PATHWAYS TO ENERGY SOLUTIONS

ENERGY PATHWAYS LLC

Designing and Operating Effective Energy Efficiency Financing Programs

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EE financing programs are institutional constructs. They involve at least 3 groups:

- Customers—the EE project hosts and owners
- Financiers
- Project developers or assessors with EE technical and business expertise

Designing EE financing programs involves identification of these groups, their roles and needs and effective ways to interact (including through contracts)

Considering customers:

- Who are the targeted customers (markets)?
- What projects do these clients want and what are their technical and economic characteristics?
- What are the customers’ specific financing needs?
- What credit risks do they carry?

Considering financiers:

- First, what financial products can best meet the needs of the targeted clients?
- What financial institutions can best provide these products for the needed EE investments?
- What are the overall business aspirations of these financial institutions and how can provision of EE financing products support those aspirations?

Considering energy project developers/technical entities:

- Who has the needed capacity to (1) partner with customers on project development? and/or (2) partner with financial institutions to find and assess projects?
- Marketing and EE project business skills are important, in addition to technical skills
- What institutional/contractual arrangements are needed to bring these project developers on board?

Project implementation design then involves agreement between these groups on:

- Division of responsibilities, costs, risks, benefits between various actors in contractual arrangements
- Work and funds flow

In my opinion, three core rules must be followed for success in design and operation of any EE financing scheme:

Rule 1: Program design and details must be customized to local institutional practice and frameworks.

Attempts to transfer institutional constructs that were successful in one region to another without substantial adaptation and adjustment almost always fail.

Rule 2: EE financing programs must incorporate institutional arrangements to deliver two functions: (a) a marketing, project development and project technical design or assessment function, and (b) a financing function.

Inadequate development of *both* functions is a common reason for program failure.

Rule 3: All players in the institutional construct must have sufficient incentives to undertake the functions needs.

Incentives may include political and reputational incentives as well as economic incentives.