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Annex 2: Action Fiche for ENPI Regional East Action Programme 2010 Part 1

1. IDENTIFICATION

Title/Number	Supporting participation of Eastern Partnership and Central Asian Cities in the Covenant of Mayors CRIS: ENPI/2010/21-925 ¹		
Total cost	<i>EUR 5 million</i>		
Aid method / Method of implementation	Project approach/ direct centralised management		
DAC-code	<i>23010</i>	Sector	<i>Energy policy and administrative management</i>

2. RATIONALE

2.1. Sector context

Within the EU, energy policy is gaining momentum in the political agenda, not only at the national level but also at the local level, as shown by the success of the "Covenant of Mayors", a political commitment that was initiated by the European Commission Communication (2006)545 "Action Plan for Energy Efficiency: Realising the Potential". The "Covenant of Mayors" aims at bringing together in a permanent network mayors and local authorities, under the aegis of the European Commission. Covenant of Mayors signatory towns and cities formally commit themselves to go beyond the objectives of EU energy policy in terms of reduction in CO2 emissions through implementation of Sustainable Energy Action Plans. The Covenant of Mayors was officially launched in January 2008. Since then, this initiative has met large international success: nearly 1,200 cities from 35 countries (as of January 2010) have already signed it. Among them 11 cities of Ukraine, 1 city in Armenia plus a vivid interest raised in the 6 countries covered by the Eastern Partnership (Azerbaijan, Armenia, Belarus, Republic of Moldova, Georgia, Ukraine – EaP countries) and 5 in Central Asia (Tajikistan, Kyrgyzstan, Kazakhstan, Uzbekistan, Turkmenistan) justify an energy project under the European Neighbourhood and Partnership Instrument-East (ENPI-East) 2010 Regional Action Programme in support of the participation of these cities in the Covenant.

The ENPI-East Regional Indicative Programme for 2010–2013 lists energy amongst its priorities with the objectives to 'Improve Energy Efficiency and expand use of Renewable energy Resources'. One of the expected results identified in the Regional

¹ This project covers the countries of the ENP-East as well as Central Asia. Participation of the countries of Central Asia is possible following Article 27 of the REGULATION (EC) No 1638/2006 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.

Indicative Programme is the ‘establishment and implementation of sustainable energy action plans by cities having signed up to the Covenant of Mayors’.

The Work Programme of the Energy Security Platform under the Eastern Partnership identifies the promotion of the participation of cities from the region of the Eastern Partnership as one of the major priorities. In this context an event was organised in November 2009 with the participation of mayors, or his designate, of capitals and major cities of the region, at which occasion a consultation took place on the possible content of a future regional project. The results of this meeting were reported at the second meeting of the Energy Security Platform.

Root problems of the cities in the energy sector in the EaP and Central Asian countries mainly lie in: **Urban growth** (Rapid growth and rural to urban migration, severely challenging the cities’ capacity to curb CO2 emissions); **District Heating and Waste management**: (Abandoned or deteriorated infrastructure after the collapse of Soviet Union/ Biogas emissions from municipal waste dumpsites as another major source of Green House Gases); **Transport policy** (Collective transport provided by old, polluting vehicles, individual transport as a general preference); **Reindustrialization policy**: (countries revitalising old derelict industries and developing new industries after the collapse of the Soviet Union).

Whilst declarations in support of mitigating the consequences of these root problems have been made in all EaP and Central Asian countries concerned, relatively little action has been seen on the ground so far. The main bottlenecks are the insufficient levels of both readiness and acceptance of local and national authorities.

1/ the insufficient readiness is due mainly to the following three factors:

a) Limited awareness of the issue: due to subsidised energy tariffs, awareness of the need to introduce energy efficiency solutions remains low among the general population. Issues of green house gas emissions and climate change remain almost exclusively a responsibility of the Ministries dealing with Environment.

b) Limited competency to address the issue: Lack of management expertise within local governments needed to identify funding sources and formulate bankable projects, the know-how and experience etc. This field will need to be approached individually and with respect to and understanding of the existing governance culture.

c) Scarce access to credits: Many of the local authorities have only implemented donor-funded energy efficiency projects so far. Government financed programmes are scarce, and local banks often do not lend to such investment.

