



European
Commission

SECOND NATIONAL ROUNDTABLE ON FINANCING ENERGY EFFICIENCY IN LATVIA



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Riga

EASME

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The event was organized by EASME in collaboration with the Ministry of Economics, the UN Environment Programme Finance Initiative and the Latvian Environmental Investment Fund within the framework of the Sustainable Energy Investment Forum, funded by the European Commission's "Horizon2020" programme.

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EXECUTIVE SUMMARY

A national round table on energy efficiency finance was held on April 10, 2019 in Riga, Latvia. It comprised 76 participants representing government authorities, municipalities, non-governmental organizations, house managers, finance sector representatives, heat supply companies and project implementers, including energy efficiency service providers or ESCOs.

The event was organized by the European Commission in co-operation with the Ministry of Economics, the UN Environmental Programme Finance Initiative and the Latvian Environmental Investment Fund within the framework of the [Sustainable Energy Investment Forums](#) initiative.

The introductory plenary included welcome addresses by Dzintars Kauliņš, Deputy State Secretary of the Ministry of Economics; Reinis Bērziņš, Board Chairman of the development finance institution ALTUM (on behalf of the Ministry of Finance); Rinalds Muciņš, State Secretary of the Ministry of Environmental Protection and Regional Development and Sanda Liepiņa, Head of the Latvian Finance Association.

The participants emphasized the important role of energy efficiency for Latvia in making progress towards sustainable development. All representatives unanimously signaled that the state needed additional support and initiatives for financing energy efficiency. Furthermore, they were encouraged to present their opinions and ideas and discuss potential solutions that could be included in the National Energy and Climate Plan (NECP).

After the opening speeches, the participants split into four parallel sessions and came to the following conclusions and recommendations:

1. Energy performance contracting for the public sector:

- The international speakers Robert Pernetta from the European Investment Bank and Miguel Casas, EnerInvest, gave important stimulus on resp. Guidance on EPC development, incl. use of off-balance accounting and an example of a structured approach to renovation of public buildings via EPC in Belgium.
- Local speakers from the Accelerate SUNShINE project and Adaži municipality supplemented by sharing their experience on EPC market development in the public sector.
- Latvia should opt for ELENA and PDA technical support to accelerate and mobilize EPC market development in the public sector;
- Market development requires political support and more specific goals;
- Energy and oil traders are a key target group for EPC market development and accessibility or supply of services. One of the barriers in Latvia is that the energy savings of district heat supply companies resulting from investments on the end-user's side are not counted towards the EED's target of 1.5 %, if EU funds are involved;
- No single EC-level document is an obstacle for combining EU and private funding;
- Market development requires a sustainable finance facility based on standardized projects in order to have clear-cut “rules of the game” for banks and potential investors, and smaller projects might be combined into larger packages;

- It is important to understand that one-stop shops are not meant for investing capital, but rather for analysing, developing, implementing, coordinating and monitoring EPC projects;
- A few pro-active municipalities should act as “ice breakers”.
- The importance of standardised EPC contracts and political leadership in order to upscale renovations was highlighted by the industry representative.
- The representative from the Ministry of Economics confirmed that a EPC model contract for the public sector is currently developed by the Ministry and the EIB.

The above points were accompanied by a discussion on how to raise the motivation of local governments to implement EPC projects and overcoming the key barriers in the regulatory framework.

2. Renovation of residential buildings:

- Speakers were Renāte Bražinska, Project Manager of the district heating company “Salaspils Siltums” on the Sample project, Ivo Melķis, Board Member of “Valkas Namsaimnieks” on renovation of multiapartment buildings, Toms Cīrulis from the housing management company “Liepājas namsaimnieks” on apartment owner involvement and approach to financing, Ingus Salmiņš on Altum's experience with the Multiapartment Buildings' Energy Efficiency Programme (DME) and Reinhard Six, European Investment Bank, on the one-stop shop concept and the ELENA initiative for supporting a project in Latvia.
- The presentation of the examples of district heating companies were accompanied by discussions on key challenges like how to shorten the current lengthy renovation processes and ensuring proper quality control and monitoring.
- It was found that the public energy renovation calculator provided by ALTUM should be revisited to allow and promote deep renovation.
- Ideas for finding solutions via carrots and sticks:
 - Reduced VAT for renovation projects;
 - Electronic “voting” for tenants, and taking the support threshold down to 50 % + 1 vote;
 - Energy efficiency tax: increase in immovable property tax to reflect the building's energy consumption and transfer the money collected to a premium fund for renovation of buildings (under national or municipal supervision);
 - Energy Efficiency Fund (core capital from the earnings of Latvenergo or mandatory procurement component);
 - Discounts on real estate tax for the renovated buildings or vice versa
- Quota system: set a limit on heat consumption in kWh/m²per annum; introduce a monthly energy quota. If consumption has been exceeded, the heat supply is switched off.
- There is a feeling that very soon we are going to be short of money and less support will be available in the next EU programming period, and there is an urgent need to look for new financial resources (mentioned several times): possibly the EIB

