

ANNUAL PROJECT REPORT (APR)

For project: "Removing barriers to energy efficiency improvements in the state sector in Belarus " (00050819)

Period covered: January 2008 - December 2008

Outcomes	Update on outcome	Annual outputs	Update on outputs	Reasons if progress below target	Update on partnership strategies	Recommendations and proposed action
<p>Outcome 1 Increased incentives for state organizations to invest in energy efficiency</p>	See below	<p><u>Output 1.1.</u> Budget organizations use energy norms in estimating their annual budget</p> <p><u>Output 1.2.</u> Budget organizations deposit their energy savings into settlement accounts</p> <p><u>Output 1.3.</u> Budget organizations issue incentives to staff responsible for increasing their investments in energy efficiency</p>	See below	See the Sections "Project performance-implementation issues" and "Lessons Learned" below	Since the beginning of implementation period the project team has been working in close coordination with the Energy Efficiency Department and its regional departments. The decisions on the project activities are agreed with the Project Steering Committee and with the relevant stakeholders.	To solve the project implementation issues.
<p>Outcome 2 Financial resources available to the state sector for energy efficiency investment are used more efficiently</p>		<p><u>Output 2.1.</u> The capacity of state organizations to carry out energy audits is enhanced</p> <p><u>Output 2.2.</u> The portion of loans compared to grants, offered by the state for energy efficiency, is increased</p> <p><u>Output 2.3.</u> The capacity of the state organizations to use credits (as opposed to grants) for energy efficiency investments is enhanced</p> <p><u>Output 2.4.</u> US\$ 8 million in energy efficiency project investments secured</p>				
<p>Outcome 3 Project successes throughout Belarus sustained and replicated</p>		<p><u>Output 3.1.</u> The Energy Centre is established to support state organizations in mobilizing investment and implementing energy efficiency improvements</p> <p><u>Output 3.2.</u> A pipeline of energy efficiency investments for implementation after project closure is</p>				

Outcomes	Update on outcome	Annual outputs	Update on outputs	Reasons if progress below target	Update on partnership strategies	Recommendations and proposed action
		developed <u>Output 3.3</u> . Number of project's and Energy Center's partners is expanded				

Update on outcomes:

Outcome 1

Though in fact all project partners from Mogilev and Vitebsk region use energy norms to estimate their annual budget requirements, the current practice of budget allocation, as administered by the Finance Departments of Mogilev and Vitebsk Regional Executive Committees (and applicable across the country), is based on previous year's actual energy spending. Due to changes in state financing for energy efficiency and budgetary funding priorities, the project's impact on increasing incentives for state (budgetary) organizations to invest in energy efficiency might be limited.

The recommendations for budgetary institutions on how to establish special settlement accounts have been developed by national experts, approved by EED in March 2008 and passed on to Mogilev and Vitebsk Regional Executive Committees. However, it is only reasonable to open special EE settlement accounts once the energy norms have been fully instituted and started to be followed in budgetary planning and allocation. To analyze the situation in detail within specific demonstration sites the national experts have developed the report with recommendations and alternatives approved by EED that intended for implementation in 2009.

Outcome 2

Amount of additional loan funds allocated for energy efficiency improvements within the project is US\$ 7.7 million. The above includes US\$ 6.5 million in loans from JSC "Belvnesheconombank" to JSC "Krasnoselskstroyaterialy" and US\$ 1.2 million in loans from JSC "Belinvestdank" to JSC "Beriozastroymaterialy".

A government regulation to increase the portion of loans compared to grants has been drafted in April 2008 and agreed with EED and other relevant ministries. The draft proposes to initiate preferential crediting for energy efficiency projects from local banks (with compensation to banks from state funding) and establish funds of energy saving at state enterprises as additional financial source for energy efficiency. However, the regulation has been put on hold by the Cabinet of Ministers. On March 31, 2008, the State Committee on Standardization approved a regulation that defines procedures for loan financing for energy efficiency and renewable energy projects funded by the National Energy Saving Program 2006-2010.

Outcome 3

Based on the order # 29 issued by EED on July 9, 2008, the Energy Center has been set up on a temporary basis under RUI "Belinvestenergoberezhniye" (the enterprise under EED) until its official establishment as a stand-alone legal entity in the 1st quarter of 2009.

