

ACTION FICHE FOR BELARUS / SUPPORT TO ENERGY POLICY IMPLEMENTATION

1. IDENTIFICATION

Title	Support to the Implementation of a Comprehensive Energy Policy for the Republic of Belarus		
Total cost	EC contribution: € 5 million		
Aid method / Management mode	Project approach / Centralised management		
DAC-code	23010	Sector	Energy Policy and administrative management

2. RATIONALE

2.1. Sector context

Belarus enjoys a strategic location between Russia and the European Union, and therefore plays a key role as a transit route for energy exports from Russia to European markets (outright transit of oil and gas and export of oil products refined in the country). The country's economic growth has been strong in recent years, despite the roadblocks in a centrally directed economy with, still, a high rate of inflation. Until recently, it received heavily discounted oil and natural gas from Russia and much of its GDP growth can be attributed to the re-export of Russian crude oil and export of refined oil products at raising world market prices.

However, Russia has now increased gas prices from US\$47 per thousand cubic meters to US\$110 per tcm, and will gradually increase its prices to EU countries levels by 2011. Also, Belarus is endowed with limited indigenous energy resources (3 million tons of oil equivalent of primary energy resources, or 11%, are produced annually compared to 26 mtoe consumed) and is heavily dependent on imports of primary fuels from its single supplier. This is a key issue for Belarus' economic security¹. The need for action (to modernise the energy sector, improve energy efficiency, and increase the use of domestic energy resources) has been recognised by the President and the government, and has been reflected in the government's energy strategy. According to official statistics, Belarus GDP's energy intensity is twice as high as in developed countries with similar climatic conditions.

Belarus has ratified the Kyoto Protocol (KP) and is an Annex-1 Party to the UN Framework Convention on Climate Change (UNFCCC). However unlike other Annex-1 transition economies, Belarus is unable to engage in international emissions trading (IET) or project-based activities through the Joint Implementation mechanism (JI) since it does not have yet an emissions allowance under KP Annex B. Two areas where the country has nonetheless huge JI potential are energy efficiency investments, and land use change and afforestation.

The Belarus National Energy Strategy² is centred on both the supply side and the consumer side, with clearly stated objectives:

- Geographical diversification of the sources of energy supplies;
- Development of domestically available energy sources through the increase of share of renewable sources;

¹ Already before 2007, although the revenues stemming from energy exports largely offset the cost of energy imports (about 20 percent of GDP each), the latter caused a significant strain on Belarus' trade balance.

² Copy available at the EC Delegation to Ukraine and Belarus

- Development of domestic nuclear power production capacity;
- Dramatic improvement in energy efficiency, based on the existing Energy Saving Programme (2006-2010), with a particular focus on citizens' ownership.

The proposed action will address some of these strategic priorities, with an emphasis on those requiring participation of the citizens and allowing for their involvement in local initiatives. The proposed action will also take into account the development of the technical discussion at experts' level on energy between the Commission and Belarus.

2.2. Lessons learnt

The EC has not yet supported this type of activities in Belarus but has long demonstrated its willingness to support the people of Belarus by assisting regions and people suffering from the consequences of the Chernobyl catastrophe and others.

Under its 2005-2006 allocation for Belarus, the Tacis programme has focussed on addressing the needs of the population. The EC has also consistently granted assistance to democratisation and civil society in Belarus.

As regards the implementation of EC funded projects, technical assistance to Belarus was hampered in 2002-2003 by the suspension of tax exemption to Tacis projects. In addition, a registration procedure was imposed by the Belarusian authorities on projects implemented in Belarus. This registration procedure has led to a slower implementation of the previous EC Action Programmes for Belarus.

