United Nations Environment Programme

Mid-term Evaluation of Project GF/4040-06- (2619)

Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation

(FEEI)

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PROJECT BACKGROUND AND OVERVIEW

Project Title	Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation (FEEI)		
Executing Agency	UNECE – United Nations Economic Commission for Europe		
Project partners	Fonds Français pour l'Environnement Mondial (FFEM), Global Environment Facility (GEF), United Nations Foundation (UNF), European Business Congress (EBC)		
Geographical Scope	Countries of Eastern and South-Eastern Europe and Central Asia		
Participating countries	Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kazakhstan, Moldova, Romania[1], Russian Federation, Serbia, the Former Yugoslav Republic of Macedonia, Ukraine		
GEF project ID	2619	**IMIS Number**	GFL-2328-2721-4961
Focal Area(s)	Climate Change	**GEF OP**	3, Climate change mitigation
GEF Strategic Priority/Objective	Climate change mitigation and energy efficiency promotion by removing barriers to the large-scale application, implementation, and dissemination of cost-effective, energy-efficient technologies and practices	**GEF Approval Date**	Oct 25, 2006
UNEP Approval date	1 Mar 2007	**First disbursement**	Sepember 2007
Actual start date	Sep 2007	**Planned duration**	84 months
Intended completion date	Feb 2014	**Actual or Expected completion date**	Feb 2014
Project type	Encouragement of a market formation in energy efficiency	**GEF Allocation**	USD 3,000,000
PDF GEF costs	0	**PDF Co-financing**	USD 200,000

[1] Romania suspended its active participation in the project in 2008

Expected MSF/FSP Co-financing	USD 9,060,000	**Total Cost**	USD 12,260,000
Disbursement as of 30 June 2010	USD 1,500,000	**Date of financial closure**	N/A
Date of completion	N/A	**Actual expenditures reported as of 31 December 2010**	USD 1,415,199
Total co-financing realized as of June 2007	USD 3,733,730	**Actual expenditures entered in IMIS as of 31 June 2010**	USD 1,415,199
Leveraged financing	None		

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Acronyms

ADEME	French Environment and Energy Management Agency
AHGE	Ad Hoc Group of Experts
BEEF	Bulgarian Energy Efficiency Fund
CHP	Combined Heat and Power
CIS	Commonwealth of Independent States
DGEF	(UNEP) Division for GEF Coordination
DTIE	(UNEP) Division for Technology, Industry, and Economics
EA	Executing Agency
EBC	European Business Congress
EBRD	European Bank for Reconstruction and Development
EE	Energy Efficiency
EE21	UNECE Energy Efficiency 21 Programme
EIB	European Investment Bank
EnEffect	Centre for Energy Efficiency, Sofia, Bulgaria
EO	UNEP Evaluation Office
ESCO	Energy Service Company
EU	European Union
FC	Financing Coordinator
FCA	Financing Coordination Agreement
FEEI	Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation
FFEM	Fonds Français pour l'Environnement Mondial
FI	Financial Intermediary
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse Gas
IA	Implementing Agency
IFC	International Finance Corporation
IRR	Internal Rate of Return
KfW	Kreditanstalt für Wiederaufbrau
LoA	Letter of Agreement
LPA	Limited Partnership Agreement
MENA	Middle East and North Africa
MoU	Memorandum of Understanding

NC	National Coordinator
NIB	Nordic Investment Bank
NPI	National Participating Institutions
NYSE	New York Stock Exchange
OP	Operational Programme
PDF	Project Development Fund
PIR	Project Implementation Report
PMU	Project Management Unit
PPM	Private Placement Memorandum
PPP	Public Private Partnership
RE	Renewable Energy
RES	Renewable Energy Sources
RoI	Return on Investment
RoTI	Review of Outcomes to Impacts
SMART	Specific Measurable Achievable Relevant Time-bound
TA	Technical Assistance
ToR	Terms of Reference
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNF	United Nations Foundation
UNFIP	United Nations Fund for International Partnerships
UNOG	United Nations Office at Geneva
USD	United States Dollar
WB	World Bank

1 Introduction

1. The “Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation” (FEEI) project, is a multi-donor[2] project implemented by the United Nations Environment Programme (UNEP) and executed by the United Nations Economic Commission for Europe (UNECE) in 12 South-Eastern and Eastern European and Central Asian countries. The project was conceived in 2003, approved by the Global Environment Facility (GEF) in October 2006 and by UNEP in March 2007, received the first disbursements into UNECE’s accounts in September 2007 and effectively became operational in January 2008. According to UNEP’s project document for FEEI, the lifetime of the project ends in 2014; and a mid-term evaluation is to take place in 2011.
2. Events increased the importance of the mid-term review. In September 2010, GEF informed UNEP about its concern about slow progress in implementation and the absence of the European Bank for Reconstruction and Development (EBRD)’s participation as co-implementing agency (providing expertise in fund mechanisms expected to be wanting in UNECE). In December 2010, GEF suggested to UNEP canceling the project or resubmitting it to the GEF Council for re-approval as the change in the Implementing Agreement (EBRD’s non-participation) required new decision taking by the Council. This requires a new project document to be written. UNEP’s GEF-Coordination Office in a letter dated February 2011 expressed full understanding for GEF’s position and that UNEP had withhold its planned third disbursement to the project in 2010 and frozen further disbursements to UNECE awaiting the result of this mid-term evaluation.
3. UNEP’s evaluation office in Nairobi contracted the services of the independent consultant Wolfgang Mostert, located in Copenhagen. The contract was signed on March 21, 2011.
4. The program of interviews, which comprised visits to Paris, Geneva (twice), London, Beograd, Sofia, Minsk, Moscow and Kiev, started with a visit on March 22 to Paris and finished with a visit to Kiev on May 13.
5. UNECE’s Project Management Unit (PMU) for the project assisted with the overall coordination of the program of visits and provided all documents used for the review.
6. The National Coordinators (NC) and National Participating Institutions (NPIs) helped in organizing the visits to relevant institutions, officials and experts.
7. The consultant wishes to express his sincere gratitude to all contacted persons for the time they spend and the valuable insights they provided.
8. Any evaluation is an interpretation of reality. It would be pretentious of an evaluator to believe that an interpretation reflects reality. The best one can aim at is an interpretation that reflects the core elements of reality.

[2] GEF/UNEP (Global Environmental Facility/ United Nations Environment Programme), UNF/UNFIP (United Nations Foundation/ United Nations Fund for International Partnerships), FFEM (Fonds Français pour l’Environnement Mondial), EBC (European Business Congress)

2 Executive Summary: Conclusions and Recommendations

Project Rating: Moderately Satisfactory

Criterion	Summary Assessment	Rating
A. Attainment of project objectives and results		
1. Effectiveness	The delayed Fund preparation affects the achievement of project objectives, inter alia due to negative impact on capacity building and the preparation of pipeline of projects	MU (3-points)
2. Relevance	The concept of creating a private mezzanine and equity fund for EE&RE is innovative and likely to be a gap filler in clean finance; but the likely focus on RE instead of on EE will disappoint donors	MS (4-points)
3. Efficiency	The outputs defined in the contracts and in the annual work programs of the PMU were produced. But delays in the Fund preparation cause problems	MS (4-points)
B. Sustainability of outcomes	Not applicable, no outcomes yet	
C. Catalytic role	The project has managed to bring together local finance institutions, project developers and Government agencies, reinforcing achievements from other donor projects in bringing Government attention to finance and regulatory issues	S (5-points)
D. Stakeholders involvement	The NPIs and NCs and the performance of capacity building workshops have brought together relevant stakeholders; but due to delay in Fund creation, participation by finance institutions and professional consultants/developers is reaching a low point	MS (4-points)
E. Country ownership / drivenness	Very strong through the NPI/NC structure and participation in Expert Group Sessions.	HS (6-points)
F. Achievement of outputs and activities	Overall positive. But delay in getting near to the creation of the Fund is a strong drawback	MS (4-points)
G. Preparation and readiness	All countries are implementing policies and regulations to support RE&EE; crucial gaps remain, in particular in public sector EE	MS (4-points)
H. Implementation approach	Too process and too little outcome oriented; but good MoUs with NPIs.	MS (4-points)
I. Financial planning and management	Dealing with three funding partners is complex; partners provide their funds late in the fiscal years. PMU did its best under the circumstances.	MU (3-points)
J. Monitoring and Evaluation		HS (6-points)

Criterion	Summary Assessment	Rating
1. M&E Design	The logic in the project document is coherent and defined outputs and objectives are concrete	HS (6-points)
2. M&E Plan Implementation	UNF and FFEM each have an M&E expert following the project year-long basis. PMU and UNEP prepare semi-annual progress reports. Fund Designer submits monthly progress reports.	HS (6-points)
3. Budgeting and funding for M&E activities	UNF and FFEM funds “continuous M&E”, UNEP/GEF has funds for mid-term evaluation	HS (6-points)
K. UNEP Supervision and backstopping	UNEP failed in bringing onboard EBRD as co-implementing agency and in finding a replacement, when that failed; general monitoring was OK	MU (3-points)

Explanation: Highly Satisfactory (HS); Satisfactory(S), Moderately Satisfactory (MS); Moderately Unsatisfactory (MU); Unsatisfactory (U), Highly Unsatisfactory (HU).

2. Conclusions

Project achievements and performance

9. The project implemented the planned activities, produced the planned outputs in two of its three components, and most of the planned outputs of the third component. The “energy policy and regulatory framework component” has produced an excellent policy overview over the Renewable Energy and Energy Efficiency (RE&EE) situation in the 12 FEEI countries and gives policy recommendations for each country. The Astana International Energy Efficiency Forum of 2010 was a success and is now a regular annual event. In addition, visits of policy experts giving individual policy advice were undertaken in several countries (section 3.1.1). Their work is of good quality. But policy making and adjustment of RE&EE frameworks is an ongoing process in all FEEI countries, and many actors contribute valuable inputs to this process. The impact of the component on policy reform, therefore, will not be easily measured as attribution issues will arise (section 3.2.1).

10. The “capacity building and project pipeline component” has created a FEEI website with links to national FEEI websites. The website provides information on the FEEI project, has e-learning modules on the preparation of business plans and financial models for “bankable projects”, gives project developers information on how to submit project proposals for the Fund to finance, put in case studies for inspiration and act as facilitator for information exchange on experiences with EE&RE project finance in FEEI countries. The implemented capacity building activities are based on a thorough assessment of local needs, the curriculum development and the training workshops were performed by knowledgeable experts. The National Participating Institutions / National Coordinators (NPI/NC) structure for implementation at local level has proven its worth. The NPIs/NCs have been very active in disseminating information on the project and in identifying potential projects for Fund finance. The list of projects submitted by the NPIs/NCs to the PMU includes 200 project proposals (section 3.1.2). However, the uncertainty about whether and when the Fund will be created has partly undermined the impact of the capacity building and project

preparation efforts. Some of the best finance and business consultants are keeping a low wait-and-see profile (section 3.2.2).

11. The activities and outputs of the "Equity and Mezzanine Fund component" were expected to have been completed within a year after the start of the Fund Designer contract. Some results have been achieved (section 3.1.3). Draft legal documents for the creation and operation of the Fund have been prepared. The basic design feature of the Fund, the creation of an external Financing Coordinator (FC), is gaining acceptance among stakeholders. It requires a Financing Coordination Agreement (FCA) to be signed between UNECE, the Fund, participating local banks and the Fund Designer, with Conning as FC. But a number of details need clarification, including how UNECE/PMU will manage its financial support to project preparation (section 3.2.3). A Lead Investor/Fund Manager willing to put up 10 percent of the total €250 million finance has been identified: NBGI Private Equity (NBGI PE). The Fund Designer has not yet begun the placement agent activity of soliciting investor interest for the Fund based on an Investment Prospect.

Methodology of the FEEI project

12. "Does the methodology of the FEEI project contribute towards the achievement of the project objectives in the targeted countries?" The issue has two aspects. (i) Whether there is an unsatisfied demand from EE&RE projects for equity and mezzanine finance calling for a minimum of €3.5 million finance per project contribution from the Fund (ii) Whether the project components and activities are coherent and the implementation approach makes sense.

13. The creation of a private equity and mezzanine finance fund is a novelty in the countries. In the project concept, formulated in the original project (prodoc) document, the project was to support EE as well as RE investments, with the focus being on EE (section 1.1.1). In order to develop a commercial market for EE-finance with banks launching specialised finance products, the prodoc believed it was essential to support the expansion of Energy Service Companies (ESCOs) by putting growth finance in the form of equity and mezzanine finance into these. ESCOs were to serve as aggregators for individual investment projects that each in isolation would be too small to interest the Fund. ESCOs exist in several FEEI target countries, but their experience has not been very encouraging. However, other EE&RE projects of sufficient size can be found that call for risk capital.

14. The coherence of the project concept is compelling (Section 2.3): to simultaneously assist (i) improvements in the policy and regulatory framework (demand side action), (ii) improve local capacity for preparing bankable projects and develop a pipeline of projects that the Fund can look into (technical supply side action), and (iii) setting up the Fund (bank finance engagement action). But the coherence also made the effectiveness of the outputs of one component dependent on simultaneous progress in the other components.

15. The NPI/NC modality has proven its worth: the NPI/NC have been active pillars of support to project activities in their countries (section 3.2.9). The PMU signs Memoranda of Understanding (MoUs) with each NPI/NC that define the services of the NPI/NC to deliver to the FEEI-project and the lump sum financial contribution from the PMU to cover its costs. The modality for the Fund's operation includes the features that – based on worldwide experience - are required if an EE&RE fund is to have success: (i) Technical Assistance (TA) grants to assist the build-up of a

pipeline of projects; (ii) substantial marketing efforts, including maintaining an active website, conducting frequent seminars, use of local and national government leaders in actively mobilizing public support for the program efforts; and,(iii) proactive fund management through the Fund Coordinator modality.

Likelihood to achieve the outcomes and objectives

16. "Is the project likely to achieve the expected outcomes and objectives in its lifetime, with special concern for the PPP Fund's development in the current financial crisis scenario?" Judging from the project proposals collected by the NPI/NCs and comments made by the Fund Designer at presentations in Geneva, the bulk of the Fund finance may go towards investments in RE and not in EE (section 3.2.2). Thus the expected focus of the Fund is changed, although the indicative project pipelines of the two largest countries of the project - Russian Federation and Ukraine - have more EE than RE projects.[3] To some extent, contrary to popular opinion, an increased focus on RE will increase the risk for the Fund: the preparation of RE-projects has the tendency to go on forever!

17. The success of the FEEI project depends 100% on the creation of the Fund; the other outputs from the project provide a supporting environment for the operation of the Fund. Whether or not the Fund will be created depends on the investment mood and investment priorities in the relevant finance community: development banks, wealth managers and institutional investors. So far only the Lead Investor has expressed willingness to provide 10% of required finance.

18. In the light of the uncertainty that surrounds private investment decisions, how likely is it that the first goal of €100 million and the final goal of €250 million in partner contributions can be reached? One can point to some positive trends. First, on the *demand side for funds*. The Fund Designer has not provided qualitative assessments of whether there is a regional demand for the specific finance instruments offered by the Fund. The assessment is based on the evaluator's own observations. Although the policy and regulatory frameworks in the FEEI target countries are not perfect, the annual investment volumes in RE&EE are picking up. There seems to be an objective demand for the finance instruments offered by the Fund; there are some large and complex projects that are likely to require creative financial engineering if they are to move forward. Some "aggregators" are appearing on the market: project developers who present packages of several small-scale hydropower projects for finance. Local support structures have been created (NPIs/NCs, trained consultants) that can help in identifying relevant project proposals and in solving political-regulatory problems that may block the implementation of a project. A TA facility will support the development of a project pipeline. There is, therefore, a strong likelihood that the Fund will be able to find outlets for its €250 million in equity and mezzanine finance within the foreseen four to five-year investment period. Secondly, on the *supply side for funds*. The Fund Designer has not provided information about contacts with development banks, and his assessment of the probability that a development bank will become partner in the Fund. The EBRD has not given any indication of its a priori interest; it prefers to be presented with a proposal for participation and then react to it. Other relevant development banks, such as the European Investment Bank (EIB) or Kreditnstalt für Wiederaufbrau (KfW) have not been interviewed for the review. But there are many competing green finance requests being submitted

[3] During his evaluation visit to Moscow, the evaluator was introduced to a very large EE-project in Archangelsk.

to these institutions.[4] The likelihood that the Fund will be able to attract financial contributions from national governments in the target countries is close to zero: persuading a Ministry of Finance to invest in a private fund without having the certainty that the fund will invest in its country is a hard sell. The Fund Designer is optimistic with regard to the interest of private institutional investors in becoming partners of the Fund. However, first of all, it will make a great difference for institutional investors whether or not a development bank with in-depth knowledge of the EE&RE market in the 12 target countries will be co-investor. Normally, institutional investors move into new markets by piggy-backing on the experience of development banks. Secondly, the general picture concerning the supply of funds for green investments is somewhat contradictory in the present international capital markets. On the one hand, investors, particularly in the USA, have moved out of investments in equity towards lower risk products. On the other hand, in recent months, several green finance products, mainly in the form of green bonds, have been successfully launched on the international capital market. But, it is an open question to what extent investing in markets that have uncertain feed in tariffs or RE&EE related regulatory frameworks is compatible with the risk profiles of institutional investors. The likelihood of commitments coming from private investors will to a large extent be determined by their assessment of the quality of the Fund Manager and the Financial Coordinator. NBGI PE is a 100 percent affiliate of the Greek National Bank (BNG) and potential investors have to be reassured that NBGI in the present financial situation in Greece is capable of committing €25 million to the Fund. The evaluator does not have information allowing him to form an opinion on how attractive the team will look compared to the team of other equity funds trying to attract investors. Overall, though, the combined situation on the demand and the supply sides leads the evaluator to conclude that there is a reasonable likelihood – say a 30 percent chance - for a successful creation of the Fund within the next twelve months.

19. In principle, the solicitation of investor interest could start tomorrow. It is difficult to understand why the Fund has not been created yet; although the impact of the financial crisis certainly made it difficult to persuade investors to invest in the fund (section 3.5). Another explanation is the unsatisfactory performance of the Fund Designer as consultant (section 3.2.3). Too many details in proposed arrangements are not clarified, concepts are not well-explained. The experience confirms that the GEF Council which approved GEF financing for the project was correct in assuming that UNECE's know-how in innovative finance was too limited to allow proper implementation of a Public Private Partnership (PPP)-project without backstopping support from an experienced institution such as EBRD.

3. Lessons learned

20. Asset managers are not in the business of providing consulting services, they look out for opportunities for fee-based income from providing finance services. Contracts with "private finance agents" to assist with the establishment of private green funds should, therefore, be results based, not output based. The contract sum should have been split into a relatively modest "output related" sum and a much larger outcome-based success fee.

21. The concept of implementing a single project financed by multiple donors through separate prodocs with each donor and separate financial reporting cannot be recommended. The transaction

[4] Deutsche Bank's European Energy Efficiency Fund (EEEF) has so far attracted commitments from development banks only, see paragraph 216.

costs are too huge for the PMU and reporting is bound to lead to misunderstandings. Shared responsibility is less effective than single responsibility: when there are several implementing agencies, the performance of each in the execution of the implementing agency function will be below the level of performance if it was the only implementing agency.

22. Execution of innovative PPP-projects and United Nations Office of Geneva (UNOG) contract procedures are contradictions in terms. Complex, innovative projects require flexibility in the execution of contracts and in the production of outputs, which the heavy bureaucratic and legalistic mentality of UNOG is incapable of satisfying.

23. The creation of the Fund was never a certainty and not succeeding in that objective was and is a risk of the project. For a non-investing agency, like UNEP/UNECE, to create a Fund for others to invest in has a lower probability of success than if a prospective co-investor in the Fund had taken the lead from the beginning. When a development bank or a donor agency contract preparatory work for the creation of a Fund, there is a 95% probability that the Fund will be created and that the contracted agents will invest in the Fund thereby ensuring initial close. Whether the target of getting other private parties to invest in the Fund is achieved is a much more open question, e.g. witness the experience so far of the Deutsche Bank's European Energy Efficiency Fund (EEEF). To prepare an equity-mezzanine finance fund for development banks and private investors to consider investing in is a high value / high risk activity: one enters fully competitive territory in the effort to attract finance. In the opinion of the evaluator, the investment in the preparation of such a Fund was and is warranted. Yet, from the observations above, it is obvious that the evaluator understands why GEF-decision takers insisted on active participation by the EBRD as co-implementing agency.

4. Recommendations

Recommendation for project donors

Recommendation 1: Donors to continue their support to the project and release committed funds

24. To close the project at this stage would not make sense. Almost all outputs have been produced by now. The creation of the Fund depends on the willingness of development banks, wealth managers and institutional investors to place their money into the Fund. While there is no certainty on successful first close (first €100 million called for to start the Fund), the possibility for it cannot be dismissed at this stage. Thanks to the active involvement of NPIs and NCs, the participating governments have shown substantial interest in the creation of the Fund; they would find it difficult to understand why the setting up of the Fund is not attempted when the project has progressed as far as it has. Donors' disbursements should be made against a detailed roadmap with concrete further actions and milestones produced by the Strategic Task Force (see recommendation 7 below).

Recommendations for Implementing Agencies and UNECE

Recommendation 2: Bring in a replacement for EBRD-expertise

25. UNECE is in contact with EBRD for their return to a role in providing backstopping support as envisaged in the Project Document. If discussions with EBRD are not fruitful, UNECE will pursue other financial institutions such as EIB to verify their interest in filling that role. UNEP as implementing agency should join and support these discussions. In case UNECE and UNEP fail to secure the support of an appropriate financial institution, the PMU should contract the services of an experienced finance expert as consultant to provide backstopping support in evaluating proposals made by the Fund Designer and to join discussions and negotiations with the Fund Designer.

Recommendation 3: Improve Governance

26. The use of the "Group of Experts" as Steering Committee has served the objective of securing ownership for FEEI. But it does not have the specialized finance know-how for providing strategic guidance to the PMU on issues concerning the structure of the Fund and the appropriate approach for soliciting investor interest. A much smaller and focused group is required for this, also to protect commercial confidentiality. It is recommended to establish a "Strategic Task Force" to act as "managing Steering Committee" with the task to closely monitor the Fund Designer's work and define a time table with him for the completion of his work. The Task Force is to be composed of (i) the UNECE Director of the Sustainable Energy Division, (ii) donor representatives, ideally the Monitoring and Evaluation (M&E) experts of the United Nations Foundation (UNF) and the Fonds Français pour l'Environnement Mondial (FFEM) plus a staff member from UNEP Division for Technology, Industry and Economics (DTIE)'s Innovative Finance Unit, (iii) an EBRD/EIB staff member.

Recommendation 4: Clarify the status concerning likely projects and investor interest in the Fund

27. The proposed Strategic Task Force should take a meeting with the Fund Designer and with the Lead Investor to hear their opinions about the scope and the qualitative type of demand from EE&RE projects for equity and mezzanine finance. This is to confirm the conclusions made in this report concerning EE&RE project demand for the specific finance products that are to be offered by the Fund. The Strategic Task Force should discuss with the Fund Designer and the Lead investor their qualitative assessment of likely investor interest for investing in the Fund. Based on what they have seen and heard, what kind of projects and finance structures are likely to generate the kind of returns private equity investors look for? The meeting will also serve to confirm NBGI PE's continued commitment and ability to provide €25 million in finance. The content of the discussions is confidential. But based on these discussions, the Strategic Task Force should formulate its opinion about the likelihood of Fund creation and the realistic date for first financial closure.

Recommendation 5: Clarify details concerning the structuring of the Fund

28. The Fund Designer has been short on crucial details concerning the Fund structure (e.g. relationship between Lead Investor/Fund Manager and General Partner) and the operation of the FCA concept (such as selection criteria, grant-levels). The Strategic Task Force should ask the Fund Designer to provide clarification on these details: see list in section 2.3.3.

Recommendation 6: Agree on a timetable for completing the soliciting of investor interest

29. The Strategic Task Force should agree on a timetable with the Fund Designer for the completion of his work on the documents, including written clarification of the details referred to above, and, above all, for the initiation and completion of his investor solicitation round.

Recommendation 7: *Establish a road map of next steps*

30. On the basis of corrective measures taken in response to recommendations 2-6, the PMU is asked to provide donors within three months from this evaluation (November 2011) with a road map of future actions and concrete milestones against which donors will pledge their commitments. The road map will be subjected to a periodic scrutiny by the Strategic Task Force and revised as relevant.

Recommendation to PMU/UNOG

Recommendation 8: Find a solution to the legal problems surrounding the use of TA funds for project preparation

31. It is essential that the Fund has a TA-grant facility at its disposal for the financing of project preparation. Funds without such a facility find it difficult to build a project pipeline. UNECE/UNOG faces legal problems in agreeing to the FCA in its present form. The FCA commits UNECE to provide the financial resources for project preparation and, upon request from the Financial Coordinator, to contract consultants to turn promising project proposals into 'bankable' form. The exact issue of contention is not known to – or understood by - the evaluator. In the FCA case, neither the Fund Manager nor the Financial Coordinator will have access to public funds. In response to requests from the FCA, UNECE-PMU will sign contracts with consulting companies to assist project developers in the countries to develop their projects to 'bankable standards'. The existence of a grant finance facility to support project developers in improving the quality of their finance applications to "bankable standards" is a core feature of successful donor funded EE&RE finance projects. UNECE informed the following: "UNECE has been unwilling to become a party to the FCA because the Fund is conceived as a commercial venture, and the UN cannot provide explicit or implicit performance guarantees to investors. UNECE has requested assistance from the UN Office of Legal Affairs in formulating the appropriate language enabling UNECE to continue providing TA." The evaluator has still no idea what the issue is: project developers are private ventures and the Fund is a private venture. The TA facility helps project developers in preparing bankable project proposals, by doing so it helps the Fund in getting an adequate project pipeline, which reduces the transactions costs of the Fund. The whole structure is a PPP. The evaluator recommends UNECE/UNOG to contact colleagues at the World Bank, IFC, EBRD, IDB, ADB as these institutions have experience with implementing these type of private-public structures to be informed how that can be done without legal problems.

Recommendation 9: Continue the awareness efforts concerning basic features of the Fund

32. Despite the valuable efforts made by the PMU and by its contracted consultants, essential features of the Fund are not yet fully understood by NPIs and NCs (e.g. that it provides risk finance, not conventional loan finance, as the question of interest rates charged on mezzanine finance continues to be raised - see chapter 2). The PMU and the Fund Designer have an awareness job to do to make the NPIs and NCs understand that the Fund provides risk finance and management

skills are required to structure and operate sophisticated financial instruments and risk-share mechanisms which help enhance project returns and mitigate risk. Having a greater breadth of perspective than the typical project sponsor, the FC and Fund Manager are better placed to syndicate competitively priced project debt. The message must also be passed that the investment in the national support structure in the form of NPIs and NCs should be seen as a useful investment for the facilitation of RE&EE finance in general and not just exclusively for the purposes of this Fund. Once the investor solicitation round has been completed, and provided it has been successful, the PMU should organize a workshop on the specific finance instruments provided by the Fund and the type of projects that will need the specific finance instruments offered by the Fund for representatives from the NPIs, Ministries of Finance, consultants, finance institutions.

Recommendation to PMU/Conning

Recommendation 10: To increase investor confidence, change the payment formula for the compensation of the Fund Manager towards outcome-based performance

33. Due to experiences with passive managers of RE-Funds, it is recommended to change the formula for the calculation of the 2 percent basis fee of the Fund Manager; instead of basing the 2 percent fee on paid-in capital into the Fund it should be based on committed fund investments out of the Fund. The formula will demonstrate confidence of the Fund Manager in the business model of the Fund. This will make it easier to convince potential investors to place money into the Fund.

3 Evaluation Background

3.1 Context

3.1.1 Development of project idea and project concept

34. The FEEI project aims to set up a private-public €250 million equity/mezzanine fund to co-finance investments in energy efficiency (primarily) and renewable energy projects in the collaborating countries. Examples of projects listed in the project document include district heating (CHP), boiler rehabilitation, cogeneration, biomass boilers, street light renovation, and small hydros. In the remainder of this document, the fund to be created is referred to as the Fund.

35. The FEEI-project is the brainchild of two persons primarily: the then Director of the Sustainable Energy Division at UNECE in Geneva (until August 2010) and the Director of Technology at UNEP's Division of Technology, Industry and Economics (DTIE) in Paris. The Director of International Energy Efficiency at UNF/UNFIP has supported the project idea from the beginning. The project idea was triggered by the success of its predecessor at UNECE, the Energy Efficiency Investment for Climate Change Mitigation project, which carried out capacity building for developing investment proposals in EE in Belarus, Bulgaria, Kazakhstan, Russia, and Ukraine[5]. UNECE's ad-hoc Group of Experts on EE, at that time chaired by the Director of Technology, looked at the option of setting up an investment fund for EE in Eastern Europe and Central Asia. A seminar on investment funds was held in 2003 that looked at the experience of attempts to set up EE-funds in Eastern Europe; one example was EBRD's €70 million "EE and Emissions Reductions Fund", co-financed by Dexia and some Japanese investors. A proposal to launch a project to establish such a Fund was supported by the ad-hoc group. It was submitted to the EE21 Steering Committee, which forwarded it to the Committee on Sustainable Energy under the Economic Commission for Europe for approval.[6]

36. A finance alliance for the project was formed. GEF operated through a limited number of official implementing agencies, one of which was UNEP. The GEF-system required an executing agency and co-financing by other partners. Because of UNECE's previous success with the Energy Efficiency Investment for Climate Change Mitigation project and because of UNECE's good links in Eastern Europe it was considered an ideal choice as executing agency. UNECE was instrumental in bringing in co-financiers: UNF, FFEM, and the European Business Congress (EBC). In addition, UNECE is co-financier in kind by making staff and office resources for the PMU available.

