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ECONOMIC COMMISSION FOR EUROPE

COMMITTEE ON SUSTAINABLE ENERGY

Meeting of Ad Hoc Group of Experts on Energy Efficiency Investments for Climate Change Mitigation

Seventh meeting, 1-2 December 2005

REPORT ON THE MEETING

I. ATTENDANCE

1. The Ad Hoc Group of Experts on Energy Efficiency for Climate Change Mitigation was attended by representatives from the following member countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, France, Italy, Norway, Romania, Russian Federation, Serbia and Montenegro, Ukraine, United Kingdom of Great Britain and Northern Ireland and United States of America.
2. The Ad Hoc Group of Experts session was also attended by representatives of the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP).
3. Representatives of the following non-governmental organizations were in attendance: National Carbon Union (Russian Federation), Albania EU Energy Efficiency Centre (Albania), Centre for Energy Efficiency EnEffect (Bulgaria), Energy Institute Hrovoje Pozer (Croatia), Regional Centre for Energy Saving NICE (Russian Federation).
4. In addition, the companies ENSI Energy Saving International AS, Renaissance Finance International Ltd, Cintech Ltd., KSK Association and EE Capital were in attendance.

II. OPENING SESSION

5. The seventh meeting of the Ad Hoc Group of Experts on Energy Efficiency Investments for Climate Change Mitigation was opened on 1 December by Mr. George Kowalski, Director of the UNECE Industrial Restructuring, Energy and Enterprise Development Division (IREED). In his opening remarks, Mr. Kowalski acknowledged the institutional setting of the Energy Efficiency 21 Project (EE21) at the United Nations and UNECE level, mentioning also relevant resolutions of the UN General Assembly, the Economic and Social Council, the Economic Commission for Europe and the UNECE Committee on Sustainable Energy. He presented most recent developments related to EE21 project concerning the proposal made by the Steering Committee in 2003 to launch a new phase of its work which included a Fund to finance energy efficiency investments in Eastern Europe and South-Eastern Europe. He expressed the appreciation of the UNECE for the positive responses received by the three main funding agencies: the UN Foundation, the Fonds Francais pour l'Enviornment Mondial (French GEF) and the Global Environment Facility.

6. The meeting benefited from the participation of Mr. Bernard Laponche, Chairman of the Steering Committee of the Energy Efficiency 21 Project and the following members of the EE21 Bureau: Mr. Trond Dahlsveen (Norway), Mr. Zdravko Genchev (Bulgaria), Ms. Milena Presutto (Italy), Mr. Boris Reutov (Russian Federation). Mr. Laponche provided a detailed review of all the steps, which were needed for obtaining the financial resources by the three donors. He highlighted the importance of the meeting for the formulation of a Project Document and for the discussion on the Project implementation.

7. In accordance with the recommendations of the Steering Committee of the Energy Efficiency 21 Project at its sixteenth session (ENERGY/WP.4/2005/5), the Ad Hoc Group of Experts on Energy Efficiency Investments met on 1 and 2 December 2005.

II. ADOPTION OF THE AGENDA (Agenda item 1)

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8. The agenda was adopted.

IV. ELECTION OF OFFICERS (Agenda item 2)

9. Mr. Bernard Jamet (France) was re-elected as the Chairman of the Ad Hoc Group of Experts on Energy Efficiency Investments for Climate Change Mitigation and served as Chairman of the seventh session.

V. RECENT DEVELOPMENTS OF THE FINANCING ENERGY EFFICIENCY INVESTMENTS FOR CLIMATE CHANGE MITIGATION PROJECT
(Agenda item 3)

10. The secretariat introduced this agenda item with a comprehensive presentation on past, recent work and achievements of the EE21 Project, with a special attention to the progress of the UNF/UNFIP Project in the years 2000-2005. As outlined by the secretariat, the recent phase of the project aimed at promoting an investment environment in which self-sustaining energy efficiency projects can be identified, developed and implemented by local teams in municipalities or in energy efficiency demonstration zones. The intention is to replicate successful measures nationally in Eastern Europe and CIS countries once proven on a limited scale. The project has had three immediate goals to produce measurable results initially over three-year period, extended up to September 2005. These goals can be outlined as follows: (a) Develop communications and skills by creating a network of energy efficiency managers, training experts in project development, finance and business planning, and creating an investment project pipeline; (b) Strengthen energy efficiency policies in the five participating countries through ad hoc publications, supporting the creation of energy conservations regulations, and energy efficiency demonstration zones; (c) Promote opportunities for commercial banks and companies to invest in energy efficiency projects through specific training tools, investors guides, and specific work leading to the establishment of an investment fund. These goals have been achieved and in some cases exceeded by project participants who have produced quantified outputs further enhancing regional cooperation on energy efficiency market formation and investment project development to reduce greenhouse gas emissions in transition economies.