Update on outputs:

Output 1.1

The report on budgetary planning under technically based energy norms has been finalized and submitted to EED. As follows from the report, there is no need to update regulations in the target field. There is a set of government regulations on energy rate fixing, accumulating and using energy efficiency savings, estimating target energy efficiency indicators, planning budgetary charges for energy consumption and other. The main

reason for non-allocation of funds in accordance with technically based energy norms for budgetary organizations is the absence of possibilities for Ministry of Finance and Oblast Executive Committees to plan allocation of budgetary funds for energy resources in compliance with the approved energy norms because of lack of budgetary funds in general and the endeavors to reallocate these funds and savings among other budget lines. To analyze the situation in detail, the agreements between the Energy Center and Mogilev and Vitebsk Oblast Executive Committees were signed and partner budgetary institutions were selected. The situation was analyzed and the national expert's reports with recommendations were considered by EED and passed on to the partner Executive Committees. In addition the findings and recommendations have been discussed at the seminar – round table “Energy efficiency incentives and financing in the state sector of Belarus” in December 2008.

Output 1.2

Recommendations for budgetary institutions on how to establish special settlement accounts describing the procedure and list of required documents have been developed and approved by EED. Regulation on estimation of target EE indicators was approved by the State Standardization Committee in January 2008. This regulation, in the opinion of local experts and partner Executive Committees, makes it possible to calculate energy and financial savings achieved from EE improvements.

Output 1.3

Project partners budgetary institutions of Mogilev and Vitebsk Executive Committees issue incentives to staff responsible for energy efficiency improvements. The sources for these staff incentives are the local budgetary wage funds and not energy savings from energy efficiency improvements. The situation was analyzed and the national expert's reports with recommendations were considered by EED and passed on to the partner Executive Committees. In addition the findings and recommendations have been discussed at the seminar – round table “Energy efficiency incentives and financing in the state sector of Belarus” in December 2008.

Output 2.1

An International Consultant on Training couldn't be selected up to December 2008 because of lack of sufficient number of qualified technical proposals. Hence, it was impossible to get and consider any training program and compile a list of national specialists for training, because the list should be based on a specific training program. International bidding and selection of the international consulting company for the provision of training services on energy auditing and energy efficiency business planning was finalized in December 2008. Training activities are intended for implementation in 2009.

UN ECE did not submit recommendations on applying international assessment practices for evaluating cost efficiency of energy saving measures. The project team and the EED will follow up with the UN ECE Regional Energy Advisor on this in 2009.

Output 2.2

Based on the discussion at the Project Steering Committee meeting, the project team together with Energy Efficiency Department reviewed the project baseline for Outcome 2 (actualities and trends in allocation of loans and grants for energy efficiency projects) and developed proposals on increasing the share of loans in state energy efficiency financing to achieve the indicator stated in the project logical framework. The findings will be discussed at the Project Steering Committee meeting in January 2009.

Output 2.3

An International Consultant on Training couldn't be selected up to December 2008 because of lack of sufficient number of qualified technical proposals (please, see Output 2.1 above). The agreement between the Energy Center and JSC “Belarusbank” has been signed.

Output 2.4

The list of new project sites for the investment program was approved at the meeting of the Project Steering Committee in February 2008.

A local expert has been hired for providing consulting services for JSC "Belvnesheconombank" (the partner of the Energy Center) on the preparation of a comparative evaluation of proposed engineering solutions on application of cogeneration units at JSC and Novogrudok town utility. The work has been finalized and approved by EED and JSC "Belvnesheconombank".

About US\$14 million, including US\$7.7 million in bank loan funds and above US\$6 million in site owners' equity has been allocated for the implementation of the investment program, including:

- JSC "Krasnoselskstroyaterialy" with US\$6.8 million in total funding (including US\$6.5 million in bank loans, US\$0.3 million equity);
- JSC "Ceramika", Vitebsk with US\$5.4 million of site owner's equity only;
- JSC "Berezastroyaterialy" with US\$1.8 million in total funding (including US\$1.2 million in bank loans, US\$0.6 million in equity);
- Ivatsevichy Town Utility with US\$0.04 million of the site owner's equity only.