3.1.2 Situation in the countries targeted by the project

37. In 2003, when the project idea was developed, the countries had a large potential for economically viable improvements in EE. Energy intensity whether measured at macro-level GDP/energy ratios or at micro-level as energy per sq.m. heated area in residential, public or commercial buildings or

[5] The US$2 million project, which was co-financed by 8 partners one of which was UNF, completed a number of publications on EE, trained 106 experts and developed US$61 million in pre-investment proposals of which US$15 m succeeded in reaching financial close

[6] The Committee on Sustainable Energy is one of the eight Committees under UNECE. The others are Inland Transport, Housing and Land Management, Environmental Policy, Statistics (Conference of European Statisticians), Economic Cooperation and Integration, Timber, and Trade. The Committee meets November each year. The meetings are typically composed of 150-200 delegates from the 56 ECE member states and from 21 international organizations.

energy per industrial output were far above Western European averages. The barriers to increased EE and RE in the target countries were well-known. The policy, legal and regulatory framework for clean energy investments was only at the incipient stage; fossil fuels and electricity tariffs were subsidized in several countries. The public sector at central and municipal level was short of finance, the finance sector in general and the capital market in particular in the countries was relatively unsophisticated, and high inflation rates drove up nominal interest rates on bank loans.

38. The pace of policy and regulatory reform differed. Romania and Bulgaria became members of the European Union (EU) in 2007. But, as prior adaptation to the EU regulatory framework was a condition for membership, they were in the initial process of incorporating more progressive EU energy legislation into national law.

3.1.3 Donor financed EE&RE projects

39. The energy situation in the Eastern European and Central Asian countries had triggered a large number of clean energy assistance projects financed by bilateral and multilateral donors and development agencies. The types of projects started in the early 1990s with technical assistance in concepts for promotion of clean technology, including the financing of pilot and demonstrations projects and energy audits. Starting in the late 1990s, the next generation of projects, comprised dedicated clean energy debt finance (often including a grant element in the form of interest rate rebates) that were channeled through private or national development banks combined with grants for project preparation and for policy support. Very soon clean energy finance moved towards the introduction of innovative "public finance" concepts.

40. Successful public finance projects always include a grant element to reduce the costs of transactions for involved parties. The standard formula is to provide a public finance instrument alongside grant financed technical assistance (i) for project preparation (e.g. energy audits), (ii) for capacity building of project developers and of staff at participating commercial banks, and (iii) for policy dialogue with central and local government.

41. Projects that make a dedicated clean energy loan facility available to participating banks often seek leverage by insisting that the banks co-finance eligible investments on a 1:1 ratio. The attraction for the participating banks is that the access to the dedicated loan (which they on-lend adding a negotiated premium of typically 4 percent on top of the interest rate they pay for the loan) allows them to expand the scale of their total loan portfolio and to diversify it. When the provided debt finances less than 100 percent of project costs, it has a further leveraging effect through the capital raised by the private investor. In addition, the dedicated loan approach hopes for a longer term effect on the involved banks: that the learning and in-house clean energy capacity building process will lead them to take on clean energy finance as a separate finance activity on their own.

42. Other public finance projects carried out in FEEI target countries used risk reduction instruments to leverage private finance for clean energy investments, e.g. by offering subsidized partial risk guarantees / first loss guarantees and subordinated loans to participating banks. In theory, the public backed guarantee is the ultimate public finance instrument: a 5 percent first loss guarantee can leverage private debt finance 20 times higher than the invested public money (under the naïve assumption that no lending at all would have been given to the projects in the absence of the guarantee). However, the experience with the use of publicly backed guarantees in EE-projects in Eastern Europe has been rather disappointing.

43. A third category of public finance projects are specialized clean energy funds funded by public moneys. BEEF (Bulgarian Energy Efficiency Fund) combines technical know-how in energy audits with the offer of two finance products: EE-loans and partial risk guarantees. The idea behind its creation was that it could attract project co-financing from local banks because its technical and risk finance expertise would reassure banks lacking specialized know-how in EE-lending that due diligence was done. This "leveraging" expectation was not fulfilled.

44. A fourth category of public finance projects involve the creation of public-private equity funds specialized in clean energy. A successful example is the €70 million "Equity Fund for EE in Central Europe" initiated and co-financed by EBRD with a 25 percent share. The fund, which invested in ESCOs and in the modernization of district heating networks generated an Internal Rate of Return for shareholders of 20 percent! The International Finance Corporation (IFC) also tried to raise an equity fund for investments in EE, but failed.

45. Several donors – the EU Commission, EBRD, IFC/World Bank and the United States Agency for International Development (USAID) initiated projects to support the creation of ESCOs. ESCOs come in various varieties. The most important distinction concerns the degree of ESCO-own finance of identified investments and the level of performance guarantees. Another one concerns ownership: public versus private, utility-based ESCOs as an element of a DSM or financing program, etc. EBRD was involved in four attempts at creating ESCOs, three of which were framework agreements – blanket approval by the EBRD Board to invest in individual projects – with equipment manufacturers.

46. Performance of ESCOs has generally not been very successful. The absence of well-developed public demand for EE-investments was and is one important implementation hurdle for ESCOs, the other was lack of legal and financial infrastructure to adapt to and support such business models. Hurdles on the financing side included lack of access to ESCO project financing, and lack of equity sources for new ESCOs (particularly when offering off-balance sheet financing). At industry level, hurdles included inability for staff of new ESCOs to sufficiently identify, mitigate and manage risks, weak business and sales skills among ESCO staff and legal and taxation issues associated with the ESCO business.

47. However, some success stories exist. UKRESCO, a state owned ESCO in Ukraine worked well; not as a fully-fledged ESCO but as an industrial EE consultancy company able to provide debt finance to its clients. Enemonia in Bulgaria is a private company supported by EBRD-finance, and BEEF has ESCO-characteristics.

48. Although the experience shows the difficulties of starting up ESCOs in a weak regulatory-policy context, the conceptual case for ESCOs as an instrument in EE-programs remains valid. The potential ability of ESCOs as integrator of EE projects, each individually too small to pass the minimum investment size hurdle of equity funds, and bundling the procurement of goods across several projects into one demand for external funding is a key theme of the original project document for the FEEI project.

3.2 Description of the Project

3.2.1 Participating countries

49. The 12 project countries are: Belarus, Russian Federation, Croatia, Serbia, Kazakhstan, Bulgaria, the former Yugoslav Republic of Macedonia, Ukraine, Republic of Moldova, Bosnia and Herzegovina, Romania, and Albania.

50. Romania, one of the original participating parties, suspended in 2008 its active participation through the National Participating Institutions. But, formally, Romania is still part of it.

3.2.2 Objectives and components

51. The "long term development objectives / global environmental objective(s) of the project" are stated as "Promote the formation of an energy efficiency market in Eastern Europe and the CIS so that cost-effective investments can provide a self-financing method of reducing global greenhouse gas (GHG) emissions." Obviously, too many actors and factors intervene to decide the development of an EE-market and the project is too small to have a discernible impact on that. For the purposes of this evaluation the global objective is mentioned only for its emphasis on EE rather than on RE.

52. The three immediate objectives listed in the original project document are concrete. (In the PMU's annual work plans the objectives are listed and formulated slightly differently; the text is repeated in parenthesis below).[7]

53. Objective One: Develop skills of public and private sector experts at local level. (Identify and develop investment projects in the private and public sectors at the local level: identify, develop, finance and implement demand side and supply side energy efficiency and renewable energy projects that meet environmental, health and institutional reform priorities.)

54. Objective two: Assist municipalities and national administrations to introduce reforms. (Strengthen energy efficiency and renewable energy policies in the participating countries, assisting municipal authorities and national administrations to introduce the economic, institutional and regulatory reforms needed to support investments in energy efficiency and renewable energy projects.).

55. Objective three: Establish a private-public-partnership fund. (Promote opportunities for banks and commercial companies to invest in energy efficiency and renewable energy projects through the development of new public private partnership investment funds or financing mechanisms).

56. The project document foresaw a 65%/35% mix of private and public investment into the Fund. The public participation of 35% was to come from governments in the countries where the fund is operating plus from external donors. It was expected that the public investors were to accept a lower yield than the private investors. The document anticipated that the investment period of the Fund will not exceed four years from official closing date and that the Fund will be able to exit from investments after three to four more years.

[7] The objectives formulated in the annual work plans are taken from the Project Document with UNF/UNFIP, which serves as a common denominator.

57. The key immediate objective in the project document can be summarized as follows: the project is to establish a US$250 million public-private equity Fund managed by an experienced Fund Management Company, linked to a pipeline of projects developed by local experts that could provide for a large scale participation of private investors in partnership with public entities. The project is to leverage up to US$2 billion of total investment as a first order effect and up to US$10 billion in investments taking into account second order effects (hoped for follow-up by participating banks and experts in new projects on an independent basis).

3.2.3 Activities and Outputs

58. Corresponding to the three immediate objectives, the project has three components.
59. The “develop local skills to identify, design and submit bankable projects” component aims to set up a local infrastructure in each country capable of identifying and developing investment projects that can be submitted to the Fund for its co-finance. The component seeks (i) to establish a “network of energy efficiency managers”, (ii) establish a pool of trained experts in project development, finance, business planning; and (iii) identify a pipeline of bankable investment projects for consideration by the Fund. The EE-managers are the “National Coordinators” and “National Participating Institutions” in each country. A FEEI website, containing links to the national FEEI websites is to facilitate exchange of information, experience and know-how between the EE-managers and project developers in the FEEI-countries. Training of experts is done through workshops and through e-learning material placed on the website. The component prepares project selection criteria to guide the identification of relevant projects.

60. The “strengthen energy efficiency and renewable energy policies” component aims to improve the national and local regulatory and policy frameworks through three sets of activities. A detailed study on the status of the relevant “economic, institutional and regulatory reforms” in each country is to identify policy and regulatory voids and to provide recommendations for changes in EE&RE policy and for regulatory reform. Seminars on EE for staff from central and local Government try to spread information on best practices. Finally, experienced policy advisors are to provide advice to Governments on specific problems of interest.

61. The “promote opportunities for commercial banks and companies to invest” component has three major lines of activities. One is to design of the equity and mezzanine finance Fund, meaning the preparation of required draft legal and operational documents. The second concerns the identification of a lead investor and a fund manager. The third develops standard software for project preparation forms, et.al. and provides advice to collaborating financial institutions.

3.2.4 Inputs and finance

62. The project budget as shown in the project brief presented to GEF in 2005 is summarized in the table below. Of the total budget of US$12 million, GEF was to provide US$ 3 million, UNECE US$2.8 million through contributions in kind, FFEM €2 million (=US$2.6 million), UNF/UNFIP US$2 million, EBC US$260,000, countries in the region US$1.4 million.

Component	Total Cost (US$ million)	Co-financing					GEF
		UNF	FFEM	EBC	UNECE	Region	
1. Establish public-private equity fund	4.170	0.500	1.170	- -	0.600	- -	1.900
2. Develop expert skills to prepare bankable projects	4.100	0.920	0.650	0.130	1.100	0.700	0.500
3. Assistance policy reforms to support investments	3.550	0.500	0.520	0.130	1.100	0.700	0.500
4. Monitoring and Evaluation	0.440	0.080	0.260	- -	- -	- -	0.100
Total	12.060	2.000	2.600	0.260	2.800	1.400	3.000

Source: Project Brief to the GEF 2005, quoted from Jacquelin Ligot, 2010.

63. The cash-contribution, which in the end is transferred into the PMU's project budget is lower than the US$9.2 million shown above. Administrative fees and fees and fees to cover the costs of monitoring and evaluation reduce the operational budget. UNECE/ UN Secretariat New York deduct charges an administrative fee, called Program Support Costs for reporting purposes: 8% for the account of UNEP/GEF funds and of 5 % for the account of FFEM and UNF funds. The costs for monitoring and evaluation are for FFEM a total of €200,000 for 4 years of project implementation (deducted automatically from FFEM's contribution to UNECE as FFEM contracts the expert directly); and for UNF US$ 25,000 for each year of project implementation, total US$ 100,000 for 4 years (expert contracted by UNECE for UNF and paid by the PMU's project budget).

64. There were almost as many financing plans as there were donors. The financing plan included in the 2007 Convention between UNECE and the Agence Française de Développment (AFD) (which acts as FFEM secretariat) refers to only €6 million of expenses and mentions only three donors: FFEM, UNF and GEF/UNEP. The 4-year budget from the supporting institutions only (without UNECE and NPI in-kind contribution) is US$ 7.5 million.

3.2.5 Governance structure for implementation

Implementing Agency

65. UNEP is Implementing Agency for GEF. More specifically, UNEP's Division for GEF Coordination (DGEF) and DTIE - when DGEF ceased to exist - have provided the donor institution oversight for GEF. As GEF Implementation Agency, UNEP provides overall project supervision, reviews and approves substantive and technical reports and clears financial and progress reports to GEF. UNF and FFEM perform separate "implementing agency" oversight for use of their financial contributions.

66. At the meeting of the GEF Council, which approved GEF-finance for the project, the US-representative insisted that EBRD was brought in as co-implementing agency to compensate for the lack of expertise at UNECE (EA) with the creation of funds. This condition was accepted by UNEP, which subsequently took contact with EBRD's Director for Energy Efficiency and Climate

Change, who responded positively in letters dated 4 February 2005; 7 November 2005; 5 May 2006:

- In the letter dated 7 November 2005 to the Director of DGEF in Nairobi, he confirmed "our interest in serving as a co-implementing agency of the project with UNEP. This is of course subject to due diligence and further approval by the Bank's Senior Management and Board of Directors." DGEF copied the same day the letter to GEF's Chief Executive Officer and informed him that EBRD's status as co-implementing agency would be confirmed in the final document.

- In a letter dated May 5, 2006 to the Director of DTIE, EBRD's Director for Energy Efficiency and Climate Change confirmed "in this respect that EBRD will be happy to support UNEP in a co-implementing role vis-a-vis this Fund. In this framework, the EBRD will more specifically: work with the sponsor/fund manager to advise on the Fund structure; help structure the investment guidelines of the Fund, including environmental safeguards and integrity provision, to ensure that these correspond to the Bank's mandate; perform due diligence on behalf of the Bank on the proposed Fund Manager." The letter made no reference to further approval by EBRD's Senior Management and Board of Directors.

67. The review consultant encountered no evidence of follow-up from the side of UNEP, e.g. in the form of a draft MoU between EBRD and UNEP detailing how the co-implementation was to be undertaken in practice and the economic terms for EBRD's participation. The modality suggested by DGEF in 2005 as institutional framework for cooperation was to set up a joint UNEP/EBRD working group for the project that would meet every three months and would participate in the Steering Committee meetings. This was never implemented. The Director of UNEP DTIE left UNEP in 2006. The EBRD Director for Energy Efficiency and Climate Change left EBRD December 2007. His Deputy and successor had no interest in supporting the project. In a letter dated 6 October 2010 to the UNEP's Head of the GEF Climate Change Unit in Nairobi he informed that EBRD was unable to write a joint letter to the GEF-CEO, but that EBRD was willing to look at an investment proposal once a business plan for the Fund was ready. In a letter to the GEF-Secretariat dated 8 November 2010, EBRD informed the GEF Secretariat that it had not committed resources to the project and not been a co-implementing agency. In response to this information, in a letter dated 20 December 2010, the GEF-CEO advised UNEP's Division of GEF Coordination that UNEP was "not authorized to commit further resources to this project" and that UNEP was to either cancel the project or resubmit it to GEF Council decision.

68. UNECE worked repeatedly to include EBRD in the project through correspondence, consultations, meetings including between the President of EBRD and the Executive Secretary of UNECE and meetings at EBRD together with Conning Asset Management.

69. According to the interviews made with EBRD staff, EBRD has zero interest in performing a co-implementing agency role. EBRD sees no point in providing consultancy services to other institutions and does not want to participate in a GEF-project, which EBRD sees as very

bureaucratic. EBRD interest in the Fund seems to be circumscribed to investment opportunities in it.[8]

Executing Agency

70. UNECE is the Executing Agency for the project. It is carried out under the auspices of the UNECE Committee on Sustainable Energy, one of the eight Committees under UNECE.[9] UNECE created a PMU to perform its project management function. According to the prodoc, the PMU was to be staffed with one senior professional at P-5 level (half-time), one Regional Adviser (L-5, half-time), one professional at P-4 level (full-time), one secretary (G-5, half-time) - all on UN regular budget; one professional at L-5 level and one professional at L-2/3 level - both full-time on extra-budgetary support.

Steering Committee

71. The UNECE Committee on Sustainable Energy has set up a number of subsidiary bodies: working parties, steering committees and groups of experts.[10] Among these bodies are the Steering Committee of the Energy Efficiency 21 Programme, which is composed of delegates from national participating ministries and institutions, international organizations and donor agencies, and the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation.

72. The project document foresaw the creation of a specific Steering Committee for the project composed, inter alia, of donor representatives. Instead, UNECE organized the FEEI project as a sub-regional project of the Energy Efficiency 21 Project.[11] This made the project formally the direct responsibility of the Steering Committee of the EE 21 Project.[12] In May 2008, the Steering Committee of the EE 21 Project delegated the Ad Hoc Group of Experts on Energy Efficiency Investments for Climate Change Mitigation to serve as the executive decision-making body for the FEEI Project. With this decision, the Group of Experts became the Steering Committee of the FEEI project both de facto and de jure. It approves the annual activities, results, work methods, participation, procedures, budget, and calendar of events and timetable of the project. The Steering Committee of the EE 21 Programme (the name was changed from EE21 Project in 2010) as a supervisory body, reviews and formally endorses the decisions of the Group of Experts.

Structure for collaboration at national levels

73. The national government Ministry or agency responsible for implementing sustainable energy policies establishes the project management structure and coordination effort of each country by

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[8] UNECE reports that discussions with EBRD are still on-going. The evaluation consultant has however no proof of it.

[9] The others are Inland Transport, Housing and Land Management, Environmental Policy, Statistics (Conference of European Statisticians), Economic Cooperation and Integration, Timber, and Trade. The meetings are typically composed of 150-200 delegates from the 56 ECE member states and from 21 international organizations.

[10] See: http://www.unece.org/energy/welcome/structure.html

[11] The Energy Efficiency 21 project is a region-wide project which aims to assist economies in transition to develop and promote sustainable energy policies, pursue energy efficiency strategies, reduce greenhouse gas emissions to meet international treaty obligations and enhance the security of energy supplies by producing the specific outputs from operational activities in the industry, housing and services, transport and energy sectors through national actions, bilaterally and multilaterally especially through the UNECE.

[12] Many of the participants and their institutions in the group are actually listed in the UNF and GEF Project Documents.

appointing the National Participating Institution and the National Coordinator in consultation with UNECE.

74. The National Participating Institution is a government Ministry, agency or professional non-governmental organisation assigned the responsibility for international sustainable energy and climate change mitigation projects. It ensures close coordination and follow-up on policy analyses by providing the information or documentation needed to implement local policy, administrative, regulatory or institutional reforms that support energy efficiency investment projects. It assists in the preparation of international seminars for senior decision makers and/or parliamentarians in the framework of the project. It recommends municipal and industrial projects to the PMU for support in project development and maintains the national website of the FEEI-project.

75. The National Coordinator/Coordinating Unit provides the national coordination of project operations. It provides support to the work of consultants and experts designated by the PMU and to the organisation of training workshops/seminars and suggest venues for the events.

3.2.6 Monitoring and Evaluation

76. Monitoring and evaluation of the FEEI project is carried out by supporting institutions as follows:

- Within the UNECE structure, the progress of project operations is reported and reviewed by the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation and the Steering Committee of the Energy Efficiency 21 Programme at their sessions;
- UNF/UNFIP and FFEM have each one Monitoring and Evaluation Adviser on a part-time contract;
- UNEP is responsible for organizing the mid-term and the end-of-project evaluation.

3.2.7 Project duration

77. The duration of the FEEI project differs by project document. For GEF, the seven years lifetime in the original prodoc from 2007-2014 is valid. The UNF/UNIP and FFEM project documents operate with a four year lifetime.[13]

3.2.8 Risks

78. The project document includes among possible risks that the fund will fail to generate sufficient RE and EE investments, as was the case with the Renewable Energy and Energy Efficiency Fund (REEF) and the Solar Development Group (SDG).

3.2.9 Evaluation objectives, scope and methodology

79. A mid-term evaluation serves a two-fold purpose: an accountability objective and a learning objective. (i) To fulfil the first objective, the project's performance in terms of efficiency and effectiveness is assessed by looking at the extent to which activities were implemented as planned and confronting actual results against intended outputs. This includes assessing the risks to the achievement of project outcomes and objectives. (ii) For the second objective, the evaluation takes

[13] In May 2011 the UNECE requested extension of the Project from UNF/UNFIP and FFEM. UNF/UNFIP has extended the duration of the project until 31.12.2012. FFEM has not yet responded to the request.

a critical look at the underlying logic of the project and its relevance to real day issues, as well as at the project implementation approach, and identifies corrective actions to be applied in the second term for the project to achieve its objectives and maximum impact.

80. The TOR for the mid-term review is found in Annex I. According to the TOR, the evaluation will focus on the following main questions:

- Does the methodology of the FEEI project contribute towards the achievement of the project objectives in the targeted countries:
    a. Identification and development of investment projects;
    b. Strengthening of energy efficiency policies;
    c. Promotion of opportunities for commercial sector investors?
- Is the project likely to achieve the expected outcomes and objectives in its lifetime, with special concern for the PPP Fund's development in the current financial crisis scenario?
- If the full development of the PPP Fund is considered feasible in the project time-frame, which support mechanisms are to be put in place to provide the technical assistance and advisory services originally expected from EBRD?

81. For the purposes of the review, face-to-face interviews were undertaken with the key staff from UNECE and UNOG, representatives for the three implementing agencies, and project consultants. Visits to five FEEI target countries (Bulgaria, Serbia, Ukraine, Russia, and Belarus) were organized, on the occasion of which the consultant met with representatives from national ministries and agencies, the National Participating Institutions and National Coordinators, local finance institutions and project developers. The list of interviewed institutions and their representatives is found in Annex III. The list of questions, used as the basis for the interviews and emailed to the National Coordinators for distribution to the persons to be interviewed before the visits, is found in Annex IV.

82. The analysis of written material for the review comprised the project document, administrative reports from UNECE (including minutes from seminars and workshops), monthly reports from contracted consultants, output-documents from the project and review reports from the two monitoring and evaluation experts contracted by FFEM and UNF/UNFIP respectively. The list of documentation is found in Annex V.

83. The evaluation used a mixture of open questions and closed questionnaires (see Annex IV) for its interviews. The evaluation assessed the extent to which project activities have been implemented against the plan and the outputs and outcome have so far been achieved (see chapter 3). The evaluation also looked at factors affecting project performance and the attainment of results.The assessment of the project methodology/concept was done through two steps: i) by a careful description of the situation at the time when the project was conceived: section 1.1 attempts to recreate the information and perceptions the designers had when the project was conceived; ii) by looking at the internal logic of the project: chapter 2 reviews the concept and takes a critical look at the relevance of the chosen finance instruments.

84. The feasibility of achieving expected outcomes and objectives during the project lifetime depends not just on the feasibility of the project concept, but also on the effectiveness of the implementation structure, how it has been managed by the PMU, UNOG and the consultant for the Fund design, as well as on stakeholder involvement and country ownership. The evaluation takes a look at this topic in sections 3.1 to 3.5, which point out major risk factors.

85. Chapter 4 finally provides the conclusions and recommendations on which support mechanisms are to be put in place to make up for the non-availability of EBRD-technical advice to the project. It also includes recommendations for adjustments in project design and in project management.

86. The structure of the review report follows UNEP/GEF Project Evaluation template. Sections on outcomes, impact and sustainability are by necessity brief, due to the project's stage of development with unfinished outputs. For the evaluation being a mid-term exercise and given the specific reasons for which it was demanded, the reviewer took particular care in assessing background conditions and prospective scenarios in case donors and project managers opt for continuing with project implementation. In addition, as the interview round revealed that key aspects of the project are not sufficiently well-understood by the national experts, care was taken to explain the finance instruments and the financing gaps which they aim at covering, giving some sections a textbook flair. The role of the Finance Coordination Unit, its finance and its interaction with the national support structures has also been looked into.

4 Relevance of Project Concept and Quality of Project Design

87. An intervention is relevant if it responds to the needs of the client(s) and it serves as a means to achieve a given purpose. The key questions for evaluating the relevance of the program are: (i) to what extent are the objectives of FEEI still valid? (ii) are the activities and outputs of FEEI consistent with the overall goal and the attainment of its objectives?; (iii) are the activities and outputs of FEEI consistent with the intended impacts and effects?

4.1 Relevance of equity and mezzanine finance

88. In the FEEI target countries, the promotion of EE&RE is as relevant as ever for energy policy. So that is not an issue. Financing difficulties always persist; so the need for finance is not an issue either. The statement in the project document that "the unavailability of project financing from dedicated financial instruments remains the major bottleneck to the dissemination of renewable energy/ energy saving measures" is hardly drawn into doubt. The issue of how to get the commercial finance sector to develop "environmental finance", meaning standard financing products of commercial banks for investments in clean technology, has been the topic of several conferences on EE&RE finance.

89. The key question is: to what extent there is sufficient demand for the specific finance instruments offered by the project: equity and mezzanine finance?[14] In other words, is there a specific finance gap to be filled by the instruments and that closing this gap can leverage a multiple of additional private finance? To serve as a public finance instrument, as a means to leverage private finance, there must be a financing gap which the instrument is supposed to cover. With its instruments, the Fund can de-block commercial finance for financially stalled EE&RE projects either by covering an equity gap or by taking on a high share of the debt finance risk.

90. The choice of the two finance instruments is closely related to a central project hypothesis. The lead author of the original project document was a strong believer in the virtues of ESCOs as an instrument to increase investments in EE. However, as described in section 1.1, the experience with the creation of ESCOs has been overall disappointing so far. Few initiatives survived into a commercial stage. The conditions for ESCO-operations may be better now in the 2010s than in the 1990s and 2000s; yet faith in the ESCO-concept cannot justify the creation of the planned equity and mezzanine finance fund. There must be demand for equity and mezzanine finance from other types of EE&RE projects as well. The chart below outlines these.

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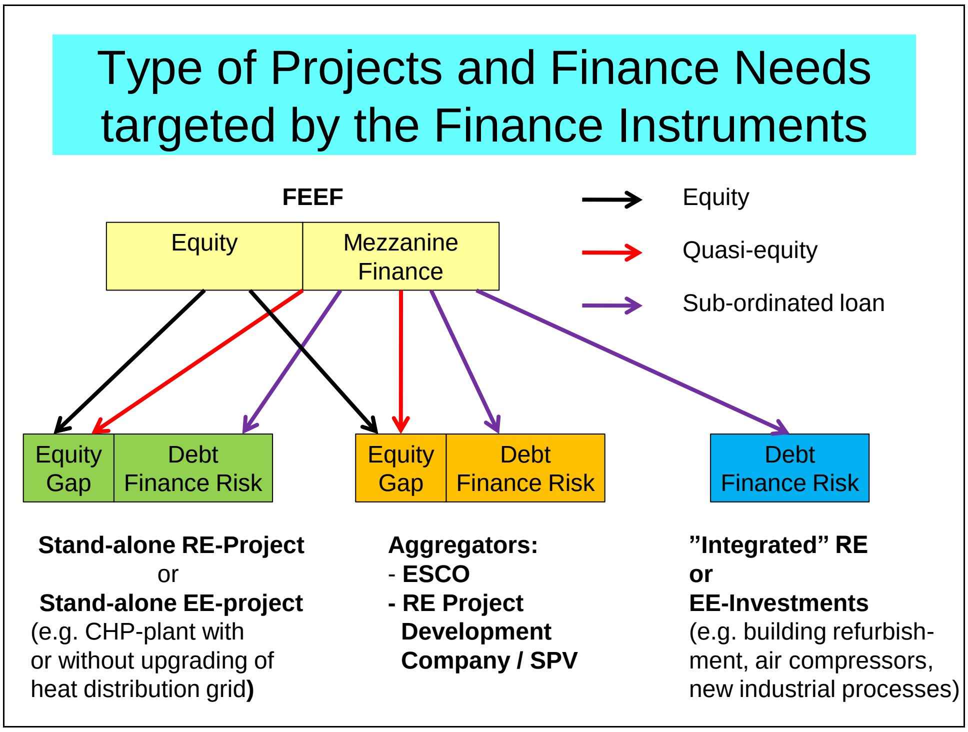
[14] Mezzanine finance is a hybrid form of finance with equity and debt characteristics. Like equity financing, mezzanine financing is an unsecured debt. Unlike a bank loan, mezzanine financing does not hold real assets of a company as collateral; instead, lenders offering mezzanine financing have the right to convert their stake to an equity or ownership in the event of a default on the loan. Like debt financing, mezzanine financing charges interest; but offers more flexible payment schedules than conventional loans.



91. Whereas equity finance is understood by all, mezzanine finance is less well understood. Several national experts expressed the opinion that "the basic characteristic of mezzanine loan finance is that it does not ask for collateral". This is a misunderstanding. The key characteristic of mezzanine finance is that it is very flexible with regard to repayment schedules and willing to take higher risks than normal bank finance; but that in return for its flexibility and risk acceptance it asks for higher interest rates than those charged by the co-financing banks on senior debt.

