The London Green Fund helps to meet its environmental targets. London, United Kingdom

Revolving Loan Fund (RLF)

Fact sheets on funding and financing opportunities

Background

A Revolving Loan Fund (RLF) is a financing tool based on the use of a fund to be loaned instead of a traditional offer of direct grants. Revolving funds can provide loans for projects with difficult access to traditional loans from financial institutions or can provide loans at a below-market rate of interest (soft loans). Thanks to its revolving aspect of loan repayment, the central fund is refilled, creating the opportunity to offer other loans to new projects. It can serve to support multiple sustainable energy projects: energy efficiency, renewable energy and other sustainability projects that generate cost savings. These savings are tracked and used to replenish the fund for the next round of investments, thus establishing a sustainable funding cycle while cutting operating costs and reducing environmental impact.

Objective

The main objective of the RLF is to use a pool of capital for loans instead of direct grants, increasing the fund impact through a set of several consecutive projects.

Description of the funding opportunity

Revolving loan funds (RLFs) uses pools of capital to offer specific loans to finance clean energy projects (energy efficiency of renewable energy uses) as well as adaptation measures, to help a municipality to adapt its territory to climate change. As loans are repaid, the capital is then reloaned for other projects, and so on.

Assuming that defaults remain low, RLFs can be permanent sources of capital that are recycled over and over again to fund projects well into the future. States, regional and local administration can establish RLFs to support both their own energy upgrades (internal tool), and those in private sector (external tool), as shown in Figure a.

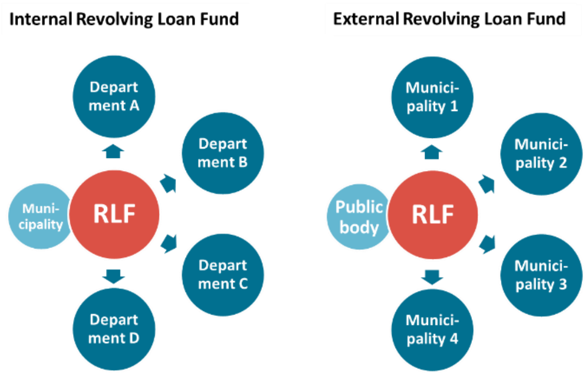

Figure a. Internal vs. External Revolving Loan Fund

Internal revolving loan funds

In order to manage a pool of capital for ongoing investments in mitigation of climate change, public administrations can develop their own internal RLFs. These programs start with a fixed fund to pay for projects. The money is "lent" internally to specific projects, and the savings coming from the improvements are repaid to the RLF. The replenished RLF can then be used for funding additional projects. Internal RLFs are often more an "accounting treatment" than a formal fund, but can be an effective tool for capturing and using the energy savings from clean energy improvements to fund additional facilities investments. The internal fund management can be also a guarantee to attract private funds to be managed by the public administration.

External revolving loans funds

In addition, there are certain entities that can manage revolving funds for public or private investors. These RLFs *typically offer lower interest rates and/or more flexible terms than are available in commercial financial markets. These programs often focus on financing the cost of efficiency upgrades, such as appliances, lighting, insulation, envelope and heating and cooling system upgrades.*

A Revolving Loan Fund can be capitalized through a variety of sources, including state bond proceeds, treasury investments, and other special funds (Figure b).

Conventional RLFs typically set the interest rate for RLFs either by pegging the market borrowing rate, or by using part of the funds to buy down the interest rate to more attractive levels. The majority of loan terms are shorter than 10 years. Some programs require loans to be secured by additional collateral, while others create loan loss reserve funds to serve as a cushion for potential defaults.

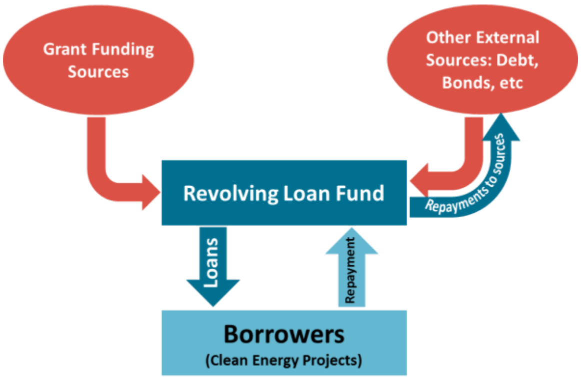

Figure b. Conventional structure of a Revolving Fund

Pros and cons of the RLF

The main advantages of the RLF are:

- Better financing conditions than in the market,
- Best value of the money managed by the public body,
- Energy savings can repay the loan,
- Release of own resources for less cost-effective investments like those of adaptation projects.

However, this financing tool has also some cons, like:

- Certain municipalities have restrictions for money loans,
- Direct grants are more attractive than loans,
- Difficulties for money repayment in case of project saving overestimations.

Revolving Loan Fund in London: The London Green Fund

The pool of capital (170 M€) is composed by funds coming from the European Regional Development Fund - ERDF (85 M€) and other public funding sources through the European JESSICA initiative. It is being used to attract private investment to finance green infrastructure projects across London. The London Green Fund (LGF) were established as a key financial instrument to achieve the capital's goal of reducing its CO_2 emissions by 60 % in 2025 and to cut the amount of waste that ends up in landfill.

With this facility, energy saving measures have been installed in several schools, hospitals and libraries, and pioneering technologies have been implemented in Tate Modern and Tate Britain art galleries. On the other hand, new energy efficient communal heating systems have been implemented in social housing blocks in the borough of Hackney to address fuel poverty. A district heating project delivers hot water to municipal and commercial buildings in Enfield. The LGF has also funded the capital's first commercial-scale anaerobic and composting facility, which will generate 1,4 MW of electricity.

Summary Table	
City & country	London, United Kingdom
Investment project	London Green Fund
Sector of SECAP	All
Year	2009-2015
Financing opportunity	Loans
Energy saving	-
Cost saving	-
Green energy produced	-
Impact on the environment	-

Measures elebible for RLF

- Investments in renewables
- Investments in energy efficiency

Municipality of London

This fact sheet is part of a series on funding opportunities, which can be found here: [html-link]

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