

## Annex 5 - Action Fiche for Ukraine

### 1. IDENTIFICATION

Title/Number	<b>EU 2010 Contribution to the Eastern Europe Energy Efficiency and Environment (“5 E’s”) Partnership Fund</b> (also known as "the Swedish Initiative") CRIS: ENPI/2010/22000		
Total cost	Total European Union contribution: €10 million [Other contributors: Ukraine: €10 million; Sweden: €24 million; Denmark: €5 million (from 2011 onwards); Estonia: €160,000 (5 yearly installments of €32,000); Latvia: €50,000; Norway: €5 million (5 yearly installments of €1 million); USA: €5.325 million in 2010.]		
Aid method / Method of implementation	Joint management with an international organisation (European Bank for Reconstruction and Development (EBRD))		
DAC-code	23010	Sector	Energy policy & Administrative Management

### 2. RATIONALE

#### 2.1. Sector context

Ukraine has inherited a very inefficient energy system from the USSR, which was still affordable when energy (mostly imported from Russia) was relatively cheap but no longer today due to raising energy prices. The authorities are therefore highly committed to improving energy efficiency in all spheres (industries, housing) in order to decrease energy consumption.

In parallel, there is an increasing attention to renewable and endogenous sources of energy (currently accounting for less than 1% of the electricity generated yearly), seen as clean, efficient and increasingly competitive alternatives compared to fossil energies.

The Ukrainian Energy Strategy till 2030, adopted in 2005, calls for substantial energy-saving measures in all industries, as well as for a noticeable increase in the use of renewable energies, from current 0.1 billion kWh up to 2.0 billion kWh by 2030. The Government has launched a number of measures to promote investments in renewable energies, starting with the introduction of green tariffs and tax incentives, and has set ambitious targets to replace or upgrade obsolete equipment in the industrial and residential sectors, in order to significantly decrease energy consumption and CO<sup>2</sup> emissions.

These efforts can lead to concrete results only if they are supported by large-scale funding. In this perspective, the past-Swedish Presidency of the EU has proposed in mid-2009 the creation of a Donors Fund that would help countries in the region to finance, through grants, projects aimed at improving energy efficiency and promote the use of renewable energies. The initial geographical focus is Ukraine but the Initiative is likely to expand, as appropriate, to the other countries of the Eastern Partnership (Armenia, Azerbaijan, Belarus, Georgia and Moldova).

The Fund was officially launched at a Pledging Donors Conference in Stockholm on November 26th, 2009, co-chaired by Commissioner Ferrero-Waldner. A formal name was agreed: "the Eastern Europe Energy Efficiency and Environment [5 E's] Partnership". In line with priorities 56 ("Progress on energy efficiency and the use of renewable energy sources") and 60 ("Take steps to ensure that conditions for good environmental governance are set and start implementing them") of the EU-Ukraine ENP Action plan, Commissioner Ferrero-Waldner has pledged an EU contribution of €40 million over the period 2010-2013 to top up an initial contribution of €10 million by Ukraine. Other Donors have pledged the following contributions: Sweden: €24 million (4 instalments of €6 million), Denmark: €5 million (from 2011 onwards), Estonia: €160,000 (5 yearly instalments of €32,000), Latvia: €50,000, Norway: €5 million (5 yearly instalments of €1 million), USA: €3.325 million in 2010. The total of pledged is therefore €99.53 million as of February 15th, 2010. Other Donors (Finland, Lithuania, Poland, Romania, Czech Republic, Japan and Slovakia, so far) might announce pledges later.

## 2.2. Lessons learnt

The EU has already contributed to ERBD-led Funds in Ukraine (e.g.: Chernobyl Shelter Fund) and cooperation with the Bank is good. EBRD also benefits from a number of investment projects in Ukraine under the Neighbourhood Investment Facility.

For what concerns operations in Ukraine, however, special attention will have to be paid to the complex regulatory framework around renewable energies, energy efficiency and environment. The current framework might dissuade potential investors and will need to be upgraded.

The legal framework on energy efficiency is expected to evolve positively in 2010 thanks to technical and financial cooperation provided by several Donors (including a large EU budget support and a possible twinning).

## 2.3. Complementary actions

The launch of the 5Es initiative coincided with the Copenhagen conference on climate change. Environment/energy issues are still high on the global agenda, as well as in the EU and in Ukraine.

All major donors have been supporting reforms towards improvement of energy efficiency in Ukraine for many years. Of particular relevance are the following ongoing initiatives and projects:

- The **€63 million EU Budget Support** on Energy Efficiency whose first disbursement is planned for 2010. It is accompanied by a €7 million envelope for technical assistance that will aim primarily at increasing the capacity of the authorities to meet the budget support conditionalities, and, more generally, to improve their overall capacity;

- The **EU's INOGATE** energy programme has been assisting Ukraine (and other countries in the region) to pave the way for investments in the field of renewable energy and energy efficiency through assistance to legislative and policy reforms. In the frame of INOGATE, the regional Energy Saving Initiative in the Building Sector in the Eastern European and Central Asian Countries (ESIB) project was launched in January 2010 for three years; furthermore, the project 'Support to Market Integration and Sustainable Energy' (SEMISE) running until

