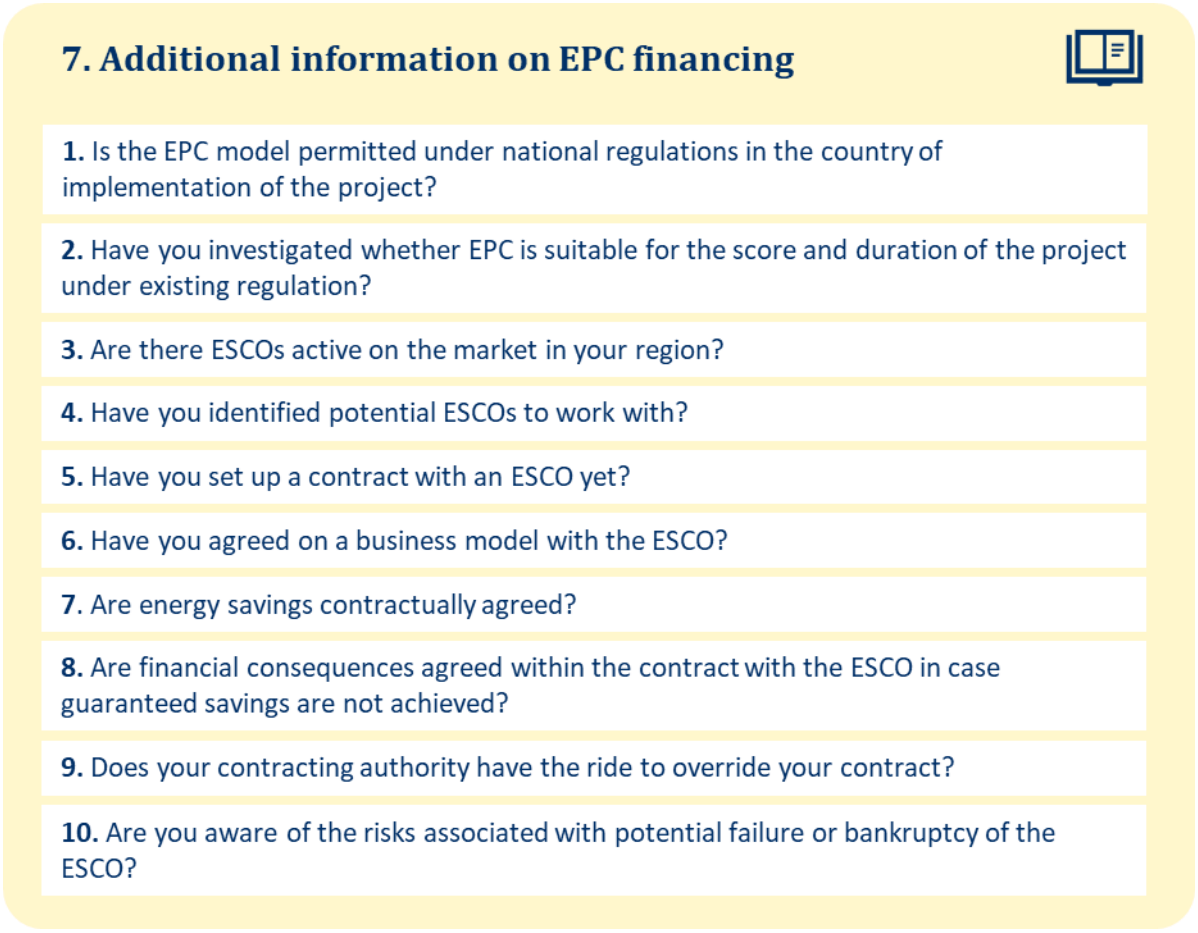
The last question of the section addresses possible ways of resolving and settling problems and disputes within the project. Specifically, it deals with the creation of a resolution system, which should be set up before any need for clarification arises, in order to initiate a suitable procedure in such cases. Such a resolution system can also demonstrate to potential investors against the background of financing projects that a procedure for resolution matters is available and can be applied at any time, which attests to professionalism. Trust of investors in the project team and the project itself can be built up and strengthened much better by such preventive measures.