92. The chart shows that the use of the mezzanine finance instrument depends on the type of EE&RE project. There are three relevant categories. One is the "stand-alone energy supply" project, that in principle and in practice can be project financed.[15] It can be either a grid connected RE-project, e.g. a wind farm or a hydropower plant, or a CHP-plant connected to a heat distribution grid, which sells power to the national grid and heat to a district heating company or directly to industrial consumers. If the project developer has the project debt finance in place, but faces difficulties putting together sufficient equity finance, yet does not want to give up ownership shares over the project, then a mezzanine loan (with quasi-equity characteristics) can be a solution. The payments to the mezzanine investor can be structured to be linked fully to the net revenue stream after payment of taxes and interest payments; in case of default, the mezzanine loan investor has the right to have the loan converted into company shares.[16] Frequently projects in the small-scale category, say up to 20 MW, face problems with equity because project developers for these typically are single persons or smaller companies, not professional utilities. Alternatively, financial close may be blocked not by insufficient equity, but by insufficient debt finance because the local banks consider the project too risky; e.g. because of construction risk or because a new

[15] In project finance, the project is organised as an independent legal entity. The financed assets serve as collateral for the debt finance; which is awarded based on an evaluation of the project's net revenue stream before payment of interest and company taxes.
[16] In this way the assets of the company in the end serve as collateral for the mezzanine loan.

technology is being used with which there is little local experience. In that case, mezzanine finance in the form of a sub-ordinated loan may reduce the risk for the senior loans sufficiently to bring the banks to provide the debt finance needed for financial close.[17]

93. The category dubbed "aggregators" in the chart refers to companies that implement a multiple of projects. Such companies would seek contact with the Fund for growth/expansion capital. On the EE-side they comprise ESCOs and on the RE-side RE-project developers. "Full ESCOs" that also provide asset finance as part of the deal, need a good equity cushion (with regular replenishment) as they expand their investment activities.

94. The category called "integrated RE&EE investments" refers to the project cases, where the project is not a stand-alone revenue-generating project, but a component in a larger investment in an industrial plant or into a building. Such RE&EE investments are balance-sheet financed. The RE&EE assets may serve as part-collateral for the loans, but the collateral is called mainly on the overall net assets of the investing company. Obviously, an equity or quasi-equity investment is not relevant for these cases. But one can think of situations where mezzanine finance in the form of a subordinated loan may be needed to persuade commercial banks to debt-finance the investment. The Fund will not provide subordinated loans to projects, where the local bank has doubts about the solvency of the investor, i.e. where the investor's overall balance sheet is the issue. It will provide such loans only when the technology risk is the issue, i.e. when the Fund Manager due to his specialised RE&EE knowledge has a lower perception of project risk than a local bank with little prior experience with similar projects.

95. The Fund Designer has indicated the possibility of a further category: "companies developing RE&EE technologies", but excluding start-up companies. In this case equity as well as mezzanine finance will be applicable.

96. The relevance of the finance instruments, therefore, depends on whether there are such project types with risk finance gaps in the FEEI-countries, or whether the typical financing obstacle faced by proposed projects is lack of access to low-cost finance. Since the Fund, being a private equity fund, is not a low-cost source of finance, the stumbling block must be lack of risk finance. For RE-projects this will typically mean financing commercially-viable projects at the earliest stages, where the highest risks are inherent.

97. Another issue is the size of the individual investments. To keep down its costs of transactions, the Fund will be interested only in projects where the Fund provides a minimum of €3.5 million in co-finance. Assuming that the typical equity/debt finance ratio is 30%/70% and that the Fund will provide up to a maximum of 40% of total debt finance, only projects with a minimum finance volume of €12.5 million will be able to submit a request for Fund co-finance. No single Fund investment may be greater than €30 million.

[17] "Sub-ordinated" means that the "senior loan" given by the co-financing bank, in the case of loan default problems, has the first right to any payments that the project is capable of making before the sub-ordinated loan gets any payment whatsoever.

98. Early in 2011, UNECE contracted Renaissance Finance International to undertake a preliminary analysis of indicative project pipeline for five countries that had been collected by the NPIs and forwarded to UNECE. The review involved more than 150 projects with a total value of € 4.4 billion. Although this means that the average investment volume is €29 million, one should note that the average is heavily influenced by a small number of very large investment projects, e.g. by large hydropower plants in Belarus. The vast majority of the projects are RE-projects.[18] But the conclusions and observations made in the report concerning the relevance of the submitted project proposals are very vague. The report is optimistic about the potential for the bundling of projects that individually are too small.

4.2 Is there a demand for a (special purpose) EE&RE fund?

99. This issue has a demand side aspect – whether there is sufficient project demand for equity and mezzanine capital and a supply side aspect whether institutional investors will invest a total of €250 million in the Fund. The tentative answer to both questions, based on what is arguably very limited de facto information, is yes.[19]. Worldwide there is much talk about risks of financing gaps in meeting the "green investment" challenge.[20] The South-Eastern and Eastern European and Central Asian countries are at their early stages of EE and RE-investments; therefore demand for EE&RE finance can be expected to be strong. According to the survey on "similar funds" undertaken by the Fund designer with the help of the NPIs, currently no other fund offers equity and mezzanine finance to EE&RE projects in FEEI-countries.

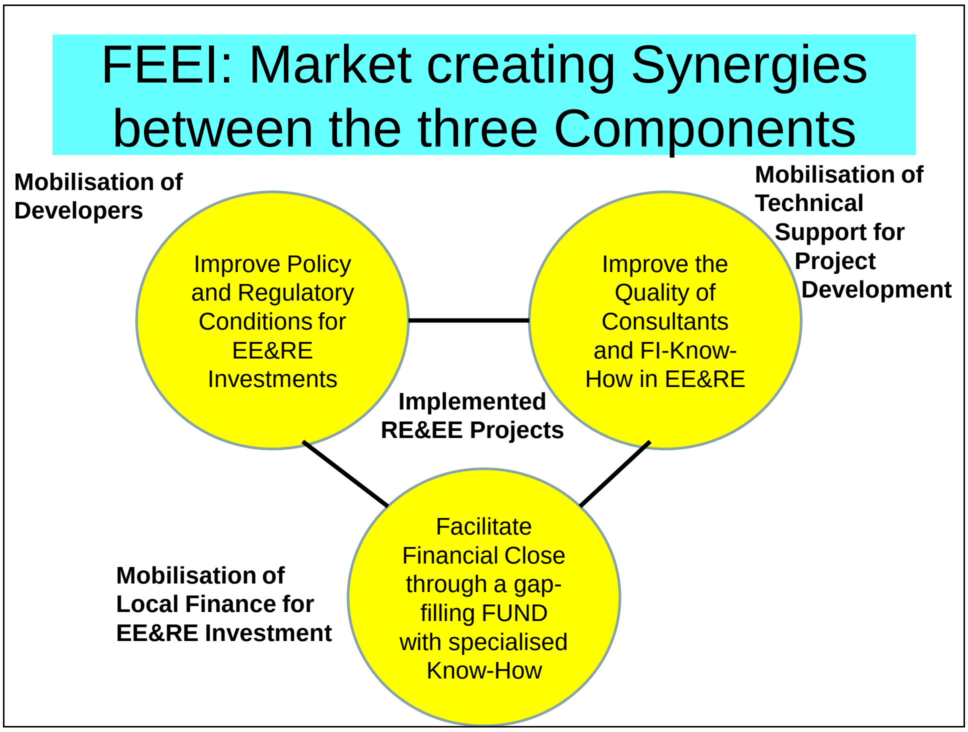
100. Except in the case of very large loans that surpass the exposure limit to individual clients, banks are not normally interested in co-finance of loans by other finance institutions, since it reduces their loan volume, and therefore, the volume of business for it in the transaction. Yet, the situation is slightly different when the investment concerns an area outside the bank's core business expertise. For collaborating banks, the main attraction of the Fund may be its specialized RE&EE finance expertise. It can help in the structuring of overall project finance, support aggregation of projects, and provide due diligence expertise in the appraisal of project types where the bank has limited expertise. In that case, it is an entry point for the bank into a new area of business for which it can develop specific finance products.

101. Institutional investors seek a diversified portfolio. This explains the charm and the popularity of specialized funds: emerging economies, commodities, clean technology firms, RE, EE, etc. Returns on RE-projects in countries that have introduced feed-in-tariffs (the trend in FEEI-countries) have green-bond characteristics21 and are, therefore, attractive. EE-projects, unless they concern investments in CHP-plants, have different characteristics and have the higher risks of balance sheet finance: ability to repay the loan depends not on the performance of the financed project, but on the company's commercial survival. Yet, overall, the Fund should be able to attract the targeted €250 million.

[18] This varies significantly by country. For example, the indicative project pipelines of the two largest countries of the project - Russian Federation and Ukraine - have more EE than RE projects.
[19] This is also the conclusion of the Fund designer based on his visits to ten FEEI countries and discussions with potential Fund investors.
[20] It has, inter alia, made the British Government sufficiently concerned to create its Green Investment Bank.
[21] Essentially, equity investments into RE projects behave as bond investments with fairly predictable returns and deterministic valuations.

4.3 Is the interrelationship between the three components coherent?

102. The answer is yes. The chart below illustrates why.



103. The project seeks to create a coherent local structure for the commercial development and financing of EE&RE projects. The "policy component" aims to improve the viability and legal feasibility of RE&EE projects. This is a precondition for attracting project development. The activities of the "capacity building component" aim at developing local capacity for the preparation of bankable proposals and to generate a pipeline for projects for the Fund. The "Fund component" aims at involving local finance institutions deeper into the RE&EE finance business with the Fund playing the role of finance gap filler.

4.4 Private Fund or Private-Public Fund with lower public RoI?

104. The project document foresees the creation of a public-private Fund with private finance providing 65% of the €250 million, while public investors, inter alia the Governments of the FEEI target countries, provide the remaining 35%. The project document argues that returns on EE-projects are below the return on investments (RoI) required to attract private capital into an equity fund. The project document, therefore, makes the case that private capital needs to be compensated by lowering the risk of its investment into the Fund. Public co-investment in the Fund is to play a mitigation risk role vis-à-vis the private capital. The public capital would have a lower status than the private capital. Whereas the private investors would be guaranteed a minimum return, the public investors return would equal the private investor return only if the total IRR of the Fund capital is higher than the stipulated minimum rate of return for the private capital. The project document even indicates that the private capital's share of returns above the minimum rate could be higher than its 65% share in the Fund's capital.

105. Whereas the idea of public co-investment has been maintained and been floated at regional UNECE meetings of energy-environment ministers, the idea of a risk mitigation role for the public

capital has never been pursued during implementation. This reviewer believes that the idea of co-finance by Governments in FEEI target countries is unlikely to be realized in any case.[22] Since the Fund seeks to invest into the best projects (in terms of return on investment) on a regional basis, there is no guarantee that the Fund will finance any projects in countries whose Government put money into the Fund. Ministries of Finance will, therefore, want to see evidence that a capital injection into the Fund provides it with a good return. As a consequence, one cannot expect a commitment of any Government to the first €100 million target. By the time the Fund can document success, the second €150 million tranche will have been subscribed to already.

4.5 What interest rates will the Fund charge?

106. "How much will the Fund charge as rate of interest – on top of the Libor rate?" The question revealed a fundamental misunderstanding about how an equity and mezzanine finance fund operates. Its terms are IRR-based: the Fund Manager will look for projects providing the best (risk-adjusted) rates of return. Yet, the question was posed in all five FEEI-countries, where the interviews for this review took place. Developers and public officials expressed their frustration over the fact that the Fund designer had not answered this question, which they considered as absolutely essential. The local developers and energy experts seemed to believe that the Libor+ modality for fixing interest rates, which they are used to from the EBRD's EE&RE loans to local banks, would be applied by the Fund as well. That a mezzanine loan, because it carries a higher risk, needs to be compensated by a higher rate of return than the senior bank loan given to a project, came as an unpleasant surprise. Some expressed the opinion that unless the Fund was able to provide finance on better terms than the local banks, the Fund would be of no interest to them.

4.6 Will the Fund invest in all FEEI-countries?

107. The Fund being a private commercial fund will place its funds in those projects that generate the highest rate of return for the Fund investment. It will be a pure coincidence – and highly unlikely - if this leads to the financing of projects in each FEEI country; it could equally well lead to projects in only three countries being financed. This information came as an unpleasant surprise. Most NPIs and NCs in the five visited countries were of the opinion that the Fund would finance projects in all participating countries. The message must be passed that the investment in the national support structure in the form of NPIs and NCs should be seen as a useful investment for the facilitation of RE&EE finance in general and not just exclusively for the purposes of this Fund.

[22] At the Ministerial Conference on Environment for Europe, held in Belgrade in October 2007, the Ministers of Environment declared that they "welcome the project on Financing Energy Efficiency Investments for Climate Change Mitigation and … will consider participating as public-sector investors in the energy efficiency investment fund, which is being created through the Energy Efficiency 21 Project". But there is a long way from a non-committal "feel-good" declaration at a foreign conference to agreement by a Ministry of Finance

5 Project Performance

5.1 Project activities and outputs

5.1.1 Strengthening national policy and regulatory frameworks for EE&RE

108. The component provides assistance to municipal authorities and national administrations to introduce economic, institutional and regulatory reforms needed to support these investments projects. The project implemented three types of activities to strengthen the national policy and regulatory frameworks: a policy study, workshops, ad-hoc policy advice. Within the context of the FEEI project and the EE21 project, a number of policy Forums and workshops were implemented:

- The Seminars on Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments held on 7–8 October 2009 and 20–22 October 2010 in Geneva, Switzerland.
- The Workshop on Case Studies on Overcoming Barriers to Investments in EE and RE Projects through Policy Reforms held on 10–11 November 2009 in Kiev, Ukraine.
- The International Energy Efficiency Forum and Workshop on Investments in Energy Efficiency and Renewable Energy Projects held on 28–30 September 2010 in Astana, Kazakhstan. The event was organized jointly by the Government of Kazakhstan, UNECE, ESCAP (United Nations Economic and Social Commission for Asia and the Pacific), UNEP, and UNDP.
- Workshop to Promote Benefits of Interfuel Substitution in Municipalities of the Federal District of Siberia was held in Tomsk, Russian Federation on 16-18 June 2010.

109. UNOG concluded a US$988,000 contract with Pöyry Energy Consulting (Switzerland) to undertake a regional analysis of policy reforms to promote energy efficiency and renewable energy investments. The NCs and NPIs provided local coordination and national information. The NPIs sent the draft report to their Governments to make sure that the information was right and that the recommendations were acceptable to the Government. The resulting policy study "Regional Analysis of Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments" was finalized in April 2010. First feed-back on the report was given at the session of the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation in June 2010 in Geneva and at the International EE Forum in Astana (Kazakhstan) at the end of September 2010. At the October 2010 seminar on policy reforms in Geneva, the officials from the FEEI target countries were supposed to report on changes in policies and to talk about their reforms. Unfortunately, most officials talked more about energy statistics in their country, analytical overviews were lacking.

110. UNECE signed in 2008 an MOU (grant) for €25,000 with the French Environment and Energy Management Agency (ADEME) to provide EE policy advice to FEEI governments and to the PMU on country specific issues. ADEME provided the services of an EE-policy advisor with good knowledge of the region, who visited Bulgaria, Kazakhstan and Moldova. ADEME also provided electronic files of the French company ENERDATA with their data on the energy situation in countries of the world (updated up to 2008), which were used to inform the regional analysis document. The PMU had asked the advisor to present projects from France; but he could not see how the experience could be transposed into FEEI country reality. The quality of ADEME's

advice was appreciated by the recipients. Yet, in February 2010 ADEME advised UNECE that it moved out of the project. A new Director at ADEME introduced changes in ADEME's geopolitical strategy, which, in line with official French policy, put a greater focus on collaboration with Middle East and North Africa (MENA) countries. As this work was to be done without increase in staff, ADEME had to cut back in other areas. To replace ADEME, UNECE asked the Regional Adviser on Energy at the UNECE, who had been involved in the FEEI Project from the beginning of its implementation, to increase his policy advisory role for the PMU.

111. Gazprom / Promgaz received a USD 240,000 to analyse the possibilities for Interfuel Substitution in Municipalities of the Federal District of Siberia. A report was produced and a seminar was organized. This activity was not directly foreseen in the prodoc. But training and capacity building activities were. And fuel-switching to lower carbon fuels is part of clean energy promotion. Yet, whether the output is of relevance and of priority for the objectives of the Fund, depends on whether the activity has led to follow-up in terms of the preparation of project proposals for Fund finance that have a chance for being accepted.

112. The activities and outputs have been produced in accordance with the work plans prepared by the PMU and approved by the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation and the Steering Committee of the Energy Efficiency 21 Programme.

5.1.2 Creating an infrastructure for developing a pipeline of investment projects

113. The component seeks to identify and develop investment projects and to build / strengthen capacities of a network for the development of energy efficiency projects. One cornerstone of the component is capacity building in preparing bankable projects. In the fall of 2008, the PMU fielded and participated in an expert mission to each participating country for consultations on the investment fund with relevant government authorities and financing institutions to assess the local financing environment, appraise investment project development capacities and analyse the conditions under which an investment fund could operate in their country. The PMU engaged the services of four consulting companies to conduct the assessment of investor interest and appraise capacity building needs: Econoler International from Canada (visiting Bosnia and Herzegovina, Croatia, Serbia), Energy Saving International AS from Norway (Albania, Kazakhstan, the former Yugoslav Republic of Macedonia), International Consulting on Energy from France (Bulgaria, Republic of Moldova, Romania), and Renaissance Finance International Ltd. from the UK (Belarus, Russian Federation, Ukraine). The output was the publication in 2009 of the excellent report "Investor Interest and Capacity Building Needs". It provided background information on the legal-regulatory-finance situation in each country (providing background material for the Poyry study). But more importantly, it recommended the capacity building programme to be implemented by the FEEI project comprising: (i) Information Seminar on the general requirements of the international financial institutions to an investment project; (ii) Project Development Course on the preparation of business plans for bankable projects; (iii) Dissemination Seminar to further raise awareness of decision makers from the public and private sectors through a presentation of business plans developed during the Project Development Course and to allow project developers to receive feedback from financial institutions that will be invited to the session; (iv) Seminar for policymakers on finance and regulatory issues. Activities ii and iii were to be used strategically to develop 20 bankable proposals.

114. An expert from Renaissance Finance International Ltd. has been engaged in providing training courses on business planning of EE and RE projects for project developers and owners from the participating countries based on the curriculum developed in the Investor Interest and Capacity Building Needs report. By the end of June 2011, project developers and owners from 10 participating countries have participated in the training courses. The training courses were held in Tomsk, Russian Federation in June 2010 (for participants from Russian Federation), in Kiev, Ukraine in April 2011 (for participants from Belarus, Republic of Moldova, Russian Federation and Ukraine), and in Skopje, the former Yugoslav Republic of Macedonia in June 2011 (for participants from Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Serbia, and the former Yugoslav Republic of Macedonia).

115. The second cornerstone is the creation of a web-supported network of selected municipalities and energy managers from FEEI countries for information transfers on policy reforms, financing and energy management. UNOG signed a US$498,000 contract with EnEffect for the development of the website (FEEI regional website with links to national FEEI information websites). The website provides software applications to identify, select, develop, finance and implement EE&RE projects and analyze greenhouse gas emissions; and develops on-line training for local teams for Internet communications and software use, and provide on-line training in investment project development and case studies of investment projects in EE and RE. The website has open and closed sections; the latter for project proposals submitted by developers for consideration by the future investment fund.

116. In the project concept, the NPIs/NCs are to play a crucial facilitation and information role in project development. The PMU signed MoUs with each NPI that define the contributions that are expected to be provided for the US$ 70,000 grant each receives (two MoUs of US$ 35,000): to create, maintain and update the national project website, provide national policy information for the regional analysis of policy reforms, develop national case studies on overcoming barriers to energy efficiency investments, provide organizational support for the business development training courses, and prepare project proposals for the indicative project pipeline. The NPIs are to prepare a project pipeline summary listing at least 20 potential projects; and prepare at least five project proposals for participation in the Fund. By June 2011, the NPIs of nine countries have submitted project pipeline summaries containing in total over 200 short project descriptions.[23]

117. In the spring of 2011, Renaissance Finance International was engaged to review the project pipeline summaries from five countries (Belarus, Croatia, Republic of Moldova, Russian Federation and Ukraine) submitted by NPIs to the PMU. The review covered some 150 projects with a total value of 4.4 billion Euro. A key objective defined in the TOR was to make a preliminary selection of the projects potentially suitable for submission to the planned investment fund. The report was submitted in May 2011.

118. The activities and outputs have been produced in accordance with the work plans prepared by the PMU and approved by Group of Experts on Energy Efficiency Investments for Climate Change Mitigation and the Steering Committee of the Energy Efficiency 21 Programme.

[23] Conning has collected project pipeline summaries separately, a total of 353. There is most likely an overlap between the summaries collected by Conning and provided by NPIs.

5.1.3 Setting up the EE Investment Fund

119. In its US$1.25 million Investment Fund Designer contract, Conning Asset Management Limited's deliverables were divided into four packages. Conning's work started in May 2009. As part of its market testing, Conning undertook visits to all FEEI countries.

120. The outputs produced by Conning were of five main types:
   - (i) Development of the Financing Coordination Agreement, which was part of its technical proposal in Conning's bid;
   - (ii) Preparation of the Fund structure and a number of standard legal-organisational documents for this (Models of MoUs, Limited Partnership Agreement, Investment and Policy Guidelines);
   - (iii) Identification of a candidate lead investor and investment fund manager;
   - (iv) Report on market testing for Fund structure;
   - (v) Marketing/information material for attracting the required €250 million from institutional investors and public finance institutions (Fund introductory letters to private investors and NPIs, Private Placement Memorandum).

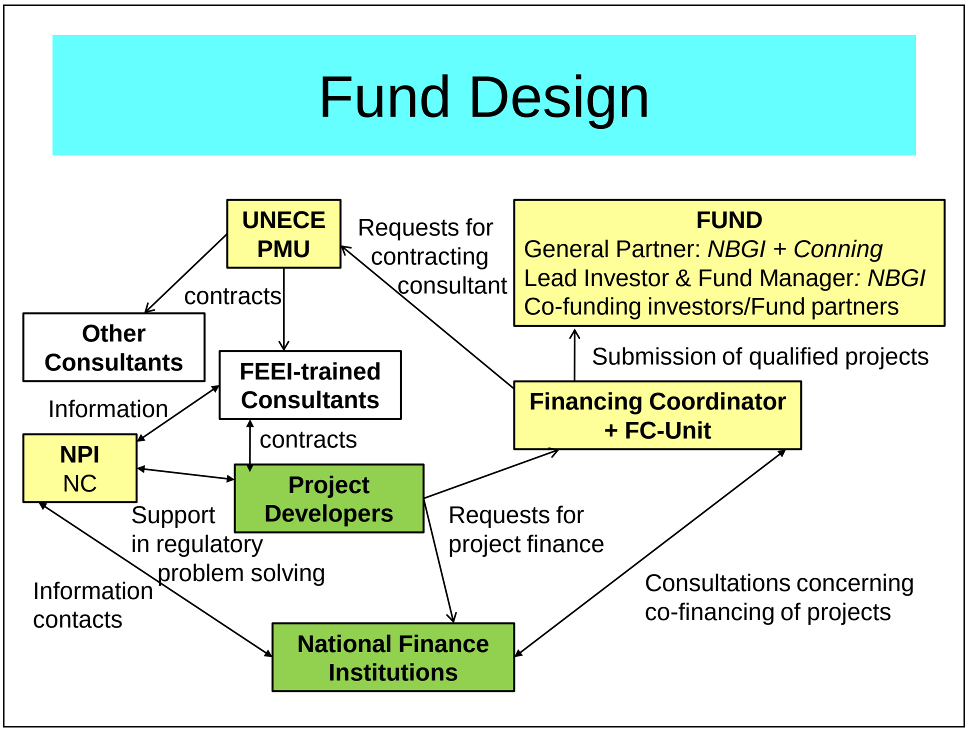
121. The Fund legal documents have the character of off-the-shelf documents (similar documents can be downloaded from the internet). For obvious reasons, they are draft documents as their final details depend on the agreements between the future investors for the Fund (and, as such, they have not been identified yet). The report on similar funds is very short in length and in analysis. The important and "original" outputs from Conning are the FCA-concept and the identification of a Lead Investor/Fund Manager.

122. At the Group of Experts meeting in October 2010, Conning presented NBGI Private Equity (NBGI PE) as Lead Investor (willing to provide 10 percent of the €250 million to the Fund) and as Fund Manager (a condition for NBGI to participate as Lead Investor). NBGI PE is a 100 percent affiliate of the Greek National Bank (BNG), one of the most important banks in Greece, listed on the Greek stock exchange (ATHEX) and on NYSE. NBGI had signed a rather non-committal letter (normal in this kind of situation) to that respect with Conning.

123. The Financing Coordination Agreement (FCA) is the core novel design concept for the Fund and was presented already in Conning's bid in the Tender. It foresees the setting up of a Financing Coordinator (heading a Financing Coordination Unit) to act as coordinating intermediary between the project developers, the national lenders, and the Fund. The FCA-document, prepared by Conning under the contract, is to be signed by the (i) Commercial Lenders, (ii) Public Financial Institutions, (iii) Mezzanine Lenders and Equity Investors; (iv) Conning Asset Management Limited as Financing Coordinator. According to presentations by Conning to the Expert Group and the FCA-document, "the FCA aims to reduce transaction costs and shorten lead times for the financing of Projects".

124. The FCA has a dual function: (i) to act as a sort of clearing house for project financing proposals submitted to the Fund for consideration, screening off projects that do not qualify and making sure that qualified project proposals have the business plans and financial models prepared in "bankable format" before they are forwarded to the Fund Manager; (ii) to act as finance

coordinator, attempting to synchronize the lending from the planned fund and banks to make sure that projects can reach financial close. The concept is explained in the chart below.



125. All donor financed RE&EE dissemination projects with a bank engagement component include grant-(co)-financed technical assistance to project preparation and development as a means to reduce the banks' costs of transaction. The capacity building component in the FEEI project is supposed to provide that support, at least in the form of putting in place capacitated local consultants and "bankable formats" for the business plans and financial models they can use when being contracted by project developers. Normally, bank engagement components include also capacity building at participating institutions in the evaluation of RE&EE projects. The FCA concept goes a step further, offering facilitation both of TA-services and of co-financing agreements.

126. As seen in the chart, the PMU, in close cooperation with the Financing Coordinator, is tasked with financing and contracting experts to provide technical assistance and advisory services for the preparation of Project Information Memoranda and financial models. For this purpose, the Fund Designer has drawn up a Letter of Agreement (LoA) between Conning and UNECE, for UNECE to provide operational and financial support directly to these activities within the framework of the FEEI project.

127. For his services, the Financing Coordinator is to be paid a success fee (a so-called finder's fee) from the Fund and from the co-financing banks, expressed as a percentage (or fraction of a percentage) of the Fund-finance and of the bank loan sum, respectively. The Fund Designer explains the justification of the fee as follows: "The Lenders have no incentive (as they are not

paid) to develop market standard information memoranda and financial models. Banks, as lenders, will see value in paying an introductory fee in exchange for them not having to go out, source and develop a pipeline of market standard project information memoranda and financial models from the twelve Participating Countries in the sectors of energy efficiency and renewable energy." In the FCA-concept, the NPIs key role, seen from the Fund investor's point of view, is to assist project developers in solving specific regulatory issues, such as land or construction permits, RE-licenses, etc.

128. The creation of the Fund is way behind schedule. The international finance situation can in part be blamed for this. UNOG process-focused procedures with their heavy emphasis on outputs instead of outcomes play a role also, as does the performance of the Fund Designer. The chronic late disbursement of project funds and, recently, the suspension of funding by the supporting institutions further slowed down progress.

5.2 Attainment of objectives and planned results

5.2.1 Strengthening policy and regulatory frameworks for EE and RE

129. The activities in this area are well-intended. But the impact is impossible to measure as attribution issues arise. Activities are undertaken within an ongoing process in the FEEI-countries: all FEEI countries are making continuous progress in EE&RE policy and legislation; the best the FEEI activities can do is to push a cart that is already in motion.

130. The energy policy situation in Bulgaria (and in Romania, formally still a FEEI project target country) is determined by the common EU policies. For the countries of South-Eastern Europe, ratification of the Treaty establishing the Energy Community constitutes an important driving force for improving the energy efficiency environment. The Energy Community Treaty for South-East Europe has been signed between the EU and the Republic of Albania, Bosnia and Herzegovina, the Republic of Croatia, the Former Yugoslav Republic of Macedonia, the Republic of Serbia, Republic of Moldova and Ukraine. These countries are also members of the Task Force on Energy Efficiency of the Energy Community Secretariat. The Task Force entails identification of the EU legislation on energy efficiency that could be extended to the member countries of the group, proposes immediate actions that would allow improvements in the energy efficiency of the region and suggests concrete measures to monitor the evolution.

131. The Pöyry report is of fine quality, and having one report providing an overview of the RE&EE policy, legal and regulatory situation in the 12 FEEI target countries provides a neat reference. But first of all, few policy making staff in the countries will have read the chapter on their own country in the report, and yet fewer will have read the chapters about the other countries. Secondly, most of the recommendations will not be new to the national policy makers; but will have been proposed already as part of the preparatory process for national legislation. A further problem with attributing impacts to the FEEI project activities is that other organizations have published similar reports, most importantly the country reports prepared by the International Energy Agency. Yet, the report is a compendium where one can access all information; but probably the most value is added by the case studies in the report. Following a recommendation by FFEM's M&E expert, the PMU has the intention to develop a matrix showing the policy changes in each country

from 2010 and forward. That would provide good updating and allow countries to benchmark their progress against the progress in other countries.

