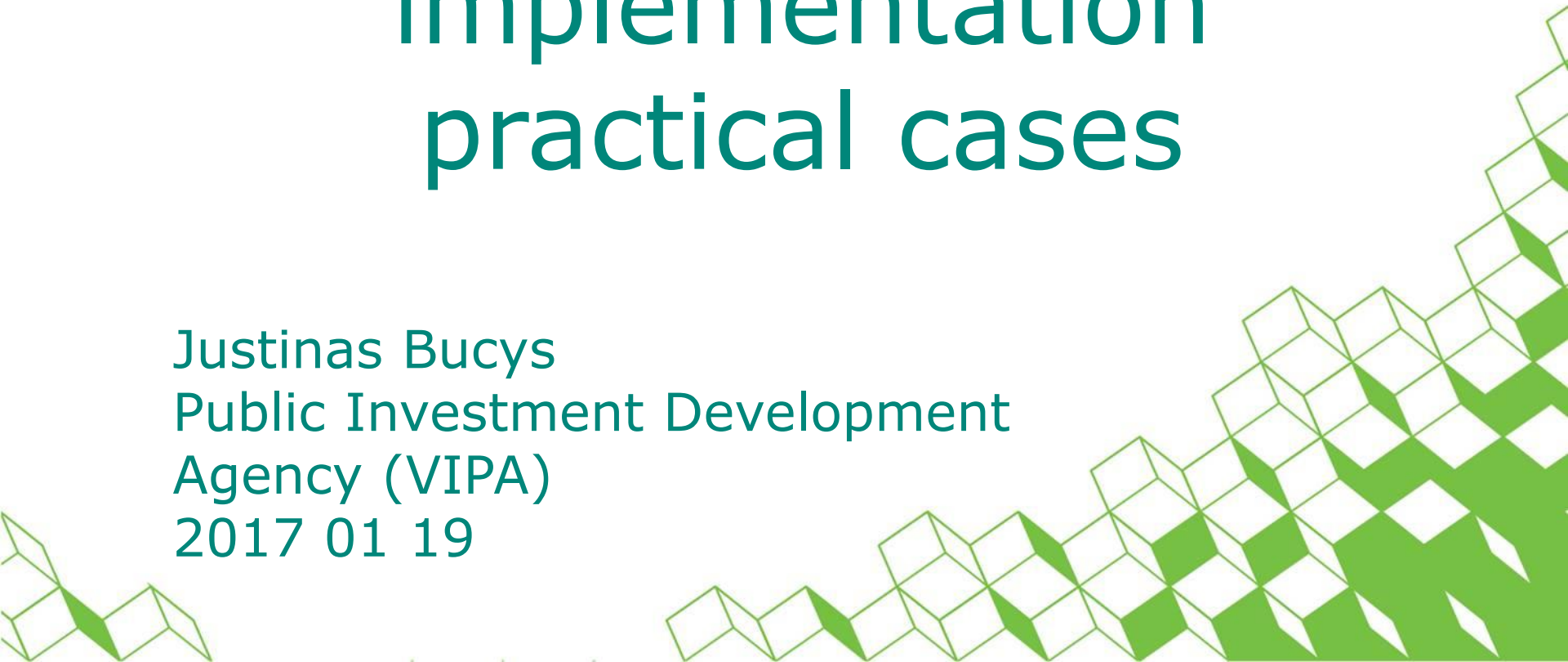


Financial instruments implementation practical cases

Justinas Bucys
Public Investment Development
Agency (VIPA)
2017 01 19



Public Investment Development Agency (VIPA)





VIPA



VIPA was established on the 28 of November, 2012 by Resolution No. 1428 of the Government of the Republic of Lithuania.



