CITYnvest capacity building workshop

Minutes

## Focus country: Lithuania, Date and place: 17.05.2016, Vilnius

## Summary of general sequence and aim of the workshop

The main financial sources for the energy efficiency renovations in Lithuania are the EU funds, financial instruments based on JESSICA fund, cheap loans for the building owners and guarantees for the local authorities (e.g. Energy Efficiency Fund). ESCO model has not been broadly implemented in Lithuania but there are some attempts to develop it through the Energy Efficiency Fund. Citizen-based funding is not used either.

In this context, the CITYnvest workshop was mainly addressed to the Lithuanian local authorities, financial institutions, investors, ESCOs and policy makers from local and regional level and focused on:

1. Raising awareness of existing innovative financing models and how they can be implemented to renovations of the Lithuanian municipal building stock.
2. Demonstrating inspiring case studies that could be replicated in the Lithuanian context.
3. Brainstorming with participants on the future of the innovative financing instruments in Lithuania and the obstacles that could hinder their development.
4. Encouraging partnership-building.

## Summary of presentations held

**Welcome words, *Arvydas Darulis, Deputy Director of Vilnius city municipality administration***

This is a seminar on a very relevant issue and I am delighted that we will be able to hear not only about the methods applied by our municipalities but also ow foreign municipalities operate. In Vilnius, we started with renovations of multi apartment housing stock. The first step was to draft heat consumption map and categorise the buildings. Thanks to that every resident can see what the heating consumption is and can see the difference between the renovated houses and not renovated houses. That convinces people to get their buildings renovated.

As for the municipal buildings stock, we need to find and attract money for renovations. And today we will hear what methods are applied for that by our foreign counterparts.

**Short presentation of the CITYnvest project, *Agnieszka Pietruczuk, CITYnvest communication officer***

CITYnvest is a Horizon2020 project, which focuses on innovative financing models for energy retrofits in buildings. The project is active in 5 main areas:

1. We analyse and compare innovative financing models that have already been developed across Europe. Based on gathered data and our experience from pilot regions, we develop guidance materials on financing for energy efficiency renovations of public buildings.
2. We help to introduce innovative financing models in three pilot regions in Belgium (Liège), Bulgaria (Rhodope) and Spain (Murcia).
3. We conduct large scale capacity building programmes. Through a series of workshops we will train more than 650 local authorities and 300 other stakeholders in 10 focus countries (Bulgaria, Italy, Spain, Belgium, Latvia, Lithuania, Romania, Hungary, Austria and Slovakia).
4. We monitor investments that have been triggered in the frame of CITYnvest. We collect and analyse data from local authorities in three pilot regions and evaluate our efforts on the ground, which will allow us to determine key success factors and to recommend possible improvements.
5. We promote innovative financing models and share our experience and knowledge.

CITYnvest developed first capacity building materials directed to the local authorities:

* “[Increasing capacities in cities for innovating financing in energy efficiency](http://citynvest.eu/content/review-local-authority-innovative-large-scale-retrofit-financing-and-operational-models)”, which reviews innovative financing and operational models for large-scale retrofits.
* “[Recommendations Decision Matrix](http://citynvest.eu/content/recommendations-decision-matrix-helps-choose-most-suitable-model)”, which contains a set of questions that helps to choose the most suitable financing and operational energy retrofits model.
* “[A guide for the launch of a One Stop Shop on energy retrofitting](http://citynvest.eu/content/guide-launch-one-stop-shop-energy-retrofitting)”, which provides guidance for private and public actors on how to start an energy retrofitting project based on the experience of RenoWatt (Belgium).

**Introduction of municipal public building‘s renovation programme*, Ramunas Sveikauskas, Ministry of Environment***

Ramunas Šveikauskas presented the key points concerning energy efficiency improvement in public buildings. He noted, that implementing requirements of the Energy efficiency directive, the Public building energy efficiency programme was adopted (on 26th of Nowember, 2016).

The main legal acts regulating energy efficiency in Lithuania are:

* 2014-2020 National advancement programme,
* National energy independence strategy,
* National climate change management strategy.

The main aims of the programme are:

* to increase energy efficiency;
* to save approximately 60 GWh annual primal energy until 2020;
* to secure effective consumption of national finance, assigned for energy efficiency in public buildings;
* to reduce CO2 emissions;
* to secure the public buildings correspondence to standards of hygiene.

