Action Fiche for the 2009 ENPI-South Annual Action Programme[1]

1. IDENTIFICATION

Title/Number	Paving the way for the Mediterranean Solar Plan (MSP) – (CRIS No 2009/021-509)		
Total cost	*EC contribution:* **€ 5 000 000**		
Aid method/ Method of implementation	Project approach – *direct centralised management*		
DAC code	23010	Sector	Energy policy and administrative management

2. RATIONALE

2.1. Sector context

In 1995, the Barcelona Declaration set goals that included establishment of a free trade area and progress towards regional economic integration. One key objective for the Euro-Mediterranean Partnership (Regional Strategy Paper 2007-2013) is to promote integration of regional trade, infrastructure networks and better environmental protection. In the case of energy, the Euro-Mediterranean Ministerial Conferences in May 2003 in Athens and in December 2003 in Rome laid the foundation for a common Euro-Mediterranean energy policy, based on security of supply and a fully integrated energy market.

More recently, the Ministerial Declaration adopted at the Euro-Mediterranean Energy Partnership Conference in Limassol in December 2007 recognised the growing concern over energy security of supply and demand, the link between energy, development and climate change and access of the poor to modern energy services. Ministers agreed on a number of declarations relevant to this project including on: (a) recognition of the importance of energy in the context of the Euro-Mediterranean Partnership; (b) a commitment to enhance reciprocal energy security; (c) further integration of the Euro-Mediterranean energy markets; (d) continuation of energy market reforms and harmonisation of energy policies and regulatory frameworks between Euro-Mediterranean partner countries towards establishment of a common Euro-Mediterranean energy market; (e) development of more sustainable energy strategies (including low-carbon energy sources); and (f) recognition of the

[1] The ENPI-South region consists of nine Mediterranean partner countries: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, occupied Palestinian territory, Syria and Tunisia. If the Pre-Accession Instrument (IPA) provides financial support, the project might be extended in future to the other countries members of the Union for the Mediterranean that are not Partners in the framework of the ENP, namely Albania, Bosnia-Herzegovina, Croatia, Montenegro and Turkey. The project might extend participation in some or all of its activities to Libyan representatives, if Libya so requests.

importance of strengthening energy cooperation in the context of the European Neighbourhood Policy.

In addition, the Mediterranean Solar Plan (MSP) was endorsed as one of the major tangible initiatives of the Union for the Mediterranean (UfM), both at the Summit in Paris on 13-14 July 2008 and at the UfM Foreign Affairs Ministerial in Marseilles on 3-4 November 2008. The plan focuses specifically on solar- and wind-based power generation and integrates energy efficiency. The MSP is expected to both: (1) develop renewable energy in the region on a scale capable, in the first place, of contributing significantly to satisfying the increasing energy demand in the Mediterranean partner countries (MPCs); and (2) contribute to developing an integrated "Euro-Mediterranean green electricity market", both to satisfy the MPCs' own electricity needs with renewable energy sources and, when possible, to export some of the electricity produced from renewable sources to consumers, particularly to the EU.

The European Parliament and the Council have declared that the UfM is a continuation and reinforcement of the EuroMed Partnership and shall build on progress made within the Barcelona process and on its institutional frameworks. The objectives of the MSP are in line with the goals of the Partnership.

The generally conceived objective of the MSP is to build 20 GW of new generation capacity fuelled by solar and other renewable energy sources around the Mediterranean Sea by 2020. However, adequate framework conditions should be established to lay solid foundations for this initiative. These fundamental conditions involve regulation, legislation, a framework conducive to business development, infrastructure, technology transfer, and industrial development in the Mediterranean basin in order to meet this target and ensure the sustainability of this plan in the long term. This project aims at tackling these essential aspects.

Three key policy priorities of the European Commission relevant to the above-mentioned aspects of Euro-Mediterranean cooperation in the energy field are consistent with this project. Firstly, the Commission is continuing to support establishment of an integrated and interconnected Euro-Mediterranean energy market, which should result in a stable legislative and regulatory framework in the Euro-Mediterranean area, based on the body of EU law. This is also essential in order to create the necessary regulatory and legislative conditions, which would also favour the development of renewable energy. EU-funded projects are already ongoing in this area, e.g. a project supporting cooperation between Euro-Mediterranean energy regulators (MEDREG) along with MED EMIP[2], a project which contributes to implementing the Action Plan endorsed by the Limassol Ministerial meeting in December 2007. Their common objective – to create an integrated energy market that improves energy security for all – also reflects a strong need for not only North-South but also South-South energy interconnections, most notably for a Mediterranean Energy Ring.

