

Public-Private Financing of Energy Efficiency

Financing major investments in energy efficiency projects is a challenge for all sectors of the economy. Vast cost savings are failing to be realised due to limited technical expertise in identifying energy efficiency opportunities combined with inadequate financial knowhow and restricted access to capital.

The International Energy Agency has identified four critical factors to guide policy makers in realising these savings opportunities by creating the enabling environment for a range of partnerships with the private sector where capital and technical and financing skills are readily available.

Policy pathway to enabling Public-Private Financing of Energy Efficiency projects:

- ▶ One size does not fit all. Structure an agreement that is suited to local legislative, regulatory, institutional, financial, and energy services market conditions.
- ▶ The public-sector partner should determine the implementation steps and manage the implementation process, while the private-sector partner takes the lead in implementation. The agreement should be structured such that partners can make adjustments as necessary to meet objectives and respond to market changes to ensure delivery of services.
- ▶ An independent third-party organisation should evaluate the public-private partnership design and implementation to assess factors affecting performance, its success in meeting objectives and the key lessons learned.
- ▶ The degree to which the public-sector partner is willing and able to mitigate project risks will define the private partner's ability to mobilise project financing. The public-sector partner should carefully consider the cost of the necessary degree of risk to be shouldered relative to the value of service delivered.

The full Policy Pathway offers guidance in enabling the financing of energy efficiency projects through public-private partnerships and provides case studies from around the world. The report can be downloaded from www.iea.com

Checklist to successfully deliver Public-Private Partnership Financing of Energy Efficiency Projects

PLAN: Identify the market segment(s) where energy efficiency needs to be improved, choosing among the different public-sector intervention approaches available, and structure an agreement between the public and private partners.

- 1 Establish exactly which sectors face financial barriers and in what form. Set short and long term goals based on alleviating these barriers.
- 2 Compare cost, benefit and impact of alternative options to ensure the selected public-private mechanism is the most effective solution.
- 3 Complete the project design including implementation conditions and tendering route.

IMPLEMENT: The public partner needs to define the implementation steps and manage the implementation process, making adjustments as necessary to meet objectives and respond to market changes. The private-sector partner takes the lead in implementation.

- 4 Identify major implementation steps including lending and risk management process, capacity building requirements, communication needs, etc.
- 5 Develop procedures to obtain feedback on implementation both from the private partner and from the market.

MONITOR: Manage the contract to ensure delivery of services (including authorising payments and maintaining records) and assess performance relative to the standards defined in the agreement.

- 6 Implement systems for ongoing monitoring and management of administrative tasks required for contract delivery.
- 7 Review service delivery and financial performance against indicators identified in the design.

EVALUATE: Identify an independent third-party organisation to evaluate the partnership design and implementation to assess factors affecting performance, its success in meeting objectives and the key lessons learned.

- 8 Define major evaluation parameters and indicators and identify an independent organisation to undertake the review.
- 9 Identify the major positive and negative factors affecting implementation including programme monitoring, adequacy of data collection/reporting, and fiducial compliance.
- 10 Document lessons learned and major recommendations.