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Central Asian Energy Efficiency Support Program (CAEESP)



Leader with Associates (LWA) Cooperative
Agreement

Quarterly Performance Report:
January – March 2012

April 2012

This document was prepared for the United States Agency for International Development (USAID) by ICF International under Cooperative Agreement No. 00176-LA-11-00003, Leader with Associate Cooperative Agreement AID-OAA-L-11-0000.

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1. INTRODUCTION

During this first quarter of the program, ICF focused its efforts on three directions

Establishing the aims of the project:

After the twelve day visit tour during December, the COP had already formed a clear picture that the original TOR was not aligned with the current needs and realities of the situation.

This was communicated to the USAID Office and a new program path presented in late January in a meeting headed by the USAID Mission Director. It was a positive development to be informed by the Director that the Mission had also recognized how the operational environment was now different from when the TOR was originally drafted. Moreover, we were explicitly informed that the resources and aims of the project should be aligned closely with the objectives of the Government of Kazakhstan.

This is path that the project has followed in the intervening period.

Establishing a work program based on the project aims:

We quickly arranged meetings with the government in Astana. This presented an issue as the project was not provided with a partner organization in the government whose officers might have aided preliminary introductions. We contacted the Ministry with the portfolio responsibility for energy efficiency policy and established meetings in order to discuss the aims and tactical objectives of the government, and find out how we could use the resources of the project to assist in the achievement of its objectives.

Whereas we are agreed in the approach to align project aims with the Government of Kazakhstan, at the same time, the project reserves its right of judgment on where to direct project resources. Part of this overall process is one of persuasion: of listening to the government, but also one of advising them of the merits or otherwise of alternative policy directions.

Securing communications for the project: the first part of the quarter was used to meet as many closely interested stakeholders as possible in order to solicit their ideas and experiences with different approaches, and in order to test our own ideas on them in order to develop a more rounded sense of the policy options and tactical possibilities for project actions.

Securing a base for work:

The first quarter was a difficult period. After signing a lease on the original target premises at the offices of the Eurasia Foundation, the landlord changed his mind at

the last moment and informed us that he wanted to engage in capital repairs to the premises rendering the premises unavailable.

We had an alternative option already available at the Dostyk Business Centre on Avenue Dostyk, and immediately agreed to rent these offices.

The lease is signed and the office is open for business. The address is Suite 417, Dostyk Business Center, Avenue Dostyk 43, Almaty.

2. OBJECTIVES AND OVERALL QUARTERLY PROGRESS

Overall Program Progress for Quarter 2

The original approach was to complete a holistic work program before commencing activities which could have a cost sharing element; the project budget is not large and the demands are wide ranging. The essence of this approach was that where possible, resources would be shared by combining resource expenditure and where 'customers' for services shared a common objective, for example in the provision of training modules. This would then form an economically effective execution and resource use. But where activities could be engaged discretely and where upon there is no measure of sharing, they could be implemented as soon as practically possible.

Problems Encountered During Quarter. The only major issue has been the pace of corporate registration, which is sometimes slowed by the need to conform with the tight legal, regulatory and registration regime operating in Kazakhstan.

Registration: Logistical and legal requirements have presented unusual difficulties. Registration requires us to respond to a set of demands in strict sequence. The first act is to establish an office which then triggers other parts of the sequence. Losing the Eurasia Foundation office premises on the day the lease was due to have been signed cost us significant lost time and considerably set the registration process back. However the office is now secured and the registration process is fully underway and on a certain path for delivery as rapidly as this can be executed. Whereas this setback has at times made working conditions uncomfortable for the CAEESP team in Almaty, it has hardly impacted on securing the work program.

We strongly believe that a project needs to establish its work program in a correct manner, including strong support and "buy-in" from Kazakhstan's beneficiaries. This means determining and then establishing the working objectives and then allocating resources against the tasks required to achieve the objectives. Where the objectives are discrete, they can be initiated independently. However, in some cases it is more economically effective to share resource inputs against multiple tasks.

