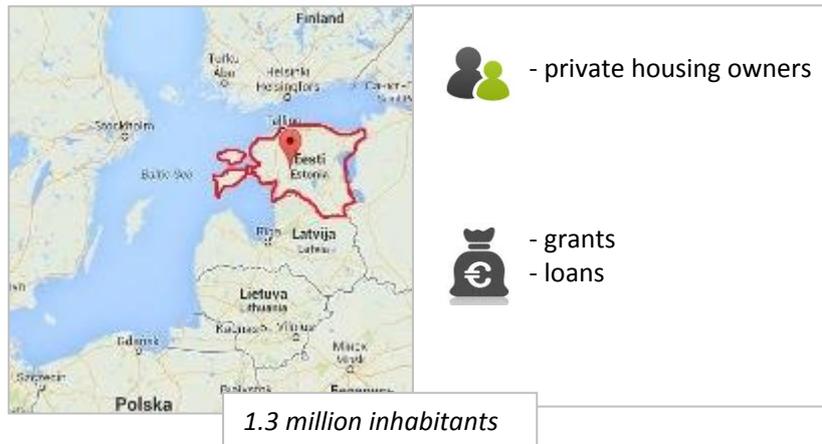


# The KredEx Revolving Fund

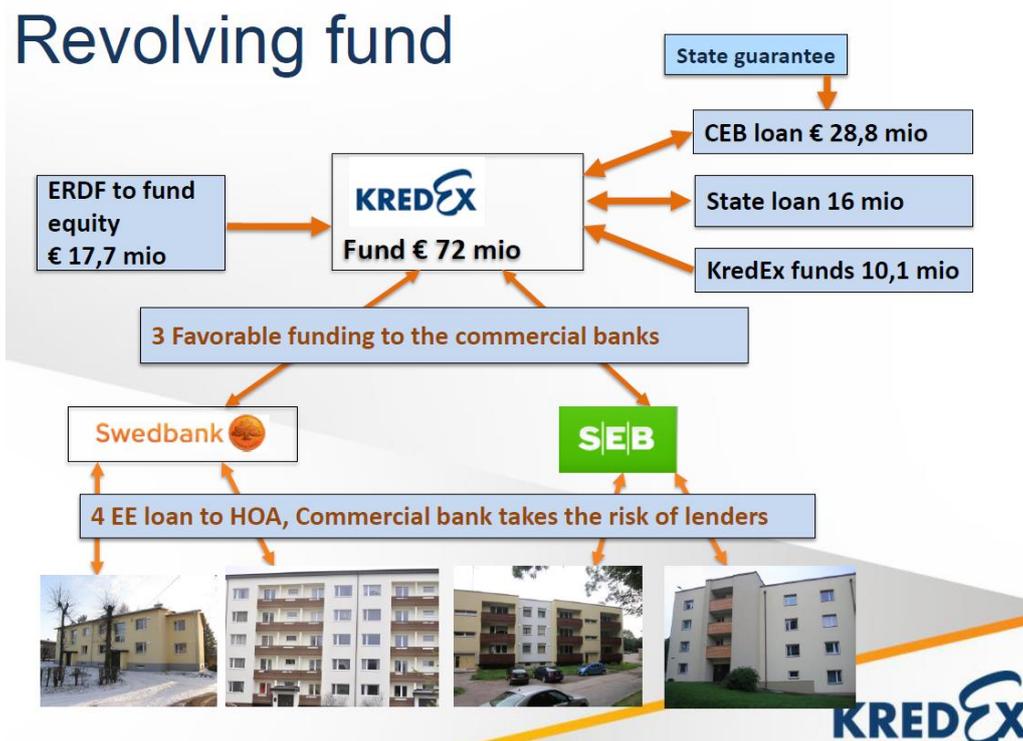
## Estonia



### 6. The financing scheme at a glance

Most buildings in Estonia are energy inefficient. The average annual heating energy used in the buildings today is about 200 kWh/m<sup>2</sup> compared to the industrial nations with a similar climate which is about 150-230 kWh/m<sup>2</sup>. Energy refurbishment loans for citizens, in particular multi-family apartment buildings, are available in Estonia since 2002. In 2009, a **KredEx Revolving Fund** was set up by KredEx - a financing institution that operates as a private company but is owned and governed by the national government – Ministry of Economic Affairs and Communications. KredEx Revolving Fund provides **soft loans for multi-family apartment building owners** who wish to reduce energy consumption and increase energy efficiency of their homes. Further financial sources, coming in particular from the EU structural funds (ERDF) and the sale of CO<sub>2</sub> emissions allowances are available for the owners in form of **grants**.

