

## NORTH MACEDONIA TERMS OF REFERENCE TO DEVELOP ENERGY EFFICIENCY FUND

### 1. Background

The Government of North Macedonia (GONM) has made important progress during the last several years developing the strategic and legal framework for energy efficiency (EE), which provides opportunities for progressing further with specific EE targets and programs. As a contracting party of the Energy Community Treaty, the GoNM in 2017 adopted third NEEAP<sup>1</sup>. The indicative target for 2018 is to reduce the final energy consumption in North Macedonia for at least 9% until 2018 relative to reference consumption<sup>2</sup>, or the cumulative final energy savings to be 147.2 ktoe. The third NEEAP gives an overview of 31 policies and measures where majority of them are implemented as planned. The measures are divided in seven sectors: buildings, household, public, commercial, industry, energy and transport. Some of them affect several sectors and their overall savings are reported separately (as a horizontal measures).

The Law on Energy Efficiency was published on February 10, 2020 in the Official Gazette of the Republic of North Macedonia and entered into force on February 18. The Law on Energy Efficiency has provisions related to the overall institutional set-up and responsibilities, obligations (e.g., for utilities, large traders, building owners, equipment manufacturers, public bodies and municipalities), funding and penalties, data provisions, energy audits and managers, energy service companies (ESCOs), and training. The set-up of an independent EE Fund is also envisioned to support the achievement of national EE targets, etc. which will be determined through a separate Law.

In December, 2019 The GoNM published the Strategy for Energy Development up to 2040<sup>3</sup>, a strategic document that formulates the energy development policy across all energy and economy sectors and pertinent implementing and financing mechanisms. This document establishes the basis for further energy policy according to the Energy Law and Energy Efficiency Law. The Strategy maximizes energy savings up to 51.8% of primary and 27.5% of final energy in the Green scenario in 2040. In the Energy efficiency pillar, the Strategy recommends: - Maximizing energy efficiency policies and measures in the sectors buildings, public, industry, transport, heating and cooling, transformation, transmission, distribution and demand response, as well as horizontal measures. All these policies and measures directly impact emission reductions, decrease import dependence, and stimulate domestic economy with local job opportunities. In all three scenarios, North Macedonia will use less resources to cover the same needs, which leads to decoupling of consumption from GDP starting from 2020.

The energy efficiency is a strategic theme across the entire energy strategy, and represents one of the key implementing mechanisms, across all sectors to reduce the primary and final energy consumption relative to BAU by 2040. In the Energy Efficiency Policy and Strategic measures chapter of the document, the following conclusions were addressed:

- **Continue the usage of existing and introduce new EE measures in final energy consumption for household and commercial sector.** The results show that the highest EE savings in final energy consumption can be achieved in household and commercial sector (Figure 3.17). Majority of savings could rely on existing measures with greater penetration in the country, and with introduction of new ones. These include highly efficient appliances in household, commercial and

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<sup>1</sup> <https://economy.gov.mk/doc/2110>

<sup>2</sup> The reference consumption is the average energy consumption in the period 2002 - 2006

<sup>3</sup> [https://economy.gov.mk/Upload/Documents/Adopted%20Energy%20Development%20Strategy\\_EN.pdf](https://economy.gov.mk/Upload/Documents/Adopted%20Energy%20Development%20Strategy_EN.pdf)

public sectors, exemplary role of public buildings (retrofit measures), insulation of existing and new residential buildings with introduction of nearly zero buildings, energy audits, energy management, promotion of higher utilization and expansion of district heating systems, as well as electrification of heat sector (heat pumps). Financing energy efficiency projects is the key to successful implementation and could be supported with development of ESCO market as well as other financing mechanisms (e.g. revolving energy efficiency fund, financial programmes on municipality levels, public private partnerships, energy cooperatives etc.).

