

ANNEX I

ACTION FICHE FOR 2008 ENPI-EAST ANNUAL ACTION PROGRAMME

1. IDENTIFICATION

Title	Energy Saving Initiative in the Building Sector in the Eastern European and Central Asian countries (ESIB) - CRIS N°: 019554		
Total cost	EUR 5.000.000		
Aid method / Management mode	Project approach: centralised management		
DAC-code	23010	Sector	Energy policy and administrative management

2. RATIONALE

2.1. Sector context

The highest potential for energy saving worldwide lies in the building sector. This is particularly true in Eastern Europe and Central Asia, where energy intensity is very high, partly due to heavily subsidised energy prices and lack of incentives for energy efficiency (EE), for example in the field of district heating.

An integrated project addressing the various aspects of the problem (tariff-setting, regulation, awareness-raising, information dissemination, economic incentives/disincentives, capacity-building and market opening measures) and involving collaboration with financing institutions, such as the EBRD, can help the countries of the region to become more energy efficient. Public buildings and the residential sector can both be targeted, particularly with the support of energy utilities and, possibly, pilot municipalities.

At the EU level, the attention given to the energy efficiency of buildings is illustrated by the Directive on the Energy Performance of Buildings¹, which entered into force in January 2003, and by the Buildings Platform established in 2006 to ensure dissemination of information and to facilitate cooperation between the EU Member States. In the past few years, the SAVE component of the EU Intelligent Energy programme supported a number of buildings-related projects carried out within the

¹ Directive 2002/91/EC

Union. Non-Member countries can draw useful information from these experiences and from the EU legislation concerning, directly or indirectly, the building sector².

More generally, in the framework of the “New Energy Policy for Europe” put in motion within the EU in March 2007, special attention is given to the necessity of developing energy partnerships with third countries in order *inter alia* to encourage energy efficiency, the use of renewable energies (RE) and to reduce green house gas emissions.

These goals are consistent with the EU international commitments (Kyoto Protocol, UNFCCC, and MDGs - especially in relation to environmental sustainability).

The ENPI-Eastern Regional Indicative Programme for 2007–2010 is consistent with these priorities and assigns the following objective to EC cooperation (see Priority 1: "Networks"):

"To improve energy supply and demand management through the regional integration of efficient and sustainable energy systems, including energy efficiency, technology transfer and diversification of sources within the region and with the EU."

In the wake of the Baku Initiative launched in 2004 by the EC in conjunction with the Eastern European and Central Asian Partner Countries of the INOGATE programme³, four Working Groups consisting of members of each Partner Country were set up, which reflect the key areas (including EE and RE) identified for further cooperation. Following an in-depth review of energy strategies and plans developed in the Partner Countries, with the assistance of INOGATE, these Groups produced detailed recommendations, which were examined and endorsed by the respective Energy Ministers at a conference held in Astana on 30 November 2006. One of the priorities retained in the Ministers’ Declaration is: “supporting sustainable energy development, including the development of energy efficiency, renewable energy sources and demand-side management”.

The ESIB project is therefore expected to benefit throughout its implementation from the active support of the countries that have taken part in this consultation process and have reached consensus on these objectives.

2.2. Lessons learnt

A report issued by UNEP in March 2007⁴ states that in the building sector, which accounts for 30 to 40% of global energy use, “many opportunities exist for governments, industry and consumers to take appropriate actions during the life span of buildings that will help mitigate the impacts of global warming”. Another study, published in May 2007 by the McKinsey Global Institute, estimates that energy demand growth will average 2.2% a year to 2020. It highlights “the size of the

² e.g. Directive on End-use Efficiency and Energy Services

³ i.e. Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkey, Turkmenistan, Ukraine and Uzbekistan.

⁴ “Buildings and climate change: status, challenges and opportunities”.

demand abatement opportunities and how these can be captured in an economically sound way”, particularly in the residential sector, which is “the single largest energy consumer worldwide, and also the one where the largest non-captured energy productivity improvement lie”. The International Energy Agency estimates for its part that energy efficiency measures, alone, could cut about 20% of current global CO₂ emissions.

The ESIB project can help Partner Countries to reduce their CO₂ emissions, to meet their Kyoto Protocol targets and increase their opportunities to access finance from the Clean Development Mechanism – which is currently still largely confined to the largest transition countries (China, India and Brazil). It is also expected to reduce the growth of their energy needs and to mitigate the impact on the environment of inefficient energy use, which affects natural resources as well as human health. Seen from the discussions organised in the framework of the INOGATE Working Groups, from the content of the three MoUs already signed with the EC, as well as from the first initiatives to implement these MoUs, it appears that these issues are of particular concern to the Partner Countries.

