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ECONOMIC COMMISSION FOR EUROPE

Steering Committee of the Energy Efficiency 21 Project

UNF/UNFIP Energy Efficiency Investments for Climate Change Mitigation

CRITERIA FOR THE SELECTION OF INVESTMENT PROJECT PROPOSALS

1. This programme is to assist experts from participating countries in the private and public sectors at the local level to identify, develop, facilitate financing and implement energy efficiency projects, including those in municipal lighting, hospitals and district heating, that meet environmental priorities in accordance with the goals of the programme. The programme will include the development of investment project proposals which meet the agreed project selection criteria identified through the following three sources:

- the training courses conducted in the framework of the project;
- the Demonstration Zone municipalities included in the project;
- National Coordination teams and Co-financing partners.

2. Promising project proposals will be presented for consideration to a wide range of financing institutions and facilities. The financial mechanisms which may be employed include, but are not limited to: environmental funds, loans by international financial institutions, energy efficiency funds and financing facilities, local banks, energy service companies (ESCOs), equity funds and capital market based instruments. Each of these sources of finance have their own criteria for the size of project, type of financing, geographical location, internal rate of return or other ratios among their principal requirements. Nevertheless, all sources of finance have certain basic criteria that any investment project and its sponsor must meet to qualify for financing.

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3. In order to provide potential developers with the widest opportunity for financing, the following criteria for project selection are deemed as broadly applicable and essential qualities required by a financing institution or facility in the energy efficiency field. They are very similar to the criteria applied to the granting of credits or equity investments by the European Bank EBRD directly [1]. Some of the principal requirements for smaller projects to qualify for funding are set out below:

(a) The project sponsor (person or entity which initiates, owns and promotes the project and has decision making power on borrowing or equity distribution) must have a proven track record in the proposed line of business, must demonstrate that he is able to implement the project and has the ability to carry any required administrative or management changes.

(b) The project must demonstrate that there is a strong ownership and commitment by the project partners and should be funded with a significant contribution from the project sponsor, normally at least 25 per cent. In cases including hospital, municipal or special industrial projects where special technical and management skills are needed, the project sponsors are expected to have a majority shareholding or adequate operational control.

(c) Projects should be based on significant equity contributions, usually from more than one investor and have a sufficiently developed financing plan.

(d) The project sponsor must have the legal entitlement to borrow; clear ownership, legal title or property rights necessary to implement the investment.

(e) The project sponsor must be certifiably creditworthy and have identified suitable commercial, municipal or national government guarantees or guarantee mechanisms for the proposed investment.

(f) A project should demonstrate sufficient cash-flows and positive Net Present Value and Internal Rate of Return above the opportunity cost of capital.

(g) The project sponsor should demonstrate that there is a legal and administrative framework allowing an appropriate level of tariffs to be applied, maintained and collected. For hospitals municipalities and others, project development using Energy Performance Contract by ESCOs should be possible.

(h) Funds could be available either in local or hard currency depending on the financial intermediary. If funding is provided in hard currency, the project must demonstrate the ability to generate hard currency or the ability to absorb increases in local currency financing costs should there be any depreciation during the loan period.

4. Projects should be shown to have a significant potential for the reduction of greenhouse gas emissions. Identification, credit analysis and supervision of loans or investments will be carried out with special regard to the potential reduction in carbon emissions and related environmental benefits.

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[1] See **Sources of Funds,** RFi Renaissance Finance International Ltd., Farnborough, United Kingdom, 1999 and **Sources of Financing Energy Efficiency Projects in Central and Eastern Europe**, United Nations Economic Commission for Europe, New York and Geneva, 1998.