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Steering Committee of the Energy Efficiency 21 Project
Fourteenth session, 27-28 May 2003

REPORT ON THE MEETING

I. ATTENDANCE

1. The fourteenth session of the Steering Committee was attended by sixty-six representatives of Albania, Belarus, Belgium, Bulgaria, Bosnia and Herzegovina, Croatia, Czech Republic, France, Hungary, Italy, Kazakhstan, Netherlands, Norway, Poland, Republic of Moldova, Russian Federation, Serbia and Montenegro, Slovakia, Switzerland, The former Yugoslav Republic of Macedonia, Ukraine, United Kingdom of Great Britain and Northern Ireland, and United States of America.
2. The International Finance Corporation, the United Nations Foundation and the French Global Environment Facility were represented. A representative of the Commonwealth of Independent States also attended the session.
3. The following non-governmental organisations were in attendance: Albania-EU Energy Efficiency Centre, Centre for Energy Efficiency (EnEffect), Agency for the Rational Use of Energy and Ecology (ARENA-ECO), and Alliance to Save Energy (ASE).

II. OPENING SESSION

4. The Steering Committee was opened with a statement by the UNECE secretariat, noting that the project had successfully completed its current three-year Plan (2000-2003) with significant results. In addition to the substantial capacity building in economies in transition,

leveraging small initial, regular budget resources into, for example, more than \$30 million of energy efficiency projects which are currently approved and under consideration had been a major accomplishment. Successful completion of the current phase had been possible due to the continued support from the Governments of France, Norway, the United States Department of Energy (USDOE), United States Agency for International Development (USAID) and the Government of Italy with the European Commission under the Fifth Framework Programme Energy.

III. ADOPTION OF THE AGENDA (Agenda item 1)

Documentation: ENERGY/WP.4/2003/1

5. The agenda was adopted.

IV. ELECTION OF OFFICERS (Agenda item 2)

6. The elected officers were as follows: Chairman: Mr. Bernard Laponche (France), Vice-Chairmen: Mr. Trond Dahlsveen (Norway); Mr. Zdravko Genchev (Bulgaria); Mr. Alan Schroeder served as an alternate for Mr. Thomas Sacco (United States of America); Mrs. Milena Presutto (Italy) and Mr. Boris Reutov (Russian Federation).

V. ENERGY EFFICIENCY PROJECTS, CO₂ EMISSIONS REDUCTION AND THE KYOTO PROTOCOL (Agenda item 3)

Documentation: ENERGY/WP.4/2003/5

Note: all United Nations documents for the Steering Committee of the Energy Efficiency 21 Project are or will be available in English, French and Russian on the UNECE website www.ee-21.net together with numerous Power Point presentations delivered by delegations during the session.

7. The UNECE secretariat presented research on the marginal cost of CO₂ emissions reduction in the UNECE region with certain implications for the establishment of a region-wide CO₂ emissions trading scheme. The work presented demonstrated sizeable differences between the marginal costs in economies in transition and the same costs in developed market economies, supporting the case for the establishment of the aforementioned trading scheme.

VI. ENERGY EFFICIENCY 21 PROJECT IMPLEMENTATION (Agenda item 4)

Documentation: ENERGY/WP.4/2003/6.

8. This agenda item was introduced by the secretariat with a presentation of developments in the Energy Efficiency 21 Project during 2001-2003. The presentation reviewed the initial mission

and objectives of the Project and compared them with related achievements. In general the Project met the stated objectives, in particular capacity building, dissemination of information, fostering of investments and market formation in economies in transition in view of climate change mitigation, and in particular regions. Growing interest in accessing information and data on its activities through electronic means, such as its website, was noted in particular.

9. Mr. Glen Skovholt, the UNF Monitoring and Evaluation Adviser, presented its Interim Monitoring and Evaluation Report on the EE-21 Project. His intervention, which covered 2001-2002 Project activities, included a number of observations on major accomplishments with reference to selected concrete events and countries. Comparing with his previous report, Mr. Skovholt found that significant progress and specific results had been achieved in the meantime to meet the climate change mitigation goal of the projects. In particular, he highlighted a report on "Energy Efficiency and Carbon Trading in the UNECE Region" prepared by the UNECE secretariat. The Adviser stated that the Project had leveraged significant budgetary resources and provided local examples of how such energy efficiency investment can be developed in economies in transition that could benefit most from financing mechanisms designed for carbon trading.

