**BUILD2LC PROJECT**

**BI-LATERAL MEETING IN LITHUANIA**

**VILNIUS**

**16-17 JANUARY 2018**

**PARTICIPANTS**

The partners and stakeholders involved in this bi-lateral meeting:

* Mike Brain, Severn Wye Energy Agency
* Victoria Boynton, Severn Wye Energy Agency
* Rūta Dapkutė-Stankevičienė, Ministry of Finance
* Neringa Gražinytė, TGS Baltic, Lawyer of European Investment Bank
* Inesis Kiškis, Ministry of Environment
* Marius Smaidžiūnas, Housing Energy Saving Agency (HESA)
* Simona Ramanauskienė, Housing Energy Saving Agency (HESA)
* Mindaugas Rudys, Šiaulių Bankas
* Justinas Bučys, VIPA
* Kristina Vaskelienė, VIPA
* Vaida Lauruševičienė, VIPA
* Justinas Poderis, Law firm GLIMSTEDT
* Francisco Caceres, National Association of ESCOs of Spain (ANESE)
* Ignacio Contreras, Spanish Institute of Financial Analysts
* Carlos Serra Giraldez, Andalusian Energy Agency (AEA)
* Črtomir Kurnik, Local Energy Agency of Gorenjska (LEAG)
* Franko Nemac, Energy Restructuring Agency
* Gedas Janėnas, Šiaulių Bankas
* Viktoras Budraitis, Šiaulių Bankas
* Gvidas Dargužas, VIPA
* Inga Kaliakinaitė, VIPA
* Renata Adomavičienė VIPA
* Joaquin Villar, Andalusian Energy Agency (AEA)
* Žilvinas Kačiuška, VIPA
* Asta Gladkauskienė, VIPA
* Justina Balčiūtė, VIPA
* Jūratė Lepardinienė, VšĮ Centrinė Projektų valdymo agentūra (CPVA)
* Milda Mišanovaitė, VIPA
* Ramunė Kandzežauskienė, VIPA

**SUMMARY OF THE BI-LATERAL MEETING**

On 16-17 January 2018 Public Investment Development Agency (*hereafter - VIPA*), organized a bi-lateral meeting in Vilnius. The introduction and welcome speech was made by VIPA CEO Gvidas Dargužas.

Rūta Dapkutė-Stankevičienė, Deputy Director of the EU Investment Department of Ministry of Finance, presented the set-up, lessons learned while implementing the financial instruments in Lithuania. She compared 2007-2013 and 2014-2020 programming periods. The investments and achieved results of 2007-2013 period were presented, emphasizing that the first experience was gained setting up JESSICA for energy efficiency projects and JEREMIE for SMEs financing. Furthermore, the aims for 2014-2020 period were explained: continuation of financial instruments, expansion to new sectors, enhanced cooperation with national and international partners, promotion of NPBS and investment platforms by using EFSI. The amount of investments made till this day were presented. Rūta also highlighted the key challenges in 2017, for instance, lack of legal certainty for practical implementation of financial instruments provided in the EC regulation and guidance, national audit findings due to different interpretation of EC guidance, financing new types of financial instruments from ESIF. The presenter also mentioned such on-going initiatives as establishment of legal framework for National Development Institution, joint Lithuania-Croatia feasibility study “Enhancement capacity of Financial instruments application in consistency with other forms of public interventions”.

Inesis Kiškis, Director of European Union Assistance Management Department of Ministry of Environment, presented the implementation of Multi-apartment buildings renovation programme in Lithuania. Firstly, he introduced to the challenges faced at the beginning: people did not trust the government, there were failures with public procurement, people did not have enough income, not many owners were organised in the organisations, it was not clear what to do with small business and with legality of personal data. In addition, Inesis presented the main terms of financial instruments, eligible costs, corrective measures that were implemented such as that municipalities appoint renovation administrators, 50%+1 of apartment owners have to agree to join the program etc. The presenter emphasized that the involvement of EIB was very important because EIB does a lot of analytical and technical work. Inesis made such conclusions and indicated these important things: consistent policies and stable procedures, good knowledge of market conditions, good planning, and scrutiny of alternatives.

Neringa Gražinytė, Associate Partner TGS Baltic, Lawyer of EIB, presented the example of supporting energy efficiency improvements – Leveraged Fund Lithuania. She explained two steps of 2014-2020 programming period: under Jessica II Fund of Funds Lithuania the banks continue to perform agency function and provide own funds via pre-financing scheme (financed with EUR 150m of EU structural funds and to date attracted EUR 130m of private resources through the pre-financing mechanism) and under the Leveraged Fund the banks will be financing the modernisation loans solely with their own funds, supported by the First-loss Portfolio Guarantee instrument financed with EU structural funds. Furthermore, Neringa presented financing models for the modernisation loans and covered losses: direct model, administrator model and the guarantee.

