

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 14 July 2021<sup>1</sup>

**BOSNIA AND HERZEGOVINA  
RS ENERGY EFFICIENCY FUND**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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## ABBREVIATIONS / CURRENCY CONVERSIONS

BAM	Bosnia and Herzegovina convertible mark
BoD	Board of Directors
BiH	Bosnia and Herzegovina
Capex	Capital Expenditure
EE DSCR	Debt Service Coverage Ratio of Energy Efficiency Projects
E&S	Environmental & Social
EPC	Energy Performance Contract
ESCO	Energy Service Company
EU	European Union
EUR	Euro
FBiH	Federation of Bosnia and Herzegovina
FP DSCR	Financial Plan Debt Service Coverage Ratio
FY	Fiscal Year
GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
LT	Long Term
LTM	Last Twelve Months
m	Million
p.a.	Per Annum
REEP	Regional Energy Efficiency Programme for the Western Balkans
RS	Republika Srpska
RS Government	The Government of Republika Srpska
SSF	Shareholder Special Fund
ST	Short Term
TC	Technical Cooperation
YoY	Year-over-Year

### Currency conversions (as of 5 May 2021)

1 Euro (EUR) = 1.20 US Dollar (USD)

1 Euro (EUR) = 1.96 Bosnian Convertible Marks (BAM)

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Environmental Protection and Energy Efficiency Fund of Republika Srpska (“RS EEF” or the “Fund”), established as a legal entity with public authority by the Government of Republika Srpska (“RS”) in Bosnia and Herzegovina (“BiH”), are submitted for consideration by the Board of Directors.

The facility will consist of a senior loan of up to EUR 4.5 million to the Fund to finance implementation of energy efficiency (“EE”) measures in up to 20 public buildings in RS (the “Project”), with a focus on schools and hospitals. The Project introduces non-recourse utility lending and will help strengthen institutional capacity and procedures for sustainable and efficient infrastructure asset management in RS. The Project will be co-financed with an investment grant of up to EUR 1 million from the European Union (“EU”) through the Regional Energy Efficiency Programme (“REEP”).

The expected transition impact of the Project stems primarily from the *Green* transition quality under the Bank’s Green Economy Transition (“GET”) approach as 100% of the use of proceeds will contribute to energy efficiency improvements the public buildings, resulting in significant reduction of CO<sub>2</sub> emissions. The second transition quality is *Resilient* as the Bank’s loan will be the Fund’s first commercial financing.

During the course of the Project, the Fund will deliver trainings for energy managers (the “Energy Managers”) which will be tasked to monitor the energy efficiency of each of the 20 refurbished buildings. The Bank will help the Fund ensure gender parity in access to this training and women will comprise 50% of the trained Energy Managers. The training will be available to a greater number of interested participants ensuring readily available energy managers which would facilitate replication of other similar projects in the future.

Technical cooperation support in the amount of EUR 0.6 million has been provided by the Bank’s Shareholder Special Fund (“SSF”) and Austrian Drive Fund for environmental and social due diligence, feasibility study and project preparation.

I am satisfied that the operation is consistent with the Bank’s Strategy for BiH 2017-2022 , with the Bank’s Municipal and Environmental (“MEI”) Sector Strategy 2019-2024, with the Bank’s Green Economy Transition Approach 2021-2025 , and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report on a no objection basis.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

BOSNIA AND HERZEGOVINA - RS ENERGY EFFICIENCY FUND - DTM 51605	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a senior loan of up to EUR 4.5 million in favour of the Environmental Protection and Energy Efficiency Fund of Republika Srpska ("RS EEF" or the "Fund"), supported by a project support agreement with the Government of Republika Srpska ("RS Government") to finance implementation of energy efficiency ("EE") measures in up to 20 public buildings (i.e. schools and hospitals) in RS (the "Project"). The Project will be co-financed with an investment grant from the European Union's REEP in the amount of up to EUR 1 million.
<b>Client</b>	<p>The client and the borrower is the RS EEF, established as a legal entity with public authority by the RS Government, who is the sole shareholder. It is managed under the Law on the Fund and is supervised by the Ministry of Spatial Planning, Construction and Ecology.</p> <p>The main activity of the RS EEF is to finance programmes, projects and studies related to environmental protection and energy efficiency (mainly in form of grants and subsidies) in line with a previously approved budget.</p>
<b>Main Elements of the Proposal</b>	<p><u>Transition impact</u>: Primary Quality – <i>Green</i>; Secondary Quality – <i>Resilient</i></p> <p><u>Additionality</u>  <i>Financing structure</i>: The Bank will provide necessary long-term financing whose grace period and tenor are above market average.  <i>Standard-setting: helping projects and clients achieve higher standards</i>: The Bank will provide support to achieve gender parity in trainings of new Energy Managers.</p> <p><u>Sound banking</u>: The Fund has stable revenues from various taxes related to environmental protection and energy efficiency. The Project will generate additional revenues from energy savings achieved through EE measures, which will contribute to the financial independence of the Fund in the future.</p>
<b>Key Risks</b>	The collection of tax revenues has been identified as the key risk for the Fund. [REDACTED] Moreover, financial covenants will be in place to closely monitor the liquidity and collection rate of the Fund. [REDACTED]
<b>Strategic Fit Summary</b>	The Project is in line with EBRD Country Strategy for BiH 2017-2022 which identified improving energy efficiency as one of the key objectives. The Project is consistent with the Bank's Municipal and Environmental ("MEI") Sector Strategy 2019-2024 which sets the improvement of energy efficiency in public building. It is also fully in line with the Bank's Green Economy Transition ("GET") approach 2021-2025.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

