

UNDA Seventh Tranche

Project 10/11D

“Mitigating Climate Change through Attracting
Foreign Direct Investment in Advanced Fossil Fuel Technologies”

ANNUAL DEVELOPMENT ACCOUNT PROGRESS REPORT

January 2012

United Nations Economic Commission for Europe (UNECE)
Sustainable Energy Division

ANNUAL DEVELOPMENT ACCOUNT PROGRESS REPORT

PROJECT TITLE: “Mitigating Climate Change through Attracting Foreign Direct Investment in Advanced Fossil Fuel Technologies”

PROJECT DURATION: 3 years (from January 2011 to December 2013)

REPORTING PERIOD COVERED: 1st year (2011)

FINANCIAL IMPLEMENTATION RATE: 19.3%

SUMMARY OF IMPACT:

The first year of the project implementation was successful. The project made the first and most important steps in increasing skills needed to develop a climate that encourages foreign direct investment into advanced fossil fuel technologies.

Six out of nine baseline studies were initiated or finalized in 2011 (activity A.1.1.). The preliminary results of these studies were publicized and analyzed at regional workshop (activity A.1.2.). So far three regional workshops were held: in Tajikistan, China, and Kazakhstan.

The regional workshops were instrumental in establishing relationships among energy policy makers in countries covered by the project, foreign investors, advanced technology providers, and international institutions working in this field.

In July 2011 the Capacity Building Office of DESA approved changes to the budget and implementation plan. The proposed changes will contribute to increasing the impact of the project through better utilization of funds. Now more funds are dedicated to in-country capacity-building activities, and less to outsourced work through hiring external consultancy.

To further increase the efficiency of use of funds, and the overall impact, the implementation team developed in-house the content for capacity building workshops, both regional and technical. The workshops consist of three modules: on advanced fossil fuel technology (developed by UNECE), on the state of electricity sector in the countries (developed by UNECE using data from the UN Statistics Division), and on foreign direct investments (developed by UNCTAD). These modules are delivered either by the relevant agencies dealing on these substantive issues, or by UNECE and UNCTAD staff members, as needed.

1. REVIEW OF EXPECTED ACCOMPLISHMENTS AND ACTIVITIES IN LINE WITH THE LOG FRAME AS PER PROJECT DOCUMENT

EA1	Increased skills to develop and maintain an attractive investment climate to encourage foreign direct investment into power sector based on coal and other fossil fuels to meet the growing demand for electricity and achieving related climate change goals in countries with economies in transition.
IA1 (Quantitative performance indicator of achievement related to EA1)	<p><u>The creation of long-term human capital expressed as the number of institutions as well as regional, national and local officials who are able to design and implement effective and enabling legal/regulatory frameworks supporting foreign direct investment into cleaner electricity production from coal and other fossil fuels by 2012.</u></p> <p>Six out of nine baseline studies were initiated or finalized in 2011. The first three regional workshops (Tajikistan, China and Kazakhstan) were attended by over 120 participants from over 60 Governmental agencies, institutions, Academia and energy public and private sectors.</p>
Qualitative Results achieved for EA1:	The implementing agencies (UNECE, UNCTAD and ESCAP) established communication with institutions and officials from most of the countries covered by the project. The first three regional workshops were held, and three more are planned for early 2012. The primary purpose of the three workshops was enable participants to design and implement effective and enabling legal/regulatory frameworks supporting foreign direct investment into cleaner electricity production.
A.1.1 Develop a project baseline and a comparative analysis for each targeted country with regard to electric power generation status and infrastructure...	<p>Project baseline studies are being drafted for Tajikistan, Kazakhstan, Kyrgyzstan, Mongolia, and Uzbekistan.</p> <p align="right">PROGRESSING</p> <p>Initiated baseline studies for the three of the remaining four countries: China, India and Ukraine.</p> <p align="right">PROGRESSING</p> <p>Initiated work on the synthesis study/comparative analysis covering all nine project countries, as well as a number of reference countries.</p> <p align="right">PROGRESSING</p>

