

Financial instruments for energy efficiency in the programming period 2014-2020

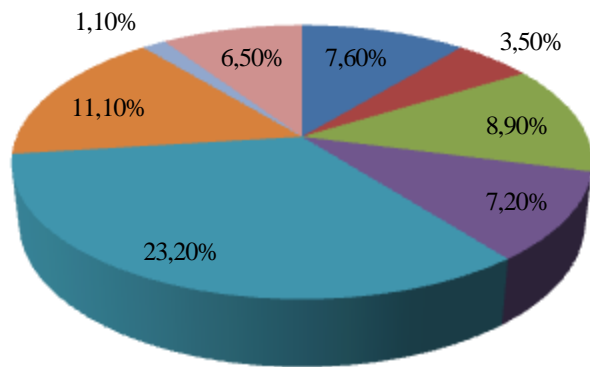
Financial Instruments in Energy Efficiency in Lithuania

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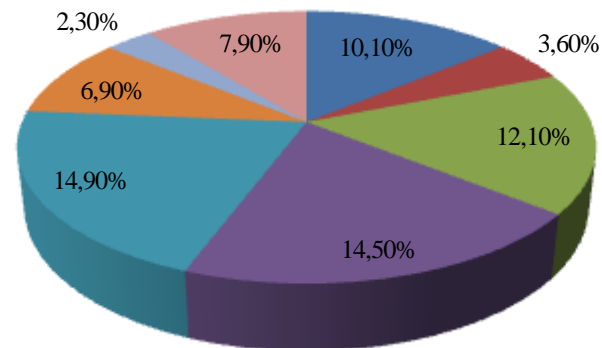
Strategic context: EU funds investment over 2 PP



2007–2013
EUR 6,775.5m



2014–2020
EUR 6,709.3 m



| Main areas of EU funds investments | Change |
|--|--------|
| Research and development and innovation | 2,50% |
| Information society (IT) | 0,1% |
| Competitiveness of small and medium-sized business* | 3,2% |
| Energy efficiency and production and use of renewable energy (related to low-carbon economy) | 7,30% |
| Transport sector (roads, railways, airports etc.) | -8,30% |
| Environment sector (water supply, waste management etc.) | -4,20% |
| Energy sector (electricity, gas links) | 1,20% |
| Employment and social inclusion (European social fund) | 1,40% |
| European social fund (which finances human recourses: employment, social inclusion, life-long learning, education, administrative capacities etc.) | 1,60% |

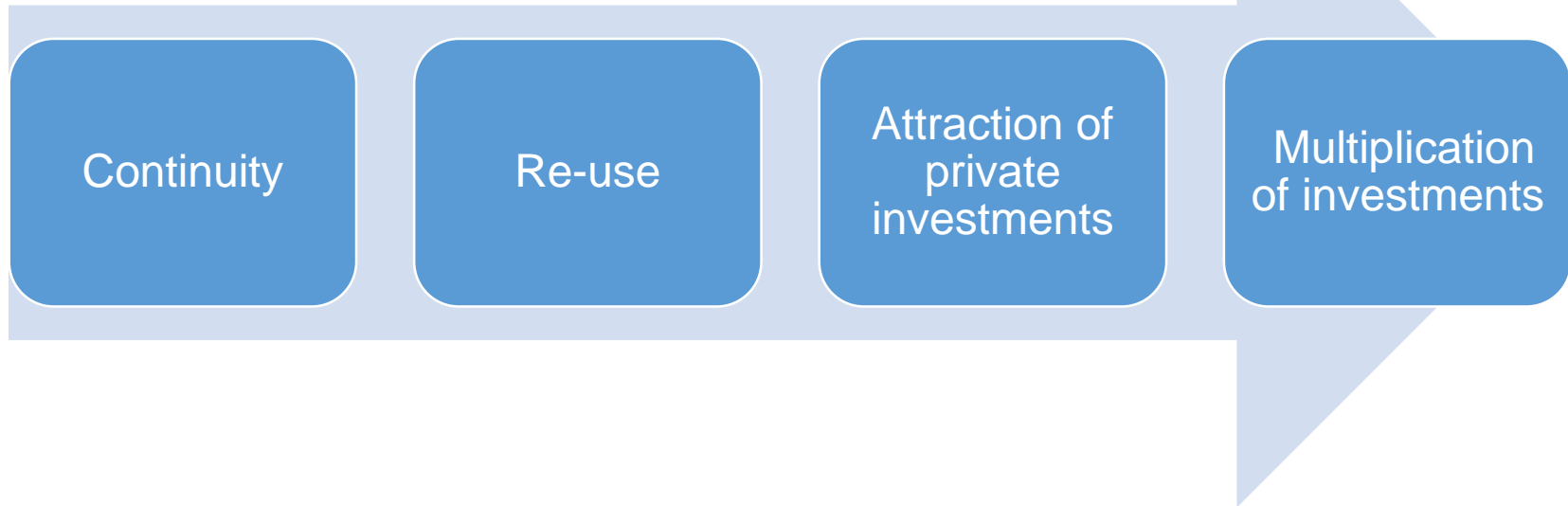
* Taking into account the funds allocated to financial instruments in 2007–2013 V



Strategic context: How to achieve more results with limited resources?



POSITIVE SOLUTION – FINANCIAL INSTRUMENTS!



2007-2013 – first experience setting up Jessica for EE in residential housing, Jeremie for SMEs

2014-2020 – strategic focus on the continuation of established FIs and expansion to other sectors

EU funds investments in FIs over 2 PP



| Financial periods | EU funds allocated, EUR m | Funding for FIs, EUR m |
|-------------------|---------------------------|--|
| 2007 – 2013 | 6 775,5 | 443 (Jeremie +Jessica+EPF) |
| 2014 – 2020 | 6 709,3 | 440 (reflows) + 420 (EE) + 204 (SMEs) + 75 (public infrastructure) TBC – transport, R&D |

2007-2013 - Leveraging more than EUR 430m of private resources into SMEs and EUR 80m of private resources into energy efficiency;

2014-2020 – expected leverage of EUR 227m private funds to SMEs; for energy efficiency – already attracted EUR 70m of private investments, foreseen to attract additional EUR 500m under the established Leveraged Fund, EFSI investments, other investments (e.g. from EBRD).



