

Terms of Reference

Consultant for the Development of Long-term Sustainable Financing Mechanisms for Energy Efficiency

1. PROJECT BACKGROUND

The Government of Montenegro received a loan from the International Bank for Reconstruction and Development in amount of 11.5 million Euro toward the cost of financing Montenegro Energy Efficiency Project (MEEP), aimed at improving energy efficiency in public objects. The focus of MEEP was on educational and health facilities due to strong demonstration and promotion impacts that can be achieved in the society regarding the promotion of energy efficiency. Twenty-five objects were retrofitted. The objects retrofitted through this loan, have not only brought positive results in savings but created capacity within the Ministries involved, in the private sector, and increased awareness of the population in the benefits of energy efficiency measures. Given the demonstrated success, through the implementation of the Montenegro Energy Efficiency Project second phase (MEEP 2). The Government's aim is to retrofit additional 18 health institutions (hospitals and health centers) in the country and to develop and demonstrate a sustainable financing model.

The project consists of three components:

- **Component 1 - EE investments in health sector buildings** - This component will support: (i) EE investments in selected state-owned public health sector facilities, for which achieved energy cost savings will be captured and reinvested using an energy savings capture model; (ii) related technical services, including energy audits, designs, technical revision, works supervision, technical and social monitoring before and after the EE building renovations, and issuance of energy performance certificates for all retrofitted facilities; and (iii) installation of energy consumption monitoring equipment in health sector buildings. These investments will reduce energy consumption and associated CO₂ emissions, help lower recurrent energy expenditures, and improve comfort levels in the retrofitted health sector facilities. The use of the energy savings capture model for EE investments will introduce an EE financing model that allows funds to revolve and demonstrate a scalable financing approach for EE investments in the public buildings sector.
- **Component 2 - technical assistance** - This component will finance activities to enhance local EE capacity related to: (i) the development of a long-term sustainable EE investment framework; (ii) the preparation, implementation and maintenance of EE investments; and (iii) implementation of gender-informed communication and awareness raising campaigns.
- **Component 3 - project implementation support** - The component will support the

effective implementation and management of the project and its reflows from captured energy cost savings.

The Project Implementation Unit (PIU) established within the Ministry of economy, is responsible for preparation, coordination, management and implementation of the project.

In order to support the development of a scalable and sustainable financing mechanism, as planned under Component 2, the Consultant for the development of long-term sustainable financing mechanisms for energy efficiency ('the Consultant') will be engaged.

2. OBJECTIVE

This Terms of Reference (ToR) describe in detail task, duties and responsibilities of the Consultant as well as its Scope of Services.

The selected Consultant shall be hired to perform the following tasks:

- Task 1 - Analysis of regulatory, institutional and financial framework
- Task 2 - Energy efficiency financing mechanism analysis
- Task 3 - Detailed design of selected financing mechanism

2.1. Detail scope of work

Specific tasks and deliverables to be completed by the Consultant, includes the following:

Task 1 – ANALYSIS OF REGULATORY, INSTITUTIONAL AND FINANCIAL FRAMEWORK

The Consultant shall conduct a comprehensive analysis of the policy, regulatory, institutional, financial framework and market conditions for EE that will serve as a basis for the development of suitable and scalable EE financing mechanisms for public buildings in the Montenegro.

For each of the below outlined area, the Consultant is expected to address and highlight the main barriers and key options, and to address them based on international experience but taking into account the Montenegro context.

The Consultant is expected to collect necessary information, a combination of desk research (including review of international experience and best practices) and field visits/ interviews will be required. This will include interviews with the PIU, Ministry of Economy, Ministry of Health, Ministry of Finance, Eco Fund, Investment-development Fund of Montenegro, banks, energy service providers, international organizations/ development partners and other key stakeholders to better understand the framework and issues related to EE investments.

1.1. Stocktaking of existing EE studies and initiatives in Montenegro

The Consultant will review and take stock of existing assessment and initiatives at country (e.g. existing studies, recommendations, pilot programs and other available documents by the Government, Energy Community Secretariat, World Bank, KfW, UNDP, EBRD and others).

