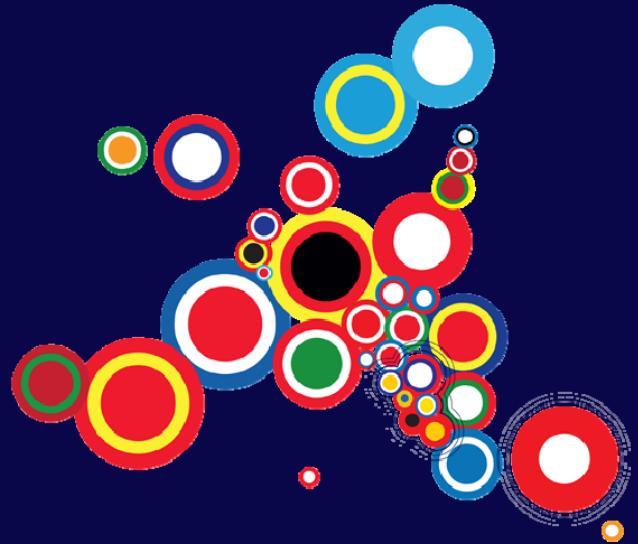




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

MULTI-COUNTRY

Regional Energy Efficiency Programme for the Western Balkans (“REEP Plus”)



Action summary

The Action supports the extension of the Regional Energy Efficiency Programme for the Western Balkans – a comprehensive programme managed and administered by the European Bank for Reconstruction and Development (EBRD), designed to deliver energy efficiency finance using investment grants and technical assistance to address persisting market barriers – which is stimulating the longer-term market development.

The programme sets out to create an enabling policy environment, support investment preparation and provide medium-term financing to encourage households, businesses and the public sector to prioritise investment in energy efficiency.

The Action focuses on enabling financing operations and extends the existing programme to benefit the residential sector. The Action is fully in line with the IPA Strategy Papers 2014-20 and the Energy Community Treaty targets mirroring EU 2020 agenda, as well as contributing to the implementation of the National Energy Efficiency Action Plans (NEEAP) (2010-2018), prepared and adopted by the Western Balkans, as part of their obligations under the Treaty.

Action Identification			
Action Programme Title	IPA II Annual Multi-country Action Programme 2016		
Action Title	Regional Energy Efficiency Programme for the Western Balkans (“REEP Plus”)		
Action ID	IPA 2016/037-900.10/MC/REEPPlus		
Sector Information			
IPA II Sector	9. Regional and territorial cooperation		
DAC Sector	23183- Energy conservation and demand-side efficiency		
Budget			
Total cost	EUR 15 million (EU) + EUR 11.5 million (other donors) + EUR 105 million (EBRD loans) = EUR 131.5 million		
EU contribution	EUR 15 million		
Budget line(s)	22.020401- Multi-country programmes, regional integration and territorial cooperation		
Management and Implementation			
Management mode	Indirect management		
<i>Indirect management:</i> <i>Entrusted entity</i>	DG NEAR/D.5 (Western Balkans Regional Cooperation and Programmes) European Bank for Reconstruction and Development (EBRD)		
Implementation responsibilities	Morten Jung, Head of Unit; Wolfgang Schlaeger, Head of Sector; Davor Kunc, Programme Manager, Energy & Transport		
Location			
Zone benefiting from the action	Western Balkans (Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo*, Montenegro, Serbia)		
Specific implementation area(s)	N/A		
Timeline			
Final date for contracting including the conclusion of delegation agreements	31 December 2017		
Final date for operational implementation	31 December 2020		
Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	✓	<input type="checkbox"/>
Aid to environment	<input type="checkbox"/>	✓	<input type="checkbox"/>
Gender equality (including Women In Development)	✓	<input type="checkbox"/>	<input type="checkbox"/>
Trade Development	✓	<input type="checkbox"/>	<input type="checkbox"/>

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.

Reproductive, Maternal, New born and child health	✓	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	✓	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	✓	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	<input type="checkbox"/>	✓	<input type="checkbox"/>
Climate change adaptation	✓	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

Energy is used inefficiently in the Western Balkans compared to many other countries. The energy intensity of the Western Balkans is around three times higher than the average for the European Union. This high energy intensity is a result of aged and often obsolete energy infrastructure and poorly maintained and/or outdated energy-using capital stock – especially in industry and buildings. As a result, there is significant untapped energy efficiency potential in the Western Balkans with the World Bank estimating that up to 35% of total household energy, 40% of the public sector and 25% of industrial & commercial energy could be saved cost effectively. It is critical that the Western Balkans capture the enormous energy efficiency potential. As economic development accelerates in the region, the high energy intensity means that energy consumption will grow at a greater speed than in other regions, imposing additional economic, social and environmental costs on the Western Balkans.

For the Western Balkans, energy efficiency provides a perfect win-win solution. When properly supported by a solid legal and institutional framework and backed up by well designed and implemented investment programmes, increased energy efficiency delivers many cost-effective benefits for competitiveness, the environment, security of energy supply and economic development in general.

Despite this potential, the Western Balkans face more barriers to energy efficiency investments than the EU Member States, especially in the residential sector. One of the biggest barriers to energy efficiency investments in all sectors, but particularly in households in the region is the regulated, low electricity prices that discourage efficiency measures. Yet, despite these low prices, it is estimated that in all Western Balkans, at least 50% of the population spends more than 10% of their net income on energy – thus falling within the standard definition of fuel poverty – and hence the lack of available income for investments in household energy efficiency.