Founder of VIPA – The Ministry of Finance (100%)



MISSION

Improve the conditions for the public infrastructure development by promoting the development of the financial market by efficiently planning, developing and managing financial instruments



VISION

Become the National promotional institution able to perform efficiently in capital markets and a leading entity in the area of public infrastructure financing



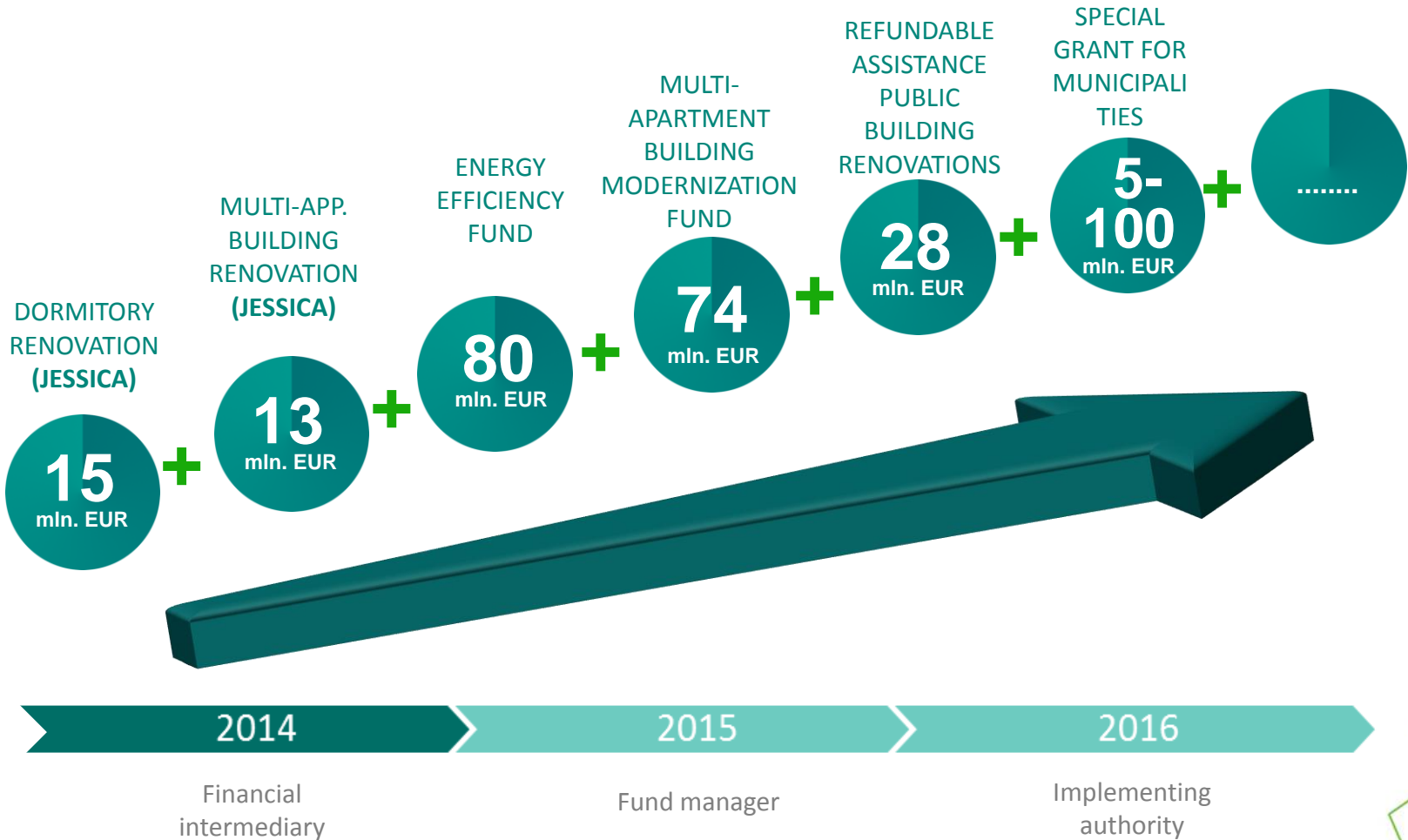
STRATEGIC OBJECTIVES

1. To increase the amounts of funding available for public infrastructure and the public interest projects financing
2. Enhance the efficiency of the Company's performance
3. Become a reliable implementer of financial instrument programmes

We seek to change the attitude towards financing – subsidies and grants should be replaced by sustainable financing instruments



VIPA managed financial instruments



Energy efficiency fund (ENEF)





