



**UNDP Moldova / ESCO Moldova Project - Transforming the Market  
for Urban Energy Efficiency in Moldova by Introducing Energy Service Companies**

**Minutes of the  
Project Board Meeting (Nr 2)**

**Date:** 31 May 2016

**Venue:** Ministry of Economy, office 246

**Meeting Purpose:** The agenda of the Project Board meeting as of 31 May included the following topics:

- Brief presentation of the “ESCO Moldova Project - Transforming the Market for Urban Energy Efficiency in Moldova by introducing Energy Service Companies”
- Progress report and presentation of the Project Annual Work Plan 2016

**The meeting was attended by:**

Members of the Project Board/Authorized Persons:

1. Octavian Calmic, Chairman of the Board, Ministry of Economy
2. Valeriu Munteanu, Ministry of Environment
3. Narine Sahakyan, UNDP Moldova
4. Mihail Stratan, Energy Efficiency Agency
5. Octavian Crestin, Energy Efficiency Fund
6. Alexandru Gobjila, Chisinau Municipality
7. Alexandru Tagadiuc, Ministry of Regional Development and Constructions
8. Iurie Nastas, Ministry of Finance
9. Denis Bejan, State Chancellery

Other attendees:

1. Valeriu Triboi, Ministry of Economy
2. Calin Negura, Ministry of Economy
3. Nicolae Olari, Ministry of Economy
4. Monica Moldovan, UNDP Moldova
5. Silvia Pana-Carp, UNDP Moldova
6. Timothy Crawshaw, UNDP International Expert
7. Igor Zanoaga, UNDP National Expert

**ESCO Moldova Project**

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1, Alecu Russo Str., 10<sup>th</sup> floor, office 1010  
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Tel.: (373 22) 901 271; Fax: (373 22) 901270;  
[www.undp.md](http://www.undp.md)

Project implementation team:

1. Nicolae Zaharia, Project Manager
2. Iuliana Bostan, Project Assistant

## ***I. Opening Remarks***

*Mr Octavian Calmic*, Chairman of the Project Board, mentioned that the Government Decision No 60, from 6 May 2016, mandated the Ministry of Economy to take over the coordination of the ESCO Moldova Project, in order to enhance the project implementation efficiency.

## ***II. Brief Presentation of the ESCO Moldova Project and the 2015 Progress Report.***

The ESCO Moldova Project Manager, Mr Nicolae Zaharia, presented the project main objectives, components and expected outcomes, as well as the progress achieved so far per each component.

### **2.1 Component 1**

2.1.1 *The Urban Development Plan (UDP)*, with the objective to develop and approve the Green Urban Development Plan (GUDP) - a supplement to the General Urban Plan (UDP) produced in 2007.

In this activity, an international consultant conducted together with a national consultant a situation analysis for the development of the Green Urban Development Plan. To this end, the report "*Gap analysis Report – The status of the current Urban Development Plan for the city of Chisinau in relation to Green Urban Development*" (available in English only) was produced. The report describes conclusions and recommendations resulting from the analysis of the existing Urban Development Plan. During this mission, initial findings and recommendations were tested with the City Architect and his team to validate these, and gain an insight into the current implementation of the existing plan. Whilst the gap analysis demonstrated that much of the local planning policy frameworks were either neutral or benign environments for green urban development, the economic baseline and context has changed radically since both the Urban Development Plan 2007 and Territorial Plan 2007 were adopted. City officials stated that it was their desire to commission a new plan, based on green urban development principles, rather than to revise the current plans.

In this context, the Practice Guide to Green Urban Development Planning, which in fact is the Terms of Reference for the new Chisinau Urban Development Plan, was developed. The usefulness of this document is determined by the need to ameliorate the General Urban Plan to be developed over the coming years. Hence, by accepting the proposed recommendations, the Chisinau Municipality will include them in the specifications for developing the new Urban Development Plan to be implemented by a company selected through a public procurement process.