<p>A.1.2. Develop and arrange five workshops within the region to allow for networking amongst officials in the region...</p>	<p>Regional workshop in Dushanbe, Tajikistan (September 2011) COMPLETED</p> <p>Regional workshop in Nanchang, China (November 2011) COMPLETED</p> <p>Regional workshop in Astana, Kazakhstan (December 2011) COMPLETED</p> <p>Regional workshop in Bishkek, Kyrgyzstan (planned for May 2012) UNDER PREPARATION</p> <p>Regional workshop in Tashkent, Uzbekistan (planned for Autumn 2012) UNDER PREPARATION</p>
<p>EA2</p>	<p>Improved cooperative relationships between energy policy makers in countries with economies in transition and investors.</p>
<p>IA2 (Quantitative performance indicator of achievement related to EA2)</p>	<p><u>Number of networks established by 2012 amongst regional officials in countries with economies in transition and emerging economies in the UNECE region and similar countries in Asia and with the investment community to encourage foreign direct investment into advanced electricity generation fossil fuel-based technologies.</u></p> <p>Each workshop held in 2011 resulted in creation of a number of networks among the officials from the countries covered by the project, representatives of the investment community, and representatives of technology providers, which would be instrumental in encouraging foreign direct investment into advanced electricity generation fossil fuel-based technologies.</p>
<p>Qualitative Results achieved for EA2</p>	<p>The three regional workshops held in 2011 were attended by: officials from the countries covered by the project, representatives of the investment community, and representatives of technology providers. The workshops gave them an opportunity to establish formal and informal networks. We expect that the planned activities in 2012 (technical workshops, end-of the-project conference, synthesis study) will create new networks and deepen the existing ones, making them more operational.</p>
<p>A.2.1. Provide technical assistance to the national officials through two or more broad-based technical training workshops, to educate them on technical and policy options for cleaner electricity production.</p>	<p>Started preparations for a technical workshop in Mongolia (planned for March or May 2012) PROGRESSING</p> <p>Started preparations for a technical workshop in New Delhi, India (planned for April 2012) PROGRESSING</p> <p>Started preparations for a technical workshop in Kiev, Ukraine (planned for Autumn 2012) PROGRESSING</p>
<p>EA3</p>	<p>Increased skills to develop pre-feasibility studies on the power sector and related fossil fuels projects in each targeted country.</p>
<p>A.3.1.</p>	<p>Provide technical assistance to national experts to develop pre-</p>

	<p>feasibility study on advanced and cleaner electricity generation and related fossil fuels-based energy project in each country (9 countries).</p> <p>Nine pre-feasibility studies on the advanced cleaner electricity generation based on coal and other fossil-fuels, one for each targeted country, developed for investors' consideration by the end of 2012.</p> <p style="text-align: right;">LATER STAGE</p>
A.3.2.	<p>In cooperation with officials from the region, plan and execute an end-of-the-project workshop in or near the Eastern European/Central Asian region.</p> <p style="text-align: right;">LATER STAGE</p>
Project evaluation	<p>Assessment and evaluation of the final implementation of the project, done by an independent project evaluation officer.</p> <p style="text-align: right;">LATER STAGE</p>

2. PROBLEMS ENCOUNTERED

Due to changes in the project implementation modalities, the implementation was delayed in 2010. The delay was caused mostly by the disagreements in how to appoint the Advisory Board and in what role the Board should play in project implementation. The division of labour among the implementing agencies also took longer to define than initially planned.

Once the arrangements among the implementing agencies were agreed and formally established, however, the implementation of the project was put on an accelerated track. To overcome the problems caused by the delay, the implementing agencies agreed to work in parallel on the first project deliverables: baseline studies and capacity-building workshops. According to these arrangements, UNCTAD took the lead on the activities in China and Mongolia and UNECE took the lead on the activities in Central Asia, while ESCAP took responsibility for India. As a result, three regional workshops were organized in relatively short time (from September to early December 2011) so most of the time lost in 2010 was recuperated and the project is now on track to be implemented as planned.

