



# EEI Update – May 2007

A progress bulletin of ADB's Energy Efficiency Initiative

Draft

## New RETA Expands EEI Support to DMCs

The ADB Board of Directors approved on 30 March 2007 a regional technical assistance (RETA) to further support the implementation of EEI in developing member countries. The RETA, amounting to \$2.3 million, supplements a \$600,000 RETA approved on 2 October 2006. Both RETAs are intended to support the second phase activities of EEI including the preparation of EE strategies and investment plans for identified priority countries, namely the People's Republic of China (PRC), India, Indonesia, Pakistan, Philippines, and Viet Nam. These countries were determined to have the highest potential for clean energy investments in the Asia Pacific region. *Alexander Ablaza, 70365*

## ADB Establishes Clean Energy Financing Partnership Facility

The ADB Board of Directors approved on 24 April 2007 the establishment of the Clean Energy Financing Facility (CEFPF). CEFPF will supplement ADB's current resources including its Asian Development Fund (ADF), Ordinary Capital Resources (OCR), and Technical Assistance Special Funds (TASF) to catalyze investments in clean energy to meet the target of \$1 billion a year under EEI. CEFPF consists of a multi-donor Clean Energy Fund, a series of bilateral trust funds, and framework agreements with other development partners for cofinancing, knowledge sharing, and risk sharing. CEFPF resources will be used for grant components of investments (e.g. renewable energy, transmission and distribution loss reduction, agriculture waste, and biomass projects) and for technical assistance (e.g. project preparatory activities, capacity building, cooperation on science and technology). Discussions with various donor governments to raise contributions to CEFPF are ongoing. *Samuel Tumiva, 6624*

## Japan Announces New Cooperation with ADB on Clean Energy

Japan will establish the Asia Clean Energy Fund in cooperation with ADB to help developing member countries tackle climate change through energy efficiency. The Asia Clean Energy Fund will be seeded from a portion of the \$100 million committed by Japan to support clean energy and investment climate promotion. This initiative was announced by the Chair of ADB's Board of Governors, Japan's Minister of Finance Koji Omi, at the opening ceremony of ADB's 40th Annual Meeting in Kyoto, Japan on 6 May 2007. *Samuel Tumiva, 6624*

## Energy Efficiency Initiative (EEI)

Along with rapid economic growth, energy use in Asia and the Pacific is fast increasing, largely met by fossil fuels. To cope with a continued rise in energy consumption, the region must invest over \$6 trillion in new energy infrastructure, mostly in the power sector, by 2030.

To help its developing member countries achieve a clean and secure energy future, ADB, in June 2005, launched the Energy Efficiency Initiative (EEI). EEI aims to expand ADB's operations in clean energy to at least \$1 billion a year by 2008. EEI's expansion focuses on both supply-side efficiency—including renewable energy—and demand side efficiency.

EEI has a three-phase approach. Phase I, which was completed in June 2006, defined the rationale and general framework for implementing the initiative. During Phase II (2006 to 2007), ADB's operations departments, assisted by the Regional Sustainable Development Department (RSDD) will (i) formulate country-level strategies to reach EEI targets; (ii) strengthen ADB's institutional capacity to scale up, monitor, and evaluate EEI activities; and (iii) develop preliminary design for innovative financing mechanisms to support priority activities. Phase III will implement the strategies from 2008 to 2010. *Alexander Ablaza, 70365*

## Draft CEFPF Eligibility Criteria Developed

The interdepartmental CEFPF working group has developed the draft project eligibility criteria for the CEFPF. The criteria will be finalized after discussions with donors and will then be applied by ADB's operations departments in determining projects qualified for funding through the CEFPF. Based on the draft criteria, eligible projects include: (i) solar, wind, and hydropower projects; (ii) power plants that use cogeneration technologies, supercritical and ultra-supercritical steam technologies; (iii) projects that result in greater use of clean fuels such as natural gas, LPG, and methane; (iv) conversion, modernization or improvement of existing power plants, transmission and distribution facilities, and end-use facilities

to use cleaner fuels or increase energy efficiency; (v) facilities to produce, store and convey clean fuels and biofuels; (vi) energy service company business development; (vii) facilities that manufacture components of clean and renewable energy systems and high-efficiency appliances and industrial equipment. *Samuel Tumwa, 6624*