2.1.2 *The Sustainable Energy Action Plan (SEAP) and the Resources Mobilization Plan* providing the Chisinau Municipality the opportunity to access European funds in order to introduce energy efficiency elements. The document was drafted a few years ago but was never adopted by the Chisinau Municipal Council.

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The developed SEAP was revealed to be too long with an extended baseline section that detracted from the key messages and ambitions of the SEAP, whilst also failing to identify the wider benefits that could be gained from taking a sustainable approach. Of the actions identified, many were undeliverable within the life of the plan and few of the projects had a realistic budget or resource allocation.

In order to address these deficiencies and produce a shorter and more accessible version, the document was reduced to the essential messages, basing the format on recently adopted SEAP's from elsewhere as best practice precedents. The key suite of actions were identified by sector and divided into programs: Buildings, Transport, Utilities, Behavior Change and Spatial Planning. For each action the owner, resources, resource gap, additional funding source or partner, program phase and comments were identified. This was presented alongside a review of the potential sources of funding for the SEAP. Also, to support the updating of the SEAP, was developed the report "*Review of all national and municipal programs and action plans, ongoing programs, green development trends and key barriers to green growth economic instruments implementation*" (available in English only), providing detailed information on the programs and projects providing technical and financial support in the energy efficiency field. The trends in sustainable development adopted by Chisinau Municipality have been also analyzed.

The updated SEAP was submitted to the Chisinau Municipality, being accepted as a document ready for approval. For a period of two months, the document was debated in specialized commissions and is expected to be approved in short time. Once the document gets approved by the Municipal Council, it is expected that it will be easier access to EU financing tools under the Covenant of Mayors framework. In this context, the project team respectfully asked for the support of the Project Board for a more active promotion of the developed document, so that the Chisinau Municipal Council could approve the updated plan to allow the financing and implementation of the energy efficiency projects.

2.1.3 The "*Report on European and National Legal Framework on Energy Services, Public procurement procedure and Energy Performance Contract Implementation Best Practice*" was also developed within this component. The following are the main conclusions of the report:

- The competitive dialogue procedure is recommended for the implementation of the Energy Performance Contracting;
- An Energy Performance Contract can include the procurement of works, goods or services, or can cumulate all these elements;
- Moldova's normative framework is appropriate for the implementation of Energy Performance Contracting through the public procurement procedure;
- ESCO companies may be selected through public procurement procedure by establishing working groups of contracting authorities.

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**2.2 Component 2** is directly linked to the *establishment of an operational ESCO business model*.

2.2.1 A total of 12 thematic training sessions were conducted within this component, attended by around 150 persons in total: representatives of state institutions (Chisinau Municipality, Energy Efficiency Agency, Energy Efficiency Fund), as well as of the future ESCO companies.

The training program has been designed in such a way as to provide most of the answers to concerns/questions in the sector; nevertheless, there is an urgent need to develop a more comprehensive facilitation assistance package to help the energy services market start operating.

***The following constraints were identified:***

- Formal trainings are not sufficient to foster the conclusion of the first energy performance contracts;
- Lack of experience in promoting tenders for the procurement of energy services (public sector);
- Lack of experience in the bids submission by companies with potential to provide such services;
- Lack of experience with the process among central public authorities in charge with this field, and as a result, lack of a consistent vision of the entire process;
- The respective financial mechanism has not been practiced yet by any financial institutions in Moldova and leaves many open questions

***As a consequence, the following solutions were proposed:***

- Facilitate the market launching process, based on the model applied in the Czech Republic, Sweden, Great Britain etc.;
- Change the training process approach by switching from formal trainings to continuing trainings in the process of implementing the ESCO model projects;
- Organize more intense training of private companies on presenting their offers for the provided energy services;
- Involve the Public Procurement Agency in the energy service procurement process for an easier endorsement of this type of contracts;
- Provide continuing trainings to the EEF and EEA staff on the entire chain of processes relating to energy performance contracting.

