



## *Clean Energy Finance and Investment Roadmap*

### **Workshop III: Thursday 25 August 2022**

#### **Summary**

**Contacts:** **Mr. Joseph Cordonnier** ([joseph.cordonnier@oecd.org](mailto:joseph.cordonnier@oecd.org)), **Ms. Chetna Hareesh Kumar** ([chetna.hareeshkumar@oecd.org](mailto:chetna.hareeshkumar@oecd.org)) and **Ms. Poonam Sandhu** ([psandhu@nrdc.org](mailto:psandhu@nrdc.org))

The OECD and NRDC kicked off the third workshop with a brief recap of the main outcomes from the previous workshop as well as the corresponding recommendations provided in the draft Roadmap for MSME energy efficiency, offshore wind, and green hydrogen. Two focus group discussions were subsequently convened on the key recommendations selected by the Steering Committee for further development.

#### **Focus Group Discussion I: Energy Efficiency – Energy Savings Insurance**

The first focus group discussion began with a brief presentation on the Energy Savings Insurance (ESI) model, a de-risking package consisting of both financial and non-financial elements designed to build investor confidence in energy efficiency projects. First developed by the [Inter-American Development Bank \(IDB\)](#) in 2014, with the support of [Basel Agency for Sustainable Energy \(BASE\)](#), it addresses the high risk perception associated with energy efficiency investments by creating trust among investing firms that eventual savings on energy bills will more than compensate the higher upfront investments required to install energy-efficient technologies instead of conventional ones.

The presentation explained that ESI model has four building blocks that facilitate the financing of technically robust and bankable energy efficiency projects:

- (a) The **standard contract**, establishing the responsibilities and commitments of the supplier and the customer.
- (b) The **technical validation**, carried out by an independent agency, confirming the project's technical potential to achieve promised savings and verifying proper on-site implementation. This actor also determines which party is entitled to compensation in case of disagreements on the achieved performance.
- (c) The **energy savings insurance**, a performance warranty provided through an insurance company. It is issued by the supplier to the benefit of the customer, committing to financially compensate the customer if pledged savings are not achieved, provided that the equipment is used as per the terms of the contract.
- (d) The **concessional financing**, provided by lenders to insured projects at special conditions, such as preferential interest rates, grace periods and extended tenure.

The presentation further noted that implementing the ESI model involves certain transaction costs, namely the cost of technical validation services and the cost of the insurance product, which are typically charged to the client. In Latin American countries, these costs are maintained at relatively low rates of 1.5%-2.5% of the project value on average, depending on project size. For smaller projects, transaction costs may account for large share of their project values (for example MSME energy



efficiency projects which are typically around USD 5 000 – 300 000 in size), thus implying that there is a certain threshold of project size below which the ESI model is not economically viable for clients.

Participants likewise noted that start-up or MSME technology providers face difficulties participating in the ESI model, specifically in terms of availing of an energy savings insurance policy. Insurance agencies hesitate to provide reasonably-priced coverage to small technology providers without strong credit profiles and proven track records of supplying energy-efficient technologies, as they perceive a high risk of having to pay out eventual claims. For example, not a single claim has been made so far under ESI programs in any Latin American country, where well-established and reputed technology providers were involved. In India, where a large number of technology providers are likely to be MSMEs, a credible technical validation agency will play a crucial role in building trust in projects and keeping insurance costs low.

Further, it was noted that replicating the energy savings insurance product developed elsewhere would be challenging in the Indian context. It has been structured so far as a surety bond, which are used widely in other countries, but are not offered in the Indian market. It would be necessary to explore the technical and regulatory potential for surety bonds from scratch in the Indian market, or to explore the use of similar commonly-used products such as conventional bank guarantees. However, it was noted that bank guarantees are typically issued based on the credit profile of the technology provider, which may further hinder MSME access to the ESI model.

