Energy Savings Insurance

The Lab
The Global Innovation Lab for Climate Finance

Energy efficiency upgrades can make small and medium-sized businesses (SMEs) in developing countries more competitive and more productive, saving them money while reducing their emissions of harmful greenhouse gases. However, the market for such upgrades is typically limited to those with very short payback periods, such as lighting. This is particularly true for some developing countries and sectors. For example, in the SME sector, SMEs and local banks often lack both the technical capacity to assess the potential of more capital-intensive energy efficiency investments and the confidence that they will pay back, starving the sector of investment.

Energy Savings Insurance aims to address these investment barriers by paying out if the projected value of energy savings is not met. The Lab's analysis shows that the instrument can absorb up to 80% of this underperformance risk.

Energy Savings Insurance ensures the financial performance of energy efficiency savings projects. The pilot in Mexico is underway, and the challenge now is to replicate this instrument in additional sectors and regions.

A pilot of the Energy Savings Insurance instrument is moving ahead in Mexico with a target to stimulate USD 25 million of investment in 190 energy efficiency projects in the agro-industry sector through 2020.

The Inter-American Development Bank is implementing the pilot with local partners through funding from the Clean Technology Fund and the Danish Energy Agency.

Replicated on a global scale, Energy Savings Insurance can drive USD 10-100 billion in investment and provide annual emission reductions of 27-234 $MtCO_2$ by 2030.

The Inter-American Development Bank is also expected to pilot the Energy Savings Insurance in additional Latin American and Caribbean countries and sectors through a proposed regional Energy Savings Insurance Facility. The facility will need USD 16.9 million in donor support to expand to an additional seven countries, sectors, and pilots. The proponent and implementing entity are also exploring partnerships with other agencies to replicate Energy Savings Insurance in China, India, Indonesia, and Africa, all of which show substantial market potential for the instrument.

If implemented in all relevant developing countries, the ESI would drive USD 10-100 billion in investment and provide annual emissions reductions of 27-234 $MtCO_2$ by 2030.

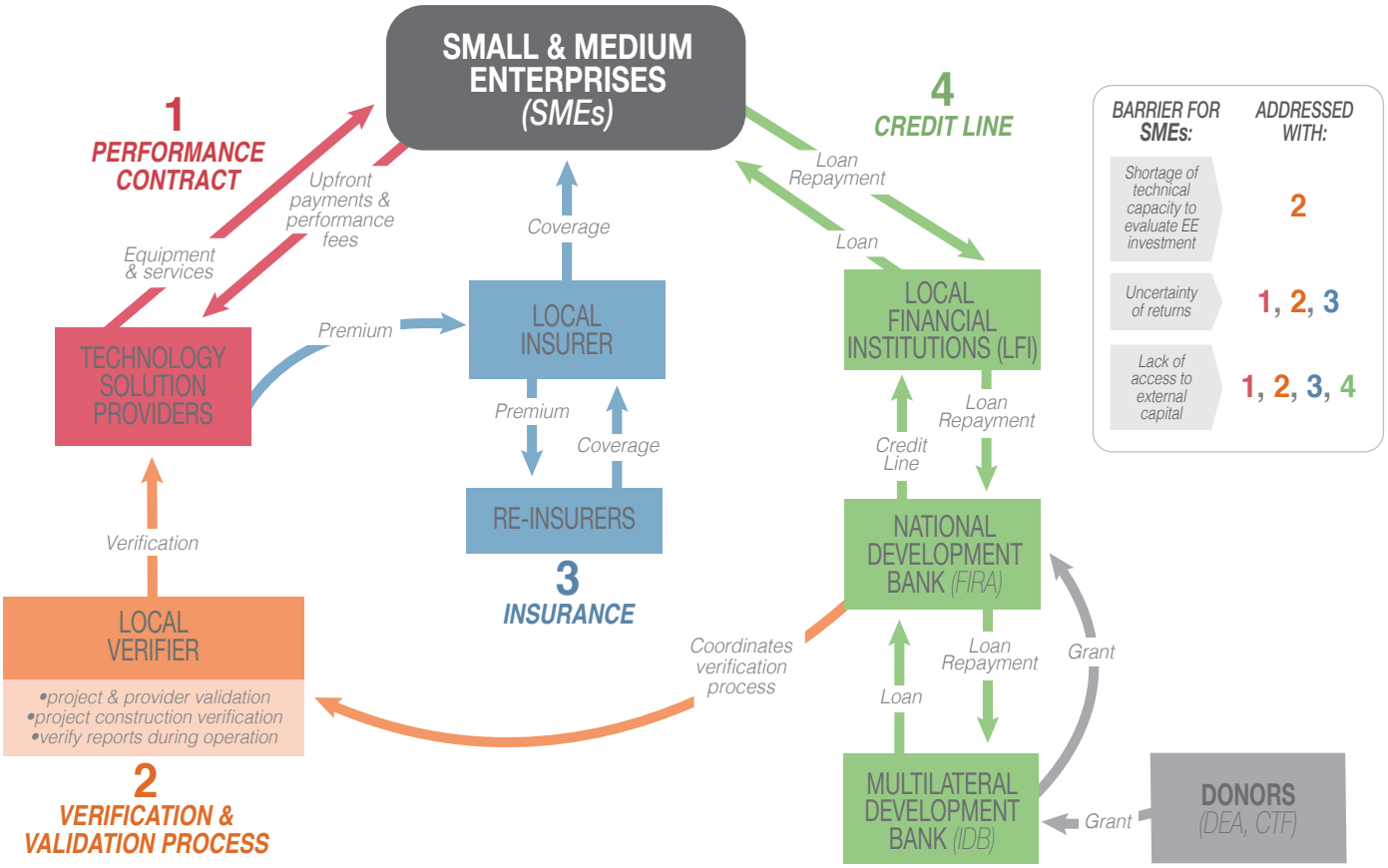
DESIGN

The main components of the instrument are an insurance and package of complementary measures (see figure below).

Technology solutions providers will purchase the insurance to back their contractual guarantees to their SME clients on the performance of their energy efficiency products.

A package of complementary measures will address other barriers to investment such as technical capacity and access to capital. Measures include:

- Standardized contracts to reduce transaction costs, including a clause transferring part of the risk of underperformance to the technology solution provider
- Third party verification to ensure the quality of energy service providers and their projects
- Credit lines from development banks, which could provide long term capital, reducing the cost of financing projects
- Grant support to sustain market demand



ABOUT THE LAB

The Global Innovation Lab for Climate Finance is an initiative that supports the identification and piloting of cutting edge climate finance instruments. It aims to drive billions of dollars of private investment into climate change mitigation and adaptation in developing countries.

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