

How to set up a combined FI and design a funding agreement: Case of Latvia

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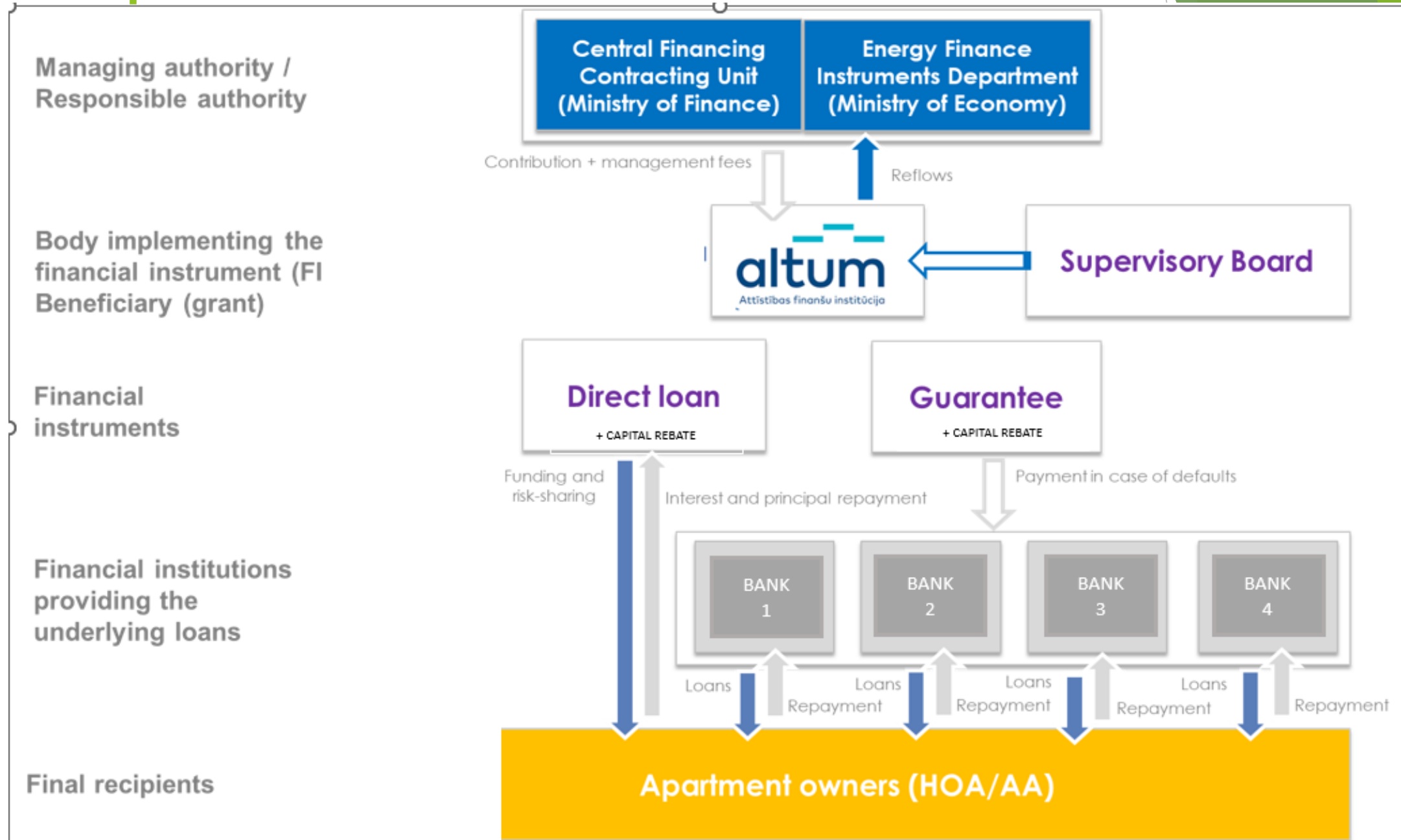
National Promotional Institution Altum

22.09.2024

Public bodies in implementation of EU programs

	Functions set by the legal acts	Interactions with Altum
Managing authority (MoF)	Management of the implementation system	
Responsible authority (Ministries)	Ensures achievement of goals	Drafts the regulation (for approval by the Cabinet of Ministers)
Cooperation authority (CFCA)	Collects the information / provides consultations	Signs implementation agreement / collects information / performs audits
Accounting-authority	Prepares and submits payment applications to the Commission	
Auditing authority (MoF)	Assurance on the effective operation of the management and control systems and checks on the legality and correctness of the expenses	Performs audits

