



# USAID-FUNDED PRESENT AND FUTURE REGIONAL ACTIVITIES IN EUROPE & EURASIA ENERGY SECTOR

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24<sup>th</sup> Energy Efficiency Coordination Group Meeting  
18 November, 2020

## CONTENT:

- ***USAID ongoing regional activities in energy and infrastructure***
- ***New regional project***
- ***Future activities under the energy bridge***
- ***Gap analysis of the housing sector EE in Western Balkan countries***
- ***Study findings and recommendations***

# USAID Ongoing Regional Activities in Energy and Infrastructure

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## **Energy Technology and Governance Program (ETAG) - USEA, (till 2022)**

- Supporting establishment of competitive and transparent energy markets that are integrated with Europe
- Diversification of energy supply and investment in aging infrastructure
- Protecting critical infrastructure from cyberattacks

## **Enhancing Stability and Technical Expertise in Energy Markets (ESTEEM) – NARUC (till 2022)**

- Provides assistance in regulatory issues, developing guidelines
- Establishing regulator's role in promoting cybersecurity, service quality bench-marking,
- Tariff design, capacity building

## **Residential Energy Efficiency for Low Income Households (REELIH) - Habitat for Humanity (till 2021)**

- Pilot energy efficiency projects in multi-apartment buildings,
- Technical assistance in development and implementation of projects,
- Development and testing options for sustainable financing of energy efficiency investment in multi-apartment buildings.

## **Development of Regional Energy Markets (DREM) - Tetra Tech (till 2021)**

- energy sector reform, utility management, environmental resource management
- Regional energy planning, trade and energy security, energy efficiency
- Support for Infrastructure Investment

## **Enhancing Capacity for Low Emission Development Strategies (EC-LEDS) – RTI (till 2020)**

- Energy Efficiency in residential sector in Western Balkan countries
- Energy/Water Nexus activities in Western Balkans
- Communications on USAID assistance – 20+ year history

# New Regional Project



## ENERGY BRIDGE PILLARS

### COMPETITIVE ENERGY MARKETS INTEGRATED WITH EUROPE

*The Bridge builds the capacity of partner countries to transform domestic energy markets into exchanges where energy is competitively and transparently traded regionally and with central European markets*

Structuring competitive power exchanges and merging energy markets throughout the region

Developing regional and national energy policies and regulations to promote transparency and fair competition

Building platforms to enable consumer choice for natural gas and electricity supplies

### INFRASTRUCTURE INVESTMENT

*The Bridge facilitates investment to diversify regional energy supplies, replace aging power generation assets, and upgrade critical infrastructure to improve reliability and security*

Prioritizing natural gas and electricity system investments through collaborative multi-country network development planning

Providing pre-feasibility studies, financial and technical analyses, and transaction support for energy and infrastructure investments

Linking U.S. product and service providers to regional counterparts seeking next generation tools and expertise

### CRITICAL INFRASTRUCTURE PROTECTION

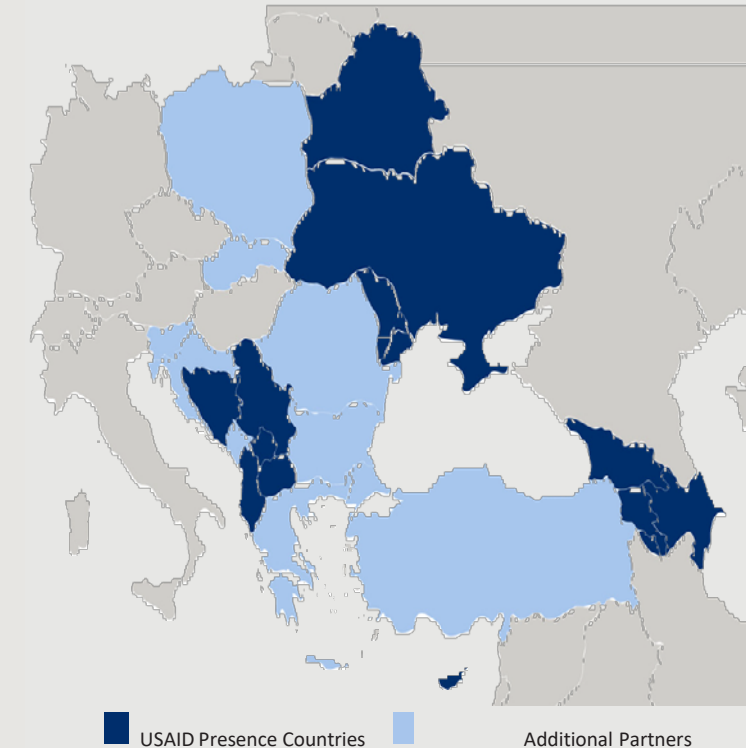
*The Bridge empowers utilities, governments, telecommunications providers, regulators, and other critical infrastructure operators to prepare for and respond to threats, such as natural disasters and cyberattacks*

