Separate Annex to MTR of the UNDP GEF project “ESCO Moldova”

Re: Audit trail - MTR comments
Ref: UNDP PIMS#5135, GEF project ID#00089623
Prepared by: Mark VELODY
Submitted to: Georgi ARZUMANYAN, John O'BRIEN, Nicolae ZAHARIA - UNDP
Date: 07.03.2016

Contents
1. Introduction .......................................................................................................................... 2
2. Issues raised and how they were resolved ........................................................................ 2
  2.1. Issue: To what extent may the Project Objective and Outcomes be adjusted? .......... 2
  2.2. Is Chisinau UDP work finished? .................................................................................. 2
  2.3. Is a GUDP for Balti be an acceptable proxy for a GUDP for Chisinau? .................... 3
  2.4. Should ESCO Moldova and Sustainable Green Cities be linked or co-managed? ....... 3
  2.5. Is there a need for a part-time CTA to help Nicolae? ................................................. 3
  2.6. Incorrect assumption in the Project Document ............................................................. 3
  2.7. No-cost extension ......................................................................................................... 3
  2.8. Transform the Project Board into a high-level energy efficiency group ....................... 4
  2.9. Public accounting issue .............................................................................................. 4
  2.10. Draft EEF agreement not shared with the consultant .................................................. 4
  2.11. Where is $6,425,000 co-financing from Chisinau? ...................................................... 4
  2.12. $40,000 co-financing from the Ministry of Environment? ............................................. 4
  2.13. Why a 1 person MTR team? ....................................................................................... 5
  2.14. Improving the website ................................................................................................ 5
  2.15. A business case for allowing ESCO transactions that are not strictly EPCs ............... 5
  2.16. Suggestion that EPC for residential is probably unworkable ....................................... 6
  2.17. Too much detail in MTR ............................................................................................ 6
  2.18. Green procurement manual improvements .................................................................. 6
  2.19. Risk that ESCO may not repay EEF(L) because ESCO is bankrupt, fraudulent - degree is risk is very low ........................................................................................................ 6
  2.20. Description of building insulation ................................................................................. 6
  2.21. ESCO Association ...................................................................................................... 7
  2.22. Add more public buildings if can’t find five residential buildings ................................. 7
  2.23. 21. Condominium associations .................................................................................... 7
  2.24. Precise size of a budget reallocation .......................................................................... 7
  2.25. Overall rating ............................................................................................................. 7
1. Introduction

According to the MTR guidelines, the revised final report should be submitted together with an annexed audit trail detailing how all received comments have (and have not) been addressed in the final MTR report. This document represents the required audit trail.

2. Issues raised and how they were resolved

2.1. Issue: To what extent may the Project Objective and Outcomes be adjusted?

2.1.1. Discussion

The MTR ToR and the MTR Guidelines conflict. The ToR states: "UNDP and GEF rules for adaptive management allow for change of activities and outputs to better achieve the project objective and main outcomes. However, they do not allow for the project objective or outcomes to be changed." The MTR Guidelines defined Adaptive Management as: "The project’s ability to adapt to changes to the project design (project objective, outcomes, or outputs) during implementation resulting from: a - original objectives that were not sufficiently articulated; b - exogenous conditions that changed, due to which a change in objectives was needed; c - the project’s restructuring because the original objectives were overambitious; or d - the project’s restructuring because of a lack of progress".

2.1.2. Outcome

Objective and Outcomes may not be changed but may be adjusted, which is significant for the Project in two ways:

- As the Outcome of a GUDP for Chisinau is clearly not going to emerge, a GUDP for another Moldova city would be an acceptable proxy.
- Although the Objective refers to using ESCOs to finance energy efficiency in municipal buildings, expanding to also finance energy efficiency at municipal facilities (lighting, water systems, district heating, transport) is not inconsistent with the Objective.

2.2. Is Chisinau UDP work finished?

2.2.1. Discussion

Chisinau does not have a UDP so it cannot be upgraded to a GUDP. Preparing a UDP is clearly beyond the financial means and scope of the Project. Should be done, and would recommend a budget reallocation to make it happen if that would lead to a GUDP. But Chisinau is clearly not committed to a new UDP within the lifetime of the Project, so there can be no GUDP. Diverting substantial funds from LGF to GUDP would compromise the success of the EPC work and would still be unlikely to lead to a GUDP being adopted by the Chisinau. Chisinau has put in writing that is satisfied with the GUDP preparatory work carried out by the Project so far. But a GUDP for Chisinau is integrated in the Project Objective and Outcome 1, so the perceived success of the Project is compromised if there is no GUDP.
2.2.2. Outcome

Recommend to the board that that the GUDP work for Chisinau is considered complete.