2.3. Complementary actions

In the Regional Action Programme 2006, €5 million were allocated to support implementation of the KP. Building on an earlier project, the action aims at supporting the beneficiary countries, including Belarus, in their efforts towards reducing greenhouse gas emissions, enforcing compliance with the UNFCCC and the KP, and implementing the JI as well as the Clean Development Mechanisms (CDM) developed by EU countries. Belarus has a track record of energy cooperation with the EU as a member of the INOGATE Programme. Belarus officially joined it on 30 December 1999 and is in particular a stakeholder of the Hydrocarbons Metrology Centre under construction in Boyarka, Ukraine. The World Bank and the UNDP have been so far the most active donors / IFIs in the field of the proposed action:

The World Bank

The Energy Sector Management Assistance Programme grant (US\$ 50,000) funded in 2005 technical assistance for the Committee on Energy Efficiency to explore market mechanisms to improve energy efficiency through the operation of energy servicing companies (ESCOs) and options of strengthening the country's energy efficiency programme drawing on successful experience of neighbouring countries. The Social Sector Energy Retrofitting Project (US\$ 22.6 million) assists in the rehabilitation of the heating system, thermal insulation, and lighting in over 450 public buildings (schools, hospitals, orphanages, and community homes for the elderly and the disabled). The related Climate Change Pilot Project (US\$ 1.0 million) is aimed at demonstrating opportunities for greenhouse gas emission abatement through energy efficiency and renewable energy utilisation in the supply of heat and hot water to social sector buildings.

The UNDP

The UNDP's Country Programme Document 2006-2010, expected soon to be approved by the government, focuses on a few priority areas, including environmental sustainability. As for foreseen projects, the "Biomass Energy for Heating and Hot Water Supply in Belarus" project (US\$ 3,129,000; implemented 2003-2007) addresses the reduction of greenhouse gas emissions by increasing the institutional and financial capacity of the government to support biomass energy projects and the capacity of customers to finance and implement them. A second project "Removing barriers to energy efficiency

improvements in the State sector in Belarus" (US\$ 9,769,600; implemented 2006-2010) supports local authorities and State enterprises in identifying energy efficiency opportunities, particularly in the DH&CHP sector. Alongside these two major partners, GTZ has focused some actions on the sustainable restructuring of energy systems in buildings and the promotion of renewable energies.

2.4. Donor coordination

Coordination with other donors and IFIs has taken place during the formulation phase. Close contact has been established with the World Bank through its base office in Ukraine. The EC and the Bank will put findings in common, for instance those of the Energy Sector Review currently under preparation to analyze the impact of higher energy prices on Belarus' economy. A specific donors coordination model was set up in the autumn of 2003 for the CORE Programme (Cooperation for Rehabilitation), allowing to reach out to the people, emphasising a participatory approach and active involvement of those affected by the Chernobyl accident. This frame defines a ready-for-use forum, compatible with the Paris Declaration (it is managed by the Belarusian government), to build on and co-ordinate donor activities outside the strict remit of the CORE Programme.

3. DESCRIPTION

3.1. Objectives

The National Indicative Programme (NIP) 2007-2010 focuses on two priority areas: (1) social and economic development, including actions to alleviate the consequences of the Chernobyl catastrophe; and (2) democratic development and good governance. The overall objective of the action is to provide targeted assistance to the Belarusian government and population:

- in profiling and implementing energy sector reform in such a way as to bring the country closer to the EU approaches to energy policy, foster sustainable development and social welfare by improving the economy's and social sphere's energy efficiency and use of indigenous and renewable energy resources (First NIP priority area);
- in empowering the Belarusian citizens and their associations to play an active role in achieving energy policy objectives at the local level, and in areas where social participation should be encouraged, notably via citizens' involvement in pilot projects (Second NIP priority area).

3.2. Expected results and main activities

3.2.1 Expected results

- Comprehensive, socially-responsible and cost-effective energy sector policy, maintained as appropriate and effectively implemented, based on a sector analysis and ad-hoc feasibility studies, drawing on lessons from relevant EU energy supply security and savings and resource restructuring experience, put in place by the Belarusian government and citizens
- Comprehensive set of methodological tools to evaluate and monitor energy policy implementation
- Accurate and realistic medium-term investment needs assessment framework, with identified and quantified funding sources
- Appropriate legal, human and technical capabilities of all project stakeholders (section 3.3) to effectively fulfil their roles and responsibilities under the energy policy
- Two large pilot projects put in operation to provide benchmarks on the use of specific technologies, with a high demonstration and replication potential. This includes fostering a climate in which further initiatives by local communities could develop and raising awareness on how local communities can influence their own situation in the field.