Financial instruments financed from EU funds

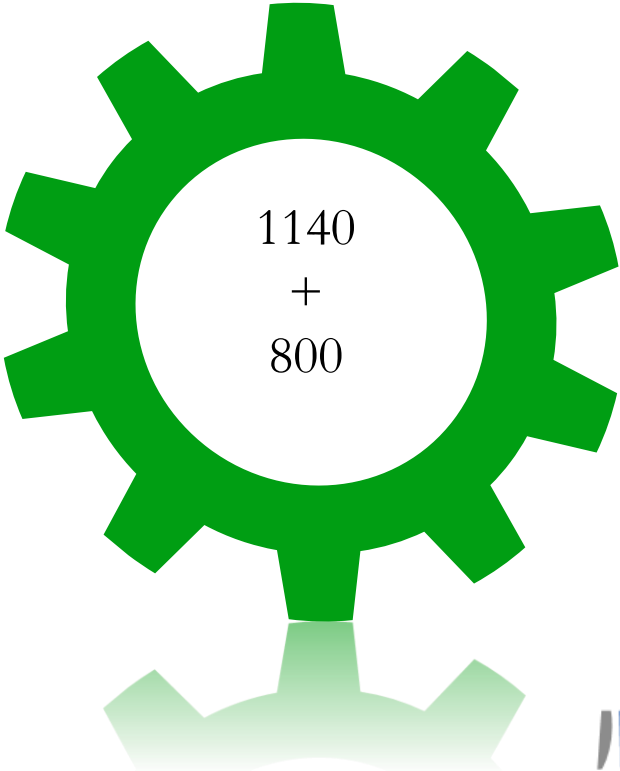
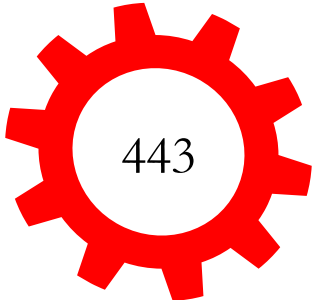
2014–2020 PP

2007–2013 PP

EUR 440 m resources returned from 2007–2013 +
EUR 700m 2014-2020 EU funds +
EUR 800m private funds

Initial contribution EUR 443m
+
Private funds EUR 510m

Initial contribution
EUR 443m



Basic facts about Lithuania and multi-apartment sector

Population - 3 million and declining

More than 38,000 multi-apartment blocks (24,000 needs to be refurbished)

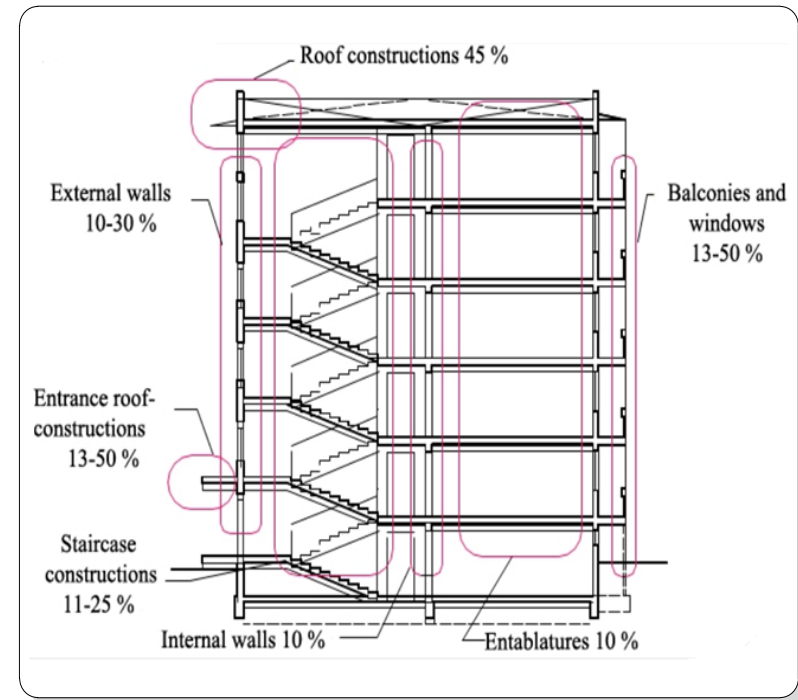
More than 800,000 apartments

66 % of population lives in multi-apartment buildings built before 1993

•97% privately owned, only 3% municipal rental stock

•The age structure of buildings:

- 26 % built before 1960
- 65 % built between 1960 – 1990
- 9 % built after 1990
- For Jessica - constructed before 1993



- 65 % of multi-apartment blocks are served by district heating systems
- **Average energy savings for a single building are estimated to be circa 50-80%**

Experience with Jessica in 2007-2013 – first steps



START-UP

- State subsidised renovation programme ran out of money in late 2007
- Decision to launch scheme using Jessica Holding Fund in early 2009
 - To improve living standard of population
 - To revive construction sector
 - To reduce dependency on single energy supplier

MAIN FEATURES

Financial product – preferential loan

- Borrower: House-owner association
- Fixed interest rate at **3% p.a.**
- Maturity up to **20 years**
- **2 years** grace period (during construction)
- **15%** interest subsidy in the form of the write-off in case of **20%** of energy savings, energy efficiency Class D achieved upon completion of renovations
- Extra **25%** written-off if energy savings reach 40% from State budget and Climate Change Programme
- **100%** of costs to prepare renovation documentation reimbursed (paid from national funds)
- **100%** of reimbursement of instalments for low income families



Experience with Jessica in 2007-2013 - challenges



- Apartment owners were poorly organized
- Many low income people were eligible for heating bill compensations, and had no incentive to join the programme
- State aid clearance (*de minimis*, set-up of administration, monitoring and implementation)
- Apartment owners become borrowers even when they voted against (the Law on Modernisation)
- Limitations within construction sector, as mostly small companies bid for contracts



Experience with Jessica in 2007-2013 – Corrective measures



- Municipalities instructed to draw lists of the worst-performing buildings
- Municipalities appointed renovation administrators
- Administrators borrow on behalf and for the need of the apartment owners
- Loan remains off balance sheet for Administrator
- Amendments to the legal basis related to heating bill compensations:

1 June 2013 amendments to the Law: where a community decides to renovate the multi-apartment block, those who have declined participation in the decision-making process would receive a 50% smaller compensation for the heating bills during the proximate heating season and no compensation from the next heating season until the block renovation project is completed but no longer than 3 years.