**ADDITIONAL SUMMARY TERMS FACTSHEET**

<b>EBRD Transaction</b>	Up to EUR 4.5 million senior loan to RS EEF supported by a project support agreement with the RS Government to finance implementation of energy efficiency ("EE") measures in up to 20 public buildings including engineering supervision (the "Project"). The Project will be co-financed with an up to EUR 1 million investment grant from the EU under REEP.
<b>Existing Exposure</b>	None. This is the first transaction with the Borrower.
<b>Potential AMI eligible financing</b>	None.
<b>Use of Proceeds</b>	<p>The proceeds of the loan will be used to finance installation of EE measures in up to 20 publicly owned buildings in order to achieve reduction of energy consumption and energy cost savings. The proposed measures include thermal insulation of external walls, thermal insulation of roofs, replacement of windows, installation of high-efficiency lighting and heating and ventilating upgrades including replacement of inefficient and/or coal fired boilers and thermostatic valve installation. The overall energy savings are 78%, with carbon reduction savings [REDACTED]. For each building selected for the Project, an energy manager will be hired and trained to monitor the energy performance of the refurbished buildings. The Project also includes further development of an integrated EE information system and EE database for monitoring energy consumption. In addition, after the implementation of measures, the EPC energy class of each building will increase by at least 2 levels, whereas for certain buildings it will increase by 4 levels.</p> <p>The project will be subject to EBRD Procurement Policies and Rules. Use of proceeds will be controlled through the provision of documentary evidence approved for disbursement purposes by an independent supervision engineer. The Project will be monitored through quarterly progress reports and regular client meetings. The effects of the implemented energy efficiency measures in each of the buildings will be confirmed by Energy Efficiency Certificate after the completion of works.</p>
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<p>The Fund</p> <p>The RS Government</p> <p>The Ministry of Spatial Planning, Construction and Ecology of RS</p> <p>EU REEP</p>
<b>Conditions to disbursement</b>	<ol style="list-style-type: none"> <li>1. The Security has been validly created and perfected [REDACTED]</li> <li>2. Signed relevant Project Agreements [REDACTED];</li> <li>3. The Project Implementation Unit (the "PIU") has been established [REDACTED]</li> </ol>
<b>Key Covenants</b>	[REDACTED]
<b>Maturity / Exit / Repayment</b>	13 years [REDACTED]
<b>Security / Guarantees</b>	[REDACTED]
<b>Other material agreements</b>	- Project Support Agreement between the RS Government and the Bank [REDACTED]

	- Grant Agreement between the Borrower and the Bank for the EU REEP investment grant.
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	<p><b>A. Technical Cooperation (TC)</b></p> <p><b>Pre-signing:</b>  <b>TC1:</b> Environmental and social due diligence. The cost of the assignment was EUR 24,950 and was financed by the Shareholder Special Fund (“SSF”).  <b>TC2:</b> Feasibility study. The cost of the assignment was EUR 74,500 and was financed by Austrian DRIVE Fund.</p> <p><b>Post-signing:</b>  <b>TC3:</b> Project preparation support - preparation of detailed energy audits and design, and technical specifications for preparation of tenders for EE measures in the selected 20 publicly owned buildings. The estimated cost of the assignment is EUR 497,400 and will be financed by the SSF.</p> <p><b>B. Co-investment grants / Concessional Finance (Non-TC)</b></p> <p>The Bank will seek to mobilise investment grant funds of up to EUR 1 million from the EU through REEP.</p> <p><b>Reimbursement:</b> The above assignments are non-reimbursable transactional TCs required to evaluate the investments and assist the Client in project implementation.</p> <p><b>Cost sharing:</b> The Fund will be responsible for paying all VAT and other indirect taxes that are applied to the post-signing TC assignments, thus providing a parallel cost sharing contribution to the Project (VAT is levied at 17% in BiH). Additionally, the Fund will provide in-kind support in the form of office space, communication connections, etc., for the consultants to work, presumed to amount to 3 per cent of the total TC budget. Furthermore, the Fund will cover the costs of preparation and implementation of the Project in the amount of EUR 625,000.</p>

[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 PROJECT AND STRATEGIC CONTEXT

BiH has one of the most energy and carbon intensive economies in the region. Due to inefficient insulation, obsolete heating systems and inadequate lighting, buildings in BiH consume more energy per square meter compared to countries in similar climates. Many public buildings throughout BiH are severely under-heated during winter due to high heat losses and require full thermo-modernisation. There are some 7,600 public buildings in BiH, requiring [REDACTED] energy efficiency investments.

The objective of the Project is to help create a long-term strategic approach to increase energy efficiency in public buildings, which will reduce costs and make users of these buildings more comfortable for users, given the focus on schools and hospitals. Moreover, upgrading publicly owned buildings will send a strong signal to private building owners.