We have begun execution of work where the activities are discrete, but held back when it has been known that sharing can be a more effective mechanism for project execution.

3. SUMMARY OF ACTIVITIES CONDUCTED – 1ST QUARTER FY 2012

This section provides a summary of major activities conducted since the delivery of Quarterly Report number 1.

3.1 Program formation and execution

3.1.1 Operations

Task 1 – Assessment and research

We continue to build our deeper understanding of the country's new energy efficiency policies following the adoption of the new National Energy Efficiency Law. Meetings in this quarter included organizations including representatives of NGOs, from industrial associations, from the financial sector, and from the government. In addition to our government counterparts, probably the most important meetings were within the financial community. What we quickly learned underlined an already strong assumption about the nature of prospective investment into energy efficiency projects and the impact on this project's program.

Risk reduction requires some creativity in an investment climate where the costs can easily outweigh the financial gains, and in a relatively tight capital market where competing project easily outbid energy efficiency proposals. This has certain impacts on the original aims of the project.

Task 2 - Awareness

We responded to the policy need Ministry of Industry and New Technology (MINT). After initiating meetings we re-introduced the CAEESP and were invited to develop a cooperative plan to assist the ministry in its 'awareness campaign.' Awareness is a broad moniker which also incorporates labeling on energy-using products. Within the context of our current cooperation, this connects with policies and actions concerning the labeling of domestic white goods imported and sold in Kazakhstan. ICF has unique and world class expertise in this area as the manager of the United States Environmental Protection Agency (EPA) *Energy Star* program.

After meeting the government and its key agency working in this area, *Kazenergoexpertise* (KEE), and assessing its policy path, we jointly devised a first step work program and invited one of ICF's key experts in this field to open discussions

with the aim of forming a longer term cooperation agreement with task, activities and goals. One of ICF's key experts involved in Energy Star in the United States is Bizhan Zhumagali. Mr. Zhumagali was promptly brought into the arena and spent a working week with the key counterparts from the government apparatus, including the Kazakh Technical Regulation Committee.

Mr. Zhumagali has drafted and produced a report (received April 11, 2012) containing recommendations for policy and new actions in support of the government's awareness campaign. This will now be translated into Russian and presented to the government. It contains a pathway of activities which will support the government's energy efficiency awareness campaign and will assist Kazakhstan in the introduction of a national energy labeling program of its own based on international standards.

Kazakhstan is a part of a customs union which includes the Russian Federation, and although its policy is not yet formed, our assumption is that Kazakhstan will likely adopt a 'labeling' program that closely approximates that operating in Russia. This is based on the European system.

We have contacted the representatives of the European Commission who are in liaison with Russia in this area, and although their connections with Russia are said to be "quite loose", their technical input is likely to be of some continuing value in the future. In this sense, we are transferring the methodological capability to Kazakhstan from Energy Star, and at the same time anticipating the next phase of Kazakhstan's policy.

Kazenergoexpertise also asked for a program of assistance which would increase the level of their institutional capability. This is covered under sub-section, Task 4.

We also held meetings with university institutes engaged in energy efficiency work, at: Almaty University of Power Engineering and Telecommunications, and at the Centre for Energy Research at Nazarbaev University.

The original task established under the terms of reference is quite broad whereas the level of current knowledge is already at a reasonably high technical level. Each meeting was extremely informative and presented us with a clear idea of the interests of these institutes. We are now aware that current interests connected with research in, for example, data management, and methodologies for the application of photovoltaics, carbon capture technology, and more. In the next quarter we will begin to engage our experts, aiming to transfer current knowledge in the specifics of energy efficiency.

In respect of the first task, an evaluation of the new Energy Efficiency Law was completed in Russian and is being translated into Russian for presentation to the

government (MINT). Professor Trofimov presented his findings on this law at the CAEESP round table event, (see below under 3.1.2).