The detailed responsibilities for the Consultant in the execution of this task, includes:

- Review building renovation strategy and programs for Lithuania, Bulgaria, and Romania
- Prepare a list of past and ongoing investment programs on EE, including short description, funding size and source, number and types of projects/measures implemented, and results achieved (in terms of savings and other benefits)
- Analyze the program and recommend ways to foster sustainability in the investments. By sustainability we mean the ability for the programs to continue beyond the original source of financing for the investments

1.2. Analysis of: (i) the institutional, policy, legal and regulatory framework and (ii) financing and budget regulations and operations

The objective of this task is to review and assess areas relevant for EE in the public sector:

- review and assess the relevant institutional, policy, legal and regulatory framework and highlight related key barriers for the development of sustainable EE financing mechanisms. Key areas for review will include (but are not limited to) the institutional set-up relevant for EE, (e.g. Ministry of Economy, Ministry of Health, Ministry of Finance, ministries, Eco Fund, Investment-development Fund of Montenegro, banks, etc.). For this part of work Consultant will receive the already prepared study “Option for Financing Energy Efficiency in Public Building in Montenegro” where barriers are presented. It is Consultant obligation to refine the list of barriers and to provide detail explanation, taking into consideration the local Montenegrin costs. While the cited report already discussed barriers, the discussions were not well localized enough, and were not explained well to the key stakeholders in the government
- review and assess the financial regulations and processes for budget functioning of public institutions including (but not limited to):
 - the method of the budget system, planning and execution of the budget (e.g. including ability of public entities to retain energy cost savings),
 - creation and limitations of the public debt,
 - functioning of the treasury operations,
 - budget accounting,
 - responsibilities of the institutions and users,
 - ability of public entities to retain energy cost savings,
 - ability to use alternatives to least cost selections, etc.

The purpose will be to understand the finance regulations and budget operations. This information will be critical to develop options for sustainable financing programs that are sufficiently attractive to Government for EE investments, and that are able to cover a broad segment of the public sector (e.g. not only creditworthy municipalities). For this part of work Consultant will receive the already prepared study “Assessment of the introduction the energy savings capture model in Montenegro” where financial operations are presented. The report should serve as a supportive document for the preparation of this part of the study.

The detailed responsibilities for the Consultant in the execution of this task, includes:

- Collect relevant policy, legal and regulatory documents for EE, including legal/regulatory aspects on public budgeting and finance
- Prepare a summary report on the institutional, policy, legal and regulatory framework for EE and public budgeting and finance regulations and operations.

1.3. Energy efficiency financial market analysis

The Consultant shall review and analyze the EE supply/service market (e.g. licensed energy auditors, EE equipment suppliers, construction companies, interested or potential ESCOs, etc.) in order to assess their capacity, strengths and limitations in implementing alternative EE contracting schemes (e.g. performance-based contracting, leasing, providing ESCO services, etc.).

The Consultant shall review and assess the financial market in Montenegro (e.g. banking sector, money market, capital market, etc.), including the financial market’s willingness to provide financing for public institutions and related market terms and conditions (e.g. collaterals, interest rates, tenors, etc.); availability of other resources by international financial institutions, donor funds, etc.

As part of this task, specific responsibilities of the technical expert include the following:

- Prepare a summary report providing clear information of all aspect above

1.4. EE potential in the public sector

The Consultant will review and analyze the technical, economic and financial EE potential in the public building stock (e.g. number of buildings, energy consumption per square meter, average temperature, average heated areas, etc.); estimated economic and financially viable energy savings potential in public buildings based on available energy audits); estimates of key indicators (e.g. average payback times, savings per dollar invested, savings per square meter, etc.); and comparison with international benchmarks.

As part of this task, specific responsibilities of the technical expert include the following:

- Collect available preliminary and detailed energy audits for public buildings
- Prepare summary report on technical, economic and financial EE potential in public buildings (based on available information), including (as available):
 - Number of buildings,
 - Energy consumption data for public sector (total energy consumption and breakdowns in terms of average energy consumption per square meter),
 - Breakdown of energy consumption data, e.g. average heated area by different types of buildings, average consumption per square meter, average temperature, etc.,
 - Information on billing/ payment of energy services,
 - Summary on economic and financial indicators by different building types based on available audits, e.g. including average payback times, savings per dollar invested, savings per square meter, etc.

It is important to note that above information will be based on existing reports and studies.

Task 2 –ENERGY EFFICIENCY FINANCING MECHANISM ANALYSIS

Based on the findings of the above performed analysis and international experience, the Consultant will then identify and develop viable EE financing options that are adjusted to the Montenegro context; the proposed options will be regularly discussed with the PIU and MEEP 2 Steering Committee (Ministry of Economy, Ministry of Health and Ministry of Finance) and presented to other key stakeholders before finalization. This activity, inter alia, includes the following areas:

2.1 Develop a list of financing mechanisms that are feasible, scalable and sustainable

The Consultant shall develop a list of financing and implementation options for EE in the public sector that are feasible in the Montenegro; the list is expected to include (but is not limited to), for instance, model for collection of budget savings/budget capturing mechanism, utility (on-bill) financing, public ESCOs, EE revolving funds, credit lines and other suitable mechanisms. Consultant will receive the prepared study “Option for Financing Energy Efficiency in Public Building in Montenegro” assessment of financing and implementation options for Montenegro are presented, but it is on Consultant obligation to develop a list of financial mechanisms that are feasible, scalable and sustainable, with all necessary information, required by this ToR. As well, Consultant will receive the documentation available for the establishment of the Eco Fund.

