

Preliminary version

Step 5

Financial Framework

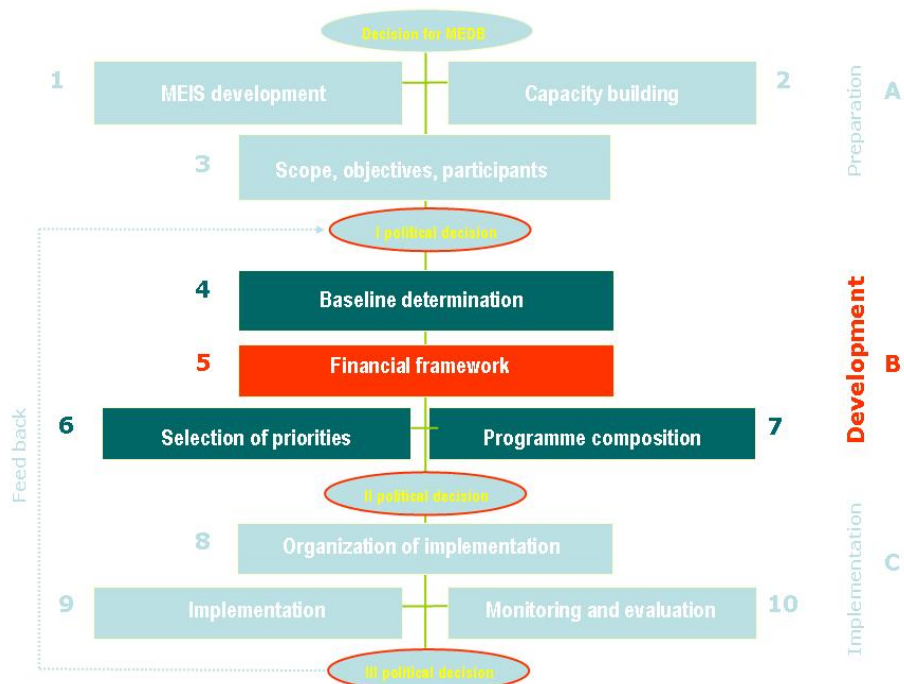
Financial framework definition

This action serves to determine the financial means, which the municipality commits itself to allocate from its budget, as well as the means that are expected to be procured from external sources.

Local budgets are usually developed on the base of its own revenues of local fees and taxes, business activities, privatization of municipal property, state budget subsidies, etc. Other financial means are credits, public-private partnerships leasing and concessions deals, different schemes of third-party financing, donations, etc.



The MEP process



To formulate the financial framework of the municipal energy programme means to identify the financial resources, to which the municipality has access, as well as the schemes and mechanisms for getting hold on these resources. At the same time it is necessary to identify and evaluate the financial risks of the programme, as well as the actions for local capacity building on financial matters.

Approaches for the financial framework definition



At the time of the definition of the financial framework of the municipal energy program two main groups of conditions and limitations are taken into consideration. One of them evolves from the national legislative and financial framework and the other one is determined by the concrete conditions and recourses of the given municipality.

Top-down approach

In general the Top-down approach consist of analyses of the existing legislative framework for the definition of the national and local (municipal) budgets, as well as of the trends of its development. For the utilization of this approach the following activities should be performed:

- Forecast of the trend of municipal budgets in the period of the MEP operation
- Survey and foresight of the legal frame development in the period of MEP operation
- Survey of expectations of the changes of the national and the local taxation policy and their impact on municipal income
- Survey of expectations for extra-budgetary income of the municipality.

Bottom-up approach

Initial information

The bottom-up approach is based on the complex assessment of the capabilities of the municipality to afford the financial means for the energy programme implementation. To make this assessment an objective information should be collected for:

- The technical and financial status of the sites, which will be subjects of planning
- The costs of feasibility studies, energy audits, design, management and operation, related to those sites
- The costs of materials, components and construction works, based on aggregated data and indicators
- Forecasts for the trend of municipal budgets in the period of the programme implementation, based on both external and internal sources of revenues.

Limitations



On the base of the analyses of the listed above information the municipal administration should define also the local limitations that will be taken in consideration during the development and implementation of the programme: capacity of local institution and human resources to develop and implement the programme budget;

- Public procurement procedures, seasonal and technological requirements and limitations
- Legal / regulatory limitation of the investment share to be covered by the municipal budget, which might be determined by the national financing legislation
- Share of the investment for energy efficiency out of the total volume of investments, which might be determined by the national financing legislation
- Share of external revenues of municipality that could be used for financing the programme (for example, from local taxes and fees, third party financing, concessions, leasing, municipal bonds, privatization of municipal assets, etc.).