132. The ad-hoc policy advice provided by the project faces an even larger degree of duplication, as donors have extensively been providing advice on the nitty-gritty details of secondary legislation. The TA components of the EBRD's EE&RE investment projects provide very relevant advice in this area, as do projects implemented by the World Bank, the EU-Commission and bilateral donors, e.g. Germany and Austria.

133. The success of the International Energy Efficiency Forum held in Astana in September 2010 resulted in the decision to make it a regular event. The Group of Experts at its session in Geneva in October 2010 supported the proposal to make it a regular event. In short, what could be achieved was achieved. Making an important impact on policy was never realistic.

5.2.2 Creating national structures and capacity for preparing bankable projects, preparation of project pipeline

134. Some building stones have been set up; but real national capacity has not yet been created by the project. The capacity building exercise was to provide the experts identified by the NPIs in each country with the following skills: (i) financial engineering and business planning skills to identify, select and develop energy efficiency and renewable energy investment projects and prepare bankable project proposals; (ii) business development skills to prepare the equity and/or mezzanine finance participation of an investment fund in local companies, manufacturers of energy efficient technology, energy service company; to structure and launch a third party finance company using performance contracting; and to prepare the equity participation in renewable energy projects; (iii) full range of skills described above and the capacity to develop an indicative project pipeline to a standard project identification format.

135. The component's activities in curriculum development, software (financial models, business plans), training workshops, e-learning material all make good sense. A particularly important aspect was the attempt to link training in the preparation of Project Information Memoranda and financial models with the preparation of real life bankable projects. In this way one could build a pipeline of project proposals for submission to the Fund. However, the positive interrelationship between the components (see section 2.6) made the effectiveness of the interventions dependent on the speedy simultaneous execution of planned project activities: the effectiveness of the capacity building efforts and of the preparation of a project pipeline were very dependent on rapid progress with regard to the creation of the Fund. Because the expected date of the creation of the Fund kept being postponed into the future, project developers and consultants started to lose interest in the capacity building activities. The ideal link among "capacity building-project pipeline development-Fund finance" was broken by the delays. Those who attended the workshops and did their homework (much more man-days demanding) were more likely to be those that had the time to attend, rather than the consultants that in the future will assist project developers in the preparation of project proposals. One must, however, take into account that the FEEI is not the only active capacity builder: the EBRD, the EIB, KfW and others are building best practice in feasibility studies through their EE&RE project finance.

136. The established network of energy efficiency managers enables all participating countries, NPIs and their EE managers to communicate to each other in a very fast and simplified way in order to exchange knowledge and provide information between themselves. Exchange of information would be particularly useful for the countries having the least experience in the field of EE and RE. In order to lead to information exchange on experiences between countries, the website would need to pay consultants for actively identifying useful case studies on the structuring of deals of potential inspirational interest to other parties. It would be naive to expect that the NPIs are interested in transparency about actions in their countries: the countries are competing for getting projects approved for Fund finance. In addition to facilitating this exchange of information and experience, the website is to help project developers becoming aware of the Fund and preparing bankable proposals. Whether the FEEI website can play a useful role as communication tool for investment project proposals and for linking developers with sources of finance remains to be confirmed in practice.

137. The project identification exercise by the NPIs has been valuable. The NPIs succeeded in bringing over 200 projects to the attention of the Fund Manager and of the PMU, about twenty have reached the stage of a Project Identification Document (PID). The vast majority of the project proposals in terms of numbers and in terms of financial volume belong to the RE- and not to the EE- category.

5.2.3 Setting up the EE Investment Fund

138. The FEEI Newsletter, Issue No. 1 (October 2009) informs the following: "Conning Asset Management Ltd has been selected as the Investment Fund Designer and awarded a contract offer for 12 months. Under the terms of the contract, Conning will structure and prepare the investment fund; analyse the financial, legal and fiscal issues; solicit public sector entities and private sector investor participation; and prepare the terms of reference for an experienced fund manager." (see also Annex II: ToR for Fund Designer). In June 2011, three years after the start of the contract, the perspective date for the Fund's creation is still uncertain. Hence, how realistic is the creation of the Fund in a near future? The position of the Fund Designer on this is ambiguous:

- On the one hand, the Fund Designer insists that "all the basic elements are in place for a market standard mezzanine and equity fund to be marketed". This refers to the fact that "the drafting of the FCA has reached the stage where it is submitted for UNECE approval" and that UNECE's "detailed support is expressed in a separate LoA". "This in turn will allow for rapid acceleration to the long awaiting and key task of soliciting and obtaining investor interest in the planned fund, based on the final version of the marketing presentation." The Fund Designer states further: "It is the presence of the FCA which is the defining element of the fund". [24]
- Yet, the Fund Designer then adds strong qualifying statements: "we believe that within the next quarter we shall be able to determine and report back on the feasibility of launching the planned fund, provided we have obtained support first from the UNECE and subsequently from the banks as envisaged under Purchase Order Four. In the process we continue to aim to identify lead projects to be financed at or soon after first close. Nevertheless, we stress again that no success in any areas can be assured."[25]

[24] Source: Conning, 3rd Purchase Order Submission November 2010
[25] Source: Conning, 3rd Purchase Order Submission November 2010

139. Thus, the Fund Designer does not expect to present interested candidates for investment in the Fund within the next three months; he will at that time be able to report back on the feasibility of launching the planned Fund. That statement should have started all alarm bells at the PMU and led to intensive scrutiny of the Fund Designer at the last Geneva session of the Expert Group. The Fund Designer is fully correct in his assessment that success cannot be assured[26] In addition, several aspects of the Fund structure still need detailing.

140. The Fund Designer has informed the PMU of Conning's intention to be General Partner of the Fund in a joint-venture with NBGI. The General Partner, in the conventional use of the term is the managing partner of a partnership. Yet, NBGI is supposed to be the Fund Manager! The interaction, division of work between the two, needs explanation. Is the management fee (the usual 2% of invested capital plus the so-called carried interest in the form of share of returns above the benchmark) to be shared between NBGI and Conning?

141. The Finance Coordinator has provided relatively little information about the operation of the FCA given that it is "the defining element of the Fund". The idea of a finance coordinator deserves support. There are examples of unsuccessful RE Funds, where passive Fund Managers happily collect their 2% fees without generating investments. The Finance Coordinator could provide a reassuring dynamic element. Yet, some details would be useful in order to understand the cost implications. If a project developer has secured agreement with his bank for the senior loan and presents the project with bank-standard documentation to the Fund for co-finance, will the "finder's fee" charged by the Finance Coordinator still be applicable? Will a bank, that has signed the FCA, be charged a "finder's fee" if it through own efforts presents a project together with the developer to the Fund for co-finance? How will the Fund pay for the finder's fee – out of the Fund Managers fee or as separate Fund operating expense? In addition to the finder fees, the Finance Coordination is also to get coverage for some costs; what type of costs?

142. The Fund Designer has not provided details about the FEEI finance facility for the preparation of project documentation (the Project Information Memoranda and financial model), which is to be managed by the PMU. (i) First, the Fund Designer has not drawn up any budget for the facility. The draft LoA refers to the US$ 923,000 that is allocated in the budget of the FEEI for the capacity building component. But, the financial engagement of UNECE must be clarified; there has been a significant draw-down to finance activities already undertaken under this component! The evaluator would like to point out that a TA budget of €1 million per year during the first 4 years of operation is likely to be needed. (ii) Secondly, the LoA does not define, nor discuss the finance modality. Is the facility to finance the full cost of project documentation or well-defined incremental costs? Is the facility to give its finance on a cost-shared basis with the developer; if so what is the co-financing share? Is the FEEI-finance given as a full grant or as a contingent-loan/grant to be repaid by the developer if the project achieves financial close with or without co-finance from the Fund? (iv) Which criteria will the PMU use to select projects eligible for financial support, since the budget is limited and the number of projects is large? The draft LoA just states "The funds are to be paid to consultants and contractors designated by the UNECE in accordance with annual Work Plans approved by the UNECE Group of Experts on Energy Efficiency Investments for Climate Change Mitigation."

[26] See for example the lack of success encountered by Deutsche Banks in raising private finance for its European Energy Efficiency Fund (see section 3.4).

143. The conclusion is that more clarity is needed; and that for this purpose a “strategic task force” is to be set up to more closely monitor the performance of the Fund Designer and decide on a work plan with the Fund Designer to bring his work to a successful conclusion. Without participation of development banks in the Fund, and thereby in management decision taking, there is no natural safeguard against the Fund engaging in projects outside the target countries, e.g. supporting projects in Poland and in Turkey, where NBGI PE has contacts already.

5.3 Catalytic role, replicability and sustainability

144. If the project succeeds in setting up the planned Fund, it could then play a catalytic role. The Fund introduces the concept of a specialized clean private (or public-private, if a development bank co-invests in the Fund, as it is unlikely that national Governments will invest resources in the Fund) energy equity and mezzanine fund to the region: it seems that no other such Fund is operating in the countries at present. In the medium to long-term such funds should proliferate in the FEEI-countries.

145. If the Fund invests €250 million, involved stakeholders will have gained know-how of benefit to them and to the development and financing of clean energy projects in the long term. Consultants will have learned how to prepare bankable proposals; NPIs – and, through them, the national energy ministries and agencies - will have improved their understanding of the role and mentality of private finance; the participating national finance institutions ought to have intensified their exposure to the structuring of complex deals; project developers will have come to know what is required to get a complex project financed.

146. Until the Fund has been created and has become operational, the structures created by the project cannot be said to be sustainable, except that the investments in capacity building will assist the trained persons in the performance of their jobs. The objective of the project is to trigger investments in RE&EE. The success of public finance projects is measured by two main criteria: (i) the immediate leveraging effect and (ii) the longer term transformation effect. The creation of a €250 million Fund would provide a direct 35 times leveraging of the funds that were invested in its creation! One can discuss whether co-finance from development banks represents genuine leveraging of funds or just a redirection of public finance funds; but any private investment in the Fund represents genuine leveraging. The leveraging would be reinforced by the additional leverage from the co-financing of the RE&EE projects from the national finance institutions (in the form of debt finance) and from developers (in the form of equity). The transformation effect comes from the introduction of the equity/mezzanine fund concept in a region that has had very little exposure to this finance instrument in general and in the RE&EE community in particular. First of all, if it becomes a success, it will lead to imitator funds. Secondly, it will have created new know-how in the staff of participating finance institutions, developers, consultants and lawyers in how to structure complex deals. Without the Fund, the training and capacity building of the project will leave some very modest impact. Te quality of the capacity it leaves behind is a far cry from the capacity building effect that will be created if the Fund goes ahead. One can assume that most of the participants in the training courses have not been persons who want to dedicated their career 100% as professionals in the area of project development; the majority will have been interested amateurs who had the time to attend. To attract true professionals there must be strong perspective that the project preparatory work will lead to finance by the Fund afterwards. The investment in the website will also have limited value in the absence of the Fund. Its purpose

is to help developers get in contact with the Fund and some cross-national information exchange about success stories

5.4 Implementation processes affecting attainment of project results

5.4.1 Implementation approach

The Governance structure for the project

147. The Governance structure with one implementing agency (UNEP), four project partners (UNF, FFEM, GEF and EBC) – and separately hired monitoring & evaluation experts is complex. That each donor has its own project document with different project lifetimes does not help either. Coordination between the donors was not poor – there was good exchange of information between them - but sub-optimal: there were no systematic attempts at reaching joint positions or at jointly defining what the most critical issues were in the project. GEF's decision to block its finance to the project was not vented with the other donors. Having different agencies performing the supervision task does not necessarily mean an increase in effective supervision, shared responsibility can lead to each agency performing the task half-heartedly.

148. The suboptimal Governance by the implementing/supporting agencies is not caused by lack of intentions, but by the few human resources that are allocated to the task. The responsible staff at FFEM has 25 projects in his portfolio, one of which is the FEEI project.[27] The situation for the responsible UNF/UNFIP officer is similar. The supervisory work of FFEM and UNF staff is helped by the participation of the two M&E consultants, one for UNF, the other for FFEM, whose outputs are copied to UNECE, UNEP and to all supporting institutions. Yet, the consultants and the responsible FFEM and UNEP officers complain about receiving from the PMU consultant-outputs to comment on with very short notice before the deadlines for comments. This probably explains why the contributions of the officers from the implementing agencies and of their M&E experts focused more on posing critical questions than presenting constructive proposals.

149. The execution of the Steering Committee function by the Group of Experts was sub-optimal: the Group lacks private finance expertise and is too large. Formally, the Group fulfilled its Steering Committee function in approving the annual work programs and budgets. The sessions in Geneva were efficiently led and reported. They provided opportunities for asking questions, providing comments and coming up with proposals, and these were used. Yet, rather than serving as a forum for discussions on critical strategy and management issues providing strategic guidance to the PMU, the sessions in Geneva have character of information exchange. There are many items and many presentations. Strategy gets lost in details.

[27] His ability to follow the project also suffered from not being involved from the beginning; he replaced a colleague.

Performance of Executing Agency: UNECE's PMU

150. The budget in the original project document foresaw: one senior professional at P-5 level (half-time), one Regional Adviser (L-5, half-time), one professional at P-4 level (full-time), one secretary (G-5, half-time) - all on UN regular budget; one professional at L-5 level and one professional at L-2/3 level - both full-time on extra-budgetary support. The PMU at UNECE is under-staffed for day-to-day implementation, as one professional at P-5 level (envisioned in the Project Document) was never included in the PMU. In 2008-2009, the PMU included a Junior Professional Officer (Associate Expert) at P-2 level funded directly by the French Government, who however was not replaced when her contract expired.

151. The PMU is understaffed both (i) due to the workload of managing the logistics of reporting to three implementing agencies, collaborating with 11 NPIs and NCs, and organizing workshops, Group of Experts and Steering Committee meetings; and (ii) due to the complexity of the project: the PMU is bombarded with outputs from consultants including Fund-related documents which it does not have the expertise to evaluate professionally. To get its work done properly, the PMU had to rely for assistance from the Group of experts, from donor staff and from the evaluation advisers.

152. The productivity and the professional quality of the PMU's work are admirable: the project logistics are managed well and fast, the half-year and annual progress reports are informative and to the point. Despite the frustrations about the state of progress in the project, all interviewed persons expressed appreciation of the hard work, which the PMU puts into the project!

Performance of UNOG

153. UNOG, being responsible for supervising the correct performance of tenders and for the signing of contracts with consultants, is for obvious reasons very legalistic in its approach. Protection of required confidentiality is daily business and an important responsibility. Yet, UNOG's way of work has contributed to a project management style focused on processes and too little on outcomes. The pettiness of UNOG's purchase order system and the way it is managed is counterproductive. The PMU requests that all work delivered is matched to the contract deliverables (see for example the clause of preparing monthly progress reports included in the Fund designer contract). Yet, consultants and program officers ought to know that it is impossible in non-standard assignments to foresee and include everything. During implementation it will turn out that some activities and outputs are more important than others in reaching objectives and that the weighting has to be changed.

154. UNOG insists on formality and on secrecy to the point of obsession:

- For the tender for the Fund Designer contract, UNOG insisted on receiving all material and questions by fax, not by email.
- UNEP and FFEM reacted negatively to selection processes of the Fund Designer and Web Designer contracts, asking for copies of the two contracts to evaluate them.[28] UNOG did not forward copies of the contracts to the two organizations quoting formal reasons: neither the staff requesting the documents, nor the staff to which the requests were addressed to, were

[28] One of the differences between the operation of the Secretariat and UNDP is that UNDP invites donors to participate in the tenders and in the opening of the contracts. As part of its organisational risk management – the UNSecretariat signs several hundred millions per year in plane charter contracts, for example, UNDP does not.

high-ranking enough within their organizations for the requests to be executed. The PMU insists, however, that UNEP and FFEM have all relevant information as they have copies of the two *project implementation plans,* which were part of the two contracts and know the contract amounts.[29]

155. The Fund Designer did not want to show the letter of intent by NBGI to the responsible UNEP staff, although it is an open and non-committal document. UNEP had to sign a non-disclosure and confidentiality agreement with UNECE concerning outputs from Conning.

- The Fund Designer had agreed to meet the reviewer during a visit to Copenhagen to attend other business, for a first interview about the performance and the status of the project. The day before arrival it was blocked by UNOG. Reason: the reviewer at that time had not yet received the confidentiality agreement document for signature.

Selection of consultants

156. The PMU through UNOG has signed a number of consultant contracts. Although these were awarded in accordance with UNOG procedures, two of these raised controversy at UNEP and at FFEM[30]:

- The selection of Conning for the US$1.25 million Fund Designer contract;
- The selection of the Centre for Energy Efficiency EnEffect for the US$ 497,230 contract (with a duration of 36 months) to undertake the development of a website and create an Internet Communications Network of Energy Efficiency Managers in Eastern Europe.

Fund Designer contract

157. The procurement process for the Fund Designer contract started in December 2007. 12 companies submitted an Expression of Interest. In the end, three companies participated in the tender. One company withdrew at the last moment on the grounds that the proposed amount of the contract was not enough, leaving Econoler and Conning as bidders. The tender evaluation in June 2008 was performed by three experts: an independent expert with a long experience in tender evaluations for development institutions, DTIE's Director for Technology and a staff from EBRD. During this process, different views emerged as to which company should be awarded the contract. Conning was ranked number 1 by UNECE and last by DTIE. The final outcome was that Econoler received a higher score from the team than Conning. Yet, after a round of "supplementary questions" to the two bidders, Conning ended up being awarded the contract. The final evaluation report was never submitted by UNECE/UNOG neither to UNEP, nor to FFEM (despite several requests), nor to the losing bidder.

158. The selection of Conning was due to a favorable bias by the Director of Sustainable Energy Division at UNECE. The Director had previously collaborated with Swiss RE/Conning on the establishment of the ECEF (European Clean Energy Fund)[31], which was launched by Conning under the Energy Efficiency 21 mandate.[32] Swiss RE, which owned Conning, was a very active

[29] Contract amounts above US$200.000 are publicly announced.
[30] In June 2011, UNOG prepared a formal request for an audit by UN Office of Internal Oversight Services (OIOS) for the contracts signed with Conning and EnEffect
[31] The €354 million fund (cofinanced by Swiss RE with a €40 million) targeted clean energy projects in the EU 27 countries including wind energy, solar energy, hydro-electric, biomass, cogeneration, combined-cycle, fuel switching, geothermal, clean coal, waste-to-energy, district heating and electric, waste fuel, combined heat & power (CHP), efficiency retrofit and related projects and companies
[32] Cooperation included the organization of a seminar "Financing Energy Efficiency and Renewable Energy Investments with the European Clean Energy Fund (ECEF)" during the Ad Hoc Group of Experts meeting (21-

partner in the private clean energy finance alliance working out of Geneva, and Swiss RE's experience and qualifications were taken into account for the selection of the contractor. That Conning shortly after being awarded the contract was spun off from Swiss RE could not be foreseen by UNECE. For UNECE, Conning's experience in setting up and managing private equity funds was a decisive criterion.

159. If expertise in energy efficiency and in supporting ESCOs had been the decisive criterion, Econoler - which was the pioneer in developing the ESCO concept and assisted in its diffusion worldwide, including in Eastern Europe - would have been the obvious choice; as it would have been based on experience in developing public-private-partnership concepts for the promotion of energy savings.The selection process caused bitterness, frustrations, and accusations of lack of transparency from UNEP and FFEM. But it is difficult to criticize either party's selection bias: both biases were firmly rooted in professional beliefs about what was best for the project.[33]

160. The implications of the choice of Conning, an asset manager, to accomplish the task were not fully understood by UNECE. An Asset Manager is not in the business of providing consulting services; an Asset Manager is on the look-out for fee-revenue from providing financial management services. It is hard to imagine that Conning was interested in winning the consultant contract for the fee rate it provided; Conning must have seen it as an entry ticket to generate fee-income during implementation. Its performance under the contract certainly point that way: (i) Putting Conning in the position of placement agent for persuading investors to put the required €250 million into the Fund (charging a placement fee on the amount of capital raised). (ii) The FCA makes Conning placement agent during Fund operation (charging finder's fee). (iii) Making Conning General Partner together with NBGI (giving access to the management fees). There is nothing wrong with this kind of behavior on the side of Conning. When one creates a private Fund, one has to play by private sector rules of the game! The problem was that UNECE did not apply these rules: the contract with Conning was purely output based, not results based. Conning was chosen not for its consulting expertise, but for its knowledge of and connections in the private world of finance: UNECE believed that Conning's network of contacts would facilitate the creation of the Fund. Because Conning is an asset manager, the contract should have been fully or mainly (with a limited budget for covering expected expenses) results based: a success fee was to be paid once the Fund had reached its first close of €100 million. In addition, along the way, Conning could have picked up whatever fees it could from commercial parties; the fee would have been a pure sweetener/risk reduction instrument to entice Conning to look into this opportunity rather than others. Yet, although under the terms of the contract, Conning was "to solicit public sector entities and private sector investor participation"[34], the PMU and Conning insist that the contract does not require Conning to establish the Fund.

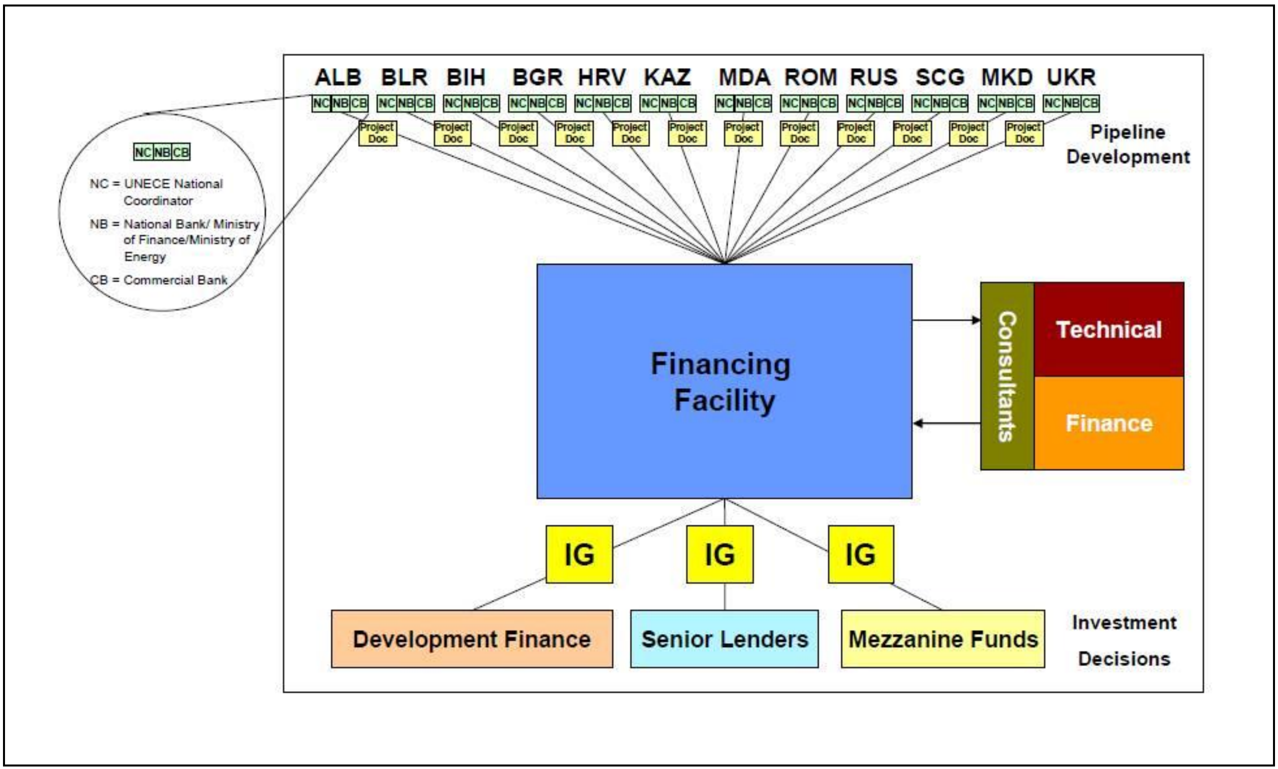
161. The performance of Conning, judged as consultant, has been disappointing: the amount of material provided is huge, yet papers are not edited, spelling mistakes abound, some text is

22 February 2008). The seminar aimed at describing how participating countries can work with the ECEF and at appraising project development capacities in participating countries.

[33] UNECE, on their part, accuse the score giving to have been unfairly biased, that the scores given to Conning were too low to be credible. It cannot be excluded that Bernard Jamet was favourably predisposed to Econoler's bid, given his interest in promoting Fund investments in ESCOs: Econoler is a world pioneer in developing the ESCO-concept in Canada and later worldwide. Thus, also here previous professional exposure to a bidder influenced the opinion.

[34] FEEI Newsletter no 1/10 2009

impossible to understand, information is short on details – usually with reference to confidentiality or to the need to let investors decide. The chart below is an eloquent testimony of the (lack of) capability of the Fund Designer to explain key concepts to energy experts with limited knowledge of mezzanine and equity finance. It is supposed to illustrate the FCA-concept.



Web-designer contract

162. The contract awarded to the Centre for Energy Efficiency EnEffect raised eyebrows for two reasons: (i) the manager of the company was at the same time the Chairman of UNECE's Ad Hoc Group of Experts and continued to be member of the Group, invoking a conflict of interest[35], (ii) the contract sum seems very large for a website task. Prior to this contract, EnEffect had worked on several international and national websites (design and maintenance), incl. the website of the UNECE "Energy Efficiency 21" Programme (www.ee-21.net) and related RENEUER regional project's website (www.reneuer.com), as well as the websites of several EU funded international projects. In its application, EnEffect stated that it would be working in a consortium with two other specialized companies – UP2 (software company based in the Netherlands) with extensive experience in web design and Integral K (computer hardware company of Bulgaria). The consultant did not see the work program under the contract and, therefore, has no opinion on the justification of the contract sum. Yet, the consultant undertaking this review can understand that the contract raised controversy: that the manager of the company continues *in* the Group of Experts afterwards is not international best practice. In the end, the result counts: whereas the value and the usefulness of the website and its features have been drawn into doubt by the monitoring and evaluation experts of UNF and FFEM, EnEffect's performance of its work under the contract has not met criticism.

[35] Although he stepped out from the position of Chairman

5.4.2 UNEP supervision and backstopping

163. UNEP as implementing agency for GEF is supposed to monitor expenditure, participate twice a year in the Steering Committee, and write a yearly progress report to GEF. DGEF/DTIE has assigned one person to this task on a part-time basis. The half-yearly progress reports prepared by UNEP for GEF are informative and to the point. Overall, supervision has been too passive, not enough constructive backstopping has been provided to the PMU. DTIE has in-house some very talented staff in its Innovative Finance Unit, who could have provided constructive comments on the Fund design; yet they were never used. In the October 20-22 2010 session of the Expert Group, where the Fund Designer introduced NBGI PE as the lead investor/Fund manager to the Group, no UNEP representative was present. But much more important is the failure of UNEP to secure EBRD's participation as co-implementing agency, or to find an alternative solution to provide Fund structuring expertise as back-stopper for the PMU.

5.4.3 Financial planning and management

164. Within the circumstances given by the framework under which the FEEI-project operates, the PMU has efficiently executed the financial planning and management function. But this occurred under incredibly inefficient framework conditions. The PMU asks the donor for disbursements in February/March, when the Expert Group in its Geneva session has approved the annual work program. UNECE receives the transfers from the donors very late during the operating year in its project account.

165. The FFEI project funds are channeled to UNECE via two routes:

- Funds from the GEF/UNEP are send through the account of UNECE in Geneva to the project account;
- Funds from FFEM/UNF/EBC come through the account of the UNF in Washington. UNF tops up the annual FFEM contribution at the rate of 50% and adds to the annual GEF contribution at the rate of 25%. The funds are wired to UNFIP, which ultimately transfers them to the project account at UNECE. The disbursements by UNF are thus tied to the disbursements from other supporting institutions (donors); UNF disburses when FFEM and/or GEF/UNEP disburses.

166. The annual Work Programme is approved at the session in October before the beginning of the next year. The PMU asks the donors for disbursements in February/March. UNECE receives the transfers from the donors very late during the operating year in its project account. FFEM made its second and third annual disbursements to the Project with significant delays, in August 2009 and July 2010 respectively. Due to the necessary paperwork and procedures, UNECE received access to the funds from the second disbursement by FFEM and UNF (intended for the second year of Project Operations 2009) only in October 2009, and from the third disbursement by FFEM and UNF (intended for the third year of Project Operations 2010) only in October 2010. UNEP made its second disbursement to the Project in June 2009 (intended for the second year of Project Operations 2009). UNEP has suspended its third US$750,000 disbursement in 2010; it is awaiting

the results of the mid-term evaluation of the Project.[36] The late arrival of the money makes it difficult for the PMU to execute the annual work program for the project in a timely manner, including planned training activities. The PMU is forced to stretch money.

167. Under UNOG rules, the work of a consultant under a contract is performed through a series of purchase orders (the Fund Designer contract, for example, has four of these). Whereas the deliverables are set by the PMU, the purchase order comes from UNOG. The PMU cannot ask for the issue of a purchase order, unless there is money for the specific activity in the project bank account. Delays in receiving contributions from donors therefore lead to delays in the implementation of planned project activities. In particular the Fund Designer contract has been affected by this rule.