Building the capabilities of the critical infrastructure workforce to prevent and respond to cyberattacks

Establishing policies, frameworks, and coordination bodies to improve critical infrastructure resilience and supply chain management

Creating information sharing networks to coordinate threat identification and recovery and response efforts

Through 2025  
Estimated Budget: \$ 94 mill



# Near Term Activities Under The Energy Bridge

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## **Connect for Growth (C4G)**

**Multi-year program, through 2025**

Designed to strengthen governance of energy markets, improve energy supply security, energy efficiency and energy system resilience

## **Critical Infrastructure Digitalization and Resilience Program (CIDR)**

**Multi-year program, through 2025**

Infrastructure and cybersecurity policies, standards frameworks, Development of infrastructure operators capabilities, workforce training, best practices

## **Investments to Develop Energy Assets (IDEA)**

**Multi-year program (TBD)**

Designed to identify and assess investment opportunities in heat and power generation, transmission, distribution and consumption and to support implementation

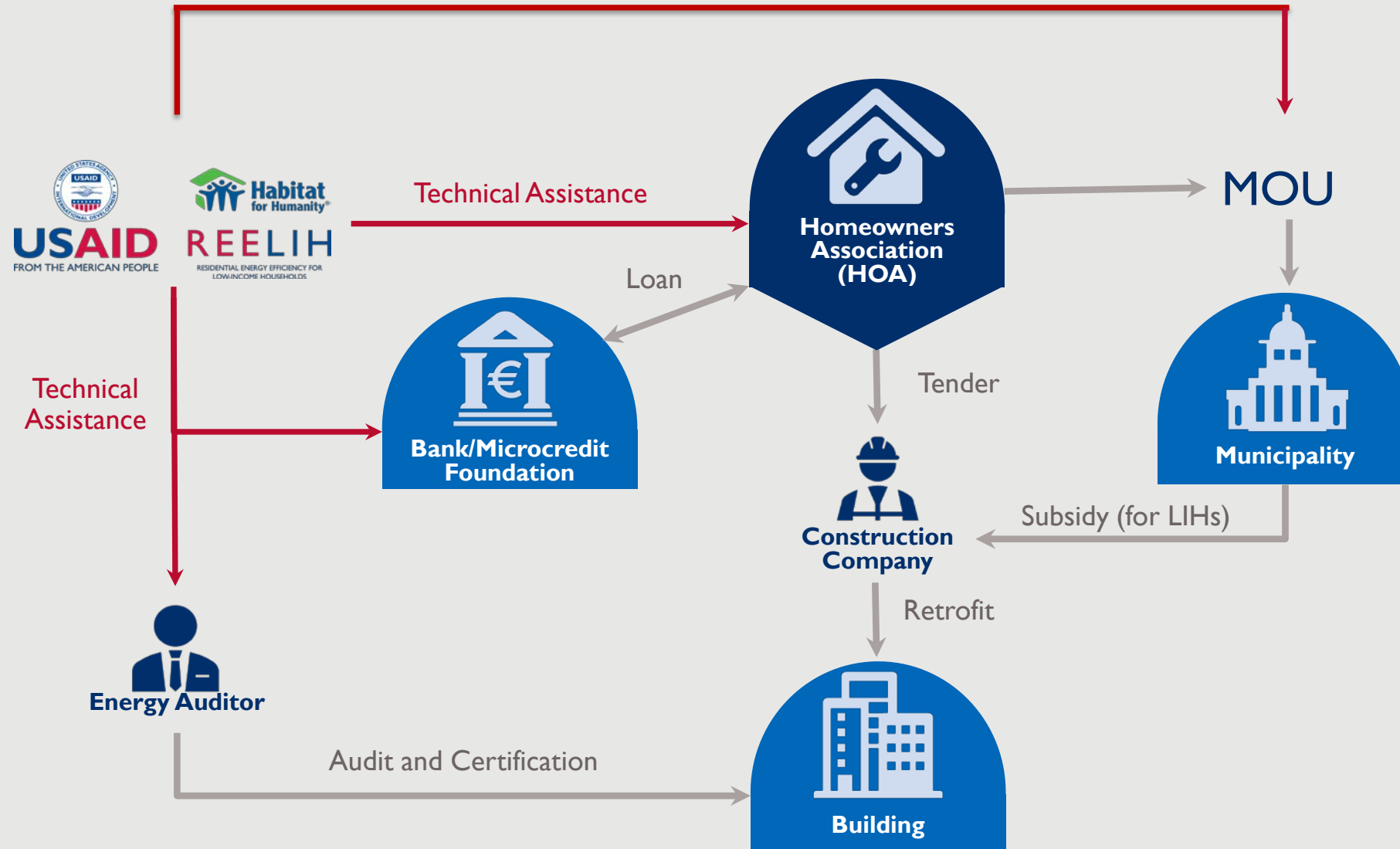
# Future Plans: Renewed Focus on Supporting Investment in Resources Efficiency