Beyond low energy prices, there are many other market barriers which prevent households, investors and local banks from engaging in energy efficiency investments. These barriers include:

- High costs of financing of residential energy efficiency projects compared with financing the same projects in European countries;
- Lack of experience/capacity with energy/resource efficiency technologies (design, implementation, operation) for both corporate and residential clients.
- Higher prices of common energy saving technologies than in developed markets;
- Limited availability of best available technologies on the market;
- Low awareness of the multiple benefits of energy efficiency. Stakeholders are not aware of climate related risks, or of climate adaptation strategies;
- Absence of any other support mechanisms existing for residential energy efficiency (pay as you go schemes, dedicated direct support programmes, energy performance schemes, etc.).

EBRD has been active in financing energy efficiency in the Western Balkans since 2009. In 2013, with the support of the European Union and in partnership with the Energy Community Secretariat (ECS), the EBRD established the Regional Energy Efficiency Programme (REEP) for the Western Balkans. The programme was established with three windows covering:

- Policy Dialogue and project preparation support for public tenders of energy efficiency ESCO projects and policy support for the national Energy Efficiency Action Plan (NEEAP) implementation (**Window 1**)
- EUR 92 million credit line facility through local financial institutions covering municipal and private sectors supported by grants and technical assistance through the Western Balkans Energy Efficiency Financing Facility (“WeBSEFF II”) (**Window 2**)

- EUR 50 million direct lending facility covering private sector sustainable energy projects (including ESCOs), supported by grants and technical assistance through Western Balkan Sustainable Energy Direct Financing Facility (“WeBSEDF”). (**Window 3**)

Through the efforts of the EECG, the EBRD and participating Financial Institutions (PFIs), the implementation of the REEP has been very successful. Any gaps identified were covered, and the EECG stakeholders ensured there is no overlap among them, in particular in Window I. The Western Balkans, donors, international banks, and consultants all provided input to REEP, in particular the Policy Dialogue window dealing with dismantling the regulatory and legislative roadblocks for financing energy efficiency.

Despite the achievements of REEP, there is still a lot that needs to be done on energy efficiency in the Western Balkans, hence the EBRD is now requesting a replenishment of REEP to allow continuation of existing activities and extending the programme to the residential sector in the form of ‘REEP Plus’.

The ‘REEP Plus’ has been developed to continue to address the barriers and bring additional benefits through a combination of project preparation support and medium-term financing to households, public and private sector for their required sustainable energy efficiency investments. The added benefits include increasing awareness among final beneficiaries and general public on benefits from implementing advanced energy efficiency techniques; addressing technology market imperfections at supply side by working with technology suppliers and local professionals on extending supply of technology and enhancing the quality of installation and product range offered to final beneficiaries; contributing to climate adaptation and mitigation by addressing market barriers preventing climate finance and building up capacity and skills at local financial institutions for climate finance.

‘REEP Plus’ will follow a similar structure to the original REEP with the addition of a residential component under Window 2 and will have the following components:

Window 1 – consisting of:

- (a) Technical support for preparing public tenders for energy efficiency ESCO projects - consisting of TA to support the preparation of tender documentation for ESCO projects (€1m).
- (b) Policy dialogue support (€3m) for the 2nd and 3rd NEEAP implementation and transposition of the Energy Efficiency Directive and Energy performance of Buildings Directive will be delivered but funded by other donors.

Window 2 - Credit Line Facility for local partner financial institutions with two sub-windows focused on the Residential Sector (WeBSEFF-Residential) and the corporate SME and municipal sectors (WeBSEFF-Commercial). It is expected that around 70% of the EU funds allocated to Window 2 will be used in WeBSEFF-Residential.

Window 3 – Direct Lending Facility covering both municipal and private sector investments in sustainable energy including small renewable energy projects.

PROBLEMS AND STAKEHOLDER ANALYSIS

The main stakeholders affected by the issues raised include residents and home owners of the Western Balkans, local businesses, Participating Financial Institutions and central and local governments.

The residential sector is on the whole a difficult energy efficiency market to serve and following feedback provided by the Energy Community’s EECG it has become evident that there is an urgent need to extend the existing REEP programme to the residential sector. A residential energy efficiency regional study was commissioned by the EBRD, in cooperation with the ECS and the EECG, and the main findings reported were as follows: technical opportunities for improving energy efficiency in existing buildings in the Region are vast; capturing the economic potential of energy efficiency in the Region could deliver around 16MT of CO₂ savings per year. There is an immense market for lending for residential energy efficiency, whereby the

report recommends a facility of around EUR135 million over four years. Local financial institutions are the key route to developing a market that incentivises first-movers to invest in high energy performance solutions. Saving energy in the disjointed residential sector requires households with upfront investment capital and familiarity with efficient solutions, neither of which are profuse on the Western Balkans market. Incentive payments will be necessary to stimulate investments in the energy efficiency sector.

Under Window 2 of the Programme, EBRD will focus on providing regional financing to address the residential sector on a programmatic basis in the Western Balkans. Additionally, the EBRD and ECS have been working alongside other IFIs and donors to provide energy efficiency policy dialogue assistance to all of the Governments in the Western Balkans under the original REEP programme. As a result of this assistance and on-going efforts of the national authorities, many of the policy-framework elements necessary for residential energy efficiency lending are under development or in place which in turn will further help address the current energy and climate change challenges.

