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COMMITTEE ON SUSTAINABLE ENERGY

Steering Committee of the Energy Efficiency 21 Project

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

Fifteenth session
Geneva, 19 April 2010
Item 3 of the Provisional Agenda

**RECENT DEVELOPMENTS OF THE PROJECT “FINANCING ENERGY
EFFICIENCY INVESTMENTS FOR CLIMATE CHANGE MITIGATION”
(FEEI)**

Preliminary Report of Monitoring and Evaluation Adviser on Financing Energy Efficiency
Investments for Climate Change Mitigation Project for the Second Year of Project
Operations (2009)

Note by the secretariat

I. INTRODUCTION

1. The Financing Energy Efficiency Investments for Climate Change Mitigation project is subject to reporting, monitoring and evaluation consistent with Article IX of the Memorandum of Understanding between the United Nations Fund for International Partnerships (UNFIP) and the United Nations Economic Commission for Europe (UNECE). Monitoring and evaluation should be carried out by each supporting institution as described in the Project Document (ECE-INT-04-318) signed by the Executive Secretary of UNECE and the Executive Director of UNFIP on 22 September 2006.

2. The progress of project operations is reported and reviewed by the Ad Hoc Group of Experts on Energy Efficiency Investments for Climate Change Mitigation and the Steering
GE.10-

Committee of the Energy Efficiency 21 Project at their sessions. The preliminary report for the Second Year of Project Operations (2009) presented in this document has been prepared by Mr. Glen Skovholt, Monitoring and Evaluation Adviser for the United Nations Foundation (UNF) and UNFIP. It reviews, in brief, the objectives of the project, reports on the progress in implementation of the project, and provides comments and suggestions on further implementation of the project.

3. The report is submitted to the United Nations Foundation, the United Nations Fund for International Partnerships, the UNECE Sustainable Energy Division, the Ad Hoc Group of Experts on Energy Efficiency Investments for Climate Change Mitigation, and the Steering Committee of the Energy Efficiency 21 Project.

II. REVIEW OF PROJECT OBJECTIVES

4. As per Project Document the long-term objective of the project is to: “Promote an investment climate in which self-sustaining energy efficiency and renewable energy projects can be identified, developed, financed and implemented by local teams in municipalities, factories and energy utilities.”

5. The project intends to achieve this objective through the following:

- (a) Identify and develop investment projects in the private and public sectors at the local level. This includes: identifying, developing, financing and implementing demand side and supply side energy efficiency and renewable energy projects that meet environmental, health and institutional reform priorities;
- (b) Strengthen energy efficiency and renewable energy policies in the participating countries. The project will assist municipal authorities and national administrations to introduce the economic, institutional and regulatory reforms needed to support investments in energy efficiency and renewable energy projects;
- (c) Promote opportunities for banks and commercial companies to invest in energy efficiency and renewable energy projects through the development of new public private partnership investment funds or financing mechanisms.

6. The Project is also designed to:

- (a) Assist South East European and Eastern Europe, Caucasus and Central Asia countries to enhance their energy efficiency, diminish fuel poverty arising from economic transition and meet international environmental treaty obligations under the United Nations Framework Convention on Climate Change (UNFCCC) and the UNECE;
- (b) Provide a pipeline of new and existing projects to dedicated public private partnership investment funds that can provide up to US\$ 500 million of debt, equity or both to project sponsors;

- (c) Establish an expanded and enhanced network of selected municipalities linked by advanced Internet communications with international partners for value added information transfers on policy reforms, financing and energy management, and;
- (d) Provide case study investment projects in renewable energy technologies, electric power and clean coal technologies.

III. OVERALL PROGRESS IN IMPLEMENTATION OF THE PROJECT IN 2009

7. 2009 was an active year for the Project with some progress being made in all areas. The total duration of the Project is four years. Completion of the Project is scheduled at the end of 2011.

8. In the first half of 2009, contracts were signed with the three major contractors: Pöyry Energy Consulting (January) – Regional Analysis of Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments, EnEffect (April) – Development of a Website and Internet Communications Network of Energy Efficiency Managers in Eastern Europe, and Conning Asset Management Limited (May) – Investment Fund Designer.

9. In reviewing the progress that was made against the outcomes listed in the 2009 workplan, it appears that the project is behind schedule in several areas. One of the major reasons why some activities are behind schedule, is because there was a significant delay in receiving the second disbursement of funds by the supporting institutions. The second disbursement was scheduled to be received by May 2009, but was not received in full until late September, 2009.

IV. IDENTIFICATION AND DEVELOPMENT OF INVESTMENT PROJECTS

10. One important area where the project is behind schedule has to do with training of experts in project development, finance and business planning. For instance 10 training/business development courses were scheduled to be conducted in 2009 but had to be delayed until 2010.