Secondly, the EU is putting in place policies to enable it to meet an overall target of 20% renewable energy in the EU's total energy consumption by 2020. One key

[2] Support to the enhanced integration and the increased security of the EuroMed energy market.

aspect of this policy, outlined in Directive 2009/28/EC of 23/04/2009 of the European Parliament and the Council on promotion of use of energy from renewable sources, is that it opens the way for imports of renewable electricity from third countries into the EU. In particular, Article 9 of the RES Directive allows joint projects between Member States and third countries on generation of electricity from renewable sources.

Thirdly, the EU, a world leader in renewable energy, is well placed to promote development and deployment[3] of modern technologies by the EU's partner countries. The EU industry can share best practice and technological know-how. This should include supporting research and development and encouraging development of the business models and industrial partnerships best-suited for deployment of renewable energy sources.

Moreover, this project is in line with the three-fold EU objectives of attaining energy security, competitiveness and sustainability, as outlined in the Commission's first Strategic Energy Review. It is also in line with the Second Strategic Energy Review which states that '*a Mediterranean energy ring now needs to be completed, linking Europe with the Southern Mediterranean through electricity and gas interconnections. In particular the ring is essential to develop the region's vast solar and wind energy potential.'*

Another key political objective of the EU is to improve energy efficiency (EE) across all sectors of the economy. In November 2008, the Commission tabled, as part of the Second Strategic Energy Review, a major energy efficiency package to make further significant progress towards the 20% energy efficiency objective. The RES Directive also states that 'it will be incumbent upon Member States to make significant improvements in energy efficiency in all sectors in order more easily to achieve their renewable energy targets, which are expressed as a percentage of final energy consumption.'

Moreover, the Joint Africa-EU Strategy (JAES) was signed by eighty Heads of States and Governments as an overarching political framework to guide cooperation between the two continents. As part of the Strategy, the 5th thematic partnership on energy aims at strengthening political dialogue on access to energy – notably renewable energies – as well as energy security and efficiency at the local, national. regional and continental levels. The activities agreed in the First Action Plan (2008-2010) comprise joint analyses of the possibilities to launch a programme in the field of renewable energy sources in Africa. An important focus is necessary progress toward the establishment of enabling legal, fiscal and regulatory frameworks in Africa. These dimensions are reflected in this project.

The project is also in line with the objectives of the Strategic Energy Technology Plan (SET Plan) adopted in 2007 to accelerate the market introduction of low-carbon and efficient energy technologies. The action taken to implement it focuses on three

[3] Both diffusion of well-known and already cost-effective technologies (that are limited by other barriers such as regulatory aspects or the need for capacity-building) and deployment of technologies that need incremental cost support (as they are more expensive than high-carbon alternatives) can be addressed by this project. As barriers to diffusion also need to be tackled for the purposes of deployment, both these concepts are included in the term 'deployment' in the sense as it is used in this Action Fiche.

main pillars: the European Industrial Initiatives (EIIs), the European Energy Research Alliance (EERA) and the Trans-European Energy Networks and Systems. Four of the priorities set for the EIIs are relevant to this project: Solar Europe (PV and CSP), European Wind (focus on off-shore installations), Bio-Energy Europe (bio-fuels and use of biomass as an energy source) and the European electricity grid. The EIIs are led by industry and aim to boost research and innovation, accelerate deployment of technology and deliver progress beyond business-as-usual.

It is widely recognised that energy price reforms and energy efficiency are equally fundamental to tackling the challenge of speeding up deployment of renewable energy systems. Undifferentiated subsidies in many partner countries are acknowledged as keeping the price of energy artificially low for at least some consumers and place an additional obstacle in the way of the competitiveness of RES. In addressing this aspect, the project will consider the impact of reforms on energy affordability for all and the need to differentiate subsidies better and target them on more vulnerable consumers.