10. After discussion, the Steering Committee:

- (a) Noted with satisfaction that the Energy Efficiency 21 Project had successfully completed three years of Project operations as described in the Project Plan for the years 2000-2003, providing UNECE member States with a well managed and appropriate region-wide strategy to address commitments undertaken within the framework of the UNFCCC and the UNECE;
- (b) Noted with appreciation that, through an elected Bureau, the Project maintained the coordination needed to eliminate any overlapping or duplication of effort with the programmes of other international institutions and agencies;
- (c) Expressed appreciation to the supporting institutions for their willingness to provide financing, co-financing or in kind contributions for the project and to the UN/ECE secretariat for project management and assistance to member States in the implementation of the project;
- (d) Welcomed in particular the support and participation of the: Government of France, Government of Norway, Government of Italy and European Commission SAVE Programme, United States Department of Energy and the USAID and Alliance to Save Energy MUNEE Project;
- (e) Welcomed the participation of the European Bank for Reconstruction and Development (EBRD) United Nations Development Programme Global Environment Facility (UNFP-GEF) and the United Nations Economic Commission for Asia and Pacific (ESCAP) in project activities;
- (f) Recommended that the Bureau and the secretariat continue their discussions with supporting institutions on the nature and extent of their contributions to the Project;

VII. PRESENTATIONS OF NATIONAL PARTICIPATING INSTITUTIONS

(Agenda item 4)

11. The delegations of the Czech Republic, Italy, Norway, Russian Federation, Ukraine, United States of America and the Commonwealth of Independent States presented recent developments in the energy efficiency field and project activities undertaken. The representative from the Czech Republic focused on a recent experience with an energy savings fund, established in 1997 in cooperation between the European Commission (Phare programme) and the Czech Ministry of Industry and Trade. Managed by the local CSOB Bank, the fund has invested successfully in 40 projects since 1997 with total energy efficiency investments of around €17 million and estimated annual energy savings of €2.7 million. The Norwegian presentation focused on the Norwegian cooperation programmes in energy efficiency in 15 central and east European and CIS countries. It began with the joint Norwegian-Russian energy efficiency activities in northwest Russia, which contributed to the improvement of the environment and fostered adjustment to a sustainable and market oriented economy. An effective energy savings programme coupled with capacity building as well as financing of commercial bioenergy and district heating projects were mentioned. Norway has also undertaken new long-term programmes on energy efficiency and cleaner production in the Republic of Moldova, Azerbaijan, Kazakhstan, Kyrgyzstan and Georgia with selected current or planned activities in the Czech Republic, Slovakia, Romania and Bulgaria. The Italian representative described the energy efficiency policy scenarios for refrigerators, freezers and washing machines in Europe 1994-2010 prepared under the joint Energy Efficiency 21 – European Commission E-GRIDS Project. The scenarios, which had covered thirteen countries from the European Union and three accession countries, also explored alternative related energy saving trends in those accession countries up to the year 2010.

12. The delegate from the Russian Federation documented the continuing progress in the implementation of the Energy Efficiency 21 Project in his country. He underlined the improvements in the organizational structure of the existing energy efficiency demonstration zones as well as the establishment of several new zones. In a generally favourable climate, a large number of energy efficiency projects have been executed either with GEF/UNDP and EBRD funding or with domestic funds all over Russia. According to the data presented, for example, from 2000 to 2003 close to 180 projects with a total value of US\$ 216 million have been implemented. District heating, residential buildings and the social sector have been the key targets of these projects. Intensification of financing of energy efficiency programmes could be expected with the adoption of the Russian Energy Strategy on 22 May 2003, which includes “energy efficient economy” as one of its key goals. The United States delegate spoke on energy efficiency and renewable energy in Russia and in particular the US Department of Energy’s Weatherization and Intergovernmental Programs. Based on the new protocol on energy efficiency under the US/Russia Energy Working Group, continuous progress has been achieved in the three key areas of cooperation: Russian Federal Energy Management Program, Hospitals Project, and Energy Efficient Windows and Building Technologies. Ukraine’s presentation was divided into two sections; the first dealt with the energy efficiency investment projects development for climate change mitigation in Ukraine with encouraging results in the preparation of concrete business plans with a total value of US\$ 2.3 million; the second presented the business plan for improving energy efficiency in the health and education institutions in the city of Ivano-Frankivsk. The value of the project is close to US\$ 300,000 of which one part will be financed by the city funds.

Finally, the delegate from the Commonwealth of Independent States reiterated that energy efficiency has been given a high priority in the region with substantial progress expected in coming years.

13. The representative of the Alliance to Save Energy (ASE) made a presentation on various activities pursued under the Municipal Network for Energy Efficiency (MUNEE) project, which included a co-financing partnership with the United Nations Foundation. She highlighted certain aspects of ASE activities in economies in transition, in particular Bulgaria and Kazakhstan, such as the creation of an enabling environment for energy efficiency, training, business planning as well as MUNEE exchange seminars.