In the frame of the Public buildings renovation programme, it is planned to renovate 470 thousand square meters area of state-owned public buildings (responsible Ministry of Energy) and 230 thousand square meters area of municipal owned public buildings (responsible Ministry of Environment).

The Ministry of Environment is working now on preparation of Energy efficiency improvement programme for municipalities. Municipal buildings energy efficiency programme will receive 50,7 million EUR from the EU support. An average of support planned for one municipality is 840 thousand EUR. The main aim of programme is to seek to use the funds effectively and to ensure the return on investments.

The Ministry plans to create leverage found and to attract private sector resources (for example in a form of an ESCO model). With the aim to assist municipalities to foster public building renovation, it is planned to implement pilot projects in municipalities (one project per municipality). In the frame of this support municipalities will select one building, to evaluate building‘s technical parameters, to initiate the energy audit and to prepare investment project. All these steps must be agreed with Ministry of Environment. Later municipalities will have to take a decision on how to realize the project, i.e. to select financing model: credit or ESCO model. This process will be coordinated by the Public Company Housing Energy Efficiency Agency. The Agency will be responsible for pilot projects implementations and for financial support, it will organize trainings and consultations for municipal specialists, and evaluate investment’s projects prepared by municipalities.

**The role of Banking sector in buildings renovation: introduction of available financial instruments, *Junona Bumelyte,* *European Investment Bank***

EIB experience in managing financial instruments and bank’s role in this process.

The JESSICA holding fund in Lithuania was established in 2009.  In 2009 Lithuanian government signed a Funding Agreement with EIB and appointed EIB as the JESSICA Holding Fund manager and it is still acting in this capacity. As the Holding Fund manager EIB is responsible for development of the financial products for financing renovations of the multi-apartment buildings (loans), selection of the financial institutions to extend the loans, defining the processes and mechanisms of the implementation of the JESSICA fund functions.

Renovation model using Jessica fund successfully attracted private finance and as a result, 690 buildings were renovated with 67 % energy savings. In Lithuania, the national state is in charge of this renovation model, however it was successful thanks to involving municipalities and their appointed administrators in the process.

EIB is interested in participation in renovation process and it would like to continue the cooperation in the future. Considering that i.e. continuing close cooperation between Lithuania and the European Investment Bank in May, 2015 was signed contract on the Jessica II fund, and for 1.3 billion euro loan for the period 2014-2020.

* Benefits of using financial instruments for energy efficiency in buildings:
* ensures more efficient use of public sector resources;
* provides greater leverage potential and  brings financial discipline into the project;
* allows to combine with technical support.

The key succes factors would be:

* the balance between policy objectives and real market absorption capacity,
* constructive cooperation,
* alignment of interests,
* good governance struture,
* flexible investment strategy.

**Remarks from the audience:**

It often happened that municipalities received the financial support from the EIB programmes long time after signing agreements with contractors. During that period conditions changed and the contractors would ask different amount for its services. It is necessary to find a way to avoid that kind of situations.

**Response:**

EIB suggest to sign contracts with contractors only after the funds are assured.

**Questions from the audience:**

Would ESCO participation in renovations be a challenge or help for banks?

**Response:**

In principle ESCO is the model known in many countries, they were looking for a success formula but so far there are no successful formulas. For financial intermediaries they are both help and challenge. The intermediaries need to think that it’s good model to finance. The ESCO has not been implemented in the multi apartment buildings renovations thus EIB doesn’t have much experience with it.

**Municipality and energy efficiency: experience in buildings renovation, *Henrikas Siaudinis, Mayor of Ignalina district municipality***

The mayor informed, that municipality buildings renovation process started in the year 2008 and have been finished in 2015. During this period municipality renovated all municipal public buildings.

Renovations has not only changed the aesthetic appearance of the buildings, but also improved the working conditions. Due to the renovations up to 45% of heat energy savings were achieved.

The main finance sources were Ignalina Nuclear Power Plant Decommissioning Fund (Ignalina programme), Public Investment Program Fund, EU support, and municipal budget. The total cost of renovations of 40 municipal buildings was 10 million EUR.

In case of Ignalina, no innovative instruments were used; the private sector was not involved, nor the ESCO model. It was not necessary to search for other financing sources, since all buildings could be renovated in frame of the EU support and other grants.

