Energy Savings Insurance – helping SMEs to access financing for Green Technology investments

Workshop on Energy Efficiency De-Risking Instruments in India: The Role of Energy Savings Insurance and other Instruments

20 February 2024

BEE-OECD-ADB

BASE

ABOUT BASE

WHO WE ARE

BASE is a Swiss not-for-profit foundation and a Specialized Partner of UN Environment Programme.

Our vision is a world where markets are transformed, and sustainable energy and climate change solutions are the norm, not the exception.

WHAT WE DO

We develop innovative, actionable financial strategies and market-driven solutions to unlock investment in SE and to tackle climate change.

Around the world, we work with all markets and segments including those that are challenging and underserved.

BASE'S AREAS OF WORK

RENEWABLE ENERGY

ENERGY EFFICIENCY

ENERGY ACCESS

ELECTRIC MOBILITY

CLIMATE FINANCE

ADAPTATION AND RESILIENCE

LAND USE

CIRCULAR ECONOMY

WHO WE WORK WITH

Partners are essential to our solutions.

- BASE works with a variety of players and acts as a bridge between the public and private sector.

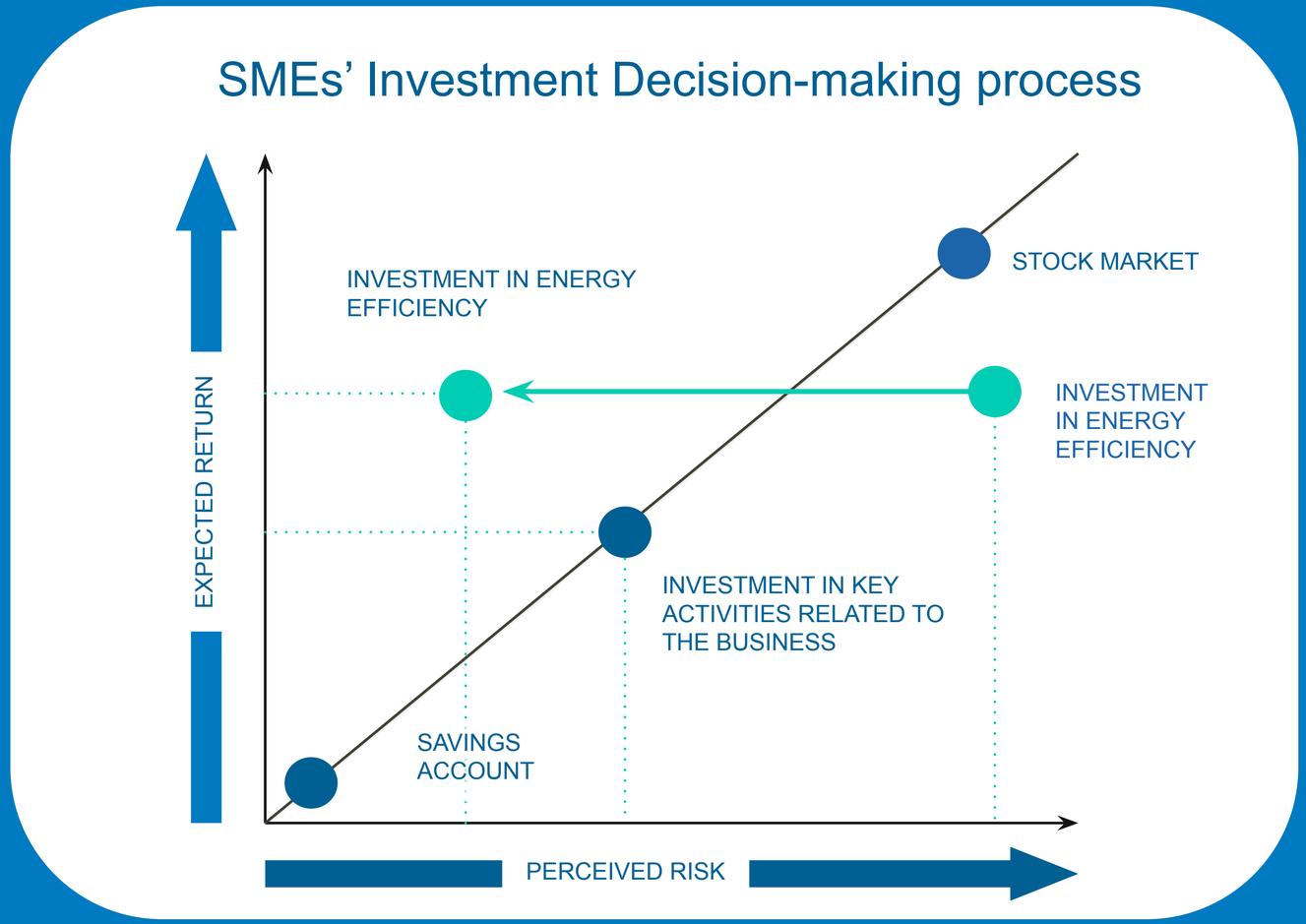
- Our partners include: multilateral development banks, national banks, financial institutions, development agencies, intergovernmental and philanthropic organisations.

