

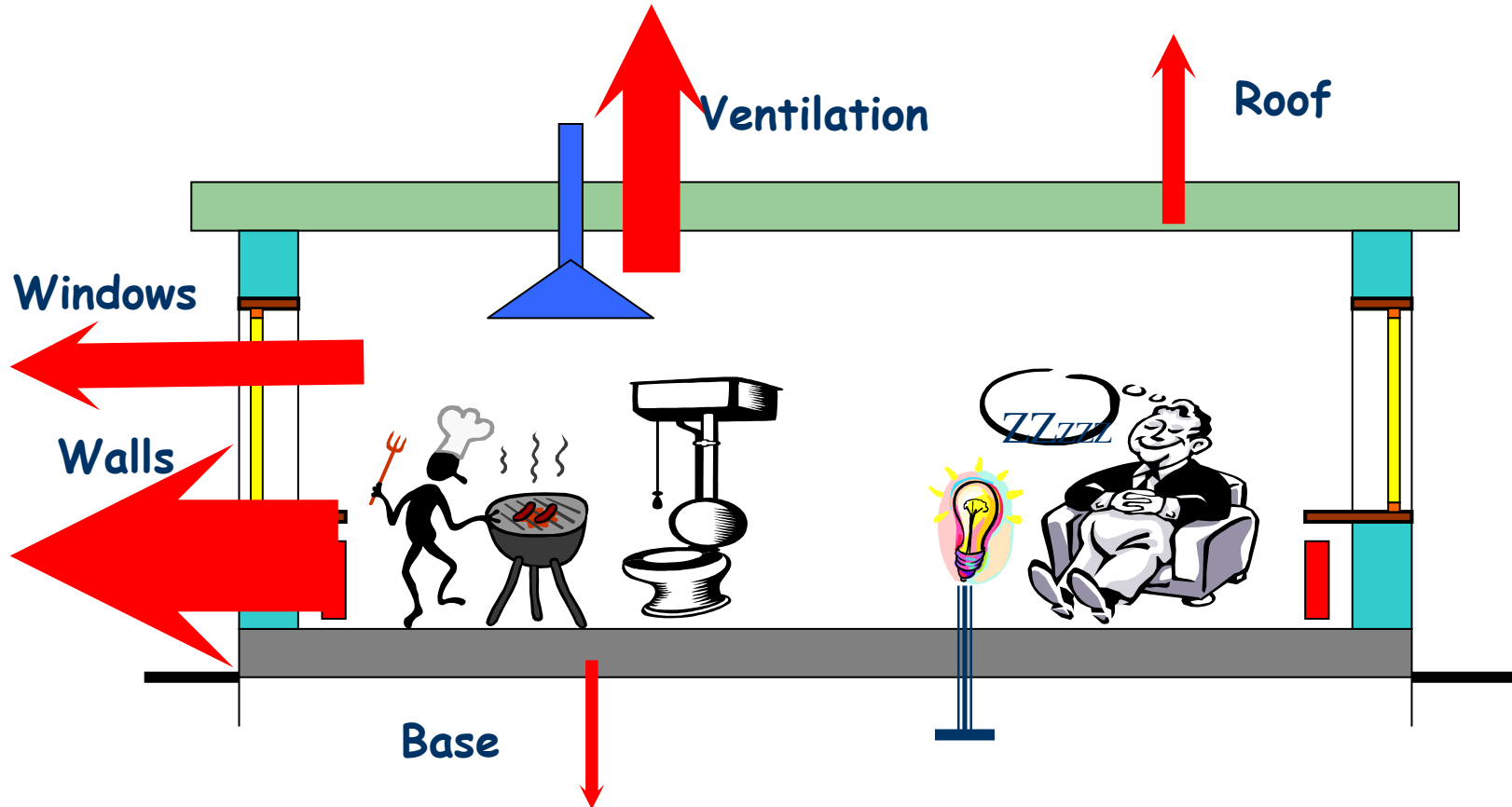
**Innovative Financing Schemes  
for  
Block Housing Energy Efficiency  
In  
Central Europe**

*EFSE Annual Meeting 2007*

*Budva, Montenegro*

- Financing energy and environmental infrastructure
- NYC, Washington, Warsaw, Prague, Belgrade, Amsterdam, Brussels, Barcelona
- Experience in 19 countries of CEE and CIS region since 1994
- Services:
  - ✓ Design of financial products
  - ✓ Project preparation and due diligence
  - ✓ Arranging financing
- Structured finance for over \$500 million in projects
- Clients:
  - ✓ IFC, World Bank, EBRD, EU, US TDA, DIGH
  - ✓ HVB, Erste, OTP, Raifeissen, SEB
  - ✓ Siemens, Honeywell