### 7. Business model - How is the financing scheme implemented?



## Description

In 2007 KredEx came up with the idea to set up a Revolving Fund, inspired by the KfW (German public bank) housing energy refurbishment programme. It eventually managed to get a political support from the Ministry of Economic Affairs and Communications and Ministry of Finance and the first negotiations with potential investors could start.

The following **public and private institutions decided to contribute to the capital of the Fund**, which was at that time considered quite risky (no other country in Eastern Europe had similar experiences):

- **The Council of Europe Bank (CEB)** – provided a loan of €28.8 M. It was selected out of several international financial institutions' offers as it proposed the most interesting interest rates. The loan has to be paid back.
- **Estonian government** – provided a loan of €16 M (in 2013). The loan has to be paid back.
- **KredEx** – provided €10.1 M from the profits of its financial operations.
- **European Regional and Development Fund (ERDF)** – the European Commission agreed that the state of Estonia allocates €17.7 M via the ERDF which was a result of difficult negotiations (at that time housing was eligible for the ERDF financing under very difficult terms and EU funds were mainly disbursed as grants not loans).

The Fund was set up in 2009 with the initial capital of €49 M. In 2013, the capital was increased up to €72.6 M.

**The KredEx staff costs** related to the setting up of the Fund were quite low (€200,000) comparing to the final value of the Fund. KredEx kept these costs low as nearly whole expertise is available 'in-house' (no external consultants needed). However, the staff costs were significantly increased due to difficult negotiations with the European Commission (in relation to the use of the ERDF). They would be even higher if the Fund was managed by the European Investment Bank as is the case in the frame of the JESSICA initiative. KredEx operational costs are not very high neither as the partner banks manage the loans. It would not be the case if KredEx had to disburse the funds in form of grants - this would require more internal administration.

<b>Date of creation</b>	2009
<b>Fund size</b>	<u>Initial fund size:</u> €49 million (2009) increased up to €72.6 million in 2013. For the moment no further funding is foreseen.  <u>Annual budget:</u> not applicable
<b>Financial sources</b>	<ul style="list-style-type: none"> <li>• European Structural Funds (European Regional Development Fund) – €17.7 million (25%)</li> <li>• CEB loan - €28.8 million (40%)</li> <li>• State loan – €16 million (22%)</li> <li>• KredEx funds – €10.1 million (13%)</li> </ul>
<b>Fund character</b>	Revolving
<b>Operational costs of the scheme</b>	<ul style="list-style-type: none"> <li>• KredEx staff costs – related to the setting up of the scheme (preparation, negotiations, etc.): €200,000 for two years</li> <li>• KredEx operational costs – related to the running of the scheme: €50,000 / year -&gt; 1 full-time person equivalent (lawyers, accounting, marketing, etc.)</li> <li>• Promotion of the scheme: €150,000 / year</li> </ul> <p><i>KredEx covered its risks within the contracts with banks, so it did not foresee any incidental costs</i></p>

## Organisation & partnerships

- **KredEx** – is a financing institution set up by the Ministry of Economic Affairs and Communications. It's acting as a private company. Its financial experts were responsible for the design of the scheme (terms, beneficiaries, etc.), negotiations with the partners (CEB, European Commission, local commercial banks) and relations with the beneficiaries of the Fund (Builders associations, Union of Housing Associations) together with the representatives of the above mentioned Ministry.

