

Transaction support

A Transaction Fund has been established by ELI in Hungary, the objective of which is to assist ESCOs and buyers of ESCO services in overcoming barriers to ESCO business. The ESCO Transaction Fund provides financial support for

- the development of ESCO lighting projects (to overcome the high transaction cost barrier),
- the marketing of ESCO lighting projects (to overcome the low awareness barrier),
- the development of mainstream ESCO and ESCO-support complementary (financial, legal, technical, administrative) capacities (to overcome the insufficient capacities barrier),
- the implementation of model transactions (to demonstrate the benefits of the ESCO approach, and to demonstrate the feasibility of state-of-the-art efficiency technologies),
- the preparation of sample contracts, and
- the development of end-user capacities to procure ESCO projects (to lessen suspiciousness about the ESCO approach).

The barriers, the Transaction Support Fund is to address, are the following:

- (a) High up-front project development costs. The development of ESCO projects, preparing them for investment, getting end-users ready to make decisions, developing and providing appropriate enhancements to create creditworthy finance structures, and arranging financing, is rather expensive and risky. The development costs are high as compared to the value of the project. The ESCO cannot be sure that the costs can be recovered later, as the end-user may select a different implementation model or a different entrepreneur. High up-front costs and risks hinder the development of projects in general, and keep the ESCOs away from smaller projects.
- (b) Suspiciousness about the ESCO approach. There is no good understanding of what an “ESCO” or an “ESCO project” is on the market. News are spreading about extra high entrepreneurial profits, poor performances, and difficult-to-follow business models. The end-users have more distrust and suspicion than the ESCOs would deserve.
- (c) Low quality products used in retrofits. Quality is often neglected in lighting upgrade projects. The end-users’ efforts to keep first costs low may result in the use of extremely low quality equipment. Luminaires for linear fluorescent lamps, for example, cost typically HUF 10,000. At the same time products show up on the market at the price of HUF 4000, too. It is impossible that the HUF 4000 product can comply with any quality requirements. End-users who opt for such products become unhappy sooner or later and the news on unsuccessful projects spread on the market quickly.

- (d) State-of-the art technologies neglected. State-of-the art technologies, such as electronic ballasts or sophisticated lighting controls are in most cases neglected for the perception that they are “exotic”, not worth to buy. Studies show that while the use of certain technologies (for example photocell controlled dimmable systems) is really out of question for many end-users, there is a significant scope of technologies which may prove to be feasible.
- (e) Not enough good news stories about ESCO projects. Although the ESCO approach is widely known in Hungary, most of the end-users believe that it is applicable mainly for large space/district heating and street lighting projects only. Not many indoor lighting projects are implemented by ESCOs, and news are not properly spread about the successful ones.

The Fund has two windows:

The “Project Development Window” covers a part of “soft” transaction costs of the applicants, and

the “Demonstration Window” covers a part of “hard” investment costs of projects with outstanding demonstrative value.

The two windows serve the same purpose. However, the timing, and operational practices of the two windows differ. Support from the Project Development Window is available for 30-50 projects, while only 5-10 carefully selected projects will receive support from the Demonstration Window. Operation of the Project Development Window started in late 2001, while the support from the Demonstration Window will be made available from mid 2002.

The Project Development Window covers maximum 80% of the applicants’ reasonable costs.

The Demonstration Window provides maximum 20% of the justified investment costs. This 20% is the additional cost market players are typically faced to when implementing projects according to ELI specifications.

The Fund provides support on a competitive basis. The scope of eligible applicants includes

- operational ESCOs which are working on a new project (or a number of new projects)
- companies which are willing to enter the ESCO market (“to be ESCOs”), and are working on a new ESCO project (or a number of new projects)
- end-users which are considering to involve an ESCO for the modernization of their lighting equipment (assistance to procurement)
- ESCOs or to be ESCOs which are marketing their services

- ESCOs or to be ESCOs which are developing their capacities (for example need expert assistance, special training, information exchange with other market players, etc.)
- financial institutions which are developing or marketing banking products for ESCOs
- experts, entrepreneurs, etc. who are developing or marketing products, services for ESCOs (e.g. project evaluation software, market survey, marketing tools, etc.).

The scope of eligible activities, services, and products includes

- ⇒ energy audits at potential ESCO clients
- ⇒ preparation of ESCO proposals for end-users
- ⇒ development of business models, financing schemes, sample contracts, etc. for ESCOs
- ⇒ procurement and management of ESCO projects by the end-users
- ⇒ marketing activities (travel, preparation of materials, communication, reference visits, presentations, etc.) of ESCOs
- ⇒ technical design and engineering of interventions belonging into the scope of an ESCO project
- ⇒ licensing ESCO transactions
- ⇒ expert assistance to lighting ESCOs
- ⇒ demonstration of novel applications of energy efficient lighting technologies in compliance with ELI technical standards
- ⇒ demonstration of ESCO business models
- ⇒ demonstration of novel indoor lighting upgrade market segments
- ⇒ development of sample ESCO contracts.

Working procedure for the Transaction Fund:

1. EGI has put the call for applications on the website www.eli.hu. Simultaneously, the ESCO Transaction Fund was advertised at the MEE training courses. The Fund was announced at the Lighting Day, too.
2. Applicants download the application forms from the Web and compile their applications.
3. The applications are mailed to EGI.
4. EGI files the applications.
5. EGI, in cooperation with lighting experts to be provided by MEE, evaluates the applications, and works out a proposal for selection.
6. If it is necessary EGI contacts the applicants for clarification.
7. With proper frequency an English summary of the applications, the evaluation, and the proposal for selection is prepared and sent to IFC and DPC.
8. IFC and DPC makes the decision on selection and notifies EGI.

9. EGI notifies both the winning and not winning applicants.

Steps for the Project Development Window only:

10. The winning applicants start working without delay to save time.
11. Contracts between the winning applicants and DPC are signed.
12. The winning applicants conclude the work.
13. They submit to EGI the documents that prove that the work was properly performed.
14. EGI checks the documents and gives a proposal to DPC to accept or refuse the performance of the winning applicants.
15. The winning applicants issue an invoice to DPC.
16. DPC pays the applicants.
17. EGI follows up the projects for ELI monitoring purposes.

Steps for the Demonstration Window only:

10. Contracts between the winning applicants and IFC are signed.
11. The winning applicants implement the foreseen projects.
12. They submit to EGI the documents that prove that the work was properly performed.
13. EGI visits the project sites, checks the documents and gives a proposal to DPC to accept or refuse the performance of the winning applicants.
14. The winning applicants are paid.
15. EGI follows up the projects for ELI monitoring purposes.