2.3. Complementary actions

The project will take advantage of the preliminary results achieved under the EC-financed EE project carried out by the EBRD in Ukraine and Moldova and of the support provided by the SEMISE⁵ project, which has EE and RE components and which will start to be implemented in the middle of 2008. Synergies will also be sought with the initiatives developed under bilateral energy cooperation in Ukraine, Azerbaijan and Kazakhstan, based on the MoUs agreed with the Commission.

With regard to Ukraine, the roadmap on EE and RE prepared in the framework of the MoU also targets the building sector as a key area. An inventory of potential EE measures in the national building stock is to be produced, which should prepare the ground for the extension of EBRD energy efficiency activities to the building sector.

In Azerbaijan, the first priority expressed by the Government for the implementation of the MoU was to review the national energy strategy, with a particular focus on the formulation of policies and draft legislative and institutional reforms aimed to promote energy efficiency, energy savings and the greater use of renewable energy sources.

2.4. Donor coordination

Special attention will be paid to coordination with donors before and in the course of project implementation. This will be supported by the INOGATE Technical Secretariat based in Kiev and with projects, including the bilateral EC projects mentioned above, SEMISE and the SKPI⁶ project, which will both get off the ground in 2008.

⁵ “Support to Energy Market Integration and Sustainable Energy in the NIS”, an EC project approved in 2007.

⁶ “Support to Kyoto Protocol Implementation”, a regional EC project approved in 2006.

Significant opportunities of cooperation exist with the EBRD, which issued an ambitious Sustainable Energy Initiative in 2006 ⁷ and developed financial mechanisms involving the private banks already established in the region. A working partnership with the EIB, whose geographical mandate has been enlarged and which has decided to raise the share of EE and RE 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 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.

The Kyoto Protocol's flexibility mechanisms will also be tapped, whenever possible, to make EE and RE investments in the construction sector more attractive. On the regulatory side, synergies with the activities of the INOGATE Technical Secretariat and with regulatory bodies will be developed. Lessons drawn from the MED-ENEC project carried out in the Mediterranean region since the beginning of 2006 will be disseminated, too, where appropriate ⁸.

Continuous contacts will be maintained by EC HQ with each of the concerned EC Delegations in order to ensure consistency of actions and regular exchange of information.

3. DESCRIPTION

3.1. Objectives

The overall project objective is to help the INOGATE Partner Countries 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 specific objective of the project is to assist them in ensuring improved control of their energy consumption in the building sector by promoting and developing EE, as well as the use of RE where applicable, in this particular sector.

3.2. Expected results and main activities

Project activities will include:

(i) raising awareness of the potential, of the benefits, and of the feasibility of EE measures;

(ii) disseminating information on best practices, while highlighting the need to adopt an integrated perspective covering all pertinent aspects (tariff-setting, standards and regulations, economic incentives and disincentives, promotion campaigns undertaken in collaboration with EE agencies and/or energy utilities, adequate financing

⁷ <http://www.ebrd.com/country/sector/energyef/sustain.htm>

⁸ A second phase of MED-ENEC ("Energy Efficiency in the Construction sector in the Mediterranean") has been put in the ENPI-South project pipeline for 2008.

schemes, preferably incorporated into the existing economic, financial and social fabric of the Partner Countries, capacity-building and market development measures);

(iii) negotiate agreements with public bodies (including Ministries of Energy, Finance and Public Works), business associations, consumers associations (if any), local banks and municipalities, with the aim of developing EE schemes, to be presented for funding to regional or international financing institutions;

(iv) build the necessary auditing, accreditation and installation capacities to support these undertakings, using already established professional structures or the facilities made available by other projects, should the occasion arise.

Country-specific approaches and plans of action will be developed for each Partner Country willing to work within the project. Nevertheless, the whole range of activities listed above is likely to be deployed primarily in those countries, which have already started to raise their energy prices and are keen to their dependence on fossil fuels, decrease energy wastage and to improve their environmental performance.

The results to be achieved by the project include: the increased interest for, and knowledge of EE and RE in the building sector amongst energy stakeholders in the region; their expressed willingness to make progress in these areas and to work with the project; evidence of the empowerment of their related institutional and legislative capacities (in the fields of tariff setting, standards, accreditation and auditing); development of communication campaigns and of EE/RE schemes, including financial mechanisms (such as incentives and disincentives, dedicated funds, guarantee procedures, ESCOs) and collaboration with energy utilities, specific Ministries, municipalities, business and architects' associations; introduction of retrofitting measures in both residential buildings and public buildings, and of updated requirements in the construction sector and other areas such as electrical appliances; increased energy savings (including, whenever possible, in the field of district heating) through better insulation and construction design, the introduction of improved metering, EE boilers, cogeneration and heat pumps; and the development of RE (such as solar water heaters); and finally, the reduction of carbon dioxide emissions in the sector concerned.