2.2. Lessons learnt

Results-oriented monitoring (ROM) of similar ongoing projects (e.g. MED-EMIP or MED-ENEC, cf. section 2.3) has highlighted the importance of involving representatives of the partner countries in a Steering Committee, organised, if necessary, by sub-groups of countries. Drawing on the experience and support of partner countries gained with MED-EMIP and working in close collaboration with MED-EMIP, MED-ENEC and the RCREEE[4], this project will build on the lessons learned in the course of these initiatives. The governance of the MSP project will be firmly embedded in existing structures of the EuroMed Partnership, e.g. the Experts' Group attached to the EuroMed Energy Forum. A sub-group of this Experts' Group already forms the Steering Committee of MED-EMIP and a similar arrangement could be sought for this project.

Evaluations of previous action relevant to this specific project, particularly of MED-ENEC, phase I, have shown the importance of result- and impact-oriented implementation. This will be taken into account in finalising project design and in fine-tuning project planning during the inception phase. The importance of putting the emphasis on legislation, regulation, energy prices and subsidies is also highlighted in the recommendations made in the evaluation of MED-ENEC, phase I, and this too has been taken into consideration in the design of this project.

2.3. Complementary action

Several complementary EU-funded initiatives are particularly relevant to this project, notably the support for the MEDREG Association to promote cooperation between Euro-Mediterranean energy regulators.

Another important EU-funded project is MED-EMIP. It plays the key overarching role of coordination and cross-fertilisation to enhance the synergies and impact of all

[4] Regional Centre for Renewable Energy and Energy Efficiency, based in Cairo, bringing together ten countries, including the eight ENPI-South Arab countries, plus Libya and Yemen.

EuroMed cooperation projects in the field of energy. The Maghreb electricity market integration (IMME) project is also relevant.

The MED-ENEC project (on energy efficiency in the construction sector) was granted funding of about €4 million between October 2005 and 30 June 2009. A second phase, lasting four years, was approved by the Commission in 2008 and will be launched before the end of 2009. In addition to transfers of know-how and policy-development activities, the first phase also supported ten highly successful pilot projects that included energy-efficient design and use of solar energy in buildings (e.g. solar cooling). Policy dialogue, business development and finance aspects for buildings should be tackled by MED-ENEC II. The MSP project should work in close liaison with MED-ENEC, in order to enhance synergies and avoid overlaps, particularly for solar heating/solar cooling and small-scale applications of RE and EE.

Alongside the above-mentioned regional programmes, many bilateral EU-funded initiatives in each of the MPCs are relevant in this context and will be taken into account during this project.

In addition to coordination with the above-mentioned complementary action, the project should take into account both past and ongoing studies, e.g. the study on 'Financing Renewable Energy Projects under the Mediterranean Solar Plan' funded by the FEMIP Trust Fund and launched in the second half of 2009.

The European Commission is also supporting cooperation on clean energy technologies, including renewable energy, with the countries in the Gulf Cooperation Council. A specific project is being launched to underpin these developments (the EU-GCC clean energy network). The MSP project could explore possible synergies with its activities, given the increasing involvement of the Gulf countries, in particular in the form of investments by the GCC countries in the Mediterranean partner countries.

Activities on this project will also build on the preparations for the planned Commission Communication on the Mediterranean Ring and on the relevant activities and studies.

Additionally, within the framework of the JAES, a Roadmap for the implementation of the Africa-EU Energy Partnership was established. This project will also seek synergies with related activities under the JAES and its energy roadmap.

2.4. Donor coordination

The project implements some of the main principles of the Paris Declaration on aid effectiveness, of the additional EC indicators and of the Backbone Strategy, as it builds on existing structures. It encourages ownership by taking a participative approach during the design, planning and implementation phases. Coherence and complementarity can also be enhanced by building synergies with projects in the framework of the JAES and its energy roadmap, when relevant possibly also using its institutional architecture for common actions. Technical cooperation has been chosen as the most appropriate method of aid delivery, since the programme aims at supporting countries' national processes to promote capacity-building and will be

based on the demand from and requirements of the partner countries. This approach has produced positive results in similar ongoing programmes.