Another problem encountered is related to the implementation of the project in Afghanistan. Due to security concerns and worsening political situation in this country, the implementing agencies decided that it was not feasible to organize a workshop in Afghanistan. It was also difficult to identify good consultants for the baseline study for Afghanistan. The implementing agencies are now working on identifying representatives of the Afghan electricity sector and Governmental agencies who would be invited to regional and technical workshops. The hope is to overcome this problem and have Afghan representatives present at workshops in New Delhi and Bishkek; in this sense, instructions were given to consultants to intensify efforts to achieve this objective, so that all nine countries, including Afghanistan, are equitably covered by the project.

3. SUSTAINABILITY

The principal aim of this project is to help the covered countries make an important step towards achieving sustainability of their electricity generation sectors through reducing their climate change impact. Achieving a long-term sustainable electricity generation would have a positive

domino effect that enables the countries to reap huge climate change benefits along the value chain of electricity generation, transmission, distribution and consumption.

This project lays at the intersection of several sustainable development themes: economic development, energy and climate change, and, to a lesser extent, atmosphere, and sustainable consumption and production. In terms of means of implementation needed to achieve such sustainability, the project combines some elements of transfer of technology, capacity-building, finance, and education and awareness.

It has been widely recognized that one of the most effective ways to decrease greenhouse gas emissions is to replace obsolete fossil fuel electricity generation technologies with modern and more efficient ones. Deploying advanced fossil fuel technologies, however, requires an enormous investment estimated, according to the International Energy Agency, at \$500 billion a year for the next 20 years. For most countries covered by the project such capital requirements far exceed what is domestically available. For these countries attracting the investment needed is difficult because they face many geopolitical, economic, and social uncertainties, which—when taken together—make them a less attractive destination for capital. This is especially the case with large-scale electricity generation projects where the capital has to be committed for a comparably long time and has to be built into an infrastructure that is virtually impossible to relocate, should such a need arise. In this sense, the project represents the first, small but important step in achieving sustainability through attracting needed investments in the electricity generation.

4. REVISIONS

The general objectives of the project, as well as the main tasks initially established to achieve these objectives, have not changed in comparison with those established in the project document. Two revisions have been made, however.

1. In April 2011 the Sustainable Energy Division changed the implementation team and appointed a new project manager. Upon taking over the project, the new team has discovered certain discrepancies between Results Based Budget (Annex 3 to the project document) and Allotment Request (Annex 4). After having discussed the implementation of the project with UNECE's Programme Management Unit, UNECE requested from DESA's Capacity Development Office that some implementation modalities -- and the related budget lines - be changed in order to align results, budget and allotment. The proposed changes also put more emphasis on in-country activities. The essence of the changes was to dedicate more funds to capacity building activities and less to outsourced work through hiring external consultants. As a result of the proposed changes, for example, the budget for capacity building was increased from \$180,000 to \$275,000 (or 52.7%). Furthermore, in the new budget the project team committed to organize eight instead of five workshops. The increase in the budget for capacity building came mostly at the expense of international consultancy and contractual services. The Table 1 below summarized the proposed changes.

Table 1: Difference between the originally proposed and the new budget
(approved by CDO in July 2011)

Object class and object code	Annex IV		
	Old budget, USD	New budget, USD	new-old
602 (0051) GTA	20000	20000	
602 (0051) GTA	0	0	
	20000	20000	0
604 (0111) Intl consultants	130550	28000	
604 (0111) Intl consultants	20000	0	
604 (0111) Intl consultants	22350	18000	
604 (0111) Intl consultants	40000	20000	
604 (2601) Consultants travel	0	10000	
604 (2601) Consultants travel	0	10000	
604 (2601) Consultants travel	0	10000	
	212900	96000	-116900
604 (0140) Natl consultants	0	81000	
604 (0140) Natl consultants	0	0	
604 (0140) Natl consultants	30000	0	
	30000	81000	51000
608 (2302) Travel of Staff	20000	0	
608 (2302) Travel of Staff	20000	32000	
608 (2302) Travel of Staff	5000	9000	
608 (2302) Travel of Staff	5000	0	
608 (2302) Travel of Staff	5000	0	
608 (2302) Travel of Staff	5000	30000	
	60000	71000	11000
612 (3908) Contract. services	13000	0	
612 (3908) Contract. services	20000	0	
612 (3908) Contract. services	40000	0	
612 (3908) Contract. services	35000	54000	
	108000	54000	-54000
616 Operating expenses	6000	5550	
616 Operating expenses	6000	6000	
616 Operating expenses	7000	9350	
	19000	20900	1900
621 (7202) Workshop	100000	150000	
621 (7202) Workshop	30000	60000	
621 (7202) Workshop	50000	65000	
	180000	275000	95000
Project evaluation	0	12000	
	0	12000	12000
Total	629900	629900	0