OUTLINE OF IPA II ASSISTANCE

‘REEP Plus’ has been designed to deliver a range of benefits in the region which will address many of the issues raised above. Relevant legislative and regulatory frameworks will be established or consolidated to foster a sustainable market for energy efficiency. Delivering energy efficiency finance will help local financial institutions to become familiar with appraising and financing such investments. By providing assistance the Western Balkans will be helped to achieve energy security through increasing energy efficiency, reduce CO₂ emissions and associated environmental impacts of energy use as well as achieving their NEEAP targets thus benefiting the Governments of the Western Balkans.

The EU finding will be used predominantly for financing of incentives.

Donor-funded grant incentives are needed in order to help address specific barriers to investment and mitigate risks for early movers. The use of grant incentives constitutes an interim solution in the absence of a well-functioning market for sustainable energy finance. Such incentives can play a catalytic role for the development of a sustainable energy lending market. Saving energy requires households, businesses and local governments to put in place upfront investment capital and familiarity with efficient solutions – neither of which are abundant in the Western Balkans. The objective of the use investment grants and technical assistance is to kick-start a longer-term market development programme.

The Action will benefit:

- individuals, households or groups of individuals and households registered under the laws of the relevant Western Balkans as residents or owners in the properties for which they intend to perform energy efficiency investments and by the housing collectives (associations/condominiums of apartment owners formally registered under the laws of the relevant Western Balkans as well as housing management companies, ESCOs and any other commercial construction services providers, licensed for provision of construction and installation services according to corporate regulations which are undertaking implementation of eligible measures).
- local entrepreneurs developing small and medium scale renewable energy projects or pursue investments in industrial energy efficiency, including ESCOs and municipalities and other public building owners which undertake energy efficiency measures in public, residential and commercial buildings.

Indirect beneficiaries will be the Participating Financial Intermediaries (PFIs) which may include commercial banks, leasing companies and other credit institutions as well as ESCOs which will on-lend the finance provided by EBRD for eligible investments.

The Programme will deliver enhanced energy security by:

- improving energy efficiency both in the commercial and residential sectors thus supporting economic growth;

- improving the energy bill affordability for households and housing collectives;
- improving living conditions;
- increasing private sector involvement in the development and financing of energy efficiency investments;
- creating new businesses and jobs related to energy services and buildings upgrade.

REEP Plus will have the following structure:

Overview of REEP Plus			
Integrated activities, estimated funding allocation and activities			
	EBRD Financing (EUR)	EU IPA allocation (EUR)	Other Donors (EUR)
Window 1 - Market Development and Policy Dialogue			3,000,000
Activity 1 - Technical Assistance support for preparation of ESCO projects		1,000,000	2,000,000
Activity 2 - Policy Dialogue supporting transposition of EED and EPDB			
Window 2 - Credit lines for Private, Public and Residential Sectors via Partner Banks	75,000,000		
	Private Enterprises and Public Sector	Residential Sector	
	SME and Large Corporates	Individual households	Homeowners associations
EBRD Financing via PFIs	25,000,000	48,000,000	2,000,000
End Borrower Incentives			
Proposed incentive grants intensity	10-15%	10-20%	25-35%
Total Incentives	3,700,000	9,600,000	700,000
Technical Assistance			6,000,000
Window 3 - EBRD Direct Lending Sustainability Projects including ESCOs and Small Scale Renewables (up to)	30,000,000		500,000
TOTAL REEP PLUS FINANCING	105,000,000	15,000,000	11,500,000
LEVERAGE OF IPA FUNDS			7
LEVERAGE OF DONOR FUNDS			4

Window 1 – consisting of:

- (a) Technical support for preparing public tenders for energy efficiency ESCO projects - consisting of TA to support the preparation of tender documentation for ESCO projects estimated at EUR 1m.
- (b) Policy dialogue support (*estimated at EUR 3 million*) for the 2nd and 3rd NEEAP implementation and transposition of the Energy Efficiency Directive and Energy performance of Buildings Directive *will be delivered but funded by other donors.*

Window 2 – Up to EUR 75 million credit Line Facility for local partner banks to be provided by EBRD with two sub windows focused on the Residential Sector and the corporate SME and municipal sectors. Estimated EUR 14 million provided by the EU under this Action will be used for Investment Incentives to sub-borrowers. *EUR 6 million to be funded by other donors will be used for Technical Assistance;*

Window 3 – The WeBSEDF will be continued with an additional EUR 20 - 30 million financing as part of the REEP Plus supported by *EUR 0.5 million technical assistance* to support project preparation and due diligence. Window 3 will be *funded by other donors* parallel to this Action.