Main activities of Fund Manager



- **Creation and development of the financial product;** further analysis of legal and economic situation and recommendations for the structure of the financial product, to ensure the legality and economical viability of the instruments, as well as safety of the funds
- **Launch of Calls for EoI, selection of financial intermediaries; drafting and negotiating of operational agreements**
- Implementation of **public relations campaign** (if applicable)
- **Assistance to the authorities in creation, maintaining and development of legal base Assistance to the financial intermediaries** in clarifying the upcoming questions, the relationships with the final beneficiaries and/or other participants of the relevant process, advise on the agreements with the final beneficiaries;
- **Assistance to the authorities and final beneficiaries,** providing explanations and clarifications of different legal aspects of the process;
- **Monitoring of the legal procedures and agreements** implemented by the financial intermediaries to ensure that the funds are lent on diligently and their recovery is ensured to the reasonable extent
- **Middle office activities**



Holding Fund Lithuania (2007-2013)

- Established in 2009 with **EUR 173m** EU structural and national funds and 4 Financial Intermediaries.
- Focus on **energy efficiency** for multi-apartment buildings and student dormitories.
- Success in **attracting private finance** of future reflows from Jessica Holding Fund portfolio **EUR 80m** provided.
- About circa **850** buildings have been finished and circa **220** undergoing works.
- Achieved energy **savings** of **67%** on average.

Success story and lessons learned

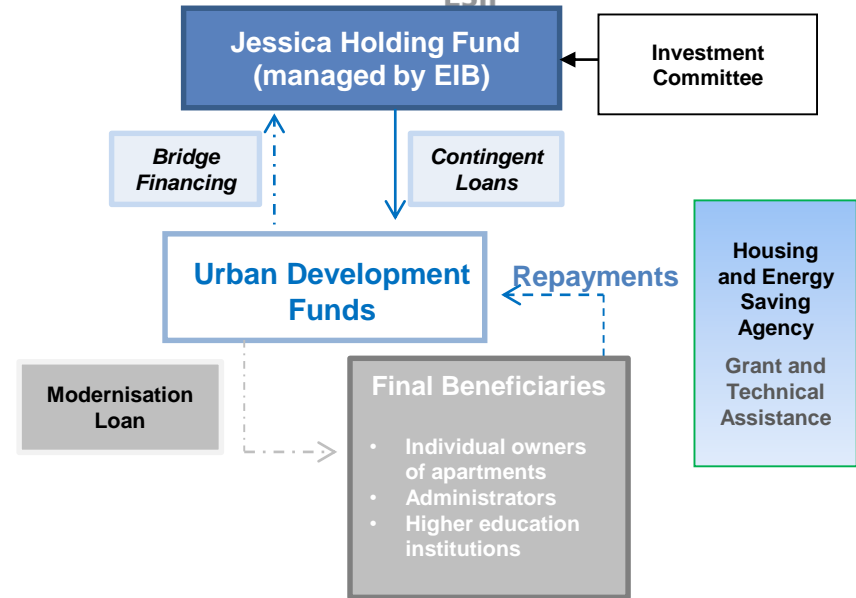
Flexibility

Effective governmental **public relations campaign**

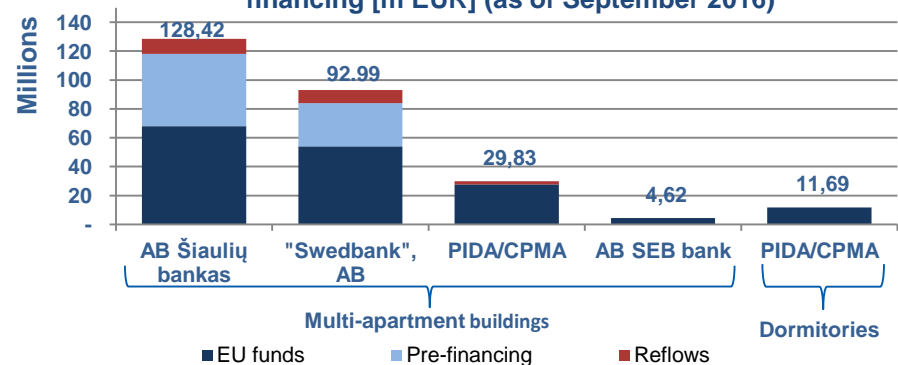
Sound cooperation



- By 2014 all EU and national funds had been committed to projects – **role model throughout Europe**
- **Demand** outstripped by far the available public funds
- **The product worked** and could attract private co-financing and risk sharing



Signatures with Final Beneficiaries per source of financing [m EUR] (as of September 2016)



Experience with Jessica in 2007-2013 – project example



| | |
|---------------------------------------|---|
| Area of the apartment | 539,82 m ² |
| No of floors | 3 |
| No of flats | 11 |
| Construction year | 1959 |
| Renovation completion date | 17 July 2014 |
| Renovation cost | 77 365 EUR |
| Energy efficiency class | Before renovation – E planned – C Reached– B |
| Heating cost before renovation | 264,34 kWh/m ² |
| Heating cost after renovation | 54,06 kWh/m ² |
| Energy savings | 79,55 % |



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Challenges & lessons learned



| Key challenges | | Lessons learned & questions |
|--|--|--|
| 2007–2013 | 2014–2020 | |
| <ul style="list-style-type: none"> Guidance from the EC on FI implementation was issued too late (the funds were already established; instruments structured, etc.) | <ul style="list-style-type: none"> Guidance from the EC on FI implementation is issued after the establishment of energy efficiency funds. Requirements are more restrictive than those set in the Regulations (e.g. selection of bodies implementing FI; combination of support). | Preparation of national recommendations on eligibility of expenditure before the EC guidelines. |
| <ul style="list-style-type: none"> Selection of bodies implementing FI. | <ul style="list-style-type: none"> Selection of bodies implementing FI. | Appointment of bodies implementing FIs is regulated by the Law on Investment and the Resolution of the Government of the Republic of Lithuania in line with the Directive 2004/18/EC and Public procurement law. |
| <ul style="list-style-type: none"> Bankruptcy of financial intermediaries. | -- | Pledge of loan portfolio or accounts in favor of the manager of a FI will be wider used. |
| <ul style="list-style-type: none"> On-the-spot verification of EIB (the implementation of Art. 13 (2) of Reg. 1828/2006). | <ul style="list-style-type: none"> Administrative verifications in case of EIB and other international financial institutions. | |
| | <ul style="list-style-type: none"> Implementation of the requirements on eligibility of operations depending on location in case of venture capital instruments. | |
| | <ul style="list-style-type: none"> Combination of FI with other support. Technical support in a single ESF FI. | |