ENERGY EFFICIENCY

The ESI model tackles the **perception of high risk** on energy efficiency investments.

Other barriers for EE include:

- Higher upfront costs
- Lack of trust (among actors, in future energy savings)
- Competing investments opportunities

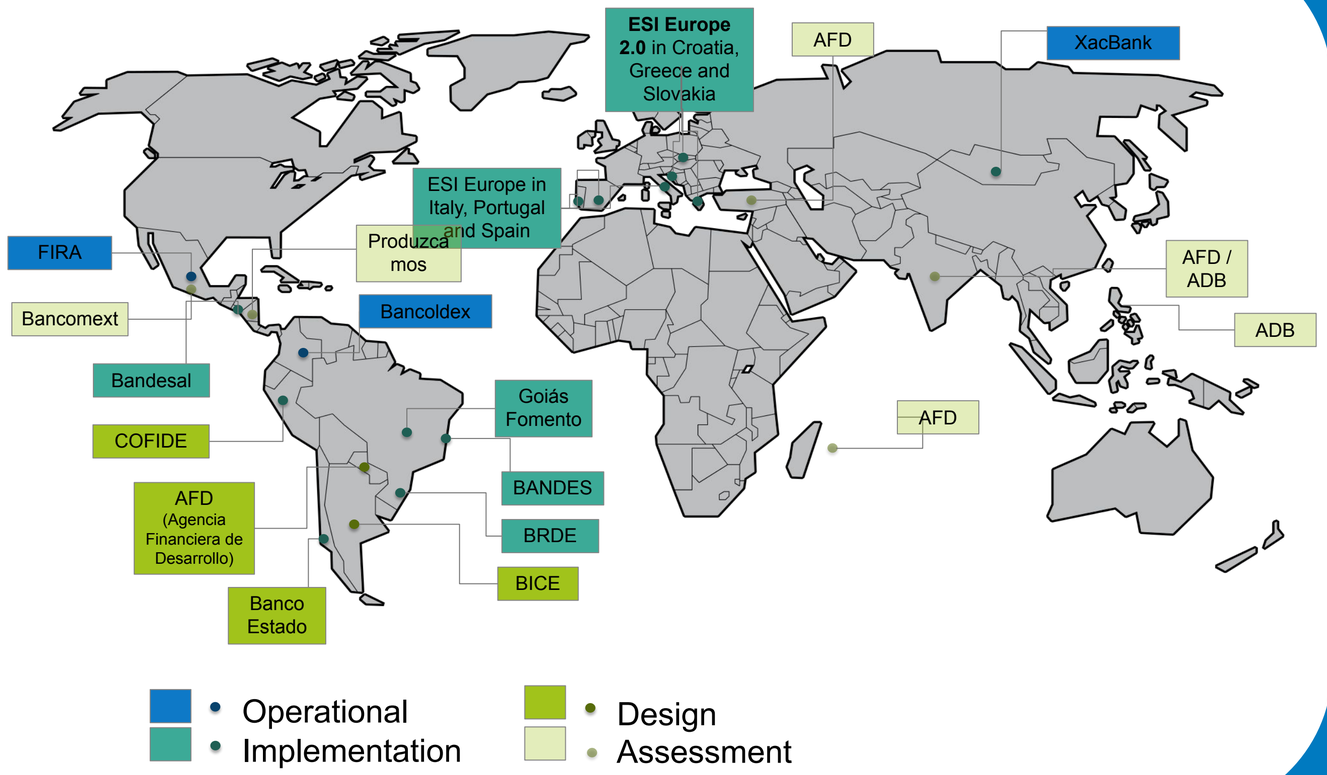


ENERGY EFFICIENCY INVESTMENTS

A barrier identified is the risk perception on energy efficiency investments

The ESI model was recognised by the Global Innovation Lab for Climate Finance as one of the most promising instruments to mobilise private sector investments in energy efficiency.

ESI also features in the G20 Energy Efficiency Investment Toolkit by the UNEP FI and in the Swiss Sustainable Finance compendium of instruments for Financing the Low-Carbon Economy.



THE ESI MODEL ELEMENTS

The ESI model is the combination of financial and non-financial elements designed to work together to **reduced the perceived risk** and build trust in future energy savings and **mobilise private investments in Energy Efficiency**.

Standardised Contract:
An agreement between technology provider and customer with guaranteed energy savings clause.

Energy Savings Insurance:
Coverage of the guaranteed energy saving offered through a surety instrument covering up to 5 years.

Technical Validation Process:
The project and the guaranteed savings are validated by a third-party validation entity that also act as an arbiter in case of disagreement.

Financing Structure:
Facilitated access to green credit lines with competitive conditions by financial institutions to EE customers.

THE ESI MODEL KEY ACTORS

Key Stakeholders and main characteristics

Technology Provider (TP)
Increases sales in high-energy efficient products and is first liable for the energy savings guarantee

Clients (CL)
SMEs who invest invest in EE, are the loan takers and beneficiaries of the insurance

Validation Entity
Is a neutral and credible actor in the field of EE, for project ex-ante evaluation and arbitration of savings

Insurance Company
Regulated in the local market to offer surety bonds.

Finance Institutions (Fis)
Mobilise green products and can benefit from the reduced risk of repayment (project failure).

THE 5th MODEL ELEMENT

MANAGEMENT INFORMATION SYSTEM

A functional interface developed to facilitate the workflow and information access of the different key actors of the energy efficiency project.
The main characteristics are:

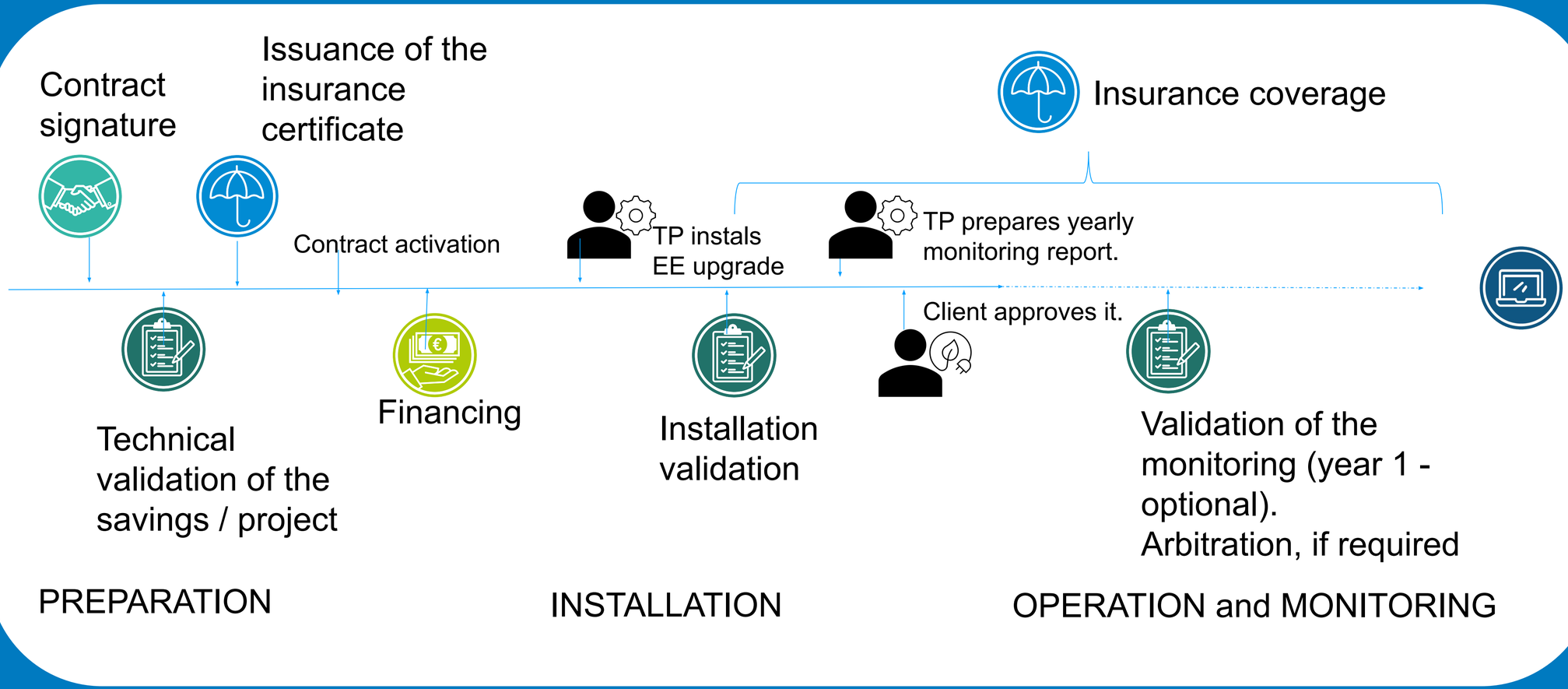
TRACKING OF PROJECT PROCESS
It registers information, documentations and actions of the project: proposal validation, contract activation, installation validation and monitoring reports (GHG emission reduction)

DEVELOPED IN BLOCKCHAIN
Increased transparency, trust, traceability and reliability of information

SECURE AND TAILORED ACCESS
Accessed by TPs, Clients, Validation Entity, Insurance companies and Financial Institutions through a login and password, secured area

Beneficiaries of track&trace reporting:

HOW IT WORKS


Contract signature
Issuance of the insurance certificate
Insurance coverage
Contract activation
TP instals EE upgrade
TP prepares yearly monitoring report.
Client approves it.
Technical validation of the savings / project
Financing
Installation validation
Validation of the monitoring (year 1 - optional).
Arbitration, if required
PREPARATION
INSTALLATION
OPERATION and MONITORING

ESI Model White Paper

1 www.energy-base.org

BASE

ABOUT US PROJECTS NEWS 2 RESOURCES CONTACT

RESOURCES

WHICH TOPIC IS OF INTEREST

BASE REPORTS

3

DE-RISKING INVESTMENTS IN ENERGY EFFICIENCY FOR SMES: THE ENERGY SAVINGS INSURANCE MODEL WHITE PAPER

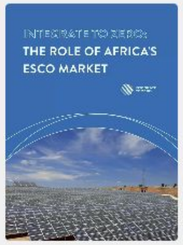
The Energy Savings Insurance (ESI) White Paper compiles knowledge and insights gathered across various implementations of the model around the world led by BASE.

READ MORE

USING FINANCE TO ACCELERATE ADOPTION OF MORE ENERGY-EFFICIENT AND CLIMATE-FRIENDLY APPLIANCES

This report showcases the lessons learned from three market-based financing mechanisms developed to facilitate consumer purchases of energy-efficient and climate-friendly refrigerators and air conditioners in lieu of outdated appliances in Ghana, Rwanda and Senegal.

