



2014-2020 Operational
Programme for the
European Union Funds
Investments in Lithuania

Evaluation of the Use of EU Funds for Housing Renovation

Summary of the Final Report

May 2017

This evaluation has been carried out on behalf of the Ministry of Finance of the Republic of Lithuania under Service Contract No 14P-88 of 11 November 2016. The evaluation has been carried out by a group of entities composed of KPMG Baltics, UAB, KPMG Advisory, Ltd., Ekotermija, UAB and Glimstedt Law Firm. The evaluation has been financed by the European Social Fund.



SUMMARY

The present Evaluation of the Use of EU Structural Funds for Housing Renovation has been carried out by KPMG Baltics, UAB, KPMG Advisory, Ltd., Ekotermija, UAB and Glimstedt Law Firm to cover the period from November 2016 to May 2017.

Evaluation Basis

On 23 September 2004, the Programme for Multi-Apartment Buildings Modernization (hereinafter – Programme) was approved by the Government of the Republic of Lithuania (hereinafter – LRV) by Resolution No 1213. Under the Programme, EUR 94.1M was invested in renovation of buildings during the period from 2005 to 2010. Considering the State’s limited budget funds and a relatively complicated economic situation because of a global crisis, it was decided to make use of the EU Structural Support Funds for 2007-2013. According to Measure No VP-1.1-AM-01-V (hereinafter – Measure JKF) of the Cohesion Action Programme (hereinafter – SSVP), the JESSICA Holding Fund was founded on 11 June 2009 to become one of the main funding sources for renovation of multi-apartment houses. In the period from 2007 to 2013, EUR 173M from the European structural funds, national co-financing funds and EUR 80M from commercial banks were dedicated for the implementation of the Measure JKF. All national funds and the 2007-2013 EU funds dedicated for increasing the energy efficiency by implementing multi-apartment buildings renovation have been distributed under the approved credit contracts.

Seeking to ensure further housing renovation funding, implementation of renovation projects started to be financed by application of Measure No 04.3.1-FM-F-001 „Multi-apartment buildings renovation“ (hereinafter – Measure DNA) under the 2014-2020 EU Investment Funds Action Programme. As a result, the Jessica II Funds Fund, which is worth EUR 150M (hereinafter – J2FF), and the Multi-Apartment Buildings Modernization Fund (hereinafter – DNMF) were founded. In order to implement the goals, the Risk Sharing Fund (hereinafter – RPF) was founded in October 2016 to provide guarantees for multi-apartment buildings renovation projects financed by private investors participating in the RPF.

It should be noted that a project financing structure is of great importance for the evaluation of the increased renovation demand, for the implementation of multi-apartment houses renovation projects and for the foreseen development of the same. The State’s capacity to provide funding for such projects is limited, and the lack of funds strongly influences the renovation rates, moreover that the current funding proportions and conditions determined at the very beginning of the multi-apartment houses renovation process have not changed much in general since then. Consequently, there is a strong need for reviewing national legislation and other instruments regulating funding mechanisms for multi-apartment buildings renovation projects so that the optimal funding methods, sources and conditions could be determined.

The goal of evaluation

The goal of this evaluation is to determine the optimal methods, sources and conditions applicable to financing of multi-apartment buildings renovation projects.

The object of evaluation

The evaluation covers the following two measures available under the EU structural funds:

- Measure JKF; and
- Measure DNA.

Also, considering that the implementation of multi-apartment buildings renovation projects is funded not only under the above-indicated measures but also by allocating the target support from the State budget, the whole multi-apartment buildings renovation projects funding mechanism has to be analysed.

The evaluation methodology

The following methods have been applied for the evaluation purpose:

- analyses of primary and secondary sources of information, including legal acts on multi-apartment buildings renovation, relevant programming and planning documents, evaluations and case studies, documents produced by those involved in the renovation process;
- meetings with multi-apartment buildings renovation process participants - a focus group discussion and 12 interviews have been held during the evaluation process;
- written surveys – administrators of multi-apartment buildings and municipal officers have been asked to give their opinions during the evaluation process;
- expert multi-criterion evaluations – used to assess the alternative models of State's support to multi-apartment buildings renovation projects;
- reconstruction of the intervention logic, cost-benefit analysis and other methods.