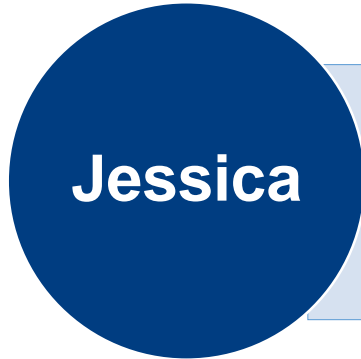
Other challenges & recommendations



- **Slow start of FIs** - raising public awareness, changing mentality, subsidies vs loans, challenge to shift thinking from “grants” to “revolving investments”;
- **Challenge to “go first”** – must be brave and optimistic
- **Assurance of on-going political support** – thorough work with politicians presenting
- **Lack of legal assurance** – complicated and detailed EC requirements -> complicated national procedures -> non-attractive and lengthy way for final recipient to feel the benefit – NEED TO SIMPLIFY THE RULES!
- **Demand outweighing supply (for multi-apartments)** – if you boost, you need to start coordinating
- **Reluctance of FIs to perform new administrative functions related to ESIF**
- **Low number of revenue-generating projects in other sectors** – hard to establish FIs in some sectors
- **Need for national reforms** – respective strategic changes need to be done before the potential FIs could practically work in other sectors

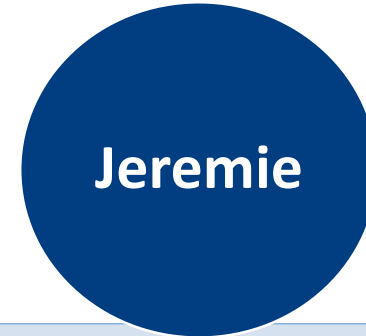


FI Ex-ante assessment – Overview



**Jessica pilot
feasibility study
2014–2020 EIB**

Completed, May
2014



Business support

Completed in
March, 2015

Identified market gap:
EUR 645m

Energy efficiency

completed
November, 2014
Identified market gap:
EUR 1850m
Revised June, 2016
EUR 1087m

Renovation of public
buildings & multi
apartments,
street lightening

Public infrastructure

completed June, 2016
Identified market gap:
EUR 5755m

Energy, Water, Waste management
Education and Science, Social, Health,
Transport &
Culture infr.



Ex-ante assessment for EE

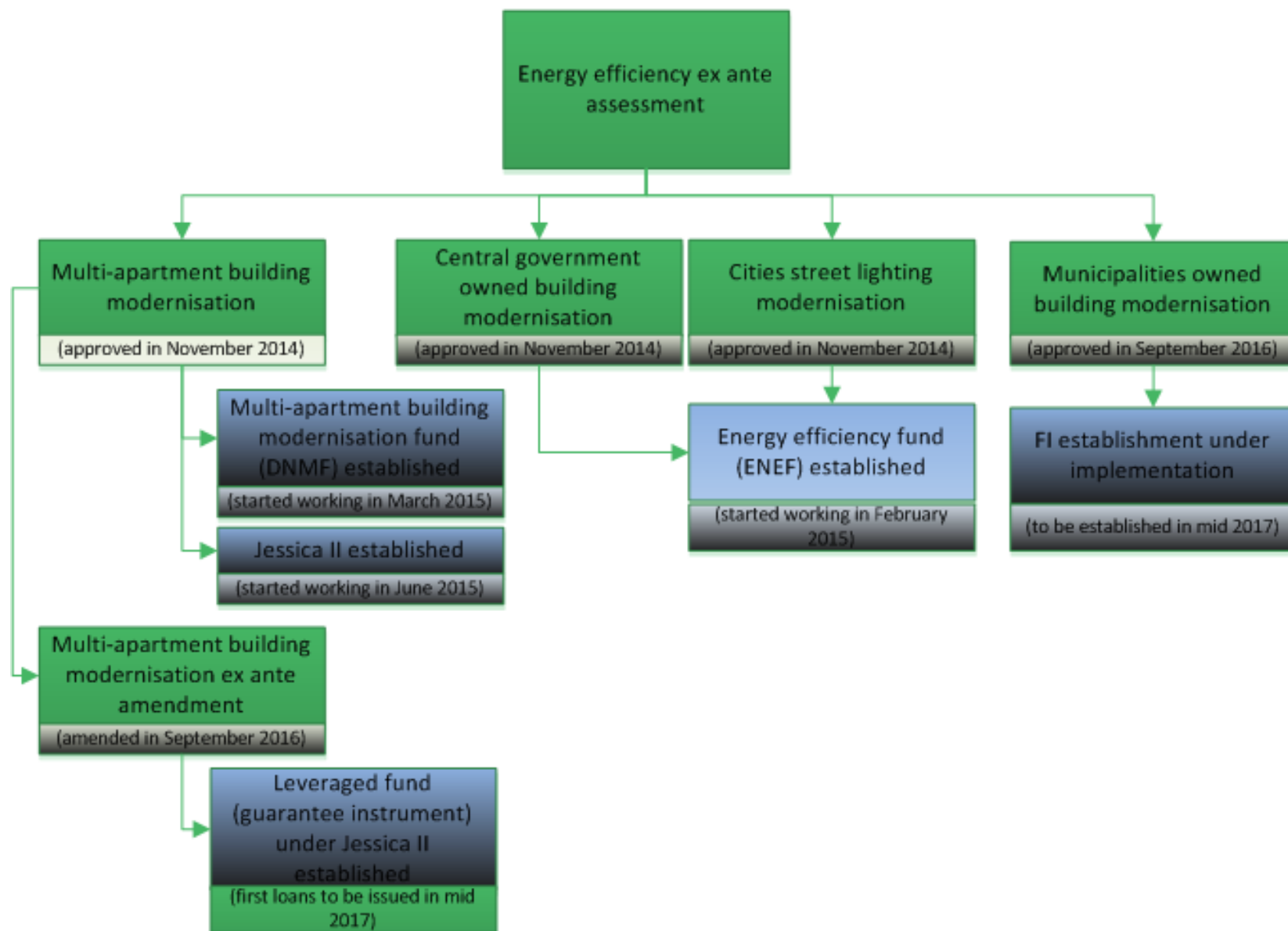
– summary



- **Ex-ante assessment was performed by managing authority in close cooperation with national institution VIPA and other stakeholders (in-house), because:**
 - Close cooperation with other public institutions enabled them to see “big picture”
 - Non-commercial and independent attitude allowed for a more public interest oriented assessment
 - Close cooperation and ability to change assignment scope enabled a more tailored product
- **Ex-ante assessment data**
 - Jessica case study (pilot project)
 - Ex-ante assessment started before COM issued guidelines, but was adapted according to these guidelines
- **Timing**
 - 9 months for ex ante assessment (**subject to constant amendments and developments!**)
- **Expectations**
 - Revealed real market situation
 - Recommendations for FI's
 - Analysed need for necessary national strategic reforms