Finance resources for renovation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Total (thous. Eur) | EU(thou. Eur) | National budget(thous. Eur) | Municipal budgtet(thous. Eur) |
| Ignalina programme | 4176 | 3300 | 806 | 70 |
| Public building (regional level) | 2986 | 2538 | 0 | 448 |
| Diversification | 2000 | 1700 | 150 | 150 |
| Public Investment Fund | 1296 |  | 1296 |  |
| Total | 10458 | 7538 | 2252 | 668 |

According to Henrikas Siaudinis, Lithuanian municipalities are not keen on using the innovative financing models, as the EU funding is available and local governments have no experience in using more alternative solutions.

**Overview of various existing innovative financing instruments and development of local action plan. Questions and answers. *Lieven Vanstraelen, Energinvest, CITYnvest consortium***

CITYnvest has analysed and compared 24 different innovative financing models. This exercise is summarized in the report “[Increasing capacities in cities for innovating financing in energy efficiency](http://citynvest.eu/content/review-local-authority-innovative-large-scale-retrofit-financing-and-operational-models)”.

Often municipalities say that they would like to do projects but they don’t have money. It’s not true, you have money but you are wasting it on energy costs. It’s an issue of finding a right institution that can advance those money to make the investments. But there is also an issue of how it is reported in accounting (Eurostat rules).

Interesting project to look at:

* [Sunshine](http://citynvest.eu/content/sunshine-3) – EPC scheme to renovate multi apartment buildings plus forfaiting fund (fund which PDU pre-finances projects through ESCO model and this forfaiting fund created the revolving mechanism).
* [Brixton energy cooperation](http://citynvest.eu/content/brixton-energy-co-op), which also focus on residential sector but through citizen funding.

**Some elements are common to all of the models:**

* The Program Authority is the public entity or organization that is in charge of the program or that controls the Program Delivery Unit. This is typically a national or regional government, a provincial or local authority or council or a city or municipal council. The Program Authority defines the vision and the program scope including the targeted beneficiaries, the level of ambition, the implementation model and the funding vehicle that is being put in place.
* The Program Delivery Unit is the organization that is specifically set-up to implement and execute the program. It can be a public, a public-private or a private entity/organization, depending on the local capabilities and competencies. Program Authority needs to provide sufficient funds that will enable performance of this entity.
* Beneficiaries

**What’s different in various models?**

There are **two implementation models**: Separate Contracting Based (SCB) and EPC/ESCO. SCB is a method to implement multi-technique energy efficiency or renewable energy projects, by which each step of the process is dealt with by a separate party (energy auditor, engineering company, installer or contractor, maintenance company) and by which individual projects (e.g. boiler replacement, relighting, isolation, etc.) are executed by separate contractors for each technique. Energy Performance Contracting (EPC) or Energy Supply Contracting (ESC) is a method by which an ESCO (Energy Services Company) acts as a unique contractor and assures all the technical and performance risks of the contract.

ESCO financing – ESCOs are not banks and they don’t really like to finance project. It’s perfectly possible to set up EPC and use external funding (banks, own funds).

PDU financing – big advantage to have this one-stop shop model.

Level of ambition (ambition vs cost and years).

The marginal cost of energy savings follows a growing exponential curve: the higher the energy savings rate rises, the more the marginal cost increases exponentially.

• A low energy savings rate (e.g. 25%) has a competitive marginal cost (between 20 and 50 € per m2 heated). For a major renovation, to the level NZEB (Nearly Zero Energy Building), the cost can exceed 1,200 € / m2.

• Various studies shows that energy savings can’t finance more than a 50% rate.



The biggest part of the models focuses on the parameter 1 – 35% of savings.

* There **several operational models**, which define how the business is organized and what the relationships between the stakeholders are. Possible models include:
* Marketing
* Aggregation
* Facilitation
* Integration
* Financial advice
* Financing
* Assessment

Aggregation plays a very important role – regional/provincial authority aggregates projects of municipalities and that’s often a success factor. It allows to aggregate for bigger investment programmes (ie. European funds) and economy of scale.

ELENA facility – 1 million EUR subsidy to set up an investment programme of 20 milliard EUR. Aggregation necessary for that to reach the volume.

Attractiveness vs risk – The attractiveness of the integrator model is very high (especially if it integrates financing) but comes along with higher risks for the integrator.



