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Modernization of apartment buildings and renewable energy sources, financing mechanism

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Modernization of apartment buildings (MAB) and renewable energy sources, financing mechanism

1. MAB challenges

2. MAB corrective measures

3. MAB process

4. Lessons learned

MAB challenges



Apartment owners related challenges

- Chronic distrust of population in Government
- Failed public relations program
- Poorly organized apartment owners
- Large share of owners on fixed income
- Many low-income people were eligible for heating bill compensations, and had no incentive to join the program
- Low interest to install renewable resources



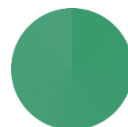
Financial institution related challenges

- Initial reluctance and distrust
- Risk averse



Law related challenges

- Possible state support issues
- Legality of personal data handling
- Turning the apartment owners into borrowers against their will (possibly), and consequently they don't fulfill their obligations



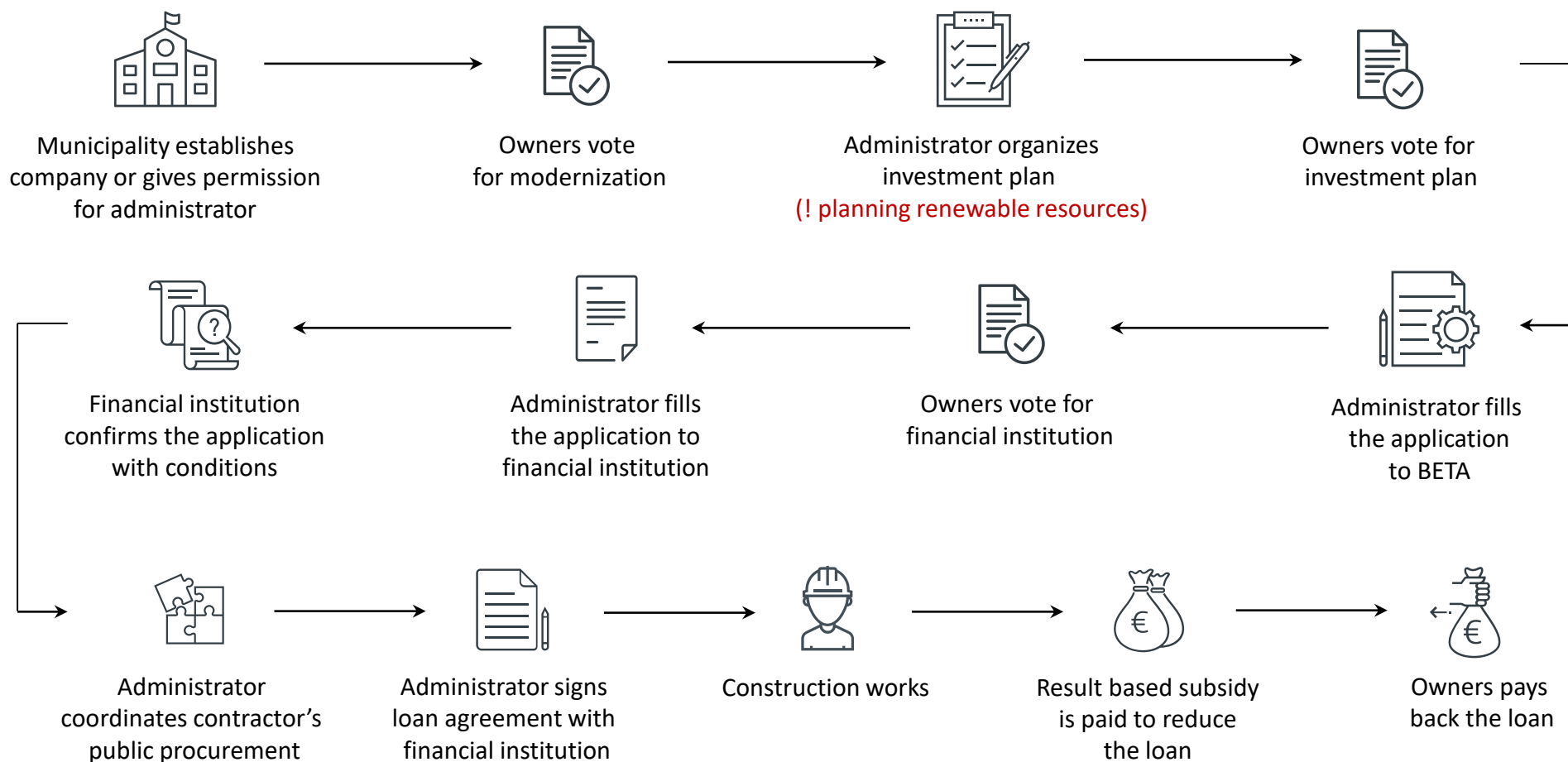
Other constraints:

- Limitations within construction sector – several unsuccessful contractor's public procurements until finally it happens
- Bigger contractor risk as mostly small companies bid for contracts

MAB corrective measures

- ✓ Result based subsidy element introduced
- ✓ Municipalities instructed to draw lists of the worst-performing buildings
- ✓ Municipalities appointed renovation administrators
- ✓ Administrators borrow on behalf and in favor of apartment owners
- ✓ Loan remains off the balance of Administrator
- ✓ Loans outside consumer credit law (exemption) with other protection measures
- ✓ Loans linked to apartment (asset) rather than to individual
- ✓ 50% +1 of apartment owners have to agree to join the program
- ✓ Gradual phase-out of heating bill compensations
- ✓ Technical assistance (including promotion) institution and measures

MAB process



Lessons learned

- ✓ Good knowledge of market conditions and final beneficiaries (invest in quality of market/ex-ante assessment):
 - Important to see the “big picture”
 - Consult stakeholders early, but be consistent and tough, if necessary
 - Coordinated in-house development allows for better representation of public interest (although high competence team is needed)
- ✓ Good planning – milestones and steps to achieve them
- ✓ Consistent policies and stable procedures (assurance of on-going political support)
- ✓ Need for national reforms – respective strategic changes need to be done before the potential FIs could practically work in other sectors
- ✓ Apply corrections in a timely manner

Lessons learned

- ✓ FI's do not "fly" if you have similar subsidy (including related sectors) instruments or they are considered
- ✓ Delegate process owner
- ✓ TA for project pipeline development facilitates the start and implementation of FI's and promote your initiatives
- ✓ Challenge to "go first" – must be brave and optimistic
- ✓ Standardize and simplify process as much as possible (e.g. "one stop shop")
- ✓ Ensure quality of implemented projects
- ✓ Play "Carrot-and-Stick" game: motivative measures must be introduced with punishing ones at one time (e.g. state subsidy + loss of compensation by voting against)

Lessons learned

- ✓ More flexible and simple procurement process introduced
- ✓ Construction sector inclusion and awareness raising campaigns
- ✓ Slow start of FIs - raising public awareness, changing mentality, subsidies vs loans, challenge to shift thinking from “grants” to “revolving investments”
- ✓ Reluctance of financial intermediaries to perform new administrative functions related to ESIF, thus you would need to step-in
- ✓ If possible, try to make room for flexibility, limit restrictions to minimum
- ✓ While project pipeline accelerating think of alternative financing sources leveraging public funds





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Thank you for your attention!



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