Close collaboration with financing institutions, donor agencies and other EC-funded projects (such as MED-EMIP, IMME and the project entrusted to MEDREG) will be sought systematically. In particular, cooperation with the EIB, the World Bank, the EU Member States and the RCREEE has already been established during the project design phase and will continue throughout project planning and implementation. Close collaboration should also be sought with the Neighbourhood Investment Facility (NIF) in order to create synergies between this project, which addresses policy, institutional and legislative reforms, and EU investment facilities.

It is important and desirable to set up a coordination mechanism at senior level with the IFIs and other interested donors[5], considering the large investment needed in the context of the MSP. This could possibly be done within this project (investment coordination component).

3. DESCRIPTION

3.1. Objectives

The **overall objective** is to contribute to a significant increase in deployment[6] of sustainable energy systems based on solar, wind and other renewable energy sources, combined with energy efficiency and savings in the Southern Mediterranean partner countries.

The **purpose** of the project is that the conditions conducive to greater use of renewable energy in general and solar energy in particular[7] are improved across all the Southern Mediterranean partner countries.

3.2. Expected results and main activities

The project is expected to achieve the following **results**: (1) Progress is achieved in the establishment of a harmonised legislative and regulatory framework in the Euro-Mediterranean region that would be conducive to large-scale adoption and use of renewable energy (RE) plus trade in RE. This should include policies that allow deployment of RE on terms that are competitive with conventional fossil fuel energy[8]. (2) Improvements are achieved in intra- and inter-regional transfer of knowledge (i.e. among the MPCs and between them and the EU), as well as capacity-building in the field of RE technologies. This should be based on development and implementation of a clean technology transfer and capacity-building plan, e.g. training of engineers, and supporting establishment of a technology platform with public and private partners, with industry, IFIs and with the

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5 One possibility is to coordinate with or use the 'Finance Institution Group' of the Neighbourhood Investment Facility. However, participation by other IFIs should also be sought.

6 This can cover not only deployment but also dissemination (see footnote 3).

7 Including as a contribution to development and implementation of an MSP.

8 This could include pricing policy, noting, however, that energy tariffs are often highly influenced by political considerations.

R&D community[9]. (3) An appropriate institutional setting that supports dissemination of RE is developed and/or further enhanced;. This could include, if suitable, assistance with implementation of appropriate governance structures for the MSP. (4) Number of bankable projects for investments by IFIs or other investors in RE and EE which, in addition to large-scale power generation, also include small-scale decentralised rural systems (e.g. solar water-heaters, PV systems and water-coolers) are increased. In order to achieve this result, account should be taken of the need to find a cost-sharing formula and of the difficulty of covering the cost differential between the local price of energy and the cost of electricity generated from RE.

The **main activities** foreseen include:

– *assist the Ministries of Energy and the relevant agencies and networks* with development and implementation of the appropriate regulatory and legislative framework supporting development and deployment of renewable energy systems;

– *strengthen existing RE and EE networks*; *help MPCs to implement their sustainable energy policies*, including with establishment (where needed) and/or empowerment of existing energy efficiency and renewable energy agencies and of energy services companies (ESCOs), with a view to developing economic incentives and financial structures favourable to RE and EE policies;

– *work in close liaison with the Ministries of Finance, Social Affairs and Energy* on pricing policies and targeted subsidies, to assist with development of regulations and legislation favourable to creating the conditions for investment in RE and EE, while at the same time preserving energy affordability for consumers, particularly the most vulnerable; this activity will also require clear identification of the different institutional players responsible for these issues in each country, to be defined in more detail in the terms of reference and related documents during the project inception phase;

– *assess* the need to define and agree on a cost-sharing formula for investment in RE and EE and *study* the different scenarios, differentiated country by country, on the viability of the investment climate for RE;

– *facilitate work to define, update or fine-tune* (as appropriate, depending on needs and the state of play at the time of project implementation) the *roadmap* for implementation of an MSP involving all the Southern Mediterranean partner countries, as and when needed;

– *contribute to implementation of such a roadmap and work on establishment of cooperation frameworks with the regional/multilateral financing institutions* (EIB, World Bank, etc.) and with EU Member States' lending institutions, with a view to operating, as part of this project, an investment project preparation facility and assisting with the development of bankable projects;

[9] This should take into consideration and be coordinated with the activities under the EU's Strategic Energy Technology Plan (see section 2.1).

