



UNITED NATIONS ENVIRONMENT PROGRAMME

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DIVISION ON TECHNOLOGY INDUSTRY AND ECONOMICS

Energy Branch – Renewable Energy and Finance Unit

THE BALKAN RENEWABLE ENERGY PROGRAMME (BALREP)

Call for Proposals

**Evaluation of Concepts for the Implementation of Financial Mechanisms for the
Development of the Solar Water Heating Market in Montenegro**

Table of Contents

Table of Contents	2
Acronyms	3
PURPOSE OF DOCUMENT	4
BACKGROUND	4
BUILDING ON THE EXPERIENCE OF THE MEDITERRANEAN RENEWABLE ENERGY PROGRAMME (MEDREP)	5
PROPOSAL	6
<i>Proposal Selection</i>	6
<i>Scope of work</i>	6
<i>Preparation of the market evaluation study</i>	7
INSTRUCTIONS TO BIDDERS	7
<i>Evaluation criteria</i>	7
<i>Study plan</i>	8
<i>Inputs required from UNEP</i>	8
<i>Bidders background</i>	8
<i>Budget</i>	8
<i>Terms and conditions</i>	8
<i>Submission of Proposals</i>	8
<i>For additional information</i>	9
ANNEX 1: ILLUSTRATION OF THE FINANCIAL SCHEME IMPLEMENTED IN THE PROSOL PROGRAMME IN TUNISIA	10

Acronyms

ANME	National Agency for Energy Conservation of Tunisia (Agence Nationale de Maîtrise de l'énergie)
BALREP	Balkan Renewable Energy Programme
CDM	Clean Development Mechanism
DTIE	Division of Technology, Industry and Economics
IMELS	Italian Ministry for the Environment, Land and Sea
MEDREP	Mediterranean Renewable Energy Programme
MMTE	Montenegrin Ministry of Tourism and Environment
RE	Renewable Energy
RFP	Request for Proposals
PROSOL	Programme Solaire Tunisien
SWH	Solar Water Heating
UNEP	United Nations Environment Programme

PURPOSE OF DOCUMENT

This document is a request for proposals (RFP) within the framework of the Balkan Renewable Energy Programme (BALREP) implemented by the United Nations Environment Programme (UNEP) and supported by the Italian Ministry for the Environment, Land and Sea (IMELS).

This RFP is issued by the Renewable Energy and Finance Unit of the Division of Technology, Industry and Economics (DTIE) of UNEP.

Proposals are sought for the evaluation of concepts for the implementation of financial mechanisms for the development of the residential and/or collective solar water heating systems market in Montenegro.

The primary target audiences of this RFP are:

- Renewable energy and finance experts;
- Renewable energy agencies;
- Finance consulting firms;
- Renewable energy finance consulting services.

Bidders are expected to have experience in the financing of renewable energy products and services, banking and/or public project finance in Montenegro, the Balkan region or other emerging and developing countries.

The study will prepare the ground for the implementation of one or more financial schemes in partnership with identified Montenegrin partners.

BACKGROUND

Programme Objective

The BALREP programme, together with the Mediterranean Renewable Energy Programme (MEDREP), falls within the scope of the World Summit for Sustainable Development Type II “Promotion of Renewable Energy in the Mediterranean Basin” initiative led by the IMELS. The programme aims at developing a vibrant, sustainable renewable energy market system in the greater Mediterranean and Balkan regions, removing project, policy and trade barriers and strengthening the market system, thereby contributing to climate change mitigation and to poverty alleviation through the provision of modern energy services to populations. The BALREP programme has three components: tailoring financial instruments and mechanisms to support projects; strengthening policy frameworks, and building a stronger private sector infrastructure.

Montenegro and the Republic of Albania are the first Balkan countries to benefit from BALREP. It is envisaged that in the future other countries will be included.

The objective of BALREP in Montenegro is to accelerate and sustain the renewable energy market through the adoption of residential and/or collective Solar Water Heating (SWH) systems. Support for the BALREP Finance component comes from IMELS.

“The Solar Water Heating Programme for Montenegro” will be jointly implemented by IMELS, the Montenegrin Ministry of Tourism and Environment (MMTE), the UNEP DTIE Energy Branch and the UNEP Regional Office for Europe (ROE).