3.2.2 Main activities

The proposed action will comprise three main components: the first one, of an enabling nature, focussing on energy policy maintenance and energy sector reform; the two last ones, targeting more the grassroots level, focussing on implementation of energy efficiency and renewable energy policies, and foreseeing to raise awareness of the concerned target groups and to develop local and grassroots initiatives. Each of these components will include capacity-building measures for the relevant stakeholders, including the population, in order to ensure successful project implementation and sustainability. Finally, the rapid pace of forthcoming changes in the energy sector, as anticipated by the various actors met during the formulation phase, requires retaining enough flexibility to fine-tune the envisaged activities prior to starting actual project implementation.

Component One: Support to the implementation of the national energy strategy, including reform of the energy sector

This component will address the institutional strengthening the bodies involved in the implementation of the strategy; in particular, the regulatory bodies in the gas and electricity markets, whose tariff-setting methods and pricing models for international energy services will be revisited as appropriate, taking into account the need for full cost recovery and the international energy market situation. If and as needed, resources will also be made available under this component to contribute to national energy policy upgrades, taking into account recent international developments, and the EU responses to current energy security challenges.

- *Institutional strengthening of the bodies involved in the implementation of the energy strategy of Belarus*, focussing in particular on:
 - strengthening the role of the regulatory bodies in the gas and electricity markets, with an emphasis on tariff-setting issues (full cost recovery concern, introduction of greening incentives,...)
 - developing and implementing state-of-the-art methodological tools:
 - to establish and follow up Belarus' overall energy balance
 - to evaluate and monitor the results of the nation's energy efficiency and energy independence policies (from the re-assessment of statistical tools and procedures, data gathering and evaluation methods, down to the revision of the approach used to estimate the economy's energy intensity)
 - to assess the actual economic feasibility and potential of domestically available alternative energy sources (brown coal, peat, different sorts of waste) and renewable sources (wind, solar, hydro, geothermal, biogas, biomass, biofuels)
 - encouraging participation of Belarusian scientists in EU R&D programmes relevant to the national energy strategy (in particular, research on alternative and renewable energy sources)
 - providing the related education and training of officials and organisations (central and local levels, citizens associations,...) concerned by the above-mentioned aspects of the national energy strategy.
- *Proper preparation of industrial assets modernisation plans*, using investments needs appraisal for a number of priority sites defined together with the Belarusian government. Significant attention will be paid to the dissemination of knowledge on energy saving technologies in the concerned businesses.
- *Provision of extensive information to upgrade the current energy strategy*, as appropriate and as requested by the Belarusian government.

Component Two: Implementation of energy efficiency policies

Besides extensive work with the population (including universities and schools, in support to existing government programmes) and organisations to promote and implement energy efficiency initiatives, this component will devote a large amount of resources to pilot projects targeting the Belarusian citizens, NGOs, schools, universities, enterprises and household users of energy, as well as local and regional authorities.

- Development and implementation (with initial participation of EU experts) of comprehensive norms on energy savings in building construction, as well as development and introduction of benchmarking techniques and energy audit tools focussed on improving the collection, analysis and use of data in public and private buildings, heating, transport and industrial sectors to identify, manage and monitor opportunities for improving energy efficiency;
- Development and implementation of methodologies for feasibility studies adapted to selected priority sectors / areas for energy efficiency (e.g. in the farming sector);
- Dissemination to the citizens of information on the concepts relevant to comprehend, support and originate energy efficiency initiatives, and on-the-ground assistance to the citizens and their organisations to implement them;
- Establishment of a technologies and procedures catalogue/web site specialised in energy savings suitable for Belarus's situation;
- Pilot project in energy saving techniques with high demonstration replication potential. This scheme will focus on establishing a reference Intelligent Energy district, adapted to the local situation, and on implanting that model in a representative regional centre. It will also expand existing initiatives on the ground and foster extensive dissemination of the chosen model.

Component Three: Development of renewable and alternative sources of energy

This component will address the development of diversified energy sources and maximise the efficiency and use of local fuels. It will equally involve a pilot project on sustainable development at the local level, requiring the involvement of the same stakeholders as the previous component.