168. Although the financial contributions from the four donors finance the same activities, the PMU is forced to prepare separate financial statements to the FFEM, to UNF and to UNEP, explaining on what the donor money has been spent. This is why the numbers in Annex VI, which shows the status for use of funds from UNEP/GEF, do not add up to the numbers in the FEEI project budget for the individual components. Reports on the accounts are sent quarterly and annually to donors. The donors have different formats for the financial reporting In early 2008, UNECE held a meeting in Paris with the three main donors to discuss the possibility of using one financial reporting system only. UNF and FFEM agreed on having a single system; however later FFEM required to provide separate financial reports directly to FFEM. UNEP has its own system which it cannot adjust. To the date, PMU has to submit three different financial reports to each donor institution.

169. It must have been very frustrating for the PMU to perform its executing function under this framework. That the PMU continues to perform with professional enthusiasm is admirable. It deserves to get from donors more appreciation of its work; donors seem to underestimate how complex the project is for the PMU and the amount of work involved.

5.4.4 Country readiness and country ownership

170. All FEEI target countries are in the process of setting policy goals for EE and for the penetration of RE in the energy mix, adopting laws, regulations and incentive schemes. In terms of readiness/ framework in place for promoting large scale investments in EE&RE, Bulgaria and Croatia are probably slightly ahead of the others due to their efforts to align their national laws and regulations with EU legislation.

171. Most countries – with Bulgaria as one of the exceptions - still do not have an adequate framework for incentivizing public institutions to invest in EE. This hinders the commercial prospects for setting up ESCO-operations: ESCO companies are very dependent on the public demand for EE-investments for their survival. In OECD countries, typically 70-80% of ESCO revenues comes from public sector clients.

172. The financial crisis set back the project: in 2009 and 2010 commercial bank finance was hardly available in the countries. In 2011 some credit lines are available again. The question is whether credit will start moving towards EE&RE finance. Due to the NPI/NC structure at national level and due to the Expert Group performing as Steering Committee at Geneva level, country ownership is excellent. The Ukraine NPI/NC chairs the Expert Group, the colleagues from Belarus and from Bulgaria are co-chairs for the Group.

[36] FFEM suspended its fourth disbursement of 300,000 euro for 2011 until clarification is received from GEF/UNEP.

173. Thanks to the NPIs' good relationships with Government officials, the latter are fully aware of the project. Some NPIs are part of Government themselves, others are leading energy NGOs. Some NCs are Government representatives, others are experts appointed by Government. There is genuine political and private sector interest in the FEEI project. NPIs/NCs, who participated in UNECE assessment missions in their country, took initiative to provide the mission with a list of projects they thought would be appropriate for the Fund. They know where the project leads to. The original project document targeted a 35 percent participation of public funds into the Fund, coming from FEEI target countries and from non-FEEI target countries. In his contract, the Fund is asked to solicit finance for the Fund from public institutions. For the reasons explained above (see section 2.4), the reviewer thinks it is not realistic that this will be achieved. It is likely that public resources, if any, to the Fund will come through development banks.

5.4.5 Stakeholder involvement

174. The NPI/NC modality has proven its worth: the NPI/NC have been active pillars of support to project activities in their countries. The PMU has signed MoUs with each NPI/NC that define what services the NPI/NC is to deliver to the FEEI-project and the lump sum financial contribution from the PMU to cover its costs.

175. A number of elements contributed to a strong engagement by the stakeholders: the use of NPI/NC structures at national level; the energy policy missions; the Astana International Energy Efficiency Forum; the consultation visits by the Fund Designer to relevant stakeholders in all FEEI-countries; capacity building activities targeting project developers, consultants, finance sector staff, public officials; the combination of the FEEI website with national FEEI-website information; and the active identification by NPIs of potential projects to be included in the project pipeline. Knowledge about the project is, therefore, widespread.

176. The consultations with the finance sector confirmed agreement to the particular feature of Fund Design: the FCA. The usefulness of a Finance Coordinator is accepted. The delay in the setting up of the Fund – the time of its likely creation kept being pushed further into the future – has however made the most professionally relevant consultants, project developers and bank representatives hesitant in putting time into following the project and in participating in project activities.

5.5 Impact of financial crisis on attainment of results

177. The financial crisis of 2008-2009 set back the project. Investors' appetite for project finance debt disappeared in Europe and has yet to recover. Any lingering appetite for project debt was further drained by the deteriorating credit quality of monoline insurers[37], which in the past provided credit support for project-related capital market financings, especially in Europe, the Middle East, and Africa. The project finance banking market has also contracted as banks either restrict their lending activities or refocus on more profitable sectors. In 2009 and 2010 commercial bank finance was hardly available in the FEEI target countries. This significantly complicated the process of the investment fund design and launch, in particular the search for a lead investor.

178. A recent UNEP report concluded: "Private equity fundraising remained difficult, public equity share prices underperformed relative to the wider stock market. There still appears to be little appetite among investors for new public equity funds in clean energy. In 2010, there were just three new funds launched, compared with 45 back in the record year of 2007 and 20 in 2008."[38] (UNEP, 2011)

[37] Definition: insurance company that provides guarantees to issuers of bonds and securities.
[38] Bloomberg:"Global Trends in Renewable Energy Investment 2011", UNEP July 2011

179. The experience of the Deutsche Bank's European Energy Efficiency Fund (EEEF) is illustrative. Incepted in 2010 as a EUR 800 million public-private fund, the EEEF has a policy objective to "provide market based financing for commercially viable EE and RE in the EU member states as part of the larger EU 20/20 policy goal for 2020". Thus far, the Fund's commitments are all public, with the initial capitalization of EUR 205 million coming from the EU (€125 million), EIB (€75 million) and Deutsche Bank itself (€ 5 million).

5.6 Monitoring and Evaluation

5.6.1 M&E design

180. The logic of the project document proves coherent: excellent complementarities exist among the project components, concrete outputs and well-defined outcomes (operation of the Fund and funding of €250 million in investments). Detailed objectively verifiable indicators coincide with milestones (at activity and output level) defined at different stages of project implementation[39]. Success criteria for the project are rather straightforward. GEF's emphasis on quantitative data, such as the Climate Change Tracking Tool for monitoring and calculating impact on emission reductions, makes sure that projects include measurable indicators.

5.6.2 M&E plan implementation

181. Monitoring of the project is excellent. Contracted consultants must submit monthly progress reports. The PMU and UNEP submit half-yearly and annual progress reports. The M&E consultants from UNF (since the beginning of the project implementation) and from FFEM (in 2008 and, after a break, since mid-2010) monitor the project on a continuous basis, comment on written outputs from consultants and contractors, participate in the Expert Group sessions where they present their evaluation reports, report back to their clients on their impressions from the sessions and are in frequent contact with the PMU concerning clarification of details.

182. The reports produced by the involved parties are informative and succinct.The balance in the M&E effort between critique and constructive collaboration on finding solutions could be tilted more towards the latter.

5.6.3 Budget for M&E activities

183. UNF, FFEM and UNEP allocated sufficient funds for the M&E task. Costs for Monitoring and Evaluation are the following:

- FFEM: total of Euros 200,000 for 4 years of project implementation;
- UNF: USD 25,000 for each year of project implementation (total USD 100,000 for 4 years);
- UNEP/GEF: M&E Officer is envisaged by the Project Document but not assigned by UNEP/GEF.

[39] See Annex VIII for more details about the Theory of Change applied to the project

6 Conclusions, Lessons learned and Recommendations

6.1 Conclusions

184. The project implemented the planned activities, produced the planned outputs in two of its three components, and most of the planned outputs of the third component. The “energy policy and regulatory framework component” has produced an excellent policy overview over the Renewable Energy and Energy Efficiency (RE&EE) situation in the 12 FEEI countries and gives policy recommendations for each country. The Astana International Energy Efficiency Forum of 2010 was a success and is now a regular annual event. In addition, visits of policy experts giving individual policy advice were undertaken in several countries (section 3.1.1). Their work is of good quality. But policy making and adjustment of RE&EE frameworks is an ongoing process in all FEEI countries, and many actors contribute valuable inputs to this process. The impact of the component on policy reform, therefore, will not be easily measured as attribution issues will arise (section 3.2.1).

185. The “capacity building and project pipeline component” has created a FEEI website with links to national FEEI websites. The website provides information on the FEEI project, has e-learning modules on the preparation of business plans and financial models for “bankable projects”, gives project developers information on how to submit project proposals for the Fund to finance, put in case studies for inspiration and act as facilitator for information exchange on experiences with EE&RE project finance in FEEI countries. The implemented capacity building activities are based on a thorough assessment of local needs, the curriculum development and the training workshops were performed by knowledgeable experts. The National Participating Institutions / National Coordinators (NPI/NC) structure for implementation at local level has proven its worth. The NPIs/NCs have been very active in disseminating information on the project and in identifying potential projects for Fund finance. The list of projects submitted by the NPIs/NCs to the PMU includes 200 project proposals (section 3.1.2). However, the uncertainty about whether and when the Fund will be created has partly undermined the impact of the capacity building and project preparation efforts. Some of the best finance and business consultants are keeping a low wait-and-see profile (section 3.2.2).

186. The activities and outputs of the “Equity and Mezzanine Fund component” were expected to have been completed within a year after the start of the Fund Designer contract. Some results have been achieved (section 3.1.3). Draft legal documents for the creation and operation of the Fund have been prepared. The basic design feature of the Fund, the creation of an external Financing Coordinator (FC), is gaining acceptance among stakeholders. It requires a Financing Coordination Agreement (FCA) to be signed between UNECE, the Fund, participating local banks and the Fund Designer, with Conning as FC. But a number of details need clarification, including how UNECE/PMU will manage its financial support to project preparation (section 3.2.3). A Lead Investor/Fund Manager willing to put up 10 percent of the total €250 million finance has been identified: NBGI Private Equity (NBGI PE). The Fund Designer has not yet begun the placement agent activity of soliciting investor interest for the Fund based on an Investment Prospect.

Methodology of the FEEI project

187. ”Does the methodology of the FEEI project contribute towards the achievement of the project objectives in the targeted countries?” The issue has two aspects. (i) Whether there is an unsatisfied demand from EE&RE projects for equity and mezzanine finance calling for a minimum of €3.5 million finance per project contribution from the Fund (ii) Whether the project components and activities are coherent and the implementation approach makes sense.

188. The creation of a private equity and mezzanine finance fund is a novelty in the countries. In the project concept, formulated in the original project (prodoc) document, the project was to support EE as well as RE investments, with the focus being on EE (section 1.1.1). In order to develop a commercial market for EE-finance with banks launching specialised finance products, the prodoc believed it was essential to support the expansion of Energy Service Companies (ESCOs) by putting growth finance in the form of equity and mezzanine finance into these. ESCOs were to serve as aggregators for individual investment projects that each in isolation would be too small to interest the Fund. ESCOs exist in several FEEI target countries, but their experience has not been very encouraging. However, other EE&RE projects of sufficient size can be found that call for risk capital.

189. The coherence of the project concept is compelling (Section 2.3): to simultaneously assist (i) improvements in the policy and regulatory framework (demand side action), (ii) improve local capacity for preparing bankable projects and develop a pipeline of projects that the Fund can look into (technical supply side action), and (iii) setting up the Fund (bank finance engagement action). But the coherence also made the effectiveness of the outputs of one component dependent on simultaneous progress in the other components.

190. The NPI/NC modality has proven its worth: the NPI/NC have been active pillars of support to project activities in their countries (section 3.2.9). The PMU signs Memoranda of Understanding (MoUs) with each NPI/NC that define the services of the NPI/NC to deliver to the FEEI-project and the lump sum financial contribution from the PMU to cover its costs. The modality for the Fund's operation includes the features that – based on worldwide experience - are required if an EE&RE fund is to have success: (i) Technical Assistance (TA) grants to assist the build-up of a pipeline of projects; (ii) substantial marketing efforts, including maintaining an active website, conducting frequent seminars, use of local and national government leaders in actively mobilizing public support for the program efforts; and,(iii) proactive fund management through the Fund Coordinator modality.

Likelihood to achieve the outcomes and objectives

191. "Is the project likely to achieve the expected outcomes and objectives in its lifetime, with special concern for the PPP Fund's development in the current financial crisis scenario?"Judging from the project proposals collected by the NPI/NCs and comments made by the Fund Designer at presentations in Geneva, the bulk of the Fund finance may go towards investments in RE and not in EE (section 3.2.2). Thus the expected focus of the Fund is changed, although the indicative project pipelines of the two largest countries of the project - Russian Federation and Ukraine - have more EE than RE projects.[40] To some extent, contrary to popular opinion, an increased focus on RE will increase the risk for the Fund: the preparation of RE-projects has the tendency to go on forever!

192. The success of the FEEI project depends 100% on the creation of the Fund; the other outputs from the project provide a supporting environment for the operation of the Fund. Whether or not the Fund will be created depends on the investment mood and investment priorities in the relevant finance community: development banks, wealth managers and institutional investors. So far only the Lead Investor has expressed willingness to provide 10% of required finance. In the light of the uncertainty that surrounds private investment decisions, how likely is it that the first goal of €100 million and the final goal of €250 million in partner contributions can be reached? One can point to some positive trends. First, on the *demand side for funds*. The Fund Designer has not provided qualitative assessments of whether there is a regional demand for the specific finance instruments offered by the Fund. The assessment is based on the evaluator's own observations. Although the policy and regulatory frameworks in the FEEI target countries are not perfect, the annual

[40] During his evaluation visit to Moscow, the evaluator was introduced to a very large EE-project in Archangelsk.

investment volumes in RE&EE are picking up. There seems to be an objective demand for the finance instruments offered by the Fund; there are some large and complex projects that are likely to require creative financial engineering if they are to move forward. Some "aggregators" are appearing on the market: project developers who present packages of several small-scale hydropower projects for finance. Local support structures have been created (NPIs/NCs, trained consultants) that can help in identifying relevant project proposals and in solving political-regulatory problems that may block the implementation of a project. A TA facility will support the development of a project pipeline. There is, therefore, a strong likelihood that the Fund will be able to find outlets for its €250 million in equity and mezzanine finance within the foreseen four to five-year investment period. Secondly, on the *supply side for funds*. The Fund Designer has not provided information about contacts with development banks, and his assessment of the probability that a development bank will become partner in the Fund. The EBRD has not given any indication of its a priori interest; it prefers to be presented with a proposal for participation and then react to it. Other relevant development banks, such as the European Investment Bank (EIB) or Kreditnstalt für Wiederaufbrau (KfW) have not been interviewed for the review. But there are many competing green finance requests being submitted to these institutions.[41]

193. The likelihood that the Fund will be able to attract financial contributions from national governments in the target countries is close to zero: persuading a Ministry of Finance to invest in a private fund without having the certainty that the fund will invest in its country is a hard sell. The Fund Designer is optimistic with regard to the interest of private institutional investors in becoming partners of the Fund. However, first of all, it will make a great difference for institutional investors whether or not a development bank with in-depth knowledge of the EE&RE market in the 12 target countries will be co-investor. Normally, institutional investors move into new markets by piggy-backing on the experience of development banks. Secondly, the general picture concerning the supply of funds for green investments is somewhat contradictory in the present international capital markets. On the one hand, investors, particularly in the USA, have moved out of investments in equity towards lower risk products. On the other hand, in recent months, several green finance products, mainly in the form of green bonds, have been successfully launched on the international capital market. But, it is an open question to what extent investing in markets that have uncertain feed in tariffs or RE&EE related regulatory frameworks is compatible with the risk profiles of institutional investors. The likelihood of commitments coming from private investors will to a large extent be determined by their assessment of the quality of the Fund Manager and the Financial Coordinator. NBGI PE is a 100 percent affiliate of the Greek National Bank (BNG) and potential investors have to be reassured that NBGI in the present financial situation in Greece is capable of committing €25 million to the Fund. The evaluator does not have information allowing him to form an opinion on how attractive the team will look compared to the team of other equity funds trying to attract investors. Overall, though, the combined situation on the demand and the supply sides leads the evaluator to conclude that there is a reasonable likelihood – say a 30 percent chance - for a successful creation of the Fund within the next twelve months.

194. In principle, the solicitation of investor interest could start tomorrow. It is difficult to understand why the Fund has not been created yet; although the impact of the financial crisis certainly made it difficult to persuade investors to invest in the fund (section 3.5). Another explanation is the unsatisfactory performance of the Fund Designer as consultant (section 3.2.3). Too many details in proposed arrangements are not clarified, concepts are not well-explained. The experience confirms that the GEF Council which approved GEF financing for the project was correct in assuming that UNECE's know-how in innovative finance was too limited to allow proper implementation of a Public Private Partnership (PPP)-project without backstopping support from an experienced institution such as EBRD.

[41] Deutsche Bank's European Energy Efficiency Fund (EEEF) has so far attracted commitments from development banks only, see paragraph 216.

6.2 Lessons learned

195. Asset managers are not in the business of providing consulting services, they look out for opportunities for fee-based income from providing finance services. Contracts with “private finance agents” to assist with the establishment of private green funds should, therefore, be results based, not output based. The contract sum should have been split into a relatively modest “output related” sum and a much larger outcome-based success fee. The concept of implementing a single project financed by multiple donors through separate prodocs with each donor and separate financial reporting cannot be recommended. The transaction costs are too huge for the PMU and reporting is bound to lead to misunderstandings. Shared responsibility is less effective than single responsibility: when there are several implementing agencies, the performance of each in the execution of the implementing agency function will be below the level of performance if it was the only implementing agency.

196. Execution of innovative PPP-projects and United Nations Office of Geneva (UNOG) contract procedures are contradictions in terms. Complex, innovative projects require flexibility in the execution of contracts and in the production of outputs, which the heavy bureaucratic and legalistic mentality of UNOG is incapable of satisfying.

197. The creation of the Fund was never a certainty and not succeeding in that objective was and is a risk of the project. For a non-investing agency, like UNEP/UNECE, to create a Fund for others to invest in has a lower probability of success than if a prospective co-investor in the Fund had taken the lead from the beginning. When a development bank or a donor agency contract preparatory work for the creation of a Fund, there is a 95% probability that the Fund will be created and that the contracted agents will invest in the Fund thereby ensuring initial close. Whether the target of getting other private parties to invest in the Fund is achieved is a much more open question, e.g. witness the experience so far of the Deutsche Bank’s European Energy Efficiency Fund (EEEF). To prepare an equity-mezzanine finance fund for development banks and private investors to consider investing in is a high value / high risk activity: one enters fully competitive territory in the effort to attract finance. In the opinion of the evaluator, the investment in the preparation of such a Fund was and is warranted. Yet, from the observations above, it is obvious that the evaluator understands why GEF-decision takers insisted on active participation by the EBRD as co-implementing agency.

6.3 Recommendations

4. Recommendations

Recommendation for project donors

Recommendation 1: Donors to continue their support to the project and release committed funds

198. To close the project at this stage would not make sense. Almost all outputs have been produced by now. The creation of the Fund depends on the willingness of development banks, wealth managers and institutional investors to place their money into the Fund. While there is no certainty on successful first close (first €100 million called for to start the Fund), the possibility for it cannot be dismissed at this stage. Thanks to the active involvement of NPIs and NCs, the participating governments have shown substantial interest in the creation of the Fund; they would find it difficult to understand why the setting up of the Fund is not attempted when the project has progressed as far as it has. Donors’ disbursements should be made against a detailed roadmap with

concrete further actions and milestones produced by the Strategic Task Force (see recommendation 7 below).

Recommendations for Implementing Agencies and UNECE

Recommendation 2: Bring in a replacement for EBRD-expertise

199. UNECE is in contact with EBRD for their return to a role in providing backstopping support as envisaged in the Project Document. If discussions with EBRD are not fruitful, UNECE will pursue other financial institutions such as EIB to verify their interest in filling that role. UNEP as implementing agency should join and support these discussions. In case UNECE and UNEP fail to secure the support of an appropriate financial institution, the PMU should contract the services of an experienced finance expert as consultant to provide backstopping support in evaluating proposals made by the Fund Designer and to join discussions and negotiations with the Fund Designer.

Recommendation 3: Improve Governance

200. The use of the “Group of Experts” as Steering Committee has served the objective of securing ownership for FEEI. But it does not have the specialized finance know-how for providing strategic guidance to the PMU on issues concerning the structure of the Fund and the appropriate approach for soliciting investor interest. A much smaller and focused group is required for this, also to protect commercial confidentiality. It is recommended to establish a “Strategic Task Force” to act as “managing Steering Committee” with the task to closely monitor the Fund Designer’s work and define a time table with him for the completion of his work. The Task Force is to be composed of (i) the UNECE Director of the Sustainable Energy Division, (ii) donor representatives, ideally the Monitoring and Evaluation (M&E) experts of the United Nations Foundation (UNF) and the Fonds Français pour l’Environnement Mondial (FFEM) plus a staff member from UNEP Division for Technology, Industry and Economics (DTIE)’s Innovative Finance Unit, (iii) an EBRD/EIB staff member.

Recommendation 4: Clarify the status concerning likely projects and investor interest in the Fund

201. The proposed Strategic Task Force should take a meeting with the Fund Designer and with the Lead Investor to hear their opinions about the scope and the qualitative type of demand from EE&RE projects for equity and mezzanine finance. This is to confirm the conclusions made in this report concerning EE&RE project demand for the specific finance products that are to be offered by the Fund.The Strategic Task Force should discuss with the Fund Designer and the Lead investor their qualitative assessment of likely investor interest for investing in the Fund. Based on what they have seen and heard, what kind of projects and finance structures are likely to generate the kind of returns private equity investors look for? The meeting will also serve to confirm NBGI PE’s continued commitment and ability to provide €25 million in finance.

202. The content of the discussions is confidential. But based on these discussions, the Strategic Task Force should formulate its opinion about the likelihood of Fund creation and the realistic date for first financial closure.

Recommendation 5: Clarify details concerning the structuring of the Fund

203. The Fund Designer has been short on crucial details concerning the Fund structure (e.g. relationship between Lead Investor/Fund Manager and General Partner) and the operation of the FCA concept (such as selection criteria, grant-levels). The Strategic Task Force should ask the Fund Designer to provide clarification on these details: see list in section 2.3.3.

Recommendation 6: Agree on a timetable for completing the soliciting of investor interest

204. The Strategic Task Force should agree on a timetable with the Fund Designer for the completion of his work on the documents, including written clarification of the details referred to above and, above all, for the initiation and completion of his investor solicitation round.

Recommendation 7: *Establish a road map of next steps*

205. On the basis of corrective measures taken in response to recommendations 2-6, the PMU is asked to provide donors within three months from this evaluation (November 2011) with a road map of future actions and concrete milestones against which donors will pledge their commitments. The road map will be subjected to a periodic scrutiny by the Strategic Task Force and revised as relevant.

Recommendation to PMU/UNOG

Recommendation 8: Find a solution to the legal problems surrounding the use of TA funds for project preparation

206. It is essential that the Fund has a TA-grant facility at its disposal for the financing of project preparation. Funds without such a facility find it difficult to build a project pipeline. UNECE/UNOG faces legal problems in agreeing to the FCA in its present form. The FCA commits UNECE to provide the financial resources for project preparation and, upon request from the Financial Coordinator, to contract consultants to turn promising project proposals into 'bankable' form. The exact issue of contention is not known to – or understood by - the evaluator. In the FCA case, neither the Fund Manager nor the Financial Coordinator will have access to public funds. In response to requests from the FCA, UNECE-PMU will sign contracts with consulting companies to assist project developers in the countries to develop their projects to 'bankable standards'. The existence of a grant finance facility to support project developers in improving the quality of their finance applications to "bankable standards" is a core feature of successful donor funded EE&RE finance projects. UNECE informed the following: "UNECE has been unwilling to become a party to the FCA because the Fund is conceived as a commercial venture, and the UN cannot provide explicit or implicit performance guarantees to investors. UNECE has requested assistance from the UN Office of Legal Affairs in formulating the appropriate language enabling UNECE to continue providing TA." The evaluator has still no idea what the issue is: project developers are private ventures and the Fund is a private venture. The TA facility helps project developers in preparing bankable project proposals, by doing so it helps the Fund in getting an adequate project pipeline, which reduces the transactions costs of the Fund. The whole structure is a PPP. The evaluator recommends UNECE/UNOG to contact colleagues at the World Bank, IFC, EBRD, IDB, ADB as these institutions have experience with implementing these type of private-public structures to be informed how that can be done without legal problems.

Recommendation 9: Continue the awareness efforts concerning basic features of the Fund

207. Despite the valuable efforts made by the PMU and by its contracted consultants, essential features of the Fund are not yet fully understood by NPIs and NCs (e.g. that it provides risk finance, not conventional loan finance, as the question of interest rates charged on mezzanine finance continues to be raised - see chapter 2). The PMU and the Fund Designer have an awareness job to do to make the NPIs and NCs understand that the Fund provides risk finance and management skills are required to structure and operate sophisticated financial instruments and risk-share mechanisms which help enhance project returns and mitigate risk. Having a greater breadth of perspective than the typical project sponsor, the FC and Fund Manager are better placed to syndicate competitively priced project debt. The message must also be passed that the investment in the national support structure in the form of NPIs and NCs should be seen as a useful investment for the facilitation of RE&EE finance in general and not just exclusively for the purposes of this Fund. Once the investor solicitation round has been completed, and provided it

has been successful, the PMU should organize a workshop on the specific finance instruments provided by the Fund and the type of projects that will need the specific finance instruments offered by the Fund for representatives from the NPIs, Ministries of Finance, consultants, finance institutions.

Recommendation to PMU/Conning

Recommendation 10: To increase investor confidence, change the payment formula for the compensation of the Fund Manager towards outcome-based performance

208. Due to experiences with passive managers of RE-Funds, it is recommended to change the formula for the calculation of the 2 percent basis fee of the Fund Manager; instead of basing the 2 percent fee on paid-in capital into the Fund it should be based on committed fund investments out of the Fund. The formula will demonstrate confidence of the Fund Manager in the business model of the Fund. This will make it easier to convince potential investors to place money into the Fund.

7 Annexes

Annex I: Evaluation TORs

Project GF/4040-06- (2619) Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation

Mid-term Evaluation - Terms of Reference

PROJECT BACKGROUND AND OVERVIEW

a. Project General Information[42]

Project Title	Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation (FEEI)
Executing Agency	UNECE – United Nations Economic Commission for Europe
Project partners	Fonds Français pour l'Environnement Mondial (FFEM), Global Environment Facility (GEF), United Nations Foundation (UNF), European Business Congress (EBC) and European Bank for Reconstruction and Development (EBRD)[43]
Geographical Scope	Countries of Eastern and South-Eastern Europe and Central Asia

[42] UNEP GEF PIR FY10

[43] Co-implementing Agency, yet to be confirmed by EBRD

Participating countries	Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kazakhstan, Moldova, Romania, Russian Federation, Serbia, the Former Yugoslav Republic of Macedonia, Ukraine		
GEF project ID	2619	**IMIS Number**	GFL-2328-2721-4961
Focal Area(s)	Climate Change	**GEF OP**	3, Climate change mitigation
GEF Strategic Priority/Objective	Climate change mitigation and energy efficiency promotion by removing barriers to the large-scale application, implementation, and dissemination of cost-effective, energy-efficient technologies and practices	**GEF Approval Date**	Oct 25, 2006
UNEP Approval date	1 Mar 2007	**First disbursement**	Sep 2007
Actual start date	Sep 2007	**Planned duration**	84 months
Intended completion date	Feb 2014	**Actual or Expected completion date**	Feb 2014
Project type	Encouragement of a market formation in energy efficiency	**GEF Allocation**	USD 3,000,000
PDF GEF costs	0	**PDF Co-financing**	USD 200,000
Expected MSF/FSP Co-financing	USD 9,060,000	**Total Cost**	USD 12,260,000
Mid-term review/eval. (planned date)	-	**Terminal Evaluation (actual date)**	Year 2014
Mid-term review/eval. (actual date)	-	**No. of revisions**	None
Date of last Steering Committee meeting	11 June 2010	**Date of last revisions**	N/A

Disbursement as of 30 June 2009	USD 1,500,000	**Date of financial closure**	N/A
Date of completion	N/A	**Actual expenditures reported as of 30 June 2009**	USD 1,079,900
Total co-financing realized as of June 2007	USD 3,733,730	**Actual expenditures entered in IMIS as of 30 June 2009**	USD 1,079,900
Leveraged financing	none		

b. Project Rationale

1. Eastern European and CIS countries suffer from severe economic and environmental problems caused by inefficient and polluting energy systems, whose intensity increased sharply during the first decade of economic transition up to a level two/four times higher than western market economies.
2. The reform of energy process and subsidies is on the macro-economic agenda of most of these countries. With the rise of energy prices and several energy market deregulation reforms introduced, energy efficiency and renewable energy technologies are becoming to become commercially attractive. The investment potential in Eastern Europe for energy efficiency projects with a payback period of less than 5 years is estimated to be between USD 5 and 10 billion. The investment volume is so large that the private sector needs to participate in financing such projects.
3. The unavailability of project financing from dedicated financial instruments remains the major bottleneck to the dissemination of renewable energy/ energy saving measures. Markets do not provide yet opportunities for large investments to be made with low transaction costs that produce adequate returns at an acceptable risk within a reasonable period of time, and banks and private sector investors remain hesitant to commit themselves to this type of projects. Moreover, decision makers still lack the confidence and experience to promote energy efficiency and renewable energy investments, while energy managers do not have yet the expertise in preparing banking proposals.
4. Experience proved that setting up Energy Service Companies (ESCOs), that have both the technical expertise and the financial capabilities to invest in energy efficiency measures and/or renewable energy projects, is one of the best ways to address the issue of financing energy efficiency investments. Eastern European and CIS countries unfortunately lack this kind of private structures, mainly because the local potential ESCO sponsors do not have the equity basis to form such companies, as well as miss the adequate level of reliability and creditworthiness.
5. Building technical and financial engineering skills, removing policy barriers and giving local stakeholders experience in financing investments are some of the key changes needed to actually achieve Green House Gas emissions' reductions on a large scale. Moreover, providing a dedicated funding resource where both the public and the private sectors can participate is a key step to meet the huge capital needs that are required to achieve a real impact on the energy production and used patterns in these countries.
6. During the last few years, national programmes together with bilateral and international support have begun to develop the policy reforms and financial engineering skills needed for energy efficiency and renewable energy investments. Various programmes – funded by the World Bank, the EBRD and the

Nordic Investment Bank – have demonstrated that financing energy efficiency investments in Eastern Europe that reduce Global Greenhouse Gas (GHG) emissions is a time-consuming and labour intensive process that needs to become significantly more fluid to succeed on a meaningful scale. As such, the FEEI project was conceived to promote the formation of an energy-efficiency market in Eastern Europe and the CIS, such as that local investments could finance the reduction of GHG without any further external support.