3.2.7 Additional Information for EPC Financing

The last section, which is screened by the Project Finance Readiness Tool, provides additional information for Energy Performance Contracting (EPC). This type of financing is an innovative form of financing for capital improvement which allows funding energy upgrades from cost reductions. Through an EPC arrangement, an external organization (ESCO) can implement an energy efficiency or renewable energy project. The income stream created by the cost savings of the more efficient energy use or the selling of the renewable energy produced is used to pay the costs of the project, including investment costs.[5] Section 7 is aimed at public authorities planning to use EPC to finance their projects and must not be filled by those who do not foresee the use of this financing instrument. It includes in seven questions more detailed aspects that can be relevant for EPC, such as the regulatory framework and EPC market, the identification of a partner ESCO and the contractual agreements established with it. The questions of the EPC section are presented in figure 9:

[5] Cf. Energy Performance Contracting | E3P (europa.eu)

Figure 9. Questions included in section 7 of the financial readiness tool – Additional information on EPC financing



In the first question of the EPC section, the tool user is asked whether the EPC model approach is legitimate and allowed under the national regulations of the respective country, which is a pre-condition for employing this financing instrument. Another aspect that needs to be investigated is whether the EPC model is appropriate for the scope and duration of the proposed project based on the existing regulations.

At the beginning of this section, attention was briefly drawn to the extent to which ESCOs are important for the implementation of an EPC Model. The availability of an active ESCO market is therefore fundamental to ensure the feasibility of the project and concerned in question three.

Continuing one step further, question four asks whether existing ESCOs have already been identified for potential partnership with the public authority. This question clearly identifies the status quo of the project progress, because in the case of a suitable identification, this allows conclusions to be drawn about a more advanced planning in the project activity.

The following question explores the topic further and looks at whether there is already a contractual collaboration with an ESCO. Accordingly, an already initiated collaboration indicates quite some progress in project planning, namely that the project planning has definitely advanced, provided that a contract with an ESCO already exists.

In the subsequent question, the aspect of a possible cooperation with an ESCO will be looked at in more detail. Specifically, this involves reaching agreement with the ESCO on a suitable business model for the project described. An example of this could be a shared or guaranteed savings model.

In the next question, under the condition of a contractual agreement with an ESCO being in place, the focus is on contractually agreed energy savings. This subtopic is important because only with such a contractual agreement can the actual commitment to generate energy savings be demonstrated to potential investors. Moreover, it is to be indicated in question eight whether in case of a contract with an ESCO and therein contractually agreed energy savings are not complied with, there would also be contractually agreed financial consequences for this. This information is of course also important for potential investors.

In the next question, the tool user is asked whether the contracting authority concerned has a right to override one's own contract. If this is the case, it represents a deficit of legitimacy for the contracting authority's own contract rights.

As a final concern in this chapter, the potential risk posed by the possibility of insolvency or collapse of the ESCO is addressed in question 10. The participant should be aware of the risk of such a collapse or financial failure of the ESCO.

4 Methodology

In order to understand how the tool has been developed, it is important at this point to identify the motivations behind the development of the tool. As previously mentioned, an important overall goal was not to develop an assessment tool that would only be useful for a specific type of project, but that would provide a basis for many different projects in the field of energy efficiency or renewable energy production, allowing public authorities to self-assess their own status quo and possible improvement options for their project proposals in terms of financial feasibility and investor presentation. As PROSPECT+ is a comprehensive capacity building programme supporting mentees with projects in different energy sectors and aimed to be financed with various innovative financing mechanisms, the financial readiness tool aims to provide overall guidance on the elements necessary for developing a robust and credible proposal that can mobilize financial resources for the realization of the proposed project. The points included in this tool, such as the financial strength and creditworthiness of the public authority, the predictability of project revenues, the legal regulatory framework and financial structure represent the general factors influencing the availability of financial models and funding sources and the attractiveness of a project proposal for investors. The purpose of this tool, to provide an advisory and supportive position to the users and project managers, thus unfolds a necessary and helpful added value for the users through this wide variety of project possibilities and the nevertheless specific focus on financial preparation through a fairly straightforward approach to execution.