The technical analysis carried out for the Project included an estimate of the total energy savings potential coupled with estimated investments per building. Selected EE measures correspond to the minimum energy performance requirements for retrofits according to the national regulations. An optimal package of measures was selected for each of the 20 selected buildings out of the 30 proposed based on the results of previously performed multi-criteria analysis. These measures include facade insulation, ceiling/roof insulation, new energy efficient boilers, thermostatic valve installation and high efficiency lighting fixtures and these technologies have very low market penetration rates in RS. The due diligence findings for the selected 20 buildings are shown in the table below. More details are provided in *Annex 3*. [REDACTED]

BiH's Framework Energy Strategy, which runs until 2035, emphasises the need to improve energy efficiency in buildings, identifying that the lack of data on public buildings is one of the major obstacles. The strategy also recommends the following measures: Development of programs for long-term renovation of buildings, preparation of cost-optimal methodologies for all categories of buildings and introducing energy management. Two of these three recommendations will be implemented by the Project. RS is in the process of developing a building renovation strategy to further outline needed measures, which further complements the objectives of this Project.

The subjects of previous energy efficiency programs implemented in the public sector in RS were schools, hospitals, preschool institutions and, to a lesser extent, other public buildings. These buildings were built several decades ago and no interventions have been performed on them in the meantime. These buildings are characterised by an increased energy consumption for heating and generally poor living conditions for their users, especially in the case of educational institutions. Most buildings in RS do not have adequate thermal insulation and exterior joinery, or energy efficient heating systems. Therefore, the largest number of interventions to improve energy efficiency in public buildings refers to these measures.

The Project is in line with the EBRD Country Strategy for BiH 2017-2022 which identified improving energy efficiency as one of the key objectives. The Project is consistent with the Bank's Municipal and Environmental ("MEI") Sector Strategy 2019-2024 which sets the improvement of energy efficiency in public building as one of the priorities. It is also fully in line with the Green Economy Transition ("GET") approach 2021-2025 which supports Sustainable Development Goals ("SDGs"), particularly SDG 3. Good Health and Well-being (for air quality gains), SDG 4. Quality Education, SDG 5. Gender Equality, SDG 7. Affordable and Clean Energy, SDG 9. Industry, Innovation and Infrastructure, and SDG 12. Responsible Consumption and Production.



## 1.2 TRANSITION IMPACT

The objective of the Project is to channel the use of proceeds through the RS EEF towards financing energy efficiency measures in 20 existing publicly owned buildings to demonstrate the viability of financing the upgrade and refurbishment of buildings to the private sector, while alleviating the upfront cost of financing by utilising an EPC (energy performance contract) model to use energy cost savings to pay back the initial capital investment.

The Project will support the **Green TI quality** by contributing to climate change mitigation in the building sector, which will result in overall energy savings up to 78% and carbon reduction [REDACTED]. It is expected that after the implementation of the energy efficiency measures (including around insulation, boilers and efficient light fixtures), the EPC energy class of each building will increase by at least 2 levels and by 4 levels for certain buildings, which goes significantly beyond national requirements. This is due to the multiple measures to be implemented at each building level in line with the priority areas identified in the EU Renovation Wave. The overall energy savings are estimated to be up to 35% (after sharing 50% of the savings with the Fund) which is above the 30% threshold in EU Taxonomy criteria for sustainable finance. Such energy-efficiency renovations are considered crucial for making Europe climate-neutral by 2050. The Project further proposes a **green innovation uplift** based on the novel business model linked to legal contracts that will commit the owner of the building to share 50% of energy savings and financing structure that will allow owners to pay back the certain amount of investment to the Fund through reduced energy costs, similar to certain ESCO models.

The Project is also expected to support the **Resilient TI quality**, since this is the first commercial loan to the Fund and the Project should result in a new revenue stream from the energy savings of the buildings.

### Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 50% or higher.</i>	GET share is 100% as confirmed by GET Clearing House. All Bank's loan proceeds will be used for financing the installation of energy efficiency measures in up to 20 buildings in order to achieve the reduction of energy consumption of 78%. In addition, the project will result in an improvement of two energy classes for Energy Performance Certification. The Project will also be supported by the REEP with EUR 1.0 million for capex.
1.2	<i>The project introduces significant innovation in business models, which fulfils the following three conditions: a) It helps accelerate the uptake of environmentally friendly products and technologies by overcoming social and economic barriers; b) It is novel in the relevant market;</i>	This is the first time in the country that a fund of this type is investing to produce revenue streams on a commercial basis. The project will introduce a new revenue stream [REDACTED] which will help to improve financial sustainability and independence of the Fund. The project introduces significant innovation in business models linked to the following areas: - <b>Accelerates uptake of EE technologies:</b> The RS EEF will demonstrate the viability of investing in high efficiency EE technologies in 20 public buildings in RS through offering an innovative financing model. The Fund will act as a mediator between the sources of finance and their implementation with the financing based on Energy Performance Contracts model. After implementation, users of buildings will generate savings through reduced energy costs [REDACTED]. EU Renovation Wave implemented with the help of the Energy Community will assist the Western Balkans in the decarbonisation of its public and private building stock. The EU together with international financing institutions, will aim to triple the current renovation rate and energy savings in existing buildings in Western Balkan.

