

## **Background**

On 12 December 2015, in Paris, 195 countries adopted the Paris Climate Agreement which sets out a global action plan to put the world on track to avoid climate change by limiting global warming to well below 2°C.

In line with the Paris Climate Agreement and EU Climate Framework Lithuania is committed to increase energy efficiency by at least 40% by 2030. It should be noted that according to the Paris Agreement, it is envisaged that the commitments of the states will be reviewed in 2018 and developed countries (including Lithuania) shall increase their commitments. Thus, Lithuania needs to continue putting efforts to use energy more efficiently.

After analysing the energy saving potential, researchers confirmed that almost 50 % the energy saving potential lies in the residential sector, therefore, the complex increase of apartment energy efficiency is the main path leading to significantly lower energy consumption, a cleaner and healthier environment.

Considering the above stated facts, the National Energy Independence Strategy of Lithuania sets the long term priority of the state to increase the efficiency of energy consumption in households and public buildings.

In 2014, the energy efficiency sector ex-ante assessment was conducted which revealed that the financing gap in modernisation of multi-apartment buildings sector until 2023 exceeds EUR 1 billion. In order to cover this financing gap and achieve national objectives of the energy efficiency, national authorities are seeking to find various ways to finance energy efficiency projects. Thus, the Government of the Republic of Lithuania intends to issue Government securities – Green Bonds and to use the proceeds for modernisation of multi-apartment buildings to achieve energy efficiency.

The Government proposes to issue a loan on-lent by the State from the funds of green bonds for the period of 10 years to the Public Investment Development Agency<sup>1</sup> (hereinafter - VIPA). VIPA intends to on-lent the borrowed funds to multi-apartment buildings' owners for buildings modernisation, to help improve energy efficiency and reduce heating costs.

The Green Bonds issue is developed in alignment with the Green Bond Principles 2017<sup>2</sup> set by International Capital Market Association (ICMA).

### **1. Use of Proceeds**

On the basis of this Green Bonds Framework, the Ministry of Finance will issue loan to VIPA which will use the proceeds to on-lent through multiple small sub-loans to finance energy efficiency investments in multi-apartment buildings (Eligible Projects) in line with the Multi-Apartment Building Modernisation

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<sup>1</sup> VIPA is a financial institution established by the State aiming at financing and promoting a sustainable development in the areas with market failure in striving for gainful activities. Over the year 2018 VIPA aims to become the National Development Institution (NPI), which through financial instruments would promote long-term and sustainable investment. Currently institution implements financial instruments mainly in energy efficiency sector using diverse resources (including ESIF, international and local banks, etc.). Since establishment in 2014, until the end of the first quarter of 2018 VIPA has mobilized and managed more than EUR 300 million.

<sup>2</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf>

Programme approved by the Government. The proceeds will be exclusively used to finance or re-finance, new and/or existing Eligible Projects.

The use of proceeds has been designed to tackle increasing fuel consumption, energy demand and greenhouse gas emissions by supporting modernisation of multi-apartment buildings and raising public awareness on the energy performance of buildings and energy savings. It is foreseen that such financing of the projects would increase the housing value and provide additional level of life quality, comfort and aesthetics.

According to ICMA principles these projects shall fall under the renewable energy, energy efficiency and/or green buildings categories.

## **2. Process for Project Evaluation and Selection**

VIPA will finance the Eligible Projects projected to achieve more than 40 percent of energy savings after modernization. Technical project evaluation, including energy efficiency savings for the Eligible projects, will be performed by the Housing and Energy Saving Agency (BETA), an independent agency under the Ministry of Environment.

VIPA will carry out financial, reputational and management capacity and risk assessment of the projects and will perform administrative audits on sites on a selective basis.

To ensure compliance with the legal requirements, the State Territorial Planning and Construction Inspectorate under the Ministry of Environment will regularly carry out planned and unplanned inspections of construction sites to check the compliance of performed activities with the project commitments, Technical Regulations and other national legislation.

## **3. Management of Proceeds**

The net proceed from the green bonds will be on-lent to VIPA which will open a separate account to manage these proceeds. Consequently, the account will be used:

- to receive net proceeds;
- to disburse payments to the works contractors implementing the Eligible Projects;
- to issue other Eligible Project related payments;
- to receive loan repayments from the end borrowers.

The proceeds held on the dedicated account will be managed in accordance with the principle of sound financial management following the appropriate prudential rules. VIPA will maintain accounting system an adequate accounting code for all transactions relating to the distribution of Green Bonds proceeds. The VIPA accounting policy provides for transactions to be properly marked with separate accounting codes to track payment transactions associated with the Green Bonds.

#### **4. Reporting**

To monitor performance of the Eligible Projects, certain indicators have been selected as follows:

- energy performance of the buildings before and after modernisation;
- amount of greenhouse gases emitted into the atmosphere;
- number of modernised building, financed using the proceeds;

Monitoring of the Eligible Projects is organised and performed by BETA. On the basis of annual reports prepared by BETA, VIPA will issue annual performance reports containing additional information (including the information recommended by ICMA).