January 2012 provides support to the creation of a positive environment for sustainable energy investments including in cooperation with international financial institutions. Finally the project "Identification and Promotion of Energy Efficiency (EE) Investments" provides support to investment facilities of the EBRD in Ukraine and Moldova in the field of Energy Efficiency;

- Under the **EU initiative Covenant of Mayors**, 11 (to date) large cities of Ukraine have taken the commitment to go beyond the target of 20% CO<sub>2</sub> reduction by 2020 through the implementation of Sustainable Energy Action Plans, to be supported by the EU. Implementation of those Sustainable Energy Actions Plans could be supported by the Fund created under the 5Es initiative. A specific project in support of the Covenant of Mayors is envisaged within the framework of the Eastern Partnership to start end 2010/beginning 2011;

- The large EU financed **Community Base Approach (CBA)** running till 2011 (€13 million) has been supporting the creation of an enabling environment for long-term self-sustaining social-economic and community development at the local level by promoting local self-governance and community-based initiatives, including on environment and energy efficiency. The planned 2<sup>nd</sup> phase of the project has a specific €5 million component on energy efficiency.

- The EU pays a particular attention to the Crimea region in Ukraine and has identified under the "Support to the Joint Cooperation Initiative in Crimea" (AAP 2008) support to Social and municipal infrastructures as a priority, including heating. Synergies can be developed with this Fund;

- The **Neighbourhood Investment Facility (NIF)**, now available to Ukraine, can be used to further support and leverage IFI lending in support of the initiative;

- The **EBRD**, through its Sustainable Energy Initiative (SEI), has been providing large scale loans to private and governmental/municipal facilities to support the introduction of environmentally clean and sustainable equipment. Energy consumption has decreased by up to 40% in facilities supported by this initiative.

- The **World Bank** has been supporting since the mid-1990s large projects aiming at improving energy efficiency, with a focus on large Kiev public buildings. A new programme to support energy efficiency is currently being designed.

- The **European Investment Bank (EIB)** is lending €15.5 million to upgrade water supply and wastewater treatment in the City of Mykolayiv (southern Ukraine) and €100 million to finance small and medium-sized investments in the areas of SMEs, energy efficiency and the environment in Ukraine.

- **GTZ** will start to operate in 2011 in the ENP-East Region an Energy Efficiency Fund, financed from the NIF (€10 million). The objectives of this Fund are to broaden the financing base of energy efficiency and renewable energy investments in the region, increasing awareness on energy efficiency and small renewable energy products among companies and private households, contributing to broadening and deepening the financial sector that services those development needs, and finally harmonizing and coordinating donor initiatives. GTZ has moreover been supporting the Ministry of Regional Development and Construction of Ukraine since October 2007 (till mid-2013) to improve energy efficiency in commercial

and private buildings. The main focus of the project is to introduce energy management at local level and implement pilot projects;

- The **USAID** has been supporting since early 2009 large projects (amounting to a total of \$13 million) in district heating in no less than 34 Ukrainian cities. For each city, energy audits are being carried out. These audits can serve as a good basis for the identification of future technical projects to be financed by the Fund. Coordination of interventions will be ensured by the fact that the US count amongst the main contributors to the Fund.

## **2.4. Donor coordination**

Donor coordination is formally ensured in Ukraine by the Government, via thematic working groups. One was created on Energy Efficiency and Renewable energy, led by EBRD. Meetings have however not been regular and a lot of coordination takes place on a bilateral basis. This should improve in the context of the ongoing reforms of the Donor Coordination system.

Relations between donors in the frame of the proposed intervention will be regulated by the "Rules of the Eastern Europe Energy Efficiency and Environment Partnership Fund" developed by the EBRD as Fund manager. Donors joining the Initiative will have to comply with those rules.

Those rules state that the governing body of the Fund will be the Assembly of Contributors (one representative per donor), which shall be responsible for the overall policy of the Fund and supervise its implementation. The EBRD, the European Investment Bank (EIB), the Nordic Investment Bank (NIB), the Nordic Environment Finance Corporation (NEFCO) and the World Bank Group shall act as implementing agencies of the Fund. A steering group will propose projects and subsequent grant requests to the Assembly of Contributors which shall decide if the projects shall be supported with the resources of the Fund. Agreement of the beneficiary country will always be sought.

Grants will be sized in proportion to environmental benefits and/or gains in terms of energy efficiency, quantified in monetary terms. This will allow the efficiency of the action to be measured.

## **3. DESCRIPTION**

### **3.1. Objectives**

The purpose of the Fund is to allow a harmonised and effective delivery of international financial support over several years by pooling contributions from a group of donors and beneficiaries, to be used primarily for supporting energy efficiency and environmental projects, resulting in a significant reduction of carbon dioxide (CO<sup>2</sup>) and other greenhouse gases (GHG) emissions.