Ex-ante assessment for EE – process



Ex-ante assessment for EE – process



| Sector analysed | Identified market gap, EUR m | Proposed financial product |
|--|------------------------------|---|
| Multi-apartment buildings | 964,7 | Preferential loan + 15 % interest rate subsidy + 15 % of State support (Jessica II) Possibility to attract private investments through establishment of Leveraged Fund (first-loss portfolio guarantees, leverage effect 1:5) |
| Public buildings owned by central government | 66,9 | ESCO model Preferential loan + up to 20 % interest rate and technical support subsidy Possibility to sell future cash flows to the private investment fund |
| Street lighting | 50,5 | ESCO model Guarantee scheme Possibility to sell future cash flows to the private investment fund |
| Public buildings owned by municipalities | 146,8 | Preferential loan + Possibility to attract private investments through establishment of Leverage fund |

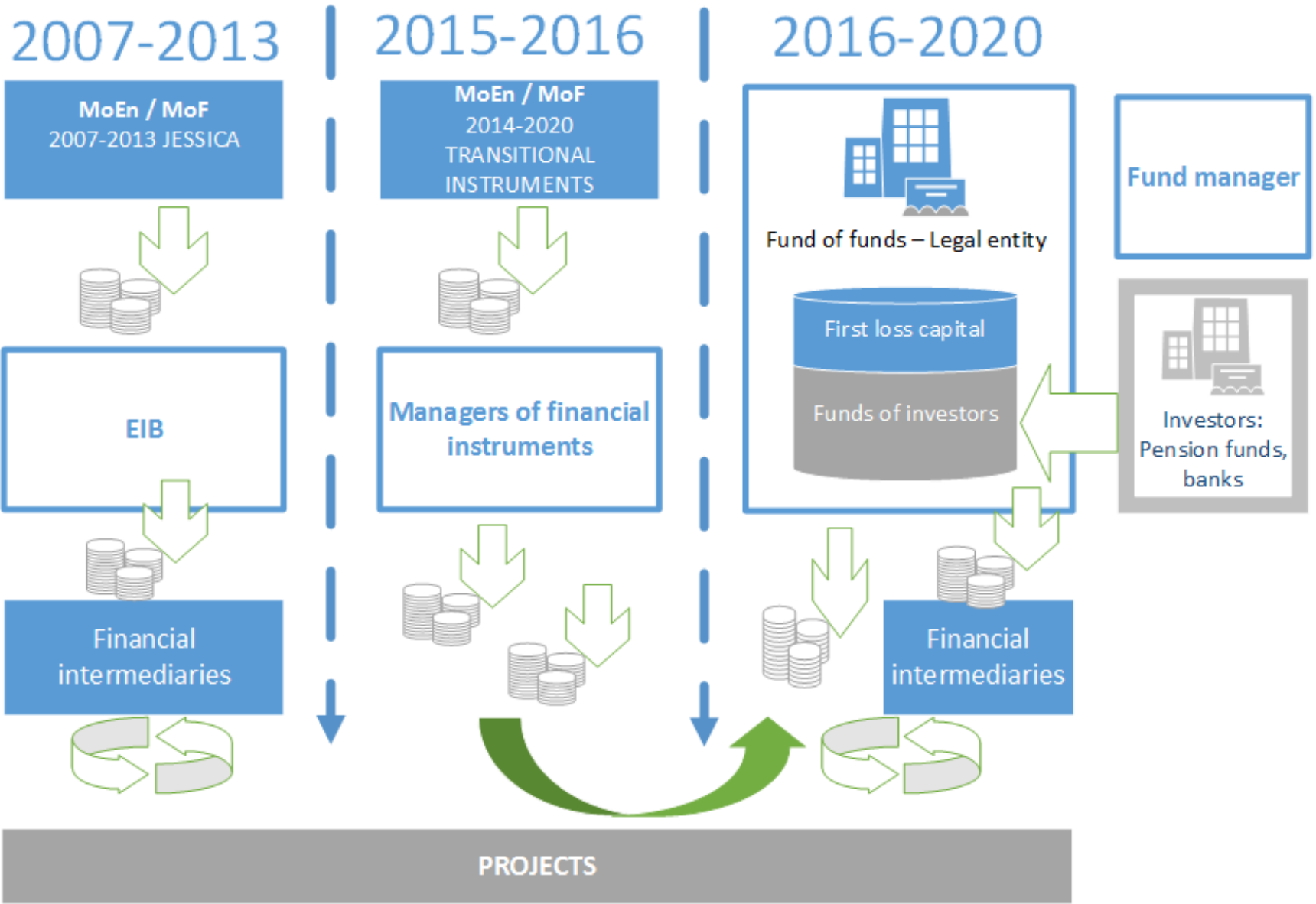
Expected results