2/ insufficient acceptance by authorities: in spite of the political risk that is implied when addressing the energy issue, no serious sustainable energy policy can be implemented without a minimal reform of the energy tariffs. Cross-subsidised energy tariffs to residents make it practically impossible to put energy efficiency initiatives in place based on repayment from energy savings. Therefore, it is important to introduce a well-recognised initiative such as Covenant of Mayors to the EaP countries and Central Asia, as it can help address the problems in increasing the efforts towards sustainable energy among a key group of stakeholders – the cities, and it can help build capacity in governance, building on experience of their peers.

2.2. Lessons learnt

The CoM project is pioneering in the area of technical cooperation in sustainable energy with the local authorities, in the East ENPI region. The experience from projects targeting directly local authorities in the Mediterranean region, such as MED ACT (Mediterranean Europe Development Action of Cities and Towns), and MED PACT (Local Authorities Partnership Program in the Mediterranean) proves that intervention in sustainable development at this level is relevant and effective. These projects managed to establish lasting partnerships between the EU and Mediterranean cities and their civil societies and to contribute towards promoting more participative and sustainable local development patterns in the Southern and Eastern Mediterranean. They also aimed at widening and strengthening municipalities' networks and at further developing their access to information on technical and methodological issues. The structure of these projects (a joint Technical Assistance and grant component) is now being renewed in the South and replicated to the East ENPI region in the current CIUDAD (Cooperation in Urban Development and Dialogue) project.

2.3. Complementary actions

Regional energy cooperation between the EU and the countries of the ENP-East and Central Asia is well established, due in particular to the INOGATE Programme², which has progressively adapted its interventions to changing situations since its start up in 1995. Since 2004 when INOGATE's mandate was expanded to support the Baku Initiative, it supports the Partner Countries to achieve the following objectives: convergence of energy markets, enhancement of energy security, supporting sustainable energy development while attracting investment to energy projects of common interest.

EU-funded actions relevant to the Covenant of Mayors are the INOGATE projects:

- "Support to Energy Market Integration and Sustainable Energy in the NIS (SEMISE)", (01/2009-12/2011, EUR 6 million);
- "Identification and Promotion of Energy Efficiency Investments", (12/2006-12/2011, EUR 9.5 million);
- "Sustainable Energy Programme for Central Asia: Renewable Energy Sources - Energy Efficiency (RES – EE)" – (to be launched in 2010 – EUR 6 million);
- "Energy Saving Initiative in the Building Sector in Eastern Europe and Central Asia countries" EU-funded INOGATE project (2010-2013, EUR 5 million).

These projects are seeking development of local capacity in the energy sector through a technical assistance.

In addition, linkages between the support given under the Covenant of Mayors project and the EU's Neighbourhood Investment Facility (NIF) as well as the Central Asia Investment Facility (CAIF) (to be launched in 2010) will be sought.

² INOGATE stands for INterstate Oil and GAs Transportation to Europe

Finally, donors and IFIs, namely UNDP, USAID, EBRD and the World Bank are particularly active in the field of energy efficiency in the EaP and Central Asian countries and also at local level but none of their programmes benefit from the same political framework and leverage of the Covenant of Mayors. It will be intended to establish a close cooperation with the IFI and other donors within the framework of the project, in order to join forces in assisting the cities that have joined the Covenant of Mayors to implement their sustainable energy action plans (SEAP) (e.g. through investment loans).

2.4. Donor coordination

It will be intended to establish a close cooperation with the IFI and other donors within the framework of the project, in order not only not to overlap activities but mainly to join forces in assisting the cities that have joined the Covenant of Mayors to implement their SEAP (e.g. through investment loans).

Significant opportunities of cooperation exist with the EBRD, which launched the second phase of an ambitious Sustainable Energy Initiative in 2009³ and developed financial mechanisms targeting specifically the municipalities in the region and their infrastructures. Contacts with EBRD Municipal Infrastructures Financing unit were already established in this regard.

A working partnership with the EIB, whose geographical mandate has been enlarged and which has decided to raise the share of energy efficiency and renewable energy sources in its energy portfolio, will also be contemplated.

Partnerships with EU Member States' financing institutions (such as KfW) and with the World Bank, which provides bank guarantees, supports the operations of the Global Environment Facility (GEF) and the Climate Alliance Trust Fund and is increasingly involved in the relevant fields, will be considered, too, in line with the principles set out in the Paris Declaration on aid effectiveness.