A number of EE projects of the investment program's sites was finalized in 2008 (JSC "Ceramika", Vitebsk – 3 projects; JSC "Berezastroyaterialy" – 3 projects; Ivatsevichy Town Utility – 4 projects).

TOR for development of a normative technical act on calculation of GHG emission reductions from energy efficiency and renewable energy measures has been elaborated by short-term experts and approved by the Ministry of Natural Resources and Environmental Protection. The development should be finalized in the 1st quarter of 2009

Output 3.1

The premises for the Energy Centre's office have been rented by EED. The furniture for the Energy Centre has been purchased by UNDP.

Energy Center was not established as a separate legal entity in line with recommendations of the International Consultant on Energy Center development in 2008 because of necessity to analyze the recommendations by EED. Setting up the Energy Center as a separate legal entity is intended for finalization in the first half-year of 2009.

The TORs for designing the Energy Centre's Internet portal and the software for business-planning and feasibility studies for energy efficiency projects has been agreed with EED as well as the list of the equipment for the Internet portal. UNDP hasn't agreed the above because of the alternative approach to the creation of EE database (please, see Implementation issues Section below).

The International consultant on Energy Center development has made assessment of the energy efficiency services market in Belarus and has prepared proposals on Energy Center positioning. Based on the findings it has developed a business plan of the Energy Center.

Output 3.2

The activities are intended for implementation in 2009 – 2010.

Output 3.3

The web site (www.energy-efficiency.by) is updated regularly.

2 cooperation agreements between the Energy Centre and JSC "OPC Oboronprom", Russian Federation and "ENA Optima", Bulgaria have been signed. The key tasks of the parties under the agreements are joint development and implementation of energy efficiency investment projects and programs, dissemination of up-to-date energy efficiency technologies, equipment and best practices.

Output 3.4

2 meetings of the Project Steering Committee were held (February 1, 2008 and June 20, 2008).

EED provided the new office for the Project Implementation Unit (Project Manager and Assistant).

Reports have been submitted to GEF, UNDP and the Ministry of Economy regularly within the agreed deadlines.

The seminar – round table “Energy efficiency incentives and financing in the state sector of Belarus” was held in December 2008.

RESOURCES USED IN THE REPORTING PERIOD

USD 151 796,36 - in accordance with the Project budget

PROJECT PERFORMANCE-IMPLEMENTATION ISSUES

The main challenges experienced during implementation:

1. Up to date EED hasn't allocated funds for first-priority equipment for the Energy Center. In fact for the present EED doesn't fulfill in full its financial obligations within the project. The EED co-financing issue should be considered at a meeting of UNDP and EED and, when necessary, at the nearest Project Steering Committee meeting.
2. It is necessary to achieve the agreement between EED and UNDP on the concept of the information energy efficiency database as a source of reliable information on modern energy efficient equipment, methodological (technical) approaches and opportunities to increase energy efficiency. Lack of agreement on the issue leads to delay with procurement of the equipment for the information database. Currently UNDP doesn't see the necessity for procuring costly equipment and software for the database and proposes to procure the equipment for energy auditing that doesn't correspond to the opinion of EED.
3. Current energy efficiency investment program of the project doesn't contain projects with co-financing of EED, whereas as per the Project Document EED has the definite financial obligations within the project. Actually, main investment projects are financed at the expense of bank loans. In spite of the change of source of financing can hardly affect the project objective, EED should fulfill its financial obligations.
4. Participation and methodological assistance of UN ECE within the project is insufficient. As per the Project Document UN ECE has the methodological and financial obligations within the project. Lack of assistance from UN ECE can result in inadequate implementation of some project activities.

RATING ON PROGRESS TOWARDS RESULTS

For outcome 1: Increased incentives for state organizations to invest in energy efficiency
Pending

For outcome 2: Financial resources available to the state sector for energy efficiency investment are used more efficiently
+ **Positive change**

For outcome 3: Project successes throughout Belarus sustained and replicated
Pending

For outputs:

Output 1.1: Budget organizations use energy norms in estimating their annual budget.

Indicator: Number of budgetary organizations using energy norms to estimating their annual budget requirements. No less than 30 budgetary organizations by the project end.