Marius Smaidžiūnas, Deputy Director of Project Implementation Division of HESA, presented the Multi-apartment modernization program in Lithuania. Firstly, he explained the main goals of HESA such as providing support and technical help to the administrators of the projects, paying out the state subsidy for homeowners, organizing capacity building programs and trainings etc. He presented the steps of the renovation project in Lithuania:

1. Preparation of the project
2. Project approval
3. Tender of the technical project
4. Preparation of the technical project
5. Tender for the construction company and technical supervision
6. Application for the loan
7. The construction works
8. Completion of the construction work
9. Payment of the subsidy

The presenter also explained the role of the municipalities and administrators. He emphasized that 80 per cent of the projects are implemented by the administrator appointed by the municipality and specified the functions of the administrator who is responsible that the project is implemented successfully.

Simona Ramanauskienė, Head of Publicity Programme Implementation Division of HESA, presented promotion, communication and public awareness of the multi-apartment buildings renovation process in Lithuania. She explained that the main objectives of the Modernization of multi-apartment buildings programme are the promotion of apartment and other premises owners to implement energy efficiency measures and develop public awareness, education and training related to refurbishment of the multi-apartment buildings. In order to implement the objectives of the Programme the Communication strategy was prepared in 2010. Simona presented direct and indirect communication methods that are used (media campaign, methodical material, consultations, trainings etc.) and the main communication messages (presentation of the programme, financial possibilities, quality management of construction processes etc.). In addition, she presented the completed survey results and lessons learned, emphasizing that one of the main conditions for the successful implementation of the programme is building capacities of all participants of the programme and standardization of the processes and procedures.

Mindaugas Rudys, Director of Department for Development of Financial Services of Šiaulių Bankas, presented the experience of Šiaulių Bankas in implementing energy efficiency projects. He specified the business financing instruments which the bank implements and emphasized the keys to success: participating in all earlier renovation programmes (gaining experience), close cooperation with ministries (offering suggestions for improving the programme), marketing and communication (publicity in the press, participating in conferences, sharing best examples), participating in meetings of the owners of multi-apartment houses (voting for renovation), providing own funds for renovation programme (pre-financing), internal incentive system, choice of the administration model. Mindaugas also presented financing conditions and requirements which the bank applies. In addition, he explained that following the loan agreement, the administrator or recovery company collects debts from beneficiaries under principles of debt prevention.

Justinas Bučys, Head of Investment and Development Division of VIPA, presented the concept and scope of securitization. He explained the main problems of securitization, including the fundamental conflicts of interest between participants, falling lending standards, achievement of high leverage in sequencing schemes, repeated sequencing, use of complex legal, operational, financial structures, insufficient transparency, modeling errors, low investor readiness, lack of attention to proper due diligence. Moreover, Justinas described the reforms in securitization such as increasing quality of lending standards, adaption of duties of securitization intermediaries, SST (Simple Standard Transparent) etc. The advantages of securitization were also emphasized: financing and risk transfer, diversifying funding sources, less risk is concentrated in the banking sector, monetary requirements are transformed into instruments that best fit the business climate and the needs of investors, the risk is allocated among investors according to their level of risk tolerance and ability to manage this risk, reduced borrowing costs for entities with lower creditworthiness, increased competition etc. Justinas also specified the scope of due diligence, importance of track record. Justinas made these conclusions: securitization is an effective borrowing and risk transfer / sharing mechanism, securitization is a financial instrument established in mature markets and it is given a special high level political attention, VIPA projects are potentially very attractive for securitization, Lithuania experience, as in most of Eastern Europe and the Nordic countries, is limited, there is background allowing to use of the securitization instrument in Lithuania although Lithuanian legal framework does not fully allow to use securitization in full extent. Finally, Justinas introduced to the scheme of forfeiting facility.

Kristina Vaskelienė, Deputy CEO of VIPA, presented the modernization of public buildings in Lithuania and establishment of KŪB. Firstly, Kristina presented Energy efficiency fund (ENEF) which covers central public buildings modernisation and street lighting modernisation. She specified the conditions of the modernization loan, drawing attention to these conditions: loan amount is up to 80% eligible expenditure, when the borrower is ESCO and up to 100% eligible expenditure, when the borrower is public entity, ESCO must contribute their own funds no less than 20% from project value. Kristina also mentioned four pillars for public buildings modernization: ESCO model development, direct lending to public institutions, direct lending to central real estate manager and repayable assistance. Furthermore, some challenges were presented for ENEF such as: no track record, reluctance by public institutions to borrow, challenges to achieve real savings etc. Kristina also introduced to GuarantEE project in which VIPA is involved. The aim of this project is to foster the use of Energy Performance Contracting in the public and private sectors across Europe. In addition, the presenter talked about Municipality buildings fund. The main idea of this fund is to support municipalities to implement energy efficiency projects in their buildings via financial intermediaries. The financial intermediaries should add their resources as well (at least 1:1, expected up to 1:4). The presenter also introduced to the idea of energy efficiency in quarters and plans in this area. Regarding the establishment of KŪB, Kristina emphasized that according to the Energy Efficiency Directive 27/2012, energy distributors or retail energy sales companies have to achieve 1.5% energy savings per year through the implementation of energy efficiency measures. VIPA saw an opportunity and suggested to create and investment platform for energy efficiency projects (KŪB). The target projects include public buildings, street lighting, renewable energy, multi-apartment buildings, transport, energy efficiency in industry, lighting in buildings or objects, optimization of the production process.