VIII. REGIONAL NETWORK FOR THE EFFICIENT USE OF ENERGY AND WATER RESOURCES (RENEUER) (Agenda item 5)

14. This agenda item was introduced by Mr. Zdravko Genchev, Director, Centre for Energy Efficiency (EnEffect), Sofia (Bulgaria) with a brief overview of recent developments and a special emphasis on energy efficiency investment projects in his country. He described five small-size municipal projects, which were either under consideration or already financed. The delegates from three other RENEUER-participating countries: Bosnia and Herzegovina, Croatia and the Republic of Moldova also outlined or commented on their selected energy efficiency activities and advancements. The presentations left the impression that these countries were improving their energy efficiency in general and that the municipal sector in that process was in focus.

15. In the discussion that followed, representatives from market economies not only praised the progress achieved in south-east Europe in energy efficiency but also indicated the need for a continuous capacity building and execution of a larger number of energy efficiency projects in the region.

16. After discussion, the Committee:

- (a) Welcomed the progress achieved under the RENEUER project and the contribution of supporting institutions and the project secretariat at EnEffect to the implementation of project activities;
- (b) Noted with satisfaction the excellent results of the first Energy Efficiency Circle for RENEUER hosted by the Ministry of Foreign Affairs in Paris in September 2002;
- (c) Expressed appreciation for the support and participation in the project provided by the Government of France, Government of Norway, Government of the Czech Republic, USAID Municipal Network for Energy Efficiency (MUNEE) project implemented by the Alliance to Save Energy, the US Department of Energy;
- (d) Recommended that a special meeting be organized in the second half of 2003 on financing energy efficiency investments and carbon emissions trading using, inter alia, the Carbon Emissions Trading Handbook CD ROM;

- (e) Requested the Center for Energy Efficiency (EnEffect) in Sofia to incorporate the recommendations and proposals for activities and support that delegations made during the session into the Project Work Plan for 2004 by the end of 2003.

IX. THE NEXT THREE-YEAR PHASE OF ENERGY EFFICIENCY 21 PROJECT

(Agenda item 6)

Documentation: ENERGY/WP.4/2003/4

17. The UNECE secretariat presented a proposal for the next three-year (2003-2006) phase of the Energy Efficiency 21 Project, which would benefit from the lessons learned from earlier project operations and reflect key decisions of the World Summit on Sustainable Development (WSSD) held in Johannesburg. The General Objective will be to enhance regional cooperation on energy efficiency market formation and investment project development to reduce greenhouse gas emissions in economies in transition. This will be implemented through three immediate objectives and related activities: (a) Development of carbon emissions trading standards and emissions tracking based on specific energy efficiency projects; (b) Financing of energy efficiency investments through advisory services to project sponsors and investors on bankable projects; and (c) Promotion of a sound business environment and corporate governance to introduce the economic, institutional and regulatory reforms needed to support energy efficiency investments to reduce greenhouse gas emissions and the Kyoto Protocol mechanisms. Certainly, the Project's focus will be on economies in transition.

18. After discussion, in which the representatives of Bosnia and Herzegovina, Bulgaria, Croatia, France, Norway, Russian Federation and United States of America confirmed their support for the suggested profile of the new phase of the EE-21 Project and provided numerous suggestions, the Steering Committee:

- (a) Welcomed the conclusions and recommendations of the Seminar on Financing Energy Efficiency Investments, in particular concerning the development of an Energy Efficiency 21 financing mechanism for the Fund in relation to the next phase of the project operations;
- (b) Requested the Bureau and secretariat to prepare a complete Project Plan (2003-2006) based on the draft proposal (ENERGY/WP.4/2003/4) for a second three-year phase of the Energy Efficiency 21 Project including a financing mechanism or Fund (see Annex 1) for submission to donors, co-financing partners and potential Fund participants;
- (c) Requested that project operations for the new phase (2003-2006) begin upon the completion of the Project Plan and the provision of adequate resources by supporting institutions.

X. OTHER BUSINESS (Agenda item 7)

19. The next session of the Steering Committee of the Energy Efficiency 21 Project will be held on 24-26 May 2004.

XI. CONCLUSIONS AND RECOMMENDATIONS (Agenda item 8)

20. The Chairman presented the draft conclusions and recommendations to the Steering Committee for discussion, guidance and additional information during the closing session. This report provides the agreed conclusions and recommendations under each relevant agenda item as completed and amended during the session.

