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How Can Public Development Banks Support the Energy Transition of Territories?

Energy policies designed at the national level produce different effects across territories and often prove insufficiently adapted to the diversity of local socioeconomic and environmental contexts. Ecuador's October 2019 crisis is a clear illustration of this: the removal of fuel subsidies had uneven impacts across different territories, highlighting the limitations of a one-size-fits-all approach.

At the same time, decentralized energy generation is expanding, driven by local, community-based, and individual initiatives, shaped by market forces rather than national planning. This decentralization of the energy transition is both a necessity and an emerging reality—one to which our traditional counterparts (governments, regulators, and national utilities) sometimes struggle to adapt.

In response to these limitations, energy action is undergoing a transformation, to varying degrees across countries: territorialization. This approach relies on mobilizing local resources and stakeholders, as well as on multilevel governance, in order to better tailor and embed the energy transition within territories while contributing to national objectives. This evolution is taking place within an international framework that now explicitly recognizes the role of subnational actors: their participation in addressing climate change is enshrined in the Paris Agreement, marking a partial shift in climate action toward the local level.

The growing role of territorial actors is all the more significant because certain areas concentrate the most critical energy and climate challenges. Urban areas, in particular, have emerged as major drivers of the energy transition, as they account for nearly 75% of global energy consumption and approximately 70% of greenhouse gas emissions (IEA 2024). Against this backdrop, the territorialization of energy action appears not only as a response to the limitations of national policies, but also as an essential condition for the effectiveness of today's climate strategies.

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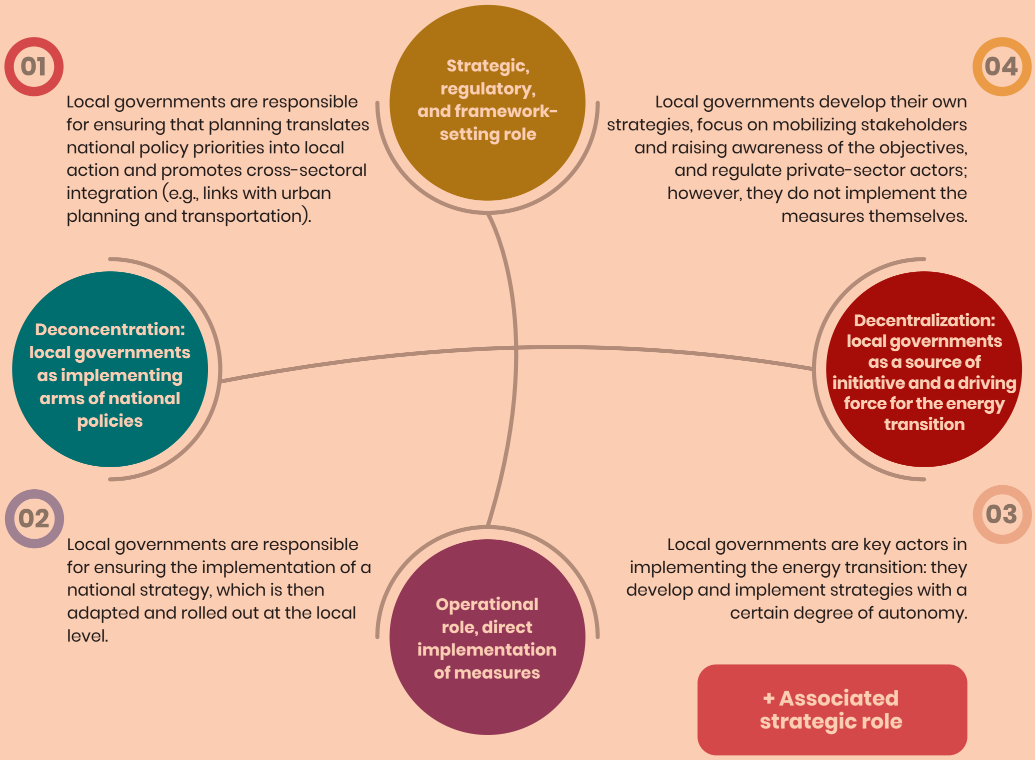
Figure 1 - Types of Local Government Actions in the Energy Transition (IDRRI 2014)



Local Governments: Multiple Roles, Constrained Implementation

While the international community now recognizes the relevance of local public action in the energy transition, no consensus has emerged on the roles to be assigned to local governments: are they extensions of the state or autonomous forces for initiative? Are they strategists governing local energy transition efforts, or simply operators? Rather than being mutually exclusive, these roles can coexist and overlap within a single local government (IDDRI 2014).

Because the energy transition is systemic and cross-cutting, it can be pursued locally across a range of sectors, extending beyond the energy sector itself. Thus, although certain responsibilities remain primarily at the national level—such as large-scale electricity generation and transmission—local governments generally have significant levers at their disposal: renewable and waste heat, distributed renewable electricity generation, as well as a range of interventions in related areas, including urban planning, buildings, mobility, infrastructure, and local public services.

Although decentralization[1] processes undertaken in many countries have expanded the powers and responsibilities of local governments, their actual capacity to implement energy policies and projects remains limited. First, local governments generally confine their transition efforts to their own operations (decarbonizing their assets, etc.), while devoting less attention to their broader role as policymakers: implementing local energy transition policies through regulatory, incentive-based, informational, and other measures. Despite growing needs, local governments in low- and middle-income countries face difficulties in financing their transition due to limited own-source revenues and restricted access to loan and public-private partnerships. These challenges are compounded by limited human resources and often insufficient technical expertise. According to a study conducted by C40 Cities in 2022, 50% of the cities surveyed considered insufficient internal technical and financial capacity to be the main obstacle to developing bankable climate projects. In countries eligible for official development assistance, this proportion rises to 100%.