Evaluation Results and Findings

The following summarizes the evaluation results and findings by the main structural parts of this Report.

Review of the social-economic situation and the development of multi-apartment buildings renovation in Lithuania

Lithuania's social-economic development in the last decade may be characterized by substantial increases and slumps. The analysis of the State's key macroeconomic indicators shows that the period from the year 2005 to 2016 could be split into four different sections: starting with an intensive economic growth in 2005-2008; recession in 2008-2010, because of the global crisis; recovery period in 2010-2013 and the economic slowdown period, which started in 2014 and continues. According to the legal and economic changes, multi-apartment buildings provisory policy can be divided into two main stages: (1) until the year 2009; (2) after the year 2009.

Since the year 2004, when the Programme was approved, to the year 2009 multi-apartment buildings renovation projects were funded via credit and government support mechanism, using the State budget, apartment owners' and commercial banks' funds. In order to create favourable conditions for commercial banks to fund projects of multi-apartment buildings

renovation, *UAB Būsto paskolų draudimas* and *UAB Investicijų ir verslo garantijos* (INVEGA), which were founded by the Government, provided loan guarantees to the credit institutions for multi-apartment buildings renovation loans. According to the data provided by the Ministry of Environment of the Republic of Lithuania (hereinafter – EM), in the period from 2007 to 2009, 236 multi-apartment buildings renovation projects were implemented (the total value of the projects exceeds EUR 40M).

The whole Programme has been impeded due to lack of funding for the provision of State support. Taking into account its limited capacity, the budget and the financial condition of the State (in the second half of 2008 the State felt the impact of the global financial crisis), in the first half of 2009 the Government decided to create a new funding mechanism for the Programme, using the EU structural support funds assigned by the SSVP for the implementation of the JESSICA initiative. In the mid-2009, by implementing the Measure JKF, the JKF was founded. The funds of the JKF were used to issue preferential loans for multi-apartment buildings renovation projects meeting the requirements of the program. In conjunction with the preferential loans, the non-repayable state support was given in order to prepare the multi-apartment buildings renovation project, to ensure building's technical maintenance and to compensate investments. Policy with regard financing of the initial contribution and later payments had also been changing. It was found, that the initial contribution may not be less than 5% of the total investment amount of the project. However, the financial intermediaries' duty to demand from the owners of multi-apartment buildings the initial deposit has not been established as a general rule, and it depended on the specific conditions of the call. In total, using the JKF funds 1.039 loans were granted through financial intermediaries for multi-apartment buildings renovation projects and 16 loans for dormitories of high schools and vocational training schools (total amount is over EUR 257M).

At the beginning of the 2014-2020 EU programming period, the Measure DNA was created, and the following three funds, i.e. DNMF, J2FF and RPF, were founded using its resources. DNMF, which is controlled by VIPA, and the J2FF, which is controlled by EIB, continue to implement preferential loans financial measure. The essential change from the EU programming period of 2007-2013 - greater emphasis on the private capital involvement and the creation of leverage effect of public funds. The main measure, which aims to increase the participation of private capital in funding of multi-apartment buildings renovation – the RPF, which will provide guarantees to the financial intermediaries for the provided preferential loans with regards to multi-apartment buildings renovation projects.

According to the analysis of the secondary sources, results of surveys of multi-apartment buildings administrators and municipalities, information, which was gathered during the interviews with participants of multi-apartment buildings renovation process, we can distinguish three main State's socio-economic situation indicators, that affects multi-apartment building renovation:

- heating energy price, the increase of which shortens the payback period of renovation projects and increases attractiveness of renovation;
- household income the growth of which indicates financial possibilities of multi-apartment buildings owners and allows for an increase in the number of the implemented renovation projects;

- construction price, the growth of which increases renovation price, prolongs the payback period and reduces the attractiveness of renovation from the point of view of the multi-apartment buildings owners.

