



# Innovative Financing Schemes - Experiences with the national revolving fund in Estonia

Andreas Dördelmann, Investitionsbank Schleswig-Holstein  
Heikki Parve, Foundation KredEx

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# Generally (1)

- High potential of saving energy and CO2 in European building stock
- It is necessary to refurbish these buildings as efficiently as possible not only building by building but on a quarter level
- Opportunity to include urban development measures



## Generally (2)

- **Motivation of the owners to invest in these measures incentives like e.g. financial support are necessary**
- **Presentation of different financial in WP5-Guideline**



# Background (1)

- Huge need for energy efficiency (EE) in the building sector and integrated urban development measures (IUD) not only within the new EU member states
- Combination of both issues and focus on whole neighbourhood is main aim of Urb.Energy project
- Opportunity to make the buildings more sustainable and provide more quality of life to the inhabitants



## Background (2)

- Possible measures and requirements elaborated under WP3 and 4
- For implementation of these goals, different options are possible:
  - Need for regulations which limit the efforts to a worthwhile way
  - Need financial incentives for investors to novate additional costs for sustainable and complex solutions



# Background (3)

- **WP5 aims to find options to finance these measures**
- **Two main requirements:**
  - **Need for useful funding sources**
  - **Need for innovative financing products that aim at a sustainable way for issuing this funding**
- **Goal: achieve as much as possible with the available amount of money**



# Current Situation (1)

- Building stock generally in a poor condition (multifamily houses are energetically inefficient and the surrounding is unattractive)
- Lack of quality of life for the inhabitants
- Huge need for refurbishment and urban development
- Implementation of proper measures in these quarters causes high costs



## Current Situation (2)

- **Needed money is not available for investors or can only be borrowed from capital market → conditions often are unaffordable (short credit terms and high interest rates)**
- **Consequence: many urgent measures are either implemented laxly or not carried out at all**
- **Solution: support programs are needed that provide essential money under suitable conditions**





## Current Situation (3)

- **Promotional programs available for investors within Target Areas (TA)**
- **Existing programs mainly are to support energy efficiency**
- **Lack of support for urban development measures**
- **Financial support mainly paid out as simple grants**
- **Grants can only be used once and only for limited number of projects**
- **Practice doesn't satisfy the criteria of sustainability**

# Project Work and Objectives (1)

- **Main target of WP5:**
  - **Development of innovative financing options for the support of EER and IUD in cooperation with TA for the respective investors**
- **Partners were to detect status quo regarding financing options for IUD and EER available in their TA**
- **Result: funding options on national, regional and local level**
- **Analysis and interpretation of data**
- **Result: deficiencies in the field of financial support of the relevant measures**

## Project Work and Objectives (2)

- **Evaluation of funding sources for new financing programs:**
  - Financial support for measures that meet the aim of Urb.Energy offered by the EU
  - Programs were presented and inquired into its usefulness
  - Result: identification of programs that help by setting up support programs which close gaps on the field of support of EER and IUD

## Project Work and Objectives (3)

- Best practice examples of existing innovative financing schemes have been presented in the framework
- The partners discussed those options during several workshops and evaluated their transferability
- Aim of WP5 is to give support to the partners in the TA to develop their own financing programs on national or if possible on regional or local level



# Findings and Recommendations (1)

- **Extensive IUD and EER require higher sums of investment than frequent building maintenance**
- **Often financing with own financial means is not possible**
- **Consequence: suitable and sustainable financing products are necessary**



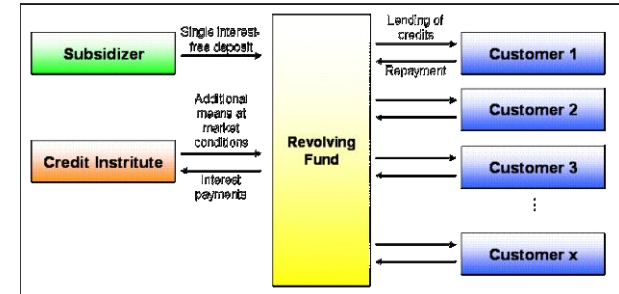
# Findings and Recommendations (2)

- Capital market offers rare loans which are not affordable for most investors who in majority are the inhabitants themselves
- support programs which were introduced in the NMS mainly base on grant schemes
- Generally speaking grants are not very sustainable → can only support a limited amount of projects and can only be spent once
- Findings: almost no useful funding offers available the TA → stagnation of refurbishment projects, only the most urgent measures are carried out