- **Put additional focus on EE measures in final energy consumption for industry and transport sector.** Industry and transport sector have the highest growth rates in the overall energy savings compared to 2020, ranging 18–45 times for industry and 11-28 times for transport depending on the scenario. The role of these sectors in energy savings will become increasingly important after 2025. The highest contribution in the industry can be achieved with measures in efficient technologies that will enable fuel switch (from coal to gas), as well as use of efficient electric motors. In terms of transport EE savings, replacement of old vehicles with energy-efficient ones, electrification of road transport (EVs), as well as modal shift from road to rail for freight transport and from car to bus for passenger transport, and more biking / walking in urban areas are seen as the most important measures.

In 2019, the EU adopted the Clean energy package which introduces the principle of energy efficiency first. This principle further emphasizes the role of energy efficiency at EU level, and it is applied in the Energy Strategy of Macedonia until 2040 as well as in the draft National Energy and Climate Plan. With the realization of this approach, additional savings in terms of costs can be realized.

The Ministry of Economy has been prepared first draft of Fourth National Energy Efficiency Plan<sup>4</sup>. In this NEEAP 30 measures for 2020, 2021 and 2022 are proposed (Table 7). It is planned in 2020, 2021 and 2022 that the saving will reach 169 ktoe, 213 ktoe and 271 ktoe, respectively. It is important to note that these are cumulative savings.

Therefore, the establishment of the Energy Efficiency Revolving Fund (EE Fund) will need to serve the purpose of supporting the EE policy measures on the sustainable basis and across all the sectors specifically addressed in the Energy Development Strategy (EDS).

The Mission of the EE Fund and the corresponding short term and long-term Strategic and Financing Plan will need to fully reflect and accommodate the energy efficiency policy measures and sectors, as well as implementing mechanisms concluded in the EDS and other national energy and climate strategic documents.

Financial sources and instruments will be a crucial part of this assessment, as stated in 4NEEAP The long-term EE Fund financing should take into account all possible EE funding mechanisms and programmes available on the short and mid-term from the EU (such as Economic and Investment Plan for Western Balkans & IPA III Funding, and commercial funding via on-lending programs).

The proposed EE Fund will be the "Revolving" Fund which will be based on onlending of funds to institutions in the beginning and 'a pay from savings mechanism' eventually. This will help the government move faster from "grant" and "soft" funding to more sustainable funding in this area.

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<sup>4</sup> [https://economy.gov.mk/Upload/Documents/4NEEAP%20final%20version%2014.04.2021\\_en%20corected.pdf](https://economy.gov.mk/Upload/Documents/4NEEAP%20final%20version%2014.04.2021_en%20corected.pdf)

Through the repayments would be used by the EE Fund to finance additional projects, thereby making the funds revolve over time. The Fund is expected to cover its operating costs through administration fees, and eventually thus become sustainable financing and implementation entity. The EE Fund would also seek to provide necessary technical assistance (TA) to ensure a smooth implementation and progressively attract more private investments, which will go through the approval process.

Eventually, the goal will be to crowd in commercial financing from local banks and private investment through energy service companies (ESCOs) through EnPC and ESC contract in order to develop and sustain a fully market-based program.

The fund is expected to eventually have close cooperation with the ESCO companies defined by the Law on energy efficiency and the rulebook.

Potential investors for providing equity and debt financing for the EE Fund include all interested international financial institutions, EU Programmes and the Government of the Republic of North Macedonia.

According to the Law on Borrowing of the Republic of Northern Macedonia with a Loan from the International Bank for Reconstruction and Development - World Bank under the Loan Agreement for Financing the Public Sector Energy Efficiency Project, the GoNM decided that the EE Fund will be established within the Development Bank of North Macedonia (DBNM) with intention that EE fund shall be supported by the World Bank and EU and capitalize its start-up.

DBNM will work following the strategic policies, goals, and priorities of the Republic of North Macedonia and its strategic goal will be to support the development of the country's economy by providing finance to small and medium enterprises and large traders.

