

# Developing Financial Intermediation Mechanisms for Energy Efficiency

## Findings on ESCO Development

Chandra Govindarajalu

World Bank

May 19, 2006



# Presentation Outline

- Role of ESCOs in EE financing
- ESCO Implementation Spectrum
- Support under the project
- Findings from the Project
- Key Financing issues to be considered upfront to promote ESCOs

# Role of ESCOs in EE Financing

Good High  
Return Projects  
identified

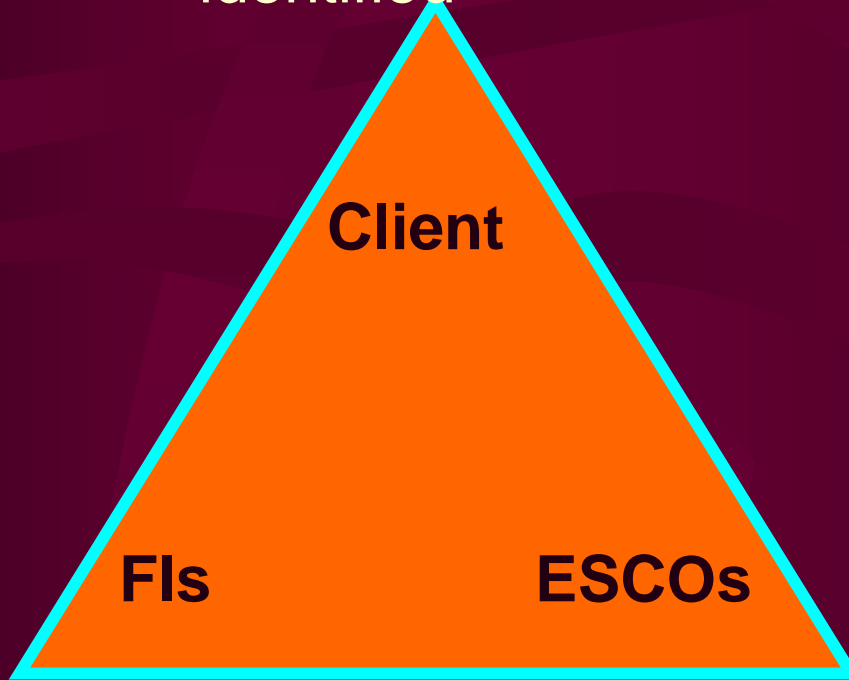
**Client**

Market-based  
delivery  
mechanism

Financing

**FIs**

**ESCOs**



# ESCO Implementation Spectrum

Full Service

Technical

- Technical +Financial
- Shared savings

- Vendor ESCOs
- Leasing, WC finance

- Fee based technical service
- Guaranteed savings
- Arrange financing

# ESCO support under the project

- Support provided to the ESCO associations in Brazil and China. ESCO training and capacity building activities together with GERBI (Brazil) and DfID (China)
- In China, the GEF guarantee program is helping accelerate ESCO development and Brazil and India have been able to learn from this experience through a ESCO mini-exchange
- In India, support provided for creating and ESCO association

# Findings on ESCO Development (1)

- ESCO model is not a magic bullet to solve problems in delivering Energy Efficiency Investments
- ESCO project financing issue should be considered upfront in any serious effort to promote local ESCO business

## Findings on ESCO Development (2)

- Active Government support is critical, especially during early stages (e.g US, Canada, Brazil, China)
- Roles of shared savings and guaranteed savings energy performance contracts
- Mix of technical and business skills are required for establishing good a good ESCO

# ESCO Debt/Equity Infusion is a problem

- Access to credit is difficult
- Inability of the investee to raise debt financing prevents leveraging required by equity investors
- Small size of investments and difficulties in scaling –up inhibits equity contributions, esp. from international investors
- Difficulties in securing reliable exit strategies

# Conclusions

- Brazil ESCO industry has stood the test of time but needs support to remain an important player in the EE arena
- In China, two biggest challenges are to create a sustainable system for ESCO financing and ensuring stability as the industry grows quickly
- In India, ESCOs have made little progress and the industry is unlikely to develop without sustained government support, through ESCO market creation initiatives