offer (which, however, drew a great deal of criticism from the audience), involvement of ESCO, private equity.

- There is a need for motivating and educating the population (mentioned several times), but no ideal formula for doing so. People have to understand that energy efficiency is something that they themselves require, rather than the housing manager or the European Commission. The experience of the last few years has increased the gap between the builders, the lenders and the residents; in general, there is mistrust among the parties and they are testing one another.
- Quality. For a long-term success stories, a pro-active effort to ensure quality is required (from all the parties involved). There is a need for more comprehensive certification of builders; lists of the best performers should be drawn up. However, it will be of little good in the procurement process, since the contracting body has to choose the cheapest/most economically advantageous offer, rather than the high quality one.
- Renovation processes have to be better streamlined (mentioned several times): with standardized procurement, construction contracts, a less cumbersome procurement procedure for municipal companies.
- There is a need for a national strategy (with the capacity to measure specific results and identify the parties responsible) driven by the municipalities.
- Introduction of *soft loans* and loans with subsidized, low interest rates.
- The population's capacity to pay has to be increased.
- It is important to study the example of Lithuania where ELENA is used.
- The grant should be made available only after completion of the project.
- Municipalities should set an example in renovation of buildings.

3. Attracting private investments for energy efficiency

- Speakers were Henrik Andersen from KommuneKredit, a Danish finance institution specialized in municipal sector financing issues, Sanda Liepiņa from the Finance Latvia Association on how to raise private and public investments for short-term and long-term energy efficiency projects and Nicholas Stancioff on the challenges in setting up a private investment financing mechanism for large scale EPC projects.
- The participants of the discussion pointed to lack of a clear-cut and well managed policy, red-tape, procurement problems and lack of competence in the regions.
- It was pointed out that commercial banks did not offer finance for energy efficiency as a separate product. Either the State Treasury should be the one to help the municipalities, neither some other operator with a knowledge of the market should do the work. For example, in Denmark, municipalities have experts to examine projects, both from the aspects of their technical and economic, and political feasibility.
- Availability and transparency of data is essential. But already now many different data are not available, whereas they should be available under the law.
- There is a need for new financial instruments, longer loan periods and balanced interest rates.

- The audience indicated the following needs:
 - ensuring competence (knowledge, training, experts, especially in the regions) and access to finance for municipalities;
 - a single, clear and supportive policy, strategic planning as well as assessment of results and benefits for better and more effective decisions in the future;
 - a “flag bearer” and a comprehensive vision.

The national round table was concluded with the presentation on the draft National Energy and Climate Plan by the Undersecretary of the Ministry of Economics, Mr. Dzintars Kaulins, which was followed by a panel discussion including Alda Ozola, Deputy State Secretary, Ministry of Environmental Protection and Regional Development, Karīna Miķelsone, Head of Development Department of Adazi Municipality and Kaspars Osis, Chairman of the Energy Committee of the Latvian Chamber of Commerce and Industry to discuss game changers for upscaling energy efficiency investments.

The Undersecretary Ms. Ozola for the Ministry of Regional Development and Environment (VARAM) suggested that her Ministry could take the role of an Energy Efficiency ambassador. It was also put forward that a dedicated discussion on energy efficiency should be held by the Cabinet of Ministers.

All the event presentations are available [here](#).

BACKGROUND TO THE EVENT

As part of the “Smart Finance for Smart Buildings” initiative, the European Commission organizes Sustainable Energy Investment Forums to strengthen capacity and collaboration between public and private stakeholders by developing large-scale investment programmes and funding schemes. SEI forums are going to include more than 30 events in up to 15 Member States between 2016 and 2019; information on past and upcoming events can be found on the SEI Forum [website](#).

