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CASE STUDY 4: MACEDONIA - SUSTAINABLE ENERGY FINANCING FACILITY

Barriers	Lack of long term debt financing
Instrument	Credit line for subordinated debt
Application	Finances 50% of investment, matched dollar for dollar by MBDP
Amount	US$1.5 million

PROJECT BACKGROUND AND OBJECTIVES

The Sustainable Energy project, started in 2007 in Macedonia was aimed to develop a sustainable market for energy efficiency and renewable energy by supporting the development of an enabling framework, institutional capacity, and necessary financing mechanisms. The project components to be funded by a GEF grant include:

- Component 1: Market framework – market transformation activities using technical assistance funds;
- Component 2: Support to Utility-based ESCO – development o f a utility-based Energy Service Company (ESCO) to implement third party financing of energy efficiency projects; and
- Component 3: Sustainable Energy Funding Facility – investment in energy efficiency and renewable energy through a Sustainable Energy Financing Facility.

However, the project was proposed to be restructured in 2010 following an evaluation process. The proposed changes include:

- Component 1: Institutional Support and Technical Assistance – a continuation of the initial component 1, with a creation of a new project implementation unit (PIU);
- Component 2: Financial Support for Energy Efficiency in Public Buildings – a modification due to slow implementation of the original component 2; and
- Component 3: Sustainable Energy Funding Facility – some changes are made in this component as explained in following sections.

For the purpose of this case study, only component 3 will be discussed in details in the following sections, as it is most relevant.

Component 3 of the project addresses the lack of long term debt financing and later proposed to also address the lack of capacity in renewable energy project development.

INSTRUMENTS USED

The original component 3 was a financing facility consisting o f a loan guarantee facility and a loan facility, on a co-financing basis with commercial institutions and the Macedonian Bank for development Promotion (MBDP). This component will be managed by the MBDP.

The guarantee facility will focus exclusively on energy efficiency projects, given the shorter paybacks and the traditional difficulty of collateralizing energy efficiency deals. It was planned that once the utility-based ESCO begins doing business, it may be possible to set aside a portion of reserves to address problems in collection from public entities. Primarily the guarantees will be partial credit guarantees, covering 50-70 % of the principal of loans made by commercial banks to energy efficiency projects.

Loans from the loan facility would be applied to both energy efficiency and renewable energy projects. Energy efficiency loans would be focused on the industrial and

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municipal markets, and would be structured most likely as subordinated debt in order to attract additional commercial credit. Similarly, renewable energy projects may require a subordinated loan structure, but with different repayment terms than energy efficiency loans. Because of the longer payback times, RE projects will need longer loan tenors and will likely be larger because of project size. Loans with grace periods on principal repayment will help attract senior (commercial) lenders by improving the cash flows of the project.

In the new proposed component 3, the guarantee facility will not be implemented and the funds will be reallocated. The loan facility will continue to fund energy efficiency and renewable energy projects, and will be administered by MBDP, who will match dollar for dollar the disbursed fund. A key difference is the proposed allocation of US$50,000 to MBDP for the purposes of pipeline development and technical due diligence to enable them quickly identify and process commercially viable project proposals.

INSTITUTIONAL ARRANGEMENTS

The financing facility is managed by and loans or guarantees made will be administered by MBDP. MBDP lends through its commercial bank partners for eligible projects.

OUTCOMES

In 2010, there were 2 operations financed through the loan facility of the original component, totaling US$ 163,000. After the restructure, a commercial bank, Ohridska Banka has approved the financing of a 1 MWe solar PV plant from the MBDP credit Line. This indicates that around US$1.2 million could be disbursed from the GEF grant in FY11 Q2 contingent to a positive result of the technical due diligence.

Further reading

World Bank, Macedonia - Sustainable Energy Financing Facility, click here