



Financial Instruments for Renovation of Multi- Apartment Buildings in Lithuania: Per Aspera ad Astra

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Humble Early Attempts to do Something



- Moves to launch modernisation of apartment blocks in early 90's were rejected;
- World Bank Project in 1996-2004
- Subsidised renovation program launched in 2006
- Program ran out of money in late 2007
- Decision to launch a “win-win” scheme using JESSICA in early 2009

Financial Instrument on Excellent Terms (too good to be true)

- Borrower: House-owner association
- Fixed interest rate at 3%
- Maturity up to 20 years
- 2 years grace period (during construction)
- No collateral
- 15% written-off if 20 % savings attained and energy efficiency Class „D“ achieved (upon completion)
- 100% of costs to prepare renovation documentation reimbursed (paid from national funds)
- 100% of reimbursement of installments to low income families

Eligible Costs

- Anything that contributes to increase of energy efficiency:
 - Replacement of windows
 - Replacement of doors
 - Insulation of ceilings/roofs
 - Insulation of walls
 - Installation of solar panels/wind mills
 - Replacement of energy related equipment
 - Replacement of elevators and electrical wiring in shared areas (stair wells, basements)...

Big Disappointment: The Program Didn't Fly...



- Chronic distrust of population in Government
- Failed public relations program
- Apartment owners poorly organized
- 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

A Number of Other Challenges Were Encountered



- Possible state aid issues – need to identify and register
- Legality of personal data handling
- Turning the apartment owners into borrowers (possibly) against their will, and as a consequence:
- Questioning the constitutionality of entire scheme
- Constraint: limitations within construction sector, as mostly small companies bid for contracts
- Success in battling „Gazprom“ on gas prices backfires

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 appoint 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

Impact of Corrections Made



EIB Involvement

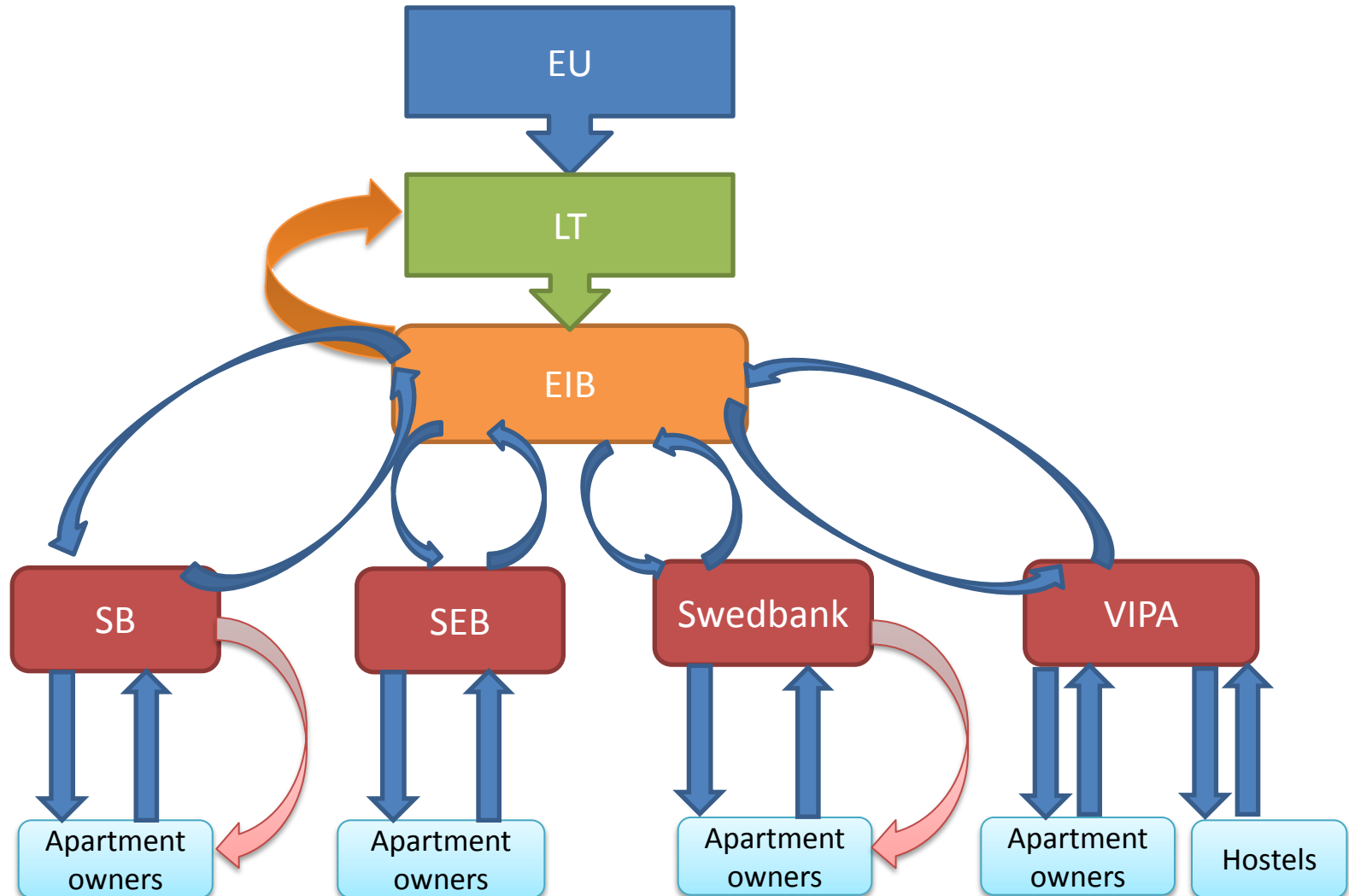
- Manages the Fund
- Does a lot of analytical and technical work
- Authorities hardly would have had enough human resources and skills to accomplish all tasks
 - Review of the relevant legal acts: EU and national
 - Identification of the stumbling blocks
 - Prepare selection criteria for selection of commercial banks
 - Selection of commercial banks
 - Negotiation and signing agreements with commercial banks