### **3.2. Expected results and main activities**

The main expected results of the proposed action are:

- A reduced energy consumption in Ukraine and in the countries of the region, thanks to a more efficient use of available energies. This will be achieved through the implementation of

projects contributing decisively to this objective. Implementation of those projects will be supported by the Fund resources, on a proportional basis;

- A decrease of CO<sub>2</sub> and of other greenhouse gases emissions in the region, thanks to decreased energy consumption;
- A greater share of renewable energies in the energy produced yearly in the region.

The proposed initial thematic focus of the Fund's activities is housing and district heating sectors as both sectors consume together more than half of the energy used in Ukraine. It is however envisaged that the Fund will also support other investments for energy efficiency or environmental projects.

### **3.3. Risks and assumptions**

1. The Fund will start operating only when "a minimum number of three Contributors, including Ukraine, have entered into Contribution Agreements and have fulfilled their obligations under such Contribution Agreements, and the amount of all Contributions paid into the Fund Account is a minimum of €30 M" (Section 3.04 of the draft rules of the initiative). It is assumed that the new government of Ukraine will honour the €10 million pledge made in November 2009 in Stockholm;
2. The Fund is in its nature similar to the Neighbourhood Investment Facility (NIF). Attention will have to be paid on avoiding overlap between the two financing instruments and underlining their specificities;
3. The economic crisis may dissuade beneficiaries to undertake reforms in energy efficiency/renewable energies; this might lead to delays in developing an initial projects pipeline and slowdown of the Fund;
4. A particular attention will have to be paid to the questions of procurement and follow-up of costs during the implementation of the Fund.

### **3.4. Crosscutting Issues**

Environmental sustainability and climate change are the main cross-cutting issues raised by this project. The project will directly contribute to climate change mitigation and to reducing pollution due to power generation from fossil fuel. Gender is not a cross-cutting issue to be addressed in this specific project. However, the project will be open for equal participation. Furthermore, development of renewable energies in the ENP-East region would create jobs for men and women alike.

### **3.5. Stakeholders**

The stakeholders of the proposed intervention will be, for what concerns Ukraine: the central Government, the cabinet of Ministers, the Ministry of Fuel and Energy, regional and local authorities, municipalities, companies and individuals or associations of consumers, owners, etc.

## **4. IMPLEMENTATION ISSUES**

### **4.1. Method of implementation**

The method of implementation will be joint management, through the signature of a Contribution agreement with the EBRD.

EBRD is currently subject to an external review in relation to Article 53d of the Financial Regulation. In anticipation of the results of this review the authorising officer deems that, based on the long-standing and problem free cooperation with these Organisations, joint management mode can be proposed and Standard Convention for International Organisation can be signed in accordance with the provisions laid down in Article 43 of the Implementing Rules to the Financial Regulation.

Until the launching of the Fund, the manager of the Fund and contact person on the EBRD side will be based in London at EBRD headquarters. The EU Delegation in Ukraine will follow-up and ensure coordination with the local EBRD office as appropriate. It is expected that the Bank will at a later stage appoint a manager in Ukraine who will provide technical and administrative support to the identification and preparation of projects, on top of general administrative support.

After the Fund is launched, the Delegation will coordinate relations with the Bank and other donors involved in the Initiative, with support from AIDCO A3 – Energy team.

The largest donor will be expected to chair the Assembly of Contributors to the Fund, unless otherwise decided by the Assembly. So far, the largest donor is the EU. The Chair will convey, together with the Fund Manager, meetings of the Assembly and might invite, as relevant, representatives of governments, other institutions and entities to attend specific agenda items. The Chair can as well call special meetings of the Assembly when necessary.

### **4.2. Procurement and grant award procedures**

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the EBRD.

### **4.3. Budget and calendar**

The Fund is foreseen to remain active until 31 December 2019 unless otherwise decided by the Assembly of Contributors to the Fund.

The proposed first EU contribution to the Fund is €10 million.

The implementation period of this Action will start from the date of signature of the Contribution Agreement with EBRD.

The proposed implementation duration of this action is 48 months from the signature of the contribution agreement.

### **4.4. Performance monitoring**

The monitoring of the day to day implementation of the proposed action will be carried out by EBRD under its standard procedures based on benchmarks to be agreed with the donors

contributing to the Fund. The effectiveness of the action will be evaluated using key indicators like:

1. Number of requests made to the Fund over a certain reporting period;
2. Number of grants considered, selected and approved during this period;
3. Share of the Funds disbursed;
4. Fund's effectiveness ratio, comparing the environmental benefits and/or gains in terms of energy efficiency converted in monetary terms with the amount given from the Fund.

#### **4.5. Evaluation and audit**

No funds from this €10 million contribution should be put aside for financing evaluation(s) or audit. Evaluation and audit will be under the responsibility of EBRD. Should the need arise, the EU would finance additional evaluation(s) and/or audit(s) from other budgetary resources.

#### **4.6. Communication and visibility**

Communication and visibility activities should follow the EU Visibility & Communications Manual. The projects will aim for a widespread dissemination of its achievements and results as well as awareness-raising and image building through inter alia, project websites, electronic newsletters and outreach to the media. On starting activities communication and visibility plans will be prepared and submitted to the EU Delegation for approval, as per the EU Visibility & Communications Manual. Any events organised as part of or related to the project must include the participation of the contracting authority.