	<i>and c) It is replicable by other market participants.</i>	<ul style="list-style-type: none"> <li>- <b>Novel:</b> This type of Energy Efficiency Fund transactions is a novel business model and first of its kind not only in the RS, but also in the Western Balkan region.</li> <li>- <b>Replicable:</b> This model is aimed at demonstrating the replicability of the model to market participants in the BiH and the Western Balkan region. Following a successful utilisation, it is expected that RS EEF will continue implementing projects on similar basis and even go a step further and act as a mediator for private sector investors by acquiring already implemented projects. This will directly address the main barriers to private sector.</li> </ul>
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### Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	<i>The project introduces sub-sovereign project financing as one of the first five times in the country.</i>	The bulk of EBRD's lending to support infrastructure in Bosnia and Herzegovina has been at the sovereign level. EBRD's loan will have an important demonstration effect.
2.2	<i>First in the country - The project and associated TC support will help building necessary institutional capacity and procedures for sustainable and efficient infrastructure asset management as one of the first three times in the country.</i>	By adopting the Rulebook on registration of the status of energy efficiency in (public) buildings and establishing of the database on energy efficiency, the Fund will increase its institutional capacity for efficient asset management. This would be the first database of this type in the country.

### 1.3 ADDITIONALITY

Identified triggers	Description
<i>No triggers identified</i>	<i>n/a</i>

Additionality sources	Description of additionality sources
<b>Financing Structure -</b> EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions [REDACTED]. Such financing is necessary to structure the project.	The EBRD's loan offers terms that are not available from local commercial banks including the volume [REDACTED] and tenor, without which the Fund will not be able to structure the Project. [REDACTED]
<b>Standard-setting: helping projects and clients achieve higher standards</b> Client seeks/makes use of EBRD expertise on higher inclusion, and gender standards and/or equal opportunities action plans.	BiH is characterised by overall low participation and employment rates of women in comparison to men. The gender gap is particularly highlighted in the construction and energy sector and is especially evident at managerial positions [REDACTED]. In the course of the Project, the Fund will deliver training for Energy Managers which will be tasked to monitor the energy efficiency of each of the twenty refurbished buildings. Gender parity in access to this training shall be ensured and women will comprise 50% of the trained Energy Managers. The training will be available to a greater number of interested participants (beyond the twenty that will be engaged) ensuring readily available energy managers incentivising market participants to replicate the Project.

### 1.4 Sound Banking - Key Risks

Risks	Probability / Effect	Comments
Risk of the Borrower	High / High	This is the Bank's first loan to the Fund. Historical financials indicate that the Fund has satisfactory debt service capacity [REDACTED].  The collection of tax revenues has been identified as the key risk, which will be mitigated by the Project Support Agreement with the RS Government [REDACTED]. Moreover, financial covenants will be in place to closely monitor the liquidity and collection rate of the Fund. [REDACTED]
Implementation risk	High / Low	This will be the first energy efficiency improvement project implemented by the Fund on commercial basis. Previously, the Fund implemented similar projects but with the grant financing from the UNDP and on a smaller scale. The Client will be supported by consultants during both procurement and implementation stages of the Project. Moreover, a loan-funded supervision engineer will help mitigate the implementation risk.
Performance risk	Medium / Low	Energy audits will confirm the savings potential for the Project. [REDACTED] Project implementation support consultants will monitor and verify the energy savings for each building before the release of the final payments to the contractors. However, the Fund's debt repayment capacity is deemed acceptable [REDACTED]
Macro-economic risk	Medium / Low	[REDACTED] The pandemic induced crisis resulted in lower economic activity overall [REDACTED]  A recovery from the crisis is expected in the short term, while in the medium term, growth prospects could be enhanced if governments at all levels step

		up implementation of the ambitious reform agenda and if the EU approximation process advances further. In any case, the Fund's revenues are deemed relatively inelastic to changes in the economic activity. Therefore the impact of this risk is considered to be low.
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## 2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of the project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> <li>- Enhancement of the sector of energy efficiency in buildings</li> <li>- Improved energy performance of the public buildings</li> <li>- Better financial performance of the Fund</li> </ul>	<ul style="list-style-type: none"> <li>- Adoption of the rulebook and establishment of the database</li> <li>- Successful project implementation</li> <li>- Project completion within the timeline and the budget</li> </ul>	[REDACTED]

Physical implementation will be pivotal for the delivery of the TI objectives since energy efficiency measures are to be implemented in 20 public buildings. The Fund will use EUR 500,000 of the Loan proceeds to finance project implementation assistance consultants in order to mitigate the implementation risk. The PSA with the Sponsor will also help mitigate transition risk.

### Primary Quality: Green

<b>Obj. No.</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Due date</b>	<b>Donor</b>
1.1	CO <sub>2</sub> e emissions reduced (tonnes/ year)	The Project will result in estimated average annual savings of 78%, which corresponds to around 12,785 MWh per annum and carbon emission reduction of 2,953 tCO <sub>2</sub> e per annum.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Practices of the relevant stakeholder improved (innovative green business model)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### Secondary Quality: Resilient

<b>Obj. No.</b>	<b>Monitoring indicator</b>	<b>Details</b>	<b>Baseline</b>	<b>Target</b>	<b>Due date</b>	<b>Donor</b>
2.1	New financing instrument or method introduced: infra financing instruments.	This is the first commercial loan to a fund of this type in the country with interest margin tied to the Fund's performance [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

2.2	Practices of the relevant stakeholder improved (operational).	Rulebook on registration of the status of energy efficiency in (public) buildings and database of EE in public buildings established.	[REDA CTED]	[REDA CTED]	[REDA CTED]	[REDA CTED]
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### 3. KEY PARTIES

#### 3.1 BORROWER / INVESTEE COMPANY

RS EEF was established in 2011 as a legal entity with public authority by the RS Government, managed under the Law on the Fund and is supervised by the Ministry of Spatial Planning, Construction and Ecology that is responsible for environmental protection. The Fund's management board is composed of three members (current ministers in the RS Government) appointed by the RS Government for a term of three years. The Fund has 33 employees. The director of the Fund is appointed by the RS Government under a competitive process.