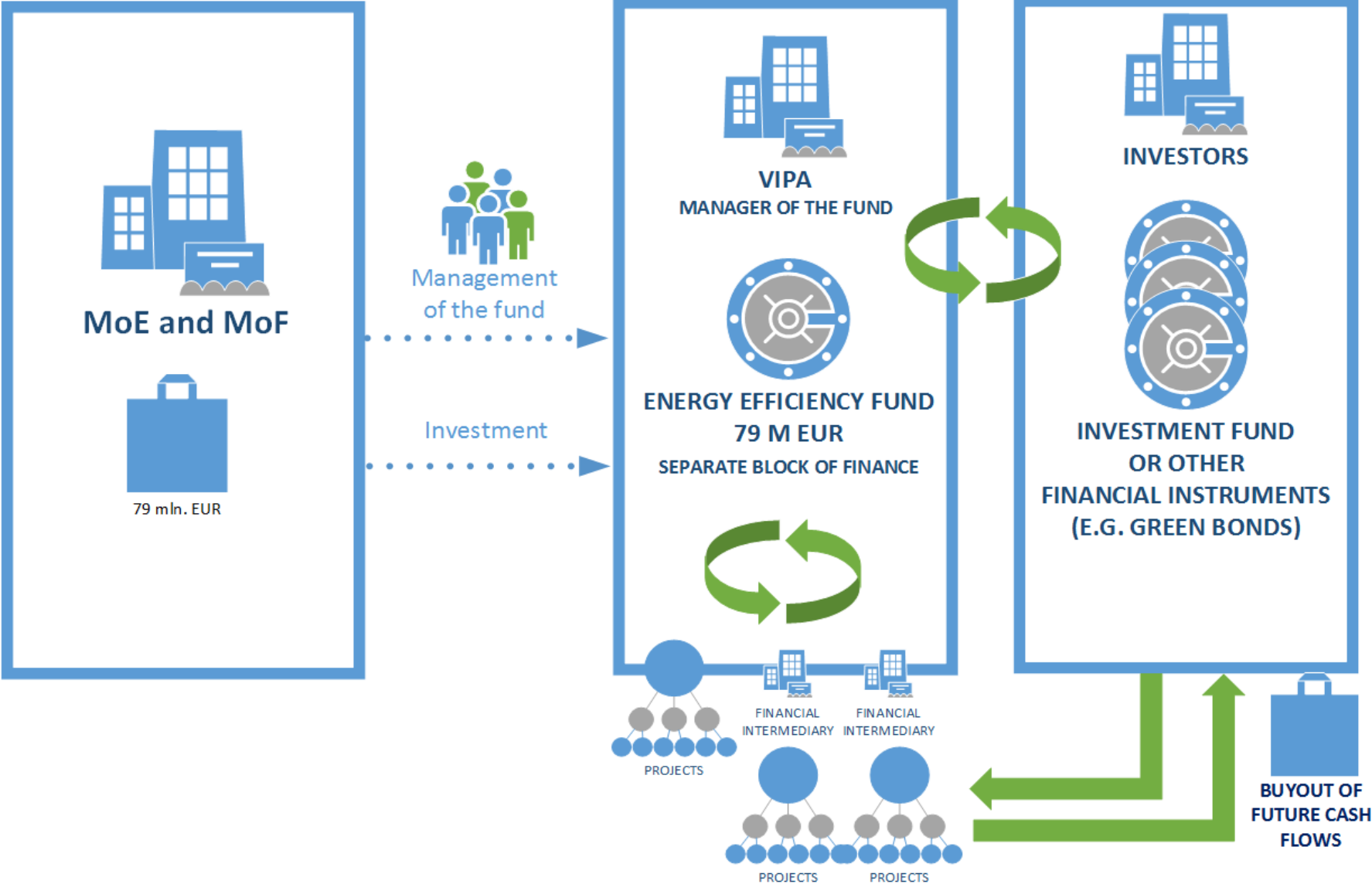
| Sector analysed | ESIF and national contribution, EUR m | Results |
|--|---------------------------------------|---|
| Multi-apartment buildings | 281,3 | EUR 655,4m euro of private resources attracted 4473 buildings of 5757 th. m ² renovated 40 % of energy savings (672,458 MWh) |
| Public buildings owned by central government | 65 | EUR 74 m euro of private resources attracted 546 buildings of 615 th. m ² renovated 40 % of energy savings (164,062 MWh) |
| Street lighting | 14,5 | EUR 40,9m euro of private resources attracted 57 th. street lighting elements modernized Energy savings of 29,250 MWh |
| Public buildings owned by municipalities | 50,5 | EUR 41 m of private resources attracted 600 buildings of 676 th. m ² renovated 40% of energy savings (100 GWh) |



Scheme for multi-apartment buildings



Scheme for public buildings & street lightening



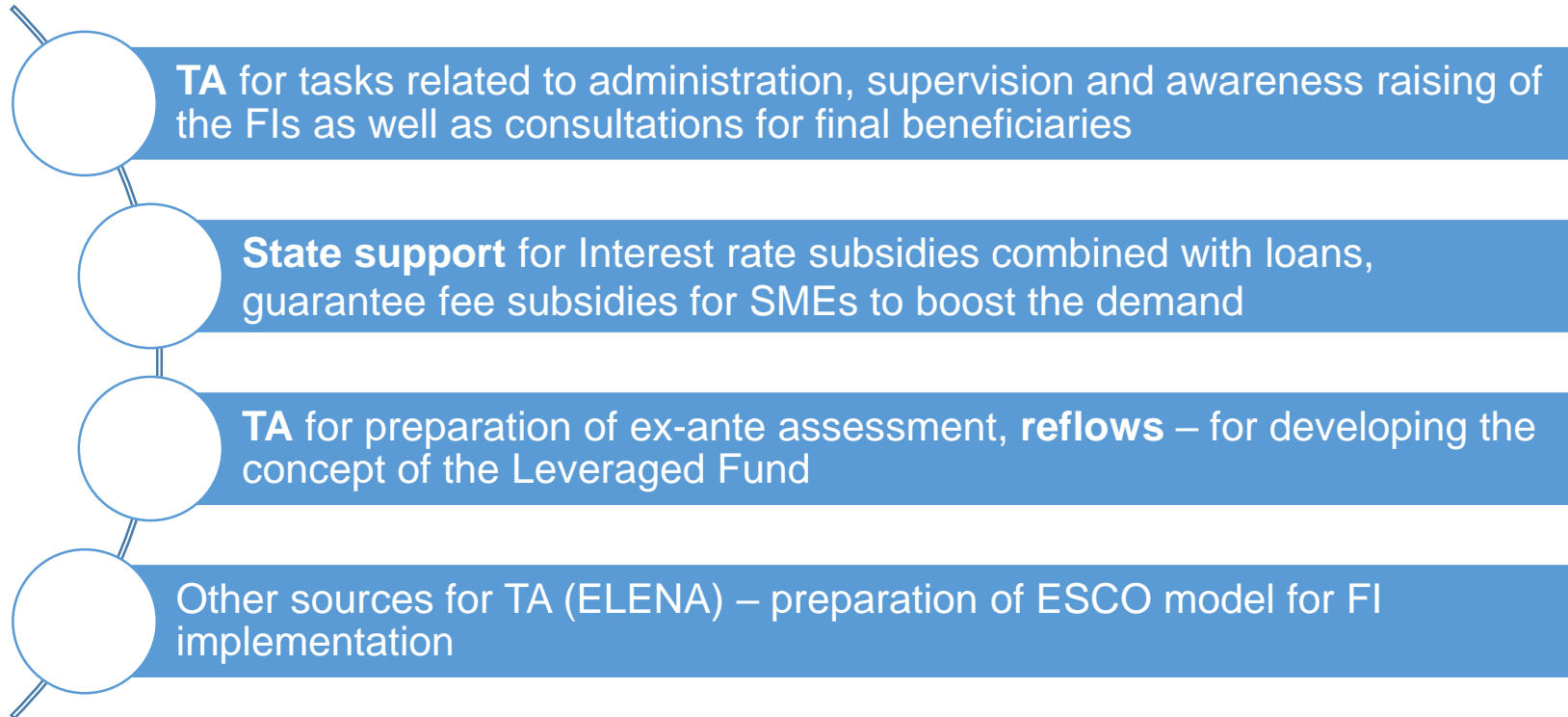
Ex-ante assessment for EE – lessons learned & recommendations



