

Scientific and Technical Advisory Panel

The Scientific and Technical Advisory Panel, administered by UNEP, advises the Global Environment Facility
(Version 5)

STAP Scientific and Technical screening of the Project Identification Form (PIF)

Date of screening: February 22, 2011

Screener: Lev Neretin

Panel member validation by: Nijavalli H. Ravindranath
Consultant(s):

I. PIF Information *(Copied from the PIF)*

FULL SIZE PROJECT GEF TRUST FUND

GEF PROJECT ID: 4427

PROJECT DURATION : 5

COUNTRIES : Russian Federation

PROJECT TITLE: Russia Energy Efficiency Financing (REEF) Project

GEF AGENCIES: World Bank

OTHER EXECUTING PARTNERS: Ministry of Energy, Russian Energy Agency, Gazprombank

GEF FOCAL AREA: Climate Change

II. STAP Advisory Response *(see table below for explanation)*

Based on this PIF screening, STAP's advisory response to the GEF Secretariat and GEF Agency(ies): **Minor revision required**

III. Further guidance from STAP

1. STAP welcomes this ambitious World Bank proposal to reduce GHG emissions in the country's industrial and municipal sectors. Most of the project activities should assist Russia in establishing financing and delivery mechanisms supporting energy efficiency investments. STAP does support the focus of the project on energy efficiency because mitigation potential of energy efficiency savings is substantial and by some estimates represents 2% of the global primary energy consumption (I. Bashmakov (2009). Energy Efficiency 2:369-386).
2. Project focus is heavily skewed towards providing financial support and assistance for large energy-intensive enterprises and mobilization of financial resources for the municipal sector using municipal energy efficiency action plans as a first step. PIF provides very little if no information about the lending priorities in terms of sectoral coverage and associated mitigation potential (petrochemical, machinery, metal, agro-processing and regional/municipal utilities are mentioned). STAP recommends conducting detailed market analysis of the priority sectors for lending that takes into account a number of criteria (such as GHG mitigation potential, financial viability of the investment (cost-benefit ratios), energy or carbon intensity of activity or material) for selecting and prioritizing activities for technological interventions. Depending on the sector, different strategies/technologies have to be supported and project document should provide detailed justification for the choice of sectors, technologies and/or energy efficient systems. Project might need to develop a new methodology to conduct such analysis.
3. Barrier analysis is limited to the financing component, particularly from the banking perspective. Given the scale of the project there is a need for a systematic analysis to identify not only banking related but also other barriers and also rank them so that targeted barrier removal activities can be developed. One of the fundamental barriers to improve energy efficiency in the country is a presence of significant energy subsidy, the largest in the world by the World Bank estimates. PIF notes that the increased energy tariffs with time will diminish the subsidy and thus lower profits of industries. Russia increased average electricity prices by approximately 240 percent between 2000 and 2004, with residential tariffs increasing by approximately 340 percent, and industrial tariffs 200 percent. STAP would like to see how this project will facilitate the national process towards reduced energy subsidies and diversion of savings towards improved infrastructure and energy-efficient technologies, while major project stakeholders (Gazprom and regional administrations and municipalities) are main beneficiaries of subsidy policies.
4. Baseline scenario: The PIF states mainly that under this scenario, energy efficiency financing may not occur. It is very necessary to develop a detailed GHG emissions estimates under the baseline scenario. Further there is a need for a projection of the GHG emissions in the absence of the proposed project (incremental reasoning). This would help assessing the impact of the project activities on GHG emissions.
5. In addition to the submitted project, there are several concurrent GEF projects and a program under implementation in Russia. For the project of this scale, coordination with these initiatives is crucial as well as exchange

of experiences. At the CEO endorsement stage, STAP would welcome that implementing agency elaborates details of the institutional coordination mechanism to facilitate such exchange.

STAP advisory response explanation

1. Consent.

STAP acknowledges that on scientific/technical grounds the concept has merit. However, STAP may state its views on the concept emphasising any issues that could be improved and the proponent is invited to approach STAP for advice at any time during the development of the project brief prior to submission for CEO endorsement.

2. Minor revision required.

STAP has identified specific scientific/technical suggestions or opportunities that should be discussed with the proponent as early as possible during development of the project brief. One or more options that remain open to STAP include:

- (i) Opening a dialogue between STAP and the proponent to clarify issues
- (ii) Setting a review point during early stage project development and agreeing terms of reference for an independent expert to be appointed to conduct this review. The proponent should provide a report of the action agreed and taken, at the time of submission of the full project brief for CEO endorsement.

3. Major revision required.

STAP proposes significant improvements or has concerns on the grounds of specified major scientific/technical omissions in the concept. If STAP provides this advisory response, a full explanation would also be provided. Normally, a STAP approved review will be mandatory prior to submission of the project brief for CEO endorsement. The proponent should provide a report of the action agreed and taken, at the time of submission of the full project brief for CEO endorsement.

<i>STAP advisory response</i>	<i>Brief explanation of advisory response and action proposed</i>
1. Consent	STAP acknowledges that on scientific/technical grounds the concept has merit. However, STAP may state its views on the concept emphasising any issues that could be improved and the proponent is invited to approach STAP for advice at any time during the development of the project brief prior to submission for CEO endorsement.
2. Minor revision required.	STAP has identified specific scientific/technical suggestions or opportunities that should be discussed with the proponent as early as possible during development of the project brief. One or more options that remain open to STAP include: (i) Opening a dialogue between STAP and the proponent to clarify issues (ii) Setting a review point during early stage project development and agreeing terms of reference for an independent expert to be appointed to conduct this review The proponent should provide a report of the action agreed and taken, at the time of submission of the full project brief for CEO endorsement.
3. Major revision required	STAP proposes significant improvements or has concerns on the grounds of specified major scientific/technical omissions in the concept. If STAP provides this advisory response, a full explanation would also be provided. Normally, a STAP approved review will be mandatory prior to submission of the project brief for CEO endorsement. The proponent should provide a report of the action agreed and taken, at the time of submission of the full project brief for CEO endorsement.