Despite the significant dynamics of the aforementioned socio economic indexes, the amount of the State's multi-apartment buildings renovation projects did not exceeded the limit of one hundred implemented projects till the year 2014.

The turning point in renovation pace happened in the period from 2013 to 2014. In 2013, significant changes in multi-apartment buildings renovation policy were implemented, for instance: the law on monetary social support for deprived citizens, providing that persons, who do not participate in renovation of housing, lose compensation for heating expenses; the law on state support for multi-apartment buildings renovation (modernization) was changed by creating conditions for municipality-appointed administrators to implement renovation projects under the locally approved municipal renovation programmes. The administrator must be a non-profit organization appointed by a municipality or an undertaking, selected via competitive tendering procedure. The administrator by the decision of the owners of a multi-apartment building is authorized to organise the implementation of renovation project by owners meeting. These changes created conditions to renew almost 1500 multi-apartment buildings in the period from 2014 to 2016. It is three times more than the number of projects implemented in the period from 2005 to 2013.

The performed analysis revealed that the main impact on the demand of renovation projects was not caused by the changes in socio-economic situation, but the renovation policy factors. This finding was confirmed by the analysis of statistics and surveys, where respondents indicated that the State's non-repayable support and organisational aspects (legal basis, administrative requirements etc.) of multi-apartment buildings renovation projects had the biggest impact for renovation demand.

Results of the Measure JKF suitability and compatibility analysis

The Measure JKF was implemented on the basis of Priority 1 "Local and urban development, cultural heritage, environmental preservation and tourism development" of the SVPP and contributed to the task, which is to reduce living environment and quality differences between the main and the other cities of the State, especially focusing on the improvement of the housing conditions. The goal of the Measure was to improve the housing sector energy usage efficiency financing conditions.

By funds allocated to the Measure, the JKF was founded, which provided through financial intermediaries preferential loans for renovation of multi-apartment houses, public secondary and vocational training schools and dormitories. Funds allocated to the Measure by EU and State budgeted accounted for more than EUR 173M; attracted private (commercial banks) funds – about EUR 80M. Altogether, 1.068 loans to multi-apartment houses and dormitories renovation were provided under the Measure.

Accomplished suitability and compatibility evaluation of the measure and the State support given through its implementation period, revealed that:

- Purposes, challenges, indicators set for the Measure JKF were compatible with the overall aims set by the State renovation policy and contributed to its implementation.

- The legal regulation, during the implementation of the Measure JKF, was in general suitable and that the chosen measures, financing sources helped to implement higher quantity of renovation projects and to attract private funds. Nevertheless, the chosen measures were not designated to reduce the State budget funds (allocated for renovation support). Furthermore, the chosen measures did not ensure the highest possible energy savings for the lowest price.
- During the implementation of the Measure JKF, none of the financing sources were able to satisfy the needs of all of the interested parties, i.e. each separate financing source had certain shortcomings. This reason had led to the need for the coordination of different financing sources, including State financing intervention measures (non-repayable support, preferential loans) in combination with the financing sources available in the market. Suitability and compatibility analysis of the financing sources revealed that during the period of the Measure JKF implementation, the abovementioned shortage was compensated by combination of different funding sources that usefully completed each other.
- It should be noted that intervention of private capital to multi-apartment houses renovation during the Measure JKF implementation period was relatively small. Since 2010 commercial banks participated in apartments renovation through the Measure JKF and contributed about 30% of all JKF funding. The remaining part was implemented by public funds – the EU structural funds, the State budget or by SB funds. Energy-saving services (ESCO) model, which potentially may have allowed use of additional funds, was not used.