# Findings and Recommendations (3)

- **Solution: implementation of programs on the basis of revolving funds**
- **Funds can be composed of national and EU subsidies and money from capital market**
- **Combination of shares result in financing instruments which offer acceptable conditions for the investors**
- **Beside options like e.g. contracting the revolving fund scheme appears as the most promising solution for the EER and IUD**
- **Revolving funds require quite some effort in advance, but the results is formidable**



# Revolving fund

## Lessons learned after 2 ½ year of implementation

## Methods to involve and inform end beneficiaries and other stakeholders

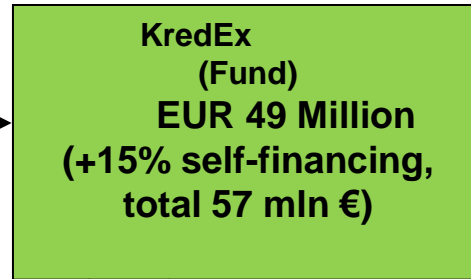
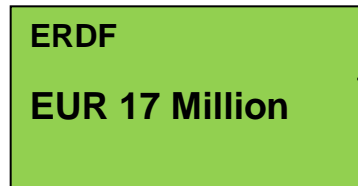


# From grants to revolving fund – why?

- Opportunity for re-usage of the funds
- Funds stay in state
- Loan is needed for reconstruction anyway
- Opportunity also to smaller buildings
- Easier to administer, lower administrative costs
- Innovative scheme

# Revolving fund

## 1. ERDF to equity of the fund

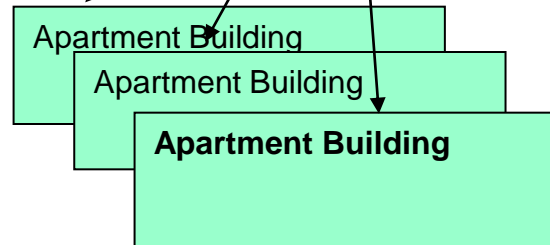
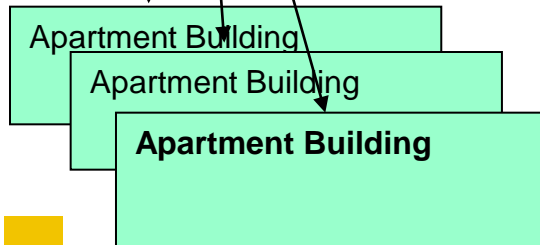
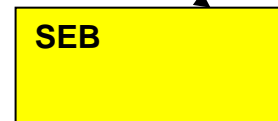
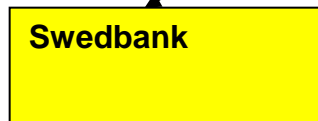


## 2. Additional funding up to 50% of total



State guarantee

## 3. Favorable funding to the commercial banks



## 4. Loan to the apartment associations. Commercial Bank takes the risk of the lenders

# Steps to implement

- Terms of measure
- Approval from European Commission
- Tender for additional financing
- Tender for the local commercial banks
- Agreements with banks
  - Terms for buildings
  - Monthly reports
  - Terms for financing (tranches, interest, risk margin, auditing etc)
- “Work” with end-beneficiary

# Problems during implementation in Estonia

- End-beneficiaries are still careful to take the loan
- No actual opportunity to persuade end-beneficiaries, only raise awareness and motivate
- Many documents to prepare by end-beneficiary before loan application can be finalized
- Reporting to EU is burdensome
- Banks reporting is significant

# Status quo

Start 24.06.2009

31.10.2011:



- 364 contracts with multi-apartment buildings
- total 32 mln €
- average 88 400 €,
- average saving 36%



# Combination of national and municipal funding schemes

- Credit guarantee from KredEx – if needed
- State grant from KredEx for:
  - energy audit – 50%, max 700 €
  - technical inspection – 50%, max 700 €
  - building design documents - 50%, max 4 000 €
- Reconstruction grant from GIS up to 35%
- Tallinn city grant 10% for apartment buildings using renovation loan







# Conclusions

- Building reconstruction is unavoidable
- 2 years for preparations – long period
- Economical conditions have changed drastically during preparation
- Scheme has great future (low interest, high energy efficiency) – combined with grants in Estonia now best financial terms over history
- Complex approach - awareness raising, promotion, state and local support, legal and financial framework – is the key for success

# Contact:

Foundation KredEx

Heikki Parve

Hobujaama 4  
10151 Tallinn, Estonia

Tel: +372 6 674 100  
Fax: +372 6 674 101

E-mail: [heikki@kredex.ee](mailto:heikki@kredex.ee)  
[www.kredex.ee](http://www.kredex.ee)