RELEVANCE WITH THE IPA II MULTI-COUNTRY STRATEGY PAPER AND OTHER KEY REFERENCES

REEP Plus will promote the objectives and cater for the policy objectives of the IPA II Multi country Indicative Strategy Paper 2014-2020¹ insofar as:

- REEP Plus is active in the relevant geographical region of the Western Balkans.
- The Programme promotes various standards relevant to the EU *acquis*, relating to energy efficiency objectives as well as in support of SME and micro enterprise development and growth, as well as public/municipal sector and the residential sector;
- REEP Plus furthers both socio economic regional development through the sustainable provision of long term funding instruments to qualified partner lending institutions to better serve the financing needs of micro and small enterprises, municipalities, as well as low income private households, and seek to promote real and measurable savings in primary energy and CO2 emissions;

They contribute towards achieving the goals of Europe 2020, the European Union's strategy for growth in the coming decade and for advancing its enlargement and European neighbourhood agendas. Namely, it supports the achievement of the Energy Community Treaty regional target of 9% energy savings by 2018, operationalized in the National Energy Efficiency Action Plans (NEEAPs), as well as relevant individual renewable energy targets per Western Balkan. Closely linked to this are also the goals of RCC's SEE 2020 strategy, aimed at improving living conditions in the region and bringing competitiveness and development back in focus.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

This action is a follow up of REEP, launched in October 2013. Formal evaluation of REEP has not yet been performed as it is still relatively new in its implementation. Nevertheless, the programme has been subject to regular monitoring and evaluation throughout the implementation. As part of its usual business practice EBRD will ensure that lessons learned from REEP and other similar facilities will be incorporated under REEP Plus.

Relevant lessons learned so far from activities are:

Window 1(a) ESCO development

- **Political support is essential for developing ESCOs in the relevant IPA II beneficiaries:**

Supporting energy efficiency investments in the public sector through an enabling regulatory framework requires the support of Ministries of Finance with regards to energy savings. This is due to investments (capex) achieving operational savings (opex) over a longer period of time which requires the budget law to allow that the project owner retains operational energy savings for more than 1 year, i.e. for the project duration. Also, more sophisticated investments procured bring about savings which requires the procurement law to allow selection of such sophisticated investments. In addition local government has a significant need for technical support to initiate, prepare and tender specific investment projects.

Window 1 (b) General energy efficiency policy dialogue in support of NEEAP implementation

- **Resources allocated by Ministries are essential for delivering policy dialogue activities:**

Ministries in the Western Balkans are dealing with many pressing issues and while they acknowledge the need for assistance, they often simply don't have time to engage in discussions about priority setting etc. The establishment of formal technical working groups for each technical issue in each relevant IPA II beneficiary is needed to provide focus and continuity to the dialogue with the relevant stakeholders. The aim is these

¹ C(2014)4293, 30.06.2014.

TWGs would provide the leadership within their administrations and be able to make decisions based on recommendations from the consultants with the support of the EBRD and the Energy Committee Secretariat.

Window 2:

- **The facility needs to be designed in a way to respond to changes in market conditions:**

The facility should be flexible in order to address all crucial target groups of stakeholders including those who might be affected by changes in the economic environment or changes in the legislation. All stakeholders implementing the facility will need to operate in close co-ordination; feedback by the PFIs and consultants should be given of any difficulties in order to implement remedial actions. During the implementation of REEP the uptake of public sector energy efficiency loans have been lower than anticipated. On a general level EE is not a top priority for municipalities as they don't have adequate administrative capacities to prepare and procure EE projects. According to the PFIs, a high level of debt exists in the public sector and only a few creditworthy municipalities. To address the challenges, significant efforts have been put in place by the technical assistance consultants together with the PFIs to promote the facility throughout the relevant IPA II beneficiary and raise the awareness about the multiple benefits of investing in energy efficiency. After a slow start, WeBSEFF II has started to gather momentum and two years after the launch WeBSEFF II utilisation rates in most of the Western Balkans are on track for the facility to be fully utilised during the life of the WeBSEFF II project.

- **The implementation period needs to be of an appropriate length to fully deploy the facility**

Any residential facility should be given sufficient time for implementation due to high fragmentation of the target sector and complexity of stakeholders engagement. New facilities in new markets can take time to establish: it can take time to fully allocate the credit line through loan agreements with PFIs; it takes time for PFIs to become familiar with the product and to determine how best to fit the product in their corporate structure and how to market it to their client base. The consultant contract period for new facilities has been extended to at least four years to ensure the consultant has time to familiarise themselves with PFIs and the market, undertake preparatory work with PFIs before they sign a loan agreement and build up momentum in project assessment and generation sufficient to disburse the full credit line.

- **Technical assistance and the relevant lending infrastructure should be in place well before the launch of the credit lines.**

Technical assistance and relevant forms and processes related to the PFI activities are essential for a smooth start-up phase of the facility. PFI's should be trained and familiar with the processes as well as the eligibility criteria for on-lending the EBRD funds and should be able to market and process sub-loans in order to avoid unnecessary delays in processing sub-borrowers' applications.

Window 3:

- **Regulatory arrangements for renewable energy projects are not always sufficient to facilitate loans on project finance basis**

In some of the Western Balkans, there are certain regulatory and/or legal imperfections that make it difficult for a lender to pursue a project finance transaction. For example, concessions for small hydropower plants cannot always be pledged to a lender or a lender cannot take possession of the assets if the borrower defaults. To resolve such issues, the EBRD has entered into direct agreements with the local governments. However, such an approach is time consuming and more importantly would generally not be available to commercial banks willing to lend to such projects, thus decreasing their willingness to provide a loan on a project finance basis.

- **Implementation of small renewable energy projects may encounter delays due to lack of administrative capacity and interference from the local communities**

On a few occasions, project financed by the EBRD experienced delays due to various administrative hurdles such as related to getting permits. This problem is particularly frequent among foreign investors, who are also sometimes subject to demands by local communities. There is nothing wrong with the local communities taking active participation in consultations, however, in a few cases there have been unreasonable demands, resembling attempts to extort some benefits from otherwise well-meaning foreign investors.