Conclusions:

* The success of the models often seem correlated with the existence of a well-functioning Program Delivery Unit.
* A clear leadership role of the public partner (ambition and willingness to invest) is necessary.
* EPC/ESC implemented models are a very good fit for perimeter 1 energy efficiency ambition levels (<35% savings), mostly driven by facilitation models.
* Factor 2 (50% savings) and factor 4 (75% savings) energy efficiency ambition levels are very often “integration” driven, both technically as financially.
* High energy efficiency ambition levels (factor 2 and factor 4) do not focus on short to medium pay-back terms.

Setting up the programme:

1. Decision mapping tool - available in the report on the [CITYnvest website](http://citynvest.eu/content/review-local-authority-innovative-large-scale-retrofit-financing-and-operational-models).
2. Strategic analysis:
* Program Authority/Program Delivery Unit roles and functions
* Beneficiaries, type of projects and level of “ambition”
* Implementation model
* Operating Services
* Level of “aggregation”
* Financing & Funding Vehicle
1. Choice – what we are proposing to do:

It all starts with the political commitment - level of ambition combined with the target audience.

**Case study presentations and questions and answers, *Ard den Outer, Rotterdam Green Buildings, Municipality of Rotterdam***

Why did Rotterdam start to work with innovative financing models?

* A lot of pollution in Rotterdam
* Rotterdam Climate Initiative obliged the city to work on the reduction of pollution
* Increase the comfort of the swimming pools (especially for users with asthma by reducing chlorine)
* Decreasing of number of civil servants - new way of maintaining buildings needed – long term contracts via ESCO

In Rotterdam:

* 1500 governments buildings
* High use of electrical energy
* 75% cost of building – related to the energy and maintenance

Advantages of the performance contracting:

* Risk is on the side of the contractor
* Combining energy efficiency with maintenance
* The financing for the energy efficiency measures is ensured by the contractor
* Return on investment within maximum 10 years

The difficulty related to the performance contracting:

* To include a fixed price on energy for 10 years.
* To ensure flexibility of the contract; it was known that some of the swimming pools would close in several years, as well as that politicians may change their decisions – the contract has to accommodate those factors.

Renovations of swimming pools in Rotterdam with ESCO model was a pilot project. The cost of preparation of the pilot was 2 million EUR but it was partially subsidized. However, the next projects will be much cheaper, as the operational procedures already exist.

It was also quite difficult to get a loan for the ESCO as banks were not familiar with this concept yet and they didn’t know how to rate the prospects of the project. Negotiations with banks took Rotterdam 6 months but finally they go on board.

**Lessons learnt:**

* Sufficient volume in the contract is crucial
* The entire organisation has to change in the way of doing things – it’s more than just a project
* Flexibility is crucial if you engage for 10 years. Politicians change every 4 years thus you need to be able to change the contract, if needed.
* Continuity is essential
* Improvements in guarantees – the level of savings can be revised by the contractor after getting to know the building.
* Combining energy efficiency and maintenance
* Good documentation of buildings for the contractor (ESCO) is necessary
* Budget for unexpected costs needs to be planned

**Question from the audience:**

Do you think Dutch experiences can be replicated in other countries, with other mentality?

**Response:**

In the Netherlands, in the past the government was also reluctant to that kind of mechanisms as used in the Rotterdam but due to the financial crisis made them look for other solutions. When the government had not enough money to provide for its tasks that triggered the use of the financing instruments.

**Case study presentations and questions and answers, *Anna-Constanze Plüschke, Berlin Energy Saving Partnership***

Berlin Energy Agency is a private-public partnership - 50% private and 50% public ownership of shares.

BEA introduced EPC model to the German market 20 years ago.

Energy Performance Contracting is suitable for building with stable usage:



EPC is not limited to large building complexes as it is possible to pool buildings, even buildings of different usage, different use of energy etc., however the pool of buildings needs to reach the right level of baseline (needs to be ‘profitable’).

Typical contract duration in BEA’s projects – 8 to 15 years.

Renovation of public hospital:

EPC guaranteed 40% energy saving, which is considered very high.

Implemented measures: – modernisation of heat distribution, cooling and ventilation system, installation of CHP unit, web-based energy management system, user trainings. Additionally, insulation of top storey ceilings was implemented. The latter measure can be only applied in the ESCO model if a subsidy from the building owner is provided or if the other measures are profitable enough to cover this cost.