11. This introduction was followed by a presentation from Mr. Zdravko Genchev, Vice-Chairman of the Steering Committee of EE21, and Executive Director of the Centre for Energy Efficiency EnEffect. Mr. Genchev presented the results of an Internet based user survey conducted from the EE21 website (www.ee-21.net), which was undertaken in November 2005 to assess how the EE21 project helps countries to invest and finance energy efficiency initiatives through the development of skills, strengthening energy efficiency policies and the promotion of opportunities for commercial banks and companies. Other key questions were related to the contribution of the EE21 Project to the sustainable development process and to the efforts of climate change mitigation. The results confirmed the success and the importance of the EE21 project in promoting investments in the energy field and also demonstrated the effectiveness of the EE21 website in communicating and disseminating the project's activities and publications. As outlined by Mr. Genchev, the results of the web survey showed a high positive rate of approval. Some 52 per cent of respondents rated the EE21 Project overall as 'very useful', while 34 per cent of responses indicated the project as 'useful'.

12. The session continued with a presentation by Mr. Deltcho Vitchev, Financial Adviser of the Ad Hoc Group of Experts and Director of Renaissance Finance International. Mr. Vitchev presented the current status of an initiative that was part of the last phase of the EE21 project to assist local experts from a group of selected countries to identify, develop and facilitate the financing of energy efficiency projects. Mr. Vitchev emphasized the success of this programme, thanks to which energy efficiency projects were financed for a total

amount of over USD 14 million. He highlighted how the experience and skills that have been developed during such an initiative may be used in the new phase of the EE21 project.

13. Mr. Dahlsveen, Vice- Chairman of the Steering Committee of the EE21 and Director of Energy Saving International AS, presented a report developed together with the Energy Charter Secretariat on “energy efficiency and renewables in the transition process”. He provided a comprehensive review of the key institutional and financial factors that can help and hinder the development and implementation of energy efficiency and renewables policies during economic restructuring and energy market liberalization. Regarding the financial factors, he stressed out how the presence of grant schemes, soft financing, revolving funds and the development of a market for ESCOs are all efficient mechanisms to address the problem of financing investments in the energy efficiency sector. He pointed out opportunities for cooperation with the Energy Charter activities on energy efficiency.

14. Mr. Boris Reutov (Russian Federation), Vice-Chairman of the Steering Committee of EE21, summarized the recent developments that have been achieved in financing energy efficiency projects. He provided a brief review on the national projects that have been developed in the energy efficiency and saving in the Russian Federation. In his presentation, he outlined how the country is undertaking several initiatives, particularly in priority areas such as energy, energy-saving and efficient environment management. He highlighted how the EE21 project has created a good framework for financing new projects in the energy sector and the next phase of the project will provide further opportunities for the Russian Federation to address the issues of energy efficiency and climate change.

III. PROJECT IMPLEMENTATION MODALITIES: WORK METHODS, MANAGEMENT STRUCTURE, ACTIVITIES AND BUDGET (Agenda item 4)

Documentation: ENERGY/WP.4/2005/8

15. The secretariat introduced this agenda item with a presentation on the activities, modalities and implementation of the next phase of the EE21 project. The objective of this new phase is to promote the formation of an energy efficiency market in Eastern Europe and the CIS. This effort addresses the vast potential market in Eastern Europe and CIS for energy efficiency and renewables investment projects. During the last five years, the EE21 Project and other initiatives have shown that it is possible to finance energy efficiency investments that reduce carbon emissions in these economies. However, this is a time consuming and labour intensive process that needs to become much more fluid in order to succeed on any meaningful scale. Therefore, this new phase of the project will assist participating countries to address the financial, technical and policy barriers to energy efficiency and renewable energy investments. The project will promote the formation of a market for energy efficiency investments through: (a) the creation of a public private partnership fund; (b) the enhancement of the skills of the public and private sector experts at the local level to identify, develop and submit bankable projects; (c) the assistance to local authorities to introduce economic, institutional and regulatory reforms that needed to support these investments. The secretariat noted that the next step will be to prepare the Project Document as the implementing instrument for the work of the Ad Hoc Group of Experts. The secretariat

provided details on the project implementation, modalities, work methods, management structure, activities and budget of this new technical assistance phase of the EE21 Project and how this would contribute to the creation of a Public Private Partnership Fund. The Fund manager would be a separate legal entity operating on a commercial basis in the selection process and financing of energy efficiency and renewables projects.

16. Mr. Genchev also made a presentation on the current energy efficiency-financing environment in Bulgaria. He outlined that even if some barriers have been overcome, still different institutional and financial factors prevent the country to promote energy efficiency investments. Particularly, he focused on four main elements: (a) the insufficient capacity to develop bankable projects; (b) the underdevelopment of the ESCOs market; (c) the lack of equity financing; (d) the lack of experience for partnerships in financing.

17. In the ensuing discussion, delegations considered the need to confirm their national 'in-kind' commitments, nomination of national participants, the phases that will be followed in the creation of the investment fund, and the organizational structure and features of the fund.

18. The Chairman, Mr. Jamet, clarified the structure of the Fund and the steps that will be followed in raising the financial resources. He highlighted how the presence of both private and public sector will be self-reinforcing. On the one hand, the private sector investor interest will attract public sector participation. On the other hand, the public sector will be reassuring private investors, encouraging them to participate in the fund. He also clarified that the fund will be mainly an equity fund, as its goal is to create and support ESCOs. The Fund, in fact, will invest in the creation of these intermediaries, which will have the role of finding and funding energy efficiency and renewable energy projects in different sectors.