7. The FEEI project proposal followed the completion of earlier and continuing work on developing energy efficiency investment projects in selected countries by the UNECE Efficiency 21 project[44]. Delegations from all proposed beneficiary countries requested UNEP and UNECE to assist in the preparation of the project, which was submitted to the GEF, UNF and FFEM during the annual EE21 meeting in 2003. Participants to the Seminar on Financing Energy Efficiency Investments in Eastern Europe (2003) and following interGovernmental meetings of international experts endorsed the recommendation to develop an investment fund for present or future investment project proposals by selected countries.

c. Project objectives and components

8. The FEEI project was designed to remove key barriers to energy efficiency and energy conservation in twelve Eastern European and CIS countries with economies in transition[45], by addressing the:

- Lack of expertise of local financial institutions in preparing bankable proposals - to enhance their knowledge of market prospects and, as a result, make them more incline to provide additional financing;
- Lack of awareness in national Governments, local authorities and private sector representatives of energy efficiency and renewable energy issues - to pave the way for the creation of a non-distorted energy market;
- Lack of a dedicated equity funding sources where the private sector contributes - to fulfil the large capital requirements for emissions' reductions and thus have a real impact on the growing market of energy efficiency technologies in the region.

9. The project aims to establish a dedicated financial facility for energy efficiency and renewable energies that could serve as a vehicle for the large-scale participation of private sector investors in partnership with public entities. The proposal was to support the development of a USD 250 million public-private equity Fund that would be able to complement other funding schemes in some of the targeted countries and, as a result, leverage an investment volume of up to USD 2 billion for energy efficiency and renewable energy projects.

10. The project has three objectives/components:

Objective 1 – Identify and develop investment projects: develop skills of the public and private sector experts at the local level to identify, design and submit bankable projects for financing to the Fund manager.

[44] http://www.ee-21.net/

[45] Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kazakhstan, Moldova, Romania, Russian Federation, Serbia, FYR of Macedonia, Ukraine. Albania, Bosnia and Herzegovina, Croatia and Moldova were not included in the initial project proposal. As of January 2011, Romania has temporarily suspended its participation in the project.

Objective 2** – **Strengthen energy efficiency policies: raise the general awareness regarding energy efficiency and renewable energy and provide assistance to municipal authorities and national administrations to introduce economic, institutional and regulatory reforms needed to support the investment proposals developed in the framework of the project.

Objective 3 – Promote opportunities for commercial sector investors: establish a Public-Private Partnership (PPP) fund (around 65% private and 35% public), develop Investment Project Development Standards and a software package for the inventory of project pipeline.

d. Main Project Activities

11. The project was approved in November 2005. The project document was signed by GEF and UNECE, as Executing Agency, in March 2007 and finalized in June 2007, as the signature by other co-financiers took some time. The project has an expected duration of seven years, with completion date set in February 2014. However, UNECE has signed separate project documents with FEEM and UNF/UNFIP which partly differ from the UNEP/GEF document and indicate, for example, a project's duration of 48 months (instead of 84), beginning 1 January 2008.
12. Activities and outputs to be pursued under each objective, according to different planning and reporting documents[46], are listed below.

Table 1A: Project Activities

Objective/ Component	Outputs	Activities
1. Identify and develop investment projects	1.1 A network of energy efficiency managers in participating countries	Select National Coordinators and National Participating Institutions
		Organize Ad Hoc Groups of Experts
		Identify Project Preparation Teams
		Maintain and update existing national websites
		Design and launch project regional website
		Develop and maintain an on-line project development software
		Develop on-line training modules on communications and software use by local teams

[46] Sources: Prodoc for CEO Approval, UNEP GEF PIR, Draft work plans for project operations (presented to the Steering Committee of the Energy Efficiency 21 Project)

	1.2 Trained experts in project development, finance, business planning	Select trainers for Investment projects' development and financial engineering
		Prepare, translate and publish a Capacity Building Assessment Report
		Prepare a Business Development and Project Preparation Training Course Curriculum
		Conduct Training/ Business Development Courses, with remote assistance via internet in case of need
		Link training course materials, filmed instruction to internet dissemination
	1.3 Investment project pipeline	Identify selection criteria for projects
		Provide Project Development Advisory Services
		Prepare a set of investment project proposals
		Assess economic, technical and financial viability of projects
		Prepare written evaluation of projects for clearance, reformulation or rejection
		Revise, reformulate projects with sponsors, advice supporting policy reforms
2. Strengthen energy efficiency and renewable energy policies	2.1 Economic, Institutional and Regulatory reforms	Finalize and publish a Regional analysis of policy reforms, including case studies by the NPIs
		Conduct three workshop for international and local experts
		Prepare 10 case studies of individual projects (incl. Strategy Studies on Inter-fuel Substitution)
	2.2 Energy efficiency seminars	Analyse implementation of energy conservation laws and regulations
		Prepare presentations of reforms linked to case study policy bottlenecks

		Conduct three policy seminars on policy reforms
		Disseminate policy reform recommendations
	2.3 Policy Advisory Services	Review barriers to energy efficiency and assess reforms required for financing (with the Fund Manager)
		Provide policy advisory service on energy policy reforms through missions to participating countries
		Launch an Analysis of Economic and Environmental Impact of Policy Reforms
		Conduct consultative meetings with policy makers, NPIs and Investment Fund Manager
		Conduct evaluation of national experiences in adoption of recommended policy reforms
3. Promote opportunities for commercial banks and companies to invest	3.1 Energy Efficiency Investment Fund[47]	Select a Lead Investor and an Investment Fund Manager
		Conduct missions to potential investors (workshops and seminars)
		Prepare and translate a Report on Public and Private Sector Investor Interest
		Prepare Abridged Terms of Transaction and an Investment Memorandum to public and private sector investors
		Design and launch the public-private Investment Fund
		Finalize agreements with investors
		Provide financial advisory services
	3.2 Investment project development	Create a Standards Working Group
		Draft a set of Investment project standards

[47] The original Prodoc also included the recruitment of legal and fiscal adviser(s)

	standards	Develop a Standard Format for Project Preparation and Software Applications
	3.3 Communication tools for Investment project pipeline	Set up a Software Development Team
		Prepare Project Identification Forms
		Prepare and deliver to local teams a Project Pipeline Software Package
		Launch a project pipeline inventory of projects and put it on-line (project website)

13. According to the latest PIR, as of June 2010, the degree of implementation of project activities was as follows[48]:

Table 1B: Project Activities Implemented as of June 2010

Objective	**State of the Art and recent accomplishments**	**Outputs**	**State of the Art and recent accomplishments**
1 - Identify and develop investment projects	In the framework of MOUs, 5 NPIs are preparing project proposals for equity and/or mezzanine finance, in cooperation with the Investment Fund Designer. A pipeline of firm projects is yet to be disclosed	1.1. A network of energy efficiency managers in participating countries	• The network of energy efficiency managers in participating countries is functioning
		1.2. Trained experts in project development, finance, business planning	• Selection of trainers is on-going • First training held in the Russian Federation
		1.3 Investment project pipeline	• MoU are signed with 5 NPIs
2 - Strengthen energy efficiency and renewable energy policies	The appraisal of current energy efficiency policies in the participating countries was	2.1. Economic, Institutional and Regulatory Reforms	• Seminar on Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments

48 Please note that in the PIR 2009 and 2010 the attribution of project outputs to the three components was changed. It seems like the order of the numbers was inverted, e.g. Output 1.2. became 2.1, Output 1.3 became 3.1 etc. The table here follows the original logical framework.

	conducted and presented in the Regional Analysis of Policy Reforms to Promote Energy Efficiency and Renewable Energy Investment Report. Recommendations for policy reforms were issued		• Workshop on Case Studies on Overcoming Barriers to Investments into Energy Efficiency and Renewable Energy Projects through Policy Reforms
		2.2 Energy Efficiency Seminars	• Two seminars held in Geneva
		2.3. Policy Advisory Services	• MoU with ADEME signed and assignment (provision of advisory services on energy policy) completed
3 - Promote opportunities for commercial banks and companies to invest	A draft design for the investment fund has been proposed and commented on. A lead investor is yet to be presented.	3.1 Energy Efficiency Investment Fund	• FCA, LPA, PPM have been prepared and submitted to the PMU
		3.2 Investment Project Development Standards	• Introductory meeting in Geneva • Work on identification of existing standards in progress
		3.3. Communication tools for Investment Project Pipeline	• Software selected and used for online communication and exchange of experiences among project participants

e. Executing Arrangements

14. The implementation of the project was co-assigned to the UNEP Division of Technology, Industry and Economics (DTIE) and the European Bank for Reconstruction and Development (EBRD). However, as of December 2010, EBRD had not confirmed its role as co-implementing agency.

15. According to the project document, executing arrangements were planned as follows:

    (a) UNEP/DTIE keeps the responsibility for the scientific project oversight, coordination with other GEF projects and internal reporting to the GEF Secretariat on the progress of the project. UNEP is also responsible for reporting to the national registries and/or international inventories the impact of the project activities in terms of emission's reductions.

    (b) EBRD participates in the structuring and implementation of PPP fund by: i) advising the private lead investors and the Fund Manager on the appropriate Fund structure; ii) helping elaborating the investment guidelines for the Fund; and iii) performing due diligence according to the Bank's procedures on the proposed fund's management.

(c) The UN Economic Commission for Europe (UNECE) acts as executing agency, through a Project Management Unit (PMU) within the Sustainable Energy Division and under the auspices of the Energy Efficiency 21 (EE21) Programme of the Committee on Sustainable Energy.

(d) The UN Office of Geneva (UNOG) is responsible for the financial administration of the project activities.

16. As a sub-regional project of Energy Efficiency 21, the project is the direct responsibility of the Ad Hoc Group of Experts (AHGE) on Energy Efficiency Investments for Climate Change Mitigation, which operates as a Steering Committee to the project and, as such, is tasked with the provision of institutional oversight, monitoring and evaluation of the project activities. AHGE also approves at its annual sessions the Annual Workplan for Project Operations.

17. Each supporting institutions participates in the AHGE, including: National Coordinators (NCs) and representatives of National Participating Institutions (NPIs) appointed by the Government of the participating countries of the project[49]; members of UNEP and ECE Secretariats, as well as representatives of the co-financing partners and other international financial institutions active in the region[50]. A Monitoring and evaluation adviser participates as observer.

18. Three contractors - Poyry Energy Consulting AG, the Center for Energy Efficiency EnEffect, and Conning Asset Management Ltd - were selected for the regional analysis, website and Internet communications management, and the fund design respectively.

19. The French Environment and Energy Management Agency (ADEME) was offered a grant to provide advisory services on energy policies in the twelve participating countries. Training and Business Development courses have been conducted by selected individual trainers.

f. Project Costs and Financing

[49] National Coordinators are appointed by Governments, in consultation with the relevant GEF Focal Points. NPIs are generally a Ministry, Government agency or professional NGO to which is assigned the responsibility for international sustainable energy and climate change mitigation projects.

[50] EBRD, WB, IFC, NIB, Black Sea Development Bank, EIB and the Council of Europe Development Bank

20. The FEEI project's total budget is USD 12.06 million, broken down among its three components as follows:

- Objective 1: USD 4.45 million (35.3%)
- Objective 2: USD 3.9 million (32.3%)
- Objective 3: USD 3.27 million (27.1%)

USD 440,000 have been allocated to monitoring and evaluation.

21. GEF contribution to the technical assistance project budget accounts for USD 3 million. Additional USD 4.86 million is expected from co-financing arrangements with the United Nations Foundation (UNF), the European Business Congress, and the Fonds Français pour l'Environnement Mondial (FEEM)[51].

Table 2. Project Financing by Co-financing Partner and Component[52]

Component	**Total Cost** (USD million)	*Co-financing*					8 GEF
		UNF	**FFEM**	**EBC**	**UNECE**	**Region**	
1. Develop expert skills and prepare bankable projects	4.450	0.920	0.650	0.130	1.100	0.700	0.950
2. Assistance policy reforms to support investments	3.900	0.500	0.520	0.130	1.100	0.700	0.950
3. Establish public-private equity fund	3.270	0.500	1.170	- -	0.600	- -	1.000
4. Monitoring and Evaluation	0.440	0.080	0.260	- -	- -	- -	0.100
Total	12.060	2.000	2.600	0.260	2.800	1.400	3.000

51 USD 2 million from UNF and the UN Fund for International Partnerships; USD 2.6 million from the FFEM and USD 260,000 from the European Business Congress.

52 Adapted from the Prodoc

22. In-kind contributions from the UNECE Secretariat and the participating countries amount to USD 2.8 and 1.4 million respectively. A contribution from national counterparts is in fact expected in terms of project offices, equipments, IT services, and coverage of personnel costs including those related to the participation in training courses for business planning and financial engineering. The facilities and personnel services provided on an in-kind basis for project operations are estimated to be approximately USD 25,000 per year.

TERMS OF REFERENCE FOR THE EVALUATION

A. Objective and Scope of the Evaluation

5. The Mid-term evaluation of the project "Financing Energy Efficiency and Renewable Energy Investments for Climate Change Mitigation" (FEEI) will serve a two-fold accountability and learning objective. On one side, the evaluation is undertaken to assess the project's performance in terms of efficiency and effectiveness, by looking at the extent to which activities were implemented as planned and confronting actual results against intended outputs. The risks to the achievement of project outcomes and objectives will be appraised as well. On the other, the evaluation will focus on identifying the corrective actions to be implemented in the second term for the project to achieve its objectives and maximum impact. Evaluation findings will feed back into project management processes through specific recommendations and lessons learned to date. Evaluation findings will contribute to future project management decisions about the continuation of project activities.

6. The evaluation will focus on the following main questions:

- Does the methodology of the FEEI project contribute towards the achievement of the project objectives in the targeted countries:
  - d. Identification and development of investment projects;
  - e. Strengthening of energy efficiency policies;
  - f. Promotion of opportunities for commercial sector investors?

- Is the project likely to achieve the expected outcomes and objectives in its lifetime, with special concern for the PPP Fund's development in the current financial crisis scenario?
- If the full development of the PPP Fund is considered feasible in the project time-frame, which support mechanisms are to be put in place to provide the technical assistance and advisory services originally expected from EBRD?

B. Overall approach and methods

7. The mid-term evaluation will be conducted under the overall responsibility of the UNEP Evaluation Office (EO). It will be an in-depth evaluation using a participatory approach whereby the UNEP Task Manager, key representatives of UNEP, the Project Management Unit and other relevant staff are kept informed and consulted throughout the evaluation process. The consultant will liaise with the UNEP EO and the UNEP Task Manager on any logistic and/or methodological issues to properly conduct the assessment in as independent a way as possible, given the circumstances and the resources offered.

8. The findings of the evaluation will be based on the following:

a) A desk review of project documents including, but not limited to[53]:

- Relevant background documentation, including - inter alia – relevant information on already existing schemes (by EBRD, other GEF implementing agencies and financial organizations operating in the region) aimed at supporting local banks in granting energy efficiency loans or developing other financing mechanisms in the project target countries;
- Preparatory papers and the approved project document;
- Implementation and partnership agreements;
- Project monitoring reports (such as progress and financial reports, Ad Hoc Group of Experts meeting minutes, Annual Project Implementation Review (PIR) reports to GEF, Notes to the Steering Committee of the Energy Efficiency 21 Project) and relevant correspondence;
- Project outputs, such as: Fund-related documents (Financing Coordination Agreement, Limited Partnership Agreement, Private Placement Memorandum), Project identification form for bankable projects, Project developer profile, Newsletters, Manual on Business Planning, the Investor Interest and Capacity Building Needs report, as well as policy papers (the Regional Analysis of Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments report, the Assessment of Potential and Best Alternatives for Investment in Implementing Inter Fuel Substitution in Selected Municipalities of the Federal District of Siberia);
- Project website (www.feei.info), linked national websites, and relevant material published there;

b) Interviews (in person or phone calls/email) with:

- Task Manager in UNEP/DTIE, Paris;
- Project Management Unit staff, located within UNECE (Executing Agency), Geneva;
- Concerned parties in the European Bank for Reconstruction and Development (EBRD) and co-financiers;
- Members of the Ad Hoc Groups of Experts;
- Policy advice providers (ADEME, Renaissance Finance International, Energy Efficiency Center, etc) and contractors selected for the regional analysis, website and Internet communications management, and the fund design;

The consultant shall determine whether to seek additional information and opinions from representatives of donor agencies and other organizations, as deemed most appropriate. Interviews could be combined with an email questionnaire.

c) Visits to five target countries[54], to conduct interviews with National Coordinators, concerned parties in National Participating Institutions, GEF Focal Points, Government officials and public sector investors, local banks and financial companies, other intended users of project outputs. The visits will also be an opportunity to seek the views of stakeholders who participated in the different trainings and assess the project's effectiveness in this respect.

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53 Documents to be provided by DTIE are listed in Annex 6

54 Russia, Belarus, Kazakhstan, Croatia and Bulgaria

C. Key Evaluation principles

9. Evaluation findings and judgements should be based on sound evidence and analysis, clearly documented in the evaluation report. Information will be triangulated (i.e. verified from different sources) to the extent possible, and when verification was not possible, the single source will be mentioned[55]. Analysis leading to evaluative judgements should always be clearly spelled out.

10. In attempting to evaluate any outcome and impact that the project may have achieved, the evaluator should consider the difference between what has happened with and what would have happened without the project. This implies that there should be consideration of the baseline conditions and trends in relation to the intended project outcomes and impacts. This also means that there should be plausible evidence to attribute such outcomes and impacts to the actions of the project. Sometimes, adequate information on baseline conditions and trends is lacking. In such cases this should be clearly highlighted by the evaluator, along with any simplifying assumptions that were taken to enable the evaluator to make informed judgements about project performance.

11. The evaluation will assess the project with respect to a minimum set of evaluation criteria grouped in four categories: (a) Attainment of objectives and planned results (progress to date), which comprises the assessment of outputs achieved to date, relevance, efficiency, effectiveness and the review of outcomes towards impacts (ROtI)[56]; (b) Sustainability and catalytic role, which focuses on financial, socio-political, institutional and ecological factors conditioning sustainability of project outcomes, and also assesses efforts and achievements in terms of replication and up-scaling of project lessons and identified good practices; and (c) Processes affecting attainment of project results, which covers project preparation and readiness, implementation approach and adaptive management, stakeholder participation and public awareness, country ownership/driven-ness, project finance management, UNEP supervision and backstopping, and project monitoring and evaluation systems.

12. All evaluation criteria will be rated, either on a four-point or six-point scale. Annex 2 provides detailed guidance on how the different criteria should be rated and how ratings should be aggregated for the different evaluation criterion categories.

D. Evaluation criteria

a. Attainment of objectives and planned results (progress to date)

13. The evaluation should assess the relevance of the project's objectives and the extent to which these were already achieved or are expected to be achieved. The evaluation will assess whether any delay in project implementation has affected the achievement of project outputs and efficiency and, if so, in what ways and through which causal linkages. The evaluation will finally indicate if any change with respect to the project plan occurred and whether those changes were approved.

[55] Individuals should not be mentioned by name if anonymity needs to be preserved.

[56] See Annex 5

(a) *Achievement of Outputs and Activities*: The evaluation will assess the project's success in producing each of the programmed outputs as presented in the ProDoc, both in quantity and quality, as well as their usefulness. These will include: fund-related planning documents, projects' eligibility criteria, project developers and investors' profiles, first set of project proposals, training manuals, course curricula, and policy papers. The evaluation will briefly explain why the project was successful or less successful in achieving its different outputs, cross-referencing as needed to more detailed explanations provided under Section "c" (which covers the processes affecting attainment of project objectives).

(b) *Relevance*: The evaluation will assess, in retrospect, whether the project's objectives and implementation strategies are consistent with: i) Environmental issues and needs related to developing and financing renewable energy / energy efficiency projects in target countries; ii) strategies of domestic and international investors and public/private sector partners; iii) the UNEP mandate, policies and programme of work at the time the project was designed and implemented; and iv) the GEF Climate Change focal area's strategic priorities and GEF operational programs 5 and 6[57].

(c) *Effectiveness*: The evaluation will assess to what extent the stated project objectives have been met, taking into account the schedule of project operations and the achievement indicators specified in the project documents. The evaluation will give particular attention to the following: i) project awareness activities being able to reduce high-risk perceptions among investors; ii) skills developed in participating countries to identify and submit bankable projects; iii) use of produced information (including an assessment of distribution channels for project's effectiveness); iv) degree of interactions among project's participants through the created network; and v) impact of produced policy papers on reform process at national level so far.

(d) *Efficiency*: The evaluation will assess the cost-effectiveness and timeliness of project execution, and describe any cost- or time-saving measure taken to bring the project to a successful implementation within the programmed time and budget. The evaluation will analyse how delays, if any, have affected project execution, cost and effectiveness. The evaluation will give special attention to efforts by the project team to make use of pre-existing methods, data sources and assessment programmes (e.g. previous studies on policy reforms) and to make synergies with related initiatives in the region. Wherever possible, it will compare the cost and time results ratios of the project with that of other similar projects.

(e) *Review of Outcomes to Impacts (ROtI)*: The evaluation will appreciate, to the extent possible, any progress made towards impacts, taking into account achieved outputs and outcomes, assumptions and impact drivers, using the methodology presented in the GEF Evaluation Office's ROtI Practitioner's Handbook[58] (summarized in Annex 5). The analysis should revolve around the quality of the logical framework and consider whether the necessary impact drivers (incl. resources) have been present and assumptions surrounding the project follow-up remained valid.

b. Sustainability and catalytic role

14. Sustainability is understood as the probability of continued long-term project-derived outcomes and impacts after the external project funding and assistance end. Being this a mid-term exercise, the evaluation will focus on identifying and assessing any key conditions or factors that could contribute to or rather undermine the persistence of benefits. Some of these factors might be outputs or outcomes of the project (e.g. stronger institutional partnerships or better informed decision marking); others will include contextual circumstances or developments (e.g. global financial crisis). The evaluation should also ascertain to what extent any follow-up work has been initiated and, to the extent possible, how project outcomes have been sustained and

[57] GEF OP 5 Removal of barriers to energy efficiency and energy conservation; OP6 Promoting the adoption of renewable energy by removing barriers and reducing implementation costs.
[58] http://www.thegef.org/gef/sites/thegef.org/files/documents/Impact_Eval-Review_of_Outcomes_to_Impacts-RotI_handbook.pdf

enhanced over time. In this case, sustainability will be above all linked to the capacity of the project of closing the gap among the three components' degree of implementation, and link up policy advice and training with the set up of the Fund and the finalization of the projects' pipeline.

15. Four aspects of sustainability should be addressed: financial, socio-political, institutional frameworks and governance, and environmental (to the extent possible). The following questions provide guidance on the assessment of these aspects:

    a. *Socio-political sustainability*: To what extent are the outcomes of the project dependent on socio-political factors? Are there sufficient public and stakeholder awareness, interest and incentives in support of the long term objectives of the project? Are there any social or political risks that may influence positively or negatively the sustenance of project outcomes and progress towards impacts?

    b. *Financial resources*: Are there any financial risks that may jeopardize sustenance of project outcomes and onward progress towards impact? To what extent are the outcomes and eventual impact of the project dependent on continued financial support? Was the project successful in identifying and leveraging co-financing and contributions from private and public sector stakeholders? The evaluation will give particular attention to the extent the planned PPP Fund's structure is likely to reduce risk perceptions and increase capital flows from financial institutions and other investors, in the current global finance scenario.

    c. *Institutional framework and governance*: To what extent is the sustenance of the outcomes and onward progress towards impacts dependent on issues relating to institutional frameworks and governance? What is the likelihood that institutional achievements, legal frameworks, policies and governance structures and processes will allow for the sustenance of project outcomes? The evaluation will give particular attention to the likelihood of ESCOs' success in the long-term and whether the project has adequately taken into account the existence of (or need to set up) networks of competitive service and equipment providers in the countries of operations.

    d. *Environmental sustainability.* Are there any environmental factors, positive or negative, that can influence the future flow of project benefits? Are project outputs and outcomes likely to affect the environment, which, in turn, might affect sustainability of project benefits?

As far as possible, the evaluation will identify the project's potential longer-term impact (to be seen in a few years time) and will formulate recommendations that outline possible approaches and necessary action to maximize it.

16. **Catalytic role and replicability.** The mid-term evaluation will assess any catalytic effect already played by this project and any replication of project activities and methodology. The **catalytic role** of UNEP and the GEF is embodied in their approach of supporting the creation of an enabling environment, investing in activities which are innovative and showing how new approaches and market changes can work. UNEP and the GEF aim to support activities that upscale new approaches to a national, regional or global level, with a view to achieve sustainable global environmental benefits. **Replication**, in the context of GEF projects, is defined as lessons and experiences coming out of the project that are replicated (experiences are repeated and lessons applied in different geographic areas) or scaled up (experiences are repeated and lessons applied in the same geographic area but on a much larger scale and funded by other sources).

17. The evaluation will assess the approach adopted by the project to promote replication effects and appreciate to what extent actual replication has already occurred or is likely to occur in the near future, with special attention given to dissemination strategies used to promote project outputs, positive experiences and lessons learned.

18. The evaluation will generally look at the degree the project has so far:

- ✓ provided *incentives* (social, economic, market based, competencies, perceived risk reductions etc.) to catalyze changes in stakeholder behaviour;
- ✓ created opportunities for particular individuals or institutions ("*champions*") to catalyze change, thanks to the capacities and know-how the project built;
- ✓ contributed to *policy changes* (on paper and in implementation of policy);
- ✓ contributed to sustained follow-on financing (*catalytic financing*) from Government, GEF or other donors.

c. Processes affecting attainment of project results

19. **Preparation and readiness**. To assess preparation and readiness, the evaluation will look at the extent to which:
    a. Project's objectives and components were clear, practicable and feasible within its timeframe;
    b. Lessons from other relevant projects were properly incorporated in the project design and a value-added approach with reference to existing schemes and projects was adopted;
    c. Stakeholders were adequately identified, and partnership arrangements properly defined with well-defined roles and responsibilities before the implementation;
    d. Capacities of executing institutions and counterparts were properly considered when the project was designed;
    e. Counterpart resources (staff, funding, facilities) were available when the project started.

20. **Implementation Approach and Adaptive Management**. This includes an analysis of approaches used by the project, its management framework, the project's adaptation to changing conditions, the performance of the implementation arrangements and partnerships, relevance of changes in project design, and overall performance of project management. The evaluation will:
    a. Ascertain to what extent the project implementation mechanisms outlined in the project document (starting from the collaborative relationship between Implementing and Executing Agencies and between the latter and executing partners) have been followed and were effective in delivering project outputs and outcomes. Were pertinent adaptations made to the approaches originally proposed?
    b. Assess the efficiency and effectiveness of project management, and the role and performance of execution arrangements at all levels. Pay special attention to the way relationships with executing partners have been administered, the extent to which GEF focal points and the National Participating Institutions have been involved, and how smooth the relationship between the latter and the PMU/lead investor has been;
    c. Identify administrative, operational and/or technical problems and constraints that influenced the effective implementation of the project, and how the project management and partners tried to overcome these problems;
    d. Assess the effectiveness of the AHGE as Steering Committee to the project (stemming from its composition, representativeness, regularity and frequency of meetings, and functioning feedback loop mechanisms in place) and other supervision/oversight mechanisms;

21. Stakeholder[59] Participation and Public Awareness. This consists of three related and often overlapping processes: (1) consultation, (2) stakeholder participation, and (3) information dissemination. The evaluation will specifically assess:
    a. The approach(es) used to identify and engage project partners. What were the strengths and weaknesses of these approaches with respect to the project's objectives?
    b. The project early engagement of private and public sector representatives (banks and financial companies, national agencies working on energy efficiency and renewable energy issues) in scoping their needs and interest in the fund' set-up.
    c. The extent to which the fund's design results from a consensus among the investors;
    d. Stakeholders' participation in project activities;
    e. The degree and effectiveness of communication and public awareness activities (including consultative meetings, workshops, and the distribution of project material through the website) undertaken during the implementation of the project.

