Financial Instruments for the low-carbon economy
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KredEx Revolving Fund

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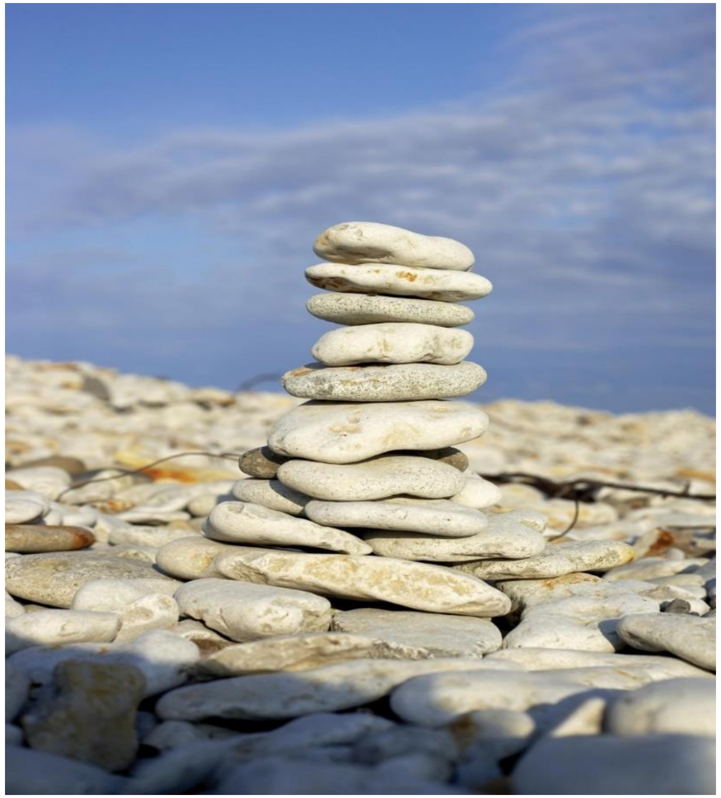
KredEX

European Union | European Regional Development Fund

KredEx improves financial market

KredEx (founded 2001) legally independent foundation acting based on insurance and banking principles



Under the jurisdiction of the Ministry of Economic Affairs and Communications

- **Two daughter companies:** SmartCap Ltd KredEx Krediidikindlustus Ltd,
- **Employees:** 50 (incl daughter companies)
- **Member:** AECM, NEFI, IUHF

KredEx is a self-sustainable organisation

KredEx helps people to improve their living conditions, offering:

- loan guarantees with state guarantee for purchasing homes
- loans, guarantees and grants for solutions aimed at energy efficiency
- fully accredited for using ERDF and ESF

KredEx helps enterprises develop quicker and expand more safely to foreign markets, offering:

- credit guarantees with state guarantee
- loans
- venture capital
- credit insurance

State guarantee limit for specific services:
Housing credit guarantees EUR 170 million
Business credit guarantees EUR 220 million

Estonia housing stock

- **~95% housing stock is in private ownership:**
  - ~60% of the housing stock has been built in 1960-1990
  - ~30% before 1960
- **~75% population living in multi-apartment buildings**
- **ca 20 000 apartment buildings, (only ca 300 completely renovated)**

From grants to revolving fund 2009-2014

Revolving character (re-usage of the funds)

Funds stay in state

Leverage effect (1/3 ERDF, 2/3 additional funds)

Grant scheme (2003-2007, €11 mio, 10% insufficient, not complex approach possible) *versus* loan scheme

Loan is needed for reconstruction anyway

Opportunity also to smaller buildings

Easier to administer, lower administrative costs

End-beneficiary is used to take loan

Revolving fund

State guarantee

CEB loan € 28,8 mio

State loan 16 mio

KredEx funds 9,5 mio

ERDF to fund equity € 17,7 mio

KREDEX

Fund € 72 mio

Favorable funding to the commercial banks

Swedbank

SEB

EE loan to HOA, Commercial bank takes the risk of lenders

Renovation loan for banks

Tender for the banks, selection criteria:

- Rating
- Respond to credit institutions act and have license
- Budget over 1 billion euro
- Bank has at least 1 year experience with financing multi-apartment buildings
- Bank accepts loan-maturity for 20 years

Loan terms:

- Maturity: up to 20 years, annuity loan
- Maximum limit of risk margin for Banks
- Terms for credit to multi-apartment buildings
- Fixed interest rate
- Bank is responsible for credit risk of multi-apartment buildings
- Maximum 8 tranches, next available after previous is used

Conditions for end-beneficiaries

- Multi-apartment buildings: at least 3 apartments
- Main purpose - energy efficiency (at least 20% energy saving for the buildings up to 2000 m² or 30% for bigger buildings)