- **Working with small local developers (many of them getting involvement with renewable energy projects for the first-time) has its challenges, but ultimately all ends well most of the time**

One of the underlying objectives of Window 3 was to support local developers of renewable energy projects (many of which, getting involved with renewable energy projects for the first time). This objective has been fulfilled. The experience has been generally quite good, with most of the projects experiencing some difficulties during implementation, but ultimately being completed and commissioned for operation successfully. In some of these cases, the EBRD has provided guidance and consultancy support to the developers, but generally they have been able to cope on their own.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To support the Western Balkans in developing an effective energy efficiency market in order to achieve estimated energy savings and carbon emission reductions.	Achievement of energy savings and development of renewable energy sources.	EBRD annual donor report EU monitoring missions	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To achieve estimated energy savings and carbon emission reductions.	<p>Estimated Annual Energy Savings and Carbon Emissions Reductions :</p> <p>Per EUR of investment</p> <ul style="list-style-type: none"> ▪ Buildings energy efficiency: 1 kWh/year per EUR of investment over an average lifetime of 20-30 years ▪ Industrial/commercial energy efficiency: 4 kWh/year per EUR of investment over an average lifetime of 10-15 years <p>Aggregated</p> <ul style="list-style-type: none"> ▪ Estimated energy savings at Facility level > 150,000 MWh per annum ▪ Expected annual carbon reductions¹ at Facility level: >t CO2 	EBRD annual donor report	EBRD reporting is correct and provided on time.

¹ Carbon emissions reduction will be calculated once the exact allocation of the Facility country-by-country is known. Primary energy and carbon intensity factors specific for each country in the Western Balkans region will be used.

RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Policy dialogue support to the Western Balkans	2 primary laws relating to energy efficiency drafted or amended 7 regulations relating to EPBD drafted or amended 2 updated NEEAPs prepared	Energy Community Secretariat	
EBRD financing on-lent to finance eligible investments	EUR 75 million on-lent to finance eligible investments N. of households and businesses receiving finance: 17,000 and 19 (businesses receiving loans of EUR 19 million under Window 2)	EBRD annual donor report	
Sustainable Capacity Building in PFIs and Transfer of Skills	N. of officers trained: at least 25 per bank N. of training events: at least 10 across the region Number of housing associations or housing management companies or technology/ services providers assisted with development of EE projects at building level: at least 10	EBRD annual donor report	EBRD reporting is correct and provided on time.
Market Expansion	Consultants will be required to conduct market surveys at the beginning and at the end of the Facility implementation period to establish the market penetration rates for eligible technologies in comparison with the baseline year.	EBRD annual donor report	EBRD reporting is correct and provided on time.

(*) All indicators should be formulated as measurement, without specifying targets in the Logical Framework Matrix. The targets should be included in the performance measurement table in section 4. More detailed guidance on indicators is provided in Section 4 on performance measurement.

(**) Relevant activities have to be included only in the following sub-section.

DESCRIPTION OF ACTIVITIES

Planned activities to be undertaken under the 'REEP Plus' will include:

Window 1:

ESCO development - Continuing with the success of the REEP model, 'REEP Plus' will place technical support for preparing public tenders for energy efficiency ESCO projects at the centre of its transformational activities.

On ESCO development support, priority assignments will include Serbia: Continuation of support in scaling-up of street lighting projects and piloting ESCO projects in public buildings and water supply areas. Bosnia and Herzegovina: Supporting the implementation of the first public building projects (hospitals) and district heating projects. Albania, the former Yugoslav Republic of Macedonia, Kosovo and Montenegro: prepare projects on an ad-hoc basis as requested by the relevant governments.

Policy dialogue

Governments in the region are beginning to make the necessary energy efficiency policy changes. In order to further support this policy development process it is proposed that the policy dialogue under 'REEP Plus' will focus on policy support for the second and third NEEAP implementation; transposition and implementation of the Energy Efficiency Directive and transposition and implementation of the Energy Performance of Buildings Directives. This policy dialogue activity will take in the form of a Technical Assistance package and will be funded outside of this Action.

Window 2: Credit line facilities – EBRD will continue with the implementation of WeBSEFF in two separate windows: WeBSEFF-Residential window and WeBSEFF-Commercial window. WeBSEFF-Residential will be the first regional finance facility focusing on addressing the residential sector. WeBSEFF will be made available to qualifying PFIs in the Western Balkans for on-lending to private sector sub-borrowers (individuals, housing collectives, suppliers and vendors of energy efficient equipment and service providers) for sustainable energy investments. The Facility will be complemented by Donor funds covering:

- Technical Assistance (TA) package to support technical assistance to PFIs and sub-borrowers. **The TA for the credit lines will be funded by other donors outside of this Action.** The consultants engaged for the implementation of WeBSEFF will perform the following activities:
 - Capacity building: providing initial training to PFIs;
 - Marketing: promoting the credit line through its dedicated website, dissemination of leaflets and other marketing material, organising seminars and conducting training events with PFIs throughout the relevant IPA II beneficiary;
 - Project preparation: feasibility studies on specific techniques, market assessment and establishment of a list of eligible materials and equipment, conceptual design for residential building-level projects, identification of optimal investment plans, preparation of Project Assessment Reports which will form part of the loan application documentation;
 - Verification: checking and confirming the successful completion of sub-projects and payment of incentives;
 - Monitoring/reporting: maintaining and updating the Facility's database to capture information related to investment projects funded under WeBSEFF, eligibility lists of technologies and installers and provide regular reporting to the EBRD.
- Investment Incentives for Sub-borrowers, in the range of 10 - 35% of the sub-loan amounts depending on the nature and performance of sub-projects and payable only subject to verification of sub-project completion.