2.3. Is a GUDP for Balti be an acceptable proxy for a GUDP for Chisinau?

2.3.1. Discussion

Balti is understood to be enthusiastic, to have an up-to-date UDP that would be simple to transform to a GUDP based on some of the work and with the help of one of the experts used by the Project so far. No budget has been set aside for this. Whether the Balti UDP is indeed in a fit state to be 'greened' is an unknown.

2.3.2. Outcome

Recommend to the Board that the Project provides support to help Balti (or another city) to 'green' its UDP.

2.4. Should ESCO Moldova and Sustainable Green Cities be linked or co-managed?

2.4.1. Discussion

There are clear synergies between the two Projects, but Green Cities is not yet a signed and if it is it will have harmonious but distinct objectives and UNDP recruitment rules will apply.

2.4.2. Outcome

If ESCO MD is extended in time there may or may be a case for some for the projects working closely together, sharing facilities and/or personnel, but no specific recommendation at this stage.

2.5. Is there a need for a part-time CTA to help Nicolae?

2.5.1. Discussion

ENVIROS is already on board to advise on EPC issues and it is not clear that whether more GUDP expertise will be needed. Also no budget is set aside.

2.5.2. Outcome

Unless a well-defined need and budget to bring in additional expertise emerges, no further action.

2.6. Incorrect assumption in the Project Document

2.6.1. Discussion

Assumption was a fair, reasonable, well-supported, logical assumption about the future... that turned out to be wrong. There was a genuine expectation that Chisinau would have a new UDP in place for the Project to 'green'.

2.6.2. Outcome

Clarified these points in the MTR report.

2.7. No-cost extension

2.7.1. Discussion

Successive delays mean there is unlikely to be time to achieve Project Objective and Outcomes, and there is no budget or time to recover. $150k - $200,000 could be returned from the from
the LGF to finance a 1 year extension. If it is demonstrated that the LGF is substantially oversized, up to $450k more (so $600,000 in total) could be moved to a longer extension and enhanced achievement of Outcome 4.

2.7.2. Outcome

Recommend to the Board that an extension decision is taken towards the end of 2017. Up to $200,000 for an additional year is most likely.

2.8. Transform the Project Board into a high-level energy efficiency group

2.8.1. Discussion

Unnecessary recommendation as the same institutions are already work on multiple energy efficiency initiatives.

2.8.2. Outcome

Removed the recommendation from the draft MTR.

2.9. Public accounting issue

2.9.1. Discussion

Unresolved, but working on it

2.9.2. Outcome

Changed emphasis - Project should find solution and Board support it, not Board find solution.

2.10. Draft EEF agreement not shared with the consultant

2.10.1. Discussion

Not available to share with the consultant, either at the time of the MTR or in response to subsequent requests. Also could the consultant to prepare a model with a diagram/schematic explaining how it will work.

2.10.2. Outcome

Consultant didn't get to see the draft.

2.11. Where is $6,425,000 co-financing from Chisinau?

2.11.1. Discussion

Hypothetical financing. Discussion confirmed that it doesn't really exist.

2.11.2. Outcome

A bullet has been added to the response to the Question (posted in the ToR) - 'Are there comments on co-financing table?' stating 'The Project Team should track and report on the use of co financing by the Project Partners in its regular reports so that there is something clear to report at the time of the Final Evaluation.'

2.12. $40,000 co-financing from the Ministry of Environment?

2.12.1. Discussion

In-kind office space is not from Ministry of Environment.
2.12.1. **Outcome**
Revised to simply 'In-kind contribution'.

2.13. **Why a 1 person MTR team?**

2.13.1. **Discussion**
Budget constraints.

2.13.1. **Outcome**
Mystery solved but no need to refer to this in the MTR.

2.14. **Improving the website**

2.14.1. **Discussion**
Note everyone was aware that the problem was only with the English version - the Romanian version is more comprehensive. Budget and the small size of the team/resources for this kind of thing were raised.

2.14.1. **Outcome**
Recommend bring English version to same level as Romanian version. Also proposed some useful links for a links page.

2.15. **A business case for allowing ESCO transactions that are not strictly EPCs**

2.15.1. **Discussion**
Not all ESCO deals have to repay from energy savings alone. In principle (not in Moldova), municipalities can give their (current and future) investment and maintenance budgets, as well as budgets from third parties (grants) for ESCOs to manage within their contracts. This enables investment projects that take much longer to pay back from energy cost savings alone - such as building insulation - to be part of the ESCO investment. The model that will be used for buildings in Moldova only works very short payback projects like swimming pools, oversized heating systems etc. There will be relatively few opportunities, as the most common buildings projects will take more than five years to pay back, and the most attractive municipal EE investments are typically not in buildings (public lighting, water systems) so are not eligible under the wording of the Objective of the project - which refers specifically to buildings. In other words, the Moldovan public sector orchard is full of fruit, few are low-hanging, and most of the low-hanging fruit are on ineligible trees. Ties in with discussion on allowing municipal services to be financed using EPC.