Expected outcomes of BALREP in Montenegro:

- Enhanced clean energy consumption habits in selected regions for households and/or services;
- Increased demand for SWH systems thanks to the availability of attractive financing mechanisms for end-users;
- Increase in total installed SWH capacity and annual sales in Montenegro;
- Enhanced capacity of the supply chain to offer equipment and services which promote sustainable SWH market;
- Supply side entities adopting the proposed quality control schemes;
- High level of customer satisfaction with the SWH systems installed;
- Substantial amount of financing leveraged through new financing models specifically tailored for SWH market needs.

Lines of activities for BALREP in Montenegro

- Partnerships with local financial and public institutions;
- Technical assistance to develop financial incentives to remove the investment barriers and improve cost effectiveness;
- Capacity building activities to ensure the quality of equipment and installations;
- A certification and quality control scheme for SWH systems;
- Awareness raising campaigns;
- Development of a CDM project.

BUILDING ON THE EXPERIENCE OF THE MEDITERRANEAN RENEWABLE ENERGY PROGRAMME

BALREP shall focus and seek to replicate the combinations of measures tested and implemented by the Mediterranean Renewable Energy Programme (MEDREP) to promote the deployment of solar energy in Morocco, Tunisia and Egypt.

Launched in 2004 and supported by the IMELS, MEDREP was designed to develop the region’s renewable energy potential. Its finance component, the MEDREP Finance Initiative, implemented by UNEP, has been developing and testing different options to increase financing to clean energy projects in southern Mediterranean countries and to create sustainable markets for clean energy. MEDREP is primarily providing technical assistance to local financial institutions to build new portfolios of loans for the purchase and installation of renewable energy systems and understand the risks and benefits associated with the technologies.

MEDREP activities have included:

- Providing technical assistance in tailoring financial instruments and mechanisms to support renewable energy projects;
- Identifying the appropriate financial schemes in partnership with local financial institutions;
- Strengthening policy frameworks and overcoming barriers to renewable energy deployment;
- Building stronger private sector infrastructure;
- Developing carbon credits under the Clean Development Mechanism (CDM) established

under the Kyoto Protocol.

For illustration purposes, the PROSOL project in Tunisia, part of the MEDREP Finance initiative, is detailed in Annex 1. The MEDREP country reports can be accessed at <http://www.unep.fr/energy> .

The reasons behind the success of MEDREP which BALREP intends to replicate include:

- The support of the national authorities and the involvement of national public institutions, such as the Tunisian Ministry of Industry, Energy and Small and Middle Size Enterprises and the National Agency for Energy Conservation of Tunisia (ANME);
- The involvement of state power utilities such as STEG in Tunisia which enhances financial institutions trust as loan repayments are made through electricity bills (default in payments results in power cuts);
- The engagement of all stakeholders to the development of the SWH market: financial institutions, manufacturers, importers and installers of SWH, and national institutions;
- An attractive financial scheme for end-users (longer loan repayment periods at advantageous interest rates)
- The significant awareness raising, communication and training effort carried out.

PROPOSAL

Proposal Selection

Through this RFP, UNEP is seeking a proposal to assess the feasibility and sustainability of financial mechanisms to support the development of the solar water heating systems market for Montenegro

Examples of financing mechanisms under consideration are:

- An interest rate subsidy to facilitate the access to commercial loans for the purchase of SWH systems;
- A guarantee facility;
- Risk mitigation schemes such as the implication of the electricity utility company (see Prosol programme described in Annex 1);
- Mechanisms for buying-down transaction or/and capital costs e.g. subsidy of cost of equipment to lower purchase price.

Scope of work

Proposals are expected to cover the following:

- Market study for the SWH market (for both residential and collective installations) in Montenegro;
- Overview of the SWH sector finance in Montenegro;
- Design of financial mechanisms to support the development of the residential and services SWH markets;
- Identification of relevant partners and the articulation among them and suggestion of relevant financial contribution for each one of them;
- Stakeholder consultation and finalisation of financial mechanisms strategies based on the UNEP allocated budget for the financial mechanism;
- Recommendation regarding the most relevant approaches to use UNEP/MEDREP resources and the implementation of the recommended mechanisms in partnership with consulted stakeholders.

Preparation of the market evaluation study

The following are suggested stages for the preparation of the market evaluation study. Bidders are expected to propose detailed action plans.