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## Residential Sector Activities

- ❖ Commercially – based approach to Energy Efficiency investment, limiting subsidies only to social assistance based on need
- ❖ Focus on improvement of energy efficiency in multi-apartment buildings (currently underserved)
- ❖ Development of sustainable financing mechanism for energy efficiency, with manageable risk for banks and affordability for the borrowers.
- ❖ Implementation approaches
- ❖ Need assessment and determination of focus areas
- ❖ USAID-commissioned Gap analysis study to quantify issues hindering the implementation of energy efficiency investments in multi-apartment buildings

# Financing: USAID approach to supporting EE investments



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# Gap Analysis of the Housing Sector Energy Efficiency Implementation in Western Balkan Countries vs. Slovak Republic

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## Housing Perspective HOs/HOAs

### Legal framework & Housing policies

- HOA/RBM obligations/ functional roles
- Voting rights/decision making
- Generation of maintenance/ reserve funds
- Obligation to pay fees/ enforcement provisions
- Institutional structures

## Energy Efficiency Perspective in MABs

### EU EPBD and EED transposition

- EE targets and building renovation strategies
- EE fund establishment
- EE obligation scheme
- Building energy certification
- ESCO/EPC in MABs
- Energy auditors/certifiers

## Banking Perspective to HOA lending

### Non-legal obstacles/risk management

- Provisioning requirements, monetary policy, banking regulations
- Guarantee mechanisms
- Existing commercial banking products
- Development finance availability



# Main Stakeholders/Issues in Residential housing

## Homeowners



- Privatization gave household their ownership over real estate in all West Balkans
- MAB households are responsible for O&M and repair of buildings.
- Mixed incomes
- Lack of knowledge
- Difficulties with making decisions

## Government



- Ministries, agencies, municipalities
- Indicative Legal-regulatory framework, poor enforcement
- Lack of national housing policy or building renovation strategy
- Over-regulation housing maintenance legislation
- Discrepancies in state and local government responsibilities

## HoAs & Maintenance Co's



- HOAs and private maintenance companies offer services, collect fees for routine maintenance, capital renovations
- Lack of resources for comprehensive renovation, poor enforcement of fees
- Limited institutional capacities in management, financing, energy efficiency

## Lending Institutions



- National funds
- Municipal budgets
- International/bilateral donors
- International financial institutions
- Commercial banks/credit institutions
- Green funds and non-governmental institutions

# Housing perspective : Key Findings and Recommendations

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## Legal-regulatory Framework

### Gaps:

Most by-laws and guidebooks developed

Lack of legal simplicity and policy stability

### Recommended Actions

Systematic analysis of other laws contradictions with HOA law

Improve decision-making rules

Enforce collection and protection of MAB fees

## Housing management through MAB/HOA/RBM

### Gaps:

MAB/HOA/RBM maintenance and management has little state interference, control and oversight

Poor institutional control and oversight of the work of HOAs and management companies.