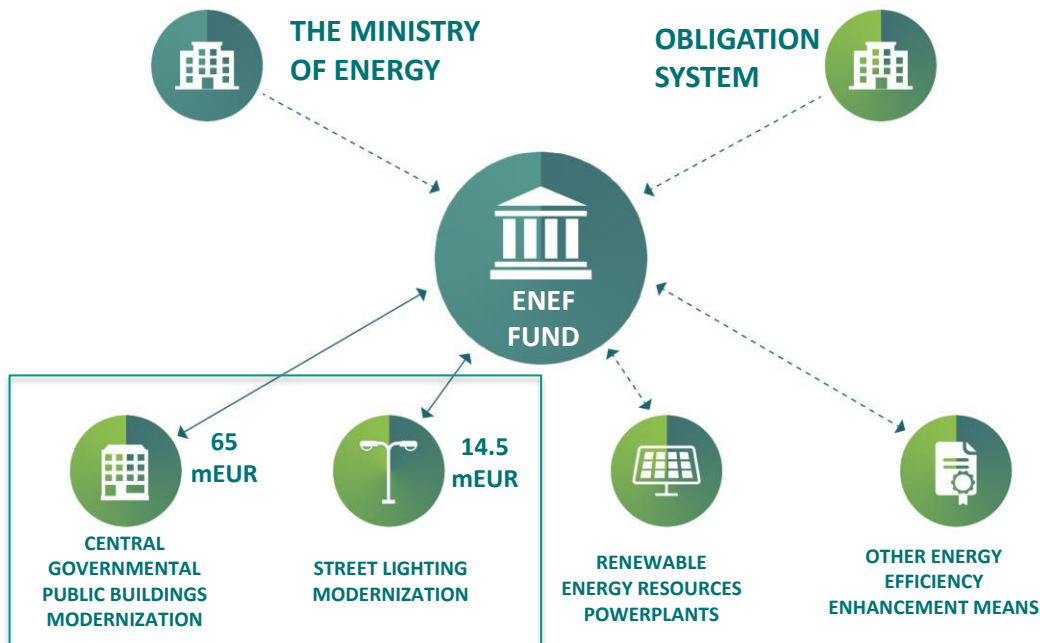
ENERGY EFFICIENCY FUND (ENEF)



Funding agreement signed by VIPA, Ministry of Energy and Ministry of Finance on 18th February, 2015



Allocated funds to ENEF – 79.5 million EUR



Rationale and motivation

- funding GAP in central governmental public buildings modernization area – 66.9 mEUR
- funding GAP in street lighting modernization area – 66.9 mEUR
- obligations set out in of energy efficiency set by energy savings directive
- focus on energy independence
- inefficient public sector infrastructure
- bankable projects
- challenging ESIF possibilities in new programming period



Provision of a guarantee for street lighting modernization projects



- effective guarantee 50% of investments
- increasing guaranteed loan amount over the time
- up to 20 years
- first loss guarantee, immediate payment
- program cap x 2,5 loss reserve
- guarantee object – payments of the municipality