- Coordinated in-house development allows for better representation of public interest, although high competence team is needed
- Ex-ante assessment allows to understand problems associated with the targeted sector
- Close cooperation with EC representatives is useful to understand CPR requirements (although now guidelines are available)
- Allow for more flexibility in ex-ante assessment
- Be involved in all stages of ex-ante assessment (don't wait for final result)
- Try to involve all stakeholders interested in the sector
- Encourage for sector exploration not only horizontally but also vertically
- Beneficial future changes of legal basis – result of ex-ante – gap assessment, leaving particular investment strategy for later stages



FI Development – technical assistance and FI combination with grant



Design and set-up

– *Implementation structure*



- **2007-2013 Jessica Holding Fund**
 - Enabled efficient management of multiple Financial Intermediaries and managed to attract private financing
 - Considered to be a success, with demand for financing outstripping supply
 - Strong momentum has been established with the project pipeline continuing to expand
- **2014-2020 Jessica II Fund of Funds**
 - Guaranteed continuation of the governmental programme and existing project pipeline
 - Attracted more financing from the Financial Intermediaries
- **2014-2020 Leveraged Fund**
 - A guarantee financial instrument structured to attract additional funds from private sources
 - Expected leverage of 1:5
 - A possible contribution by EFSI towards the Leveraged Funds may also be sought at acceptable terms



Design and set-up

– Implementation structure



Jessica II
(managed by EIB)

Operational
Agreement(s)

Housing
and Energy
Saving
Agency

Grant and
Technical
Assistance

Fund of Funds Lithuania (2014-2020)

- *Ex-ante* finished in December 2014.
- **Continues** objectives of JESSICA Holding Fund in the new 2014-2020 programming period.
- Fund of Funds established in **May 2015** with **EUR 150m** of ESIF funds – EIB's first mandate for DFIs.



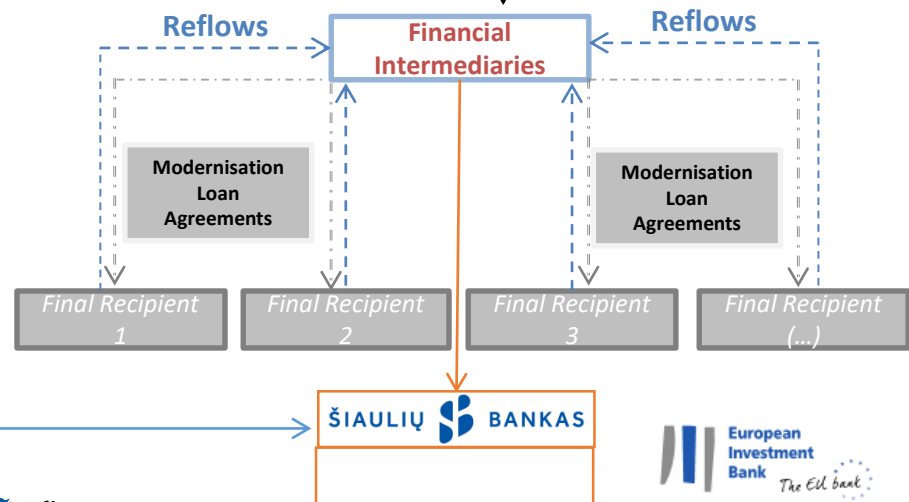
1st and 2nd Selection Procedures results:

In total **EUR 178m** of ESIF and pre-financing signed with Šiaulių bankas

Up to **EUR 120m** under negotiations with the FIs

Results as of September 2016:

550 projects (circa **13,200** households) signed for **EUR 147m** and circa **EUR 92m** disbursed



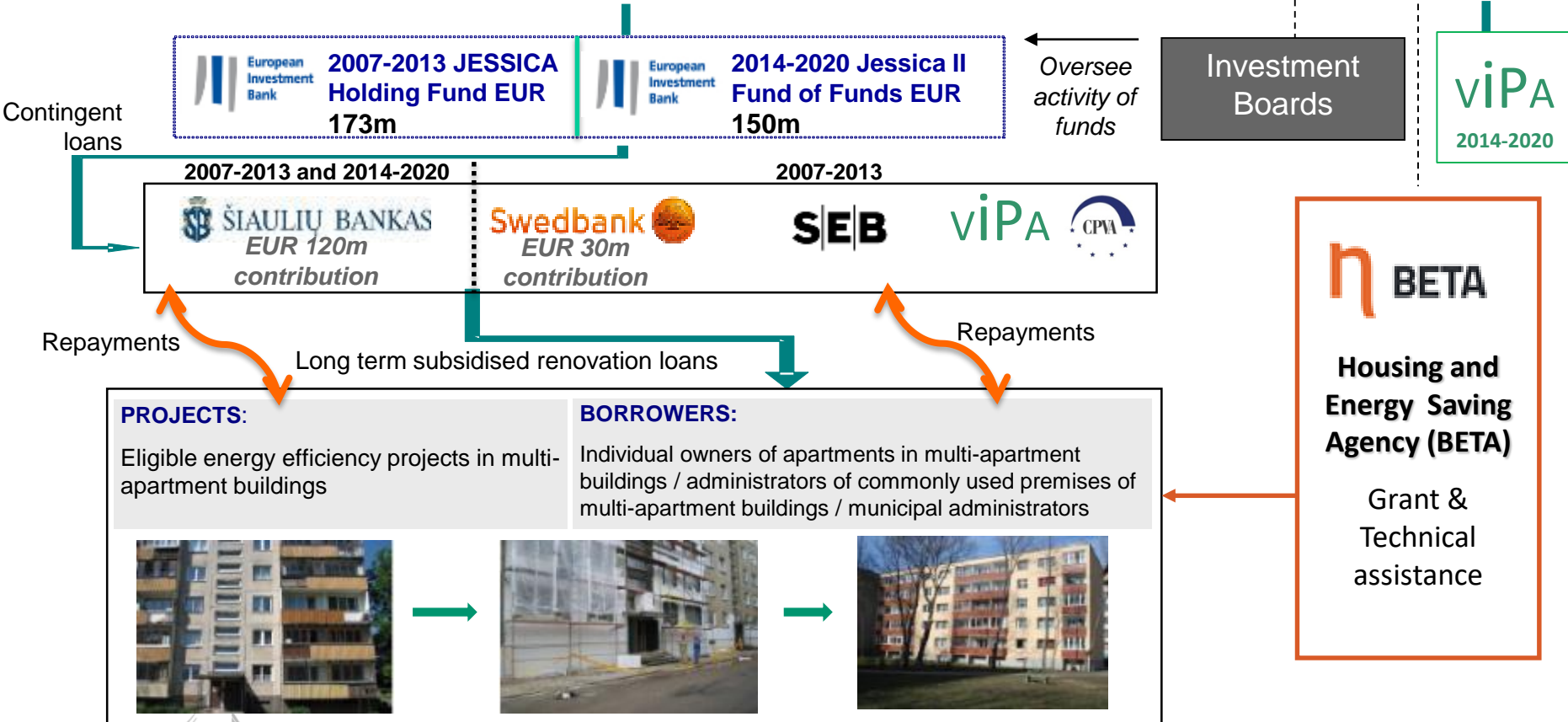
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2007-2013 and 2014-2020