Window 3: Direct Financing: EBRD will provide additional financing of up to EUR 20 million to eligible borrowers under the WeBSEDF. WeBSEDF will be supported by technical assistance for project assessment and monitoring in the amount of EUR 0.5 million. The TA for WeBSEDF will be funded by other donors outside of this Action.

RISKS

The following risk factors have been identified:

- **Economic Risk:** Political and macroeconomic instability in the Western Balkans negatively affect the banking sector and depress lending activity.
- **Product Risk:** The residential energy efficiency loan product is new for both the market and the PFIs, which may lead to delay in the roll-out, a small number of PFIs and low lending volumes, at the early stage especially.
- **Implementation Risk:** Due to technology market imperfections and limited capacity and experience with new technologies among local professionals, final beneficiaries might face risk of unsuccessful completion and verification of project thus reducing the impact from investments
- **Limited awareness among local stakeholders (sub-borrowers)** on economic, environmental and social benefits that might impact the up-take of WeBSEFF financing offered by PFIs.
- **Other risks** are (a) the potential market distortions through the provision of subsidies and (b) the performance and sustainability of the programme when the subsidies are removed

The following mitigating actions will be taken:

- **Economic Risk:** PFIs will be carefully selected using EBRD's standard selection criteria for integrity and business conduct, financial stability, capacity and appetite to participate in sustainable energy lending.
- **Product Risk:** A comprehensive TA support and an efficient consultant deployment will further minimise the risk of slow roll-out and improper implementation.
- **Implementation Risk:** EBRD plans to engage with technology suppliers and work on increase of presence, supply and competitiveness for advanced resource efficiency techniques. The Project Consultant will conduct a number of activities aiming at improving quality of installation and engineering services.
- **Other risks:** A dedicated TA provided throughout the entire duration of the Programme will ensure that potential beneficiaries are provided with objective and comprehensive information, analysis and advice on the benefits and best value added for Sub-borrowers. The Project Consultant will raise awareness, publish information on the relevant facility web-site, through media and marketing activities and will maintain a help-line available for any enquiries to general public on eligibility criteria, availability and benefits from sustainable energy investments.
 - (a) will be mitigated by including several banks in the Facility to ensure competition and the designing of incentive schemes which is linked to the performance of sub-projects and set at minimum required level,
 - (b) will be mitigated by strong TA components of the Facility which will raise awareness among companies about energy efficiency opportunities and will help banks further improve their skills for sustainable lending, in addition to demonstration effect from a cluster of successful sustainable investments financed under the Facility.

CONDITIONS FOR IMPLEMENTATION

Window 2 will be implemented alongside intermediated financing provided by EBRD in the amount of EUR 75 million to be provided to PFIs in the Western Balkans. The EBRD will sign loan agreements with each PFI which in turn will on-lend the funds to finance eligible sub-projects. Eligibility criteria for the programme will be designed to maximise the energy savings potential of the programme and to ensure that scarce grant resources are allocated in an appropriate and effective way. Eligibility criteria as well as conditions for payment of the investment incentives will be defined in the Policy Statement attached to each loan agreement.

Investment incentives will be paid upon successful implementation and verification of the investments by the consultant. Upon verification of sub-projects the consultant will inform both the PFIs and EBRD of the outcome as well as the incentive amounts due for each sub-project.

Activities under **Window 1** ESCO market development and the Policy Dialogue supporting transposition of relevant EU Directives in particular the Energy Efficiency and the Energy Performance of Buildings Directives will help unlock the market for financing ESCO projects and residential energy efficiency investments and thus will pave the way for successfully scaling up lending activities under Window 2 in the future.

Activities under **Window 3** Direct Lending will offer larger amounts of project finance to support the development of renewable energy projects in the region and will complement the financing made available by EBRD via local partner banks for the small scale projects undertaken by SMEs and households.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The Action will be implemented in indirect management with the EBRD, and in close coordination with the Energy Community Secretariat. All activities will be undertaken in coordination with the Western Balkans directly and the Energy Community Secretariat's Energy Efficiency Coordination Group. REEP will continue to be implemented in parallel with a set of priority country and regional policy dialogue activities which will be funded by a different donor alongside REEP Plus.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The EUR 15 million from IPA will be implemented by indirect management with the EBRD.

Window 1:

Technical support for preparing public tenders for energy efficiency ESCO projects - consisting of TA to support the preparation of tender documentation for ESCO projects.

Window 2:

Up to EUR 75 million Facility will be made available by EBRD to qualifying PFIs (partner financing institutions) under WeBSEFF in the Western Balkans for on-lending to private and public sector sub-borrowers (businesses, individuals, housing collectives, vendors, suppliers, ESCOs, service providers and municipalities) for sustainable energy investments.

The Facility will be complemented by Donor funds covering:

- Technical Assistance (TA) package to support technical assistance to PFIs and sub-borrowers during implementation and verification of sub-projects completion. TA costs are estimated at EUR 6 million over a 5 years' implementation period. **The TA under window 2 will be funded by a separate donor.**
- Investment Incentives for sub-borrowers, in the range of 10 - 35% of the sub-loan amounts depending on the nature and performance of sub-projects and payable only subject to verification of sub-project completion.