2.15.1. **Outcome**
New annex added to the MTR explaining why EPC is not well-suited to investments in municipal buildings.
2.16. **Suggestion that EPC for residential is probably unworkable**

2.16.1. **Discussion**

Is there a basis for the assumption? Concluded yes - there are no known examples of fully-commercial residential EPC for investments that payback within five years in a low-to-middle income country. Even for public services, which should be easier to finance there are examples of this market being supported by the international community and failing to take hold.

2.16.2. **Outcome**

No change.

2.17. **Too much detail in MTR**

2.17.1. **Discussion**

Agreed that some text are more technical than normal in an MTR, but this was intentional based on discussions before the MTR took place - to add value.

2.17.2. **Outcome**

Some text moved to new annexes, others unchanged.

2.18. **Green procurement manual improvements**

2.18.1. **Discussion**

Discussed content and possible improvements; how the guidelines may indeed be being used by intended readership but this point didn't really come out during the mission. Discussion on how principle issues appear to be design rather than content. Discussed ways of evaluating whether the guidelines are useful/being used / making an impact.

2.18.2. **Outcome**

Shortened comments to focus on design rather than content. Recommended that sometime over the remainder of the project period the team finds a way to measure and report on whether the intended audience is using the manual, so will be able to demonstrate success to the final evaluator.

2.19. **Risk that ESCO may not repay EEF(L) because ESCO is bankrupt, fraudulent - degree is risk is very low.**

2.19.1. **Discussion**

It turns out that non-payment by Chisinau municipality may be an issue.

2.19.2. **Outcome**

Revised terminology - now compare 'high probability, low impact' and 'low probability, high impact'.

2.19.3. **Discussion**

2.20. **Description of building insulation**

Insulation of the building envelope considered in two categories as glazing tends to be an individual investment and polystyrene a communal investment.
2.20.1. **Outcome**  
Point clarified in the text.

2.20.2. **Discussion**

2.21. **ESCO Association**

Discussions on what it should be called, how much time and effort should be spent on seeding an association, whether it should be a top-down initiative from UNDP or a bottom-up initiative from the market - examples from other countries.

2.21.1. **Outcome**  
Discussions reflected in the report, including links to several ESCO associations of other countries.

2.22. **Add more public buildings if can't find five residential buildings**

2.22.1. **Discussion**

Discussed how wouldn't make a difference to the grant component as there are $50,000 each for 20 buildings. Discussed scope for

2.22.2. **Outcome**

Unchanged.

2.23. **Condominium associations**

2.23.1. **Discussion**

Didn't discuss with associations within MTR but Project Team has discussed. Had not selected the residential buildings at the time of the MTR. Issues include legal status, no history of borrowing etc. Capacity-building for block associations would be entire project in itself. It needs to be done but time intensive - ESCO Moldova not the right project for this.

2.23.2. **Outcome**

No change to approach, which is try to find five credible condos and, if unsuccessful, do more municipal investments instead.

2.24. **Precise size of a budget reallocation.**

2.24.1. **Discussion**

Long discussion and follow-up discussion. Likely conclusion is no change until end 2017 and then take 200,000 from the LGF budget for a 12 month extension. But complicated as depends on how the Project evolves. Separate annex required.

2.24.2. **Outcome**

New annex entitled 'Notes on the timing, source, size, duration and purpose of an extension' added to the MTR.

2.25. **Overall rating**

2.25.1. **Discussion**

Although an overall rating is not required for an MTR, strongly encouraged by UNDP. Discussed whether could approach GEF to remove 'GUDP' and 'buildings' from the Objective,
and 'Chisinau' from Outcome 1. Concluded that Project is well-managed but far from on-track to a satisfactory outcome as will clearly not meet its Objective and some Outcomes; 900k was disbursed in a single tranche and may not available for partial reallocation; $6,425,000 co-financing from Chisinau doesn't really exist; EPC is not yet compatible with the public accounting system; and EPC for EE in public sector buildings for investments that have to repay within five years is, in any case, a model that is not used widely internationally, for good reason. So - at best - MU.

2.25.2. **Outcome**

MU. Emphasises that the project is very well managed, and is marginally unsatisfactory because of external factors.

2.26. **Interview with Lavoie**

2.26.1. **Discussion**

Suggested short-term expert Lavoie should have been interviewed.

2.26.2. **Outcome**

Misunderstanding - Lavoie had been interviewed.

2.27. **GEF Focal point wasn't available during the mission week**

2.27.1. **Discussion**

Discussion - GFP wasn't available at the time of the mission but a courtesy call should take place. Concluded that project team would discuss first to explain the background. Unfortunately this took place on Friday 3.3.2017 which was the only day for another week the GFP would be available as was going abroad. Consultant didn't see the message until that evening, so a discussion would have delayed this report by a week.

2.27.2. **Outcome**

No discussion took place.