The Government recognizes the need to adopt optimal implementation model and if needed to adjust regulation to allow DBNM to perform the functions required to manage the EE Fund, provide financial services to public entities and address operational issues. In addition, the Government will need to establish the EE Fund's governance, management and operations and define its organizational and administrative set-up.

To support the Government in developing this EE Revolving Fund (hereafter referred to as "the EE Fund"), a consulting company, any form of association, joint venture or sub-consultancy, (hereafter referred to as "the Consultant") will be required.

## **2. Objective of the assignment**

The objective of this assignment is to support the establishment and operationalization of the proposed EE Fund through development of the full set of documents for establishment and operationalization of the Fund. The documents shall define the vision and mission of the Fund, scope of activities, funding sources, beneficiaries. The set of documents includes founding legal act, charter, long-term strategy and action plan (10 years), business plan for five years, operational manual, internal procedures. The draft documents should be supported with detailed analysis of relevant legal-regulatory framework.

## **3. Scope of Work**

### **Task 1. Development of Concept of the EE Fund**

**Task 1.1** Development of options paper for establishing of the Fund. The consultant shall identify preliminary mission and vision of the proposed EE Fund, its scope of activities, potential funding sources and beneficiaries. After adjusting it with the key stakeholders and the client the consultant, based on the conducted analysis of the currently applicable energy and climate strategic, regulatory and institutional framework of the country, proposes at least 3 options for setting up of the EE Fund under the administration of DBNM. The description of the options shall include SWOT analysis of each options and comparative pros and cons for all options, as well as suggest amendments of relevant legislation, if necessary for some or all of the options. The options should be considered and presented especially from aspects of the fulfillment of the the goals of the energy and climate strategic documents and also from the different aspects, including the establishment process and legal requirements, required financing, sustainability, diversity of financing mechanisms and other relevant factors. The consultant should recommend the best option based on preliminary analysis.

**Task 1.2.** Meeting with the Ministry of Economy in order for the Consultant to be able to consider ongoing and future donor support projects in relation to the energy efficiency, with particular focus on the financing of energy efficiency in the public and private sector. The Ministry of Economy will provide to the Consultant previously accepted deliverables, other materials and information and relevant contacts of other consultant teams working on ongoing EE mandates that are relevant for the future operation of the EE Fund, in order to consider such activities and deliverables in the preparation of the comprehensive concept of the EE Fund.

**Task 1.3.** Organisation of workshop with key stakeholders to present the options in order to prioritize and select the best applicable option. Consultant should prepare a presentation where all analytical background and necessary actions for each option is reflected.

**Task 1.4.** Based on the recommendations on the best applicable option, the consultant shall prepare a comprehensive concept of the Fund, including the mission and vision of the Fund, scope of activities, management structure and control, legal structure and manner of establishment in line with the local regulatory framework, organization chart and staffing, estimated annual operational budget, as well as a roadmap for establishment and operationalization of the Fund. The concept shall be supported by the draft legal and regulatory documents necessary to establish the Fund or enable its activities under the proposed concept.

The following list of documents could be considered, but not limited to:

Energy Development Strategy, the NEEAP and progress reports; the draft Program Plan for the National Program for Energy Efficiency in Public Buildings (Phase 1); the Study on EE in Buildings in the Contracting Parties of the Energy Community (ENSI); the Financing and Implementation Plan for the NPEEPB (WBI); ongoing Government and municipal EE policies and programs; recently closed and ongoing international financial institution (IFI)/donor programs, including the World Bank/GEF Sustainable Energy Project and the EU/EBRD Western Balkans Sustainable Energy Credit Line Facility; the World Bank's June 2014 report, "*Western Balkans: Scaling Up Energy Efficiency in Buildings*"; and, other relevant studies and activities such as UNIDO Project on Industrial Energy Efficiency.

