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**Steering Committee of the Energy Efficiency 21 Programme**
**Group of Experts on Energy Efficiency**
**Investments for Climate Change Mitigation**

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**Recent developments of the project "Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation" (FEEI)**

# Recent developments of the project "Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation" (FEEI)

## Report of Monitoring and Evaluation Adviser on FEEI Project for the Third Year of Project Operations (2010)

**Note by the secretariat**

## I. Introduction

1. The Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation (FEEI) 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 Group of Experts on Energy Efficiency Investments for Climate Change Mitigation and the Steering Committee of the Energy Efficiency 21 Programme at their sessions. The report for the Third Year of Project Operations (2010) presented in this document has been prepared by

Mr. Glen Skovholt, Monitoring and Evaluation Adviser for the United Nations Foundation (UNF) and UNFIP.

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

## 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 2010

7. Significant progress was made in 2010, in all areas. Specific developments are noted in the following sections. However, the project remains behind schedule, for a variety of reasons. One reason being the delay in receiving the second and third disbursements of funds by the supporting institutions in 2009 and 2010 respectively.

8. The third disbursement of funds has been made to the project by Fonds Français pour l'Environnement Mondial (FFEM) and UNF/UNFIP with funds from this disbursement made available to the Project Management Unit (PMU) in October 2010. However, the United Nations Environment Programme / Global Environment Facility (UNEP/GEF) have stated that they are suspending their third distribution of funds, pending clarification of several matters.

9. Without commenting on the specific issues raised by UNEP/GEF, the Monitoring and Evaluation Adviser wishes to note that the project is in its fourth and final year. Any significant delay in payments could seriously jeopardize the successful completion of the project. A great deal of work needs to be done in 2011. It is disturbing to this observer that two agencies of the United Nations and GEF, are not better able to work together and resolve these issues in a more timely manner.

## IV. Regional Website and Internet communications

10. As of the end of the year, the feei.info website and the FEEI web blog are fully operational and available in English and Russian. The transfer of the official Energy Efficiency 21 (EE21) Programme website to an improved platform is underway and is being tested. Training sessions on the use of the communications platform have been conducted for most of the participating countries. A brief online training session was conducted for the Monitoring and Evaluation Adviser in August 2010. The technology incorporated into the communications platform should make this a potentially useful tool.

11. The material that is available on the feei.info website is, in general, becoming more current, but there are a number of gaps where there is limited, dated information. This does not encourage significant usage of the system. Offsetting this, the number of "hits" continues to increase.

12. As of the end of 2010, the Monitoring and Evaluation Adviser continued to have difficulty finding some information on the FEEI web site. For the Monitoring and Evaluation Adviser, the on-going question that needs to be answered when assessing the results of the communications phase of the investment project is the extent to which this platform will be utilized to create and finance investment projects. All of the communication activities should have this as its primary objective. EnEffect should aggressively work so that this tool is well equipped and actually used to build capacity in the project countries to develop bankable projects.

13. In this regard it is disturbing that, in its monthly reports for June, July, August and September 2010, Conning reported "no engagement with EnEffect." While this is not part of contractual obligations of Conning, such engagement is essential for the overall success of the project. It is encouraging that Conning expressed its willingness to provide news items and input for the FEEI website and blog, articles for the FEEI newsletter, and contributions to the website pages including information for investors, project developers, and participants of a financing coordination agreement.

## V. Energy efficiency and renewable energy policy reforms

14. The "Regional Analysis of Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments" was completed in early 2010 and has been published. Publication of the report should not be viewed as the "end result" but rather as a means to the end result, which is the achievement of policy reforms in the participating countries so as to enhance the usage of the investment fund.

15. As of the time of preparing this report, it is unclear to what extent policy reforms have been achieved in the participating countries. The Seminar on Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments held during the sixteenth session of the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation from 20–22 October 2010 in Geneva was intended to help in answering this question. Unfortunately, only a few of the presentations directly addressed the status of policy reforms. The Seminar would have been more productive if presenters directly addressed the topic and stayed within the time limits.

16. The June 2010 report of the Monitoring and Evaluation Adviser stated that "One of the continuing challenges for achieving policy reforms in the 12 Project countries 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." This remains an important concern.

# VI. Investment fund and pipeline of investment projects

17. NBGI PE, a private equity firm, has signed a letter of intent to become the lead investor in the Fund. This is an important development. It is encouraging, as reported by Conning, that several other investors have expressed interest in investing in the Fund.

18. As of 30 September 2010, Conning reported that there were 353 identified projects in the Project Pipeline. However, no work has been done to analyze each of the projects to determine if they are bankable. That work awaits the appointment of an investment manager. The criteria for selecting an investment manager have been prepared. NBGI PE has expressed interest in becoming the investment manager

19. The issue of bundling small projects into a larger bankable project remains a significant problem, one for which a solution has not been developed. This needs to be recognized by all and treated as a high priority issue. When asked who is responsible for addressing the bundling issue, a Conning representative replied that "it is the responsibility of everyone to figure out a solution." At the moment, that is probably a correct assessment of the situation. However, the Adviser's experience suggests that when "everyone" is responsible, in fact no one is responsible. The Adviser suggests that the PMU consider hosting and leading a meeting of experts with knowledge of the issue at which a plan for addressing and resolving this issue is developed.

20. In its report of 8 October 2010 on his visits to nine participating countries (ten visits were made by the end of 2010), Conning, the investment fund designer, made a crucial observation which requires attention. The report states: "In all participating countries one issue raised its head time and time again. This was the frustration at being able to provide information to a market standard format and to understand why this is required by commercial lenders in order to consider their proposals… Dissatisfaction was expressed that although almost all project developers were keen to provide the information, many were unfamiliar with what was required or struggled to understand what information and in which format needed to be provided to potential commercial lenders."

21. A project financing facility, or financing coordination unit (whatever it is called) is a critical component in assuring that projects are in a bankable form when presented to the Fund. Persons and companies developing projects in the participating countries need an entity, such as a project financing facility (financing coordination unit), which will work with project developers, to assure that the proposals will be in a bankable form when presented to the Fund.

22. Conning reports that a draft of a financing coordination agreement has been submitted to the UNECE. It will remain in a draft form until the final third disbursement of funds has been made and continuation of the project is certain. Because of the important role that a project financing facility (financing coordination unit) will play in making the Fund a success, it is essential that decisions regarding the structure of such facility (unit) are taken in a way that is fully transparent.

23. However, in addition to a project financing facility (financing coordination unit), it is essential to build project development capacity in the participating countries, so that detailed and near-complete project proposals are submitted to a project financing facility (financing coordination unit), and in turn to the Fund. Once an investment fund has been established, the investors will expect to receive finalized project proposals that are ready to be financed. So the projects submitted by the participating countries need to be well developed and as complete as possible. Otherwise, potentially valuable projects will either be rejected or the amount of time required to put them in a bankable form will be excessive.

24. The Secretariat, at the session of the Group of Experts in October 2010, stated that developing this project development capacity will be a high priority for the remainder of 2010 and 2011. It is critical that this work is undertaken as soon as possible and is intensive; utilizing experts who understand what is needed.