### Recommended Actions:

Need to simplify or abolish ineffective systems of oversight and control

## Quality of Maintenance Service

### Gaps:

Decision-making cumbersome

Fee collection deficiency

Deficit of investment funds

Poor quality of maintenance service

### Recommended Actions:

Address legal gaps, accelerate enforcement,

generate adequate financial resources for building repair and maintenance.

Introduce and capitalize the Obligatory (Reserve) Funds for loan securing

# Energy efficiency perspective

The bottlenecks that limit the flow of investment funds into EE renovations:

## ■ Policies & Regulations

Incomplete reforms on EE in buildings

[Delays in 4th NEEAPs](#)

Delays in Building renovation strategies:

- building stock inventory
- worst-performing buildings
- technical-economic potential for EE
- priority policy and investment measures

Lagging enforcement of mandatory energy auditing

Lack of enforcement of adopted regulatory provisions on building energy certification

## ■ Knowledge & Institution

Limited institutional capacities:

- ministries,
- agencies,
- municipalities,
- HOAs,
- banks

Lack of awareness of on technical and economic benefits of EE investments

## ■ Delivery Mechanisms

Limited scopes and resources in the Energy Efficiency Funds to adequately target the MAB sector

Limited engagement of ESCOs and third-party financing

# Key gaps and recommendations in energy efficiency

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## Policies

### Gaps:

Lack of [energy price](#) incentives for EE

### Recommended Actions:

Transition social assistance and energy subsidies toward improved utility affordability through enhanced EE

## Regulatory Framework

### Gaps:

Lack enforcement of EE laws in Buildings

Delays in NEEAPs, NECPs, Building Renovation Strategies

### Recommended Actions:

[Maintain EED & EPBD](#) transposition momentum,

Accelerate development and enforcement of secondary legislation

## Institutional Capacities

### Gaps:

Mandatory building energy performance certification lagging

Lack of MRV

Lack of regulation and accreditation of energy auditors

Limited capacities of state agencies

Limited ESCO/EPC

### Recommended Actions

Build capacities,

Engage technical assistance,

Apply internationally recognized protocols and standards in auditing, certification, MRV

# Banking perspective

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## Financing Availability

### Gaps:

Financing is difficult to get

Exceptions specifically targeted at HOAs

Mostly from municipal/state sources

### Recommended Actions

Limit market distortion by public finance, subsidies, grants

## Institutional Capacities of HOAs

### Gaps:

Low institutional capacities

Low creditworthiness

### Recommended Actions

Establish transparent accounting by HOAs

Create reserve funds for down-payments and collateralization

## Viability of Lending

### Gaps:

Limited perception of true market size

Risk and Risk Perception Gaps

Strick risk management standards

Provisioning requirements specific to loan-finance (not project-finance)

### Recommended Actions:

Introduce credit lines for HOAs

Motivate banks

Cultivate credit guarantee mechanisms

Target well-performing MABs/HOAs

# Key gaps in banking

## Commercial Financing Eligibility and Availability

For HOAs – NON EXISTANT In BiH, Serbia, Kosovo, and North Macedonia is almost nonexistent.

In BiH, financing of HOAs restricted by legislation, HOAs are not recognized as legal entities.

In other countries (e.g. R.S.) HOAs are legal entities, eligible for commercial lending

In practice, financing is limited or nonexistent.

## Banking Regulations

HOAs do not meet strict regulations and requirements for borrowing

No specialized credit lines with tailor-made criteria for HOA lending

No guarantee mechanisms for HOAs credit risk management

No vehicles to encourage banks to create specialized credit lines for HOAs' needs.

## HOA-related Risks

High HOA risk perception by banks

Lack of HOA creditworthiness due to irregular cash flow,

Lack viable collateral.

Low maintenance fees generate insufficient cash flow for creditworthiness, collateralization or loan repayment

Poor collection rate / enforcement of fees

Lack of consistent reporting or documenting its financial reliability.