Task 3 - Energy efficiency project development and financing

As explained in the previous section, securing investment for energy efficiency projects is a serious problem, and our research has shown us that organizations engaged in this effort, such as the EBRD, have during the previous three years struggled in this task¹.

Our research led us into two paths: first, to find a route into the industrial/commercial sector with the aim of finding prospective investment projects; second, into assessing the feasibility of creating a model approach for Demand Side Management (DSM) at the municipal level.

Kazakhstan has a unique structure of commercial ownership and enterprise, reflected in the control of the largest share of the economy by the state holding firm Samruk Kazyna Group (SK), As such, this naturally defines itself as the largest target for our work under this Task.

We arranged first step meetings with SK in Almaty whom expressed a strong interest in cooperating with the Program. Following up in this initiative, we brought to Kazakhstan one of ICF's senior industrial energy efficiency experts, Michaela Martin, to discuss a scope of cooperation with SK in order to begin the design of a program of work for SK under the CAEESP. The agreed aim is to implement a program of cooperation in two or three pilot enterprises in the Group.

This program has now been presented to SK at the Deputy Chairman level. Their interest is in the following:

- ISO 50001 training
- Technology process improvement

A work program has been proposed to SK. Under the program, the first tasks require SK to decide on the pilot enterprises.

At the same time we are planning trainings for SK group energy managers to ISO50001. Samruk Kazyna will nominate staff onto the first training sessions for ISO 50001 training. It is expected, and ICF preparing, that the first training will commence in the first half of June.

¹ The EBRD's *Kazseff* facility was designed and executed expressly with the aim of funding energy efficiency project investment. It had available a fund of Euro 75 Million working through national banks, but struggled to secure new projects in middle sized or smaller firms.

In the DSM support area we have established links with the State Agency for Construction, Housing and Utilities (commonly known as Zhilishchno-Kommulanoye Hozyaistvo, or ZKH). This agency has made available from Treasury sources a fund valued at Tenge sixty billion, to be partly used for the refurbishment of private dwellings. The process is rather simple in that applicants for credit are only required to fulfill the documentation in order to qualify for a credit. Funds are then loaned through local agents controlled under ZKH. The weakness of this process is that no evaluation is made of the relative value of energy efficiency gains. CAEESP will meet with representatives of municipal authorities and of the Fund process in order to offer and deliver training on energy management, including DSM, having the aim of increasing the institutional capacity of the system and enhancing its energy efficiency capability.

Visits to three towns will commence in May. Our first indication is that these towns will be Chimkent, Rudniy and Mangistau, although this might change. The aim is to improve the institutional capability at the municipal level in order that capital resources are more effectively directed towards energy efficiency investment projects. We will offer EMS trainings to the municipal authorities and plan for trainings to commence as soon as is practically implementable for the municipal level authorities.

We will also target regional utility companies, with the objective to introduce DSM training aimed at reducing energy intensity at the consumer level.

In regard of the financial community, we have held discussions with IFIs and local banks in Almaty. Most promising have been those with the Regional Head of the Asian Development Bank (ADB). We know that the ADB has discussed at its Head Office a new internal policy focused on developing instruments aimed at providing financial instruments targeted at providing capital investment to energy efficiency projects in the region's middle-sized corporations.

Whereas the bank is not at the point of providing detailed information, we have been told that if we can provide a pipeline of projects, the bank will give serious consideration, and under terms that are more 'streamlined', and therefore affordable to the client.

We also held meetings with the Asian Credit Fund (ACF) in March. ACF requested technical support to improve its internal capacity to evaluate prospective energy efficiency microfinance proposals. On April 11, ICF expert, Mr. Vitaly Bekker met with the head of the ACF, Zhanna Zhakupova and detailed a program of technical support. This will commence shortly and continue through the next quarter.