The Fund will be the central vehicle through which the RS aims to improve EE in public buildings and implement other environment protection activities, including the circular economy initiative of the EU. The main activity of the Fund is to finance programs, projects and studies related to environmental protection and energy efficiency in line with the previously approved budget by the RS Government. The Fund's revenue is derived from taxes and levies for renewable energy, air pollution, water protection and packaging waste. Other activities include inter alia an intermediation role in the processes of external financing of EE and environmental projects, continuous monitoring of programs and undertaking projects and other activities.

Given the strategic importance of the Fund for the implementation of the environment protection activities in RS and the increasing importance of such actions on the back of circular economy and the decarbonisation initiatives, it is envisaged that existing taxes and levies will continue and new ones introduced. For more details on the Fund's operations, please see *Annex 1 – Fund's Operations and Historical Performance*.

#### 3.2 SPONSOR

The sponsor is the RS Entity Government, one of the two entities that make up the State of Bosnia and Herzegovina. The RS Government is represented by the Ministry of Spatial Planning, Construction and Ecology. As at 31 January 2021, the total Bank portfolio in BiH stood at EUR 1.3 billion of which EUR 263 million (or 20%) was private. The majority of public exposure in BiH (80%) relates to transport projects, predominantly Corridor Vc financing (EUR 614 million as at 31 January 2021), underlying the Bank's commitment to this key European transport corridor for both the country and the region.

RS is a sub-sovereign jurisdiction but due to the specific political structure of BiH, RS plays a significant role in managing its own taxes (energy, environment, etc.) and influencing tax policies at the state level. Moody's announced a B3 credit rating for RS in July 2020 in line with the sovereign rating of BiH.

According to the State agency for statistics<sup>3</sup>, RS generates ca. 32% of BiH's national GDP. However, RS historically makes up over 45% of the entire BiH debt, resulting in a less favourable 48% debt to GDP ratio for RS only. RS' consolidated debt includes all external and internal debt of

<sup>3</sup> BiH in figures 2020, [http://www.bhas.ba/data/Publikacije/Bilteni/2021/NUM\\_00\\_2020\\_TB\\_1\\_EN.pdf](http://www.bhas.ba/data/Publikacije/Bilteni/2021/NUM_00_2020_TB_1_EN.pdf)

the RS Government and of lower governmental levels (municipalities and cities) as well as state-owned enterprises.

	2016	2017	2018	2019	2020
RS' portion in BiH public debt	45.0%	45.0%	46.7%	48.0%	47.9%
RS external debt ratio	58.3%	59.6%	65.0%	63.4%	60.4%
GDP BiH (million EUR)	15,870	16,510	17,280	18,072	17,713
GDP RS (million EUR)	5,110	5,303	5,518	5,761	5,647
Debt/GDP for RS	<b>54.5%</b>	<b>47.8%</b>	<b>48.0%</b>	<b>47.8%</b>	<b>52.7%</b>

[REDACTED]

#### 4. MARKET CONTEXT

Heat and electricity have low prices which leads to a lack of investment in effective EE in public buildings. Investments in energy efficiency measures will not be cost-effective within a reasonable payback period due to the low energy prices. Electricity and gas prices in RS and B&H are among the lowest in Europe. The price of heat in the district heating system ranges from 0.43 - 0.89 EUR/m<sup>2</sup>. Heat in public buildings is often paid as a lump sum for some buildings, i.e. per square meter of heated area rather than metered. This means that heat is paid in the same amount regardless of consumption, and does not incentives investments energy efficiency. Individual metering is hence a prerequisite to further progressing EE measures in the country.

Public buildings are not well maintained and distribution losses of heat are high. Municipalities adopt budgets on an annual basis and cannot enter into long term obligations for the supply of energy. One of the measures for financing energy efficiency foreseen by the Law on Energy Efficiency of RS is establishing energy service companies ("ESCOs"). Although stipulated by law, the market of energy services has not yet developed in RS and the whole of BiH.

Measures to raise public awareness of energy efficiency, especially those in the building sector, were also included in the Energy Efficiency Action Plan of RS until 2018. [REDACTED]. In order to implement promotional activities on building renovation and energy efficiency in buildings, it is necessary to establish funding mechanisms which could finance the organisation and implementation of these activities.

The Law on Energy Efficiency stipulates that the Environmental Protection and Energy Efficiency Fund of RS should establish and maintain an energy efficiency database in order to ensure the highest level of information availability. [REDACTED] The Fund will, under this project, adopt a bylaw pursuant to which an energy efficiency database will be established and maintained, as well as put such a databases into operation. This will allow the general public to access information on implemented measures for building renovation. A brief survey in the construction industry related to Energy Performance Contracts ("EPCs") was undertaken in Sarajevo for a similar project. It showed that local construction companies are reluctant to take additional risks related to energy performance of refurbished buildings and mostly do not have the balance sheet required to undertake these.