## **Task 2. Development of set of documents for establishment and operationalization of the Fund**

After approval of Task 1 report the consultant should develop a set of documents to be used for establishment and operationalization of the Fund. Below are the key documents to be delivered by consultant:

- a) Founding legal acts. Based on the legislation the consultant shall identify what type of legal and administrative documents are needed for establishment and registration of Fund (or other procedure required). The draft act should be provided and agreed with the Ministry of Economy and other relevant agencies or governmental bodies.
- b) Charter. The consultant shall prepare the charter of the fund based on the concept approved as well as following the legal and regulatory requirements to assure and comply with the relevant and necessary establishment and registration procedures.
- c) Long-term strategy and action plan (10 years). Based on the previous tasks and findings from discussions the consultant shall prepare a long-term strategy of the Fund based on the country priorities and commitments in different sectors energy efficiency improvement. Strategy shall specify directions, targets, approaches for each sector or market segment. The action plan should be developed to enable implementation of strategy. Action plan shall include activities related to the financing and investment in EE, as well as capacity building, awareness raising and other activities identified throughout the assignment.
- d) Business plan for five years. A comprehensive business plan should be developed with identified windows of support, funding mechanisms, sectors or projects, with analysis of the required funding needs for investment and operational budget.
- e) Operational manual, internal procedures. The consultant shall prepare the operational manual of the fund for regulation of the projects implementation processes. It shall include basic operational rules, such as selection of projects and beneficiaries, contractual arrangements, financing terms and conditions, etc. A separate internal procedure document should be prepared for the overall internal processes and operations of the Fund, including human resource management, financial management, administrative regulations and other aspects of business processes, as well as other internal legal acts, as required by local regulations relevant to the operation of the EE Fund.

#### **Deliverables:**

1. **Inception report.** The Inception report shall provide a detailed workplan and methodology of the assignment. It shall identify key stakeholders for discussion of the milestone findings and approval of approaches. The report shall include the list of all legal regulatory documents and studies, reports, plans for implementation of the assignment. It shall also present the tasks assigned to the staff of the consultant.
2. **Options paper for the Fund as per Task 1.1.**
3. **Concept of the Fund as per Task 1.4.** Consultant shall submit the Concept of the Fund for its functionality, as well as provide the workshop documents (agenda, participants, minutes, conclusions) as per Task 1.3.
4. **Set of documents as per Task 2.** The consultant shall submit each of document for the review and approval of the client. The detailed workplan in Inception report should specify deadlines for submission of each document. The full set should be submitted according to the Delivery Schedule.
5. **Final report.** Final report should be Executive Summary of the assignment and finalized versions of all documents.

#### **Key approaches:**

- a) The Fund should be able to finance not only commercial and household sector, but also public and municipal sector using energy service agreements (ESAs), Energy Service Companies and other mechanisms of implementation of energy efficiency mechanisms. Particularly, the legal and institutional

set-up of other potential development funds designed for public sector investments and their operations should be considered, policies and procedures regarding municipal budgeting, accounting and finance (to enable secure repayments from energy cost savings, debt limits, repayment mechanisms) as well as public procurement rules as they relate to purchase of EE equipment and ESCO-type services by municipal and other public entities.

b) While developing the business plan the consultant shall consider initial and periodic possible recapitalization in 5-7 years (both equity and debt), projected investments and repayments, estimated fixed and variable operating costs, debt repayments, defaults, etc. Sensitivity analyses should be done to determine fee structures to ensure EE Fund sustainability, typical loan/ESA terms, possibility for voluntary agreements, revenue from penalties and carbon tax, breakeven scenarios, and other factors to help ensure the EE Fund can meet the Government's policy goals. The excel spreadsheets with financial forecasting and cash flow analysis should be provided.

c) Risk analysis. The consultant to see and present the risks if they exist and in which segment, as well as to give a proposal for their overcoming if there are.

d) As an annex to Operational Manual the consultant shall provide sample agreements and templates for the recommended operations, (e.g., Project Initiation Agreement), ESAs, loan agreements, including proposed terms and conditions, obligations of EE Fund and client, repayments and/or baseline energy payments (along with adjustments for baseline energy), remedies for nonpayment, etc. Templates for walk-through and detailed energy audits, technical designs, construction supervision Terms of Reference and reports, detailed M&V protocols, progress reports, financial reports, and other documents deemed necessary for the Fund's operation.