REEP Plus will be managed and administered by the EBRD in accordance with the EBRD policies and procedures in collaboration with relevant stakeholders and other private sector development initiatives including the EU Delegations.

PFIs will be selected by the EBRD based on their financial strength, geographic coverage and branch network, and commitment to engage in sustainable energy finance.

The EBRD will select the borrowers to be financed in accordance with its own internal procedures. The EBRD assesses the creditworthiness of each borrower on a case-by-case basis as part of the due diligence process and puts in place appropriate credit quality monitoring benchmarks/ covenants. The EU will be kept regularly informed on the loans signed through the progress reports.

The EBRD will procure and manage the Consultants providing services under the technical assistance and provide guidance on interaction with the relevant governments on policy dialogue. Consultants will be selected and contracted pursuant to the EBRD procurement policies and rules.

The investments will be implemented across the Western Balkans region in Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia.

Window 3

EBRD will provide additional financing of EUR 20-30 million to eligible borrowers under the WeBSEDF. WeBSEDF will be supported by technical assistance for project assessment and monitoring in the amount of EUR 0.5 million. The TA for WeBSEDF will be funded by other donors outside of this Action.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the action might be subject to external monitoring in line with the European Commission.

The 'REEP Plus' and the Action will be monitored according to EBRD's standard procedures with the European Commission. The EBRD will undertake regular monitoring missions the results of which will be shared with the EU in regular progress reports. Project monitoring and evaluation will be based on periodic assessment of the progress on delivery of the programme results against its objectives. Information meetings between EBRD, potential co-financiers and the Commission will be organised in principle once a year or when needed in order to review the progress of the project.

The progress of implementation will also be regularly reported on and discussed during the meetings of the EECG meetings where all the Western Balkans and the European Commission are represented.

INDICATOR MEASUREMENT

Indicator	Baseline (value + year) (2)	Target 2020 (3)	Final Target (year) (4)	Source of information
MCSP indicator (impact/outcome)....(1)				
<p>Output Indicators</p> <ul style="list-style-type: none"> • Facility fully disbursed to finance eligible investments • Number of households reached • Number of businesses reached • Skills transfer and local capacity building 		<ul style="list-style-type: none"> • EUR 75 million on-lent • 17,000 households receiving finance • 19 businesses receiving loans of EUR 19 million under Window 2 • Loan officers trained by trainers or by an on-line training programme at least 25 per bank • Training events for engineers and architects at least 10 across the region • Number of housing associations or housing management companies or technology/ services providers assisted with development of EE projects at building level: at least 10 		Partner banks and Consultant's reports
<p>Outcome Indicators</p> <p>Improved energy efficiency</p>		Expected energy savings at Facility level app. 150,000 MWh per annum which are estimated to contribute 3% towards the regional cumulative annual NEEAP targets		Consultant's report

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(1) This is the related indicator as included in the Indicative Strategy Paper (for reference only)

(2) The agreed baseline year is 2010 (to be inserted in brackets in the top row). If for the chosen indicator, there are no available data for 2010, it is advisable to refer to the following years – 2011, 2012. The year of reference may not be the same either for all indicators selected due to a lack of data availability; in this case, the year should then be inserted in each cell in brackets. The baseline value may be "0" (i.e. no reference values are available as the Action represents a novelty for the beneficiary) but cannot be left empty or include references such as "N/A" or "will be determined later".

(3) The target year CANNOT be modified.

(4) This will be a useful reference to continue measuring the outcome of IPA II support beyond the 2014-2020 multi-annual financial period. If the Action is completed before 2020 (year for the performance reward), this value and that in the 2020 target column must be the same.

5. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

The financing provided under Window 2 will be made available to both women and men final beneficiaries. The following non-financial barriers to access to energy efficiency finance affecting women and men have been identified:

- husbands and wives generally make joint decisions on whether or not to implement energy efficiency investments. However, choosing the proper insulation company is generally the husband's responsibility;
- lack of information and/or misinformation among women and men about building level EE improvements;
- lack of interest from women in being involved in decisions on home improvements due to their perception that handling the installation process could be difficult.

The following actions may be implemented as part of the implementation of the Action:

- delivering the financing through vendors as a complementary financial mechanism to individual loans, especially for those from lower and middle socio-economic groups, since their purchasing power may not be enough to allow them to access bank loans;
- organising a "home efficiency" contest, targeting women, to raise awareness among women about the saving aspect of implementing energy efficiency investments;
- stimulating the participation of women in insulation work by distributing 'beginners' guidance materials in branches and on the websites of PFIs, explaining the choice of materials and the insulation techniques in simple terms,
- organising awareness raising activities on energy efficiency investments to both women and men as both women and men avoid making decisions on insulation because of a lack of information and, mostly, misinformation on the correct materials to use;
- considering gender differences in promoting the financing product targeting men by emphasising lower energy costs, while women should be targeted by emphasising higher comfort levels, due to better insulation and lower GHG emissions.

EQUAL OPPORTUNITIES

The financing provided under Window 2 will be made available to both women and men with no discrimination. Any individual or business owner meeting the eligibility criteria and the PFIs credit criteria will be allowed to participate.