## HOA Governance Framework

Absence of domestic governmental initiatives for development of financing tools

No vision on investments mechanisms in building stock renovation

No public/state support to initiating financial service providers who consider/start commercial financing for HOAs

# Recommended actions: improving the regulatory framework

1. **Simplify procedures** for collective decision making
2. **Ensure efficient supervision of HOA performance**
3. **Simplify the institutional framework** for enforcement of HOA performance oversight
4. **Define HOAs as a proper legal entity**, or any other legal form that enables HOAs to access financing.
5. Allow HOAs to have certain **enforcement recourse against owners failing to participate in repair and maintenance**
6. Adopt appropriate legal provisions that effectively and expediently deal with housing-cost defaulters.
7. **Clearly define the assets and revenues of HOAs**, including obligatory collection of additional maintenance fees
8. Increase the **financial discipline** of HOAs
9. Improve the **quality of financial information** and reporting provided by HOAs.
10. Develop **social housing policy** provisions offering
  - A targeted, need-based “**social fund/mechanism**” scheme
  - Low-income households support scheme
11. Continue reforms in providing legal requirements for **building energy certification**, building energy codes for renovated buildings, and engagement of **ESCOs and EPC** in residential EE investments

# Recommended actions: policy reform

1. The development of policies and strategies to **improve the management and renovation of housing**
2. Create **specialized loan products/credit lines** for investment in EE-integrated maintenance, retrofitting and structural upgrades
3. Develop policy tools and **support schemes for low-income households**
  - Income-related subsidies for refurbishments,
  - Social assistance for low-income households to be connected to existing housing allowances, etc..
4. **Invite participation of all stakeholders**, primarily HOs and HOAs, in designing and implementing reforms.
5. Create a **solid fact-based policy roadmap for the building renovation**
6. Update the **National EE Action Plans (NEEAPs)** and tracking implementation progress
7. Develop **building renovation strategies**, including: building stock inventory; policies and measures; solutions for renovation; RES and **nearly zero energy buildings (NZEB)**; objectives and targets summary of financial decisions; roadmap for long-term strategies
8. Integrate the buildings sector into the **broader low-carbon development agenda**, including:
  - Development and adoption of NECPs
  - Development and
  - Adoption of National NZEB Strategy and Roadmap



# Recommended Actions: Technical assistance, institutional support, and capacity building

1. Plan regulatory reform provisions as clear implementation milestones
2. Establish EE funds, housing agencies, or other institutional arrangements
3. Establish/recruit institutions for supporting HOAs and banks through community groups, municipalities, NGOs, energy auditing / consulting groups
4. Develop cadre of energy auditors and EE building design professionals
5. Improve coordination among government, donors, and IFIs.



# Recommended actions: raising awareness and promoting the concept of commercial financing for HOAs

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- 1. Raise HO awareness about taking full ownership for the maintenance and renovation of common parts of HOA buildings

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- 2. Raise awareness in the banking sector about the market potential for financing HOAs

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- 3. Establish a dialogue/platform between banks and HOAs to close the gaps in understanding on both sides

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- 4. Disseminate and promote information among key decision makers about best practices for financing.



# Recommended actions: introduce mechanisms for commercial financing support

1. Establish a guarantee scheme and mechanisms for guaranteeing loans to HOAs
2. Develop and introduce HOA credit lines offered by international development and local institutions specifically designed to support on-lending to HOAs
3. Partially secure bank loans to HOAs by government grants to cover economically vulnerable groups



# Recommended actions and next steps

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## Governments

Continue reform in housing, energy efficiency, banking regulations

Develop clear strategies in prioritizing and financing building renovation

Target public/municipal finance for leveraging commercial EE lending in Building renovation

Enroll (existing/new) public agencies in promotion and facilitation

Learn from best practices:  
*Slovakia, Romania, Poland, Croatia  
Hungary, Baltics*

## Donors

Streamline technical assistance for policy reform  
Strengthen the capacities of market players; particularly the HOAs for better creditworthiness

Help design tailor made support mechanisms, support in development, implementation and monitoring of high-quality projects in building EE renovation

Raise awareness of all players on the benefits of EE renovation

Seek targeted use of grants for improving bankability of investments, subsidizing socially vulnerable households

Seek pooled financing by multiple donors/IFIs

## Financial Institutions

Provide affordable, tailor-made financing for building renovation to HOAs

Partner with government in setting up guarantee facilities

Require elimination of distortionary grant subsidies and aim for gradual commercialization of building EE investment finance

Work with central banks/treasuries to design flexible financing products (project finance, unsecured lending, factoring)

Partner with private sector (ESCOs) to manage and minimize risks

# Thank you !

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