Moreover, it is important to acknowledge the European City Facility (EUCF) as a reference, which has contributed to the finding that a strong need for this financial readiness tool has become apparent on a very practical level.

In the development of the content and functionality of the tool, the investment concept template[1] developed within the framework of the Horizon 2020 European City Facility (EUCF) was an important reference. The document was developed in close consultation stakeholders from financial institutions

and local authorities as well as climate and energy experts from different European countries with the aim of providing the basis for translating an investment project into financial language and refining a project idea into a credible investment package.

As for the methodology used for the tool, mainly the relevant components and contents have been incorporated into the application framework, which, based on experience, have been exactly the vulnerabilities of the applicants for the EUCF in the previous calls. Since these projects of the EUCF applicants correspond quite closely also with the projects of the PROSPECT+ applicants in the field of energy efficiency and renewable energy development, the methodological approach to the topic of financial readiness and preparation is extremely suitable. Together with the experience of the EUCF from the preceding years, the methodology introduced in this financial readiness tool can be legitimized in this way by integrating the experience from practical proximity.

The following sections present more in detail the functioning of the financial readiness tool and how the results and overall and specific feedbacks per section are provided to the tool user.

4.1 How the tool works

First and foremost: The financial readiness tool can be used by anyone interested. Creating an account is recommended and completely free of charge, but it is not necessary to use the tool. However, the creation of an account and subsequent usage of the tool has several advantages: Previously performed analyses will be recorded under the account data and can be retrieved and accessed by the user at any time. Moreover, access to the tool via an account also enables the previously received results to be processed further. Furthermore, account data can be passed on within an organisation and results can be viewed and edited by various authorised individuals without the need to download and send results documents beforehand. In general, the results of the financial readiness check may always be downloaded, yet with an account there is always the possibility to do this repeatedly. The tool does not lose any functionality when being used as a guest, but results are not saved after the browser tab is closed and must be run again if a subsequent access is required. Creating an account is therefore recommended and does not entail any disadvantages.

How exactly the financial readiness tool works is relatively straightforward and intuitive. On the start page of the tool, there is first an input mask in which relevant data about the user of the tool has to be provided. After entering contact details, the tool user must specify the planned financing instrument and planned funding sources for the investment. The start page provides also further instructions for the general procedure of using the tool and answering the questions.

The sections explained in detail in chapter 3.2 must then be completed by the user of the tool answering the questions to the best of their knowledge and ability. It is important to mention that section 7, which deals thematically with EPC funding, only needs to be processed if this financing instrument is actually foreseen for the project. If this is not the case, this section can simply be ignored.

Generally, for each question answered, zero to three points are awarded depending on the answer, resulting in a maximum and minimum number of points at the conclusion. If the answer about the status of the respective requirement is "Not planned", the user is not awarded any points for the respective question, whereas one point is awarded for "Foreseen", two points for "Ongoing" and three