The first national roundtable on financing energy efficiency in Latvia took place in Riga on April 26, 2018. The event brought together more than 90 participants from the finance sector, state administration, project development, supply chain for renovation and local and regional agencies active in the field of financing energy efficiency. The presentations and the summary of the event are available [here](#).

The objective of the second national roundtable was to take further the dialogue launched by the key stakeholders during the first roundtable in Latvia on attracting finance for energy efficiency projects and identifying common challenges and potential improvements in the framework of the present policy context and business practices. Copies of the presentations can be found at the [event site](#).

To ensure openness during the discussion the event took place under the *Chatham House Rule*, meaning that no disclosures during the discussion will be attributed to a particular person or organization.

INTRODUCTORY PLENARY

Moderated by: Reinis Ābolstiņš, energy expert

Opening addresses

The event opened with a welcome address by Dzintars Kauliņš, Deputy State Secretary of the Ministry of Economics; Reinis Bērziņš, Board Chairman of the development finance institution ALTUM (on behalf of the Ministry of Finance); Rinalds Muciņš, State Secretary of the Ministry of Environmental Protection and Regional Development and Sanda Liepiņa, Head of the Latvian Finance Association.

Dzintars Kauliņš invited the participants to present their opinions and ideas and discuss potential solutions that could be included in the National Energy and Climate Plan (NECP).

The participants all as one emphasized the important role of energy efficiency for Latvia in making progress towards sustainable development. All representatives unanimously signaled that the state needed additional support and initiatives for financing energy efficiency.



Presentation on EU energy efficiency policies

Lelde Kiela-Vilumsone, Representative of the European Commission's Directorate-General for Energy, gave an insight in the energy efficiency policy framework until 2030 and after. The presentation pointed out the key cornerstones of the “Clean Energy for all Europeans” package for an interrelated, secure, investment-supportive, digital, socially fair and innovative framework for energy efficiency and renewable energy. The future EU initiatives until 2050 summarized in the EU strategic vision “Clean Planet for all” and aiming at a climate-neutral economy in the EU by 2050 were also highlighted.



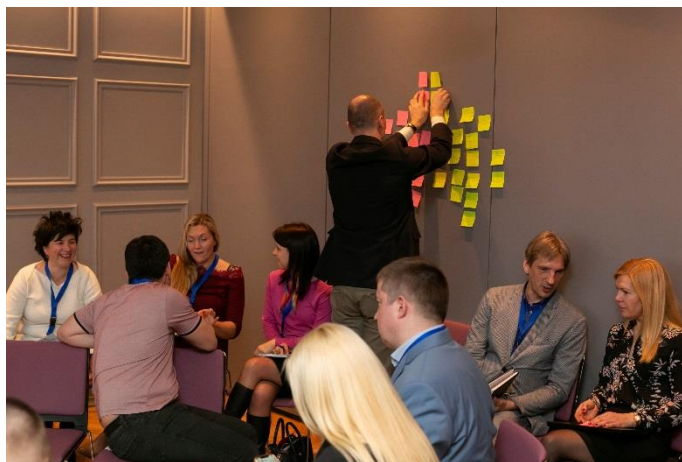
To facilitate the implementation of energy efficiency projects and attract private and public finance, the EC focuses on one-stop shops in the Member States that should provide the set of services for large-scale implementation of high quality projects. Latvia is also invited to use EC support for technical, financial and legal expertise (ELENA, PDA) in planning, drafting and implementing energy efficiency projects.

PARALLEL SESSIONS

Session No 1. Energy performance contracting (EPC) in the public sector

Moderated by: Reinis Āboltiņš, energy expert

The parallel session was attended by representatives from central and local government institutions, the private sector and the banks. Central authorities and municipalities are becoming increasingly concerned about renovation of their assets; particularly, through raising private funds. The aim of the session was to identify the most important needs and opportunities for EPC deployment in the public sector and explore the potential operators, solutions and specific financial instruments that could facilitate faster implementation. Other topics for discussion were the updated Eurostat accounting rules for EPCs and capacity building of state institutions, as well as innovative approaches to programming Structural Funds.



