

**THE UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE
(UNECE)
INVESTOR INTEREST AND CAPACITY BUILDING NEEDS
ASSESSMENT FOR
BOSNIA AND HERZEGOVINA, CROATIA AND SERBIA**

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Legal Framework Overview



Legal framework

Existing Laws and Regulations Concerning EE& RE

Country / Question	<u>Croatia</u>	<u>BiH</u>	<u>Serbia</u>
Legislation	+	-	+
Regulations on high-efficiency power generation	++	-	+
Energy efficiency standards, certification and labelling for equipment and buildings.	++	-	+
Requirements for heat metering and consumption-based billing.	++	~	+
Sanctions for wasteful energy practices.	-	-	-
Energy auditing requirements, supervision, and certification of auditors.	+	-	~
Social safety mechanisms protecting vulnerable households from the tariff increases.	+	+	++
Energy taxes	++	-	-
Procedures for establishing HOAs, allowing them to contract for utility services, and borrow for projects	++	~	++
Requirements for municipal energy planning and restrictions on use of heat sources not consistent with the plans.	+	-	+
Legal authority for municipalities to borrow and use municipal assets as collateral.	-	+	++
Legal authority for private sector participation in municipal utilities.	+	~	+
Legal authority for ESCOs to implement projects using energy performance contracting.	+~	~	+

++ Fully Implemented: Development in this area is advanced and necessary capacities are in place

+ Partially Implemented: Development has started, legislation and some capacity is in place, further legal and capacity advancement still necessary

+~ Planned but not implemented: Legislation is in place, is fairly recent and implementation is pending

- Nothing: No legislation and/or capacity is in place, need for both legal and capacity development

~ Legislation has been in place for a substantive amount of time, but implementation failed.

Legal framework

Policies and programs stimulating the implementation of EE & RE projects.

Country / Question	Croatia	BiH	Serbia
EE & RE policies or strategies establishing energy savings goals for the country as a whole and by sector	++	+	+
Energy efficiency action plans detailed by energy end use sector	~	-	~
Economic and financial incentives for EE & RE (tax exemptions, subsidies, rebates, grants, soft loans, financial guarantees, etc)	+	-	+~
EE & RE funds	+	~	+
Voluntary agreements and/or other market-oriented schemes, such as white certificates, etc.)	-	-	-
Feed in Tariff	++	+	+~
Policies facilitating import of EE & RE materials and equipment and promoting local manufacturing of same.	-	-	~
Incentives, equal competition and level playing field for EE service providers (e.g. ESCOs, installers, energy advisors, auditors and energy consultants)	-	-	-
Programs and provisions for promoting EE & RE.	+	-	+
Programs and provisions for promoting EE & RE in the public sector at the municipal level.	+	+	+
Public information campaigns promoting EE & RE.	+	-	+

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+~ Planned but not implemented: Legislation is in place, is fairly recent and implementation is pending

- Nothing: No legislation and/or capacity is in place, need for both legal and capacity Development

~ Legislation has been in place for a substantial amount of time, but not enforced (or implementation failed).



BOSNIA AND HERZEGOVINA



Legal framework

- Neither Energy law nor Energy efficiency law at the state level
- No Energy Agency/Center at the state or entity level
- No Energy Efficiency Agency/Center at any level
- No Energy balance at the state level
- No Energy statistics at any level
- On November 6, 2008, Bosnia and Herzegovina's leaders signed an agreement on a national energy policy
- Feed in Tariff for SHP up to 5 MW was adopted (Of. Gazette FB&H 32/2002, Of. Gazette RS 71/2003) but considered very low
- On November 6, 2008, Bosnia and Herzegovina's leaders reached a landmark agreement on a national energy policy



Investor Interest

➤ In general, very Low interest for Investment in the Equity Fund have been recorded

We did not meet stakeholders form the Federation of Bosnia and Herzegovina

No Financial capacities on the State Level/Republic of Srpska

The absence of the legal frame work and incentives for EE and RE do not encourage any investment

Reifeisen Bank might be interested in the Equity Fund



Financial environment

- The financing environment for EE and RE is still at its preliminary stage,
 - ❑ No existing operational funds are accessible at the State or entities levels
 - ❑ The Government of Federation of Bosnia and Herzegovina has established the Fund for Environmental Protection
 - ❑ A similar situation in terms of financing EE projects exists in the RS.
 - ❑ There are no specialized agencies for EE or RE
 - ❑ Price for electricity generated in small hydro power plants is considered to be very low, and it prevents investors for further investment.