3. DESCRIPTION

3.1. Objectives

The overall objective of the proposed project "Supporting participation of Eastern European and Central Asian Cities in the Covenant of Mayors" (the Project) is to support the local authorities in Eastern Europe, the Caucasus and Central Asia to reduce their dependency on fossil fuels, to improve security of their energy supply, and to allow them to contribute more actively to climate change mitigation.

The purpose of the Project is to encourage and support local authorities in EaP countries and Central Asia to achieve and implement a more sustainable local energy policy. As such the project would support cities to sign up to the Covenant of Mayors, and prepare as well as implement the related Sustainable Energy Action Plan (SEAP). In substance, the purpose consists of a significant reduction in energy

³ <http://www.ebrd.com/country/sector/energyef/sustain.htm>

consumption and CO2 emissions of the municipalities as well as an increase in their renewable energy use and energy efficiency measures.

3.2. Expected results and main activities

The project will include the following activities:

- (1) Information, awareness raising and helpdesk for all cities with regard to:
 - Preparation of Information packs about Covenant of Mayors, tailoring materials available through Covenant of Mayors; support to the organization of local Energy Days and other thematic workshops, as a replica of those already organized in the Covenant of Mayors framework in the EU.
 - Reactive (enquiry-driven) Covenant of Mayors and Climate Change information assistance (Help Desk);
 - Methodologies and guidelines for baseline inventories, SEAPs, various implementation measures, and training materials;
- (2) Assistance to the implementation of the Covenant of Mayors and local sustainable energy policies
 - Direct expert assistance, and training to cities, city associations and networks and other potential stakeholders having a role in the preparation and implementation of the SEAPs or other similar sustainable energy actions at city level;
 - Identification, training and assistance to supporting structures that could continue to contribute to the participation of the cities in the Covenant of Mayors after the end of the project (train the trainers)
 - Exchange of best practice, regional networking events and seminars
 - Assisting the preparation of bankable investments in line with the SEAP or other sustainable energy actions at local level
 - Preparation and support to demonstration projects/partnerships for SEAP implementation measures.
 - Foster cross-countries partnerships between cities/local authorities in the EU and Partner countries

The project is expected to establish an office in the region, which will function as a branch of the Secretariat of the Covenant of Mayors covering the countries targeted by this project. As such the project will use the logo of the Covenant of Mayors and work in full coherence with the general guidelines and principles established under the Covenant of Mayors.

The expected results are:

- A significant number of cities in the EaP and Central Asian countries signing up to the Covenant of Mayors

- The capacity of local/regional authorities in the EaP and Central Asian countries, with regard to climate change-related energy issues and in particular to the design, development and achievement of SEAP, increased.
- Covenant of Mayors-related Sustainable Energy Action Plan (SEAP) or similar actions being actually designed and implemented by Signatory Cities.
- Enhanced general public awareness on climate change issues.
- Structures in support of the extension of the Covenant of Mayors are set up (Covenant of Mayors Office branch and so called Supporting Structures based on those in the EU)
- SEAP-related or other similar action-related projects/policies in the appropriate format to be presented to International Financing Institutions for investments (and possibly also to the European Neighborhood Investment Fund)
- Completion of demonstration projects in Energy Efficiency/Renewable Energy, linked to the implementation of the city SEAP (grant component)
- Lasting partnerships between local/regional authorities in the EU and in the ENPI region created, through their collaboration in the design and the implementation of sustainable urban development projects and in the framework of existing local/regional networks (grant component)

3.3. Risks and assumptions

Assumptions

Global climate change issues and energy security remain high priority for the EaP and Central Asian countries and the present positive trends of reform of the enabling environment (for energy efficiency and renewable energy sources / Local Government) stay high on the countries' agenda. Recent laws and regulations in favour of these subjects are enforced at least at the present level and state funding of targeted Government programmes recently adopted allows co-financing energy efficiency and renewable energy sources projects. Energy data are not put under State confidentiality rules for "energy security" reasons.

Current autonomy of EaP and Central Asian local authorities allows them to sign-up to the Covenant of Mayors and to collaborate with foreign cities and organisations. Current local budget and available state-subsidies enable them to implement energy efficiency and renewable energy sources measures. Cities are authorized to contract loans and private-public partnerships. Municipal infrastructure remains under the responsibility of local authorities together with the well developed collective transport.

Risks

Not enough cities adhere to the Covenant of Mayors proposal or they sign up for the mere political visibility gain without serious commitment for its implementation.