The session sought answers to the following questions:

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1. What is the benefit of the Practitioner's guide for statistical treatment of EPC in deploying the EPC concept for the needs of the public buildings' sector and what else could be done to promote the concept (in terms of regulatory and market practice)?
2. What possibilities in programming Structural Funds could lead to streamlined deployment of EPC in the public sector and eventually attract private capital?
3. What are the key lessons from the Belgium example in EPC development and what are the elements that could be adapted to the Latvian context?
4. What barriers and opportunities do we see from the Accelerate SUNShINE project?
5. What do we see from the study in the Adaži municipality and what are the prospects deriving from the Accelerate SUNShINE experience in terms of spreading the EPC concept across the country?
6. How to support EPC market development with the help of the EU Structural Funds?
7. How to go about promoting EPC project deployment in the public sector, including the financial aspects – combining private and public funding – in the light of the presentations and discussions during the session,

Key speakers:

1. Robert Pernetta, European Investment Bank. Guidance on EPC development, incl. use of off-balance accounting assisted by the Practitioner's Guide for statistical treatment of EPC under Eurostat and use of Structural Funds for EPC market support.
2. Miguel Casas, EnerInvest. Example of a structured approach to renovation of public buildings via EPC in Belgium.
3. Gunta Cekule. Experience from the Accelerate SUNShINE project, incl. limitations in the form of legal and market barriers.
4. Karīna Miķelsone, Head of Development Unit at Adaži municipality. Current research on introducing EPC for public buildings under the H2020 Accelerate SUNShINE project.

The session opened with the presentations of the two international experts. They were followed by a moderated discussion involving the participants of the session.

The key findings from the EIB representative's presentation:

- Private investments can be treated as an off-balance sheet item in the central/local government's budget under the following circumstances:
 1. all the risks are separated and clearly defined in the contract between the government authority and the EPC provider;
 2. an EPC payment refers solely to energy savings. For example, a building management fee reduction may not be treated as an EPC payment to a service provider;
 3. private investment covers more than 50 % of the project's total cost;
- It is of utmost importance in the Eurostat accounting rules that for off balance sheet accounting of private investments the EPC should correctly identify the material beneficiary of the investment, i.e. economic rather than legal ownership.
- If Member States follow the Eurostat guidelines when developing EPC, private investments – apart from being eligible for off-balance sheet accounting in the central/local government's budget – are also regarded as a Maastricht neutral investment/liability that does not affect national fiscal space;
- If energy savings do not cover the investments made within the defined EPC time-line, an EPC payment above the baseline has to be recorded on the public authority's balance sheet;
- All EU funded investments are recorded as off-balance sheet items;
- There are two ways for implementing an EPC project:
 1. an EPC project may be implemented under the Eurostat EPC guidelines,
 2. an EPC project may be implemented under the PPP guidelines, the latter providing a more flexible way as regards investment and the amount of work required for comprehensive asset renewal.

Conclusions from the Belgian representative's experience:

- EPC is not just an instrument for financing energy efficiency projects; but much more than that. EPC means guaranteed savings and quality, new business opportunities, increased energy independence, improved export-import balance, etc.;
- In Belgium, EPC market facilitators have had and still have a huge role in promoting project implementation and boosting credibility both on the customer's and the service provider's side. As long as facilitators remained inactive in Belgium, there was little interest in the EPC model;
- EPC provides asset owners with a chance to optimize and improve (utility) system performance and the technical and visual condition of their buildings without making any investments.
- Different sources of funding and support have to be combined for achieving the best result.

The discussion that evolved after the guest presentations led to the following key conclusions:

- Latvia should opt for ELENA and PDA technical support to accelerate and mobilize EPC market development in the public sector;
- Market development requires political support and more specific goals;
- Energy and oil traders are a key target group for EPC market development and accessibility or supply of services. One of the barriers in Latvia is that the energy savings of district heat supply companies resulting from investments on the end-user's side are not counted towards the EED's target of 1.5 %, if EU funds are involved;
- No single EC-level document is an obstacle for combining EU and private funding;

- Market development requires a sustainable finance facility based on standardized projects in order to have clear-cut “rules of the game” for banks and potential investors, and smaller projects might be combined into larger packages;
- It is important to understand that one-stop shops are not meant for investing capital, but rather for analysing, developing, implementing, coordinating and monitoring EPC projects;
- A few pro-active municipalities should act as “ice breakers”.

After the international experts had shared their experience, the session continued with presentations by local speakers (Accelerate SUNShINE and Adaži municipality) who shared their experience on EPC market development in the public sector.