Financial environment

- ❑ EBRD: about EUR 20 million will be dedicated to Bosnia and Herzegovina targeting small and medium sized enterprises for EE and RE projects. (Preparation phase)
- ❑ The World Bank activities are mainly focused on the reconstruction.
- ❑ Legislation harmonization with the EU: European Commission through the IPA- the Instrument for Pre-Accession Assistance, over the period 2007-2010
- ❑ USAID: Regulatory and Energy Assistance Project (REAP), support the full integration of Bosnia and Herzegovina energy sector into the regional and EU market.



Investment Project Development

- No skilled resources for bankable projects development
- ❑ **State level:** Lack of resources and capacities
- ❑ **Entities level:** Lack of awareness, human resources and knowledge
- ❑ **Municipal Sector:** Could have technical skills but not for project financial analysis and M&V Plan development
- ❑ **Private sector:** Lack of qualified energy auditor for ECM identification and Investment Grade Audit development
- ❑ **Commercial financial institutions:** Lack of EE&RE project understanding.



Mezzanine Finance Business development

- No Good understanding of the Mezzanine and Equity fund concept
- ❑ Most of Stakeholders do not size the concept of Equity Fund
- ❑ No records have been found for third party financing
- ❑ Potential project developer are not familiar with the Equity fund and its operation
- ❑ Big companies (utilities and DH) do have the skilled resources for Equity and Mezzanine business development



Serbia



Legal framework

- ❑ The Republic of Serbia does not have an energy efficiency law, however substantive EE provisions are set forward by its energy law
- ❑ Serbia adopted in 2005 its Energy Sector Development Strategy up to 2015, within which increase of EE and wider RE utilization are recognized among the top priorities.
- ❑ Adopted In January 2007 the Serbian Energy Strategy Implementation Program for the period 2007-2012:
 - ✓ The establishment of the Energy Efficiency Fund as a very important and necessary tool to increase EE and stimulate rational energy use in Serbia
 - ✓ The development of national regulations on the conditions for ESCO's operation



Investor Interest

➤ Good interest noticed from stakeholders concerning the Equity Fund.

In the public and private sectors, mobilization for fund use and possible investment have been recorded

Ministries willing to present a request to the government for investment justification in the Equity Fund

High interest from the Environment Protection Fund (EPF). Could be considered as a potential investor in the Fund (€ 3-4 M)

Commercial Bank (SG) do not show any interest

Private investment institution: low interest



Financial environment

- Serbia does not yet have any economic or fiscal incentives for the EE and RE promotion
 - ❑ Feed-in Tariff not yet in place, deadline July 2009.
 - ❑ Many programs promoting and financing EE in the public sector (schools, Health buildings, etc)
 - ❑ No incentives for private sector
 - ❑ In mid 2006, the Government launched a five-year National Investment Plan (NIP) for the period 2006–2011. Financing sources will be from privatization revenues, accumulated budget surplus from recent years, foreign loans and EU pre-accession funds. Only 1.2% of total funds allocated to environmental protection in 2006–2007.



Financial environment

- Environmental Protection Fund: An average of €10M annually and expecting to double by 2009, the fund did not get any request for financing EE and RE projects.
- Serbia Energy Efficiency Project (SEEP) is financed by the World Bank (WB), targeting the district heating and government buildings
- European Agency for Reconstruction: Energy Efficiency in Five District Heating about €20M
- EBRD have signed in 2007 for project financing up to €25M for a Private Equity Fund dedicated to invest in renewable energy and energy efficiency projects in central and south-eastern Europe



Investment Project Development

➤ Investment project development level are low mainly for financial and risk analysis

❑ **Ministries:** No skilled resources for detailed project development and evaluation

❑ **The Serbian Energy Efficiency Agency (SEEA):** The resources within the SEEA have a good experience in technical issues and energy auditing. Needs for risk assessment, financial analysis and energy management including the measurement and verification plans

❑ **The regional EEC:** The resources within the five regional centers are high qualified peoples; most of them are professors with great technical backgrounds. Same needs as the SEEA



Investment Project Development

❑ **The municipal sector:** Basic knowledge for ECM, no capacities for Bankable projects

❑ **The private sector:** strong technical skills for project implementation, although for project development including

financing aspects is the missing link for project realization

❑ **The ESCO concept** is pointed out as the missing drive in the market and the need for skills to develop bankable projects

❑ **The Commercial financial institutions** are not involved in any activities related to EE and RE projects evaluation.