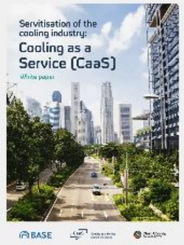
READ MORE



INTEGRATE TO ZERO: THE ROLE OF AFRICA'S ESCO MARKET

This research aims to analyse the existing ESCOs in six African countries (Morocco, Kenya, Ghana, Nigeria, South Africa, and Rwanda) to understand the maturity and needs of this sector to provide integrated energy services.

READ MORE



SERVITISATION OF THE COOLING INDUSTRY: A WHITE PAPER

In the white paper, the authors share on-the-ground insights that they gained during this 3-year effort to mainstream the adoption of servitisation in the cooling industry.

READ MORE

THANK YOU FOR YOUR ATTENTION

Livia Miethke Morais
Senior Sustainable Energy Finance Specialist

BASE Switzerland
Info@energy-base.org
www.energy-base.org

/Stifung-BASE
@energy_BASE

STANDARDISED CONTRACT

The main characteristics are:

- ✔ Easy-to-understand, signed by TP and Client
- ✔ Creates trust
- ✔ Future savings guaranteed by the provider
- ✔ Technical validation and insurance requirements defined in contract

Actors involved:

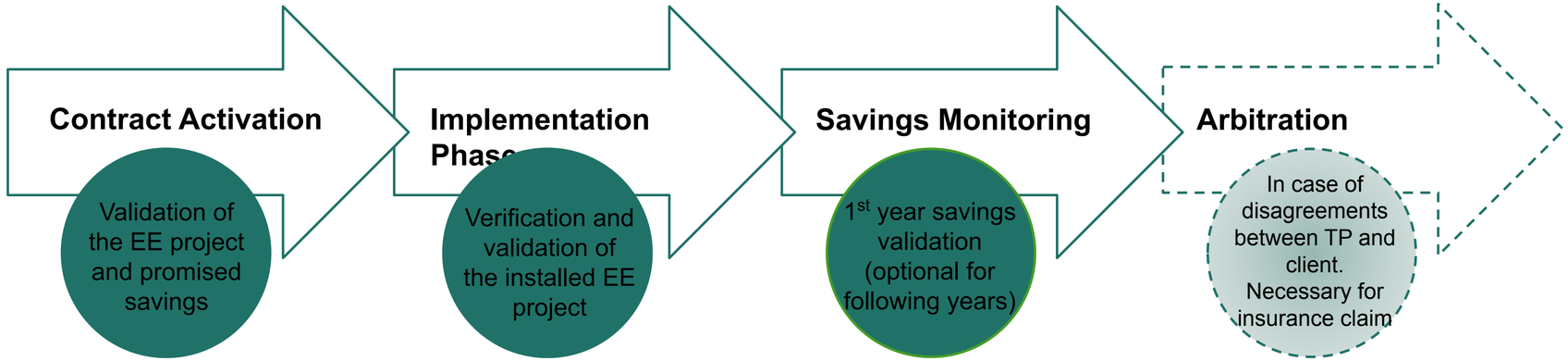
- ✔ Structured on a standard supply, installation and maintenance contract model
- ✔ Prepared and adapted to the country regulations and practices

VALIDATION PROCESS

The main characteristics are:

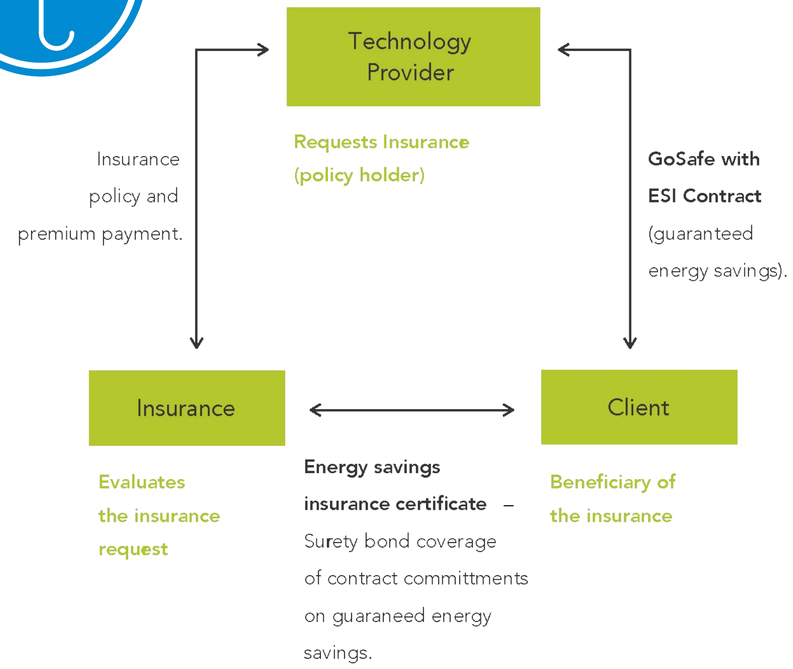
Actors involved:

✔ conducted by an independent technical validation entity
✔Methodology of General Process and Handbook per technology
✔based on Option A – Methodology of the IPMVP® protocol



INSURANCE (i)

The main characteristics are:



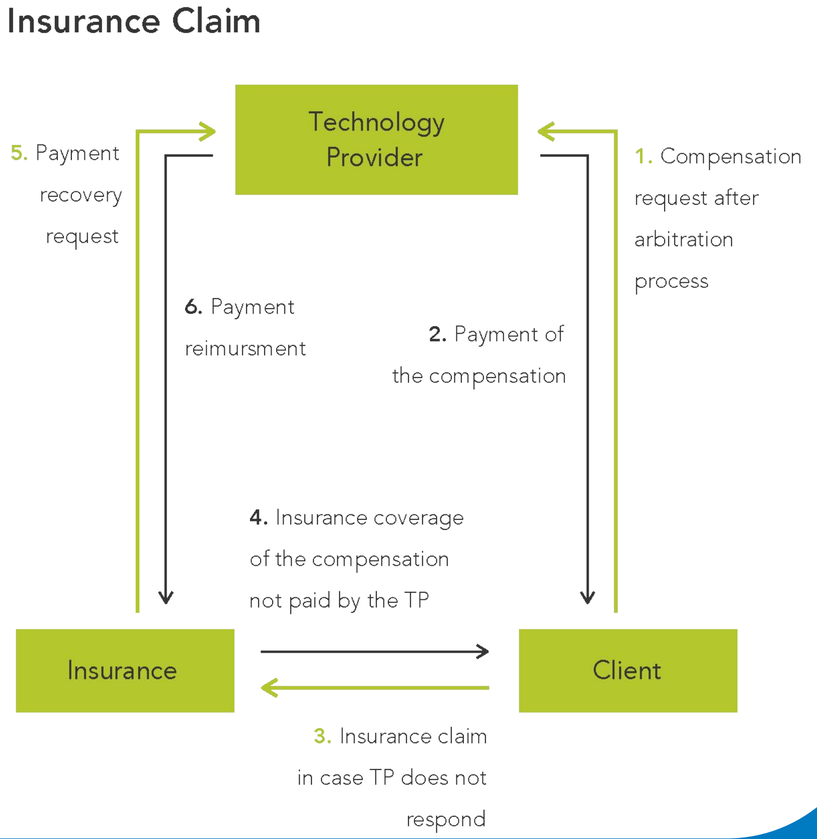
Actors involved:

- ✔ Surety bond type of insurance: three parties involved
- ✔ Covers clients in the event promised energy savings are not achieved, and the TP cannot fulfil their commitments
- ✔ Equivalent to a bank guarantee

INSURANCE (ii)

How the insurance works:

- ✔ Is linked to the Standardised contract and triggered if specific clauses of the contract are not met.
- ✔ In case of the reported energy savings are not agreed by Client and TP, an arbitration process is initiated.
- ✔ The Validation Entity carries out the arbitration procedure, assessing potential energy savings defaults to be compensated to the Client.