On the terms of reference, line 3.5 requests ICF to develop a set of recommendations for a model energy efficiency project at a public sector facility. We met with the Director and Chief Surgeon of a hospital in the outer suburbs of Almaty on April 11,

and made a preliminary assessment of the facilities. We will conduct a detailed analysis of the hospital's capability to upgrade its energy and environmental efficiencies, providing a set of recommendations for improvements to international benchmarks based on no cost, low cost, and higher investment demands. At the time of reporting, the hospital director is formalizing request for assistance through USAID.

As an adjunct to the work program, we have discussed with the USAID Office the importance of the cross-cutting issue of public finance management. Particularly in the public sector, Treasury and Tax policy controls generally mitigate against the possibility for public sector organizations to spend funds on energy efficiency projects. We will research this in our program and produce an additional report on our findings, and we expect that this will be an ongoing feature of work.

Task 4 - Support for private sector energy efficiency service providers

We initiated meetings with the Ministry of Industry and New Technology which has portfolio responsibility for energy efficiency policy formation and execution program development in Kazakhstan. Because the Ministry has insufficient human resources to respond directly to current demands, it delegates responsibility to state controlled and owned institutes for the research and execution of new policy and policy execution. In our case, we were asked to meet with Kazenergoexpertise (KEE), as noted, above.

We now have a good working relationship with KEE.

We held preliminary meetings in Astana with their working group, maintain a good working relationship and have formed a co-operative work program. On April 13 we were invited to make a formal presentation of this program to the representative Technical Committee, comprising of experts from the KEE, the KTR (Kazakhstan Technical Regulation Committee), and leaders from key industrial associations.

Our work program comprises the following:

- Educational program in energy efficiency management for cross-ministry representatives
- Training to ISO50001 for nominated representatives from KTR, Gosenergonadzor and KEE
- Training in energy auditing for experts from KEE and Gosenergonadzor
- Policy advice on the formation of a national energy audit accreditation agency
- Comparative analysis of tariff policies

The first training will comprise of twenty experts (20) in energy audit and fifteen (15) on ISO50001. Follow up trainings will be requested for additional groups.

ICF proposed to conduct the first trainings during May, but KEE is committed to other meetings during this month and will be free in June at their earliest convenience.

Task 5 – Regional analysis and recommendations

There has been no direct action in this quarter under this task. However, it was useful and interesting to meet with team leader Jill Jamieson from the USAID 'Macro' project, and we will follow up on their contacts in Turkmenistan as we establish a program for more expansive work with central Asia under the next quarter. It has been noted to us in April that ISO50001 training should be expanded across the central Asian republics. We will integrate this addition into the work program.

3.1.2 Events

The key event during this quarter was the CAEESP Round Table organized in Astana on March 14. Our appreciation is extended to Mr. Ben Chapman for opening this meeting. The quality of presentations was high as was the discussion, reflecting the level of core interest in energy efficiency in Kazakhstan. One measure of its success was the untypically low level of 'natural loss' of participants as the day progressed. By the conclusion we had approximately fifty people still in attendance. By comparison, a recent high level meeting on 'Green issues' held in Astana attended by political figures (ambassadors and international participants) and media started with more than double the attendees and finished its first day with less than the CAEESP event.

We also attended a round table event in February organized by the ADB in cooperation with MINT. The explicit aim was to assist the ministry to develop a 'road map' of policy development in the energy efficiency domain. During proceedings, the COP offered to organize coordination of the international donor side of the process of cooperation, which was agreed at the table. But in later meetings with MINT, we were told that the ministry was happy to have KEE coordinate the full approach.

3.2 Administrative issues

Registration is ongoing and currently we are complying with series of legal requirements in respect of legal company registration, tax registration (BIN and INN), registration for the state statistical requirements and social welfare registration. It is expected that this will be completed in the coming weeks, and anticipate that these background issues will be quickly resolved.

4. PROGRAM COORDINATION

A significant early event of this quarter was the round table organized by the ADB. Its purpose was to assist the MINT to create an 'energy efficiency' policy road map. This is discussed under 3.1.2 (above).