## Energy in CEE Residential Buildings

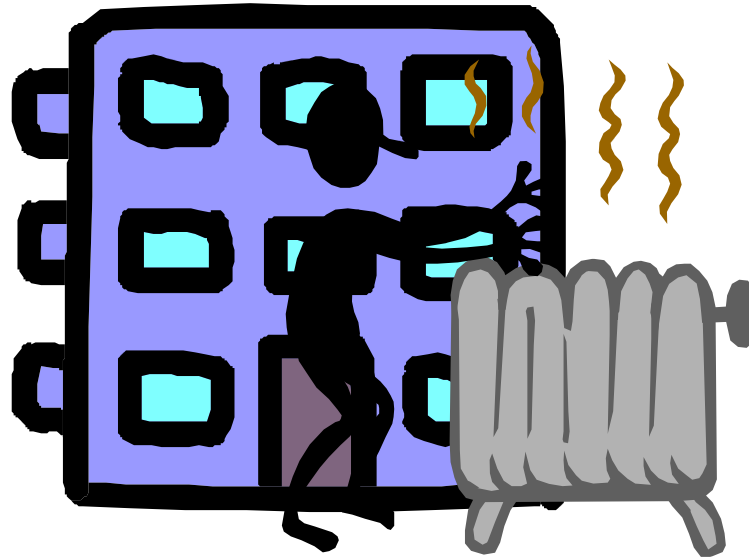


- Communal charges = 20 - 50% of household budgets
- Heating is largest single component of monthly bills
- 30 - 70% of CEE inhabitants live in apartments



- CEE housing stock:
  - 25% built before WWII
  - 75%: built from 1946 till 1991
- Heat resistance standards were 2 times lower than in Western Europe
- Inadequate maintenance
- Common problems in blockhouses:
  - Low heat resistance
  - Condensation and moisture in apartment outer walls
  - Wind and draught
  - No heat metering
  - High heat losses

- Housing consumes 25 - 50% of total energy in CEE countries



- 60-80% of energy lost via building envelope is avoidable
- 15 – 40 % total savings usually achievable

- Difficult to secure BH renovation loans with mortgages
- Underlying property cannot be attached
- Mortgaging individual owner's units unrealistic + unwieldy
- Still unclear legal framework
- Residents cannot afford increases to common costs
- Difficult for building to raise down payment on a loan
- May be low payment morale on common costs
- Building envelope renovation needs lead to long paybacks

## Preconditions to Commercial Financing

- Legal Framework
  - ✓ must be some BH legal entity which can assume loan
  - ✓ governance of that legal entity must be clear
  - ✓ majority rule decision-making w/o challenges
  - ✓ BH legal entity must be able to enforce claims against residents for non-payment of common costs
- Financial
  - ✓ common cost payments level which supports investment
  - ✓ strong payment morale of residents