Results of the Measure DNA suitability and compatibility analysis

The Measure DNA is being implemented on the basis of the 2014-2020 EU Structural Investment Fund Action Programme Priority 4 “Energy efficiency and renewable energy generation and usage promotion” Task 4.3.1 “Reduce energy consumption at public infrastructure and multi-apartment housing”.

The DNMF, the J2FF and the RPF activities are financed by the funds designated to the Measure DNA. The DNMF fund and the J2FF fund through financial intermediaries’ in the form of preferential loans are being provided to multi-apartment projects; meanwhile, it is expected that the RPF funds will be used to provide guarantees for the preferential loans. At the moment of evaluation, the RPF has not yet started activity of providing guarantees.

Accomplished suitability and compatibility evaluation of the Measure DNA and state support given through its’ implementation period, revealed that:

- The purposes of the Measure DNA, challenges, measures and indicators were compatible with the general goals of renovation policy and were suitable to contribute to the implementation of the renovation policy.
- Legal regulation on renovation of multi-apartment buildings is suitable. In order for the legal regulation to ensure interests of participants of multi-apartment buildings renovation process, it has to be based on the applicant equality, transparency of process and maximum energy savings at the lowest price point principles. In accordance with these principles, equal treatment for all initiators of multi-apartment buildings renovation projects should be secured;. competition based Projects’ selection, criteria should be applied considering that the priority is maximum energy savings at the lowest price point.

- Public procurement is carried out on the basis of the lowest price principle. No requirements related to the post-renovation energy savings level, are set. This is why the quality of cheaply acquired construction works should be ensured by competent and independent party, who is performing technical supervision of project's implementation. In addition, most of the procurements combine preparation of technical Project, contract work and a service of the preparation of the energy performance certificate. Such a situation could lead to a conflict of interests, because the same party is responsible for setting out the tasks, implementation of such tasks and measurement of the results.
- Apartment energy consumption is the main criterion by which the multi-apartment renewal list is formed. The lists of renewable municipal buildings include the most energy consuming buildings, and these lists vary because of home residents' opposition to the building renovation. The selection secured that inefficient buildings are renovated.
- Like in implementation of the Measure JKF, none of multi-apartment buildings renovation funding sources can individually serve all of the interested stakeholders needs, i.e. each individual funding source has some drawbacks. For this reason, when financing the multi-apartment building renovation it is necessary to combine different sources of funding, including state financial instruments (non-repayable support, preferential loans) with existing funding sources in the market. The analysis of suitability and compatibility of funding sources of renovation revealed, that combining funding from different sources fixes drawbacks of other financing sources, and different funding sources properly complement each other.
- It should be noted that as well as during the implementation of the Measure JKF that multi-apartment buildings renovation process does not apply the ESCO model, energy efficiency obligation scheme funds, what possibly could allow attracting additional project funding.
- The analysis of three EU member states (Poland, Hungary, Germany) with regard to the funding of multi-apartment building renovation revealed factors that had a significant impact on the success (failure) of the renovation programmes in these countries:
 - In order for the multi-apartment renovation programme to be successful, it is necessary to ensure sufficient communication and provision of consultations to the parties involved in the process;
 - The funding scheme must be clear, transparent and understandable (this is particularly important in view of the final beneficiaries' segment specifics). Frequent changes in funding schemes, administrative requirements and procedures have a negative impact on the demand for renovation, therefore, long-term and sustainable support and implementation strategy at the national level are needed;
 - It is useful for the effective implementation of the programme and for the distribution of support funds to designate a single authority to be responsible not only for the implementation of the programme tasks but also for the distribution of the EU funds and national funds, including such issues as the programme coordination and its efficiency evaluation;

- It is recommended to have a centralized database on completed (and implemented) housing renovation projects. Such database should provide data on the status of projects, buildings, implemented works, project funding mechanisms used, etc.

