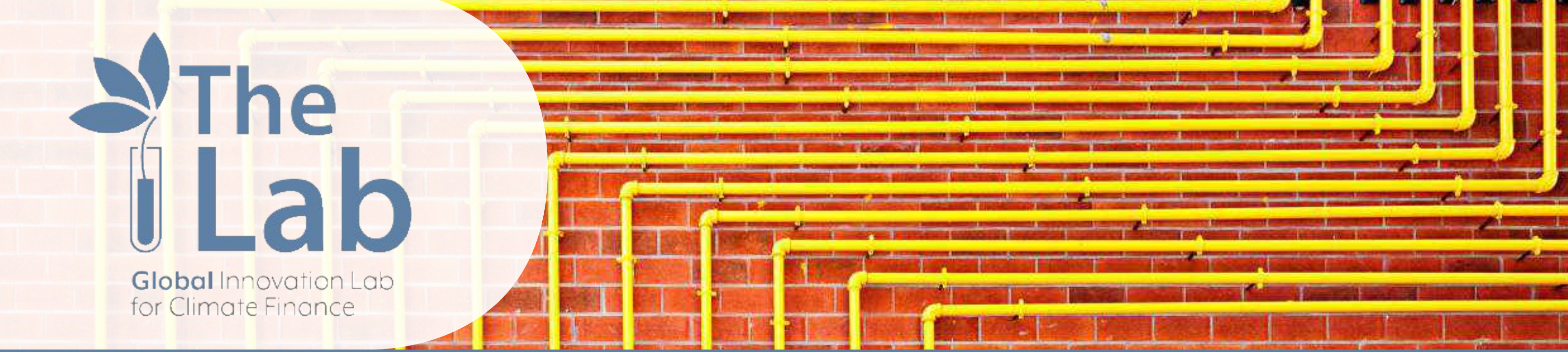


Energy Savings Insurance

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. ESI now has projects in seven countries that will target thousands of businesses.

Energy Savings Insurance has been developed and led by the Inter-American Development Bank (IDB), with ongoing projects in seven Latin American countries, and growing interest from other regions:

- In Mexico, a pilot aims to stimulate USD 25 million of investment in 190 energy efficiency projects in the agro-industry sector through 2020. IDB is implementing the pilot with local partners through funding from the Clean Technology Fund and the Danish Energy Agency.
- In Colombia, a pilot with BANCOLDEX was launched on June 1st 2016, with support from the Clean Technology Fund (CTF). The program aims to promote investments in energy efficiency in the hospital and healthcare sectors, and is expected to support 104 firms to reduce about 13,977 tCO2e/year.
- In El Salvador, a pilot has support from the Danish Energy Agency, BANDESAL, and grant resources from the Green Climate Fund. The program will target 500 firms investing in energy efficient projects and reducing about 37,500 tCO2e/year.
- In addition, Energy Savings Insurance has projects beginning in Nicaragua, Brazil, and Peru.
- The instrument continues to raise interest in other regions like China and Vietnam, Mauritius, Turkey and India. The India Innovation Lab for Green Finance endorsed the concept for application in India in 2016.

Replicated on a global scale, Energy Savings Insurance can drive USD 10-100 billion in investment and provide annual emission reductions of 27-234 MtCO2 by 2030.

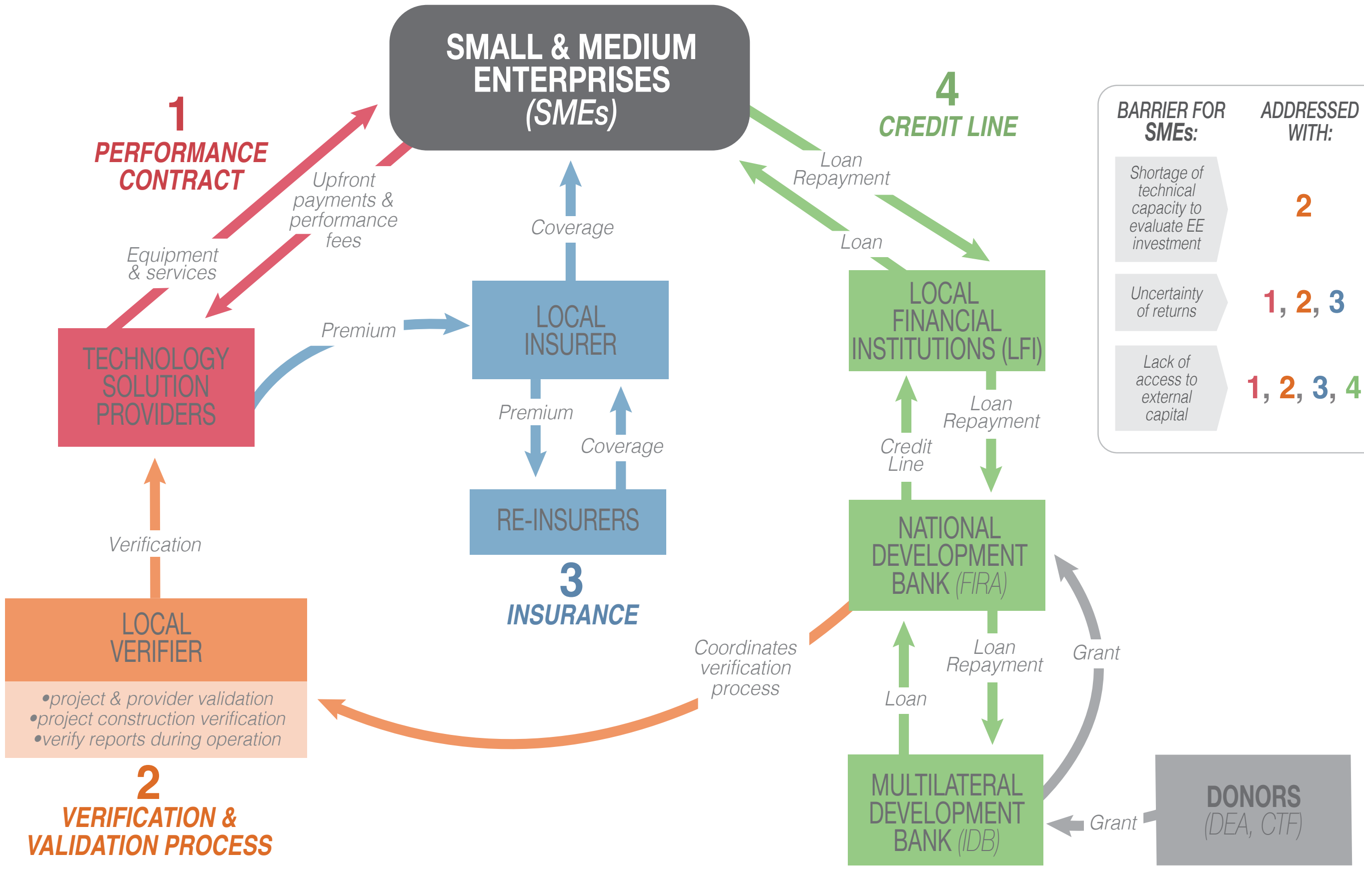
DESIGN

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



BARRIER FOR SMEs:	ADDRESSED WITH:
Shortage of technical capacity to evaluate EE investment	2
Uncertainty of returns	1, 2, 3
Lack of access to external capital	1, 2, 3, 4

__The Global Innovation Lab for Climate Finance__ is a public-private 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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