**Baseline: 808.359 EUR**

**BEA results – in last 20 years:**

* More than 1400 buildings renovated
* All saving guarantees have been achieved
* Total net investment: 55 million EUR

Major success factors:

* Political commitment and reliable legal framework
* Independent market facilitators – professional process management
* Successful pilot projects

Currently, BEA is involved in the GuarantEE project. Its main objective is to develop innovative business and financing models suitable for private and public partners, capacity building for EPC facilitators, implementation and promotion of pilot projects.

**Questions from the audience:**

You showed a scheme where the payback period is 10 to 14 years. It is a short payback period taking into consideration Lithuanian experience. How is that possible?

**Response:**

It is possible because the prices of energy in Germany are quite high, and higher than in Lithuania.

**Barriers and solutions, *Kestutis Vaitukaitis, ALAL vicepresident, chairman of ALAL Energy committee, mayor of Elektrenai municipality***

Energy saving is important to municipalities in Lithuania as it reduces the cost and provides better buildings. However, if the municipalities do not have enough of incentives to work on renovation projects and innovative financing, the national government needs to step up.

Elektrenai would be interested in implementing a pilot project, but as it is a small municipality, its capacities are limited.

The main obstacles related to implementing of innovative financing models for energy efficiency retrofits are:

* Lack of coordination: municipalities would like to see clearer coordination of the responsible institutions. Municipalities know that during this period public building renovation will be financed using financial engineering instruments, but they are lack of detailed information concerning these instruments or finance models. Municipalities also need technical and consultative assistance in preparation of investments plans or technical specifications.
* Legislation is not favourable to municipalities.
* Limited capacities of small municipalities, especially in terms of staff.
* The main problem however is lack of funds as the borrowing limits are exhausted: most of the municipal budgets are unbalanced, lending limits are exhausted. Municipalities do not have sufficient own funds to contribute to the renovation.
* Municipalities don’t have the possibility to take the risk related to the innovative models.
* Private sector involvement in the renovation: municipalities have positive view to private sector's involvement in the renovation process. However, this requires the creation of favourable conditions at the same time ensuring that users of the buildings will have suitable building’s operating conditions after the renovation. The private sector's role must be clearly defined by specifying the responsibilities, duties, and benefit. The cooperation will be mutually beneficial.
* Banks require guarantees from municipalities, even though municipalities are public entities and should be trustworthy for the private sector. At the same time, municipalities have limited possibility to issue those guarantees.
* Not enough of examples of renovations done by PPP in Lithuania thus not enough of experience.
* Lack information of different financial modes; broad scope is discussed but not enough in-depth training.

However, as the new programming period for the European Funds approaches, the municipalities need to think of what is going to happen after 2020, thus look into different, innovative models.

Seeking to speed up the renovation, firstly, it is important to create clear legal basis and to create the friendly conditions for private sector's involvement and promoting public-private partnerships. It is also important to promote the cooperation between all institutions and other stakeholders.

## Summary of panel debate

**Interactive discussion**
Moderator: Martynas Nagevicius

*Ramunas Sveikauskas, Ministry of Environment*

*Vytautas Stasiunas, The Lithuanian District Heating Association*

*Gedas Janenas, Siauliu bank*

*Sigita Balionyte The National Association of Administrators*

*Darius Jakubauskas, Public Investment Development Agency*

*Inga Valuntiene, Vilnius Gediminas Technical University*

*Mindaugas Sinkevicius, Mayor of Jonava district municipality*

*Lieven Vanstraelen, representative of CITYnvest*

**Q to *Ramunas Sveikauskas, Ministry of Environment***

Q: Do you agree that until the municipalities have to comply with the borrowing limits, they will not use the instruments discussed earlier today?

*Ramunas Sveikauskas*: Debt discipline will not be removed. However, Ministry of Environment will start the discussion with other governing institution concerning municipalities borrowing possibilities: ministry will try to create legal environment separating borrowing for renovation from all debt discipline. It is important to note that, now the innovative financing instruments are used in the multi-apartment buildings.

Q: Do we need more incentives to get those instruments?

*Ramunas Sveikauskas*: We heard from the municipality of Rotterdam that guarantees by municipalities are not attractive. But considering the fact that EU support decreases and municipalities will not receive grant for renovation projects, they have to start to search for other finance instruments.

***Q to Gedas Janenas, Siauliu bank***

Q: Can you mentionany successful examples of innovative financing models?