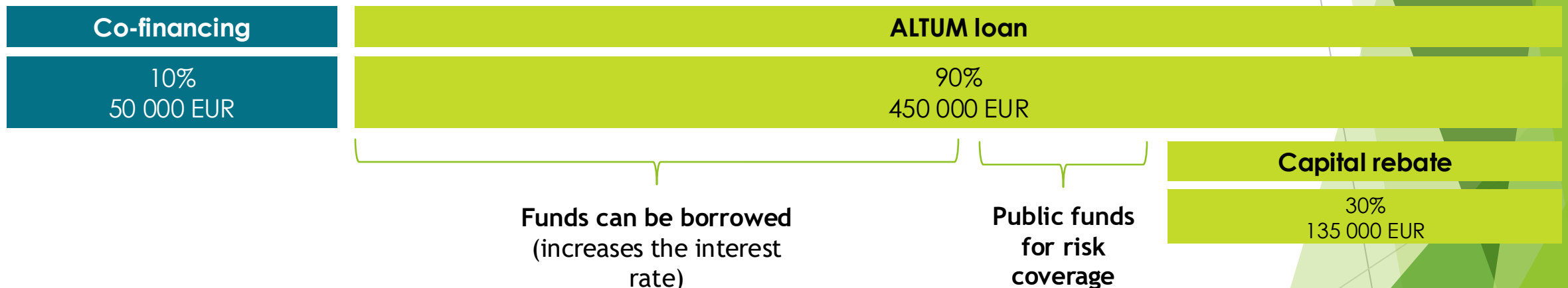
Set-up of the measure



DIRECT LOAN + CAPITAL REBATE

Capital rebate is applied to **ALTUM's loan**

PROJECT EXAMPLE WITH ELIGIBLE COSTS OF 500 000 EUR

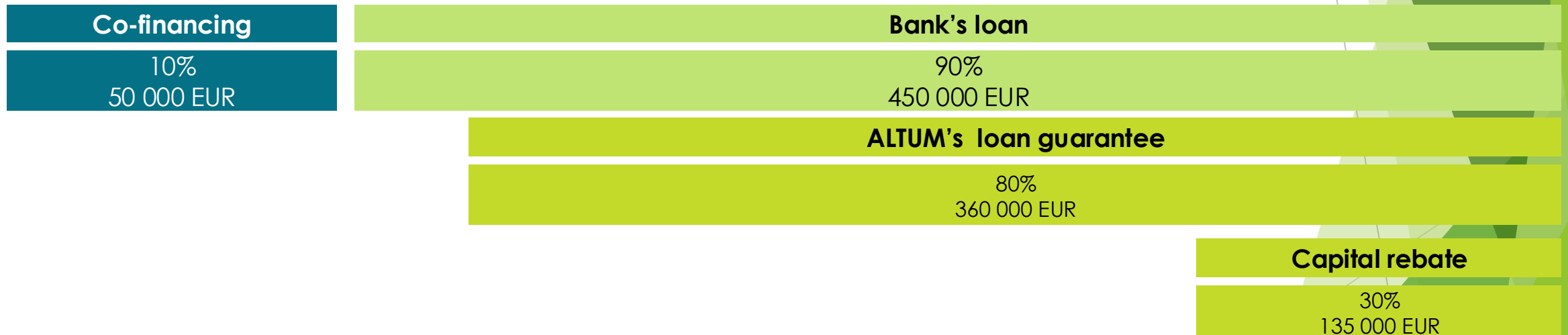


Client receives refusal letter from the commercial bank

GUARANTY + CAPITAL REBATE

Capital rebate is applied to **Bank's loan**

PROJECT EXAMPLE WITH ELIGIBLE COSTS OF 500 000 EUR



Cooperation agreement
with the commercial
banks

PARALLEL LOAN + CAPITAL REBATE

Capital rebate is applied to **ALTUM's loan**, only

PROJECT EXAMPLE WITH ELIGIBLE COSTS OF 500 000 EUR

Co-financing	Bank's loan	ALTUM's loan
20% 100 000 EUR	40% 200 000 EUR	40% 200 000 EUR

Capital rebate
30% 60 000 EUR

Cooperation agreement
with the commercial
banks

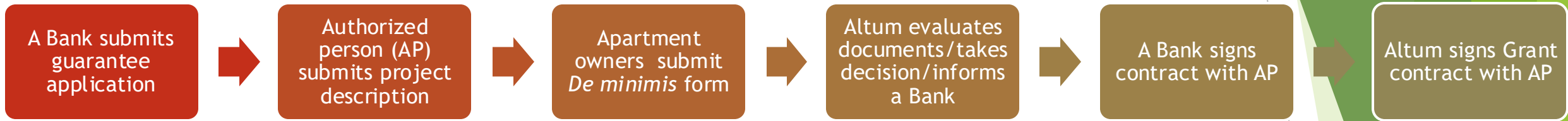
Cabinet of Ministers Regulation's: specific clauses regarding the capital rebate