1. Stage 1. Collect market information on the finance and renewable energy sectors in Montenegro.

- a) an overview of the banking system e.g. main banks, range of interest rates, existing public interest rate subsidies for households and services etc;
- b) a review of lenders and lending instruments for renewable energy, including an overview of debt instruments applied;
- c) review of governmental/bilateral/multilateral renewable energy financing programmes and of any other financial incentives promoting the use of renewable energy technologies;
- d) potential of any developing CDM activity in the country that could be packaged with renewable energy financing;
- e) an assessment of market failures and market barriers associated with renewable energy financing in Montenegro, if any.

2. Stage 2. Conduct a market study for residential SWH systems in Montenegro ^{*}.

- a) A review of small scale renewable energy projects/companies;
- b) Assess the demand for SWH systems and the most promising markets in the country based on income/revenues levels and energy consumption for both the residential and services markets;
- c) Evaluate the local supply of SHW systems and recommend the most appropriate distribution channels. Equipment providers can have an active role in the financial mechanism (see the PROSOL programme in Annex 1);
- d) Evaluate capacity building needs by the various SWH market stakeholders.

3. Stage 3. Scan the feasibility of recommended financial mechanisms.

Following a stakeholder consultation, a working brief will be prepared to provide a synthesis of the findings of the two previous stages and a detailed report on the potential project partners, possible financing mechanisms and associated activities, including a CDM project, which can be launched by UNEP. This report will form the basis of stakeholders' consultations to be conducted by UNEP following the study.

INSTRUCTIONS TO BIDDERS

Evaluation criteria

Proposals will be evaluated on the following criteria:

- Ability to conduct key consultations and work with UNEP to recommend financial schemes;
- Capacity to assist UNEP during a second project phase which would consist of consultations with stakeholders and following the progress of the project in the country during the implementation phase (under a new contract and TORs);
- Expertise in financial mechanisms and risk management for renewable energy products and services in the Balkan countries;

* A reference document “Renewable Energy Resource Assessment for the Republic of Montenegro” prepared in 2007 by the Italian Ministry for the Environment, Land and Sea, will be provided by UNEP.

- Representation/presence in Montenegro;
- Price;
- Timeframe.

The proposals will be evaluated by a review committee composed of representatives from the United Nations Environment Programme, the Italian Ministry for the Environment, Land and Sea and the Montenegrin Ministry of Tourism and Environment.

Study plan

The proposal should submit a study timeframe showing the key work activities and in accordance with the dates specified below:

Event	Date
Deadline for submission of proposals	16 January 2009
Proposal decision	January 2009
Contract awarded	February 2009
Progress report	February 2009
Final study report and recommendations	March 2009

Inputs required from UNEP

Should the bidder require any further input from UNEP to allow the work to be completed by the dates shown above, then any such input must be identified clearly in the proposal.

Bidders background

Bidders are kindly requested to include a short summary of past relevant work, achievements and references.

Budget

UNEP's budget for the study ranges from USD 5,000 to USD 8,000. This price only covers the above described tasks and does not comprise the consultancy services to be provided during the implementation of the financial mechanism and related project activities.

Terms and conditions

- There are no specific format and headings for the submission of proposals.
- Proposals and subsequent study reports should be drafted using the English language;
- Proposals shall indicate an appropriate price schedule and all prices shall be quoted in US dollars.
- UNEP will make no payment and no reimbursement of expenses related to the preparation of proposals.
- UNEP may at its own discretion extend this deadline for the submission of proposals.
- UNEP may at its discretion accept only part of the proposal
- The final selection of proposals will be in accordance with the proposals evaluation procedures of UNEP and UNEP's decision is final.
- Bidders are requested to complete a compliance statement with reference to the terms and conditions of contract.

Submission of Proposals

The deadline for submission of proposals is **16 January 2009.**
Five hard copies of the proposal should be sent to the following address:

UNEP - Division of Technology, Industry and Economics
Energy Branch - Renewable Energy Finance Unit
Attention: Ms. Fatma Ben Fadhl
Project Manager
15 Rue de Milan
75441 Paris Cedex 09
France

For additional information

Should any problems of interpretation arise in the course of drawing up the proposal, bidders may submit a written request by email/ fax/mail or call for further information:

Ms. Fatma Ben Fadhl
Project Manager
Email: fbenfadhl@unep.fr
Tel: +33 1 44 37 14 68; Fax: +33 1 44 37 14 74
UNEP Division of Technology, Investment and Economics
Energy Branch - Renewable Energy Finance Unit
15 Rue de Milan, 75441 Paris Cedex 09, France

Requests should be made no later than 10 calendar days before the deadline for the submission of proposals.