2.2.2 With the support of the Czech Government (Czech Trust Fund), a series of additional trainings were conducted by ENVIROS, a consulting company from the Czech Republic with extensive experience in the European Union and Eastern Europe. At the same time, a study visit to existing and operational projects in the field, located in the Czech Republic, was organized for the most proactive participants. The Czech experience shows that the energy services market did not develop by itself. The implementation of this funding model of energy efficiency projects was possible only through the facilitation of services

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by more experienced companies. Hence, at present, the Czech experience in this field is one of the most relevant and ample example Moldova could take over.

- 2.2.3 Based on the selection criteria developed jointly with the Chisinau Municipality, a total of 20 public buildings were preselected. The building selection criteria, as well as the list of preselected buildings were presented to all participants in the meeting. The final list of buildings meeting the criteria will be submitted later.

## 2.3 Component 3

- 2.3.1 *Establishing the Loan Guarantee Fund.* The Project established the Loan Guarantee Fund within the Energy Efficiency Fund (EEF), with 900,000 USD transferred on its account in December 2015, based on a contract signed between EEF and UNDP. The main objective of this exercise is to create an energy efficiency projects financing tool based on the ESCO model, where investments are reimbursed from the savings guaranteed to the beneficiary. The 1:3 multiplication factor, implying the granting of loans in the amount of 4 million MDL from the EEF sources, to be guaranteed by 900,000 USD provided by the ESCO Project from the GEF funds, is among the basic conditions of the signed contract.

The proposal to select the EEF as a partner for implementing the funding mechanism was based on the outcomes of a detailed survey of Moldova's financial market, describing the major risks for funding such projects. The survey showed that following the recent evolutions on the financial market, the National Bank raised the base rate up to 19.5%. The excessively high cost of financial resources available now *defined the EEF as the most viable partner for launching the Loan Guarantee Fund* to implement the ESCO projects.

- 2.3.2 The *Energy Performance Contract (EPC)* model was developed and submitted to all stakeholders: several ministries, Energy Efficiency Agency, Energy Efficiency Fund, as well as to the future ESCO companies that have attended the training sessions organized by the PIU.

- 2.3.3 The study “Fiscal Aspects Relating to Energy Performance Contracting Implementation in Moldova” (available only in Romanian) was produced within the same component. The study aimed at identifying the major challenges and obstacles related to taxation for the implementation of energy service contracts. In particular, the study considered several scenarios, involving the participation of the private and public sector in the procurement of the respective services, the VAT recording modality, income tax payment options and others. The study also identified a series of issues without obvious solutions and requesting the support of the specialized and line institutions, like the Ministry of Finance and State Fiscal Inspectorate.

In this context, we respectfully ask for the support of the Ministry of Economy and Ministry of Finance to help with organizing a working group specialized on EPC fiscal issues and accounting.

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## 2.4 Component 4 - EPC Projects replicated in other municipalities and information disseminated.

- 2.4.1 This component is planned for the 3rd and 4th years of the project implementation; hence, technical details about a concrete municipality or project number will be known when the outcomes in the Chisinau Municipality will be clear.
- 2.5 A video explaining the ESCO concept principle in interactive images, developed by the Project, was presented during the meeting. Also, the Project Board Members were informed about the development of the ESCO service website - [www.esco.md](http://www.esco.md) - to promote the ESCO concept.

### III. Submission of the Annual Work Plan for 2016

- 3.1 The Annual Work Plan for 2016 was submitted for information to all participants in the meeting. The Project Manager drew the attention of the Project Board Members on the need to contract an energy services facilitation company (described in detail in item 2.2), which would cost, according to the project estimations, around 150,000 USD (activity planned for 2 years - 2016 and 2017). The amount needed for this activity is available in the project budget, but needs to be reallocated from other components and/or accounts, to Component 2, which is directly linked to the implementation of the 20 ESCO projects under the account "72100 – Consultancy Company."

