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*Romania ESCo  
Development Task:  
Training  
Outlines/Curricula*

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## **Introduction**

The training requirements for Energy-Serv (the ESCo) can be roughly broken down into three main areas: Technical, Financial and Management/Marketing. Based on the Electrotek project team's earlier evaluation (see project deliverable on Staffing-Training Assessment), Energy-Serv has considerable technical capabilities, so the course outlines below concentrate largely in the latter two areas (financial and management/marketing). The training outlines below are by no means exhaustive, and it is expected that considerable skill development will occur through the hands-on experience gained from the two demonstration projects. While the on-the-job training will be extensive, the 'curriculum' for such activities are less easy to define since they will be partly defined by the type of measures that eventually emerge (e.g., managing a co-gen project is a significantly different experience from managing an industrial speed drive project). Where possible, these items have been included in the formal curricula below.

It should be noted that outlines below do not necessarily correspond to a formal course or seminar which will be provided to Energy-Serv and/or other local Romanians. These outlines represent functional areas which must be addressed, but this can be done through one-on-one tuition, on-the-job training, informal seminars, formal lectures or a combination of these. Some of these areas may also be addressed through other assistance or through Energy-Serv's own resources rather than using AID funds. Furthermore, the absence of any topic area below does not imply that it will not be included in training at a later date. Training needs to be responsive to the specific skill needs of the ESCo staff. As new staff are hired following capitalization, it is expected that additional training requirements will be identified.

## **I. Company Financial Due Diligence Analysis**

Objective: the objective of due diligence training is to give ESCo staff the capabilities to analyze a company's financial capabilities and future performance to assess whether it would be creditworthy and be an appropriate customer.

### ***A. How to make a quick assessment***

- a) Does the company have exports or other means to secure a loan? What percentage of sales is exports?
- b) Are the company's energy bills in excess of US\$ 3 million annually?
- c) Is the company highly leveraged (in excess of 50% debt)?
- d) Is the company's management unwilling to release financial information?
- e) Are there any obvious financial problems (e.g., financial losses, receivables in excess of 90 days billings, current ratio less than 0.9)?
- f) Is there an audit report available or any other credit assessment done within the last year?

## ***B. Financial Statement Analysis***

- a) Restatement of accounts to International Accounting Standards (IAS)
- b) Ratio Analysis – comparing financial statement results with comparable sector averages (e.g., Dunn & Bradstreet)
- c) Preparing financial projections
- d) Carrying out sensitivity analysis on future financial performance
- e) Evaluating the impact of exchange rate movements on competitiveness and debt service obligations

## ***C. Market Analysis***

- a) Evaluating the sector in which the company operates
- b) Analyzing competitive pressures
- c) Examining foreign markets and competition
- d) Assessing the cyclical nature of the industry and where the company is in the usual business cycle
- e) Evaluating long-term prospects for the industrial sector vis-à-vis other related sectors

## ***D. Discussion with Bank and Customers***

- a) Assessing banks' willingness to lend to the customer
- b) Evaluating the company's payment history to banks and suppliers
- c) Carrying out random sampling of customers to determine their satisfaction with the company's product and delivery record

## ***E. Discussion with Management***

- a) Getting a gut feel about problems or ethical issues which may not be apparent from the financial information
- b) Management's own investment plans and their impact on likely projects or borrowing capacity
- c) Examining management's own financial projections and expansion plans – are projections realistic to justify capital equipment acquisitions and borrowing
- d) Outstanding law suits and pending liabilities that may not be reflected in the company accounts

## ***F. Setting Selection Criteria for the ESCo***

- a) Establishing the minimum project size and target sectors in order for the ESCo to meet its financial targets
- b) Selecting criteria for each sector in terms of company size, leverage, profitability, liquidity and risk
- c) Establishing a project/client review process within the ESCo

## **II. Project Financial Analysis**

Objective: to give ESCo staff the capabilities to evaluate a project's financial benefits and risks and to establish criteria for accepting or rejecting a project for implementation.

### ***A. Tools of Project Financial Analysis***

- a) Understanding the time value of money
- b) Assessing the opportunity cost of capital (OCC) and the role of risk in establishing discount rates
- c) Simple pay-back calculations
- d) Net Present Value (NPV) calculations
- e) Internal Rate of Return calculations (and the difference between financial and economic returns)
- f) Other analytical techniques

### ***B. Preparing Project Cost Tables***

- a) Using engineering and vendor data for estimating base equipment costs
- b) Projecting inflationary effects on equipment costs
- c) Calculating appropriate price and physical contingencies
- d) Estimating labor costs for local installation and testing
- e) Verifying cost estimates
- f) Calculating financing costs and interest during construction

### ***C. Project Cash Flows***

- a) Deriving project costs and benefits from project budget information
- b) Guidelines for identifying probable errors in cost and benefit estimates
- c) Understanding baseline energy consumption data and the impact of other project components on the changing baseline
- d) With and without project cash flows versus before and after project cash flows
- e) Preparing a 'without project' cash flow - the alternative scenario
- f) Preparing a 'with project' cash flow
- g) Calculating the incremental cash flow by component
- h) Preparing incremental cash flows before and after financing
- i) Calculating returns for the customer versus returns for the ESCo
- j) Evaluating the results of NPV and IRR calculations

### ***D. Project Risk and Sensitivity Analysis***

- a) Understanding the difference between risk and sensitivity
- b) Using break-even analysis
- c) Selecting appropriate sensitivity scenarios
- d) Evaluating exchange rate risks on project returns
- e) Understanding switching values
- f) Common errors made in project analysis
- g) Using risk analysis to modify discount rate thresholds

## ***E. Project Case Study***

### **III. ESCo Financial Management**

Objective: to develop the ESCo management's financial skills to assess financial performance and implement sound strategies for corporate finance, investment and growth.