## Operations Departments Work Up Strategies for EE Investments in DMCs

Since December 2006, various ADB operations departments (ODs) have been conducting consultative meetings in the six priority developing member countries (DMCs) to gather inputs for the preparation of country strategies for reaching EEI targets. Multi-stakeholder consultations were conducted in the People's Republic of China (PRC) and Indonesia in December 2006, Pakistan in January 2007, and India in February 2007. In Viet Nam and the Philippines, consultative meetings with government officials were conducted in March 2007 and April 2007, respectively.

The consultations confirmed the huge potential for EE in the six DMCs. While environmental benefits of EE are recognized, energy security concerns are the main driver for the EE agenda. Participants were generally optimistic that CEFPP, with its risk-sharing, technology deployment, and technical assistance components would be an effective instrument for catalyzing CE investments as it would encourage partnerships among financial institutions and Energy Services Companies (ESCOs). Despite persistent barriers, ESCOs are widely seen to substantially increase their market presence in the future. The consultations are now paving the way to more specific investment opportunities in the 6 DMCs:

- **PRC** – EAEN is currently finalizing a joint strategy paper with the National Development and Reform Commission to outline external assistance needed to expand clean energy development in PRC. Provincial governments like Guangdong are now structuring demand-side management programs (through the efficiency power plant – or EPP – concept) to enable them to meet the central government's 2010 energy consumption reduction targets. EAEN and PSIF2 are supporting public-private partnerships that are implementing various renewable energy projects. Also, PSIF2 will be mobilizing partial credit guarantee funds through a proposed EE multi-project financing facility to jumpstart ESCO-led retrofit projects in the local commercial and industrial sectors.
- **India** – SAEN is now working with the Bureau of Energy Efficiency to formulate strategies to scale up EE investments in the building and industrial sectors. The division is also pursuing power sector rehabilitation, modernization and upgrading project opportunities with the Power Finance Corporation to reduce technical losses in the supply-side of the electricity market.

- **Indonesia** – SEID will be completing an inception report in late May 2007. The inception report will define an action plan for ADB to build up supply-side and end-use side investment opportunities in the power sector and in the government building, commercial, industrial, transport and residential end-use sectors.
- **Pakistan** – By June 2007, CWID will be ready to circulate a draft report on a country framework assessment, which will include a roadmap leading to various EE investment opportunities in Pakistan. The EE roadmap is aimed at enabling the supply-side and end-use sectors of the domestic energy market to comply with Pakistan's 2006 National Energy Conservation Policy. The Planning Commission is the implementing agency of the EEI regional technical assistance on behalf of the Government of Pakistan.
- **Philippines** – Since February 2007, SEID has been meeting with Undersecretary Mariano Salazar of the Department of Energy specifically to develop alternative financial instruments to expand the operational capital base and access to credit guarantees for ESCOs. SEID is considering to provide technical assistance for the establishment of innovative financial mechanisms, possibly through a new intermediary, in its objective of accelerating EE investments in the commercial and industrial sectors through ESCO performance contracts.
- **Viet Nam** – As implementing agency of EEI in Viet Nam, the Ministry of Industry (MOI) has started to work with ADB to develop a country action plan for EE project development. Even before the multi-stakeholder consultations to be held in Ha Noi in mid-June 2007, the MOI is considering ADB assistance for the establishment of risk sharing partnerships with local financial institutions to support ESCO-led retrofit projects in the commercial and industrial sectors. *Alexander Ablaza, 70365*

### EEI Outlook – next month

- Donor commitments to the CEFPP and the project eligibility criteria will be firmed up starting May 2007. Following this, solicitation for project proposals will begin.
- Draft inception reports on EE approaches and strategies for India and Indonesia will be completed.
- Interdepartmental discussions will be held on the proposed M&E system for EEI. Baseline for ADB's CE investments based on loans from 2004 to 2006 will be finalized.
- National multi-stakeholder consultations will be held in Viet Nam in early June 2007. *Alexander Ablaza, 70365*