<i>Budget available for 2016-2018</i>	345,388 \$
<i>Approximate budget needed for the Team of Facilitators</i>	150,000 \$
<i>Remaining budget (administrative costs, 2 project evaluation stages, other expenditure)</i>	169,226 \$

According to the table presented at the meeting, following the reallocation of 150,000 USD for the above mentioned contract, a total of 169,229 USD still remain available in the Project budget, and this amount is sufficient to cover administrative costs, the 2 project evaluation stages and other expenditure.

- 3.2 At the same time, it was mentioned that following the reallocation of the available sources mentioned in the previous item, Component 4 - *EPC Projects Replicated in Other Municipalities and Information Disseminated* - would not be financially covered. However, the Project Board Members were informed that the Energy Efficiency Agency and the Energy Efficiency Fund were ready to contribute to the implementation of this important activity together with the Project Team.

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#### ***IV. Project Board Decisions:***

As a result of the presented report and information, discussions and recommendations made by the Project Board Members, the following **decisions** were made:

- The Project Board Members were informed about the Terms of Reference for the development of a new Urban Development Plan - a document presented and submitted by the project to the Chisinau Municipality, and the beneficiary agrees the document is sufficient and meets the expectations;
- The Project Board will support to the extent possible the approval by the Chisinau Municipal Council of the Sustainable Energy Action Plan, updated by the ESCO Moldova Project;
- The Project Board Members were informed about and considered sufficient the arguments on placing the Loan Guarantee Fund under the Energy Efficiency Fund;
- The Project Board approved the 2016 Work Plan and Budget with the associated budgetary revision implying the aggregation of the available funds from several budget lines in order to hire an energy efficiency services facilitation company;
- The Ministry of Economy commits to convene an inter-ministerial working group on fiscal issues relating to energy performance contracting.

#### **Project Board Members/Authorized Persons:**

Octavian Calmic

Valeriu Munteanu

Narine Sahakyan

Mihail Stratan

Octavian Crestin

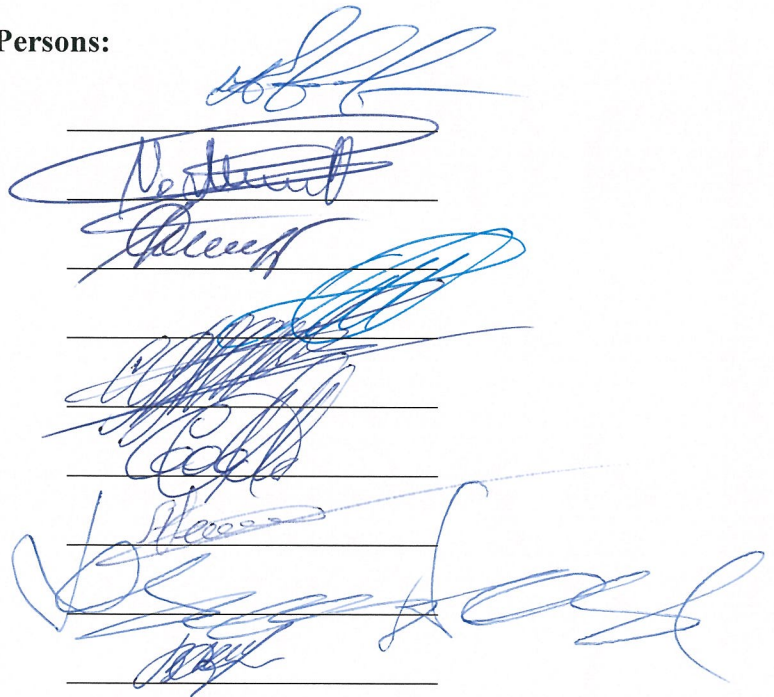
Alexandru Gobjila

Alexandru Tagadiuc

Iurie Nastas

Denis Bejan

**Date:** 31.05.2016



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