11. Training of experts in all three areas – project development, finance and business planning – is an essential and an urgently needed activity. Once the investment fund has been established, investors will expect to see finalized project proposals that are ready to be financed. There is a lot of work that must be done in the countries for projects to be ready for the investment fund. To the extent possible, training should be conducted in a location in each country in order for the appropriate personnel to be available for the training.

V. REGIONAL WEBSITE AND INTERNET COMMUNICATIONS

12. The most recent report the Adviser has received on this project activity is dated September 2009. Consequently, it is not possible to determine the extent to which EnEffect achieved the 2009 Work Plan outcomes for which they were responsible. Regarding the Internet Regional Homepage, as of September 2009, a FEEI web blog was uploaded and hosted on a temporary web server in a preliminary design version. Content has been added to the Energy Efficiency 21 Programme website www.ee-21.net making it more useful.

13. As of September 2009 there were no scheduled developments to develop on-line training for local teams.

VI. ENERGY EFFICIENCY AND RENEWABLE ENERGY POLICY REFORMS

14. Two important meetings were held in the fourth quarter of 2009 concerning needed policy reforms to promote energy efficiency and renewable energy investments:

- (a) Seminar on Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments was held in Geneva on 7-8 October 2009 in the framework of the fourteenth session of the Ad Hoc Group of Experts on Energy Efficiency Investments for Climate Change Mitigation and;
- (b) Workshop on Case Studies on Overcoming Barriers to Investments into Energy Efficiency and Renewable Energy Projects through Policy Reforms was held in Kiev on 10-11 November 2009.

15. A first draft of the “Regional Analysis of Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments” was prepared and submitted for comments by the Pöyry Energy Consulting in October 2009. From the point of view of the Adviser, it was a disappointment and not acceptable for the following reasons:

- (a) The draft report was poorly organized;
- (b) It would difficult for a national coordinator or another expert in a project country to navigate through all of the material in this draft in order to develop a manageable set of specific recommendations to be pursued in their county;
- (c) The executive summary was not an easy-to-read summary of the study; and
- (d) Several case studies had limited relevance to the goals of the Project.

16. The Adviser submitted three sets of comments on this and subsequent drafts. Several improvements have been made in the subsequent versions of the draft report, for example, in the conclusions and recommendations section. However, the most recent draft sent to the Adviser at the time of preparation of this preliminary Report dated 4 December 2009 was still not acceptable. As noted in earlier comments, several case studies still had little relevance to the Project and needed to be replaced. A revised list of case studies, proposed by the Pöyry Energy Consulting and approved by the UNECE Project Management Unit (PMU), is much improved and should be incorporated into the final version of the Regional Analysis.

17. One of the continuing challenges for achieving policy reforms in the 12 countries of the Project is for the recommendations to receive the attention of officials sufficiently senior in their countries who have the authority to bring about the needed reforms. The National Coordinators are good, committed people. But, generally, they do not have access to the officials that have the authority to get the recommendations implemented.

VII. INVESTMENT FUND AND PIPELINE OF INVESTMENT PROJECTS

18. Two factors impacted efforts by the Conning Asset Management Limited to proceed with their work in designing and structuring an investment fund in 2009, both of which were beyond control of the Conning Asset Management Limited and the PMU. One was the worldwide financial crisis and economic recession, which severely disrupted the investment markets. The second was the sale of Conning Asset Management Limited by Swiss Re to the Aquiline Capital Partners (ACP) in October 2009. Consequently, several activities and outputs under Objective Three, “promote opportunities for commercial sector investors” were not accomplished in 2009.

19. Regarding reports on the status of their work, Conning Asset Management Limited has submitted one monthly report to the PMU in 2009 (May 2009).

20. By the time this preliminary Report has been prepared the second monthly report was submitted to the PMU in January 2010 and the first Status Report was being prepared. In January 2010, Conning submitted to UNECE several draft documents, including draft of Financing Facility Agreement, Limited Partnership Agreement, Private Placement Memorandum, Non-disclosure Agreement and Investment Policy Guidelines.

21. The “financing facility agreement,” the “limited partnership agreement” and the “investment policy guidelines” are scheduled to be sent to banks, potential investors and the PMU for comment in February. After reviewing the comments and revising the documents accordingly, they will be finalized. The “investment policy guidelines” are also scheduled to be sent to the National Coordinators in February.

22. The Conning Asset Management Limited expects to assess by the end of April whether the investment fund will be viable.

23. Several challenges remain beyond the establishment of a fund. One has to do with the small size of individual projects. Another is the on-going need to build the capacity in the project countries to develop and present detailed project proposals to the investment fund.

24. In the Adviser’s opinion, there has been insufficient engagement of people with financial expertise at the national level. This expertise is needed in order to prepare and submit finished project proposals.

25. It would also be helpful for the PMU or the Conning Asset Management Limited to send to the national coordinators a preliminary timetable for the establishment, launch and functioning of the investment fund. The coordinators need to have a better understanding of this timetable for the effective functioning of the future fund.