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 FINANCIAL PROJECTIONS**

[REDACTED]

#### **5.1.1 Historical analysis and COVID-19 impact**

[REDACTED]

#### **5.1.2 Financial projections**

[REDACTED]

### **5.2 SENSITIVITY ANALYSIS**

[REDACTED]

### **5.3 Projected Profitability for the Bank**

[REDACTED]



## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Categorised B (2019 ESP) and Low-Medium risk as the environmental and social (“E&S”) risks are readily identifiable and manageable through the implementation of appropriate mitigation measures. The Project will have significant benefits related to energy efficiency measures and reduction in emissions. Measures include thermal insulation of external walls and roofs, replacement of windows, installation of high-efficiency lighting and heating and ventilation upgrades, which will result in estimated average annual savings of 78%, which corresponds to around 12,785 MWh per annum and carbon emission reduction of 2,953 tCO<sub>2e</sub> per annum. Environmental and social due diligence (“ESDD”) was carried out by independent consultants and included an audit of the Client’s capacity to deliver the Project in line with Performance Requirements (“PRs”) and assessment of the Project’s E&S risks. ESDD concluded that the Client currently has limited E&S and occupational health and safety (“OHS”) processes and no formalised environmental and social management systems (“ESMS”) or occupational health and safety management systems (“OHSMS”) in place; although there is a responsible person for management of environmental issues associated with projects the Client implements. There is a well-established human resources management system compliant with national legislation and ESDD has ascertained it is largely in line with PR2, the exception is a lack of formalised grievance mechanism. The Client will need to ensure contractors selected for the project implement the same labour standards, and this will be done through the construction environmental and social management plan (“CESMP”).

No significant issues are expected to arise in terms of pollution, as the works will be limited to retrofitting of existing construction stock in urbanised areas. Some noise, dust and construction waste may be generated during the course of project implementation. The CESMP will be developed and implemented by the Contractors; the Client will be required to review and approve the CESMP prior to start of construction. The CESMP will include construction health and safety and environmental plans and controls, plans for community health and safety, and emergency preparedness and response plans and labour management requirements.

While asbestos is unlikely to be present in the buildings, the Contractors will nevertheless be required to develop an asbestos management plan as part of the CESMP. None of the buildings are registered as cultural heritage and potential short-term disturbances to local users will be mitigated through the implementation of the CESMP. No loss of livelihood or other PR 5 related issues are anticipated during the retrofit of the construction stock.

An environmental and social action plan (“ESAP”) has been agreed to remedy the above-identified E&S issues, and it includes the following: provision of necessary local permits for the construction works, requirement that all building materials and equipment conform to relevant EU norms and standards; establishment of dedicated project implementation unit (“PIU”) to manage project E&S and OHS issues as well as establishment of integrated ESMS and OHSMS, including training of staff and contractors; development of employee and contractor grievance mechanism; requirement from contractors to prepare CESMPs, development of OHS risk assessments and emergency preparedness plan; requirement from contractors to ensure reinstatement of vegetation post-works and timely notification of potentially affected building users on works in line with the Stakeholder Engagement Plan (“SEP”).

The SEP and Non-technical Summary (“NTS”) which have been developed for the Project will be disclosed on the Fund’s and affected municipalities’ webpages and physical copies will be made available in their premises. The Bank will monitor project implementation through annual environmental and social reports provided by the Client, and site visits if necessary.



## 6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Fund, its shareholder (the RS Government), senior management and Board members. The review identified a number of integrity issues, but it was concluded that these are sufficiently mitigated that this project does not pose an unacceptable integrity risk to the Bank. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

## 6.3 OTHER ISSUES

**Concessional Finance** – The Project will be supported by a EUR 1.0 million investment grant provided by EU REEP, which comprises 18.2% of the total investment. The investment grant enhances project economics and enables an EE investment with higher standards than normally taken into consideration for EE investments in publicly owned buildings in the country. [REDACTED]

**ANNEXES TO OPERATION REPORT**

ANNEX 1	Historical Financial Statements
ANNEX 2	Project Implementation and Procurement Plan
ANNEX 3	Description of EE measures and list of public buildings
ANNEX 4	Transition Impact Scoring Chart

## ANNEX 1 – Fund’s Operations and Historical Performance

### 1.1 Fund’s Operations

The main activity of the Fund is allocation of funds to the beneficiaries in order to finance programs, projects and studies related to environmental protection and energy efficiency in line with previously approved budget.