Finally, the potential role of actors for ESI implementation in India was discussed. As the statutory body for energy efficiency implementation in India, the Bureau of Energy Efficiency could help coordinate regulatory approvals and seek buy-in from local financial institutions regarding the use of specific insurance products (surety bonds, bank guarantees, etc.). Likewise, the Energy Efficiency Services Limited (EESL) offered to leverage its position as India's super-ESCO to test and eventually scale up the ESI model in India, potentially through its ongoing "Promoting Market Transformation for Energy Efficiency" scheme in collaboration with UNIDO and SIDBI.

## Focus Group Discussion II: Offshore Wind & Green Hydrogen – Blended Finance Facility

The second focus group discussion commenced with an introduction to the concept of sectoral blended finance facilities for a) offshore wind and b) green hydrogen in India. In accordance with OECD definitions<sup>1</sup>, blended finance structures can involve concessional funding from public or philanthropic sources mobilising private capital for projects that cannot raise commercial finance on their own<sup>2</sup>. Drawing upon learnings from recent examples, it was noted that the blended finance facilities should provide a limited window of concessionality to serve the first few gigawatts until a target cost of energy is achieved, with the objective of lowering risks and the cost of capital to build self-sustaining private investment markets. To this end, the facilities would coordinate domestic and international donors and financial institutions. Blended Finance facilities can be linked to broader activities, such as the identification of projects (e.g. through the National Infrastructure Pipeline), or the development of knowledge and training resources for offshore wind and green hydrogen.

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<sup>1</sup> Blended finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.

<sup>2</sup> Blended Finance can also cover grants for project preparation and project structuring



Discussants agreed that such a facility is especially suitable for nascent but market-ready technologies like offshore wind and green hydrogen, which have limited technology and revenue risks and clear contract structures. In the context of over-stretched public finances post the COVID-19 pandemic, the facility provides high impact for every rupee of public finances spent, which is key for highly capital-intensive sectors like offshore wind and green hydrogen (the Roadmap estimates USD 100 billion investments needed for 37 GW of offshore and 5 million tonnes of green hydrogen).

Participants suggested that the blended finance facility in India could be built on the concept of the Green Window that was proposed by IREDA in 2019 but was put on hold due to the pandemic related priorities. Public concessional funding for the facility could be channeled by various state or finance ministries to designated implementing agencies such as NIIF and IREDA. Participants further noted that while designing the facility for India, there is scope to explore synergies with a global blended finance facility for offshore wind currently being developed by the World Bank. This would allow climate finance to be more easily and widely accessible, ideally through an existing fund to keep transaction costs low.

Subsequently, participants discussed the potential risk areas of offshore wind and green hydrogen that could be addressed through the blended finance facility. While such a facility would be capable of channeling finance for all parts of the value chain, it would be particularly impactful in financing infrastructure upgrades. For example, transmission system upgrades typically represent 15-20% of the offshore wind project capex. Similarly, developing green hydrogen projects also involves building storage, transport and distribution infrastructure, which can be optimised by investing in hydrogen hubs. Offsetting these costs with blended finance can bring down cost of energy through lower tariffs and build a robust business case for further investments. In India, it has already been announced that transmission network connections for the initial stage of offshore wind project development will be provided by the government.

## Next steps

The OECD and NRDC will prepare the final draft of the CEFI Roadmap for review by OECD's Environment Policy Committee in the second half of September. The final version of the Roadmap will incorporate key elements for the establishment of Energy Savings Insurance and for a Blended Finance Facility. Thus, the Roadmap shall be a stepping stone to build consensus on next steps in implementing and operating financial mechanisms that can unlock capital for energy efficiency, offshore wind and green hydrogen. The OECD proposes to undertake additional analysis from Q4'2022 onwards to support the development of these two schemes. The findings of the CEFI Roadmap will be discussed on 7 October at the [OECD's Forum on Green Finance and Investment](#). A launch event for the CEFI Roadmap is to be scheduled in the last quarter of 2022 in India.