The CAEESP now has very good communications with government policy and program execution through KEE.

We have good communications with the IFI and local banking sectors, and are developing contacts in the private sector.

Internal project coordination is in a good state with fluid communications with our head office in Washington, regional head office in London, and regional office in Moscow.

Task Leaders

For the execution of the work program, and in order to bring the technical expertise into task design, ICF has delegated responsibility for the organization and execution task management to the following team members:

Task 1	Keith Little
Task 2	Bill Prindle
Task 3	Alexei Sankovski
Task 4	Henri van Rensburg
Task 5	Keith Little

5. MONITORING AND EVALUATION

The Performance Monitoring and Evaluation Plan (PMEP) is being updated in order to align with the current tasks.

6. FINANCIAL INFORMATION

For the first quarter of the project, the budget summary follows, prepared to align with budget categories in the Cooperative Agreement:

7. PLANS AND SCHEDULE FOR NEXT QUARTER

Task 1- Assessment and Research:

Assessment and research is an ongoing feature of this work program.

Task 2 - Awareness: The team will ensure that preparations are made for the delivery of the training courses identified in the original work program in order to fit with the demand driven approach.

- Analysis of the Law on Energy Efficiency is completed in the Russian language and will be presented to the government. It will also be translated into English and presented as an output of the project.
- We will plan a first seminar on latest energy efficiency technologies and methodologies at a university in Almaty or Astana.
- Presentation to the MINT on the options for implementing elements of the U.S. Energy Star experience in Kazakhstan. This includes proposals to the ministry on next phase actions; CAEESP is prepared to respond in this quarter. This will be followed by a program of actions supporting the first phase program roll-out, which will include outreach to manufacturers and retailers, product standards development and the inclusion of accredited laboratories into product testing.

Task 3 - Energy efficiency project development and financing facility:

- Within the government's Housing Credits program to stimulate energy efficiency investments: to identify and select 2-3 towns/districts to plan and then perform first DSM site visits and develop a schedule of missions. We will also include Almaty into this program.
- DSM site-visits and stakeholder meetings to 2-3 towns/districts
- Draft a report on training needs based on DSM site-visits.
- Preparation of training under 3.2 to be conducted (regional DSM training, above).
- Arrange visits in three regional municipal authorities in order to research and analyze sub-national fiscal planning and its impact of energy efficiency investment. It is planned to combine these visits with those identified under the DSM actions (above).
- Complete a pilot energy efficiency assessment at one site (public building) in Almaty region: report to be delivered. This will be a hospital in the suburbs of Almaty.
- Maintain liaison with IFIs on project investment facility with the aim of connecting work completed under Task 3 with international banks' project development pipelines.
- Plan and deliver training on ISO50001 to certification level enterprises within SK Group – estimated 15 participants.
- Conduct two site visits to pilot private sector enterprises.
- Conduct preliminary phase of a gap-analysis for the two pilot plants.
- Conduct training for the Asian Credit Fund in methods of energy auditing, tailored for ACF needs – estimated 15 participants.

Task 4 - Support for private sector energy efficiency service providers:

- In cooperation with MINT/KEE, conduct an assessment of needs for the formation of an Accreditation Agency for energy auditors. Deliver a plan of action to MINT/KEE containing recommendations for the formation of the Agency.
- Conduct first training session to GOK (KTRM) on ISO 50001 – at least ten people trained.
- Conduct first training session to GOK (KEE) on energy audit – estimated fifteen people trained.
- Conduct training on 'Energy Efficiency in the Kazakh Economy' to 40 cross-ministry representatives of the Government of Kazakhstan.
- Deliver report on comparative analysis of international electricity tariff policies

Task 5 - Regional analysis and recommendations:

- Prepare for missions to other Central Asian Republics.
- Develop an assessment (report) of potential targets for ISO50001 training in other Central Asian republics.

Small Grants program:

- Prepare and execute a model for the delivery of the small grants program.