Results of the State Support Efficiency and Impact Assessment

Efficiency, effectiveness and impact of the Measure JKF

The evaluation of efficiency, effectiveness and impact assessment of the Measure JKF revealed these key insights:

- Planned funding for the Measure was an adequate instrument to achieve its objectives. On the other hand, goals raised for the Measure were 6 times below the objectives set out in the Program for Multi-Apartment Buildings Modernization, though it was planned that the Measure will be one of the main program implementation and funding tools. This indicates ineffective planning of renovation policy and renovation of objectives interconnecting drawbacks;
- Implementation of the measures financing plan from the State budget allocated EUR 62.4M (63.3%) less funds than the measures envisaged in the financing plan, i.e. it was allocated EUR 35.7M instead of EUR 98.2M. According to the representatives of the EIB, a lower than expected contribution from the State budget had a negative impact on the volume of the projects implemented. In 2014-2015 because of funding shortage there were no opportunities to satisfy the accumulated demand of multi-apartment buildings renovation projects. This was the reason why the implementation of projects had to be stopped. On the other hand, according to the representatives of the Ministry of Finance of the Republic of Lithuania, part of the funds for implementation was not allocated because of the construction sector capacity limit. In 2014-2015 construction companies could not implement additional projects qualitatively, because of the decision not to allocate the rest of the State budget funds. Actually, unrehearsed funding for measures of implementation exceeded the means of financing plan by ca 12% (EUR 26M).
- Total JKF funds paid EUR 167M to financial intermediaries and EUR 259M to final beneficiaries. This amount represents 150% of the JKF appointed funds (EUR 173M EU and the State budget funds) and indicates 1.5 times reaching leverage effect of use of public funds. This result was achieved by reuse of return funds and commercial bank funds that were additionally attracted.
- Objectives, tasks and indicators of the Measure JKF were achieved and exceeded.
- The socio-economic impact of the implementation of the Measure JKF includes:
 - Impact on actual savings of heat energy during the preferential loans repayment period reaches 3 TWh or EUR 220M. Ca 9% of the projected energy savings was achieved by the end of 2016. EUR 1 invested leads to 17.2 kWh or EUR 1.3 savings on heating energy during the loan repayment period.
 - Impact on reduced environmental pollution reaches 695 thousand tonnes (EUR 27M) of CO₂ and 1.7 thousand tonnes (EUR 8.8M) of NO_x, SO₂ and KD10 emissions reduction. The total benefit of environmental contamination represents EUR 36M.
 - By implementing multi-apartment buildings renovation projects (in the period of 2010-2016), which were funded by the Measure JKF, more than 10000 “one-year” job places were created, which represents more than 2% of all job places in the construction sector.

- The impact on the State budget during the abovementioned assessment on five evaluated components is negative and reaches (minus) EUR 116M, and nominal state funds return (undiscounted) throughout the preferential loan repayment period reaches (minus) 65%, i.e. 1 EUR invested in the implementation of the Measure during the loan repayment period “returns” as EUR 0.35.

Efficiency of the Measure DNA

The evaluation of the efficiency of the Measure DNA revealed these main insights:

- The financing planned for the Measure is adequate to meet the objectives set for the Measure DNA.
- The Measure DNA financing plan DNMF and J2FF were implemented in year 2016. These funds both received EUR 224M of EU funds or 100% of planned funds. Also, J2FF attracted EUR 130M of private (commercial banks) funds – exceeding by more than double the expected minimum private input, set in the financing plan. Provision of guarantees from RPF funds has not started yet, therefore the planned RPF part of financing has not been disbursed. The overall implementation of the Measure DNA financing plan (including the J2F, DNMF and RPF planned funds), after less than half of 2014-2020 period, is at 95%.
- All the financing, provided by the Measure DNA, was distributed to final recipients during the first 12 months of activity in form of preferential loans. Altogether, until the end of 2016, the final recipients received EUR 80M of preferential loans from DNMF – 108% of the Measure DNA planned financing. It should be noted that in order to fulfil the market demand for the financing of renovation projects, DNMF activity has not attracted private funds (for instance, funds from commercial banks). This inaction is negatively affecting the goal of achieving the leverage effect.
- At the end of 2016, all primary J2FF financing granted under the Measure DNA was distributed to final recipients in form of preferential loans. In total, until the end of 2016, J2FF granted EUR 160M of preferential loans to final recipients – 108% of the planned financing under the Measure DNA.

