Bulgaria Energy Efficiency And Renewable Sources Fund (EERSF)

**Objective(s):**
The Fund’s main objective is to support the identification, development and financing of viable EE projects, resulting in substantial reduction of greenhouse gases (GHGs), and to improve Bulgaria’s energy intensity, which in 2005 was twice the average of EU countries.

**Energy Efficiency/GHG Goals:**

**Sectors Targeted:**
General increase in investments for EE – program addresses corporate clients, municipalities, hospitals and universities.

**Barriers Addressed:**
Gap in commercial financing to implement EE saving potential:
- The relatively small size of EE projects compared to energy supply projects or other conventional bank loans made them unattractive for commercial financing.
- Banking structure that was not favorable to EE financing: a low market competition in the banking sector meant that banks could charge very high interest rates and require a high level of collateral for loans made, which was not conducive to EE lending.
- Low level of information and capacity among commercial banks on EE finance that led to a perception among financial institutions that EE finance entails high risk.
- Absence of energy services companies.

**Financing Mechanism(s):**
USD 10 M of equity financing supporting loans and partial credit guarantees for individual projects and portfolio guarantees for ESCOs and residential complexes. ESCO and residential portfolio guarantees structured as a first loss product covering up to the first 5% of defaults.

**Collateral Support provided (if any):**
In-house technical evaluation capacity.

**Eligibility Criteria:**
10% equity contribution by end-user if co-financing provided by commercial bank; 25% equity contribution by end-user for stand-alone financing by EERSF. Individual per project guarantees capped...
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Total Funding:
USD 10 M (GEF); USD 1.8 M (Bulgarian Government); USD 2 M (Austrian government).

Major Activities:
Partial Credit Guarantees (PCG): not over USD 500,000, up to 70% of the project cost
Investment (Sub-Loan) Financing Facility.
Technical Assistance (TA).

Key Results:
Key results at the end of the IBRD/GEF project in March 2010:

- Approximately 85 loans with a total loan value: USD 16 M and total investment of USD 24 M.
- Energy savings (over lifetime) from these loans were 0.09 mtoe, and the GHG-savings at 0.9 mtCO2e.
- 31 guarantee deals of about $2.0 M, and catalyzing total investment of $15 M.
- Energy savings were 0.02 mtoe, and the GHG savings at 0.1 mtCO2e.
- The average simple payback period was 4.7 years. The typical loan size was USD 250,000-USD 500,000.
- EERSF reached self-financing through a ratio of 133% annual income from project operations divided by annual operating costs, achieving the objective for EERSF to evolve into a revolving fund.

Lessons Learned:
- Market context: Context assessment key before choosing what kind of mechanism to put in place.
- Flexible program: Flexibility in EERSF’s operation was critical, enabling it to respond to significant market changes and competition that occurred between project inception and implementation.
- Small projects not attractive for co-financing model: Co-financing proved not to be very attractive by local banks for EE projects, due to their small size – only about US 45 cents was leveraged from private finance sources (principally end-user equity) for each $1 of EERSF finance.
- “Name lending”: Risk-sharing program also did not generate much interest from commercial banks also due to “name lending” by banks i.e., banks lend based on the reputation of and experience with the borrower; although the leverage impact for the partial guarantee program was far greater than for the loan product with over $5 of private finance for each $1 of EERSF partial credit guarantee.
- Role of government policy: Increased government policies were needed before the program was able to tap into the building sector.

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Reports/Publications:

Other Comments:
Program needed to respond to changing market circumstances underscoring the need for flexibility in program design and implementation.

2 By June 2012 EERSF reported 126 project loans with an aggregate project size of BGN 53.4 million (USD 35 M) supported by BGN 36.6 M (USD 23.6 M) of EERSF financing.