Other activities include inter alia an intermediation role in the processes of external financing of EE and environmental projects, continuous monitoring of programs and undertaking projects and other activities. Revenues are generated through the collection of four types of fees as defined by the relevant laws and related decisions made by the RS Government, divided into two categories:

(1) Fees related to EE activities:

- *Renewable energy fees* (incentive fees for the production of electricity from renewable sources) – as defined by the RS Renewable Energy and Efficient Cogeneration Law (article no. 31), 10% out of the total surcharge that power distribution companies in RS, members of the state owned power utility– EPRS charges to the consumers (EUR 0.0038 per kWh consumed) are allocated to the Fund;
- *Air pollution fees* for motor vehicles (reintroduced in 2019) - in accordance with the RS Law on Air Protection (article no. 70) and related Decision made by the RS Government in December 2018 the Fund holds the total amount charged to the owners of motor vehicles, based on a detailed calculation considering the type of vehicle as well as the type of engine and motor fuel. These taxes range between EUR 1.0 and EUR 7.5 depending on the type of vehicle which are further adjusted by the predefined coefficient that starts at 1.0 for newer diesel and petrol engines and increases up to 2.0 for older engines. The coefficients for electric and hybrid vehicles are 0.7 and 0.2, respectively. [REDACTED]

(2) Fees related to environmental protection activities:

- *Water protection fees* - these fees are incorporated by the Law on Waters of RS (articles no. 189, 190 and 194) as per which the Fund is entitled to 15% of these fees collected by the RS Treasury. There are several categories and sub-categories of these fees that cover: (i) the use of water for different purposes (public utility, commercial, industrial and farming), (ii) the use of hydropower, (iii) extraction of materials from watercourses, (iv) water protection (waste waters and other types of pollution) and (vi) flood protection. The level of each of these fees are set by the RS Government on the proposal of the RS Ministry for Agriculture, Forestry and Water Management, the Minister of which is member of the Fund’s management board;
- *Packaging waste fees* - charged to registered payers on the basis of reports on waste produced, based on the Law on Waste Management and Law on the Fund and Financing the Environmental Protection in RS (article no. 63). As of recently, a new private waste operating companies have been established, which captures 90% of these fees.

The level of fund placements is fully under the management’s control but it is limited by the availability of funds (the accumulated uncommitted cash plus the funds available for placements in the current year), the purpose of funds and the Financial Plan, which is approved by the RS Government. The revenues from air pollution fees and renewable energy fees can only be invested in projects related to energy efficiency and air quality improvements, while the revenues from packaging waste fees and the water protect fees can only be invested in environment protection projects. [REDACTED]

When allocating funds to various projects, the Fund follows the guidelines stipulated by the Law on the Fund and on Financing of the Environmental Protection of the Republic of Srpska. According to these regulations, the Fund allocates funds mainly in the form of grants and subsidies through:

- Open competition announced by the Fund – a public call for submission of proposals for projects. The Evaluation Committee made up the Fund's employees reviews all proposals and prepares the evaluation report based on which the Management Board decides to award grants to applicants that meet the predefined criteria and up to the amount available for placement of funds;
- Decision of the RS Government on the allocation of subsidies – the RS Government can decide to support strategic initiatives by instructing the fund to place certain amount of funds available for placements into the specific projects, but within the budget from Financial Plan that was previously approved by the RS Government and in line with the Fund's charter;
- Decision of the Government of the RS on co-financing programs, projects and similar activities in the implementation of strategic documents of the Government of the RS;
- Based on the decision of the Fund Director, up to an individual amount of less than EUR 2,500.

The Fund's budget execution is subject to the review of National Assembly of RS on annual basis.

When it comes to projects in the field of energy efficiency, in addition to the above mentioned principles of allocation of resources, the Fund, has further developed criteria for selecting buildings where energy efficiency measures shall be financed by the Fund. These criteria include the following:

- Floor area of the building;
- Annual heating and electricity costs;
- Unit price of fuel used for heating;
- Unit price of electric power;
- Number of employees and number of users of the building;
- co-financing percentage share of the end user.

For the purpose of monitoring, verification and reporting, the Fund has established and maintains a database on energy efficiency in RS through the Energy Efficiency Information System (EEIS). The database contains data on energy efficiency measures and generated energy savings, as well as data on savings generated after the implementation of one or more energy efficiency measures.

In addition, the Fund implemented ISEM/EMIS, which after the implementation of measures continues to monitor energy consumption and prepare comparatives "before - after" review. Energy, costs and emission savings are based on the calculation of costs entered before and after the implementation of energy efficiency measures.

In accordance with the legal obligation it has, the Fund monitors the implementation of programs and projects in accordance with a concluded contract with the beneficiary of funds, regardless of the form of fund allocation. The Fund reviews all documentation related to the assessment of the investment feasibility and expected effects on the environment, i.e. energy efficiency, and monitors the intended use of the allocated funds. [REDACTED]

## 1.2 Historical Performance

[REDACTED]

## ANNEX 2 – Project Implementation and Procurement Plan

### **Procurement classification – *Public sub-sovereign***

[REDACTED] In accordance with the current EBRD Country Procurement Risk Index 2017<sup>4</sup>, Bosnia is allocated a “Moderate” level of risk to for all public sector projects. The index is based on the level of compliance with the EBRD Core Public Procurement Principles as assessed in the EBRD Public Procurement Assessment 2011 and adjusted to consider the scores from the Transparency International Corruption Perceptions Index 2017. In the particular case for Bosnia and Herzegovina, the Country risk assessment is also based on Transparency International Score.