Vaida Lauruševičienė, Head of Assistance Programme Division of VIPA, presented the innovative financial instrument – repayable assistance. The presenter explained the legal basis for this instrument, emphasizing that this instrument is applied in the new 2014-2020 period. In the national law repayable assistance in defined as the form of financing of the project, when the project support will be partly or fully repaid under the conditions stipulated in the project contract by the promoter. Moreover, Vaida defined the main differences of this instrument from other forms of financing (loan, grant). The implementation scheme of repayable assistance was explained, emphasizing that if the building could get a loan or it is eligible for ESCO, a loan or the ESCO model will be used. Otherwise, repayable assistance will be used. The beneficiaries of this scheme are state owned public buildings and VIPA acts as the implementing body. Vaida also specified eligible expenses: construction works, preparation of an investment project, preparation of a technical project etc. In addition, the faced challenges were presented as revenue treatment, state aid and motivation.

Justinas Poderis, Senior Associate at Law firm Glimstedt, presented the facility managed by EBRD – ELENA. Firstly, the presenter explained that in 2014 VIPA and EBRD signed an agreement for consultancy services project “Supporting the Development of the ESCO Market in Lithuania: Preparation of standardized typical documents and tenders for ESCO energy efficiency projects in Lithuania”. The project aims to support and develop the ESCO market in Lithuania: to prepare standardized typical documents and tenders for ESCO energy efficiency projects and to provide financial, technical and legal support for pilot projects. The consultant team of this project which consists of KPMG Baltics, Glimstedt and Ekotermija prepared a template of a standard ESCO contract and template procurement documentation, procurement documentation for the pilot projects, provided consultancy services for the pilot projects. Furthermore, market potential was presented: general obligations and building renovation quotes for 2015-2017. Justinas also talked about Lithuanian ESCO model: tender procedure, technical specification and energy savings. The on-going pilot projects were mentioned. Finally, the presenter explained lessons learned such as that the Lithuanian laws do not set any compulsory obligations for public building users, entitled to implement ESCO projects, to renovate the buildings, institutions are not certain that their obligations under the ESCO agreements will be supported by the central budget etc.

Francisco Caceres, National Association of ESCOs of Spain (ANESE), made the presentation about ESCOs and the key partners to achieve an energy transition in Spanish ESCO market. Francisco explained the typical ESCO model. He emphasized the skills required by an ESCO: PMO skills, financing skills, technical skills and legal skills. In addition, the added values of ESCOs were presented: ESCOs use mature technologies that provide energy efficiency, ESCOs incorporate financing to the project, based on savings, the technical and financial proposal is presented on a contract where the savings are guaranteed. The presenter also talked about ESCO market in Spain, emphasizing that 85% of ESCOs are SMEs and that average duration of ESCO contract is 7,6 years. Furthermore, he also talked about ESCOs contribution to national targets, public tenders for energy savings, market segmentation, types of contracts and measurement and verification protocols. Finally, the key areas of ANESE, ANESE financing program and two levels of certification were presented.

Dr Ignacio Contreras, Spanish Institute of Financial Analysts, presented the proven good practices of financing of energy rehabilitation in buildings and dwellings. Ignacio presented three solutions for buildings retrofits covering all the potential targets: Financial Instrument Nord pas de Calais (ongoing instrument in Nord Pas de Calais aimed at companies or investment vehicles), Green Revolving Fund (ongoing instrument in USA aimed at large consumers), Euro Pace (ongoing instrument in USA, Canada, South Africa and Australia aimed at any real state property, including public bodies, industrial and services). One of the main characteristics of Nord Pas de Calais is funding through ordinary shares, preference shares or convertible bonds with the goal to growth capital, positioning with minority interest, The presenter explained that Green Revolving Fund is a fund that re-invests its return in new projects in the same final recipients facilities, in a continuous process of improvement towards sustainability while Euro Pace is a mechanism to pay the energy services through property taxes (on tax financing).