•**Self-financing 15% (<u>grant</u> or own funds or loan)**

•**Energy audit is obligatory, renovation according to energy audit**

•**Supervisory is obligatory**

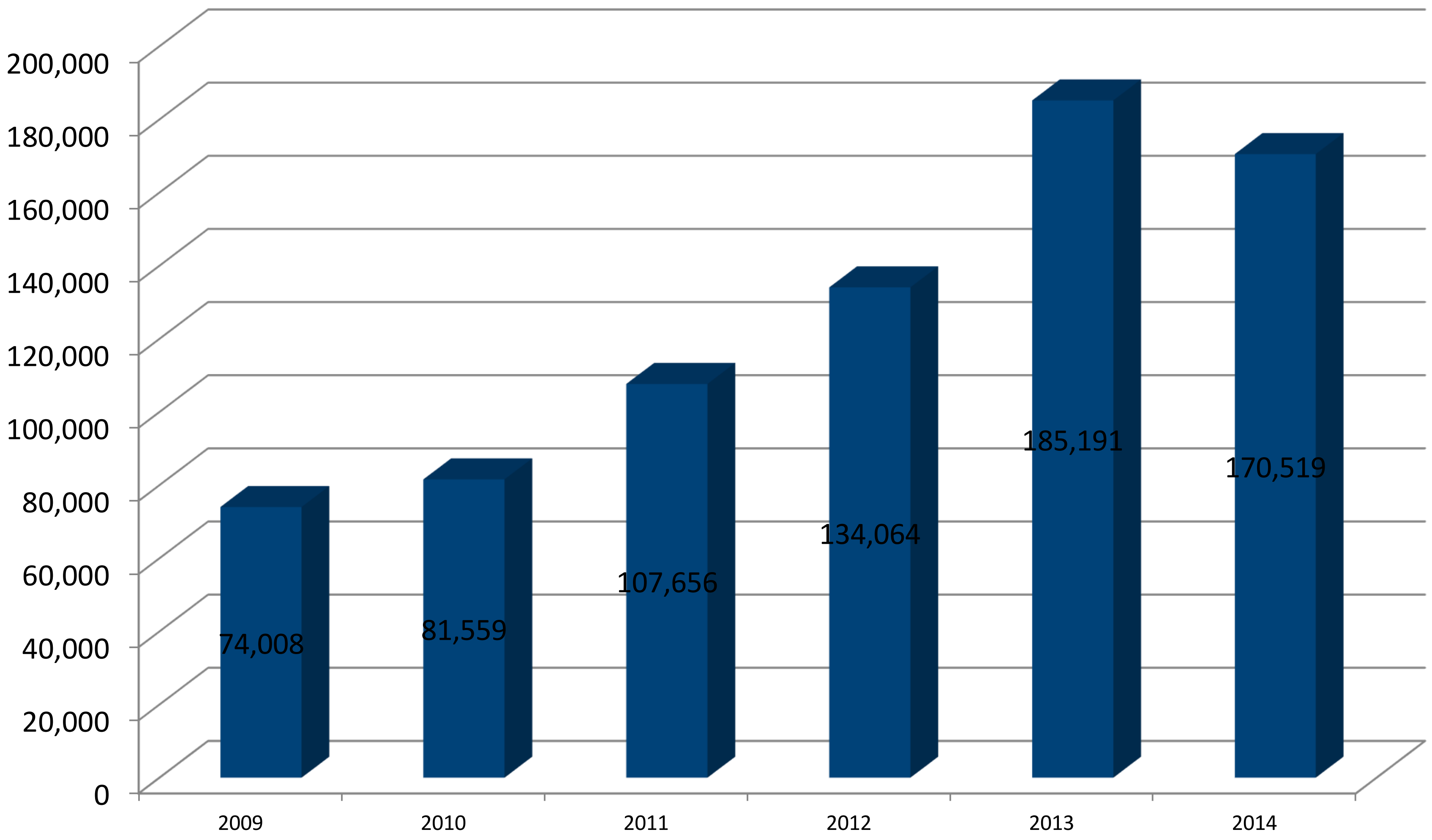
•**Loan maturity: up to 20 years**

•**Interest: from 2014 ~ 3,5%, before up to 4,5% fixed for 10 years, average 4%**