The impact of State support on State finances

The evaluation of state support impact on state finances revealed these main insights:

- In the period of 2005-2016 multi-apartment renovation projects received more than EUR 185M of non-repayable State support: EUR 149M of direct grants from the State budget and EUR 36M in partial write-offs of preferential credits, compensating investments to the energy efficiency increasing measures. In this period 1,984 multi-apartment renovation projects were implemented which value reaches EUR 514M. Therefore, the State non-repayable support, granted for the projects until 2016, reaches 36% out of the total completed projects value.
- The impact assessment of multi-apartment housing renovation projects implemented until 2017, revealed that:
 - including the support, which the State will grant for the already implemented projects in the future (e.g. reimbursement of preferential loan payments for the disadvantaged residents), the non-repayable support during all credit repayment period will comprise more than half (~53%) of total projects’ value, which were implemented until 2017;

- the impact on actual heat energy savings during the repayment of preferential loans period reaches 5.4 TWh, or almost EUR 400M; 13% of the latter estimated energy savings were achieved until the end of 2016;
 - the impact on the environmental pollution reduction reaches 1.3M t (EUR 47.6 M) CO₂ and 3.1 thousand tonnes (EUR 15.7M) NO_x, SO₂ and KD₁₀ emissions reduction; total benefits of environmental contamination reaches EUR 63M;
 - during the implementing of multi-apartments renovation projects (in the period of 2005-2006), more than 19,000 additional “single-year” job places were created, which is equal to about 2 % of all job places in the Construction sector;
 - the net demand of the multi-apartment renovation for the State budget over all five evaluated direct (e.g. “initial value chain”) impact components is negative and reaches minus EUR 192M, while the nominal (non-discounted) State support funds “return” for the State budget (during the repayment of preferential loans period) reaches (minus) 63%; in other words, 1 EUR for the multi-apartment renovation during the repayment of loans period “returns” to the State budget as 0.37 EUR.
- The non-repayable state support for the typical multi-apartment housing project reaches about EUR 160K. After the implementation of the renovation project the State budget receives approx. EUR 71K through the four, evaluated components of the direct (e.g. “initial value chain”) impact. The net impact of the typical project reaches about (minus) EUR 89K or (minus) 56 euro cents for each non-refundable state support granted EUR 1. Overall, total impact of the typical renovation project to the State budget in case of implementation of RPF– reaches (minus) EUR 150K, or – (minus) 68 euro cents for each state granted EUR 1. The essential difference of the RPF implementation impact on the State budget from the present preferential loans model under J2FF and DNMF manifests because of interest rate charged by commercial banks and preferential loans interest rate compensation from the State budget.

Results of the Optimal State Support Model Analysis

Financial attractiveness of renovation for multi-apartment owners

The analysis of the typical multi-apartment renovation project revealed that total actual savings of heat energy during all loan repayment period are lower by quarter than the total costs of renovation for owners, i.e. the projects “do not pay off” over the repayment of loans period.

The analysis of financial attractiveness of the renovation to the apartment owners and its dynamical analysis revealed an illogical economic connection between the financial attractiveness to apartment owners and the annual amount of the implemented projects in 2006-2016. The number of implemented renovation projects in 2009-2013 was reducing, although the financial attractiveness of projects increased; vice versa in the period of 2014-2016 – the number of implemented renovation projects increased despite significantly worsening indicators of financial attractiveness. These trends reveal that the importance of other (non-financial) factors to the demand of renovation is notably significant and in the period under analysis outweighed the effect of financial attractiveness.