It is important to note that the Consultant will be expected to customize the list of options and potential design features to the Montenegro context, and in particular to pay specific attention to the potential for minimizing changes in primary legislation that would be needed.

For each identified option the Consultant will provide:

- (i) Detailed description of the financing/ implementation mechanism, including involved stakeholders, target market segments, products and services offered, flow of funds, market effects and barriers
- (ii) Potential institutional structure/implementing entity for each of the options (e.g. ministry, new legal entity/Agency, Eco Fund, Investment-development Fund of Montenegro, credit line with commercial banks, PPP arrangements, etc.)
- (iii) Advantages and disadvantages, including barriers for implementations as well as options on how to address them

Approach: This will be based on the assessment conducted under Task 1, international experience, stakeholder interviews and discussions, assessments, adequate recommendations from other studies with regards to good practice that could be applicable, etc.

As a part of this task, the Consultant is expected to provide clear conclusions and recommendations on the most viable financing and implementation schemes, all presented in document called Options Report.

2.2 Stakeholder roundtable to help the selection of the focus financing mechanism

In close coordination with the PIU, the Consultant will present the key results and findings of the most viable models, including recommendations, to key stakeholders in a roundtable that will be held in Podgorica.

The Consultant should make presentation and provide answers and clarifications on received questions.

The idea of the roundtable is to: (i) to discuss identified key barriers and remedies, (ii) inform stakeholders about possible options and seek their views on adequacy for implementations and (iii) facilitate consensus on a short list of viable options. The Consultant is expected to provide the relevant reports and presentations for the round table (to be organized by the PIU) and provide suggestions in terms of agenda and invitation letter.

Based on comments from the PIU and other key stakeholders the Options Report should be revised and finalized. Bases on the documents developed and the consultations performed, the Consultant will recommend a short-list (2-3) financing mechanisms to the PIU and MEEP 2 Steering Committee, which the Consultant consider as the most viable and sustainable in the Montenegro, and for which detailed design solutions will be prepared (see Task 3 below).

Task 3 – DETAILED DESIGN OF SELECTED FINANCING MECHANISM

Based on the outcomes of the stakeholder consultations and the guidance by the PIU and MEEP 2 Steering Committee, the Consultant will develop the detailed design of the selected financing and implementation mechanism, including comprehensive solutions for administration of the financing mechanism in practice, as well as considerations with regards to their long-term sustainability. It is important to note that the specific design should aim to minimize changes required to primary legislation, and it should consider lessons from the new EU countries such as Lithuania, Bulgaria, Romania etc. These countries have implemented residential EE programs, the final mechanism needs to have an ability to expand into the residential sector.

Specifically, this task will include (but is not limited to):

(i) Institutional and governance structure

The Consultant will provide detailed guidance and recommendations on the most suitable institutional arrangement, including the hosting facility for the EE financing mechanism and any institutional and legal/ regulatory changes required to establish and operationalize the selected financing mechanism. As part of this analysis, the Consultant is also expected to provide detailed recommendations on the governance structure for oversight/monitoring of the operations.

(ii) Design of specific financing products and implementation services

For the selected financing mechanism, the Consultant will identify, evaluate and develop what kind of financing products/windows and implementation services would be offered by the mechanism in order to serve all public clients, taking into account different technical and borrowing capacities, and to help funds revolve and/or to be leveraged.

Possible products/windows could include (but are not limited to): debt financing, energy service agreements, risk-sharing mechanisms, budget capturing, net-present value, procurement, technical assistance and/or forfaiting, as relevant for the selected mechanism.

For each of the specific product and services recommended, on the basis of information collected as part of Task 1, the Consultant will provide detailed assessment, descriptions and recommendations on the following:

- a. Its key design elements (e.g. terms and conditions, such as loan tenors/repayment periods/contract duration, types of guarantees, flow of funds, etc.);
- b. Eligibility criteria for the different products and application procedures based on local and international experience;
- c. Procurement arrangements, including for instance bundling of procurement through the financing mechanism, design of output-based procurement for project implementation services (e.g. tying contracts and payment to performance and/or results), NPV-based selection, etc.; and

- d. Financial projections – the Consultant is expected to develop preliminary 15-year financial projections, including financing needs (e.g. initial and possible recapitalization in terms of equity and debt, projected investments and repayment flows, estimated fixed and variable operating costs, debt repayments, etc.).

When developing design options, the Consultant is also expected to take into account earlier outputs and decisions related to e.g. activities supported by the World Bank, KfW, EBRD and UNDP and others. For instance, this may include: offering of energy service agreements, forfeiting by the financing mechanism, using a public ESCO/super ESCO approach as a delivery model of the financing mechanism, etc.