Annex

Energy Efficiency 21 Financing Mechanism

Eastern Europe and the CIS suffer from severe economic and environmental problems caused by their inefficient and polluting energy systems. At the same time, some of the best opportunities for reducing global greenhouse gas (GHG) emissions will come from investments to improve energy efficiency in these countries. While the eastern European economies are three to ten times more energy intensive than the western market economies, energy efficiency has been declining in Eastern Europe and the CIS since economic transition began. Efficient and reliable energy systems are essential for managing economic transition, enhancing environmental conditions and ensuring energy security.

The Energy Efficiency 2000 Project was launched in 1991 to enhance trade and cooperation in energy efficient technologies to reduce the energy efficiency gap between eastern and western countries. During the last three years its successor, the Energy Efficiency 21 Project, has been promoting energy efficiency market formation and investment project development to reduce greenhouse gas emissions in economies in transition with the support of the United Nations Foundation and co-financing partners (www.ee-21.net).

This United Nations Foundation supported project has produced significant results and lessons learned that can now be leveraged to have a much greater impact on the problems it was designed to address. The project has produced US\$ 60 million of energy efficiency investment project proposals in 30 business plans. Financing has been approved for some US\$ 9 million by the World Bank and other investors in Belarus and the Russian Federation. Some US\$ 15 million are under negotiation with the City of Moscow and the European Bank.

Leveraging Project Results for Greater Impact

Recent experience shows that it is possible to identify, develop and finance energy efficiency investment projects in Eastern Europe. But once the pre-feasibility study business plans have been prepared, finding finance for each project is a time consuming and expensive process. Linking an investment project pipeline to pre-approved funds would be the best way, possibly the only way, to make significant progress in this field. A new project would leverage UN Foundation and co-financing partner support for developing projects and for setting up a fund into a series of energy efficiency investments. In addition, the fund or financing mechanism itself could also be repeated at much lower cost if it proves successful.

At present, financing energy efficiency in Eastern Europe is a niche industry. Projects have high internal rates of return (IRR) but do not capture the attention of investors or commercial banks because most projects are small and unfamiliar to local lending institutions. Even high IRRs cannot compensate for the high transaction costs banks incur to analyse small projects and to establish political, financial and institutional support for them.

A Dedicated Financing Mechanism

The solution would be to develop a financing mechanism or a Fund under a public-private partnership to provide senior debt, guarantees and/or equity to Special Purpose Vehicles such as Energy Service Companies (ESCO) or directly to local banks or project sponsors. The proposed Fund would not be part of the UNECE. Instead it would be a dedicated instrument aligned with the UNECE that would target projects in the present UNECE pipeline and those to be developed in the new three-year phase of Energy Efficiency 21. Additional projects could also be considered for financing from other sources so long as they came from targeted countries and met the criteria approved in the fund charter.

More specially, the financing mechanism would comprise public and private sector capital commitments and be managed by experienced fund managers, possibly by a large financial institution using existing fund management products for a new purpose. Some public sector resources or grants would be used to provide a risk reduction buffer for private sector investors. The fund would focus on projects that meet criteria established both by the UNECE and the fund managers. Projects with a reasonable IRR target likely to attract investors and an acceptable level of risk will be a priority for the fund managers. The UNECE may target projects that reduce greenhouse gas emissions, have low transaction costs and that can be replicated or bundled together. Reconciling these criteria in a continuous project selection process will require close cooperation between the UNECE and the fund managers – a key reason why a new financing mechanism is needed rather than adding on criteria to an existing fund.

Process for Repeated Investments

The financing mechanism and pipeline of bankable projects will be designed to have standardised procedures to produce replicable transactions. The UNECE already provides international standards for electronic trade transactions and could do the same for energy efficiency investments for green house gas emissions abatement. A significant part of investments would be guarantees accorded to local commercial banks for specific energy efficiency loans to their clients meeting agreed criteria. This institution building formula will enable local financial partners to gain experience with the analyses and procedures for financing energy efficiency investments through project finance mechanisms rather than with corporate financing procedures so that such loans can be repeatedly handled with growing confidence.

United Nations Foundation and Co-financing Partners

During the present phase of the Energy Efficiency 21 Project, a pipeline of projects has been established and some have been financed. The next phase of this work will go from one-off demonstrations to the production of many investment projects. The success of the proposed fund will be determined by its ability to multiply projects, meet IRR expectations and create its own competition. The support of the United Nations Foundation and co-financing partners will be needed to expand the UNECE pipeline for bankable projects, to provide the start up costs for the fund and to work with public and private sector investors on their participation in the fund.