#### ***A. Matching Business and Financial Objectives***

- a) Understanding return requirements of ESCo investors and expectations of ESCo customers
- b) Preparing operational plans and financial forecasts for meeting these requirements
- c) Monitoring interim accounting results
- d) Calculating returns on equity

#### ***B. Understanding Leverage and Liquidity***

- a) What is financial leverage
- b) Calculating an appropriate level of leverage for projects versus the appropriate level for the ESCo as a whole
- c) Off-balance sheet techniques for increasing leverage
- d) Using customer borrowing to increase capital investment on site without increasing the ESCo's leverage
- e) Understanding the tax advantages of leverage
- f) Calculating the risks of over leveraging a firm
- g) Maximizing the use of equity capital

#### ***C. Managing the ESCo's Day-to-Day Finances***

- a) Understanding the fixed costs of marketing and sales
- b) Cash flow management
- c) Anticipating delays in cash flow and taking financial steps to minimize their impact
- d) Evaluating profitability by project
- e) Reviewing projects before approval
- f) Managing accounts receivable and accounts payable
- g) Employing equity capital before projects are implemented
- h) Controlling operating costs at project sites
- i) Managing cost overruns during project construction

### **IV. Management of ESCo Operations**

Objective: to develop management's understanding of key business processes and skills and how to manage them

#### ***A. ESCo Contract Negotiations***

- a) Structuring the deal to be both appealing to the client and lucrative to the ESCo
- b) Selecting the contracting type in advance: shared savings,

guaranteed savings or chauffage

- c) Understanding the ESCo's bottom line – what is the lowest level of fees that will allow the ESCo to meet its financial targets
- d) Evaluating the importance of project size on the acceptable fee levels which can be negotiated
- e) Understanding the impact of contract methods on ESCo cash flows and returns
- f) How to prepare for negotiations
- g) Tactics for succeeding in negotiations
- h) Strategies for keeping the customer interested

## **B. MANAGEMENT**

- a) Establishing the appropriate company structure
- b) Organization planning
- c) Chief Executive's role and duties in the company
- d) Management by objectives
- e) General management
- f) Management development
- g) Management audit
- h) Management information systems
- i) Decision-making – setting the process by which decisions are taken
- j) Meetings -- how to make meetings effective
- k) Presentations – improving presentational skills and communication both internally and with clients
- l) Letter and report writing

## **C. MARKETING AND SELLING**

- a) Marketing - the full process and its vital importance
- b) Marketing mix and pricing
- c) Marketing plan
  - (1) Information required
  - (2) Collection of information
  - (3) Market research
  - (4) Analysis, decision making and planning
- d) Marketing budget and resource allocation
- e) Marketing department organisation and control
- f) Media planning
- g) Advertising and direct mail
- h) Public relations
- i) Selling
  - (1) Factors influencing market share
  - (2) Importance of selling, selling techniques
  - (3) Salesforce - recruitment, standards, training, control
  - (4) Sales literature
  - (5) Sales promotions
  - (6) Telesales
- j) Exhibitions and trade fairs

## **D. PERSONNEL**

- a) Personnel activities
- b) Personnel manager's duties
- c) Salary policies, structures and administration
- d) Fixed vs. variable system of rewards
- e) Profit sharing and bonus schemes
- f) Pension schemes
- g) Manpower planning
- h) Job specification
- i) Recruitment and selection
- j) Contracts and duties in employment
- k) Training
- l) Management development
- m) Supervisory leadership
- n) Job enrichment
- o) Job evaluation and performance assessment
- p) Discipline interviews
- q) Health and safety
- r) Stress
- s) Social responsibilities
- t) Employment problems

## **V. Management of Technology and Innovation**

Objective: to familiarize management with the best practices in technology management and help build skills for the incorporation of new technologies into the ESCo project mix

### ***A. The Importance of Technological Change to ESCOs***

- a) Sources of energy efficiency innovation
- b) The link of technological innovation and competitiveness
- c) Assessing new technological potential in the local market
- d) Gathering international competitive intelligence
- e) Cost and value analysis of introducing new technologies to the ESCo's project portfolio

### ***B. Sytematizing Incorporation of New Technologies***

- a) Managing innovation and change through technology teams
- b) Understanding the importance of a supportive climate for people and teams to promote use of new technologies
- c) Prototype projects using new technologies
- d) Training staff in new operational procedures

### ***C. Managing Risks of New Technologies***

- a) Trying new technologies in small components
- b) Negotiating manufacturer's guarantees
- c) Hidden costs of new technologies (the unexpected maintenance bill)
- d) Avoiding a trial and error approach