#### **The Client’s Capacity assessment related risk: Moderate**

The Client has good in-house technical expertise related to infrastructure and facility management as well in the field of energy efficiency projects. However, the Client has a very low procurement capacity having a limited dedicated procurement department. The Client will delegate the implementation responsibility to a nominated Project Implementation Unit (“PIU”). Although the Client is familiar with the EBRD’s Procurement Policies and Rules (“PP&R”), the PIU lacks experience on international tendering which represents a moderate risk to efficient procurement of the expected works and services. An experienced PIU and supervision consultant will guide the client and the PIU through the preparation of detailed design and tenders, procurement process, contract administration and supervision of works to mitigate this risk. [REDACTED]

#### **The Contract’s Risk assessment: Moderate**

The contract proposed to be co-financed from the Bank’s loan and EU REEP Grant is detailed in the attached Procurement Plan. The support of experienced consultants who will conduct the energy audits and detailed designs will ensure that technical specifications, employer’s requirements and tender documents are suitable for open tendering and in accordance to the Bank’s PP&R, moreover that any procurement and contractual issues that may arise will be addressed in a professional and timely manner.

The nature of the works contract is generally considered of low complexity and has a relatively medium to low degree of implementation risk. This risk is mitigated by appointing an independent consultant to conduct the required energy audits of the selected buildings and prepare the technical specifications and employer’s requirements for the expected works. Moreover, a second independent consultant will support the client through the supervision, control and monitoring of the project along the entire project cycle.

#### **Project implementation arrangements:**

Achieving optimum results in energy efficiency projects can be challenging for growing economies with a small energy efficiency market. The client wants to replicate the best international practices and utilise performance-based contracts. It will be the first time that this kind of energy efficiency contract will be used in the region. To date, performed energy efficiency contracts have been based on simple works replacement and rehabilitation without performance targets proposed by the contractors. This can lead the path to a growing industry in the region as well as better project results.

In terms of implementation risks, the higher risk resides on the potential number of buildings to be rehabilitated which management in parallel may challenge the limited capacity of the PIU

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<sup>4</sup> [EBRD Country Procurement Risk Index 2017, Edition V.5 January 2017.](#)

and client, as well as the market appetite to participate in performance based contracts. To mitigate this risk, the PIU capacity will be strengthened by a donor-funded experienced consultant(s) along the entire project. The advance procurement consultant will assist the PIU during the selection process of the PIU Implementation consultant. It will ensure a faster mobilisation of the PIU implementation consultant, hence, faster implementation of the overall project.

The implementation consultant(s) will also assist the client in all aspects of procurement and implementation of the Project in accordance with the Bank's policies and support PIU in meeting requirements of various Financing Documents. When necessary, the consultant(s) will train the client and PIU staff in addressing the project procurement and implementation matters, ultimately, this consultant will assist the client with the preparation and completion of the required Energy Efficiency certificates.

### **Procurement arrangements:**

There is envisaged four works contracts for the reconstruction, rehabilitation or refurbishment of public buildings in the Republika Srpska to improve their energy efficiency. The contract will be co-financed by the proceeds of the Bank's loan and EU REEP grant. The envisaged works contract will be procured following open tendering procedures in accordance with the requirements of the Bank's PP&R for public sector operations. It is envisaged that the tender documents for the procurement of works will be based on the latest version of the Bank's standard tender documents for procurement of works.

The Project also envisages two technical cooperation contracts financed by the Loan and international donors. The first one will consist on an implementation consultant who will support the PIU by carrying out energy audits and detailed designs that client will use to obtain the required construction permits for each building and definition of employer's requirements for further preparation of the tender documents. The second assignment will conduct the required supervision services during the construction of the envisaged works along the entire project cycle. Lastly, the consultancy services will also cover the preparation and completion of the energy efficiency certificates for each of the involved buildings. There are also envisaged a series of consultancy services that will support the client during the project preparation such as advance procurement support for the preparation of tender documents as well as procurement assistance, or project design review and energy efficiency information systems. Those assignments are planned to be financed from the energy efficiency fund from RS.

All consultancy contracts will be procured following the provisions of the Bank's PP&R Section 5 (Procurement of Consultant Services).

The Procurement Plan below provides the procurement strategy and details of planned investment and consultancy assignments.

### **Additional information:**

The Contracts will be tenderer via the EBRD Client e-Procurement Portal ("ECEPP").

The Bank has also investigated, based on market research, the potential benefits of applying national procurement procedures or Simplified Open Tendering procedure. However, limited previous experience in contracts of similar nature have been identified in Bosnia within the last 5 years. Furthermore, the use of national procedures could involve higher implementation risks due to current divergences of the Bosnian National Procurement Law with best procurement practices and in special with procurement complaint review process. Further investigation will be conducted in relation to the use of the Simplified Open Tendering Procedures. [REDACTED]

### **ANNEX 3 – Description of EE measures and list of public buildings**

The following measures will be considered for energy efficiency improvements:

- Facade insulation,
- Ceiling/roof insulation,
- Replacement of facade joinery,
- Boiler replacement,
- Installation of thermostatic valves,
- Replacement of lighting fixtures.

The aim of the Project is to achieve energy savings, which will be reflected in reduction in heating costs, reduction in CO<sub>2</sub> emissions and reduced environmental pollution. The energy savings are expected to be about 71% compared to the baseline based on measurement or about 51% to the baseline based on invoices, which would produce carbon emission savings of 2,953 tCO<sub>2</sub>. [REDACTED]

## ANNEX 4 – Transition Impact Scoring Chart



\*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.