Balancing the energy programme

Balancing of the MEP financial frame encourages the search of alternative financial opportunities

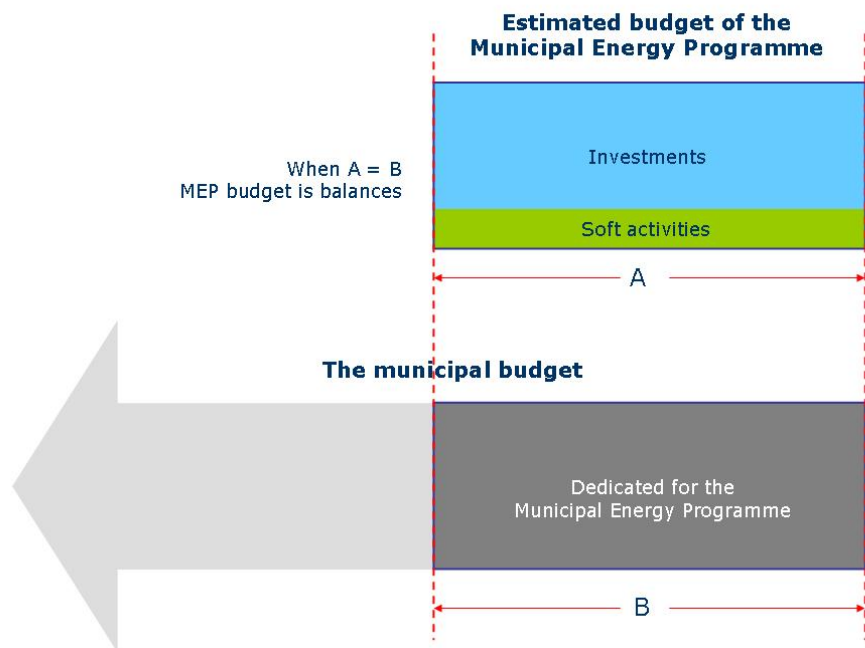
To develop a realistic budget of a municipal energy programme a balance between conditions and limitations that result from both the top-down or bottom-up approaches should be reached.

In these cases the municipalities usually have several possible solution, shown in the following example:

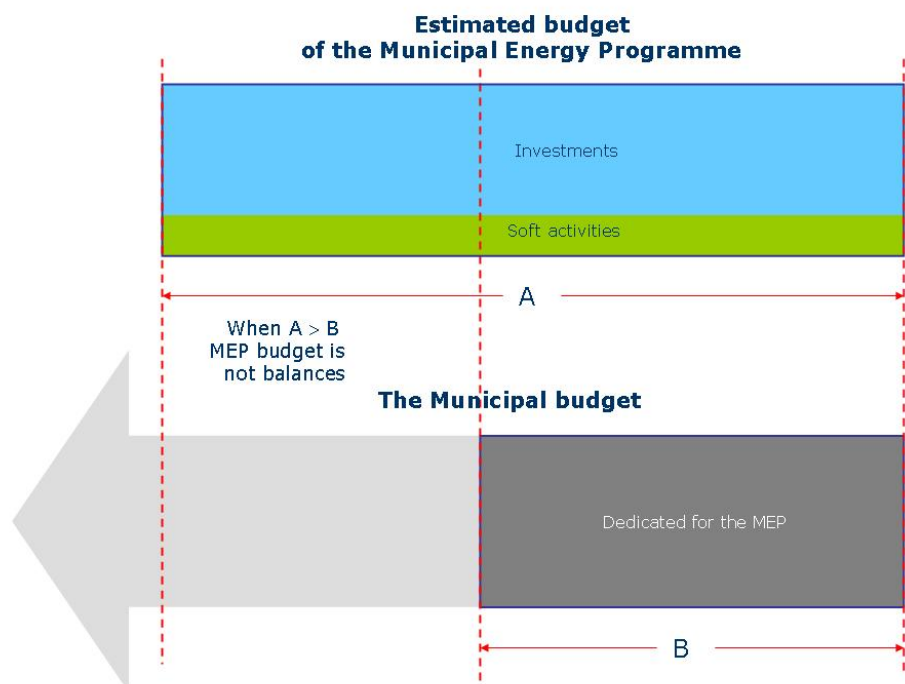
- To exclude the sites (or groups of sites) with the lowest energy efficiency potential
- To exclude the sites with lower social significance
- To secure extra-budgetary financing for parts of the programme.

Balancing of the programme with financing from the municipal budget

The coordination of the top-down and bottom-up approaches for determination of the financial frame of the MEP verifies the financial needs and affordability



When planned investments surpass the financial resources, which can be afforded by the municipal budget and the accessible additional financial sources for the program implementation, the budget is not balanced



**Alternative
forms of
programme
financing**

To use the opportunities that external financing of energy efficiency programs, the municipal administrations should be very well acquainted with the multiple financial instruments available in the country as well as with the innovative financial schemes that are widely used in international practice. Among them are, for instance:

- Financing from dedicated energy / environmental funds
- Issuance of dedicated municipal bonds
- Use of commodity / commercial credits
- Leasing of equipment
- Third party financing (incl. ESCO schemes – performance contracting)
- Public-private partnership (PPP) – concessions, etc.