(iii) Recommendations on the legal/regulatory changes

The Consultant is expected to guide, review and integrate the analysis on required legal/regulatory changes that will be needed for the establishment and operationalization of the financing mechanism. This is expected to include, inter alia, required legal/regulatory changes in rules for public accounting, budgeting, and procurement or any other regulations in order to enable and facilitate implementation of the selected financing mechanism, including products and services.

(iv) Assessment of reliable and sustainable financing sources and levels

The Consultant will assess different financing sources and levels to capitalize the fund/model and allow funds/model to revolve. Apart from the budget resources, the assessment should include available EU-IPA funds, financing from development partners, private sector investors, etc. The assessment will be done based on guidance provided by the PIU.

(v) Recommendations on transitional arrangements for the selected financing mechanism

The Consultant is expected to develop a transitional roadmap for the establishment of the selected financing mechanism, including timelines, detailed implementation steps, including required policy/legal/regulatory changes, market capacity building activities, etc.

3. OUTPUT/DELIVERABLES AND TIME SCHEDULE:

The output of this activity will include:

Task	Description	Time schedule (after contract signing)
Task 1	Analysis of regulatory, institutional and financial framework	2 months
Task 2	Energy efficiency financing mechanism analysis	3 months
Task 2	Roundtable and final Options Report	4 months

Task 3	Detailed design of selected financing mechanism	5 months
--------	---	----------

NOTE: All reports shall be prepared in English

It is expected that Consultant will start with works during the April 2020 and the finalization of all Contract obligation is expected no later than beginning of October 2020.

4. LEVEL OF EFFORT

The estimated level of effort for this assignment is about 5 months.

5. REQUIRED EXPERIENCE AND QUALIFICATIONS OF THE TECHNICAL EXPERT

The selected consulting company to convey this assignment should have at a minimum:

At least 3 references in preparation of the sustainable financial mechanisms/models for implementation of energy efficiency measures. The Consulting should provide clear overview of conducted relevant services. Overview must include: detail data on entity's for which services are prepared, description of service, value of the contract for performed services, information on the project realization dates, as well as entity's contact person.

In addition, the company would need to have expertise in the in preparation of the energy efficiency studies for the public and residential buildings.

Key staff qualifications:

The Consultant should plan the team that will consist of the least the following personnel:

Key expert 1: Expert for development of sustainable EE mechanism

- Master degree in economy, engineering or another relevant field;
- Minimum of 5 years of relevant experience in energy efficiency sector, including:
 - Analytical assignments in preparation of the sustainable financing mechanisms for the EE measures
 - Experience in preparation of financial analysis of EE projects
 - knowledge and experience with energy conservation measures would be considered as asset
- Fluent in English (reading, speaking, writing) and excellent report writing skills (with relevant references to reports);
- Usage of Montenegro language would be considered an asset
- Good communication and organization skills and capacity to work in an interdisciplinary team;

- Experience as a Team leader/ Project manager in at least 2 projects.

Key expert 2: Financial expert

- University degree in finance or economics;
- Minimum of 5 years of relevant experience in financial sector.
- Experience in accounting and/or financial audits.
- Knowledge of Montenegrin financial and accounting system will be an asset.
- Fluent in Montenegro and English (reading, speaking, writing) and excellent report writing skills (with relevant references to reports);
- Good communication and organization skills and capacity to work in an interdisciplinary team.

Key expert 3: Energy Efficiency Institutional and Policy Expert

- University degree in law;
- Minimum of 5 years of professional experience in analyzing and/or drafting legislation
- Experience in institutional set up of the energy sector
- Experience in drafting energy laws (including EE and renewable energy) and secondary legislation
- Knowledge and experience with sustainable mechanism for the EE will be consider as asset
- Knowledge and experience of legislation and institutional set up, of the energy sector in Montenegro will be consider as asset
- Fluent in Montenegro and English (reading, speaking, writing) and excellent report writing skills (with relevant references to reports);
- Good communication and organization skills and capacity to work in an interdisciplinary team;

Key expert 4: Energy Efficiency Technical Expert

- University degree in engineering (mechanic or civil) or architecture, or another relevant field;
- Minimum of 5 years of relevant experience on EE, including:
 - Preparation of the detail energy audits of buildings
 - Preparation of the investments and cost structure for the energy efficiency measure
 - Preparation of technical monitoring and verification studies of energy savings
- Fluent in Montenegro and English (reading, speaking, writing) and excellent report writing skills (with relevant references to reports);
- Good communication and organization skills and capacity to work in an interdisciplinary team.

From above key staff, the consultant should plan to engage other non-key experts for the additional expertise necessary to perform the above tasks.