- Design of standard projects based on use of alternative or renewable energy resources for further replication, including assistance in having them co-financed under the Kyoto Protocol schemes
- Renewable Technology catalogue/web site suitable for Belarus development including tools for self-assessment
- Pilot project targeting the development of renewable energy sources (excluding biomass) with the highest potential of demonstration and replication, focussing on the development of distinct renewable technologies on the same site. This pilot project will elaborate on the energy efficient farming model mentioned under the previous component.

3.3. Stakeholders

Stakeholders will include the Cabinet of Ministers; central administrative bodies (Ministry of Energy; Ministry of Economy; Ministry of Finance; Ministry of Education; Statistics Committee; State Committee for Standardisation, in charge of energy savings; State Property Fund, as supervisor of State-owned

enterprises' managers); the National Academy of Sciences; technical universities; local governments; secondary schools at local level; private and State-owned businesses; citizens and their associations. The project may also have to deal with the *ad hoc* Parliamentary committees.

In order to ensure co-ordination of activities, the Cabinet of Ministers will act as main beneficiary for the project, whereas different activities will be conducted with different partners or groups of partners, as appropriate with regard to the project's objectives.

3.4. Risks and assumptions

3.4.1 Risks

- The implementing consultant does not dispose of an appropriate delegation of authority to conceive and implement the programme;
- Staff required from the public authorities is not assigned to the programme or is not made sufficiently available to participate in the activities;
- Difficulties and delays in implementation (preparation of appropriate organisational structures, training, staff numbers);
- The government does not provide infrastructure or other logistical and legal support for the pilot installations.

3.4.2 Assumptions

- Stable political and economic situation;
- Commitment of the concerned government bodies to actively support the project implementation;
- Support and willingness of all stakeholders involved to work together for a successful implementation of the energy strategy component and the pilot projects;
- Close co-operation between experts and other stakeholders involved.

3.5. Crosscutting Issues

Environmental improvements will take place as a result of the project implementation which will improve energy efficiency in all sectors and foster utilisation of renewable sources of energy. Besides, the institution building and support in energy strategy implementation will contribute to the development of good governance, human rights and gender equality.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Centralised management via the EC delegation in Ukraine and Belarus. A limited part of the action may be implemented through joint management with an International Organisation (IO) for tasks covering dissemination, communication, visibility and pilot projects.

The International Organisation will satisfy the criteria laid down in article 53 quinquies paragraph 1 of the Financial Regulation and will be chosen in an objective and transparent manner - considering the delegated tasks - among the active IO in Belarus (United Nations Development Programme-UNDP; World Bank; ...). The agreement to be signed with the IO will fully respect the requirements laid down in article 43 of the Implementing Rules to the Financial Regulation.

4.2. Procurement and grant award procedures

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.

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EC external actions. The maximum possible rate of co-financing for grants is 80%. Full financing may only be applied in the cases provided for in Article 253 of the Implementing Rules of the Financial Regulation where financing in full is essential to carry out the action in question.

4.3. Budget and calendar

The budget of the action is indicatively broken down as follows:

Consultancy / Policy advice:	€ 1,000,000
Dissemination / Good governance activities	€ 1,600,000
Pilot projects, including equipment ³ :	€ 2,400,000
Total:	<u>€ 5,000,000</u>

The operational duration as from the signature of the Financing Agreement is foreseen to be 48 months.

4.4. Performance monitoring

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

4.5. Evaluation and audit

There will be two evaluations: a mid-term one, which will allow adjusting the project activities, and a ex-post evaluation, which will focus in particular on the long-run impact of the action.

Audits may also be conducted on the systems and procedures used if need be. Audit and evaluation contracts will be concluded by the Commission.

4.6. Communication and visibility

Communication and visibility will be ensured by dissemination activities during participation in seminar, trainings, involving the science society in the pilot project for collecting data and analysis and publication and excursions as well. Visibility tasks will be performed according to the EC rules and recommendations.

³ Excluding infrastructure works, which will remain the responsibility of the Belarusian authorities.