Attitude of Participating Commercial Banks

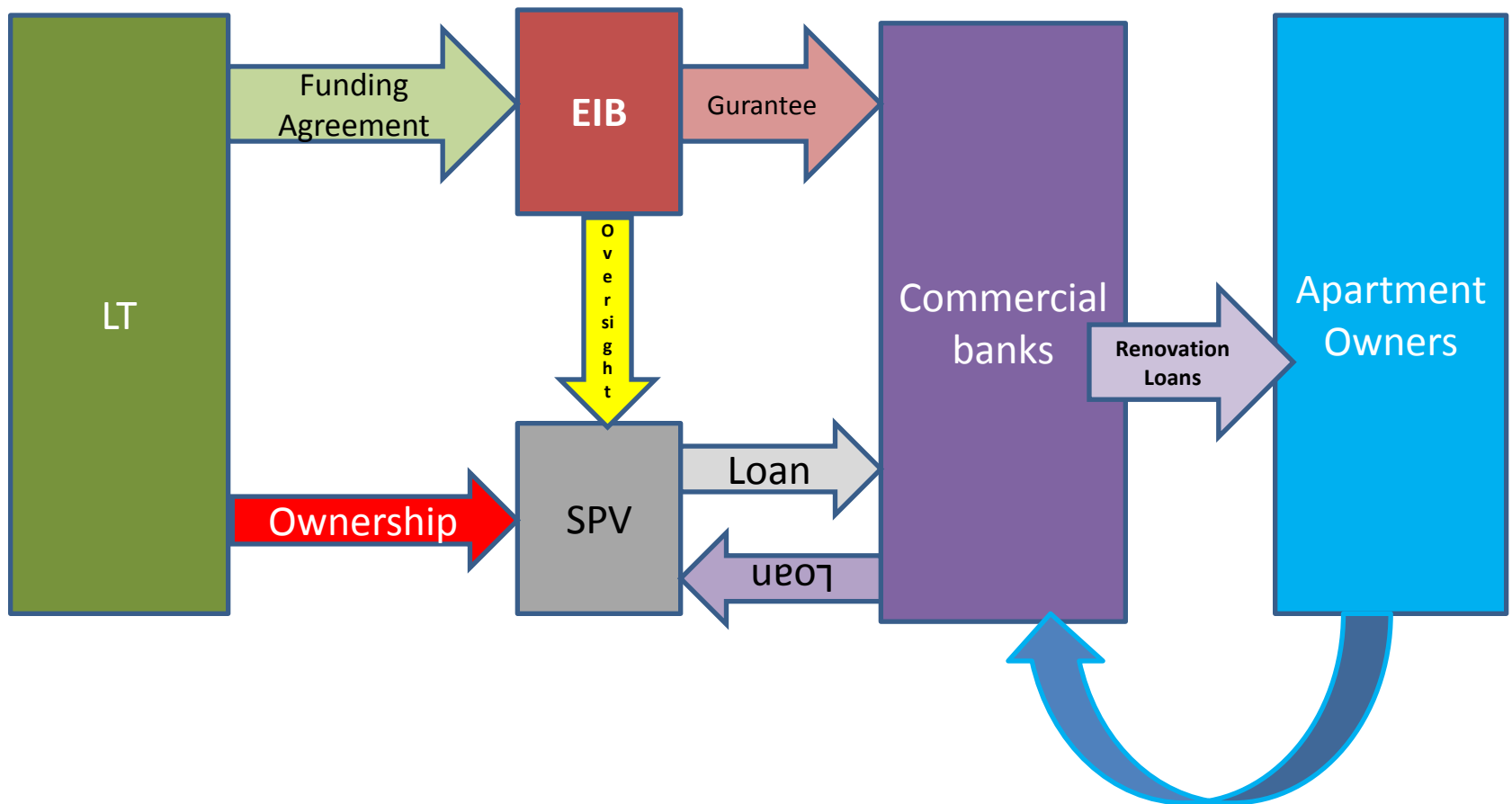


- Initial reluctance and distrust
- Gradual warming resulting in Pre-financing arrangement
- Paving the way to Leveraged Fund

EIB Involvement vs. Local Banks



Evolution of LT-EIB Cooperation Leveraged Fund



An Overarching Bottleneck

- The subsidy element turned out to be too much of a burden on:
 - Climate Change program
 - State Budget
- Courage needed to reduce the subsidies

Conslusions as per Textbook

- Important to see the “big picture”
- Consistent policies and stable procedures
- Good knowledge of market conditions
- Scrutiny of alternatives
- Good planning – milestones and steps to achieve them
- Consultation with stakeholders, but be consistent and tough, if necessary, in pursuing the goals
- Apply corrections in a timely manner
- Excessive grant funding is detrimental both to donor and beneficiaries



Thank you for your patience!