Cities experience difficulties to achieve the 20% reduction in green house gas objective of the Covenant of Mayors.

For reasons of energy security, economic development or political gain, national state policies orient themselves to the use of indigenous resources (in particular coal), and do not give up the subsidization system of their energy tariffs, which lead to growing CO2 emissions. The traditional and incumbent energy industry further contributes to the difficulties of allocating budget to energy efficiency and renewable energy sources and offering “green tariffs”. The same applies to the car industry concerning “green” transport schemes. Situation is also complicated by the low level of effective enforcement of energy and environmental regulation and the frequent discontinuation of commitment in case a change of administration occurs (e.g. after elections).

Tariffs and subsidies are often set at the national level, and cities have limited influence to instigate necessary change.

Mitigations of risks

Efforts were anticipated ahead of the project to start involving the potentially most interested cities. During the project implementation, a particular attention will be paid to identify and reach out to the local authorities trendsetters (e.g. cities networks, influential decision-makers or consumer associations) which can make change happen. Key cities and capitals adhesion will be prioritized to seek a knock-on effect on other cities.

As for sustainability of results, the main mitigation parameter is the SEAP in itself. The SEAP is deemed to be fully part of the urban development strategy: The city ownership of the SEAP is the best guarantee for sustainability of the project results. In 2010 various actions will be undertaken to mobilise cities to sign up to the Covenant of Mayors, such as the Ceremony of the Covenant of Mayors, but also within the framework of the Eastern Partnership and ongoing INOGATE projects. Therefore, it can be assumed that a sufficient number of cities will sign up to the Covenant of Mayors. If, nevertheless, it will appear that there are few cities to sign up, the project would put more emphasis on awareness raising and developing sustainable energy policies at city level with the aim to mobilise cities towards a higher consciousness for sustainable energy policies and signature of the Covenant of Mayors during the implementation of the project.

The project will go along with parallel initiatives that address the need for change at national level (either EU-funded or other). Efforts continue through various frameworks, such as INOGATE, to improve the enabling environment for energy efficiency, including appropriate systems of energy tariffs and availability of funding. In particular, a complementary EU-funded capacity building project led by the Energy Regulator Regional Association (ERRA) focuses on the need for an enabling tariff regulation in the sector, targeting the government-level stakeholders.

Additional efforts to create better awareness in the general population would also increase democratic pressure to the governments in this regard.

3.4. Crosscutting Issues

What level of autonomy and democracy of local authorities in the EaP countries and Central Asia?

EaP and Central Asian countries have inherited a unique multi-level framework for local governments from the former soviet system: republic/oblast/rayon/cities/sub-structures. All countries recognise the formal autonomy of local self government. In most countries some form of City councils are elected yet, however mayors with strong administrative powers are sometimes still appointed by the President or the Government.

The degree of administrative and financial self-dependence of the cities varies.

Some countries explored the possibilities of a more efficient administration by merging cities and "rayons" and giving them higher level of authority. A new way to distribute government subsidies to cities has emerged recently in several countries: it is based on a competitive call for proposals inspired from Technical Assistance projects. Multiple technical assistance projects focused on local development and capacity building at the local level.

The very objectives of the proposed project, that is a decrease in local authorities' green house gas emissions and improved sustainable energy governance, are directly tackling Climate Change and have direct impact on their environmental sustainability.

3.5. Stakeholders

The cities/local authorities are the main target of the proposed project. However, indirectly it also supports the role of the civil society organisations and energy efficiency in the private sector: increased awareness at the level of cities might lead to higher political influence on the governments to create more conducive enabling environment in terms of legislation, regulations, and state programmes in the sector.

Supporting structures are encouraged by Covenant of Mayors. These concern in most cases public authorities and networks of cities that are focussing on energy efficiency, such as the Ukrainian Association of Energy Efficient Cities (EECU).

General services provided by the Secretariat of the Covenant of Mayors in Brussels will also be available for the cities of the ENP-EAST joining the Covenant of Mayors. Furthermore, international associations of cities such as Energie-Cités and Climate Alliance, as well as their national affiliates – where they exist – and existing Covenant of Mayors support structures in the EU could play an important role in the proposed project by providing links to good practice and eventual groupings of cities working on comparable problems and their solutions.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The project will be implemented through Direct Centralised Management. It is expected to include one service contract and a call for proposals. Furthermore, part of the budget will be implemented under an administrative arrangement with the European Commission's Joint Research Centre (JRC).