22. The ROtI analysis should assist the consultant in identifying the key stakeholders and their respective roles, capabilities and motivations in each step of the causal pathway from activities to objectives to impact.
23. Country ownership / driven-ness: This criterion assesses the relevance of the project to national development and environmental agendas, partner country commitments, regional and interregional agreements. The evaluation will focus on the following aspects:
    a. Project's consistency with relevant Government plans and policies in selected countries;
    b. National stakeholders' involvement in the project's formulation and planning;
    c. National stakeholders' involvement in project activities, such as: training and workshops, review of energy policy reforms and following advisory services, preparation of investment proposals to be financed by the Fund, as well as the project Steering Committee;
    d. Financial contributions to the Fund by public partners;
    e. Whether, and how, awareness and capacity development activities have contributed to the set up of a conducive institutional environment to the deployment and financing of energy efficiency and renewable energy projects;
    f. The extent to which the effectiveness of the methods developed finally depends on political and institutional frameworks (this would be largely addressed under the sustainability criterion).

24. **Financial planning and management.** Evaluation of financial planning requires an assessment of the quality and effectiveness of financial planning and control of financial resources throughout the project's lifetime. The assessment will look at actual project costs by activities compared to budget (variances), financial management (including disbursement issues), and co-financing. The evaluation will:
    a. Verify the application of proper standards (clarity, transparency, audit etc.) and timeliness of financial planning, management and reporting to ensure that sufficient and timely financial resources were available to the project and its partners;
    b. Appreciate other administrative processes such as recruitment of staff, procurement of goods and services, preparation and negotiation of cooperation agreements etc. to the extent that these might have influenced project performance;

[59] Stakeholders are the individuals, groups, institutions, or other bodies that have an interest or stake in the outcome of the project. The term also applies to those potentially adversely affected by the project.

c. Provide a breakdown of actual costs and co-financing for the different project components, as well as the level of financial commitments to date;

d. Present to what extent (cash and in-kind) co-financing has materialized as expected at project approval (see Table 2);

e. Describe the resources the project has leveraged since inception and indicate how these resources are likely to contribute to the project's ultimate objective.[60]

f. On the basis of the elements above, assess the budget adequacy and suggest re-allocation of resources, as needed;

25. **UNEP Supervision and Backstopping.** The purpose of supervision is to verify the quality and timeliness of project execution in terms of finances, administration and achievement of outputs and outcomes, in order to identify and recommend ways to deal with problems which arise during project execution. Such problems may be related to project management but may also involve technical/ substantive issues in which UNEP has a major contribution to make. The evaluator should assess the effectiveness of supervision and administrative and financial support provided by UNEP including:

a. The adequacy of project supervision plans, inputs and processes;

b. The timely identification of issues/problems and suggestions for corrective measures to be implemented;

c. The realism and candour of project reporting and ratings (i.e. are PIR ratings an accurate reflection of the project realities and risks);

d. The quality of documentation of project supervision activities; and

e. Financial, administrative and other fiduciary aspects of project implementation supervision.

The evaluation will also assess UNEP contribution to the project's scientific oversight and the level of coordination with other GEF projects. The functionality and effectiveness of internal reporting mechanisms to the GEF will be as well appreciated.

26. **Monitoring and evaluation**. The evaluation shall include an assessment of the quality, application and effectiveness of project monitoring and evaluation plans and tools, including an assessment of risk management based on the assumptions and risks identified in the project document. The evaluation will appreciate how information generated by the M&E system during project implementation was used to adapt and improve project execution, achievement of outcomes and ensuring sustainability. M&E is assessed on three levels:

a. *M&E Design*. Projects should have sound M&E plans to monitor results and track progress towards achieving project objectives. An M&E plan should include a baseline (including data, methodology, etc.), SMART[61] indicators, data analysis systems, and evaluation studies at specific times to assess results. The time frame for various M&E activities and standards for outputs should be specified. The evaluator should concentrate on the following M&E design aspects:

- Quality of the project log-frame as a planning and monitoring instrument, including definition of specific mid-term and final targets;

[60] Leveraged resources are additional resources—beyond those committed to the project itself at the time of approval—that are mobilized later as a direct result of the project. Leveraged resources can be financial or in-kind and they may be from other donors, NGOs, foundations, Governments, communities or the private sector.

[61] Specific Measurable Achievable Relevant Time-bound

- SMART-ness of indicators: Are there specific indicators in the logical framework for each of the project objectives and outcomes? If so, are the indicators measurable, attainable, and relevant to the objectives and outcomes? Are the indicators time-bound?
- Adequacy of baseline information: To what extent have baseline information on performance indicators been collected and presented in a clear manner? Was the methodology for the baseline data collection explicit and reliable?
- Arrangements for monitoring: Have roles and responsibilities for monitoring activities been clearly defined? Were the data sources and data collection instruments appropriate? Was the frequency of various monitoring activities specified and adequate? In how far were project users involved in monitoring?
- Arrangements for evaluation: Have specific targets been specified for project outputs, also for mid-term exercises? Has the desired level of achievement been specified for all indicators of objectives and outcomes?

b. *M&E Plan Implementation.* The evaluation will verify that:

- the M&E system is operational and it has facilitated timely tracking of results and progress towards project objectives throughout the project implementation period;
- annual project reports and Progress Implementation Review (PIR) reports have been complete, accurate, timely and with well justified ratings;
- the information provided by the M&E system was used during the project to improve project performance and to adapt to changing needs.

c. *Budget for M&E activities*. The evaluation will determine the adequacy of budgetary resources allocated to M&E activities and whether the funds have been released in a timely fashion in the course of the project's implementation.

E. The Evaluation Team

27. The evaluation will be carried out by an independent consultant, specialised in the areas of energy efficiency and renewable energy finance and policies. The consultant will be responsible for collecting and analysing project data, and drafting the evaluation report.
28. The consultant will work under the overall responsibility of the UNEP Evaluation Office and (s)he will consult with the EO on any procedural and methodological matter related to the evaluation. It is, however, the consultant's individual responsibility to arrange for his/her travel, obtain documentary evidence, meetings with stakeholders, field visits, and any other logistical matters related to the assignment. (S)he will liaise with the UNEP/DTIE Task Manager, who will provide full support on any logistical issues, allowing the consultant to conduct the evaluation as independently as possible.
29. The consultant certifies to the EO that (s)he has not been associated with the design and implementation of the project in any way which may jeopardize his/her independence and impartiality towards project achievements and project partner performance. In addition, (s)he certifies that (s)he will not have any future interest in cooperating with the project's executing or implementing units within six months after the completion of his/her contract.

F. Evaluation Deliverables and Review Procedures

30. The evaluation report should be brief (no longer than 35 pages – excluding the executive summary and annexes), to the point and written in plain English. It must explain the purpose of the evaluation, exactly what was evaluated and the methods used (with their limitations). The report will present evidence-based and balanced findings covering all the evaluation criteria, consequent conclusions, lessons and recommendations, which will be cross-referenced to each other. The report should be presented in a way that makes the information accessible and comprehensible. Any dissident views in response to the evaluation findings will be appended in footnote or an annex as appropriate. Annex 1 includes the annotated outline the evaluation report is expected to follow.

31. The draft report shall be submitted to the Head of the Evaluation Office. The EO will review the report for clarity and comprehensiveness. When found acceptable, the Head of Evaluation will share the report with the Project Management Unit, the Task Manager and his supervisor for initial review and consultation. DTIE will forward the draft to project stakeholders, in particular EBRD, the members of the Ad Hoc Group of Experts, the Steering Committee of the EE21 project, and co-financing parties for review and comments. Stakeholders may provide feedback on any errors of fact and may highlight the significance of such errors in any conclusions. Consultations will be held between the consultant, EO staff, the Task Manager and key members of the project execution team. These consultations will seek feedback on the proposed recommendations and lessons. The EO will then collate all review comments and provide them to the independent consultant for consideration in preparing the final version of the report. The consultant will prepare a **response to any comments** that contradict his/her own findings and could therefore not be accommodated in the final report. This response will be shared by the EO with the interested stakeholders to ensure full transparency.

32. Submission **of the final Mid-term Evaluation report**. The final report shall be submitted by email to:

Segbedzi Norgbey, Head

UNEP Evaluation Office

P.O. Box 30552-00100

Nairobi, Kenya

Tel.: (+254-20) 762 3387

Fax: (+254-20) 762 3158

Email: segbedzi.norgbey@unep.org

The Head of Evaluation will share the report with the following persons:

Maryam Niamir-Fuller, Director

UNEP/Division of GEF Coordination

P.O. Box 30552-00100

Nairobi, Kenya

Tel: + 254-20-7624686

Fax: + 254-20-623158/4042

Email: maryam.niamir-fuller@unep.org

Edu Hassing, Project Task Manager and Task Manager Climate Change

UNEP Division of Technology, Industry and Economics

15 rue de Milan
75441 Paris Cedex 09
France

Tel: +33 (0)1 4437 1472

Fax: +33 (0)1 4437 1474

Email: edu.hassing@unep.org

33. The final mid-term evaluation report will be published on the Evaluation Office web-site www.unep.org/eou and may be printed in hard copy. Subsequently, the report will be sent to the GEF Office of Evaluation for their review, appraisal and inclusion on the GEF website.
34. As per usual practice, the Evaluation Office will prepare a quality assessment of the final report, which is a tool for providing structured feedback to the evaluation consultants. The quality of the draft evaluation report will be assessed and rated against both GEF and UNEP criteria as presented in Annex 4.

G. Resources and Schedule of the Evaluation

35. The mid-term evaluation will be undertaken by an independent consultant contracted by the UNEP Evaluation Office. The consultant will be hired for a total of 35 days, spread over a period of three months. After an initial briefing with the EO Officer in Paris, the consultant will collect background information, interview the Task Manager (in Paris) and the PMU staff involved in project implementation (in Geneva), before carrying out field visits for up to two weeks to five Eastern Europe and CIS target countries.
36. The consultant will submit the first draft report latest by 15 May 2011 to the UNEP EO and revise the draft following the comments and suggestions made by the EO within two weeks.
37. The EO will circulate the revised draft to project partners. Comments from stakeholders would be expected within two weeks after the draft report has been shared. Any comments or responses to the draft report will be sent to UNEP / EO for collation and the consultant will be advised of any necessary revisions. The consultant will submit the final report no later than two weeks after reception of comments by stakeholders.

H. Schedule Of Payment

38. The consultant will be hired under an individual Special Service Agreement (SSA). The fee will be estimated as a lump-sum, inclusive of all expenses such as travel, accommodation and incidental expenses.
39. The consultant will receive an initial payment covering the travel costs and the Daily Subsistence Allowance (DSA) upon signature of the contract. 40% of the honorarium portion of the fee will be paid upon acceptance of a draft report deemed complete and of acceptable quality by the EO. The remainder will be paid upon satisfactory completion of the work. In case the consultant is not able to provide the deliverables in accordance with these ToRs, and in line with the expected quality standards by the UNEP Evaluation Office, payment may be withheld at the discretion of the Head of the Evaluation Office until the consultant has improved the deliverables to meet UNEP’s quality standards.

40. If the consultant fails to submit a satisfactory final product to UNEP in a timely manner, i.e. within one month after the end date of their contract, the Evaluation Office reserves the right to employ additional human resources to finalize the report, and to reduce the consultants' fees by an amount equal to the additional costs borne by the Evaluation Office to bring the report up to standard.

Annex II: Terms of Reference for the Investment Fund Designer

(From UNOG's request for proposal)

Introduction

1. The Economic Commission for Europe (UNECE) is executing a project on financing energy efficiency investments for climate change mitigation in twelve countries in south Eastern Europe, Eastern Europe and Central Asia (the list of countries is indicated in section 3 below). The project is to promote market formation so that self-sustaining energy efficiency and renewable energy projects can be identified, developed, financed and implemented locally in participating countries. The project has the following three objectives:

Objective One: Identify and develop investment projects

Objective Two: Strengthen energy efficiency and renewable energy policies

Objective Three: Promote opportunities for commercial banks and companies to invest

2. A general outline of the project is attached hereto under **Appendix 1**.

Scope of Work

3. Under the third objective of the project, one activity provides for the establishment of a public private partnership investment fund. The present Terms of Reference (TOR) are established for the participation of a Contractor in line with the objectives, activities, outputs and budget of the Project Document to determine the most appropriate Fund Structure, with respect to the circumstances in the participating countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kazakhstan, Republic of Moldova, Romania, Russian Federation, Serbia, the former Yugoslav Republic of Macedonia and Ukraine. In this framework, the Contractor will:

1. Structure and prepare the investment fund including establishing the investment objectives, investment structures, commercial success criteria, sub-projects eligibility criteria, conditions, exclusions and restrictions, hurdle rate, expected returns, exit strategy, coverage by sector and geographical coverage, potential fund size, market, management structure and costs, etc;

2. Analyse the financial, legal and fiscal issues including the capital structure and all necessary legal arrangements with investors;

3. Solicit public sector entities from both the targeted countries and other western countries as well as private sector investor participation, on the basis of an investment memorandum to be prepared as part of the activity and in particular identify one or several potential Lead Investor(s) with which the Fund structure will be fine-tuned;

4. Prepare the terms of reference for an experienced fund manager.

Tasks of the Contractor

4. In particular, the Contractor will:

· Review similar previous initiatives in setting up Funds in the energy and infrastructure sectors,
· Analyse the extent to which the provision of debt could complement the instrument for the needs of the targeted countries,

· Recommend the most appropriate financing tools to be used by the Fund,

· Propose a structure for the Fund that takes into account the objective of creating a public-private partnership,

· Establish the Fund's guidelines and procedures,

· Define the prudential rules of the Fund and suggest, in particular, the necessary conditions, exclusions and restrictions,

· Suggest the composition of the various governance bodies (Board of Directors, Policy Committee, Investment Committee, Audit Committee, etc),

· Define all legal aspects related to the establishment of the Fund and its relationship with its investors,

· Suggest the most appropriate solutions with respect to solving the fiscal issues in the best interest of the investors, including analysing the most suitable location for the Fund,

· Prepare the legal documentation as a template serving as a basis for the negotiations with the potential investors in the Fund,

· Determine in this respect the role of the Fund Manager and prepare the terms of reference for its selection,

· Draft the Fund Placement Memorandum including a detailed Business Plan for the Fund and serve as an advisor to the Project management Unit set up by UNECE and the Lead Investor(s) during the road show for the Fund presentation and the discussion with potential investors.

Contractor Qualifications and Experience

5. The contractor must have the following qualifications, capacities and experience:

· Proven expertise in private equity ;

· Proven expertise in project finance;

· Proven expertise in public/private partnerships;

· Demonstrated capacity of establishing easy and fluid relationships with large financial and /or industrial groups;

· Documented experience in the development of investment funds for energy efficiency and renewable energy project finance including relations with development banks, commercial banks and/or private or public investors;

· Detailed knowledge of the investors perspective regarding participation in financial mechanisms targeting environmental investments;

· Familiarity with and experience in equity and mezzanine financing and investment project development in central and eastern Europe.

Timing, Duration and Level of Effort

6. The tasks described above will be implemented during the first year of the four-year project on the basis of a contract established at the beginning of the project operations. Key data and information related to the investment Fund under Objective Three will be collected and analysed during the first six months of the contract.

Annex III: List of people met for interviews

Paris (March 22-25)

UNEP

Edu Hasssing, Task Manager, Climate Change, DTEI, UNEP Paris

Bernard Jamet, Director, Technology, DTEI, UNEP Paris

ADEME

Thierry Meraud, International Expert, International Affairs Division

FFEM/French Ministry of Foreign Affairs

Dominique Le Masne, Sous-Direction Climat-Energie

Jacquelin Ligot, independent consultant, evaluation consultant of FEEI-project contracted by FFEM

London (March 30)

EBRD

Terry McCallion, Director, Energy Efficiency and Climate Change

Peter Hobson, Senior Banker and Renewable Energy Coordinator

Conning Asset Management

Markus van der Burg, Managing Director

Geneva (March 31 – April 1, April 18-19)

UNECE

Scott Foster, Director, Sustainable Energy Division

Alexandre Chachine, Chief Sustainable Energy Section, Sustainable Energy Division

Oleg Dziboubinski, Economic Affairs Officer, EE-21 Programme Manager, Sustainable Energy Division

Nadejda Khamrakulova, Associate Programme Officer, EE-21 Programme, Sustainable Energy Division

Frederic Romig, Excecutive Vice President Government Affairs, Living Planet; former Director Sustainable Energy Division

UNOG

Boi-Lan Lemoine, Chief, Procurement and Contracts Unit

UNF

Mark Hopkins, Director, International Energy Efficiency

Glen J. Skovholt, Monitoring & Evaluation Advisor

Energy Institute Hrvoje Pozar, Croatia

Zeljko Juric, Department for Renewable Energy Sources

Econoler

Pierre Langlois, President

Belgrade (April 26-28)

Vladimir Kolarevic, Energy Efficiency Advisor, Ministry for Infrastructure and Energy

Dr. Andjela Lazarevic, District Heating Advisor, Ministry for Infrastructure and Energy

Zoran Milosavljevic, MPD Trade d.o.o.

Bojan Milovanovic, W&W Energy

Dragan Urosevic, General Manager, Victoria BioEnergy,

Nemanja Brajovic, Project and Structured Finance Manager, Societe Generale Srbija

Aleksandar Kavacevic, Manager for Small and Medium Enterprises, Banca Intesa

Sofia (April 29-30)

Dr. Zdravko Genchev, Executive Director, EnEffect

Ivan Hinovski, Managing Partner, Pro EcoEnergia Ltd.

Krasimir Naydenov Stoyanov, Director General, Energy Efficiency Agency

Kolio Kolev, Executive Director, Energy Efficiency Agency

Dimitar Dukov, Director, BEEF

Kamen Kolchev, CEO, Elana Financial Holding

Anastasiya Chorbadzhieva, Head of Project and Structured Finance Department, DSK-Bank

Minsk (May 4-5)

Tatyana Pospelova, Professor, Belarussion National Technical University, Director, BELVI Energy Center

Viktor Vorobiev, National Expert on Small Business, UNDP-GEF International Energy Center

Leonid Shenets, Vice Chairman, Director of Department, State Committee on Standardization

Irina Antonova, Head of Financial Institutions, Belgazprom Bank

Tatiana Avramnenko, Head of Loan Department, Belgazprom Bank

Andrei Miniankou, Head of Department, State Committee on Standardization

Grigoriy Kuzmich, Director, ENECA

Moscow (May 6-7)

Nikolay Sviridov, Head of Environmental Protection and Renewable Energy Development Division, State Energy Policy and EE Department, Ministry of Energy, Russian Federation

Ministry of Regional Development

Yury Posysaev, Executive Director, International Sustainable Energy Development Centre

Vladimir Berdin, Director, Strategic Planning and Partnership Department, International Sustainable Energy Development Centre

Alexander Antonov, Expert Analyst, International Sustainable Energy Development Centre

Andrei Yarochevski**,** Advisor to Chairman of Board-General**,** Roskommunergo

Kiev (May 11-13)

Oleh Dudkin, Head of the Secretariat, Parliament Committee for Fuel and Energy Complex, Nuclear Policy and Nuclear Safety

Sergey Surnin, Executive Director, Arena-Eco, Agency for Rational Energy Use and Ecology

Olexandr O. Yerokhin, Deputy Executive Director, Arena-Eco, Agency for Rational Energy Use and Ecology

Arsentiy Blaschuk, President, Ukrteplokomunenergo,

Volodymyr Deriy, General Director, Ukrteplokomunenergo,

Volodymyr Ryabonenko, General Director, ESCO company “Encom Group”

Annex IV List of Questions for Country Interviews

Questions specifically to National Participating Institution and the National Coordinator

1) Do you find the semi-annual expert meetings productive and efficient?
2) Have you been able to get proposals of yours accepted at the meetings, or do the meetings more have character of rubber-stamping proposals made by the PMU?
3) Have you synthesized the information from the list of RE&EE project proposals that have been identified under the project into some kind of a market study?
4) If yes, what conclusions do you draw from this with regard to their demand for funds (scale and type of required finance)? Do you see relatively large projects or a significant number of smaller scale projects that preferably need aggregation or some form of standardization to attract the interest of local banks for finance?
5) Why do you think that the Fund to be created will make a positive impact on the realization of EE&RE projects in your country?
6) What function do you understand that the Financing Coordination Unit (FCU), proposed by Conning in their Fund concept, will perform and what services will the FCU provide?
7) What kind of interaction do you foresee between the National Participating Institution and the FCU?
8) How do you expect local "experts in turning project ideas into bankable project proposals" to interact with the Financing Coordination Unit (FCU)?
9) What specific capacity building workshops should the PMU organize for local experts to enable them to perform the expected role?
10) What useful impact do you expect from the network of energy efficiency managers? How can it be used once the Fund is close to be operational?
11) Do you expect EnEffect's website to play any useful role as communication tool for the investment project proposal?
12) Have you ever submitted any ideas for how e-learning facilities could be exploited on the website?

Question to Ministry responsible for Energy Efficiency and Renewable Energy (EE&RE)

13) What new RE & EE policy and regulations has your Government adopted since early 2008 or submitted to Parliament as draft acts and to the Cabinet as draft regulations for approval?
14) What price reforms of fossil fuels and of electricity tariffs has your Government implemented since early 2008?
15) How would you rate the present status of achievement with regard to the policy and regulatory framework for renewable energy and energy efficiency that has been established in your country. From a scale of 1 (low achievement) to 5 (full achievement) where does your country stand now and where do you expect it to stand two years from now?

16) What are the most important EE&RE policy and regulatory voids; including energy price reforms that need to be closed in your country as a prerequisite to the generation of a significant investment volume in EE&RE?

17) What are the most important policy, regulatory and financial obstacles to the realization of financially viable EE-investments in the public sector?

18) Has anybody in the Ministry read the report prepared by the project: "Regional Analysis of Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments"? If yes, did you find the report useful in any way for the policy and regulatory reform process in EE&RE in your country? If yes, what did you find useful: The information in the report about your own country? The information in the report about the situation in other countries? The information about case studies? The policy recommendations in the report?

19) Have the workshops organized by the project succeeded in raising the awareness in the country of EE & RE issues and investment opportunities, including the awareness of local authorities?

20) Did you receive any specific policy advisory services from the project? If yes, did they lead to any follow-up in the way of being taken into account in the preparation of policy or regulatory initiatives?

21) What type of projects do you see coming up in your country that will be relevant for finance from the Fund?

22) ESCOs are companies that (i) make energy audits for potential clients to identify financially viable package of energy efficiency investments, (ii) propose to finance these – or help with finance through a collaborating bank helped by giving a performance guarantee for the value of the energy savings that will be achieved, (iii) implement the investment on an EPC (engineering, procurement, construction) contract basis, and (iv) have an operation contract (an ESCO contract can also be without this element).- Do you have any operating in your country? If not has anybody tried to establish an ESCO or were energy prices in your country too low to enable ESCO to survive commercially?

23) Do you expect your government to invest in the Fund to be created? The Fund is to provide equity and mezzanine finance capital to EE&RE projects and generate near-commercial rates of return for the investors.

Questions to representatives from project developers and district heating utilities

24) From a scale of 1 (very low) to 5 (very professional) how do you rate the level of knowledge of local finance sector about EE&RE market prospects and their inclination to provide finance to EE&RE projects?

25) Do you experience difficulties in finding equity capital for your investments that would provide a rational for equity finance from the Fund to be created? If yes, for what kind of investments?

26) Do you experience difficulties in securing loan finance for your investments from the banks? If yes, why and what kind of difficulties do you encounter? Is it a question of not getting loans or nor getting loans with sufficient tenor or not getting loans at interest rates acceptable to you?

27) Do existing government regulations and policies pose obstacles to your ability to finance projects?

28) Do you find good local consultants capable of developing project ideas of yours into bankable project proposals?

29) As part of the structure for the Fund consultants have suggested to create a socalled “Financing Coordination Unit (FCU)” to act as intermediator between project developers, the finance community and regulatory authorities. From you experience, do you see a need for such a facility?

30) What kind of finance poses the greatest difficulty for you: early stage finance (for project preparation and development) or finance for construction?

31) What type of finance would be useful for the Fund to provide? Are the two finance instruments

Questions to representatives from the Finance Sector

32) From a scale of 1 (very low) to 5 (very professional) how do you rate the level of expertise of project developers and of consulting firms in presenting bankable project proposals to you?

33) Have you received finance requests for EE-projects from industry? from district heating? From municipalities? If yes, what is the typical scale of these projects and the loan finance asked from you?

34) Have you received finance requests from RE-projects? What kind: wind energy, biomass energy, small hydro? What is the typical scale of these projects and the loan finance asked from you?

35) Do you usually accept to finance EE&RE projects? If you decline, what are the typical reasons?

36) The Fund to be created is supposed to provide equity and mezzanine finance to EE&RE projects. The idea is that these two finance instruments are missing in your local market, and that making them available as co-financing with commercial banks will enable these to engage in the loan finance of EE&RE projects. Do you agree with that hypothesis? Is lack of equity a hindrance for the realization of EE&RE projects? If yes, in what kind of projects? Do you see a demand from your side for mezzanine co-finance from the Fund in RE&EE finance proposals that you receive?

Annex V: Bibliography

FFEI Project document 2005 prepared by UNEP and UNECE

<u>Financial reporting</u>

Expenditure statements, April-June, 2010

UNECE Financial Reports: July-September 2008; half year 2010;

<u>Progress reports</u>

UNECE half-year progress reports 2008, 2009, 2010

UNEP GEF PIR Fiscal Year Report, 1 July 2009 to 30 June

FEEI Newsletters 1-4

Conning monthly reports 2 - 10

EnEffect Consult monthly reports August 2010, September 2010

<u>M&E reports</u>

UNF-Skovholt: 'Report on 2nd Year of Operation', 2009;

FFEM-Ligot: 'Rapport d'avancement sur le projet FEEI de la CEENU', 18 novembre 2010;

UNEP-Hassing: 'Mission Report, Geneva 2 June 2009', 'Mission Report, Geneva April and June 2010'

<u>Official correspondence</u>

Efforts to include EBRD as co-implementing agency: letters from EBRD Director for Energy Efficiency and Climate Change to UNEP dated February 4, 2005; November 7, 2005; May 5, 2006;

GEF decision to stall payments to project: Letters between GEF and UNEP, dated September 13 2010, October 1 2010, December 20, 2010; February 7, 2011

UNF approval of UNECE request for non-cost extension of FEEI project to 31 December, 2012. Correspondence from May 11-16, 2011 between UNECE, UNF, UNFIP.