– *work closely with the funding IFIs, promoters and implementers of any specific infrastructure projects,* in order to promote development of contractual, regulatory and legislative issues that could provide at least part of the basis for further progress on establishment of a harmonised legislative and regulatory framework conducive to investment in RE and EE;

– *cooperate, as far as possible, with the research community and with industry,* particularly in the context of the EU Strategic Energy Technology (SET) Plan and the 'Solar Europe' European Industrial Initiative that forms part of it, and also in the context of ongoing initiatives under FP7, in order to promote synergies and mutually reinforcing efforts by the research community, industry and other stakeholders with a view to deploying existing technologies and developing new ones. Activities related to this aspect should include, in cooperation with the research community and in coordination with all the relevant departments of the European Commission, an assessment of further research needs in the field of renewable energy and related technologies. This should contribute to expected result 2 by improving intra- and inter-regional transfer of knowledge and creating links with the research community and with industry[10].

The definition of the activities will be fine-tuned in the tender documents (Terms of Reference). Priorities will be defined in detail during the project inception phase.

The project will pursue its activities in close liaison with existing (and future) regional and national institutional structures, with MPCs and EU Member States, with IFIs, with other consultants implementing EU-funded projects and with schemes implemented by other donors. More particularly, it will include close cooperation with MED-EMIP, MED-ENEC, MEDREG, the RCREEE, MEDENER and other similar structures and networks, plus (if non-ENP countries participate, i.e. the Western Balkans and Turkey, subject to IPA funding) with the Energy Community Secretariat. Participation of non-EU countries concerned by the project could be considered on an *ad-hoc* basis[11].

3.3. Risks and assumptions

The key assumptions and related risks are that:

- Partner governments will show the political will and the commitment required to bring about legislative and appropriate regulatory reforms. This risk is being mitigated during the project formulation stage by involving the appropriate authorities in fine-tuning the project design and defining relevant activities (e.g. the scope of the project) and the procedures required. In this way, partner governments will share ownership of the project and actively support it during implementation.

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[10] Note that the focus of this project is, in principle, on deployment of technologies rather than on research. As such, while the project will help to identify further needs for research, any follow-up action will not be covered within this project but will be coordinated with the relevant Commission departments, notably DG Research and DG Energy and Transport, and with the SET Plan, the 'Solar Europe' European Industrial Initiative ', as well as with activities under FP7.

[11] See footnote 1.

- Regional and national security and stability will be maintained or reinforced. In particular, there are still a number of risks related to the Middle-East conflict that has recently profoundly affected operation of the UfM. However, technical work is allowed to continue and the project will focus on development of renewable energy sources and energy efficiency in the partner countries, without prejudice to the operation or otherwise of the UfM.

- No major policy changes will be announced that would contradict the existing policy framework underpinning the objectives and plan for implementation of the project. Such changes are unlikely, as the objectives and time-frame are consistent with the Priority Action Plan for 2008-2013 attached to the Limassol Ministerial Declaration on Energy of 17 December 2007.

3.4. Cross-cutting Issues

Environmental sustainability is the main cross-cutting issue raised by this project. The project will directly contribute to climate change mitigation and to reducing local pollution due to power generation from fossil fuel. Gender is not a cross-cutting issue to be addressed in this specific project. However, the project will be open for equal participation. Furthermore, development of RES in this region would create jobs for men and women alike. Good governance will be enhanced by developing or strengthening transparent regulatory frameworks.