The motivation of local governments to implement EPC projects ensures quality and warranties; EPC projects are also an opportunity to invest capital in municipal assets without further budgetary expenditure or financial liabilities. Currently, the PPP regulatory framework is the only solution for EPC project implementation, but the procedures are too complicated and time-consuming (each project can take up to 3-5 years and no standardized approach can be implemented).

The regulatory barrier hampering EPC market development through barring local governments from long-term liabilities has not been resolved since the first roundtable discussion. The 2019 Budget Law stipulates that municipalities may enter into service agreements lasting for a term of up to 5 years; in the case of EPC, however, this time-frame is too short; it isn't even suitable for street lighting projects that do not need investments of the size required for renovation of buildings. Should this problem be solved, the next regulatory obstacle would be that every project requires a technical and economic feasibility assessment. This will be an additional cost for the municipality and lead to lengthy EPC project implementation times.

The representatives from Accelerate SUNShINE and the Adaži municipality also stressed the problem that the projects implemented with EU funding are not eligible for private funding, which, if reversed, would enable higher quality, more sizeable and sustainable projects. At present, the Accelerate SUNShINE project involves 4 municipalities that could invest 70 million EUR in energy efficiency measures if regulatory barriers were removed.

The Adaži municipality mentioned that until now there has been no positive experience with PPP projects, and, therefore, they are looking forward to the EPC model. The municipality also lacks resources and capacity for developing projects, so it would be very important to set up a one-stop shop.



Session No 2. Renovation of residential buildings

Moderated by: Ansis Bogustovs, journalist, TV24

The parallel session was attended by state and municipal authorities, housing managers, heat supply companies, commercial banks, ESCO and the non-governmental sector. The purpose of the session was to discuss specific solutions for speeding up renovation in the residential segment. One of the tasks was to explore how to launch integrated renovation services provided



by reliable operators with better incentives for homeowners. Future services should cover the entire customer “journey” from technical and social assessment, contracting and funding to job monitoring and quality control. The idea taken forward from the previous roundtable meeting was to establish a one-stop shop for promoting progress, including *via* appropriate long-term support for the renovation of apartment buildings. The first part of the session explored potential municipal support to developers, whereas the second part was devoted to a discussion on the preconditions for setting up a one-stop shop and whether there was a basis for seeking support from the ELENA initiative in Latvia.

Key speakers:

1. Renāte Bražinska, Project Manager of the district heating company “Salaspils Siltums”. Sample project.
2. Ivo Meļķis, Board Member of “Valkas Namsaimnieks”. Renovation of multiapartment buildings.
3. Toms Cīrulis, Project Manager of the housing management company “Liepājas namsaimnieks”. Apartment owner involvement and approach to financing.
4. Ingus Salmiņš, Head of the Energy Efficiency Programme Department at Altum. Altum's experience with the Multiapartment Buildings' Energy Efficiency Programme (DME)
5. Reinhard Six, European Investment Bank. The one-stop shop concept and the ELENA initiative for supporting a project in Latvia.

Summary of the current situation

1. Public awareness of the need for renovation of residential buildings, myths, best practice examples, pros and cons. Key role of the elected tenant representative/opinion leader.
2. Diversification of financial support mechanisms (in order to complement the grant financing system which currently is the only available method), long-term planning and how to become less dependent on grant support. Poor technical condition of the buildings and low paying capacity of the tenants; currently every development remains solely grant-based.
3. Administrative support mechanisms: legal knowledge, project management, awareness of the principles of loan based investments.
4. Higher interest rates in certain regions, in some cases requiring 100 % of tenant consent.
5. Lengthy renovation process (collection of tenant consent slips, project preparation and approvals from institutions, etc.).
6. Quality control and monitoring throughout the process.
7. After 10 years the same problems persist, processes develop at a very slow pace.

Further discussions during the presentations

- The residents of **Salaspils** obtain a 50 % Altum grant in addition to municipal co-financing of 15 000 EUR for various expenses, incl. additional costs, loan reduction.

Heat consumption in the renovated buildings in January 2018 compared to January 2019 was by 36-46 % less (a decrease in consumption over time derives also from changes in tenant behaviour).

Challenges: high construction costs, construction work carried out in the apartments, fearfulness about change and loan liabilities. Long institutional approval process by Altum a.o. A one-stop shop would help to speed up the process (in some residential buildings it may take up to 5 years to persuade at least 67 % of the tenants). Loans are taken out for a period of 15-20 years.