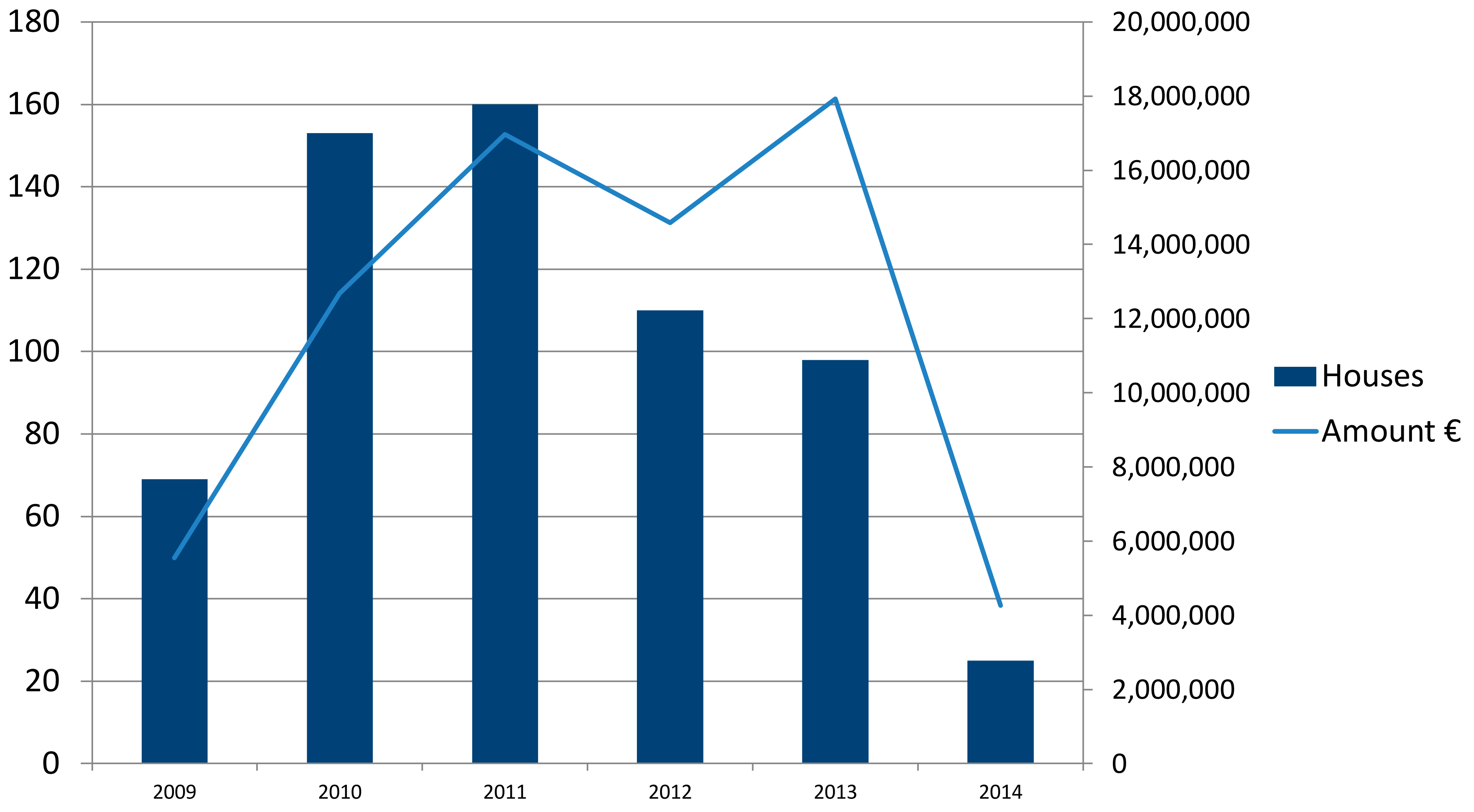
•**No collateral is needed, credit against cash flow**

•**Decision by buildings: at least 50% +1 one owner at general assemble, decision with simple majority**

Average loan amount €/building



615 houses, 72 mio €, avg 15 y.



Complexity, quality of renovation and energy saving rate

2003-2007
Loan (private banks): 8+%, short maturity, insufficient funds
Grant: 10% (11 mio)

2009-2014
Loan (revolving fund): fix. ~4% for 10y, 20y maturity, sufficient funds
Grant: 15, 25 or 35% (38 mio)

2015-2020
Loan (private banks): fix. ~2,5% for 5y, 15-20y maturity, sufficient funds
Grant: 15, 25 or 40% (102 mio)

Results

- **30.09.2010 – 31.03.2014 (with some pauses)**
- **661 houses, 24000 ap., ca 55000 inhabitants, 1,7 mio m2**
  - 15%, 275 houses
  - 25%, 181 houses
  - 35%, 205 houses (complex renovation)
- **Expected avg saving ca 40% (ca 75 GWh per year)**
- **Ca 15 000 tCO2 per year**

Remarks:

A bit too optimistic calculations by energyaudits

First years savings are lower, still problems with ventilation

HOAs need more technical help

More emphasis needed on technical side (better building design docs)

Period 2014-2020

Ex Ante was needed, but done partly (no FI)

No state aid, end beneficiary is NGO

Conclusions:

- No market failure regarding loan opportunities
- Biggest problem is asymmetry of information, low awareness and non-willigness and inability to take long-term commitments
- No good alternatives to the grant
- Grant is to compensate the lack of cost-benefit
- The goals of directive 2012/27/EU are rather high and to fufill these requiremets effective and quick-acting measures must be implemented.
- Guarantees by KredEx are inforce and extra guarantees are not needed
- 1 mio project-32% taxes and 17 new jobs

Lessons learned

- Preparation took long time – 2 years
- Many different partners to negotiate (international banks, local ministries, local commercial banks) – do it parallel
- Funds stay in the measure and are used several times
- Economical situation in the country can change dramatically and influence the behaviour of end-beneficiaries
- Legal framework to support the measure – decision making process, building permits, supervisory …
- Combination of different measures is a key to success
- Information to market participants and end-beneficiaries – it takes couple of years for end-beneficiaries to be as active as you expect
- No actual opportunity to persuade end-beneficiaries, only raise awareness and motivate

Thank you!

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