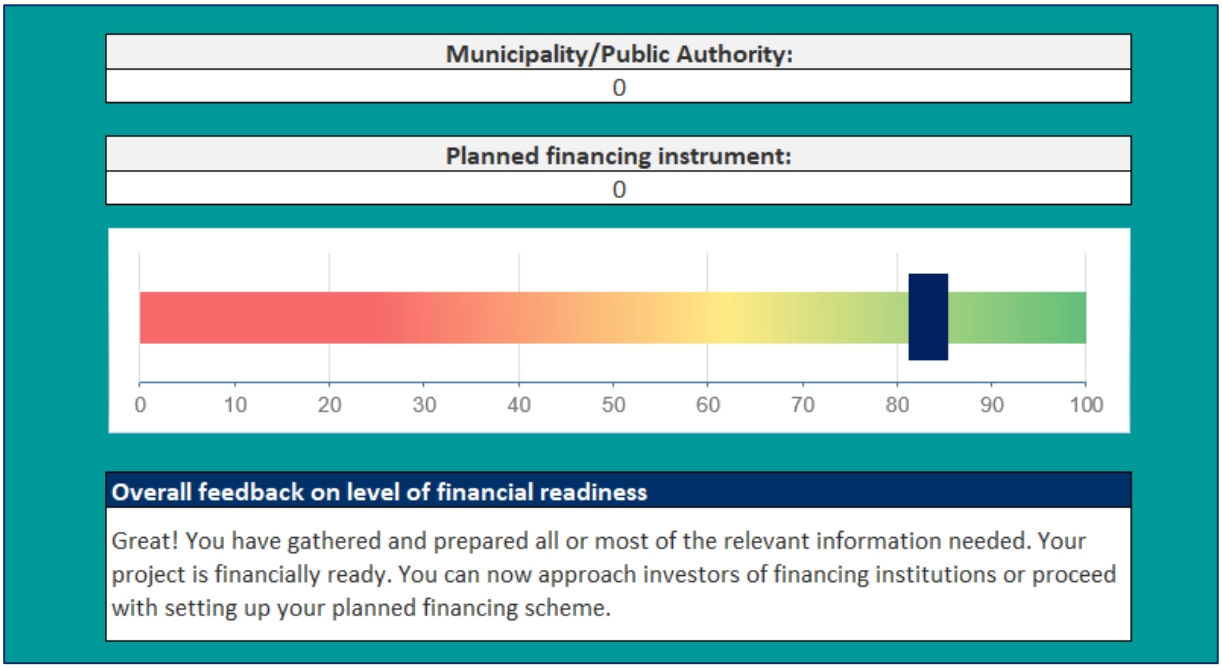
points for "Complete". Some questions can only be answered by “Yes” or “No”. In this case, “Yes” will be awarded with three points and “No” with zero points.

By answering the questions, the user of the tool automatically receives an overall score, which evaluates the results and determines a level of financial readiness for the project proposal in question. Moreover, the sections of the tool are also evaluated individually with feedback being provided for each thematic area. This provides the significant advantage of allowing the user to clearly see in which areas the project is already well prepared and positioned for financial readiness, and in which area improvements still need to be made.

4.1.1 Financing Readiness Summary and Feedback

The summary after answering all relevant questions in the respective sections is displayed to the user as a color scale with graduation labels from 0 to 100. The blue bar in the scale represents the results achieved by the users for the financial readiness of their projects in relation to the minimum or maximum score. A text box below this scale displays the overall feedback on the level of financial readiness, which corresponds to the level of the progression bar displayed on the scale:

Figure 10: Evaluation section



Based on the overall performance of the user of the tool, the rating in the text box adjusts to the respective result. In the example shown above, the user has scored 83 points out of 100 and receives the corresponding very good evaluation to the score.

The overall feedback on the level of financial readiness is therefore displayed directly below the color scale and corresponds to the score displayed. Three different feedback texts can be displayed according to the score achieved by the tool user, corresponding to either a rather poor value, a good value but with room for improvement, and a very good value. The feedback texts were formulated specifically to the corresponding score ranges and clearly distinguishable from one another. At the same time

the texts are kept generic enough so that the feedback can apply to each different user and each different project. The complete feedback text provided by the tool for each overall score is presented in table below:

Table 1. Possible overall feedbacks in the financial readiness tool and correspondence to score

Overall score	Overall feedback
More than 75%	*Great! You have gathered and prepared all or most of the relevant information needed. Your project is financially ready. You can now approach investors of financing institutions or proceed with setting up your planned financing scheme.*
50% - 75%	*You are almost there. Please make sure to prepare the missing information for the sections that are still red or yellow. The more information you have prepared the easier it will be to obtain financial means for your project.*
Less than 50%	*More information required. You still lack much for the required information before you can consider your project financially ready. Please make sure to prepare the missing information for the sections that are still red or yellow. The more information you have prepared the easier it will be to obtain financial means for your project.*

In order to allow each user to individually assess and evaluate his or her strong and weak sections, the overall feedback is followed by specific feedback per section, in which a clear separation of the respective areas makes it clear where the user can demonstrate an improvable, good or already very strong financial readiness.

