

CEESCO – enabling energy saving companies in Central Eastern Europe (CEE) to achieve scale & impact

Introduction & problem space

- Buildings produce **36% of EU greenhouse gas emissions**. In CEE, 75% are energy inefficient
- Energy Service Companies (ESCOs) install energy efficiency equipment in buildings
- ESCOs recoup their investment by taking a **share of energy cost savings** over 10-15 yrs
- Investment is typically financed by 5-10 yrs loans
- The **timing mismatch** between loan maturities and ESCO project lengths mean ESCOs reach their debt capacity quickly and struggle to scale
- This restricts building users' ability to use ESCOs to **save costs and reduce emissions** in CEE

Solution [financial innovation]

- CEESCO is a forfailing fund, which **purchases energy saving projects' accounts receivables** from ESCOs at a discount
- The up-front funds paid to ESCOs allows them to **repay bank debt and rapidly scale their businesses** with further energy saving projects
- CEESCO **issues green bonds** to finance projects
- Over a project's duration, CEESCO will **collect accounts receivables** from the building occupant and settle power bills. With the residual energy cost savings, it will **issue semi-annual coupons** to green bond holders, and pay a margin to the fund's equity holders



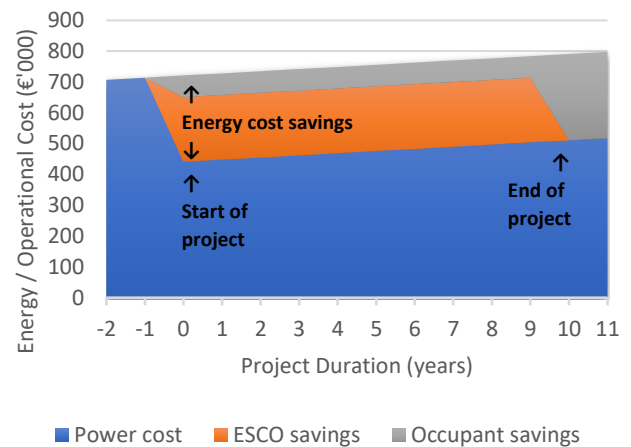
Key fund details

Market size	€350m
Fund size	€30m
Time horizon	10 years
Number of projects	70
Carbon dioxide savings	0.4-0.6m tonnes
Energy savings range	20-55% reduction
ESCO yield on A/R sale	15-25% [of project capex]
CEESCO IRR target	7%
Green bond yield target	3.5%

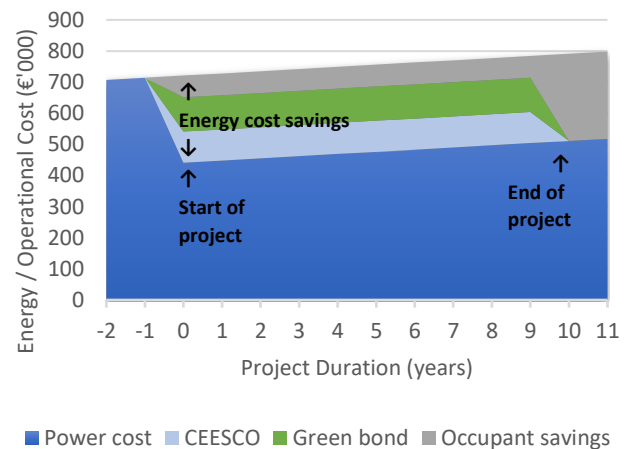
Target region

Initially **Lithuania**, where conditions are favourable for ESCO growth, then expansion to wider CEE region

ESCO model without CEESCO



ESCO model with CEESCO



Macro trends

- GDP growth in CEE is pushing demand for **renovation of old building stock**
- Large volume of inefficient soviet era buildings in CEE with **potential for efficiency gains**
- Energy efficiency is seen as a key component of **energy independence strategy** in CEE region
- New EU regulations for energy efficiency and **carbon taxes** are being considered
- Demand is growing for **green bonds with measurable impact** from European investors
- Limited financing options** available to ESCOs

Pilot market & scalability

- CEESCO will initially **target public sector buildings in Lithuania**: hospitals, kindergartens, schools, police and fire stations, administrative buildings. **Lithuania pilot market size – 0.7m sqm of public buildings**
- As per the Energy Performance of Buildings Directive Factsheet, 75% of the building stock is energy inefficient. In the case of **public buildings this is estimated to be closer to 80%** (especially in the target region)
- On average, non-residential buildings consume **300 kWh/sqm p.a.** which translates to **EUR 27/sqm/p.a.**
- After launching in Lithuania, CEESCO will later **scale in CEE** with a stock of over **260m sqm of public buildings** (Entranze)
- 11 countries** with a total **population of 102m**: EE, LV, LT, PL, CZ, SK, HU, HR, SI, RO, BG

Key partnerships

- [Ministry of Energy](#), [Ministry of Environment](#) and Public Investment Development Agency ([VIPA](#))
- Established ESCOs and the Lithuanian electric energy association ([LEEA](#))
- Local energy company ([Ignitis Group](#)) and suppliers
- EU Energy Efficiency Bodies ([EEEF](#)) and European Think Tanks ([The European Energy Institute](#))
- Investors - local commercial banks ([SEB](#), [Swedbank](#)) and asset managers ([BaltCap](#), [Lords LB](#))
- Local technical universities ([VGTU](#), [KTU](#))

Sustainable development goals tackled



Risks	Description	Mitigation
Legal	Consistency of legislation Lack of generally accepted ESCO definition, certification or standards across jurisdictions	Partnering with public and private organizations in the field
Procurement	Low level of institutionalization and project tools Risk of changing efficiency technologies and complexity of multiple installations of energy saving equipment Risk of measuring the true impact	Bringing best practices from foreign markets, involving global organizations focused on energy efficiency, partnering with impact measurement companies
Financial	Liquidity and creditability of accounts receivables High transaction or energy costs Risk of non-performance of energy efficiency gains	Focusing on ESCO companies that are successful in public building renovations, involving local banks (see below)
Market	Lack of trust by clients, local governments, investors and financial institutions Lack of well-established partnerships between ESCOs, subcontractors and clients	Building local partnerships and launching media campaigns to raise awareness, participating in the local energy and govtech sandboxes

Roll-out plan

Q2 2020	Q3 2020	Q4 2020	Q4 2020	2021 – 2031	2022
Detailed financial modelling & market research	EU institutions and ESCO outreach	Investor outreach and survey for potential bond holders	Apply for EU Investment Fund License	Launch fund, raise AUM and ESCO portfolio	Expand to other CEE countries

Team

BORANDA Bianca, Romanian ([LinkedIn](#)): 6+ yrs. in capital markets advisory at Chatham Financial in US & Singapore

FRASER Donald, British ([LinkedIn](#)): 9+ yrs. in shipping and carbon markets across Asia Pacific

IVANESCU Iustin, Romanian ([LinkedIn](#)): 7+ yrs. in debt & equity investments, project and public finance at EBRD

STANKEVICIUS Dom, Lithuanian ([LinkedIn](#)): 5+ yrs. in Invest Lithuania (FDI) and startups, focused on fintech sector

Advisors

DRUBEL Jim, Morgan Stanley, US | **GIBB Alex**, Investor, LT | **STARAS Augustas**, Digital Finance, HK | **WAHL Hans**, INSEAD