3.5. Stakeholders

A number of stakeholders are active in the fields of RE and EE. Most of them have also already participated in the ongoing discussion on preparation of an MSP. All the following stakeholders will be involved in implementing the project: (1) Ministries of Electricity and Energy and electricity companies, as the main focus of the MSP is on production of electricity. (2) Ministries of Finance: Energy subsidies have a major impact on energy security, efficiency, cost structures, national export revenue and fiscal expenditure. Ministries of Energy and Ministries of Finance play a key role in stimulating deployment of renewable energy, keeping energy affordable for the underprivileged but otherwise at, or close to, market prices. Hence, also (3) Ministries of Social Affairs: Reduction of subsidies for 'climate-unfriendly' energy forms must be accompanied by targeted compensatory measures, bearing in mind social policies aimed at shifting to 'good subsidies' to keep energy affordable for all, including the poorest sections of the population. (4) Environmental authorities, given the smaller environmental impact of power production from RE. (5) Energy regulatory bodies: The countries in the region are progressively developing a regulatory model for the energy sector based on a central function for energy regulatory authorities. (6) International Financial Institutions (IFI), local financing institutions and other donors: Renewable energy and energy efficiency are also a new market segment for international and public financing institutions and commercial banks. Deployment of technology, installation of additional power generation capacity and establishment of the necessary interconnections call for large investments and the involvement of IFIs as key players in analysing the feasibility of and financing projects. Support is needed to facilitate their involvement in this sector and development of partnerships with technology suppliers. (7) Energy agencies

exist in most of the MPCs and a network has been established – MEDENER[12] – to contribute to building a regional partnership (exchanges of experience and know-how and development of RES). (8) Other institutional or non-governmental players such as the RCREEE, the Observatoire Méditerranéen de l'Energie (OME) and national energy research centres. (9) The RE industry and its associations, such as EREC[13], Estela[14] and others, which are also fundamental stakeholders in installation of new power generation capacity. The 'Solar Europe' European Industrial Initiative, which is one of the measures implementing the SET Plan, is looking into development and demonstration of solar technologies, notably CSP, in cooperation with MPCs. This project should also cooperate closely with this initiative.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Direct centralised management.

4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for implementation of external operations, in force at the time of launch of the procedure. Participation in the award of contracts for this action shall be open to all natural and legal persons covered by the Financing Regulation, i.e. the ENPI Regulation No. 1638/2006.

4.3. Budget and calendar

The total budget will be €5.0 million, entirely from the EC contribution, over a period of 36 months (2010-2012). The EC contribution will cover the cost of technical assistance (long-term and short-term plus key- and non-key experts). It will also provide the administrative support and funding necessary for organisation of meetings (including high-level meetings) on the MSP and related matters. Finally, it will also cover costs related to, for example, training, travel and studies.

The Commission Decision on this Action Fiche should be taken by December 2009 at the latest. It is envisaged to publish the procurement notice in December 2009 or January 2010. Ideally, the service contract or contracts should be signed and the project launched in the first half of 2010.

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12 Mediterranean Association of the National Agencies for Energy Conservation: http://www.medener.net/. (The following MPCs are members of MEDENER: Algeria, Egypt, Jordan, Lebanon, Morocco, occupied Palestinian Territory and Tunisia alongside the following EU Member States: France, Greece, Italy, Portugal and Spain).

13 European Renewable Energy Council, the umbrella organisation of the European renewable energy industry.

14 European Solar Thermal Electricity Association.

4.4. Performance monitoring

There are no DAC or EuropeAid standard indicators that would be relevant to this particular project. The key performance indicators that will have to be monitored to measure progress when implementing the project will include: investment plans and the contribution made to studies to step up power production from RE and reinforce the electricity infrastructure network; the number of proposals produced and/or new laws, regulations and procedures adopted in the field of RE and EE; and similar indicators. Verifiable indicators are provided in the annexed logical framework matrix. If necessary, these indicators should be revised and defined more precisely during the project inception phase, which must include a clear project monitoring plan as part of the inception report.

4.5. Evaluation and audit

Expenditure incurred will have to be certified, as part of the obligations of the contracted parties in connection with implementation of this project. An amount will be set aside for audit in the contract. A mid-term and a final project evaluation will be carried out, plus external audits (at least once during implementation of the project). Evaluations and audits will be entrusted to independent consultants and auditors. These will be funded from sources other than the project budget, since no commitment will be possible once the validity of this Decision has expired (the 'N+1' rule will apply).

4.6. Communication and visibility

A communication plan and specific strategies will be developed in order to reach all stakeholders. All communication and visibility activities will be carried out in line with the 'Communication and Visibility Manual for EU External Actions' and with any updates and amendments to it that come into force during implementation of the project. Visibility and communication campaigns will also be carried out in the partner countries, in collaboration with the Delegations.