4.1.2 Scoring and Feedback per Section

The respective sections differ in their scoring. However, the allocation of zero to less than 50% as the lowest result with feedback, between 50% and 75% as an improvable result with feedback and with more than 75% of the total score of the section as a very good result with corresponding feedback text applies equally to each section. If the point distribution limits do not result in natural numbers, but must be represented with decimal places, the respective limit is subject to rounding up or down.

Individual feedback is also provided to the tool user for each section in the summary section at the end. Each section has a maximum total score. If **more than 75%** of the maximum total score is achieved in a section, the following text appears in the respective feedback text field: "*Great! You have provided all the relevant information*" about the specific matter. The color scale for the individual section also changes along with this. The color scale remains in the green range between the 75% and 100% marks, with dark green representing a stronger result and light green a weaker result.

If the user achieves **more than 50% but less than 75%** of the maximum total score of the section, the text box will display the text: "*You are almost there. Please make sure to provide the missing information*". In this case, specific support for the respective section is also provided each feedback field, emphasizing why it makes sense to improve this section and what are key elements for a robust project proposal. For example, in section one – General Information & Background - following feedback is provided for this score range: "If you have implemented similar projects it is worth mentioning this to show that you have experiences. It is also helpful to provide letters of support from collaborating partners to show that you are already engaging important parties". For scores between 50% and 75% for each section, the color scale also changes and varies between light yellow for a score close to the 75% limit and dark yellow, close to the 50% limit.

If the user's score adds up to **less than 50%**, the third possible text appears in the corresponding feedback field: "*More information required. Please make sure to provide the missing information*". This is followed by a section-specific in-depth feedback for the respective area. The color scale also changes within the range from zero to 50%. If the score is closer to the 50% limit, the color scale appears in a dark yellow. The lower the number of points, the more orange the color scale becomes until it turns red close to the minimum limit of zero points.

All in all, although the feedback texts cannot be entirely accurate and specific for each individual project, they allow the tool user to have a realistic overview of the status quo of financial readiness, and the associated coloring scale shows how the user's own position tends to be rated better or worse in the respective area. To mention again, the last available section, that of the EPC Model, is generally only available if the EPC financing method was explicitly selected by the user at the beginning of the application in the START section. If the model has not been selected, the tool will not display the seventh section "*Additional information for EPC financing*". Consequently, in case of not selecting the item, neither points nor feedback will be given in this subsection.

4.1.3 Further Sources

In addition, the financial readiness tool provides users with further references for consultation about different innovative financing instruments, including links to guidance documents and tools related to each of them. The further sources can be accessed on the top left of the page. The innovative financing instruments included under the references are:

- Citizen finance
- Energy Performance Contracting (EPC)
- Green bonds
- Internal contracting
- Revolving funds
- Soft loans

Moreover, further references are provided to support tool users in searching for more information about funding opportunities and available financing instruments for sustainable energy projects, including, for example, the Covenant of Mayors and EU Commission websites.

5 References

The reference list should be formatted using the PROSPECT+- References style:

van de Ven, D., Westphal, M., González-Eguino, M., Gambhir, A., Peters, G., Sognnaes, I., McJeon, H., Hultman, N., Kennedy, K., Cyrs, T., & Clarke, L. (2021). The Impact of U.S. Re-engagement in Climate on the Paris Targets. *Earth's Future*, *9*(9). https://doi.org/10.1029/2021EF002077

Fragkos, P. (2021). Assessing the role of carbon capture and storage in mitigation pathways of developing economies. *Energies*, *14*(7). https://doi.org/10.3390/en14071879

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