**BUT THERE ARE INTERIM SOLUTIONS TO SET THE  
STAGE FOR COMMERCIAL FINANCING**

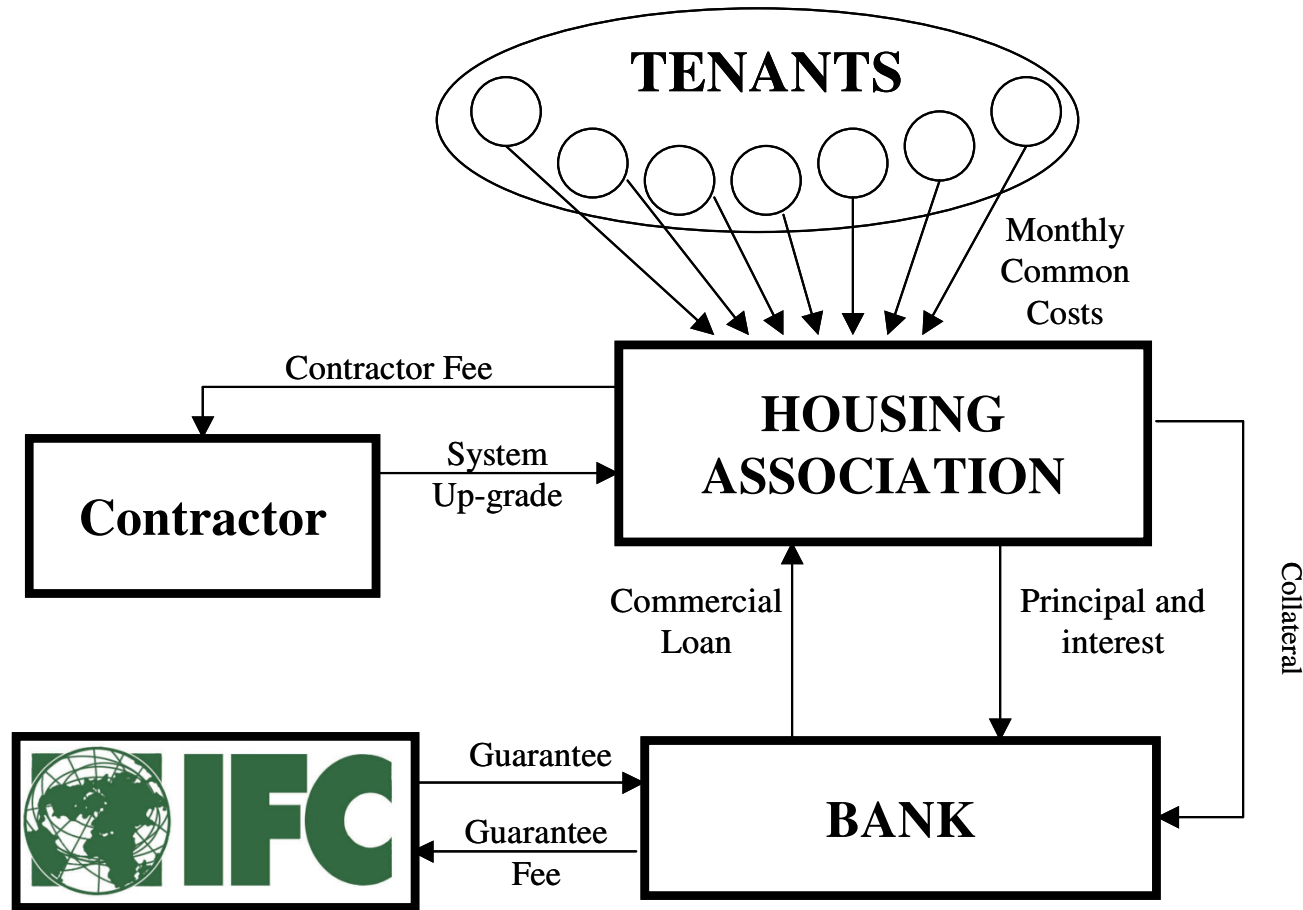
- ESTONIA
  - ✓ intervention with commercial banks altered approach
  - ✓ intermediary to aggregate BH loans
  - ✓ TA for project preparation
- HUNGARY
  - ✓ innovative structure for credit support
  - ✓ financial engineering to maximize impact of subsidies
- POLAND
  - ✓ financial engineering to overcome equity requirements
- LITHUANIA
  - ✓ program to demonstrate commercial financing
  - ✓ layered credit support address high risk perspective

**Hungary**  
**Housing Reconstruction**  
**Finance**

- Raiffeisen Bank (RB) had been operating in the Block House (BH) financing market
- Required minimum of 100% liquid collateral level
- State and municipality grants (1/3-1/3) were involved into the financing structure
- Collateral requirements could not be met by most BHs
- IFC worked with RB to develop more attractive loan product
- DIGH works with GreenMax and ERSTE to develop social EE finance product

## Hungary IFC Program Summary

- Source of re- payment is cash flow of the BH: increased common costs paid by the tenants
- 100% debt financing
- Building Society Funds (BSF) are part of structure: loan principal is repaid at the end of the loan term, covered by the monthly savings paid into the BSF
- Two state subsidies: 1) 30% grant on the BSF savings, and 2) 70% interest subsidy for first 5 years; 35% during the second 5 years
- Average IFC guarantee = 35% for a loan portfolio
- DIGH cash deposit in the amount of 20% of the loan



## **Hungary** **Risk Mitigation**

**Main Risk Factor** - common cost payment morale of tenants

Risk mitigation:

- (i) HA's accounts must be kept at the bank
- (ii) bank has preferred drawing right on all the accounts of the HA
- (iii) common cost and all other revenues of HA assigned to bank
- (iv) mortgage on marketable facilities of the block house
- (v) all insurance policies are assigned to the bank
- (vi) IFC guarantee
- (vii) DIGH cash deposit

**HA has right to originate mortgage on the property of tenants that are not paying the common costs**

- Different country situations require different approaches
- Need a “tool box” of solutions to find which to apply
- Each program has a subsidy component, need to coordinate with many institutional players
- Credit support, if necessary, geared to risk perceptions
- Innovative financial engineering always key
- Extensive TA and capacity building needed to all parties
- Important to involve commercial lender in loan origination even without risk of loss
- Demonstrate viability, program by program one step at a time

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