<u>Outputs</u>

ECE/ENERGY/72 :'Investor Interest and Capacity Building Needs', 2010

Conning: Key deliverables under second purchase order; Submission under third purchase order ('Pipeline Project Summary', 'Project Identification Form'; 'Investment and Policy Guidelines'; 'Financing Coordination Agreement'; Limited Partnership Agreement'. 'Lead Investor Letter '

Pöyry Energy Consulting:'Policy Reforms for Energy Efficiency Investments', 2009

Center for Energy Efficiency EnEffect: ‘FFEI blog user guide’; ‘FFEI database user guide’; checks on FEEI wesbiste

Renaissance Consultants

Presentations and conclusions from the following workshops and ‘Group of Experts’ Sessions:

- Workshop on Functioning and Requirements of the Investment Fund, Geneva 2 March 2009
- Seminar on Policy Reforms to Promote Energy Efficiency and Renewable Energy Investments, Geneva 7-8 October 2009
- Workshop on Case Studies on Overcoming Barriers to Investments into Energy Efficiency and Renewable Energy Projects through Policy Reforms, Kiev 10-11 November, 2009
- International Energy Efficiency Forum and the Workshop on Investments in Energy Efficiency and Renewable Energy Projects, Astana, 28-30 September 2010
- 15th session, Geneva, 9 June, 2010
- 16th session, Geneva, 20-22 October 2010
- 17th session, Geneva, 19-20 April 2011

Annex VI: Summary co-finance information and a statement of project expenditure by activity

Project costs and co-financing tables

Co-financing

Co financing (Type/Source)	IA own financing (US$)		Government[62] (US$)		Other*(US$)		Total (US$)		Total Disbursed (US$)
	Planned	Actual[63]	Planned	Actual	Planned	Actual	Planned	Actual	
– Grants									
– Loans									
– Credits									
– Equity investments									
– In-kind support	2,800,000	2,100,000	1,400,000	1,050,000			4,200,000	3,150,000	3,150,000
– Other (*)									
UNEP/GEF					3,000,000	1,500,000	3,000,000	1,500,000	1,500,000
FFEM					2,600,000	2,060,987	2,600,000	2,060,987	2,060,987
UN Foundation					2,000,000	1,411,244	2,000,000	1,411,244	1,411,244
EBC					260,000	261,500	260,000	261,500	261,500
Totals	**2,800,000**	**2,100,000**	**1,400,000**	**1,050,000**	**7,860,000**	**5,233,731**	**12,060,000**	**8,383,731**	**8,383,731**

[62] **Government** means Government of Participating countries
[63] In all columns **Actual** as of 31.12.2010

Project Costs (UNEP budget only) Component/sub-component	Estimated cost at design (US$)	Revised component/ sub-component	Estimated cost at revision in 2010 (US$)	Actual Cost (US$) –as of 31.12.2010	Expenditure ratio (actual/planned [revised])
PROJECT PERSONNEL COMPONENT					
Project Personnel					
Project Manager L5	925,185	Project Manager L5	--	--	--
Associate Programme Officer L2/3	255,000	Associate Programme Officer L2	630,633	237,003	0,37
Sub-Total	**1,180,185**	**Sub-Total**	**630,633**	**237,003**	**0,37**
Consultants					
Fund designers	339,500	Fund designer	--	--	--
Pipeline identification	219,750	Pipeline identification	--	--	--
Advisory services	219,750	Advisory services	70,000	0,00	0
Sub-Total	**779,000**	**Sub-Total**	**70,000**	**0,00**	**0**
Administrative support					
Administrative support	373,500	Administrative support	95,000	0,00	0
Sub-Total	**373,500**	**Sub-Total**	**95,000**	**0,00**	**0**
Travel on official business (above staff)					
Project personnel travel	70,000	Project personnel travel	62,136	43,356	0,7

Sub-Total	**70,000**	**Sub-Total**	**62,136**	**43,356**	**0,7**
Component Total	**2,402,685**	**Component Total**	**857,769**	**280,359**	**0,33**
SUB-CONTRACT COMPONENT					
Sub-contracts					
UNECE support costs	214,815	UNECE support cost	222,631	104,831	0,47
Sub-Total	**214,815**	**Sub-Total**	**222,631**	**104,831**	**0,47**
		MOUs with countries	140,000		
		Conning Asset Management Ltd	1,000,000		
		EnEffect	131,946		
		Poyry Energy Consulting AG	197,660		
		Gazprom Promgaz	150,000		
		Sub-Total	**1,619,606**	**856,494**	**0,53**
Component Total	**214,815**	**Component Total**	**1,842,237**	**961,325**	**0,52**
TRAINING COMPONENT					
Meetings/conferences					

Meetings/conferences	118,500	Meetings/conferences	176,415	160,514	0,9
Sub-Total	**118,500**	**Sub-Total**	**176,415**	**160,514**	**0,9**
Component Total	**118,500**	**Component Total**	**176,415**	**160,514**	**0,9**
EQUIPMENT & PREMISES COMPONENT					
Non-expendable equipment					
Office equipment	7,500	Office equipment	--	--	--
Sub-Total	**7,500**	**Sub-Total**	**--**	**--**	**--**
Premises (office rent, maintenance of premises, etc)					
Office rental	54,000	Office rental	--	--	--
Sub-Total	**54,000**	**Sub-Total**	**--**	**--**	**--**
Component Total	**61,500**	**Component Total**	**--**	**--**	**--**
MISCELLANEOUS COMPONENT					
Reporting costs (publications, maps, newletters, printing,etc)					
Reporting	80,000	Publications	61,000	--	0

Sub-Total	**80,000**	**Sub-Total**	**61,000**	**--**	**0**
Sundry (communications, postage, freight, clearance charges, etc)					
Communication, postage, freight	7,500	Communication, postage, freight	--	--	--
Sub-Total	**7,500**	**Sub-Total**	**--**	**--**	**--**
Hospitality and entertainment					
Hospitality	15,000	Hospitality	12,579	13,002	1,03
Sub-Total	**15,000**	**Sub-Total**	**12,579**	**13,002**	**1,03**
Evaluation (consultants fees/travel/DSA, admin support,etc)					
Consultants fees	100,000	Consultants fees	50,000	--	--
Sub-Total	**100,000**	**Sub-Total**	**50,000**	**--**	**--**
Component Total	**202,500**	**Component Total**	**123,579**	**13,002**	**0,1**
TOTAL COSTS	**3,000,000**		**3,000,000**	**1,415,199**	**0,47**

Annex VII: Brief CV of consultant

Born	: 1950
Nationality	: Danish
Education	: Masters in Economics (1978) and in History (1977), Aarhus University
Languages	: Fluent in Danish, English, French, German, Spanish
Professional Ass.	: International Association of Energy Economists, Danish Society for Energy Law
Specialty	: Innovative Finance, Policy and Regulatory Frameworks for Clean Energy and for Rural Electrification

Wolfgang Mostert, an independent consultant working out of Copenhagen, has 30 years of experience in developing policy-, regulatory- and finance frameworks for energy and environment in more than 70 countries. Mr. Mostert has advised and written extensively on finance instruments for clean energy and been invited guest speaker on the topic at various conferences world-wide. . He has been lead consultant for developing national subsidy policies and manuals for renewable energy and rural electrification in Nepal and the Philippines, the Rural Electrification Funds for Uganda and for Cambodia, and developed specific finance solutions and instruments in a number of countries, e.g. a Climate Technology Innovation Fund for Kenya, an OBA-scheme for reduction of distribution losses in Uganda, the design of the first two PPPs in Latvia, the concept for community based ESCOs in Nepal, feed-in-tariffs for biomass-based cogeneration in Côte d'Ivoire and a report for Danish industrial investors on the CDM-finance modality. He has developed methodologies for integrating environmental externalities in economic analysis and was keynote speaker on the subject of "Interaction of Energy and Climate Policy" at the first Colombian inter-ministerial climate change workshop in Bogota, June 2008.

Examples of previous evaluations comprise "Review of the Energy Sector Assistance Program in Nepal" from 2011, contracted by Norad; the "End-of-Project Evaluation of the Bulgarian Energy Effciency Fund" from 2010 contracted by the World Bank; the evaluation of the "REPIC Swiss Inter-Departmental Platform for the Promotion of Renewable Energy in International Cooperation" from 2007, contracted by the Swiss Government.

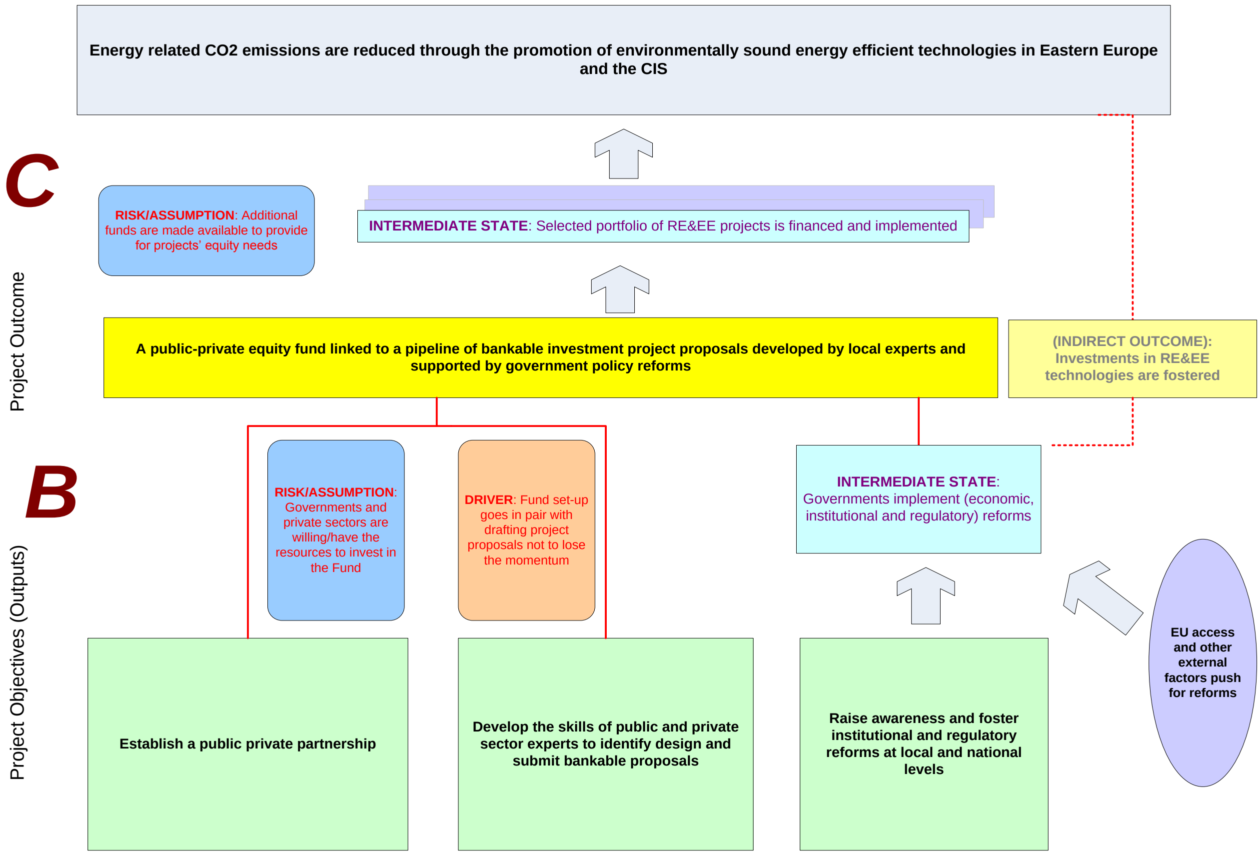
Examples of publications are the reports on "Publicly-backed Guarantees as Instruments for Promoting Clean Energy" published by UNEP-SEFI (the Sustainable Energy Finance Alliance) and on "Financing Renewable Energy: Instruments, Strategies, Practice Approaches" published by KfW in 2006.

Annex VIII: FEEI Project Theory of Change

The Theory of Change applied to the FEEI project design shows that:

- The project log-frame is well designed. Project outputs contribute to the outcome: the relationship between the two is straight-forward for the first two components;
- The way the project is designed, it is of utmost importance that the work under Component 1 and 2 proceeds in pair: the two elements are necessary but a not sufficient condition for the Fund's set up. This has been identified as a driver for project success, for it is under the control of the project;
- There is an implicit assumption that policy work (third component) will induce Governments to adopt economic, institutional and regulatory reforms, which in turn will facilitate the set-up and functioning of the Fund. External factors to the project (mostly EU access requirements) importantly affect the achievement of this result at an intermediate state level;
- As acknowledged in the evaluation report (section 3.3), awareness and policy work can influence the promotion of a conducive environment for investments in RE&EE technologies in the target countries, no matter the success of the project in setting the Fund up (indirect outcome);
- The main risk (outside project's control) is the availability of resources by Governments and private sectors to be invested in the Fund. The economic and financial crisis has played a role in hampering the attainment of results, as section 3.5 of the report describes. Availability of additional resources will also affect the achievement of the ultimate goal, as only up to 50% of the projects' portfolio budget will be financed by the Fund;
- Review of Outcomes to Impact (ROtI) analysis evidences a long path from the project outcome to its global objective. Financing and implementation of the selected portfolio of RE&EE projects is the intermediate state. The reduction of CO2 emissions will ultimately depend on this, as well as on many other external projects and activities implemented by national and international actors. It is not clear how the project arrived at establishing the 10 tons carbon reduction target;
- Using the ROtI analysis' terminology[64], the "output to outcome" link is rated as "B". The project's intended outcome is likely to be delivered, provided that the Fund set-up is finalized and resources by investors flow in as expected. The "outcome to impact" link is rather graded as"C" as: i) the ultimate objective is set at a very high level and too many factors are likely to influence it; ii) at this stage, much can't be said about reaching the ultimate objective as no information are available about the selected porftolio of projects to be financed and implemented.

[64] For more information, see "ROtI: Review of Outcomes to Impacts Practitioners Handbook" - http://www.gefweb.org/uploadedFiles/Evaluation_Office/OPS4/Roti%20Practitioners%20Handbook%2015%20June%202009.pdf


Energy related CO2 emissions are reduced through the promotion of environmentally sound energy efficient technologies in Eastern Europe and the CIS
C
Project Outcome
RISK/ASSUMPTION: Additional funds are made available to provide for projects' equity needs
INTERMEDIATE STATE: Selected portfolio of RE&EE projects is financed and implemented
A public-private equity fund linked to a pipeline of bankable investment project proposals developed by local experts and supported by government policy reforms
(INDIRECT OUTCOME): Investments in RE&EE technologies are fostered
B
Project Objectives (Outputs)
RISK/ASSUMPTION: Governments and private sectors are willing/have the resources to invest in the Fund
DRIVER: Fund set-up goes in pair with drafting project proposals not to lose the momentum
INTERMEDIATE STATE: Governments implement (economic, institutional and regulatory) reforms
EU access and other external factors push for reforms
Establish a public private partnership
Develop the skills of public and private sector experts to identify design and submit bankable proposals
Raise awareness and foster institutional and regulatory reforms at local and national levels

Annex IX: Comments to the Draft Report that did not lead to changes of substance in the Final Report

1. Introduction

The reviewer would like to express his appreciation of the professional efforts that reviewers have put into providing comments to the report. They allowed the elimination of factual errors, misspellings of names and to change judgment on some issues, meaning that the final report is of higher quality than the initial drafts.

A few comments did not lead to changes of substance in the final report. The arguments are listed below.

2. UNEP comments that did not lead to changes in the report

UNEP asked for three additional pieces of information/evaluation.

1.*"Different commentators have expressed their doubts that private investors will put money in the Fund. Could you give your expert opinion on the likelihood that public and private donors will invest in the Fund?"*

It would be very risky for the evaluator to express an opinion on this subject without having made a series of interviews of development banks and private equity funds about their assessment of the market situation and of the attractiveness of RE&EE investments in the 12 target countries. The evaluator's extremely subjective assessment is that the likelihood of success is around 30% (inserted in the report). But the best positioned persons to form an opinion on these issues are the Fund Design Manager, Conning Asset Management and the identified Lead Investor/Fund Manager.

2. It would be important if you could please provide a brief assessment of the quality of the projects which reached the PID stage and the efficacy of the process to select them

The request makes good sense: it would be valuable to have such an analysis. But, it is beyond the scope of the ToR and far beyond what is reasonable to ask in terms of additional work in view of the modest fee budget and number of man-days of the contract.

3. Please insert a paragraph at the end of this session indicating what is – in your perception – the likelihood that NBGI will provide USD 20 million in investment, given the nature of the agreement it has signed and its creditworthiness.

Same comment as for number 2. According to information from the Financial Times, the National Bank of Greece, the mother bank of NBGI, is the best performing of the Greek banks – at least as far as the development in its share price is concerned.

UNECE comments that were not into taken into account

"We disagree with the statement in par 21 that the success of the project depends 100% on the creation of the Fund."

In order to substantiate the statement, the evaluator added paragraph 180 in the final document.

“The objective of the project is to trigger investments in RE&EE. The success of public finance projects is measured by two main criteria: (i) the immediate leveraging effect and (ii) the longer term transformation effect. The creation of a €250 million Fund would provide a direct 35 times leveraging of the funds that were invested in its creation! One can discuss whether co-finance from development banks represents genuine leveraging of funds or just a redirection of public finance funds; but any private investment in the Fund represents genuine leveraging. The leveraging would be reinforced by the additional leverage from the co-financing of the RE&EE projects from the national finance institutions (in the form of debt finance) and from developers (in the form of equity). The transformation effects comes from the introduction of the equity/mezzanine fund concept in a region that has had very little exposure to this finance instrument in general and in the RE&EE community in particular. If it becomes a success, it will lead to imitator funds and have created new know-how in the staff of participating finance institutions, developers, consultants and lawyers in how to structure complex deals. Without the Fund, the training and capacity building of the project will leave some very modest impact. The quality of the capacity it leaves behind is a far cry from the capacity building effect that will be created if the Fund goes ahead. One can assume that most of the participants in the training courses have not been persons who want to dedicated their career 100% as professionals in the area of project development; the majority will have been interested amateurs who had the time to attend. To attract true professionals there must be strong perspective that the project preparatory work will lead to finance by the Fund afterwards. The investment in the website will also have limited value in the absence of the Fund. Its purpose is to help developers get in contact with the Fund and some cross-national information exchange about success stories.”

The evaluator emphasizes that the creation of the Fund was never a certainty and that not succeeding in the objective was and is a risk of the project. To underline this point, he inserted the new paragraph 27.

“For a non-investing agency, like UNEP/UNECE, to create a Fund for others to invest in has a lower probability of success than if an prospective co-investor in the Fund had taken the lead from the beginning. When a development bank and/or a donor agency contract preparatory work for the creation of a direct lending facility, there is a 95% probability that the lending facility will be established in the end: the initiators reserve money for that in their planning budget. When a development bank or a donor agency contract preparatory work for the creation of a Fund, there is a 95% probability that the Fund will be created and that the contracted agents will invest in the Fund thereby ensuring initial close. Whether the target of getting other private parties to invest in the Fund is achieved is a much more open question, e.g. see the experience of the Deutsche Bank’s Bank’s European Energy Efficiency Fund (EEEF). To prepare an equity-mezzanine finance fund for development banks and private investors to consider investing in is a high value / high risk activity: one enters fully competitive territory in the effort to attract finance. In the opinion of the evaluator, the investment in the preparation of such a Fund was and is warranted. Yet, from the observations above, it is obvious that the evaluator understands why GEF-decision takers insisted on active participation by the EBRD as co-implementing agency.”

“We strongly disagree with the assessment of Conning”.

The design work calls for (i) preparation of documents, (ii) strategic conceptual work, (iii) investor lobbying. The preparation of the documents for the Fund is relatively straightforward: standard formats for this allow a high level of cut and paste. It is the strategic advice that counts. The evaluator has provided comments in the evaluation report on where he sees ambiguities that need to be resolved. The Fund Designer has submitted the proposal for the FCA with the backstopping TA-finance from UNECE-PMU without providing an indication of what budget is needed for the TA to serve its purpose. At the meeting of the Group of Experts on Energy Efficiency Investments for Climate Change Mitigation in Geneva on April 19, the Fund Designer used the majority of his presentation to inform at length about a French engineering consulting firm, which had expressed its interest in being hired as consultant for the TA once the Fund has become operational. That it is possible to contract engineering consulting firms cannot have surprised a single person in the audience. What one would have expected from the Fund Designer was a-depth presentation on the issues that are touched upon in paragraph 22 of this report.

"We strongly disagree with the statement that the Group of Experts has not provided strategic guidance"

Sure, the Group has done what it was asked to do by UNECE-PMU. But it could not give real strategic advice because finance is not a key competence of the people participating in the Group.

"We insist on the deleting the comments on the performance of UNOG, (par 184-198)"

The evaluator is not impressed with the performance of UNOG. The paragraphs reflect his opinion based on what he has observed. To be fair to UNOG he has included their comments as Annex X to the report. This also enables independent observers to form their own opinion about the constructive quality of UNOG's work.

1. GEF comments that were not into taken into account

The August 4, 2011 letter of Monique Barbut, CEO and Chairperson, GEF, addressed to Ms. Maryam Niamir-Fuller, Director, GEF Coordination Office United Nations Environment Programme, raised concerns about the evaluation report. The concerns were more of a procedural nature, not about substance. Therefore, no changes in the report could be made.

Annex X: Comments from UNOG to the Report

Dear Oleg, further to our conversation, please see below PTS General observations on the draft evaluation report of Mr. Mostert:

1) Performance of UNOG does appear to be part of the Consultant's Terms of Reference, however the observations in his draft report is not in the spirit of such 'mid-term' reviews that must aim to allow for concerned parties to undertake corrective measures. A number of criticisms are interspersed throughout section on UNOG attention to confidentiality of information and documents; pettiness of systems that follow UNFRR (United Nations Financial Regulations and Rules) and procurement procedures, such personal and unsubstantiated judgments should be deleted. I agree with Markus' comment on Mr. Mostert's lack of understanding of UN procurement policies and rules and suggestions to break our rules to make the project go forward faster according to his personal judgment. Furthermore such accusations must be brought forward to the UNOG Management, who have indeed verified the procurement process and endorsed the contract award and administration as per applicable UNFRR.

2) This section of ten paragraphs 174 – 184 (note: numbering of paragraphs in the first draft) includes descriptions and details of procurement process that are factually wrong. Furthermore, certain information related in the draft report that the UN releases on bidding processes and PTS believes that such accusations must be supported with evidence. It is important to recall that evaluators and UN staff involved in the selection processes have all signed and Non-disclosure Agreement – visibly the incorrect information or unfounded statements appear to have been provided to the consultant by a person who would have partaken in one of the evaluation committees. If this is the case, the UNOG should review and take necessary action to notify the person(s) who has disregarded the NDA. Furthermore all incorrect statements should be deleted from the report.

3) I echo Markus's comment on the direct charge of bias against Mr. Romig, in particular para 179, where indeed the selection of the contractor was undertaken in accordance to UNFRR, UN procurement procedures, furthermore the technical evaluation panel did not include Mr. Romig. This paragraph appears to be a personal attack against Mr. Romig and should be removed, as again, there is no supporting evidence.

Performance of UNOG

174. UNOG, being responsible for supervising the correct performance of tenders and for the signing of contracts with consultants, is for obvious reasons very legalistic in its approach. Protection of required confidentiality is daily business and an important responsibility.

175. Yet, UNOG's way of work has contributed to a project management style focused on processes and too little on results. The pettiness of UNOG's purchase order system and the way it is managed is counterproductive. (this is in accordance with UNFRR and Secretariat procurement procedure) The PMU requests that all work delivered is matched to the contract deliverables (see for example the clause of preparing monthly progress reports included in the Fund designer contract). Yet, consultants and program officers ought to know that it is impossible in non-standard assignments to

foresee and include everything. During implementation it will turn out that some activities and outputs are more important than others in reaching objectives and that the weighting has to be changed.

176. UNOG insists on formality and on secrecy to the point of obsession:

- For the tender for the Fund Designer contract, UNOG insisted on receiving all material and questions by fax, not by email. This is not about secrecy, rather about ensuring that the questions and clarifications on both sides are issued by staff who are duly authorized, furthermore email does not carry a signature which therefore could be considered as not legally binding

- UNEP and FFEM reacted negatively to selection processes of the Fund Designer and Web Designer contracts, asking for copies of the two contracts to evaluate them.[65] There was no question on the selection process used by UNOG and PTS did not share contract with UNEP or FFEM as this is not our practice. UNOG did not forward copies of the contracts to the two organizations quoting formal reasons: neither the staff requesting the documents, nor the staff to which the requests were addressed to, were high-ranking enough within their organizations for the requests to be executed. The PMU insists, however, that UNEP and FFEM have all relevant information as they have copies of the two *project implementation plans*, which were part of the two contracts and know the contract amounts.[66] This is clearly not PTS's response - there was no mention in PTS's response as to the rank of any staff in any organization.

- The Fund Designer did not want to show the letter of intent by NBGI to the responsible UNEP staff, although it is an open and non-committal document. UNEP had to sign a non-disclosure and confidentiality agreement with UNECE concerning outputs from Conning.

- The Fund Designer had agreed to meet the reviewer during a visit to Copenhagen to attend other business, for a first interview about the performance and the status of the project. The day before arrival it was blocked by UNOG. Reason: the reviewer at that time had not yet received the confidentiality agreement document for signature.

Selection of consultants

177. The PMU through UNOG has signed a number of consultant contracts. Although these were awarded in accordance with UNOG procedures, two of these raised controversy at UNEP and at FFEM:

- The selection of Conning for the US$1.25 million Fund Designer contract;

- The selection of the Centre for Energy Efficiency EnEffect for the US$ 497,230 contract (with a duration of 36 months) to undertake the development of a website and create an Internet Communications Network of Energy Efficiency Managers in Eastern Europe.(INCORRECT Statement)

Fund Designer contract

178. The procurement process for the Fund Designer contract started in December 2007. (INCORRECT process began earlier in 2007) 12 companies submitted an Expression of Interest. In

[65] One of the differences between the operation of the Secretariat and UNDP is that UNDP invites donors to participate in the tenders and in the opening of the contracts. As part of its organisational risk management – the UNSecretariat signs several hundred millions per year in plane charter contracts, for example, UNDP does not.
[66] Contract amounts above US$200.000 are publicly announced.

the end, three companies participated in the tender. (INCORRECT Statement) One company withdrew at the last moment on the grounds that the proposed amount of the contract was not enough, leaving Econoler and Conning as bidders. (INCORRECT statement) The tender evaluation in June 2008. (INCORRECT statement) was performed by three experts: an independent expert with a long experience in tender evaluations for development institutions, DTIE's Director for Technology and a staff from EBRD. The outcome was that Econoler received a higher score from the team than Conning . (INCORRECT statement) . Yet, after a round of "supplementary questions" to the two bidders, Conning ended up being awarded the contract. (INCORRECT and UNFOUNDED) The final evaluation report was never submitted by UNECE/UNOG neither to UNEP nor to the losing bidder. (?? Do not understand -)

179. The selection of Conning was due to (INCORRECT and UNFOUNDED) a favorable bias by the Director of Energy Efficiency and Climate Change at UNECE. The Director had previously collaborated with Swiss RE/Conning on the establishment of the ECEF (European Clean Energy Fund)[67] which was launched by Conning under the Energy Efficiency 21 mandate.[68] Swiss RE, which owned Conning, was a very active partner in the private clean energy finance alliance working out of Geneva, and Swiss RE's experience and qualifications were taken into account for the selection of the contractor. That Conning shortly after being awarded the contract was spun off from Swiss RE could not be foreseen by UNECE. For UNECE, Conning's experience in setting up and managing private equity funds was a decisive criterion. (selection on basis of UNFRR and Secretariat procurement procedure)

180. If expertise in supporting ESCOs had been the decisive criterion, Econoler - which was the pioneer in developing the ESCO concept and assisted in its diffusion worldwide, including in Eastern Europe - would have been the obvious choice; as it would have been based on experience in developing public-private-partnership concepts for the promotion of energy savings.(INCORRECT and UNFOUNDED statement selection on basis of UNFRR and Secretariat procurement procedure and selection criteria established prior to issuance of RFP)

181. The selection process caused bitterness, frustrations, and accusations of lack of transparency from UNEP and FFEM. But it is difficult to criticize either party's selection bias: both biases were firmly rooted in professional beliefs about what was best for the project.[69]

182. The implications of the choice of Conning, an asset manager, to accomplish the task were not fully understood by UNECE. An Asset Manager is not in the business of providing consulting services; an Asset Manager is on the look-out for fee-revenue from providing financial management services. It is hard to imagine that Conning was interested in winning the consultant contract for the fee rate it provided; Conning must have seen it as an entry ticket to generate fee-income during

[67] The €354 million fund (cofinanced by Swiss RE with a €40 million) targeted clean energy projects in the EU 27 countries including wind energy, solar energy, hydro-electric, biomass, cogeneration, combined-cycle, fuel switching, geothermal, clean coal, waste-to-energy, district heating and electric, waste fuel, combined heat & power (CHP), efficiency retrofit and related projects and companies

[68] Cooperation included the organization of a seminar "Financing Energy Efficiency and Renewable Energy Investments with the European Clean Energy Fund (ECEF)" during the Ad Hoc Group of Experts meeting (21-22 February 2008). The seminar aimed at describing how participating countries can work with the ECEF and at appraising project development capacities in participating countries.

[69] UNECE, on their part, accuse the score giving to have been unfairly biased, that the scores given to Conning were too low to be credible. It cannot be excluded that Bernard Jamet was favourably predisposed to Econoler's bid, given his interest in promoting Fund investments in ESCOs: Econoler is a world pioneer in developing the ESCO-concept in Canada and later worldwide. Thus, also here previous professional exposure to a bidder influenced the opinion.

implementation. Its performance under the contract certainly point that way: (i) Putting Conning in the position of placement agent for persuading investors to put the required €250 million into the Fund (charging a placement fee on the amount of capital raised); (ii) The The FCA making Conning placement agent during Fund operation (charging finder's fee); (iii) Making Conning General Partner together with NBGI (giving access to the management fees). There is nothing wrong with this kind of behavior on the side of Conning. When one creates a private Fund, one has to play by private sector rules of the game! The problem was that UNECE did not apply these rules: the contract with Conning was purely output based, not results based. Conning was chosen not for its consulting expertise, but for its knowledge of and connections in the private world of finance: INCORRECT – BASED ON SELECTION CRITERIA UNECE believed that Conning's net of contacts facilitated the creation of the Fund. Because Conning is an asset manager, the contract should have been fully or mainly (with a limited budget for covering expected expenses) results based: a success fee was to be paid once the Fund had reached its first close of €100 million. In addition, along the way, Conning could have picked up whatever fees it could from commercial parties; the fee would have been a pure sweetener/risk reduction instrument to entice Conning to look into this opportunity rather than others. Yet, although under the terms of the contract, Conning was "to solicit public sector entities and private sector investor participation"[70], the PMU and Conning insist that the contract does not require Conning to establish the Fund.

183. The performance of Conning, judged as consultant, has been disappointing: the amount of material provided is huge, yet papers are not edited, spelling mistakes abound, some text is impossible to understand, information is short on details – usually with reference to confidentiality or to the need to let investors decide. The chart below is an eloquent testimony of the (lack of) capability of the Fund Designer to explain key concepts to energy experts with limited knowledge of mezzanine and equity finance. It is supposed to illustrate the FCA-concept.

[70] FEEI Newsletter no 1/10 2009

Web-designer contract

184. The contract awarded to the Centre for Energy Efficiency EnEffect raised eyebrows for three reasons: (i) the contract was given to a small entity in Bulgaria with no prior experience in website development, INCORRECT – BASED ON SELECTION CRITERIA this is a mixed public-private entity (ii) the manager of the company was at the same time the Chairman of UNECE's Ad Hoc Group of Experts, invoking a conflict of interest, I understand that UNECE obtained clearance on this issue with donors, experts and countries in 2008 - who seem to have agreed that there was no conflict of interest as no direct correlation or additional information available to the Director of this NGO (iii) the contract sum seems very large for a website task. INCORRECT – several tasks The consultant undertaking this review can understand that the contract raised controversy: i) that the manager of the company continues *in* the Group of Experts afterwards is not international best practice; ii) that EnEffect had no previous experience with developing a website is a lesser point . Bulgaria is known to have good programmers, and EnEffect could have used its good contacts to assemble a competent team. Social networking and capacity building capabilities are a more important parameter for the task and EnEffect certainly has these. In the end, the result counts: whereas the value and the usefulness of the website and its features have been drawn into doubt by the monitoring and evaluation experts of UNF and FFEM, EnEffect's performance of its work under the contract has not met criticism; iii) the consultant did not see the work program under the contract Did the consultant receive a copy of the contracts??; therefore, has no opinion on the justification of the contract sum.