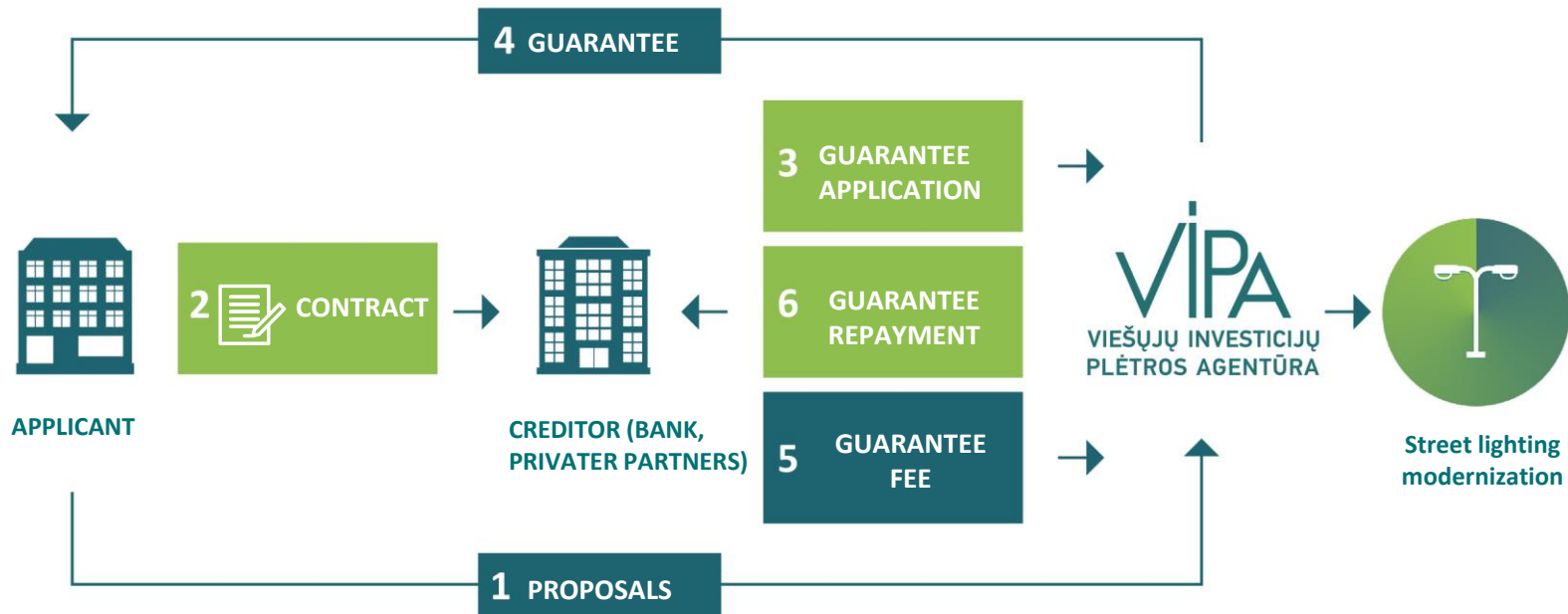
Applications approved – 1



Applications under evaluation – 2



Project initiation stage - 5





Loan for central government owned building modernization purpose



Main loans conditions:

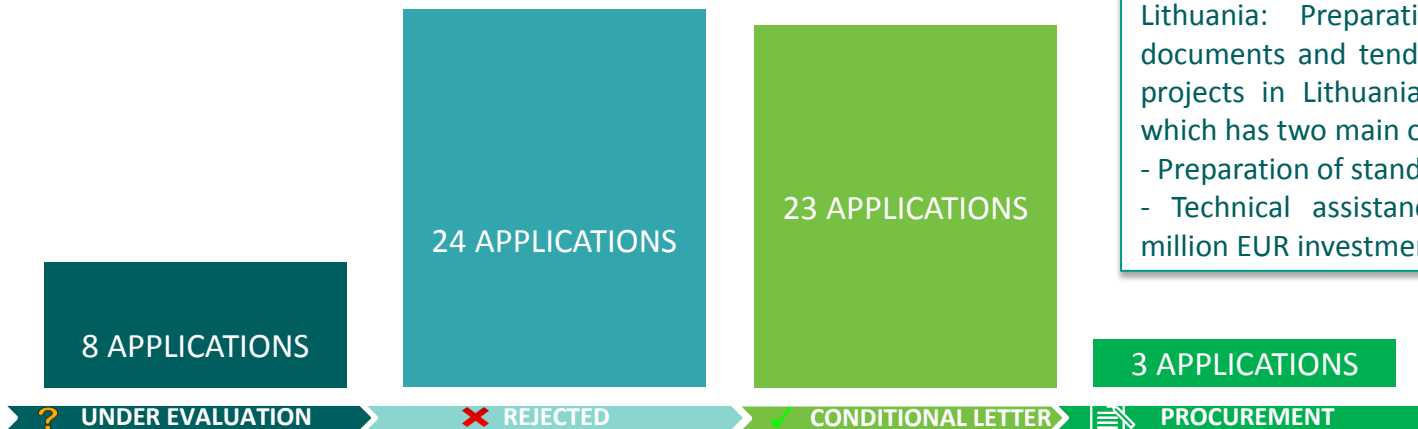
- up to 2 % margin + EURIBOR
- up to 20 years
- loan amount - up to 80 % eligible expenditure, when the borrower is ESCO
- loan amount up to 100 % eligible expenditure, when the borrower is public entity
- ESCO must contribute their own funds no less than 20 % from project value
- standard ESCO documentation - approved by MoE