FINANCING STRUCTURE

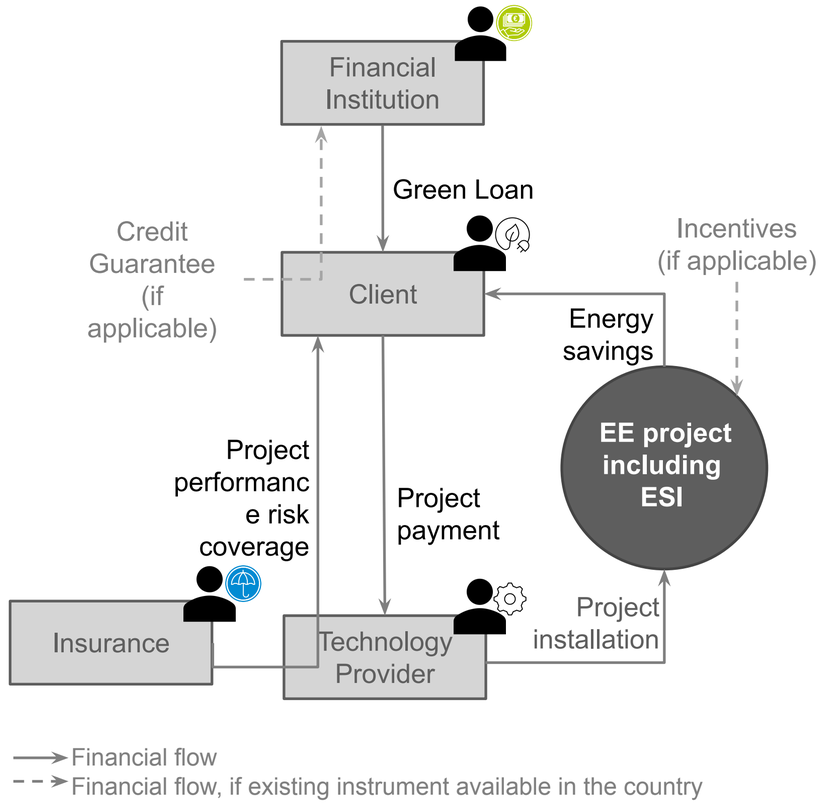
Main characteristics are:

✔ Client as investor and credit taker

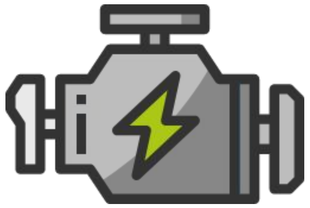
✔ Banks mobilise their green credit lines (or create new products)

✔ Links existing supporting financial mechanism (e.g. incentives, credit guarantees, etc.).

✔ FIs are engaged and trained to understand the functioning and interaction



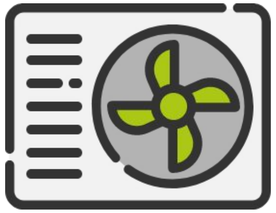
Lighting



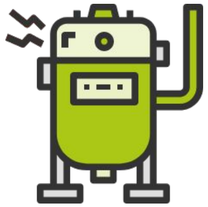
Motors

Air Compressors

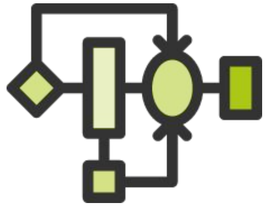
Refrigeration



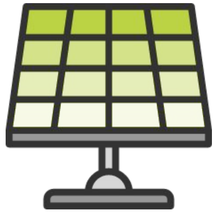
HVAC



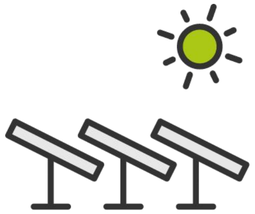
Boilers



Co-generation



Photovoltaic Panels



Solar water heaters

Combination of technologies

Technologies included in the ESI Europe implementation

=> typically used by SMEs

=> Validation methodology development