Project management is free of charge for the tenants as it is provided with support from the SUNShINE project.

Consent is obtained during interviews rather than at tenant meetings (an info meeting is followed by a 2 weeks consent procedure with the elected tenant representative visiting the apartment owners for a personal interview).

After renovation the tenant bills slightly increased, but the tenants have agreed to have their homes renovated for a number of reasons: the technical condition of the building/apartment has improved and there are energy savings. A positive example provided by a neighbouring building serves as a good motivating factor. Banks are good communicators: they calculate monthly interest payments, heat savings, etc. Timely payments over previous years is a key factor for obtaining a loan.

- It took a year to launch the first renovation projects **in Valka**. The emphasis was on residential buildings with high heat energy costs. The owners of the first building had to be persuaded, but now the tenants themselves show an interest in renovation.

Presently, in addition to insulation we also work on landscaping, and the emphasis is on a well-managed environment, the utility systems (pipes and cables) rather than energy savings. One urban area has been almost renovated to date, whereas the on-going renovation works have led to some car parking problems in the yards.

Compared to Estonia, Valka benefits of higher co-financing than Valga, but in Valga the process is more streamlined. In Estonia, government support was started earlier, and the tenants had to set up associations that were provided with funding. The town of Valga does not operate through procurement procedures and price surveys.

When the renovation process was launched, the loans were taken out by the housing management company “Valkas Namsaimnieks”, whereas now the tenant associations do it also on their own behalf. Initially, it was difficult to talk to loan institutions, as they tended to refuse loans on the grounds that Valka was a border town with a residency that had low paying capacity. Other banks, in turn, refused to cooperate since they had no subsidiaries in the town. Currently, there is good cooperation with SEB, the Citadele bank and Swedbank.

Some residential buildings established their own tenant associations and abandoned “Valka Namsaimnieks” as their housing management company, but after a while a large part of them returned having experienced lack of human resources with the appropriate knowledge in building management.

In our town we have observed that real estate prices go up by 30-40 % after renovation. In Salaspils apartment prices in renovated buildings are equivalent to those in newly constructed

buildings. So far there are no examples in Latvia of what happens to the buildings after the loan has been returned and whether the apartments require any further investments.

- Only a few apartments in the renovated buildings are offered on the real estate market in **Liepāja**, because they sell out fast. Liepāja has the highest ratio of insulated houses per population in Latvia. “Liepājas Namsaimnieks” acts as project manager and takes out bank loans. Typically, 20 % of the tenants flatly oppose renovation and 20 % of the tenants are in favour of the project, the rest being undecided. It takes 2 to 4 tenant meetings to get to the decision taking stage in every residential property. People rely on the conclusions of energy auditors and architectural designers, as well as on the positive examples featured in the press. Assurance comes from other people rather than from the housing manager. Having a contact person in the residential building is key to success; and the principles of loan arrangements have to be clarified to the tenants. In Liepāja installation of a horizontal heat distribution system also works well as a driver for renovation. The system makes it easy to switch off the heating for a particular apartment, should the owner fail to pay the bill. Part of the tenants are against renovation because they are aware that they will have to pay out the loan on a continuous basis. People also tend to settle the loan payment before they go on to pay the rest of the bills. The Liepāja municipality co-finances 50 % of the project development costs, but only after the renovation works have been started. The bank assesses the timeliness of loan payments on an annual basis (it is admissible to pay the winter bills during the summer months).
- The **Altum** procedures are rather lengthy, since each project has to be perfected together with the owner or applicant to an extent that will exclude any financial correction or recovery after the project has been completed. Consultations (technical documentation, procurement) take about 8 months (incl. designers and auditors that tend to be messy), and Altum helps the apartment owner and the project developer to comply with the laws and regulations. Altum helps with info in the information space, disseminates best practice examples and refutes myths. Continuous training, marketing, consulting and best practice examples are provided. Some of the challenges are: capacity limitations/superficial work on the part of authorized representatives and external project managers; lack of legal knowledge (e. g. on procurement documentation, amendments in construction contracts); quality of the construction company and the work performed. Until now Altum has not applied any financial corrections because of its extensive clarification activities. If the appropriations for the programme are absorbed, the programme budget may be amended and increased, else the programme may be discontinued. The funding currently available will suffice for 700 projects/buildings. People presently opt for comprehensive renovation, and not just insulation. In the long run the approach is more effective. Latgale and Riga are the regions that are less active. After 10 years of work there has been no real progress, nor have the goals been achieved. Currently, the grant remains the only driver, whereas there is no long-term development strategy; also the grant is indispensable because of the poor technical condition of the buildings and the low paying capacity of the population. In Latvia, funding for insulation of buildings comes from a single source, which requires large resources for supervision, whereas Estonia also provides state aid and emission funds.