The proposed changes significantly improved performance indicators related to utilization of funds, as the Table 2 below illustrates. In July 2011 The Capacity Building Office approved the requested changes.

Table 2: Budget performance indicators

	Old budget	New budget	% increase
Capacity building/staff travel ratio	3.00	3.87	29
National/international consultants ratio	0.14	0.84	499
Capacity building/international consultants	0.85	2.86	239

2. In late 2011 UNECE adopted a new approach in the implementation of the regional workshops. This approach came as a consequence of several factors. The first one is that the new budget (as outline above), allocated less funds to international consultancy than was originally planned. The second was that the implementing agencies proposed to increase the number of workshops, both regional and technical, so that a workshop would be held in practically every country covered by the project. As a result, less travel of workshop participants was needed, since the workshop would come to them, to the capitals of the project countries, where most of the prospective participants are normally based. To increase the efficiency of use of funds, the implementation team developed in-house the content for these capacity building workshops. In general, the workshop consisted of three modules: one on advanced fossil fuel technology (developed by UNECE), another module on the state of electricity sector in the countries (developed by UNECE using data from the UN Statistics Division), and the module on foreign direct investments (developed by UNCTAD). These modules are delivered either by the relevant agencies dealing on these substantive issues, or by UNECE and UNCTAD staff members, as needed.

5. WORK PLAN FOR THE REMAINING ACTIVITES

List of remaining activities with schedule in concordance with the chapter before:

Activity	Date of completion
A.1.1.	May 2012
A.1.2.	September 2012
A.2.1	September 2012
A.3.1	August 2011 to November 2012
A.3.2.	December 2012

6. ADDITIONAL INFORMATION (AVAILABLE UPON REQUEST)

Detailed workshop reports are or will be available at the project's website: http://www.unece.org/energy/se/docs/unda_sed/unda_sp1.html. The results of the baseline studies, the synthesis study, and pre-feasibility studies will be presented at the end-of-the-project workshop and conference in December 2012. After that they will be published in a form that will be agreed upon by the participants in this event and by the Ad Hoc Group of Experts. The most realistic scenario at this stage is that all these outputs would be published as pdf on the project's website, with the exception of the material deemed to sensitive or proprietary.

7. BUDGET EXPENDITURES

The following table reflects the expenditures during the year 2011 in concordance with the project document:

IMIS Object Code	IMIS Object Class	Object of expenditure	Prior allotment	Revised allotment (in July 2011)	2011 Allotment	Obligation	Expenditure	Totally committed
0051-0059	602	General temporary assistance	20,000.00	20,000.00	0.00	0.00	0.00	0.00
0111/2601/2602/0140	604	Consultants and expert groups	242,900.00	189,000.00	49,420.60	44,280.60	5,140.00	49,420.60
2302	608	Travel of staff	60,000.00	71,000.00	28,700.14	1,318.48	27,381.66	28,700.14
3908	612	Contractual services	108,000.00	54,000.00	0.00	0.00	0.00	0.00
4707/8229	616	Operating expenses	19,000.00	20,900.00	478.39	120.88	357.51	478.39
7202	621	Participants in seminars and workshops	180,000.00	275,000.00	43,039.86	8,757.67	34,282.19	43,039.86
		TOTAL	629,900.00	629,900.00	121,638.99	54,477.63	67,161.36	121,638.99
		Implementation rate	100%	100%	19.30%	8.64%	10.66%	19.30%

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