

## Energy Efficiency and the IDFC

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By reviewing the world's efforts in energy efficiency promotion and the IDFC members' experience in supporting them, this report aims to provide the members' best practices and lessons learnt for energy efficiency promotion and thereby to contribute to encourage wide exchange of information and knowledge on the issue.

Energy efficiency is an imperative mission of today's leaders in order to achieve our ambitious goal of realizing sustainable development for the decades to come. As IEA points out, energy efficiency would greatly contribute to moderate the future energy demand, foster sustainable economic growth, and provide the most cost-efficient mitigation measures against climate change. Despite the world's efforts in the past decades, the recent years have seen a slowdown in the pace of energy efficiency activities. To alter this trend, the leaders of countries are setting the ambitious targets and striving to take a wide range of countermeasures.

However, barriers to energy efficiency are multifold, stretching over issues concerning institutional and legal frameworks, financial and economic incentives, and information, knowledge and technology gaps. Therefore, efforts to promote energy efficiency require cross-sectoral, holistic and sequencing approaches, addressing the major barriers to energy efficiency. Setting right policy, regulatory and incentive framework is indispensable to create proper-functioning market. Introducing effective funding mechanism as well as capacity development of relevant actors is all critical. And measures required are contextual and vary significantly from country to country, from time to time.

Investment gap for energy efficiency remains substantial. Under IEA's scenario pursuing CO<sub>2</sub> emission reduction by 4.6 gigatonnes (Gt) by 2035, energy efficiency financing needs to be scaled-up from 177 billion USD in 2020 to 290 billion in 2035. Engineering effective financing mechanism, as part of comprehensive policy package mentioned above, is essential to scale up energy efficiency programs. It is also important to bear in mind that energy efficiency programs are often endowed with specific characteristics, which give rise to perceived high risk and higher transactions, preventing financial institutions from engaging in the investment. Effective measures to overcome these barriers have to be put in place and this is where governments and public institutions including DFIs can play significant roles.

A review on the IDFC members' experiences in promoting energy efficiency highlighted the complexity of the issue and the richness of the members' measures address them. The IDFC's contributions to the area reached 23 billion USD in 2012, and have proven effective in creating the market and enhance its functions and sustainability. Their common business model of lending through local private financial institutions is useful for delivering energy efficiency financing. This makes it possible to mobilize local financial resources, to tap large segments of the market, and can ensure the sustainability of the investment. It also helps to develop capacity of the local private financial institutions for energy efficiency investments, contributing to enhancement of the country's financial infrastructure. Other areas of competence include their abilities to provide risk-sharing mechanisms, to set up mechanisms to bundle smaller projects in order to decrease the transaction costs and create robust demands. They are also strong in creating enabling environment such policy reforms through policy dialogues, budget support and technical assistances.

As we look into the future, our efforts for energy efficiency must be significantly accelerated. To this end, mechanisms to scale up energy efficiency financing, better support to up-stream energy development planning, and establishing models to strengthen the functioning of the market through minimum public support are the all areas that require further analysis and collaboration among stakeholders such as government, DFIs, IFIs and the private sector. The IDFC is well-positioned itself in the international society as the candid forum for advancing such dialogue, and is expected to play a leading role.