- **The European Investment Bank.** There are different facilities for providing technical assistance: ELENA, JASPERS, FIA, EIAH. Technical assistance is based on a number of criteria: urgency of the renovation projects, availability of funding, type of residents. During the discussion, the EIB representative posed a number of rhetorical questions: in what sector Latvia could use ELENA? What are the needs of Latvia? EIB funding and support instruments are made available to a range of bodies, for example, energy agencies, municipalities, companies, communities. For example, in Poland funding was allocated also to the commercial banks paying for energy audits. The EIB does not look at the size of the urban population, but at the investment requested. Currently, local governments in Latvia are not authorized to take out loans because of restrictions in the state budget, but they may, for example, act as intermediaries between the EIB and business associations. The bankers believe that Latvia cannot afford/develop a sufficiently sizeable project covering enough buildings to apply for EIB funding. The EIB instrument works more for Western Europe. But why could it not work also in Eastern Europe? There is space for strategic thinking about how to succeed in persuading residents to invest in their property. Every country has its own instruments; there is a need for strong political will and participation. This means that there is a need to think on a larger scale and join forces.

Ideas for finding solutions

1. Carrots and sticks:
 - a. Reduced VAT for renovation projects;
 - b. Electronic “voting” for tenants, and taking the support threshold down to 50 % + 1 vote;
 - c. Energy efficiency tax: increase in immovable property tax to reflect the building's energy consumption and transfer the money collected to a premium fund for renovation of buildings (under national or municipal supervision);
 - d. Energy Efficiency Fund (core capital from the earnings of Latvenergo or mandatory procurement component);
 - e. Discounts on real estate tax for the renovated buildings or vice versa;
 - f. Quota system: set a limit on heat consumption in kWh/m²per annum; introduce a monthly energy quota. If consumption has been exceeded, the heat supply is switched off.
2. There is a feeling that very soon we are going to be short of money and less support will be available in the next EU programming period, and there is an urgent need to look for new financial resources (mentioned several times): possibly the EIB offer (which, however, drew a great deal of criticism from the audience), involvement of ESCO, private equity.
3. There is a need for motivating and educating the population (mentioned several times), but no ideal formula for doing so. People have to understand that energy efficiency is something that they themselves require, rather than the housing manager or the European Commission. The experience of the last few years has increased the gap between the builders, the lenders and the residents; in general, there is mistrust among the parties and they are testing one another.
4. Quality. For a long-term success stories, a pro-active effort to ensure quality is required (from all the parties involved). There is a need for more comprehensive certification of builders; lists of the best performers should be drawn up. However, it will be of little good in the procurement

process, since the contracting body has to choose the cheapest/most economically advantageous offer, rather than the high quality one.

5. The process has to be better streamlined (mentioned several times): with standardized procurement, construction contracts, a less cumbersome procurement procedure for municipal companies.
6. There is a need for a national strategy (with the capacity to measure specific results and identify the parties responsible) driven by the municipalities.
7. Introduction of *soft loans* and loans with subsidized, low interest rates.
8. The population's capacity to pay has to be increased.
9. It is important to study the example of Lithuania where ELENA is used.
10. The grant should be made available only after completion of the project.
11. Municipalities should set an example in renovation of buildings.



Session No 3. Attracting private investments for energy efficiency

Moderated by: Ivars Golsts, independent financial expert

The parallel session was attended by state and municipal authorities, financial institutions and energy efficiency project implementers, including ESCO.

The aim of the session was to discuss how to improve the regulatory and financial framework for energy efficiency, including pooling private and public investments, and increasing the scale of the projects. The first part of the session dealt with the Nordic experience in financing energy efficiency projects in the public sector, while the second part focused on the challenges and proposals for increasing private and public investments in large-scale energy efficiency projects.

The participants took forward the discussion from the first roundtable on the need to establish a single “flagbearer” for communicating with stakeholders and international financial institutions, encourage legislative changes and develop pilot projects, as well as develop a standardised approach to contracting and prevent risks in the sector.