From Participation to Active Engagement: Opportunities and Barriers to Mobilizing Local Stakeholders

Local stakeholders' ownership of the energy transition is a key driver of the effective implementation of energy policies. First and foremost, public participation—by civil society, residents, and businesses—in the development of national and local energy policies and projects can help tailor these initiatives to the specific characteristics of each territory, address local needs, and

[1] «Decentralization» refers to the transfer by the State of certain of its powers to local authorities, granting them a degree of autonomy. It differs from «deconcentration,» which involves establishing administrative authorities within the territories to represent the State.

Table 1 - Typology of Instruments Available to States to Govern Territorial Energy Transitions (adapted from d'Epstein, 2023)

Types of Intruments	Examples
Legislative and Regulatory	Requirement for municipalities to designate renewable energy acceleration zones (France)
Economic and Fiscal	Financial mechanism established by the Loans and Support Fund for Local Authorities (*Caisse des prêts et soutien aux collectivités locales*) to support municipalities' energy transition plans and actions (Tunisia)
Contractual	The Ecological Transition Success Contracts (*Contrats de réussite de la transition écologique*) enable the state and local governments to jointly develop territorial transition projects and provide local governments with financial and technical support from the state for their implementation (France)
Information and communication	Development by the Ministry of Energy of a renewable energy mapping database identifying renewable energy facilities and resources to guide local authorities in shaping their energy policies (Thailand)
Standards and Best Practices	The *Comunidades Energéticas* call for proposals enables communities to submit energy projects; selected initiatives, based on social and environmental criteria, subsequently receive technical and financial support from the state (Colombia)

ensure public acceptance. Active engagement by communities and the private sector is also encouraged, both in the areas of energy efficiency and renewable energy generation. The development of energy communities (IRENA 2018)[2] and *prosumers*[3] demonstrates tangible benefits, including the deployment of renewable energy solutions, greater reliability of electricity supply, improved grid flexibility, lower energy bills, and local job creation (IEA 2023).

However, the active engagement of these stakeholders can, in some cases, be hindered by a lack of political support, inadequate regulatory frameworks, inappropriate financing mechanisms, and limited public participation.

A Structured Territorialization: States as Key Actors in the Energy Transition of Local Territories

Far from signaling the withdrawal of the state, territorialization leads to a reconfiguration of how states exercise their role. Even in contexts of decentralization and energy-sector liberalization, states retain a range of instruments to steer the energy transition of local territories.

The state's ability to steer local stakeholders is all the stronger because decentralization has generally gone hand in hand with continued budgetary and technical centralization, as well as competition among territories. To benefit from financial, technical, or promotional incentives, local stakeholders, while retaining formal autonomy, align themselves with the state's expectations. These instruments therefore make it possible both to adapt the energy transition to local contexts and to standardize the objectives and actions of territorial stakeholders.

Recommendations for Public Development Banks

With expertise in financing public policies and projects across the energy, mobility, buildings, and urban infrastructure sectors, and working with the various stakeholders involved in the territorial governance of the energy transition—states, local governments, civil society, and private-sector actors—public development banks are well positioned to support and accelerate the territorialization of the transition. This distinctive role gives them a strong basis to:

- **Support national governments in designing and implementing national policies to territorialize the energy transition** by financing (i) the technical assistance required to design these public policies and (ii) financial and technical incentive mechanisms to guide and support action by local stakeholders.
- **Support the development of local climate and energy plans** by financing (i) jointly developed territorial assessments, (ii) local climate and energy strategies, and (iii) their operational translation into action plans. This support should ensure that actions are cross-sectoral, so as to leverage synergies across sectors and maximize co-benefits for the territory. Public development banks can also support the implementation of these plans by (iv) strengthening local governments' capacity to prioritize identified actions and turn them into bankable projects.

[2] Community-based initiatives — public or private — in the energy sector, for which at least two of the following conditions are met: (i) local actors hold the majority ownership of an energy project; (ii) the community is based on a democratic and participatory form of organization; (iii) most of the social and economic benefits are redistributed locally.

[3] Actors — households, businesses, or communities — that combine the functions of electricity production and consumption, relying on decentralized energy resources, with the possibility of optimizing their self-consumption or participating in energy markets.

- **Promote a more open and participatory governance of the energy transition** by (i) financing inclusive participation mechanisms at an early stage of the policies and projects they support, at both the local and national levels, and (ii) strengthening the capacity of local governments, states, and energy project developers to design and implement such mechanisms.
- **Strengthen project acceptance by supporting value-sharing mechanisms** (crowdfunding, local equity participation, territorial funds), making economic benefits more visible and addressing territorial justice concerns.
- **Support improvements in the energy performance of local public services** by financing (i) urban planning and mobility plans aimed at increasing the density and functional mix of urban areas, (ii) energy audits of municipal buildings, infrastructure, and facilities (street lighting, wastewater treatment plants, district heating networks, vehicle fleets, etc.), and (iii) their renovation and modernization.
- **Support energy-efficiency initiatives led by households and businesses** by providing local financial institutions with dedicated credit lines for (i) the thermal renovation of homes, (ii) the purchase of energy-efficient homes, (iii) the acquisition of high-efficiency appliances and equipment by households, and (iv) energy-efficiency projects (buildings and equipment) undertaken by businesses.
- **Support the development of local public and private renewable energy projects** by financing, either directly or *via* credit lines to local financial institutions, (i) renewable distributed electricity generation and renewable heating installations for local governments and their operators, (ii) self-consumption projects for public infrastructure and facilities, and (iii) renewable energy investments by private-sector actors, including SMEs, households, and cooperatives.

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