19. Concerning the steps that will be followed in the creation of the Fund, Mr. Jamet noted that in the case of the Dexia-EBRD Energy Efficiency and Emissions Reduction Energy Fund a lead investor from the private sector established the organizational structure of the fund. Then there is a solicitation for the participation of investors both from the private and the public sectors. The broad orientation of the Fund will be established by the EE21 Project and jointly with the Fund managers will establish specific criteria for the investment activity. ESCOs created through or by the Fund will then operate within the context of criteria established by the Fund. On the basis of previous funds' experience, the range of each investment, i.e. for the creation of an ESCO, could be estimated around Euro 2-4 million.

20. After the discussion session regarding the new phase of the project, several national experts presented national projects, experiences and initiatives that could be related in the future to the EE21 Project and therefore instrumental to the achievement of the three different objectives of the new project phase.

21. The following three main groups of presentations have been made: (a) technologies and methods to promote energy efficiency in transition countries but also in the EU context; these included green labels for procurement purposes, software for monitoring and management of business plans and investment projects, systems for monitoring green-house gas emissions; (b) policy reforms and improvement of the institutional and normative framework; specific and successful legislations dedicated to energy efficiency were presented

as example and best practice for other countries; institutional, financial and regulatory barriers were also presented to emphasize the need and importance of concrete actions to overcome them; (c) existing investment funds and financial factors to be considered in the creation of a new investment Fund were presented by showing both the concrete experiences in supporting existing funds and the review of key financial factors to be considered in the creation of dedicated energy efficiency financial mechanisms or funds.

IV. PREPARATION OF THE PROJECT DOCUMENT (Agenda item 5)

22. The secretariat introduced this agenda item with a presentation about the preparation of the Project Document. The Project Document will be made up of different sections, each defining the immediate objectives, the inputs, the outputs and activities, the risks, the budget, the work plan and the timetable. The secretariat emphasized how, at this stage of the initiative, national inputs are essential for coordinating the different parts of the project.

23. Some experts pointed out the need for working to define the links between the Fund, the financed projects and the national institutions that would take part to the EE21 project. Other experts noted the importance of establishing a close network between the Fund and national interlocutors, with whom efficient working relations can be established. It was noted that during the course of the EE21 Project national participants formally appointed by government included non-governmental organizations, commercial companies and energy conservation agencies.

24. A few experts observed that significant progress had been made during the last phase of the EE21 and that, in some countries, local expertise in financial engineering was well developed. They requested that local experts be used to the extent possible in the new project. They suggested that the use of resources under objectives 2 and 3 be carefully reviewed to accommodate these local circumstances.

V. OTHER BUSINESS (Agenda item 6)

25. It was announced that the seventeenth session of the Steering Committee of the Energy Efficiency 21 Project would be held on 29-31 May 2006.

VI. CONCLUSIONS AND RECOMMENDATIONS (Agenda item 7)

26. After discussion, the Ad Hoc Group of Experts:
- (a) Expressed appreciation to the United Nations Foundation Board of Directors and the Advisory Board of the United Nations Fund for International Partnership for their May/June 2004 Decisions that accorded financial support of US\$ 2million to the project 'Financing Energy Efficiency Investments for Climate Change Mitigation' (ECE-INT-04-318);
 - (b) Expressed appreciation to the French Ministry of Foreign Affairs (MAE) and the Fonds Français pour l'Environnement Mondial (FFEM) for the support of US\$ 2.5 million approved in March 2005 as a co-financing partner to the project with the grant 'Capacity Building and Support for the Establishment of a Dedicated Fund for Energy Efficiency in Eastern Europe';
 - (c) Expressed appreciation to the Council of the Global Environment Facility for their approval in November 2005 of US\$ 3 million co-financing as a grant for 'Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation' (2619);
 - (d) Approved the project welcoming the UNECE as the Executing Agency for the project and the assistance of the UN Office for Project Services (UNOPS) for administrative services for selected project activities;
 - (e) Noted that the project was based on the earlier work accomplished under the UNF/UNFIP Energy Efficiency Project Development for Climate Change Mitigation (ECE-CIS-99-043) and provided the opportunity to reinforce and complete selected activities, in particular, financing energy efficiency investments;
 - (f) Requested the Bureau of the Energy Efficiency 21 Project, the Chairman of the Ad Hoc Group of Experts and secretariat prepare a synthetic Project Document that includes all participating countries, to serve as the implementing instrument of the project, to be transmitted to the National Coordinators;
 - (g) Requested that the Project Document reflect progress made in earlier phases of the EE21 Project and provide for the use of local expertise when appropriate in the implementation of project activities;
 - (h) Agreed to provide written confirmation to the secretariat of National Coordinators, National Participating Institutions, National Coordination Unit and counterpart in-kind contributions to the project;
 - (i) Requested that the project be reflected in the Energy Efficiency 21 Project Plan 2006-2009 as a sub-regional project for southeastern Europe, Eastern Europe and the Commonwealth of Independent States.