MINORITIES AND VULNERABLE GROUPS

The financing provided under Window 2 will be made available to all residents including minorities and vulnerable groups with no discrimination. Any individual or business owner meeting the eligibility criteria and the PFIs credit criteria will be allowed to participate.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

If applicable, CSOs can be involved in the following areas in order to contribute to energy efficiency, cost savings and increased accountability of local and national authorities: monitoring of local policies and budgets, cooperation with local authorities and stakeholders, awareness raising on energy policies. Participation and comments of all CSOs and civil society platforms comments are appreciated. .

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

An investment shall comply with the relevant national legislation and promote alignment to applicable EU Directives, in particular the Directive on Energy Performance of Buildings, or any successor thereto,

in so far as the investments relate to the building sector, and the Directive on Energy End-use and Energy Services and the Renewable Energy Directive.

Climate action relevant budget allocation: EUR 15 million

6. SUSTAINABILITY

The Programme will facilitate development of the ESCOs market which currently has limited opportunities due to lack of legislation, tools and infrastructure. Once these are in place and municipalities have had some experience of investments via ESCOs it is expected that the use of ESCOs will be more widespread.

The Programme will demonstrate the effects of rational energy in the context of rising energy costs. Financial institutions can be very effective in educating their clients and enabling wide scale uptake of new product lines such as energy efficiency technologies. At the same time, the availability of financing for sustainable energy technologies brings additional benefits, such as development of the necessary systemic infrastructure, including energy auditors, project developers and sustainable energy technology providers. It is anticipated that over time PFIs will become familiar with financing sustainable energy investments and will promote similar lending products making lending sustainable.

In addition, the Programme will raise awareness about sustainable investment opportunities to the wider population as well as other stakeholders such as suppliers, installers and vendors of sustainable energy products thus increasing market penetration rate of best performing technologies.

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be funded from the amounts allocated to the Action. REEP Plus will continue to use the website of the REEP: www.wb-reep.org.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

The EBRD will maintain regular communication with the EU Delegations in the relevant Western Balkans throughout the implementation by means of formal reports, invitations to events and regular meetings with the Organisation's staff in the local offices.

The EBRD shall ensure that the visibility of the EU contribution is guaranteed, and is at least equivalent to that given through media to other donors supporting the Action.

EU including the relevant EU Delegations shall be invited to any visibility event relating to the Action, including the launching ceremony, if any.

Visibility Plan

In the context of this project, EBRD will work to deliver the following visibility events/materials:

Communication activities

Communications activities under the Action may consist of a variety of activities, which will highlight the EU's contribution, such as:

- **Visibility events:** A range of events under this information campaign will promote the Action throughout the Western Balkans. Such events will seek to emphasise the results of the Action, linking as far as possible with first-hand accounts from beneficiaries and consultants. Close collaboration will be sought with stakeholders and partner organisations, including joint events. Media presence will be targeted.
- **Other activities:** The Action includes several training sessions for PFI loan officers, local engineers which will also provide visibility opportunities.
- **Printed material:** A range of printed materials will be distributed to the Action's audiences.
 - **Client leaflets developed by PFIs:** These short leaflets will promote the financial products available.
 - **Factsheets/Case studies:** Detailed case studies from implemented projects financed by the PFIs will be published online to show results. Case studies will acknowledge EU funding and can be posted on EU's web site as well as clients' web sites. Further use could be in EBRD print or web-based publications.
- **Additional materials:** these may include, for example, promotional items, such as banners, pens, folders, conference bags, USB sticks, business cards, flags, business cards, umbrellas, t-shirts, stickers or similar material.
- **Online presence**
 - **Web presence:** Dedicated webpages will be hosted on the Facility website www.wb-reep.org, which prominently includes the EU logo. Content will be clearly linked to the websites of the PFIs and relevant partners and stakeholders and, in addition to content outlining the main benefits of the Programme, will include a range of case studies, videos, and news about upcoming events/trainings/seminars and local contact details.
 - **Social media:** Presence on social media will be increased, both in English through centralised EBRD channels (available on Facebook, twitter and others) and acknowledge EU support. In addition, content will be channelled to the social media accounts of partner organisations and donor missions present in each relevant IPA II beneficiary, including the European Union Information Centres and associated social media accounts where they exist.
- **Media coverage:** Media monitoring will take place throughout the implementation of the Programme. The monitoring of coverage in international media will also be undertaken by the EBRD's Press Team and the Consultants.
 - **Press Release for important milestones of the Programme:** Press releases for important milestones of the Programme (such as signings of financial agreements with the PFIs, project number milestones, the launch of new activities or award ceremonies) will be drafted in both the local languages and English and distributed for publication in the national and regional press. As in the case of other public communications, the participation of all organisations involved in the Action will be acknowledged.
 - **TV and print interviews:** Interviews with key staff will be sought on an on-going basis throughout the period. Press visits to Programme beneficiaries may be organised at regular intervals within the Programme. Printed interviews will be initiated through press releases to all local printed media.

- Multimedia production
 - Multimedia and up to two video productions will also be considered, focused on a specific success story and acknowledging the EU's contribution. The effective existing animated videos covering the activities under the Programme, subtitled into local languages, will be used.

Outcomes of the communication activities will be measured based on the following indicators:

- Increase in applications to the Programme from residential and commercial entities for loans through the credit lines.
- Increase in applications to the Programme from residential and commercial entities for advisory services.
- Mentions of the Programme and its results in regional and national media.

Resources

The team will draw on the resources of the EBRD Headquarters Communications team in London, including the press team, publications team and web team.