A wide variety of financial sources, schemes and instruments are applicable for MEP financing

The EU municipalities rely not just on their national and own financial resources but also on financing from the Union. The municipal energy programmes can be financed by the Structural funds, but also by a number of specialized programs in the field of energy, transport, environment, etc.

If to these financial sources, the multiple opportunities offered by banks, specialized funds, international programs and the private sector are added a motley picture of opportunities will be created. The good knowledge of the elements of this picture in a primary condition for the successful financing of the municipal energy programmes.

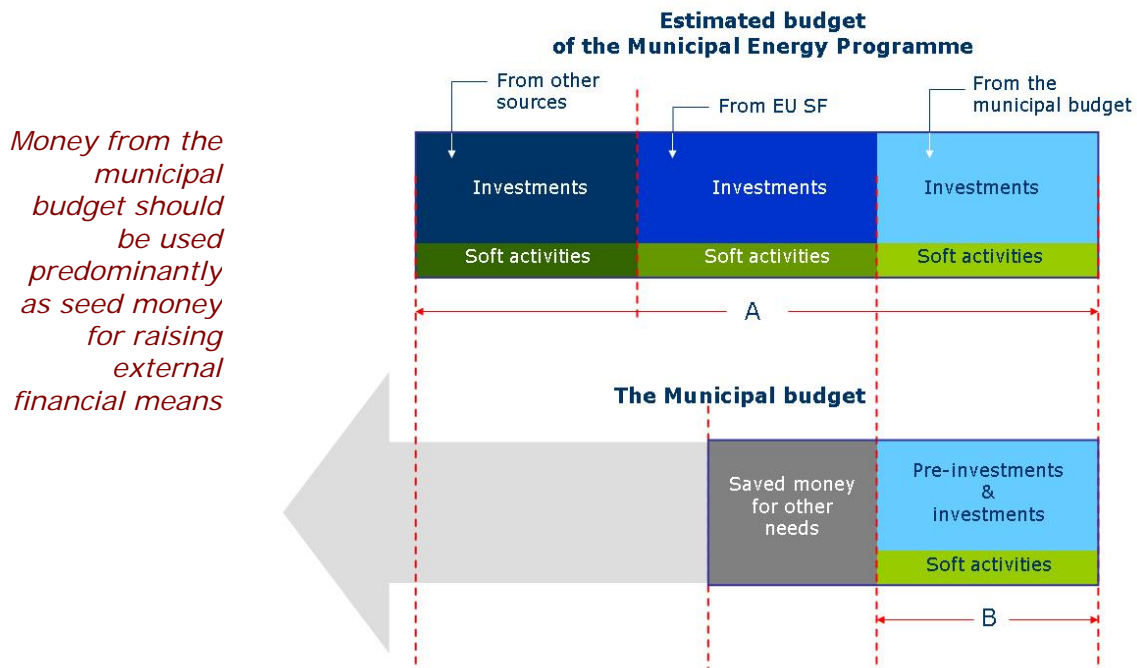
How to allocate money from municipal budgets?

Money from the municipal budget should be used predominantly as seed money for raising external financial means

Most of the external financial sources are available against reliable guarantees of the corresponding municipalities. One of the classic forms of guarantee of external financing is participation of the credit recipient in the projects (programms) implementation with its own funds.

In general municipalities participate in the financing and guarantee of their projects and programs with budget

means or budget property. The optimum use of the municipal own budget means turns increasingly in their priority task. The municipal budget should be used economically and reasonably to secure co-financing or to cover the investments that can not be covered otherwise.



Relation with other steps of the MEP process

Energy database

In order to perform the necessary analyses, the information database should contain data about the budgetary revenues and expenditure, the liabilities under current payments and bank credits and the anticipated amounts receivable. Besides this data, the municipal information system might contain entries about financial schemes and specific mechanisms used in previous projects.



It is recommended to perform an inventory of the financial partners of the municipalities and to store basic information about them. Part of this activity may be performed by the financial experts of the local authority and external consultants might be attracted to provide help.

Local capacity

Sometimes the implementation of the municipal energy efficiency programme turns out to be strongly dependent on the capacity of the local specialists to procure the required financing from domestic and external sources. The absence of adequate local financing institutions or specialists might prove a serious obstacle to achievement of the programme objectives.

This is why to be able to develop a realistic and well balanced budget for its energy programme the municipal administration should objectively analyze and assess the capacity of its own specialists and institutions. It is recommended as early as during the stage of development of the programme to plan actions for setting up and strengthening of the necessary institutions and for human capacity building in the area of financing.

As is the case with the rest of the fields where local capacity if built is the training of local specialists on financial issues is desirable to precede the work on the programme development. But this training can also become part of the programme itself being part of a wide circle of "soft" activities for training, dissemination, awareness raising, etc.