European Commission headquarters will manage the contracts in close liaison with other relevant DGs and the EU Delegations in the partner countries. The management of the grant contracts (foreseen number about 5-8) resulting from the Call for Proposals is expected to be deconcentrated to the EU Delegations in the respective countries.

A Steering Committee will be established with the participation of the relevant Commission Services having responsibilities within the framework of the Covenant of Mayors, as well as representatives from the Covenant of Mayors office in Brussels and the office established under this project (or any other branch office established within the lifetime of this project). The Steering Committee will provide general guidance to the office of the Covenant of Mayors in Brussels and the branch established under this project (or any other future branch).

4.2. Procurement and grant award procedures

1) Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the Regulation 1638/2006 of the European Neighbourhood and Partnership Instrument. For the present action, participation will also be extended to persons from the following countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in article 21(7) of the ENPI regulation No.1638/2006.

2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU-funded external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is up to **80%**. Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the

implementation of the Financial Regulation applicable to the general budget of the European Communities.

- Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

3) Administrative Arrangement with the JRC

- Part of the budget will be implemented through an Administrative Arrangement with the JRC in order to provide the services assigned to them within the framework of the Covenant of Mayors, also to the countries covered under this project. This would include activities such as the analysis of the templates of the Sustainable Energy Action Plans submitted, providing support and training on technical issues related to the Covenant of Mayors, providing a helpdesk function in Russian for technical questions, etc. The activities under this Administrative Arrangement will be implemented in close coordination with Technical Assistance contract.

4.3. Budget and calendar

The indicative split between the call for proposals and the call for tenders is as follows:

Call for proposals: EUR 2.5 million (targeting mainly local authorities and network of cities in the region). A part of this amount might be used to fund a specific contract for the evaluation of the proposals.

Call for tenders: EUR 2.15 million

Administration Arrangement EC Joint Research Centre (JRC): EUR 0.35 million

Implementation duration is indicatively 3 years from the signature of the contracts. The Technical Assistance contract and the Administrative Arrangement with the JRC are expected to start end 2010/first half 2011. The grant contracts are expected to be signed in end 2011/ early 2012.

4.4. Performance monitoring

For the whole programme, a key indicator of achievement will be the number of cities which have signed up to the Covenant of Mayors and the number of SEAP that have been designed and are implemented at the end of the implementation period. Another indicator will be the number of suitable investment projects channelled towards IFIs (or the NIF) or towards local banks if applicable. For the projects financed under the CfP, ad-hoc performance indicators will be determined and laid down in the respective logical frameworks. The related reduction of CO2 emissions brought by renewable energy projects, (the only EuropeAid Standard Indicator that applies to the proposed project), will depend on the number of projects financially supported and actually implemented, although these projects are not likely to be delivered in the timeframe of the proposed Project.

All projects will be monitored according to standard procedures. Project monitoring will be based on periodic assessment of progress and delivery of specified project results and towards achievement of project objectives.

4.5. Evaluation and audit

Expenditure incurred will have to be certified, as part of the obligations of the contracted parties in the framework of the implementation of this project. Evaluation of the results achieved will be entrusted to independent consultants, as well as external audits (which will be carried out if necessary). These evaluations and audits will be funded from other sources than the project budget, since no commitment will be possible once the validity of this Decision has expired ("N+1" rule will apply).

A mid-term and a final project evaluation will be carried out to assess project performance, achievements and impact.

4.6. Communication and visibility

The EU visibility guidelines must be followed by all projects. The project will work out a specific communication strategy and develop specific activities dedicated to communication and visibility, including a replica of the Local Energy Days in the framework of the Covenant of Mayors in the EU. Implementation of the communication strategy in the partner countries will be also carried out in collaboration with the EU Delegation, when appropriate.

The Service Contract is expected to manage the part of the website of the Covenant of Mayors dedicated to the cities signing up from the region covered under this project, providing potential applicants from the region with all necessary information and facilitating networking among cities.

Existing networks of local authorities (such as those mentioned above) will also be involved in the awareness raising phase, as well as in programme implementation (esp. for dissemination). Close cooperation with the INOGATE Technical Secretariat will be sought in order to enhance the dissemination of information on project prospects, activities, and achievements (including dissemination through the INOGATE web portal).

For the communication through the HQ channels, constant communication should be kept with EuropeAid A3 Unit and with the ENPI Info centre web portal (www.enpi-info.eu)