On the basis of the quantitative public opinion survey results (ordered by BETA), the non-financial factors affecting self-determination of apartment owners regarding the decision to

implement the renovation may include an increase in visual attractiveness of multi-apartment and immediate surroundings; an improvement in quality of life (for instance, sound insulation, maintained temperature) and comfort; an increase of property value; a possibility for individual heat energy accounting; a reduction of accident rate, a reduction of maintenance costs; and other factors.

The analysis of financial attractiveness of the renovation also revealed significant dispersion of financial attractiveness – owners of particular multi-apartments express their consent to implement the renovation projects despite varied financial attractiveness. On the basis of the abovementioned insights, such differences may be caused by the non-financial factors – for instance, more attractive immediate surroundings, an improvement in quality of life and comfort may have different value to individual owners of apartments. Respectively, the economic factors (an increase of property value or a reduction of accident rate and a reduction of maintenance cost) may represent various value to the apartment owners too.

The results of the analysis lead to the following conclusions, which are important to determine the optimal non-repayable support for renovation of multi-apartment buildings:

1. There are multiple internal and external factors which affect the process of renovation and which must be taken into account when considering the optimal level of support (intensity) for the renovation of apartments, such as: the price of heating and renovation works, the disposable income of residents and other financial or non-financial factors. All of these factors alter in time (e.g. in recent years there is a noticeable trend of heat cost reduction) and among different projects (e.g. the disposable income of residents is higher in more populous cities than in rural urban areas). Respectively, the optimal support level (intensity) varies and is equally dynamic both in time and in specific moment when evaluating different projects. For this reason, in order to achieve effective use of the State budget, allocated for the financial support of the renovation projects, it is not expedient to apply equal support intensity to all projects.
2. Due to high significance of the non-financial factors, it is impossible to reliably and validly determine the “demand feature” on the basis of the economic evaluation method. For instance, it is impossible to validly and reliably assess how many renovation projects would be implemented at the different levels (intensity) of non-repayable support.
3. The soundness of the assessments that analyse the optimal level (intensity) of state support based on the “project pay-off in 20 year preferential loan period” clause is questionable. When the support is based under this clause, the non-financial and external factors affecting the project attractiveness are not evaluated appropriately, as there are no possibilities to reliably evaluate their effect. While the clause that the computational project “pay-off period” is equal or lower than 20 years does not guarantee that apartments’ owners will give their consent to implement the renovation project.
4. The most effective method to determine the level (intensity) of state support would be set under market conditions, i.e. after the implementation of the projects’ competition principle and allowing the determination of the support level (intensity) to the “market”. Thus, the final beneficiaries (apartment owners) themselves would choose the level of support, while considering all actual factors (including the non-financial factors) that may be actual for themselves. The implementation of this principle is especially relevant in

the present case, when there is no possibility to evaluate the demand function qualitatively and reasonably.

The principles for improving the State support model

Assessing the acquired experience, market conditions, volumes of the renovation projects and the effect to the State finances, including conclusions of the abovementioned analysis, the following principles of effective State support provided to the multi-apartment renovation model can be distinguished:

- **“Value for money”** – the support is focused at the increase of energy efficiency and is based on the value for money principle, i.e. aiming at the highest potential energy saving for each EUR 1 of the granted support.
- **Differentiated intensity** – the support is differentiated, i.e. there is no need to apply the same intensity of support to all projects.
- **Equality, non-discrimination and transparency** – the model of support is based on the principles of equality, non-discrimination and transparency.
- **Coordination of calls for project applications with available financing** – the implementation of support is being harmonized between financing (funds allocated for non-repayable support and preferential loans), planning and implementation.
- **Adequate attention to PR and consulting** – sufficient attention is dedicated to publicity of the model, owners of multi-apartments, foremen of communities, administrators and other interested parties.

The implementation of those principles in the long term would allow for a most effective utilization of public funds in achieving the targeted goals of renovation of multi-apartment buildings. A possible scenario for the implementation of the above principles is described in Section 6.3.2 of the Report.