Due to borrowing restriction for budgetary institutions loans can be issued to:

- ESCO's, when applicant is a budgetary institution (cannot borrow on their own) or a public institution, a loan is provided to an ESCO;
- public institutions that can borrow themselves (applicant is a public institution)

VIPA implements **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" under EBRD-**ELENA facility**, which has two main objectives:

- Preparation of standard ESCO documentation
- Technical assistance for projects (minimum 6 million EUR investments)





Challenges for ENEF

- Lithuanian legislation on fiscal debt and municipalities borrowing (EUROSTAT treatment of debt related to cost saving investments)
- No track record - time needed to start appreciating ESCO model, develop it and learn how to apply it
- Challenges to achieve real savings (economic viability) because of current insufficient service capacity and need for deep renovation
- Conservative commercial banks position (non state guarantee)
- Credit institution regulator struggling with opinion on the guarantee treatment
- Challenges to achieve real savings (economic viability) because of current insufficient service capacity and need to change whole infrastructure
- PPP related issues and not developed ESCO market in Lithuania
- Need for additional subsidies in some modernization projects, e.g. cultural heritage buildings
- Regulation related challenges

Multi-apartment building modernization process





Multi-apartment building modernization program rationale

- Funding gap - 1 billion EUR until 2023 (demand more than 1.3 billion EUR), over 10 billion EUR total
- Problems in construction sector during crisis
- Very inefficient residential housing infrastructure
- Moving towards energy independence goal due to geopolitical reasons
- Very conservative commercial banks approach
- Lack of initiative from apartment owners



Multi-apartment building modernization history

Launch of modernization of multi-apartment buildings in early 90's were rejected

Small scale World Bank Project in 1996-2004

Subsidized renovation program launched in 2006 and ran out of money in 2007

JESSICA launched in early 2009 (using ES SF of 2007-2013)

ABRF established in early 2015 (using ESIF 2014-2020)

JESSICA II launched in mid 2016

Securitization initiative and guarantee instrument development



Program challenges and decisions taken



Apartment owners related challenges

- Chronic distrust of population in Government
- Failed public relations program
- Poorly organized apartment owners
- Large share of owners on fixed income
- Many low income people were eligible for heating bill compensations, and had no incentive to join the program



Bank related challenges

- Initial reluctance and distrust
- Risk averse



Law related challenges

- Possible state aid issues
- Legality of personal data handling
- Turning the apartment owners into borrowers (possibly) against their will, and as a consequence
- Constraint: limitations within construction sector, as mostly small companies bid for contracts
- Success in lowering gas prices





Program challenges and decisions taken

Corrective measures

- Extra 25% written-off if savings reach 40% (limited duration – until end of 2014, but nothing is more persistent than the temporary)
- Municipalities instructed to draw lists of the worst-performing buildings
- Municipalities appointed renovation administrators
- Administrators borrow on behalf and in favor of apartment owners
- Loan remains off the balance of Administrator
- 50% +1 of apartment owners have to agree to join the program
- Gradual phase-out of heating bill compensations



Main loans conditions:

- 3 % fixed interest rate
- up to 20 years loan maturity
- loan amount - up to 100 % EE investment
- 2 years grace period (during construction)
- no collateral required

- up 40% EE investments reimbursement subject to energy savings (gradual phasing-out)