An electronic copy of this RFP can be downloaded from the website of the Ministry of Tourism and Environment of Montenegro at <http://www.gov.me/eng/mintur/> and from the website of the Ministry for Economic Development at <http://www.gov.me/eng/minekon/> or from the UNEP website at <http://www.unep.fr/energy>.

ANNEX 1: ILLUSTRATION OF THE FINANCIAL SCHEME IMPLEMENTED IN THE PROSOL PROGRAMME IN TUNISIA

Overview

PROSOL is part of the umbrella MEDREP Finance Initiative that is developing and testing different options to increase renewable energy finance to companies and projects in the Mediterranean region. The MEDREP Finance Initiative is supported by the Italian Ministry for Environment, Land and Sea and is a component of the larger MEDREP Programme which promotes the deployment of renewable energies and climate change mitigation in the Mediterranean region.

The PROSOL (“PROgramme SOLaire”) Programme has been implemented from 2004 to 2007 in Tunisia to develop the residential solar water heater market. In addition to UNEP and the Italian Ministry, the Programme partners were the Tunisian Ministry of Industry, Energy and Small and Middle size Enterprises and the National Agency for Energy Conservation of Tunisia (ANME).

The development of the residential solar water heater market in Tunisia was articulated around several components:

- a comprehensive communication and awareness raising campaign targeted at the general public,
- capacity building for the benefit of solar water heater providers and installers, and deployment of a certification scheme,
- a 3-tier financial scheme making the solar water heaters both cheaper and easier to purchase for retail end-users.

Financial Scheme

UNEP’s approach was to find ways to turn the commercial finance sector into an ally to promote clean energy and offer technical support to design a financial mechanism which could address the front-end barrier that hinder the development of the solar market: the high cost of the solar water heaters.

The multi-stakeholder scheme designed by UNEP comprised 3 main features:

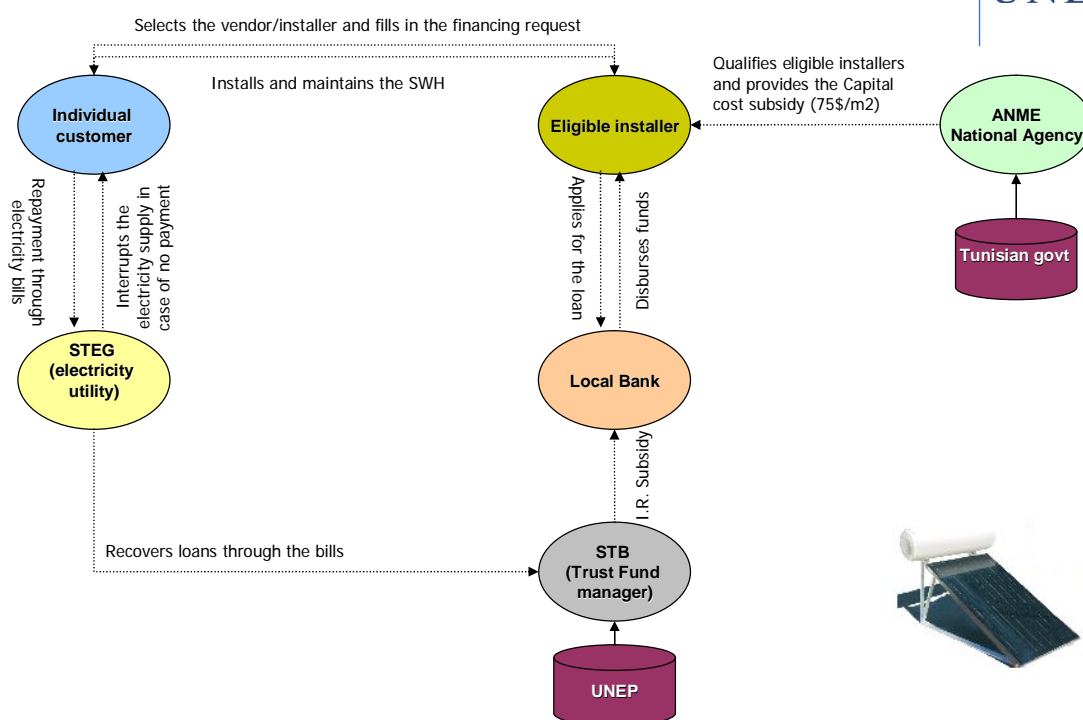
- ***a loan mechanism over a 5-year term offered by commercial banks to end-users*** with loan repayments being made through the State electricity company bills. The electricity company can interrupt the electricity supply if the loan repayments are not made and the bill not paid. The scheme was constructed so that the reduction in the user’s electricity bill induced by the use of the solar water heater was equal to or higher than the loan repayments, actually providing end-users with the opportunity to save money even during the initial loan period;
- ***a capital cost subsidy for each solar water heater provided by the Tunisian government*** representing 20% of the system cost or 75\$ per square meter. What was initially a temporary measure funded by the Italian ministry aiming at priming the market was later made permanent by the Tunisian government, solar water heaters became eligible for the energy subsidy that previously was provided only to LPG (Liquefied Petroleum Gas);
- ***discounted interest rates on the loans***, resulting from on one hand the involvement of the State utility which, by reducing the risk of default for the commercial banks, helped them