- **CEB** – provided the loan to KredEx and thus contributed to the initial capital of the Fund.
- **State / Ministry** – took a political decision to create the Fund and use the ERDF for this purpose. It also provided a loan to KredEx.
- **Local commercial banks (SEB, Swedbank)** – manage the loans, take decisions on the projects that will be financed, bear the full risk (non-payments) together with final beneficiaries. Swedbank covers up to 75% of the Estonian financial market for multi-apartment buildings. The banks’ main motivation was to get access to more clients (especially in the beginning of the financial crisis). They have also had very good experiences with financing energy refurbishment of multi-family buildings prior to 2009 (reliable clients, no late payments or payment defaults).
- **Builders associations & Union of Housing Associations** – get information about the Fund but do not actively participate in the set-up of the financing scheme.

Tender for the commercial banks was based in the following **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 and fixed interest rate for 10 years

## 8. Beneficiaries - How do they benefit from the scheme?

The objective is to finance energy refurbishment of multi-apartment buildings of at least 3 apartments built before 1993 via **soft loans** at interest rate fixed for 10 years. The beneficiaries are supposed to pay their monthly instalments from the savings made on their energy bills. Energy savings must achieve at least 20% for the buildings up to 2000 m<sup>2</sup> or 30% for bigger buildings.

The financing scheme also offers a **grant component** for:

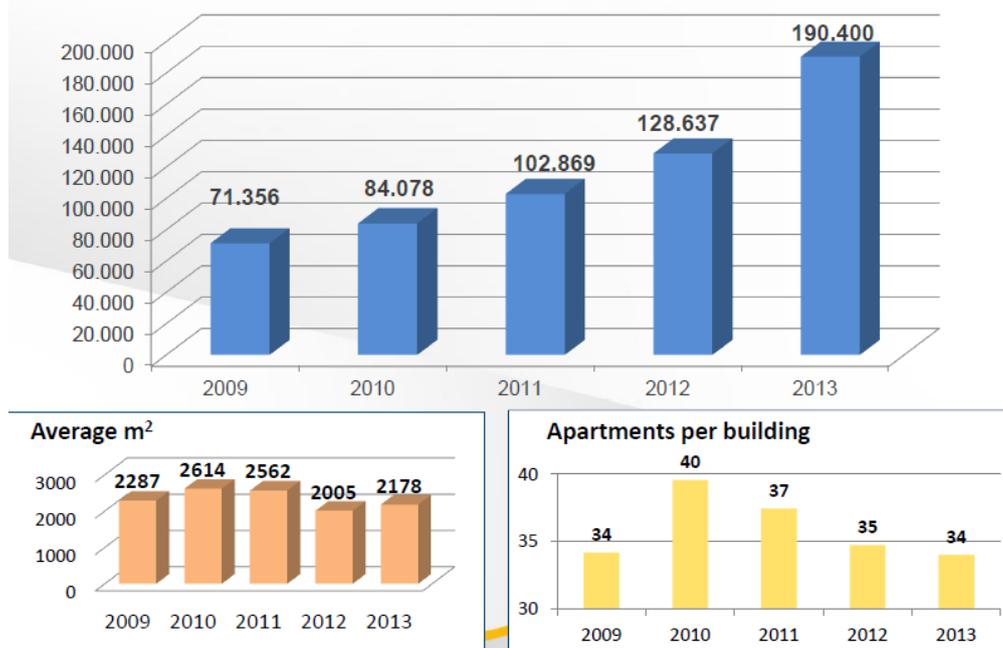
- Independent energy audit (including monitoring after the renovation) and project design documents which are compulsory
- Grant for reconstruction depending on the level of energy savings achieved

The grants are not paid from the KredEx Revolving Fund but from a **separate budget** coming from the ERDF (€ 3 M) and the sale of CO<sub>2</sub> emission allowances by Estonia to Luxembourg and in the European trade market (€ 40 M).