*Gedas Janenas*: We constantly communicate with companies about implementing those financing but at the moment we don’t have any examples of implementation. So far the administrative funding method can be applied best. Siauliu bank signed contract with EIB and is planning to continue working in this direction. Today is a good opportunity to start discussion how to speed renovation, especially municipal buildings renovation and to find answer what we need to improve.

**Q to *Vytautas Stasiunas, The Lithuanian District Heating Association***

Q: Are heat suppliers interested in the renovations? Are heat providers going to participate in this process as well?

*Vytautas Stasiunas*: In Lithuania 60% of heat is produced in a centralised way and remaining part is supplied individually. This individual sector: gas boilers, stoves and ovens often cause the pollution. The heat providers are interested in making consumers happy and they will be happy when they can pay less for the heat. Thus there is an interest in the heating companies to renovate buildings as well as connect new buildings to the network. We would be happy to participate in renovation projects but at the moment the legal framework prohibits heating companies from being involved in this areas. It is necessary to improve legal environment and create friendly conditions for companies. Renovation would make benefit for all sector: companies, consumers, municipalities.

***Q to Sigita Balionyte The National Association of Administrators***

Q: What are the plans of administrators regarding participation in the renovations and the innovative financing models?

*Sigita Balionyte:*We are interested to work with the local authorities and with ESCO, however we should be involved as equal partners and not as someone who only provides support. We have good experience with multi apartment buildings and this practice we could apply working with municipal buildings renovation. But it is important to note, that the model have to be very clear defined. On the other hand I would like to mention one key point from our experience: renovation is important step, but it is also very important to guarantee the right owners behaviour and qualified building’s supervision after renovation.

***Q to Inga Valuntiene, Vilnius Gediminas Technical University***

Q: You had experience in working with ESCO model. Why didn’t this project succeed?

*Inga Valuntiene:* The objective of the project was to create carbon neutral cities. We had to carry out the quota renovations in residential and public buildings and take other measures. Unfortunately the project was not implemented because we were unable to find adequate funding. Only the first part of the project, sponsored by the European Union was implemented. The other part if the project was supposed to be financed by Lithuanian sources and we didn’t manage to find an investor.

ESCO model failed because of the legal framework, but this problem is being solved now. On the top of that, low energy prices made the payback period became too long and companies lost interest. We also didn’t have reliable information about the energy consumption in buildings. Those type of projects need to be big but in our project we had only 3 buildings, which was not really attractive for ESCO companies. There was also lack of trust and cooperation between the municipalities and business and not enough understanding of the ESCO models. However energy experts, academic sector believe that ESCO model is one of the most effective instruments that can guarantee to achieve national energy independence strategy targets and municipalities have to start to search for possibilities to apply this model.

**Q from the audience to *Sigita Balionyte***

Q: The market for renovations is quite big, 13 million buildings. To what extant the members of your association are able to be involved in the ESCO model, contribute financially and what risk can they undertake?

*Sigita Balionyte*: We are ready to cooperate also from financial point of view but the cooperation needs to be based on a clear service model. The governmental programme of public building renovations developed a good model, in which the private partner needs to bring 20% of investment. We already participate in pilot projects and often ESCO or investors are very limited by some specific measures that they are supposed to apply and that makes them less interested in those projects.

***Q to Mindaugas Sinkevicius, Mayor of Jonava district municipality***

Q: Energy prices in Jonava are low. Could you imagine getting involved in an ESCO model or any other innovative financing model?
*Mindaugas Sinkevicius*: As long as we receive grants and subsidies, there is no motivation for local authorities to look for the self-sustainable models. In ESCO model, if energy is cheap, the payback period becomes very long. Thus this model can be interesting only for municipalities where energy prices are high. However, it seems like the central government will test the ESCO model and if that’s successful then the model can be used more widely. However, the fiscal discipline measures can be a problem.

***Q to Darius Jakubauskas, Public Investment Development Agency***

Q: Could you introduce the model that you will implement in the state buildings, which might be a good example for municipalities to follow?

*Darius Jakubauskas*: We have some pilot projects on-going and some of them are with guarantees. And if the plan is successful we will have about 60 guarantees if there is demand in state buildings.
Our ESCO model is very similar to the one in Berlin. We are trying to rely on the best practices examples and if we have money allocated by the ministry we need to think of what the private partner can offer and only then we can see if the model is successful.

**Remark from the audience:** In Berlin model there is no subsidy.

*Darius Jakubauskas*: We have subsidies. The difference is who funds the works. Here we have 2% interest – those are loans on favourable conditions. There shouldn’t be any problem in obtaining funding for those projects.

