

Financing Municipal Energy Efficiency in the Commonwealth of Independent States

“Mechanisms for Revolving Financing of Energy Efficiency Projects in Cities”

Anatoliy Kopets

Consultant

On Municipal Energy Management

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Revolving Financing Mechanisms for Energy Projects

Goal:

- **Creation of a “natural” source of budgetary resources** in the form of calculated savings derived from operating costs of urban public buildings **with the goal to return the investments** in energy efficiency projects of these buildings and financing the development of new energy efficiency projects.

Revolving Financing Mechanisms for Energy Projects

Tasks:

- **Safeguard the legality of the methodology for calculation of “the savings” of budgetary resources resulted from energy efficiency and the procedure of collection of data necessary for these calculations.**
- **Safeguard targeted use of calculated “savings” of the budgetary resources.**
- **Regulate the procedure of calculation and use of these budgetary resources.**

Revolving Financing Mechanisms for Energy Projects

Variety of mechanisms:

- **Targeted fund** for accumulation on separate accounts and targeted use of the cities budgetary resources, in the amount of the calculated savings, resulted from the energy efficiency projects implemented in the city's public buildings.
- **Special procedure** for operative management of a limited part of the city's budgetary resources during the fiscal year, which presumes the amendment of the budget prescriptions for the use of the funds identified as "savings" from energy efficiency modernization of the city's public buildings (with a possibility to maintain the targeted prescriptions for the remaining unused "savings" in the city's budget for the new fiscal year).

Revolving Financing Mechanisms for Energy Projects

Advantages of Revolving Fund versus revolving financing procedure:

- **Possibility to attract additional extra-budgetary resources, such as:** donor organizations' resources, government programs, private donations, etc.
- **Separation during the accumulation of the saved budgetary resources and their use,** which possibly, in the case of a separate fund, simplifies the management of the mechanism.

Revolving Financing Mechanisms for Energy Projects

Fortes:

- **Does not depend on external investors or municipality's crediting ratings.**
- **Reduces the risks of invested funds in the energy efficiency projects in public buildings.**
- **Can easily function using the municipalities' own resources.**

Revolving Financing Mechanisms for Energy Projects

Weaknesses (1):

- **Ensure the reliability** of methodology for calculation of the savings for each energy efficiency project.
- **Collection of input data** from the public objects, which is necessary for application of the calculation methodology in practice.
- **Equipping** of public buildings with **metering devices** in full.

Revolving Financing Mechanisms for Energy Projects

Weak points (2):

- Need to shift to **planning the costs for energy purchase using the “baseline consumption”** for all buildings where energy efficiency projects are being implemented.
- **Involve the municipal staff in development, implementation and servicing of the mechanism** at the stages of:
(1) creation of the savings calculation methodology,
(2) collection of initial data for the buildings, (3)
implementation of untraditional schemes of management of a limited part of the municipal financial means.

Revolving Financing Mechanisms for Energy Projects

Barriers to creation of revolving mechanisms of all types:

- **Severe legal restrictions with regard to planning and use of budgetary funds for purchase of energy resources for public organizations.**
- **No understanding of the essence of this mechanism and no political support to let the municipalities apply such.**
- **No experts to ensure the functioning of this mechanism at the 3 stages: data collection; savings calculation; use of savings.**

Revolving Financing Mechanisms for Energy Projects

Barriers to creation of the Funds:

- **Legal prohibition** to withdraw budgetary money from the budget management operational process and accumulate them on special accounts.
- **The local governments have no authority** to change the budgetary prescriptions for the money allocated for maintenance of budget organizations, after the municipalities' budgets have been approved.

Financing Mechanisms

Example 1 (Ukraine)

Municipal Fund for improvement of energy performance of the public and residential buildings in Lutsk:

- **Created by the Executive Committee of Lutsk in cooperation with a private residential maintenance organization and the Alliance to Save Energy (USA) within a special project meant to create a modern complex system for energy resources automated control in four multi-level residential buildings.**
- **“The Regulation on Fund for Revolving Financing of Projects for Buildings from Lutsk” was drafted and approved in a session on November 2006.**
- **Underway implementation.**

Financing Mechanisms

Example 2 (Ukraine)

Procedure for management of “saved” budget resources designated for compensation of energy in the public institutions of Lviv:

- **Created by the Alliance to Save Energy (USA) within MUNEE during 2002-2003 as an innovative mechanism for financing energy efficiency projects in the public institutions of Ukraine.**
- **“Regulation on the Mechanism for Revolving Financing of Energy Efficiency Projects for the Public Buildings of Lviv City” was drafted.**
- **The attempts to implement this mechanism in Lviv failed for the lack of political support and insufficient staffing for this task on behalf of the municipality.**