<b>Beneficiaries</b>	Multi-family buildings owners
<b>Types of projects</b>	Energy efficiency measures in multi-apartment residential buildings
<b>Type of financial support</b>	<p><b>Combination of:</b></p> <ul style="list-style-type: none"> <li>• <b>Grant for energy audit and project design documents (50%)</b></li> <li>• <b>Grant for reconstruction (&lt;35% – do more get more!)</b></li> </ul> <p><b>15%</b></p> <ul style="list-style-type: none"> <li>• fulfill the terms for renovation loan,</li> <li>• energy saving 20 or 30%, according to the size of the building</li> <li>• Energy label E, energy consumption &lt; 250 kWh/m<sup>2</sup></li> </ul> <p><b>25%</b></p> <ul style="list-style-type: none"> <li>• roof, facade, windows (U 1,1) heating system,</li> <li>• energy saving at least 40%</li> <li>• Energy label D, energy consumption &lt; 200 kWh/m<sup>2</sup></li> </ul> <p><b>35%</b></p> <ul style="list-style-type: none"> <li>• roof, facade, windows (U 1,1) heating system, heat-recovery ventilation system,</li> <li>• energy saving at least 50%</li> <li>• Energy label C, energy consumption &lt; 150 kWh/m<sup>2</sup></li> </ul>
<b>Type of financial support</b>	<ul style="list-style-type: none"> <li>• <b>Loan for reconstruction (&lt;85%)</b></li> </ul> <p><b>Max. amount lent: 1.35 M per building (banks’ requirements)</b></p>

**Interest rate:** 3,5% (2013), before up to 4,5% fixed for 10 years, average 4%; fixed interest rate  
**Maturity:** up to 20 years, annuity loan (average maturity = 17 years)  
**Guarantees:** No collateral is needed, credit against cash flow  
**Insurance:** building should be insured during the loan period  
**Grace period:** 1 year  
**Self-financing:** 15% (grant or own funds or loan)  
Maximum monthly instalment: no limit (banks' decision)

## Average loan amount €/building



## 9. Results

In 2009, when the Fund was launched, KredEx' objective was to finance at least 1,000 buildings. By the end of 2013, 798 buildings were renovated as follows:

- 415 buildings used reconstruction grant and KredEx soft loan,
- 185 buildings used only KredEx loan,
- 198 buildings used only reconstruction grant.

The home owners' interest in the scheme grew in 2010 when a renovation grant was introduced.

The whole budget (€ 72.6 M) has been nearly spent in the beginning of 2014. However, about 20,000 buildings in Estonia would need to be refurbished. Further increase of the KredEx Revolving Fund capital is not foreseen for the moment.

The scheme is also linked to the EU Cohesion Policy rules – the ERDF budget has to be spent by the end of the programming period 2007-2013 (+2 years). If the State takes a political decision, further ERDF funds could be invested in the Fund in 2014-2020.

### Example: Sõpruse pst 202, Tallinn

- 11 375 m² (162 ap. 2012-2013)
- Investment € 2 062 000, 181 €/m²
- Grant 35% € 721 600, 63 €/m²
- Credit € 1 340 000, 20 years
- Expected savings 65% ~500 MWh

- Triple windows
- Brought to the frontage of facade
- Heating system
- Ventilation system
- Facade, roof



### Key success factors

- Political decision by the Ministry of Economic Affairs and Communications to create the Fund was crucial.
- The Fund is revolving so the loan instalments go back to the Fund. However, the CEB and State loans have to be paid back first.
- Legal framework supporting the functioning of the Fund was already in place as since 2002 it has been possible for multi-apartment buildings to take a loan from commercial banks against cash flow (no collateral needed).
- Combination of different financing options (soft loan + grant) and an incentive for high energy savings via higher financial support are a key to success.

### Main obstacles

- Preparation took a long time – 2 years.
- Many different partners to negotiate with (international banks, local ministries, local commercial banks) – this has to be done in parallel!
- Even with active awareness raising and marketing activities targeting final beneficiaries, it takes couple of years for them to be as active as you expect.
- No actual opportunity to persuade end-beneficiaries, only raise awareness and motivate.
- Economic situation in the country can change dramatically and influence the behaviour of end-beneficiaries.

## 10. Promotion

- Campaigns since 2006
- Info days/seminars/workshops - to end beneficiaries, builders, energy auditors, project designers, municipalities
- Advertisements in newspapers/magazines
- Internet (website, banners, news, articles)
- Direct mails
- Leaflets/booklets
- Cooperation with banks
- Energy week (since 2010)



### More information

[www.KredEx.ee](http://www.KredEx.ee)

Mirja Adler - KredEx

Hobujaama 4

40151 Tallinn, Estonia

Tel: +372 6674 100

Fax: +372 6674 101

E-mail: [mirja.adler@KredEx.ee](mailto:mirja.adler@KredEx.ee)