The evaluation examined the four additional alternatives for the state support model. During such evaluation the representatives of FM, AM, VIPA and EIB looked at the attractiveness of the alternatives to the owners of apartments, the state and to other participants of renovation process by applying a multi-criteria decision analysis. The multi-criteria decision method and the economic analysis have determined the most attractive alternative to the participants of renovation. For the additional evaluation description, please see section 6.4 of the Report.

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Recommendations

The table below provides strategic suggestions and recommendations.

No.	Problem or risk	Recommendation	Responsible authority
Strategic suggestions („know this“)			
1.	The actual energy savings are usually lower than computational; the competition is based only on the principle of the lowest price may not secure work quality.	It should be considered, or further guidelines adopted, addressing the need to purchase the renovation works under the criterion of the most economically expedient tender proposal, while referring to the proposed energy saving objective as one of the comprising element of said principle (i.e. the criterion of the most economically expedient tender proposal).	
2.	In the event of the bankruptcy of the administrator, it is not ensured that the funds collected from the final recipients (which are held in separated administrator's account) will not be claimed by the administrator's creditors.	A possibility to reconcile the specific provisions in the legislation of the bankruptcy procedures should be considered, indicating that the funds, collected from the final recipients and held in separated account, are prohibited to be claimed by the administrator's creditors.	
3.	Call for applications are not reconciled with the available funding for the financing. For this reason, in recent years several instances occurred when confirmed projects were stopped due to lack of funding. In such instances the projects were being stopped even when construction works had already been purchased by the final recipients.	Calls for applications should be reconciled with the available funding; calls for applications should be announced only when the State budget funds are available both for granting of the non-repayable support as well as preferential loans granted via financial intermediaries.	
4.	Frequent changes of the multi-apartments renovation policy (support, legal or administrative framework, etc.) is one of the main hindrance which slows down the demand for the multi-apartment renovation projects.	In order to ensure the sustainable demand for the renovation projects, the renovation policy must be based on the long-term planning and implementing. While implementing changes to the renovation policy, due focus should be addressed at the need to ensure the publicity of changes, information and consultation of the interested parties.	
5.	There are many internal and external factors which affect the demand of multi-apartment housing renovation process. All of these factors vary in time and among specific projects.	In order to ensure effective use of the State budget funds allocated for the renovation process, it is not appropriate to apply equal intensity of support to all projects.	
Recommendations („do this“)			
1.	Conflict of interest may arise when the same subject is responsible for designing, construction and certification tasks.	Ensure independent high-quality technical supervision and energy certification for the renovation projects. It should be considered to procure technical supervision services not via CPO, by applying the most economically advantageous tender criteria and/or requiring a higher qualification of suppliers. In the light of these principles, the procedure of	BETA

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		procuring these services via CPO could also be improved. Energy certification services should be procured separately from the contract work.	
2.	From the legislative point of view, it is a rather questionable situation when there is no attesting entry in the Real Estate Registry concerning the renovation credit agreement concluded on behalf of the final recipient by the administrator.	The existence of the renovation loan agreement concluded should be registered in the Real Estate Registry, although the loan agreement is concluded on behalf of the final recipient. At present such entry is made only when the loan agreement is directly concluded with the final recipient.	AM
3.	The present multi-apartments renovation model does not ensure effective use of the State funds.	To improve the current model by implementing the: (1) "value for money", (2) differentiation of intensity, (3) coordination of calls for project applications with available financing, (4) equality, non-discrimination and transparency, and (5) adequate attention to PR and consultations, principles.	AM, FinMin, BETA
4.	The requirement to reach "D" energy efficiency class is inconsistent with the requirement imposed under the Lithuanian Law on Construction, requiring that the building, after the reconstruction must achieve "C" energy efficiency class.	The requirement to achieve "D" energy efficiency class must be changed into class "C".	AM

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