lower interest rates from 13 to 7%, and on the other hand from a subsidy from UNEP and the Italian sponsor which resulted in a fully discounted interest rate for the end-user for an initial period. The later subsidy was progressively phased out as the market developed with no impact on the sales of solar water heaters. Banks continued to successfully offer loans on lower interest rates as a result of the involvement of the electricity company.

A wide range of stakeholders were involved in the financial mechanism as summarized in the figure below. They included:

- Eligible solar water heater installers.
- STEG, the State electricity company,
- a State-controlled finance institution, the Société Tunisienne de Banque (STB),
- 2 local commercial banks: UBCI and Amen Bank,

PROSOL financial scheme



The various stakeholders played the following roles:

- The eligible solar water heater installers
 In addition to installing and maintaining the equipments, the eligible solar water heater installers played a key role in the scheme, directly receiving from ANME the capital subsidy for each system sold, and acting as a financial intermediary, their end-user clients applying for their loan with them;

- STEG, the State electricity company
STEG agreed to offer the facility of the electricity bills as a support for the repayment of the loans, de facto providing additional guarantees to the commercial banks providing the loans, the electricity company being able to interrupt the electricity supply were the loan repayments not made;
- The State-controlled finance institution, the Société Tunisienne de Banque (STB)
STB acted as a Trust fund manager for the interest rate subsidy offered by the Programme to the purchasers of solar water heaters (see below). It also acted as an agent, receiving the loan repayment amounts collected by STEG, the electricity company, and transferring those to the participating commercial banks; Add details on the partnership agreement signed
- The local commercial banks
Two Tunisian commercial banks agreed to participate to the Programme, offering loans to the solar water heater installers on behalf of their customers, and agreeing to the repayment scheme through the customers' electricity bills;

The role of UNEP

UNEP major role was to design the programme and its financial scheme, and organize the stakeholders' consultations which made it possible to implement them. It also provided, through the Italian funding, an interest rate subsidy for the benefit of the end-users who were able to borrow at a 0% interest rate for the first period of their loans down from the 7% rate offered by the commercial banks.

PROSOL Conclusions

PROSOL achieved some notable success with more than 20,000 Tunisian families getting their hot water from solar systems, thanks to loans provided by commercial banks for the equivalent of \$13 million in 2005/2006, a substantial leverage to the \$2.5 million initial cost of the Programme. It also contributed to the social and economic development with the creation of approximately 300 new jobs, in a country where the unemployment rate is high.

PROSOL led to the installation of 18,400 SWH systems between 2005 and 2006, equivalent to 57,000m² or 50% of the total capacity installed in the country from 1985 to 2004. It helped avoid 19.7 million of Tunisian dinars (approx. US\$17 million) of public LPG subsidies, contributing to avoid 214,000 tonnes of cumulative CO₂ emissions. In just three years, PROSOL helped rebuild a market

3 key factors contributed to the PROSOL success:

- the involvement of the Electricity company de facto providing additional guarantees to the commercial banks which in turn were in a position to offer lower rates on the loans offered to the equipment purchasers;
- The comprehension communication and awareness raising campaign around the “buy cheaper... pay easier” slogan;
- The provisional interest rate subsidy offered by the Programme which primed the market and was subsequently phased out when the solar water heater market developed.

The Programme also acted as a driver for policy change. The Tunisian government enacting by law capital cost subsidies, reduced customs duties and VAT exemption for the solar water heaters. PROSOL had a successor programme launched in 2007, entirely managed by local

actors, with even more ambitious objectives in terms of market development. A Clean Development Mechanism (CDM) of the programmatic type has been developed as part of this successor programme.