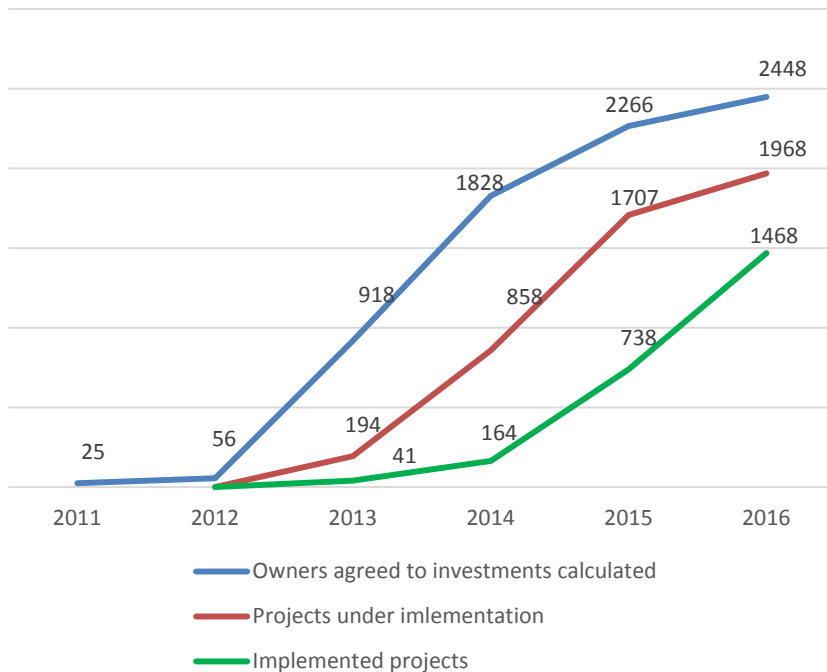
- 100% of project development costs reimbursed

- 100% of reimbursement of installments to low income families



Loan for central government owned building modernization purpose

Program implementation results



Results (up to date):

- over 1500 buildings renovated and around 55 thousand households affected;
- average savings 67%;
- over 450 GWh annual energy savings;
- around 63 thousand tons of CO2 emissions saved;
- increase in value of the buildings - 15-20%;
- over 400 mEUR investments materialized in construction sector (new jobs and taxes paid);
- better living conditions;
- better awareness of benefits (92% of apartment owners recognize the need for renovation)



Programme for enhancement of EE in quartals



Municipal building

Kinder garden

Multi-apartment building

- On 1st of June 2015, the Government of the RL approved the procedure for the development and the implementation of programmes for enhancement of energy efficiency in quartals
VIPA appointed as the financing coordinator of the programme
- On 15th of June 2016, VIPA evaluated the three proposals regarding the modernization of pilot quartals, and drew up the plans for funding the enhancement of energy efficiency of the quarters concerned

- Value of the programmes – EUR 41 m
- Programmes will be implemented until 2022
- 61 percent of the expenses are allocated for the renovation of multi-apartment houses
- Other expenses:
 - Street lighting
 - Public buildings of municipalities
 - Recreational and green areas

VIPA
VIEŠŪJŲ INVESTICIJŲ
PLĒTROS AGENTŪRA





Outstanding challenges

- Program is so successful that developed FI run out of funds
- The subsidy element turned out to be too much of a burden on (courage needed to reduce the subsidies):
 - Climate Change program
 - State Budget
- Over-subsidized heating sector chain (low energy prices) discourages modernization process
- Legal framework development simplifying leveraging possibilities

Lessons learned in implementing FI's





Lessons learned and recommendations

- Important to see the “big picture”
- Consistent policies and stable procedures
- Good knowledge of market conditions and final beneficiaries (invest in quality of ex-ante assessment)
- Consult with stakeholders, but be consistent and tough, if necessary
- Good planning – milestones and steps to achieve them
- Apply corrections in a timely manner
- Excessive grant funding is detrimental both to donor and beneficiaries
- FI’s do not “fly” if you have similar subsidy instruments or they are considered



Lessons learned and recommendations

- Delegate process owner
- Standardize and simplify process as much as possible (e.g. “one stop shop”)
- Think innovatively
- Develop technical assistance facilities and promote your initiatives
- Ensure quality of implemented projects
- Play “Carrot-and-Stick” game (if motivative measures do not work introduce punishing)
- Incentivize pioneers
- If possible try to make room for flexibility, limit restrictions to minimum

Further information sources:

- <http://vipa.lt/en/>
- info@vipa.lt or justinas.bucys@vipa.lt

Some other useful sources

- <http://www.eefig.eu/index.php> (#EEFIG)
- <http://www.interregeurope.eu/build2lc/> (#BUILD2LC)
- <http://guarantee-project.eu/> (#guarantee_H2020)

QUESTIONS?

