south pole group

The Productivity of International Financial Institutions' Energy Interventions

Improving energy productivity (EP) is crucial for tackling climate change and securing economic prosperity. In this context, international financial institutions (IFIs) play a substantial role as they mobilise finance for energy-related projects across the world.

This case study explores a revised concept of energy productivity, produced by Climate Policy Initiative and South Pole Group and defined as 'integrated energy productivity'. The concept serves as a guide for IFIs to maximise the positive environmental and social impacts of their energy commitments alongside economic goals.

The scope of this project also included the definition of what best practice for IFI energy productivity financing should include as well as a methodology to benchmark IFIs, providing a framework in which IFIs can learn from their peers.

ABOUT THE CLIENT

ClimateWorks FOUNDATION

ClimateWorks Foundation is a non-governmental organization that collaborates with public and private partners to strengthen philanthropy's response to climate change. As part of this project, ClimateWorks Foundation aimed to understand how IFIs can improve their energy productivity performance and how to engage with them effectively on this topic. ClimateWorks wants to move beyond a narrow focus on energy efficiency towards a broader understanding on how productive use of energy can enable sustainable growth.

ABOUT THE TARGET GROUP

South Pole and CPI worked together with a group of influential IFIs to learn about best practice for energy productivity. This included:

- Inter-American Development Bank
- KfW
- World Bank Group
- Asian Development Bank
- European Investment Bank,
- European Bank for Reconstruction and Development

"The project identified an innovative definition of energy productivity and applied a useful benchmarking concept for International Financial Institutions."

Prodipto Roy
ClimateWorks Senior Program Associate,
Energy Efficiency

1511EN, 10.2017

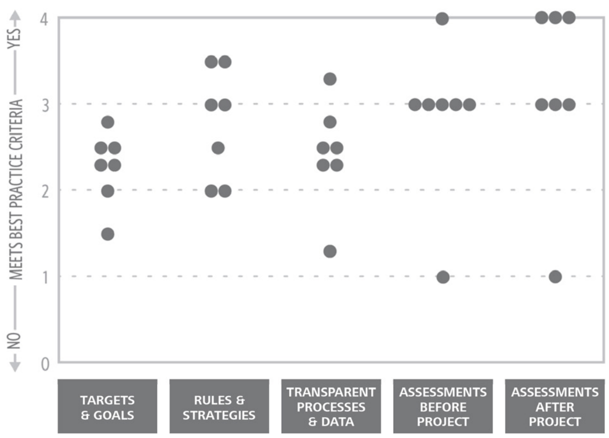
The Goal

To support the implementation of the Paris Agreement and Sustainable Development Goals (SDGs), IFIs are taking strong, systematic actions to promote both inclusive growth and sustainable development. They try to avoid inefficient and high carbon energy projects that, in the long term, exacerbate the challenges that countries face in meeting the global low-carbon agenda. In this context, ClimateWorks aimed to show that IFIs can promote a productive use of energy to meet social and environmental goals alongside growth targets.

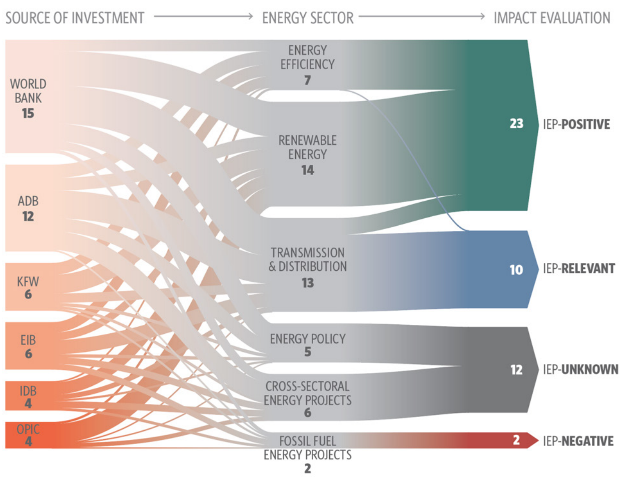
Why traditional Energy Productivity does not fit IFIs

The traditional concept of energy productivity (EP) measures economic output per unit of energy used. In other words, the success of energy interventions is usually only measured in terms of economic growth. However, as IFI's operations include other social and environmental targets, IFIs do not consider this traditional EP concept of economic output as particularly relevant for measuring their own success. Additionally, EP is normally measured at a country level, while IFIs undertake project level interventions. In simple terms, EP as a measurement does not ‚fit' the current needs of IFIs.

Graph 1. IFIs policies and strategies



Graph 2. IEP-positive flows



Our adapted concept: Integrated Energy Productivity

South Pole and CPI established an advisory board that included members from ClimateWorks Foundation, academia and the private sector. Through regular consultations with this advisory board and IFIs, they developed the new concept of Integrated Energy Productivity (IEP). IEP integrates environmental and social benefits that often result from IFIs energy interventions (e.g. reduced GHG emissions, increased number of jobs) with the traditional definition of EP.

Using this new approach, the Integrated Energy Productivity of IFIs was assessed through a qualitative assessment of IFIs policies and strategies (see Graph 1) and a quantitative assessment of project level investments. If adopted by IFIs, such assessments will allow IFIs to adjust their internal lending processes, strategies and targets to better meet international policy goals, such as those laid out in the SDGs, Sustainable Energy for All (SE4ALL) initiative and the Paris Agreement.

Graph 1 reflects the quality of energy and energy efficiency policies within the group of IFIs that were reviewed. While some institutions focus more on rules and strategies, other institutions perform better on transparency or post project assessments. The report summarises best practice policies.

Positive impact of the solution

The report on the IEP assessment of selected IFIs establishes an integrated definition of energy productivity that includes social and environmental benefits. It offers a guide to ensure IFI actions have a systems-wide perspective, where inclusive growth and sustainable development can be tackled together.

The report identified that both energy efficiency and renewable energy projects have a positive impact on energy productivity, as they deliver economic, social and environmental benefits while also reducing fossil fuel energy use (see IEP-positive flows in Graph 2).

The report shows that many IFIs are already improving energy productivity, highlighting the huge potential gains from mainstreaming energy efficiency and IEP across IFIs portfolios. Outlining how other IFIs can learn from these practices provides a pathway for EP innovation.

The results outlined in the report also suggest that a joint IFI initiative should establish a common understanding for energy investments' productivity. This would then act as a guide for IFIs to direct their resource in a way that more effectively meets their goals on climate and development.

The findings of the report fed into the work of the G20's Energy Efficiency Finance Task Group (EEFTG) including the G20 Energy Efficiency Investment Toolkit launched at the G20 Energy Efficiency Forum in May 2017 in Hamburg, Germany.

Get in touch to see how we can meet your advisory needs:

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