The session sought answers to the following questions:

1. Application of the Nordic model to the Latvian context for financing large-scale energy efficiency projects in the municipal sector. What can we learn from the experience of KommuneKredit in Denmark and how it could be adopted in the Latvian context?
2. How could we use Danish experience to attract other sources of capital, such as green bonds, pension funds, etc., for increasing energy efficiency in the municipalities?
3. What are the challenges and how should financial instruments be set up “to open the door” for private investments in energy efficiency projects, including ESCO?

Key speakers:

1. Henrik Andersen, Director at KommuneKredit. KommuneKredit is a Danish finance institution specialized in municipal sector financing issues.
2. Sanda Liepiņa, Chairman of the Management Board at Finance Latvia Association. Raising private and public investments for short-term and long-term energy efficiency projects.
3. Nicholas Stancioff, Executive Director at Funding for Future. Challenges in setting up a private investment financing mechanism for large scale EPC projects.

One possibility open for the public sector is to establish a financial institution for the Latvian municipalities according to the Nordic model. This involves attracting pension funds and other capital sources to increase the investment amount. Therefore, one of the key tasks of the session was to learn from the Nordic experience, for example, the Danish KommuneKredit, and discuss how similar initiatives could be adapted to the Latvian context.

A summary of how to move forward (setting the tasks of the stakeholders, implementation schedule) was presented.



KommuneKredit is a non-profit association with a membership comprising all regions and municipalities: all the members are liable for KommuneKredit's commitments (shared liability). The idea of KommuneKredit was municipality driven and resulted from their mutual communications (the municipalities experienced funding problems, banks were reluctant to issue loans). The municipalities approached the government. KommuneKredit operates under a special law.

KommuneKredit obtains funds “from all over the world”, it trades bonds and also attracts public funding. Accordingly, KommuneKredit issues bonds which are then purchased by private investors. Funding can only be allocated under the rules regulating state aid, i. e. loans may not be offered for activities that could lead to competition with the private sector. The loan period usually is up to 25 years, whereas for district heating projects it may be extended to up to 40 years. Refinancing is practiced. KommuneKredit may finance public use infrastructure. A KommuneKredit loan counts as a public debt.

KommuneKredit funding can also be used for energy performance contracting, and since there is a long loan period, long-term contracts and in-depth renovation is possible.

In general, 15 % of funding comes from Denmark, 71 % from other countries in Europe, and the rest from outside Europe.

The discussion that followed evolved around finance for the municipalities in Latvia. One of the queries was that perhaps it makes sense to separate municipality financing from the State Treasury functions.

Currently, municipal companies in Latvia have 3 possibilities of obtaining loans for implementing their projects:

1. Altum loans (with the downside of high interest rates mentioned by the participants of the discussion);
2. Commercial bank loans (with interest rates that are lower than Altum's, but are associated with many strict and restrictive requirements);
3. The State Treasury, where municipalities have to be involved on a mandatory basis.

The participants of the discussion pointed to lack of a clear-cut and well managed policy, red-tape, procurement problems and lack of competence in the regions.

Sanda Liepiņa pointed out that commercial banks did not offer finance for energy efficiency as a separate product. Finance for energy efficiency is available in the framework of a general loan agreement. For example, Altum can work with municipal companies rather than municipalities while the State Treasury working with municipalities, does not analyse municipal projects. However, as soon as there is public money in the project, it requires financial analysis, and this eventually leads to the unfortunate conclusion that municipal experts lack the capacity and knowledge to perform it. Either the State Treasury should be the one to help the municipalities, or some other operator with a knowledge of the market should do the work. For example, in Denmark, municipalities have experts to examine projects, both from the aspects of their technical and economic, and political feasibility.

Availability and transparency of data is essential. But already now many different data are not available, whereas they should be available under the law.

There is a need for new financial instruments, longer loan periods and balanced interest rates.

The government imposes obligations, while at the same time it creates restrictions and barriers in complying with them. Municipalities are willing to launch projects, but there are various obstacles that hamper implementation and success.

The audience indicated the following needs:

- ensuring competence (knowledge, training, experts, especially in the regions) and access to finance for municipalities;
- a single, clear and supportive policy, strategic planning as well as assessment of results and benefits for better and more effective decisions in the future;
- a “flag bearer” and a comprehensive vision.