Ministries of Finance and of Environment
contribution from Operational Programme
« Promotion of Cohesion 2007-2013 » and contribution from 2014-2020 ESIF Operational Programme



| PROJECTS: | BORROWERS: |
|--|---|
| Eligible energy efficiency projects in multi-apartment buildings | Individual owners of apartments in multi-apartment buildings / administrators of commonly used premises of multi-apartment buildings / municipal administrators |
|  |  |
| |  |

Design and set-up

– Implementation structure

Leveraged Fund Lithuania (2014-2020)

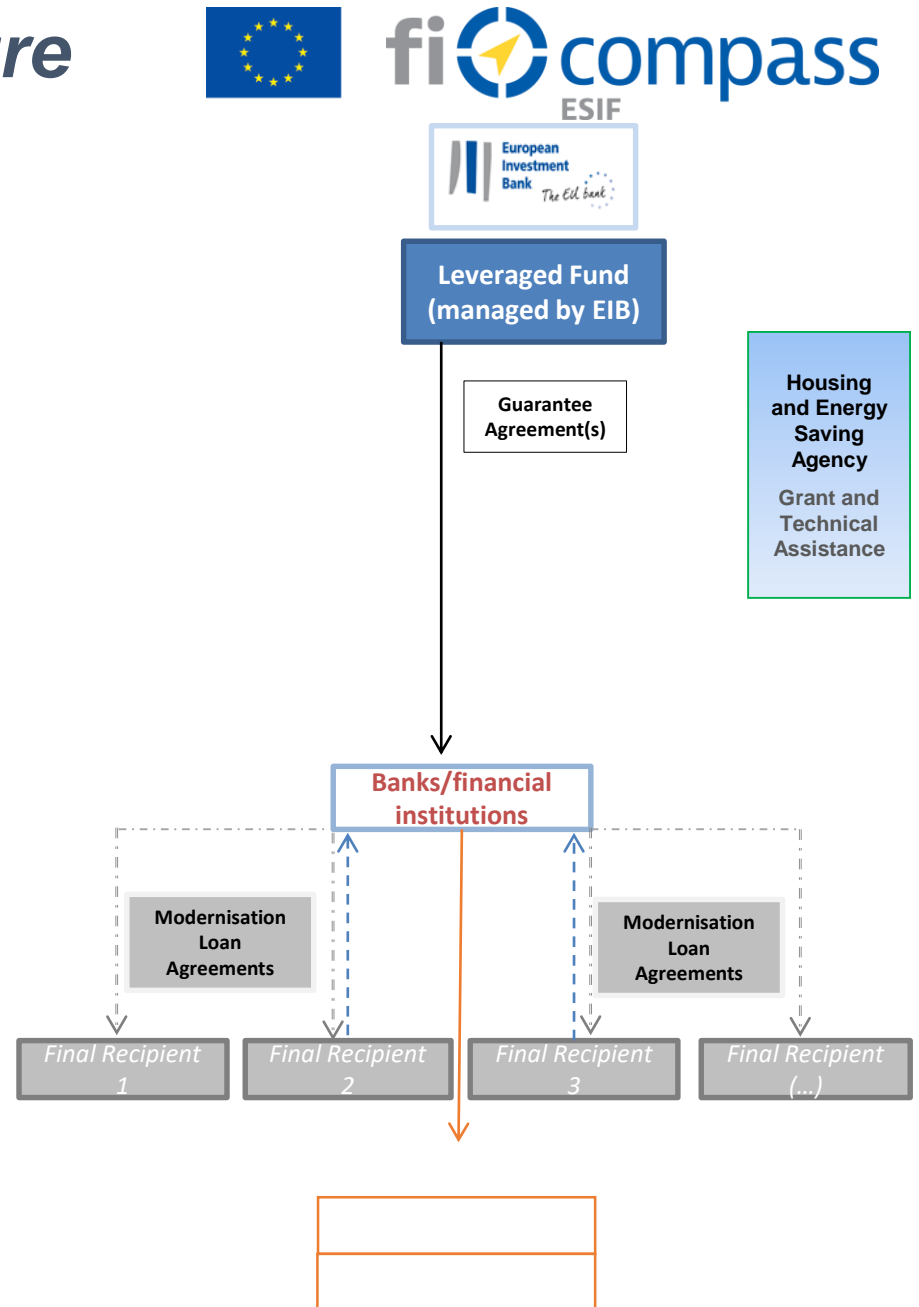
- *Ex-ante* finished in September 2016.
- **Continues** objectives of JESSICA Holding Fund and Jessica II Fund of Funds in the 2014-2020 programming period
- Leveraged Fund established in **October 2016** with **EUR 100m** of ESIF funds



Aims to achieve a leverage of 5 times
Signature of guarantee agreements following **1st Selection Procedures** in **2017**

Expected results:

circa **1500** projects (up to **32,500** households)
signed for **EUR 500m**
and circa **65,000** annual reduction of CO2



Design and set-up

– *Main objectives of the FI*



Environmental

Stimulate sustainable development, reduce energy pollution

Social cohesion

Contribute to higher quality of life and public environment

Economic

Generate substantial savings of households in the medium term

Investments

- Structured to **attract additional funds from private sources** (banks, financial institutions, etc.) to create leverage in energy efficiency sector





financial instruments
 revolving capacity building
 added value **ERDF** funding agreement
 governance **ESF** EU guidance
 ex-ante assessment
 technical support seminars **leverage** microfinance
 co-financing financial intermediaries case studies
investments ESIF **fi-compass** final recipients
 business plan **Thank you** thematic objectives
 advisory services **guarantees** banks **loans** **EaSI** equity
 life cycle combination of support
EAFRD private investors conferences factsheets
fund of funds **EMFF** investment strategy **CF**
 managing authorities manuals