Mezzanine Finance Business development

➤ Low level for Equity and Mezzanine Finance Business Development

❑ Few stakeholders are familiar with Equity and mezzanine financing mainly investments firms

❑ Private sector: Low knowledge and capacities

❑ Big companies have enough resources

❑ Potential project developer (private companies seeking new market opportunities) are not familiar with the Equity and Mezzanine fund



Croatia



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INTERNATIONAL

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Legal framework

- ❑ Energy Sector Development Strategy (Official Gazette 38/2002) was adopted by the Croatian Parliament in March 2002 for the period of 10 years
- ❑ National Energy Programs: Diversification of energy resources, higher EE&RES utilization demand-side management, energy savings development of energy market and environmental protection.
- ❑ The Croatian Government has started to reform the energy sector, in order to push the share of renewable energy sources presently from 1 % to 5.8 % until 2010
- ❑ RE electricity feed-in tariffs already in place
- ❑ Incentives for EE and RE projects



Investor Interest

- ❑ From the Government side – interest in principle.
- ❑ Possible cooperation and further investigation
 - ❑ On the government side: discussion could be initiated with HBOR, HEP ESCO and Environmental Protection and Energy Efficiency Fund
 - ❑ On the private sector side: with EETEK and Raiffeisen Bank.



Financial environment

- Environmental Protection and Energy Efficiency Fund established in 2003. Finances projects and activities in three basic areas: environmental protection, energy efficiency, and the use of renewable energy sources
- Croatian Bank for Reconstruction and Development (HBOR): offers two financing mechanisms for EE and RE projects promoters.
 - Loan Program for the Preparation of Renewable Energy Resources Projects preparation of documents and studies up to 50% of the total eligible costs of design documents. The maximum loan is about USD 150,000



Financial environment

- Loan Program: Financing Projects related to Environmental Protection, Energy Efficiency and Renewable Energy Resources
 - ✓ No limitation for the loan
 - ✓ HBOR can finance up to 75% of the estimated investment value with a maximum of one year for disbursement and a grace period and repayment period up to 12 years
 - ✓ Sixteen commercial banks are cooperating with HBOR on the Loan Program



Financial environment

- Bank guarantees for EE projects :
 - ✓ Payback period less than or equal to ten years.
 - ✓ Bank guarantees are issued for the coverage of up to 50% with a maximum of USD 300,000.
 - ✓ Two commercial banks are included in the program: Raiffeisen Bank Austria d.d., Zagreb, and OTP Banka Hrvatska d.d., Zadar.
- ✓ HEP ESCO, the utility based energy service company, offers EPC projects with attractive financing conditions. (Payback period: 5 years private sector, 10 years governmental sector)



Investment Project Development

➤ Investment project development skills need to be improved

❑ **Ministries:** Capacity for detailed project development and evaluation is insufficient

❑ **Private sector:** Good technical skills for project implementation, however need better capacity to submit bankable project proposals

❑ Capacities for energy auditing are insufficient; experienced project developers for EE and RE project lacking.

❑ Many interesting available Funds but very low use rate: lack of awareness and capacity for projects development.



Investment Project Development

- ❑ **Municipal sector:** low capacity for bankable projects
- ❑ **ESCOs:** would be preferable to have more than one player in the market, good capacity of the utility-based ESCO but limited for others
- ❑ **Commercial financial institutions:** involved but so far mostly in theory; little capacity for development and evaluation of EE and RES projects.



Mezzanine Finance Business development

- Low level of awareness of the Equity and Mezzanine Finance Business Development
- ❑ Stakeholders are not very familiar with equity and mezzanine financing
- ❑ Potential project developers are often not aware of the available financing opportunities



EE Business development course Program

Investment Project Development

- ❑ **Seminar/awareness campaign:**
 - ✓ EE and RE financing mechanisms/Market potential
- ❑ **ECOSO Oriented Investment Project Development:**
 - ✓ ESCO concept and project development methodology
- ❑ **Development of Investment Grade Audit (IGA)/ Business Plan (BP) and reporting**
 - ✓ The first phase consists of an exploration of the IGA development components
 - ✓ The second phase will focus on the practical side by reviewing in details the developed IGA/BP for selected projects.



EE Business development course Program

Equity and Mezzanine Finance Mezzanine Finance Business Development

- **Equity and Mezzanines investment**
 - ✓ Use and Application of Mezzanine
 - ✓ The Private Equity Firm's Perspective
 - ✓ Types of Mezzanine
 - ✓ Mezzanine vs. Other Forms
 - ✓ Legal Issues
- **Projects Bundling**
 - ✓ Introduction to bundling
 - ✓ Projects Bundling requirements (financial, Legal, etc)
 - ✓ Bundling methodology
 - ✓ Case studies



EE Business development course Program

Thanks