***Q to Lieven Vanstraelen, representative of CITYnvest***

Q: Where should we start in Lithuania to develop those innovative financing models? What should be a trigger? Would a pilot project be enough? Or we need a bigger initiative?

*Lieven* *Vanstraelen*: You need to start with pilot projects. Even in Berlin, it started with one project and had to build the expertise. It is difficult for an individual municipality to be a pioneer. If you don’t have a level of size, you need to have the level of aggregation. That is what happened in the Liège region. GRELiège, an organisation responsible for stimulating economic growth in the region has set up a department within this existing organisation. This department, called RenoWatt developed a one-stop-shop, which provides assistance to municipalities in energy efficiency renovations in buildings. RenoWatt is bundling the projects, which allows to reach a profitable size of investments.

You also need money to set up those structures, you can obtain them from Energy Efficiency Fund for technical assistance. You would also need expertise, which means hiring people, maybe even international experts, as well as local staff to manage the project. Then you can be a pioneer and then scale up.

**Remark from *Ard den Outer:***

From the discussions today it seems like there are all those different stakeholders thinking of the ESCO model. Is it the only opportunity that you consider? In the Netherlands there is an ESCO platform, where all stakeholder gather to discuss the issues surrounding ESCO initiative on a regular basis. The platform includes also contractors. Does that kind of platform exist in Lithuania? Maybe creating it would be a good start for Lithuania to develop this model.

**Q from the audience to LievenVanstraelen, CITYnvest representative:**

Q: Can ESCO be applied without increasing the borrowing limits of municipalities?

*Lieven Vanstraelen*: ESCO contributes to the debt of municipalities. In the past, off-balance financing was possible, now not any more. You need to find another way to do it. In Belgium, the government provided exceptions to use ESCO models so there it still increases the debt but bigger investments possible.

**Q to Vytautas Stasiunas, The Lithuanian District Heating Association:**

Q: Do heating companies intend to use the ESCO model?

*Vytautas Stasiunas:* We have a database of heat consumption –thus we can decide which buildings could be renovated with a payback.

**Remark from Mindaugas Sinkevicius, Mayor of Jonava district municipality**

In general municipalities are interested in renovation and in developing various finance models. We can talk about ESCO model or finance engineering or other instruments. But as I mentioned earlier firstly it is necessary to revise legal basis, to provide encouragement means and to solve financial issues concerning municipalities abilities to take loans. As long as the ESCO financing increases the debt of municipalities, this model will not be popular. However, if the Ministry of Finance could take steps to allow off-balance liability of the ESCO model, it would have a potential to grow. Another instruments that could be interesting for municipalities would be re-paid subsidies, which would allow municipalities to borrow money from the central government on favourable conditions.

**Remark from Lieven Vanstraelen, CITYnvest representative**

ESCO model is an operational model, a technical way of implementing a renovation project by putting responsibility for the energy savings in the hands of contractors. It can be financed by other sources, not necessarily ESCO financing. Thus we need to separate two angles: the operational and the financial aspects. Even if financial part not used, it may be still interesting to pool the buildings and implement renovations via ESCO contracts.

**Q to Gedas Janenas, Siauliu bank**

Q: What questions would you ask if a municipality wanted to implement the ESCO model?

*Gedas Janenas, Siauliu bank:* We would look into the borrowing limits of the municipalities, amounts of the own funds, guarantees or a mortgage.

Q: Any plans to apply other financing models? Revolving funds, citizens based models?

*Gedas Janenas, Siauliu bank:* It is not a role of a bank to be a pioneer in developing innovative financing instruments but bank can be a partner in that activity.

**Remark from Darius Jakubauskas, Public Investment Development Agency**

Re-paid subsidies should be used only to renovate special buildings i.e. with long payback period. If such a subsidy is returned, there is not much difference between it and a financial instrument. However, the subsidy would give municipalities the possibility of not repaying in case the results are very good. But even that kind of subsidy is difficult to manage. However, for the building renovations project there is no one way of financing, it is necessary to look entire package of instruments.

**Conclusions of the interactive session, *Martynas Nagevicius***

Conclusions:

Saved energy is the cleanest energy as it is not consumed. Who should pay for this saved energy? The financing instruments are a topic for the future. It’s doubtful that we will have a lot of ESCO companies soon, as the discussion about this model is just starting in Lithuania.

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