3.3. Stakeholders

Project partners will include a wide range of institutional, economic and social stakeholders interested in participating in the activities: Ministries, utilities, energy efficiency agencies (if any), major municipalities, banks, construction companies, other business representatives (in particular from industries and services dealing with electrical appliances and construction materials, as well as importers), accreditation bodies and associations of architects.

In those Partner Countries, which heavily depend on imported fossil fuels, curbing demand growth and tapping locally available renewable resources have become vital to minimise balance of payments deficits, to mitigate the impact for consumers and companies of ever-increasing energy prices, and to control budget spending. In producer countries, demand-side management and diversification of supply also need

to be introduced in order to avoid rapid depletion of their national reserves and to make the best of their export potential.

In both of these two categories of countries, the opening up of new markets for EE and RE in the building sector can give a strong impetus to the manufacturing sector and to related service activities. It therefore represents both an economic and a social opportunity. Reducing energy wastage and further developing EE and RE will also give rise to environmental improvements, both by contributing to climate change mitigation at global level and by reducing air pollution at local level.

3.4. Risks and assumptions

Lack of political stability and possible tensions between the countries of the region may affect in a negative manner the satisfactory implementation of the activities.

Energy utilities in a strong monopolistic situation, the limited ability of municipalities to take initiatives without formal blessing of the government, as well as practical difficulties to develop working relationships between a government's technical departments, could equally impede project progress in some countries. Possible reluctance of some of the Partner Countries to enter into a process of tariff reform, for fear of triggering social unrest, could also compromise the possibility of extending EE (and the use of RE where relevant) in the building sector.

Nevertheless, the majority of these problems can be circumvented through appropriate communication, incorporating examples of success stories and highlighting the benefits of EE and RE to a wide range of stakeholders.

3.5. Crosscutting Issues

This project is fully embedded in the Baku/Astana Initiative process, which is a structured policy dialogue and cooperation mechanism that has already given rise to improved convergence of energy policies and to inter-country exchanges and collaboration within the region as well as with the EU, with support of the INOGATE programme. This project is designed to ensure that the activities are in line with the recent evolutions of energy policies in each Partner Country and with their commitments or expectations in relation to the implementation of the Kyoto Protocol. The project also represents a practical means for the Partner Countries to put EE measures in motion on the basis of proven, cost effective approaches and techniques in a key area where there is the highest potential of improvement. Prospects for the sustainability of the project's achievements are, therefore, expected to be high.

Dialogue with municipalities and contacts with citizens' representatives to present the project and to seek their support and participation should add to its prospects for sustainability, while stimulating the introduction of good governance practices when it comes to addressing the concerns of the population.

In the specific case of this project, gender is not, in principle, a crosscutting issue to be addressed. If it appears, however, that informing and working with women's groups would be worthwhile, prospects for collaboration will be explored.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Centralised management. Close cooperation with the participating governments will be maintained throughout the project's implementation, in close collaboration with the EC Delegations concerned.

4.2. Procurement 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.

4.3. Budget and calendar

The maximum budget foreseen for this project is 5 M €. The technical assistance will be made available through one or several services contracts, following a tender procedure. Implementation is expected to start in 2009 and will last for 4 years in principle.

4.4. Performance monitoring

The "Sustainable Development Working Group" (WG3) set up in the framework of INOGATE will endorse the ESIB project's strategic orientations, oversee project execution, and facilitate implementation of the activities. The INOGATE Country Coordinators might be invited to join occasionally this Working Group, together with other relevant representatives of the Partner Countries interested in the project's activities.

Key indicators⁹ measuring progress will include: number and outcomes of information sessions organised; communication materials developed; surveys and market development studies undertaken; partnerships generated (with government departments, energy utilities, donors, dedicated funds, lending institutions, business associations, municipalities, cities' networks, accreditation bodies, etc); training modules prepared and training activities organised (for instance on. economic instruments and financial engineering schemes); legislation drafted (regarding e.g. construction codes); number of buildings concerned (public and private, new as well as existing); and amount of CO2 emissions saved.

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).

⁹ There are not any DAC standard indicators that would be relevant for this particular project.

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 ESIB project will contribute and take advantage of the actions initiated in 2007 by the INOGATE Technical Secretariat to improve information on the activities carried out under this regional programme and more generally, on energy-related issues in the region. A re-vamping of the web portal and the publication of a newsletter, prepared jointly with INOGATE Country Coordinators, are currently under discussion. This will contribute to raising the visibility of EU-funded operations.

In addition, the project will work out a specific communication strategy and develop specific communication activities in order to inform Partner Countries and potential stakeholders of the opportunities that it offers, to raise awareness of the potential of EE/RE in the building sector, and to generate active support from energy stakeholders and consumers.