Pending

Output 1.2: Budget organizations deposit their energy savings into settlement accounts.

Indicator: Number of budgetary organizations depositing their energy savings into settlement accounts. No less than 30 budgetary organizations by the project end.

Pending

Output 1.3: Budget organizations issue incentives to staff responsible for increasing their investments in energy efficiency.

Indicator: Number of budgetary organizations issuing incentives to staff responsible for increasing their levels of investment in energy efficiency. No less than 30 budgetary organizations by the project end.

Pending

Output 2.1: The capacity of state organizations to carry out energy audits is enhanced.

Indicator: Share of energy audits that meet international standards (based on analysis of audits submitted to EED). 60% of audits (to be verified based on the analysis by the International Training Consultant).

Pending

Output 2.2: The portion of loans compared to grants, offered by the state for energy efficiency, is increased.

Indicator: New government regulations are put in force to increase the portion of loans compared to grants.

Pending

Output 2.3: The capacity of the state organizations to use credits (as opposed to grants) for energy efficiency investments is enhanced.

Indicator: Project partners use at least USD 1 million in loan funds by the 3rd project year.

+ **Yes (achieved)**

Output 2.4: US\$ 8 million in energy efficiency project investments secured

Indicator: Agreements signed between project sites and investors. At least 4 investment agreements signed by the end of 2nd project year.

Partially achieved

Output 3.1: The Energy Centre is established to support state organizations in mobilizing investment and implementing energy efficiency improvements.

Indicator: Share of costs of the Energy Center covered by business revenues. 100% by the project end.

Pending

Output 3.2: A pipeline of energy efficiency investments for implementation after project closure is developed.

Indicator: Volume of new investment program adopted by the EED, project site owners and other co-financing stakeholders during the last year of project implementation. No less than US\$ 10 million (including US\$5 million in loan funds).

N/A

Output 3.3: Number of project and Energy Center partners is expanded.

Indicator: Number of new partnership agreements signed by the Energy Centre. At least 30 additional agreements signed by the project end.

N/A

LESSONS LEARNED

Key lessons learned during the year:

Initially the project was not directed towards dealing with commercial bank loans aiming at assessing opportunities of local bank loans for energy efficiency investment projects only, but it succeeded in this rather new direction of energy efficiency investments in Belarus (see item 2 below)

About US\$14 million has been invested, including US\$7.7 million in local bank loan funds, to energy efficiency projects in the state sector which is much more than the objective of "US\$8 million by the project end (including at least US\$1 million in loan funds)", as stated in the project logical framework.

Substantial increase in energy efficiency funds allocated from local budgets in 2007-2008 resulted in lack of necessity to allocate additional funds from energy efficiency settlement accounts for budgetary institutions that can result in changes of the project strategy on energy efficiency incentives.

Project Steering Committee took decision to review perspectives of increasing incentives for budgetary organizations to invest in energy efficiency through special settlement accounts and to suggest alternatives for development of EE incentives in the state sector. As per the draft report of project team the possible alternatives could be keeping energy norms unchanged when implementing EE projects in public utility sector as a basis for EE incentives. The proposal was approved by EED and the Ministry of Housing and Communal Services. Relevant project activities should be included in the work plan for 2009.

The Government has so far failed to introduce new mechanisms to promote state loan-based financing over grants, though the State Standardization Committee has introduced a regulation on modes of financing (loans and grants) from the State Energy Conservation Program, its impact is going to be very limited and is not likely to result in any significant increase in loans vs. grants.

Based on the discussion at the June 2008 Project Steering Committee, the project team together with EED has reviewed the project baseline for Outcome 2 (actualities and trends in allocation of loans and grants for energy efficiency projects) and has developed proposals on increasing the share of loans in state energy efficiency financing to achieve the indicator stated in the project logical framework for subsequent validation by the mid-term evaluation in February 2009.

EED should be more active in providing support to the Energy Center when searching and selecting energy efficiency projects as well as fulfill its financial obligations on procurement of the equipment for the Energy Center and co-financing energy efficiency investment program.

The EED co-financing issue should be considered and discussed at a meeting of UNDP and EED and, when necessary, at the nearest Project Steering Committee meeting.

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