e) The internal procedures shall include description of flows of funds, internal control systems, corporate procurement procedures, financial management, environmental and social considerations and procedures (consistent with World Bank Guidelines), gender and citizen engagement considerations, monitoring, reporting and evaluation arrangements, etc. It should also summarize the subproject cycle and identify marketing and screening procedures, application templates, detailed appraisal and due diligence requirements, decision-making for financing subprojects, commissioning, etc. Some of the procedures may follow DBNM's existing institutional processes but some change may be needed or desirable to ensure the EE Fund's success.

f) Internal procedure shall include job description and qualification of staff, recruitment procedure, evaluation and motivation mechanisms (bonuses, insurance, trainings), etc. KPIs and guidance to evaluation should be provided. Review DBNM remunerations guidelines and prevailing market rates to determine suitable salary levels for staffing. The levels should seek to ensure recruitment of high quality and proactive staff that are able to successfully start-up and operate the EE Fund. Provisions should also be considered for some incentives for the fund manager and core staff, such as bonuses linked to EE Fund performance indicators. These indicators should incentivize the fund management and team to actively market the EE Fund, review subprojects, deploy investments, ensure successful subprojects, ensure timely repayments, etc.

#### **4. Schedule and Deliverables**

The assignment is expected to begin around August 2021 and last for about 12 months, with the first three tasks lasting 4-5 months. All deliverables (i.e. reports) will have to be prepared in English. It is expected that the Consultant will seek to complete Tasks 1 by Month 3 to allow time for reviews by the relevant government entities, donors, etc. and for the procedures for the regulations/amendments to be adopted. All tasks should be done in close consultation with key stakeholders with allowances for periodic

consultation meetings in order to build consensus on the recommended options, identify key concerns and seek resolution to outstanding issues. Bringing in experiences from EE Funds in other countries (e.g., Armenia, Bulgaria, Croatia, Slovenia) will also be expected in order build upon best practices and lessons learned.

### Schedule of Deliverables

Deliverable 1. Inception Report	2 weeks after contract signing date		
Deliverable 2. Options paper	6 weeks after contract signing date		
Deliverable 3. Concept of the Fund t	14 weeks after contract signing date		
Deliverable 4. Set of documents as per Task 2	30 weeks after contract signing date		
<b>Final report</b>	36 weeks after contract signing date		

### 5. Selection Method

Selection of consultant will be conducted through the procedures as specified in the Bank Procurement Regulations for Investment Project Financing (IPF) Borrowers – Procurement in IPF of Goods, Works, Non - Consulting and Consulting Services, (Regulations) issued in July 2016, revised November 2017 and August 2018. [www.worldbank.org/procurement](http://www.worldbank.org/procurement). The selection method used for this procurement procedure is Consultants Qualification Selection (CQS).

### 6. Consultant Qualifications

The Consultant should be a qualified firm or any form of association, joint venture or sub-consultancy that have demonstrated experience in conducting similar activities, including EE in the public and private sector, industrial energy efficiency , designing policy and financing mechanisms for EE, analysis of legal frameworks related to EE policy and funding, drafting legal acts and operational documents and

procedures for organisations and development of operational documents and procedures for organisations.

### Minimum Qualification Requirements

The consultant firm or any form of association, joint venture or sub-consultancy shall fulfill as a minimum the following requirements:

- (1) At least 5 years of experience in the consulting services provided in the energy efficiency area in different type of sectors (public, private), preparation of studies and analyses for energy efficiency in public and private sector, specific experience in designing implementation arrangements and financing mechanisms for EE, as well as specific legal expertise related to EE legislation and funding.
- (2) Specific experience in development of documents for establishment and operationalization of public or private agency similar to the EE Fund.
- (3) Minimum 5 project references in preparation of relevant studies and analyses for EE in public or private sector, designing policy and financing mechanisms for EE, analysis or drafting of legal frameworks related to the EE policy and funding and establishment and operationalization of public or private agency similar to the EE Fund.
- (4) Similar projects executed for (GoNM) institutions financed by international financial organizations is desirable .