- ▶ **capital rebate** – a support component, a partial reduction of the principal amount of the loan provided by a bank or the company "Altum", which is applied after the improvement of the energy efficiency of the apartment building, if, according to the temporary energy certificate of the building, after the completion of the works, a primary energy savings of 30% have been met
- ▶ **The guarantee** covers up to 80 percent of the amount of the loan from another financier for the eligible costs for project implementation. After the capital discount is paid, the amount of the guarantee is reduced accordingly
- ▶ **Draft regulations:**

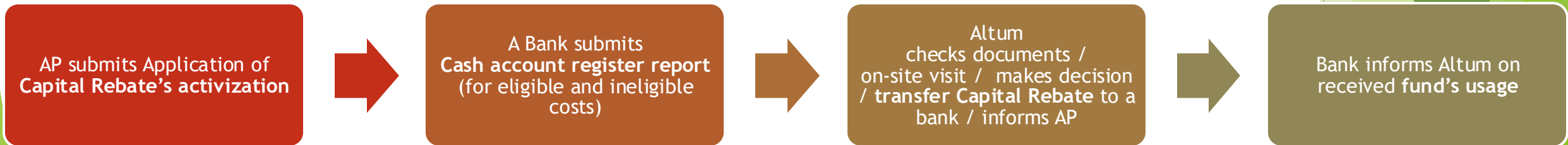
<https://tapportals.mk.gov.lv/structuralizer/data/nodes/f38226cf-0f33-4e34-83f0-7e46fae1857d/preview>

Process in case of loan guarantee and capital rebate

Application



Activization of the capital rebate



Capital rebate's model (draft)

≥30% energy efficiency increase		40% of loan amount
	industrially produced wooden frame panels	50%
	for at least three buildings within the block	50%
<30% energy efficiency increase	Latgale region	40%



Capital rebate

Capital rebate's specifications	<p>Apartment owners select Authorized Person (legal person)</p> <p>Applying for a loan or guarantee, application is submitted for a capital rebate as well <i>De minimis</i> aid on apartments' owner's level</p> <p>Eligible costs:</p> <ul style="list-style-type: none"> - Technical documentation - Construction works - Renovation, reconstruction or creation of engineering systems - Renewables - Microgeneration energy production technological equipment - Author supervision and construction supervision - Project management - VAT <p>Design&build is eligible</p>
Activization of capital rebate	<p>Construction and renewable energy technology measures have been implemented</p> <p>Building has been put into operation</p> <p>Temporary energy certificate of the building is registered, which confirms the fulfilment of the energy efficiency condition</p> <p>Supporting documentations of the eligible costs are submitted</p>

Standard Agreement Form with CFCA

General rules

- Definitions
- Financial recipient's (Altum) obligations and rights
- Cooperation Authority's (CFCA) obligations and rights
- Rules for the management of unused funds
- Cooperation with financial intermediaries (*if applicable*)
- Management fee
- Opening the account and accounting
- The order in which on-site inspections of the relevant activities are carried out
- Procedures for making purchases and checking their compliance
- Procedure for submitting, examining payment requests and making payments to the Funding Beneficiary
- Reduction of eligible costs
- Suspension and Suspension of Payment
- Amendments of the Contract
- Closing of financial instruments and procedure for termination of the Agreement
- Applicable law and dispute resolution procedure
- Protection of personal data

Business plan

Evaluation criteria of final recipients

Challenges / Solutions

- ▶ **Forecasts/Budgeting** (split between funding for guaranty, direct loan, capital rebate, management fee; the changing nature of the demand will affect the actual usage) / **Improvise**
- ▶ **Negotiations with the banks** (usually quite lengthy process with lots of details being discussed) / **Start early in the process**
- ▶ **Negotiations with the CFCA** (especially regarding Reporting template) / **Be convincing**
- ▶ **Increasing complexity over time** (mostly coming from Audits) / **Find right balance (simplify complexity)**
- ▶ **Updates in the reports** to MA after activation of capital rebate / **Maybe it can be assumed initially, that capital rebate will be activated in all cases and based on this assumption the funding calculated and reported to MA**
- ▶ **Reservation of capital rebate's funding** before selection of service providers / **Maybe it could be skipped**
- ▶ **Separate agreement** with the Authorized person on Capital rebate / **Maybe Capital Rebate could be integrated in the Guarantee letter**
- ▶ **Set-up of technical assistance operations** / **Discussion with the service providers**

Paramount important: effective Regulations designed by the Ministries

Forecasts/Budgeting

1

Combined financial instrument with capital rebate 40%

Theoretical model

	Altum's direct Loan	Bank's loan
Loan amount	100	100
Loan guarantee (80%)	N/A	80
Funding requested from ERDF:	100	44.8
For loan	60	
For guarantee (e.g. mult. 10)		4.8
For Capital rebate	40	40

Solution 1:	Management of funding according to demands until is is exhausted
Solution 2:	Utilize additional funding (State budget or borrowed), attributing to the ERDF funds the same amounts under Loan as under Guarantee instrument (e.g. in case of Altum's direct loan borrowing

Thank you!

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