### Key staff Qualification

For performing all services under this TOR the firm should appoint key staff members. The team should comprise at least 5 experts. During contract execution, no changes shall be made to the Key Experts, except as the Client may otherwise agree in writing. Such change shall be considered only based on the Consultant’s written request and due to circumstances outside the reasonable control of the Consultant, including but not limited to death or medical incapacity. In such case, the Consultant shall forthwith provide as a replacement, a person of equivalent or better qualifications and experience and at the same rate of remuneration. The following profiles are required:

Key Personnel Positions	Qualifications and Professional Background
Senior Legal Consultant (Team Leader)	<ul style="list-style-type: none"> <li>• Senior legal expert with strong background in international development projects in the field of EE.</li> <li>• Significant experience in drafting regulatory changes and drafting legal documentation in the fields of EE and financial institutions.</li> <li>• Significant track record in working on EE policy and improvement of the legal frameworks in the Western Balkans, preferably including North Macedonia.</li> <li>• Professional experience in the relevant field more than 10 years.</li> </ul>

	<ul style="list-style-type: none"> <li>• Working proficiency in English. Macedonian language would be an advantage.</li> </ul>
Senior Management Consultant and Financing Expert	<ul style="list-style-type: none"> <li>• Senior management consultant and financing expert with strong background in working on international development project, with IFIs, development banks, public agencies, and business enterprises.</li> <li>• Significant track record in working on EE financing policy and funding instruments in Western Balkans, preferably including North Macedonia.</li> <li>• Strong track record in preparation of strategic plans, feasibility studies and cost benefit assessments in similar sectors related to energy efficiency, energy infrastructure, and public and private development projects.</li> <li>• Significant experience in financial forecast modelling and business planning.</li> <li>• Solid background in organizational development and set-up.</li> <li>• Professional experience in the relevant field more than 10 years.</li> <li>• Working proficiency in English. Macedonian language would be an advantage.</li> </ul>
Senior International Expert in EE Policy and Finance	<ul style="list-style-type: none"> <li>• Senior international expert with strong background in working on international development project, with IFIs, development banks, public agencies, and business enterprises.</li> <li>• Track record in development of financing policy and strategic planning in the field of EE, preferably with experience in the EU or Southeast Europe Region.</li> <li>• Specific experience in development, establishment and operationalization of public or private agency similar to the EE Fund will be considered as advantage;</li> <li>• Professional experience in the relevant field more than 10 years.</li> <li>• Working proficiency in English.</li> </ul>
Local Legal expert	<ul style="list-style-type: none"> <li>• Good understanding of the legislative frameworks in North Macedonia in energy efficiency, banking and finance.</li> <li>• Background in working on international development projects and legislation drafting would be an advantage.</li> <li>• More than 7 years of professional experience.</li> <li>• Working proficiency in English and Macedonian language is required.</li> </ul>
Local EE Technical Expert	<ul style="list-style-type: none"> <li>• Local technical expert with proven background in EE consulting in regard to buildings, HVAC and industry, as follows: <ul style="list-style-type: none"> <li>— design and implementation of energy efficiency measures in public and residential buildings;</li> </ul> </li> </ul>

	<ul style="list-style-type: none"><li>— EE measures in HVAC, refrigeration, boiler plants, compressed air and automation;</li><li>— industrial EE related to electricity and power consumption, metering and controls.</li></ul> <ul style="list-style-type: none"><li>• Electrical engineers, mechanical engineers, and/or civil engineers/architects with more than 7 years of professional experience in EE consulting.</li><li>• Solid knowledge of the regulatory context relevant for EE in North Macedonia.</li><li>• Working proficiency in English and Macedonian language is required.</li></ul>
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