

National Level Round Table Discussion on Financing Energy Efficiency in Latvia



**April 26, 2018
Riga, Latvia**

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The authors alone bear responsibility for the content of the document and it does not reflect the official view of the European Union.

The European Commission has undertaken to organize “Sustainable Energy Investment Forums” within the framework of the “Smart Finance for Smart Buildings” initiative for strengthening capacity and cooperation between public and private stakeholders in developing large-scale investment programmes and financing schemes. The SEI forums will include more than 30 events in up to 15 Member States between 2016 and 2019. Information on the past and upcoming events is available in the SEI forum [website](#)

The regional induction conference on financing energy efficiency of buildings in Lithuania, Latvia and Estonia took place in Riga on November 11, 2016. The event brought together around 80 participants involved in energy efficiency financing from the finance sector, national governments, project developers, renovation supply chain and local and regional agencies. The presentations and session summaries are available [here](#).

The aim of the national round table discussion was to launch a dialogue among the stakeholders on the efforts required to raise more funding for the implementation of energy efficiency projects by defining common goals and possible improvements in current policies and business practices. The round table discussion was held on the initiative of the “Sustainable Energy Investment Forums”.

In order to ensure open debate, the event was organized in accordance with the *Chatham House Rule*, which means that the identity or the affiliation of the speaker(s) may not be revealed.

Summary

A national round table discussion held on April 26, 2018 in Riga, Latvia, convened 93 participants representing government authorities, municipalities, non-governmental organizations, house managers, finance sector representatives, heat supply companies and energy efficiency 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 national round table discussion was of a full day's duration, and Latvian ministry official representatives participated in the opening plenary session. After the opening speeches, the participants split into four parallel sessions and came to the following conclusions:

1. In the public sector:
 - a. legislative changes are required in national and municipal budget planning, incorporating Eurostat off-balance sheet accounting rules for energy performance contracts (EPCs) of public institutions;
 - b. the Ministry of Economics should come up with pilot projects;
 - c. project developers (public and/or private) should be encouraged to establish standardized EPCs, procurement procedures, guidelines and other instruments;
 - d. a fund should be set up to be financed from the savings generated by the public buildings' energy efficiency program;
 - e. political support should be fostered for the implementation of EPCs and the energy efficiency sector, in general;
 - f. contracts for the projects implemented under the current EU funded programmes should include a five-year guarantee for the energy savings achieved;
2. In the housing sector:
 - a. a one-stop agency should be established with regional branches at a national level;
 - b. funding and / or financial instruments should be secured from the private sector and international financial institutions (KfW, EIB, EBRD, etc.);
 - c. private initiatives should be supported and financial instruments developed;
 - d. there should be regulatory changes to improve the management of multi-apartment buildings and reduce the risks related to fundraising;
3. In the SME sector:
 - a. awareness raising campaigns should be deployed or there should be training courses for company managers on energy efficiency, including the ESCO model, and the competitiveness and productivity gains for companies, and on ensuring sustainability;
 - b. policy makers and businesses should more actively engage in communication with a view to achieving the best possible result;
 - c. financing from the national energy efficiency fund could be potentially used for the following purposes:
 - i. implementation of an online information platform;
 - ii. training on energy efficiency;

- iii. funding for pilot projects;
 - iv. loan interest rate subsidies;
 - v. rebates on the mandatory procurement component;
 - vi. subsidies depending on the level of energy efficiency achieved.
4. Involvement of the financial sector in financing energy efficiency:
- a. there should be a single "flag bearer" to communicate with the stakeholders and international financial institutions, initiate changes in regulatory instruments and pilot projects;
 - b. there should be an effort to standardize energy performance contracts, procurement procedures and project development in a range of sectors;
 - c. the budgets of national and local government budgets will not cover large-scale energy efficiency projects; therefore, private financing should be raised;
 - d. a sustainable policy for renovation of buildings (public and residential) and attracting investment should be developed at a national level.

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

Timeliness of the discussion

Policy makers and national leaders around the world have come to realize that the implementation and financing of measures to reduce greenhouse gas emission are going to be the biggest challenge of the immediate future and beyond. This understanding was followed by the Paris Agreement – the UN Framework Convention on Climate Change – which took effect on November 4, 2016.

In the same year, the European Commission presented a new package called "Clean Energy for All Europeans", which provides even more ambitious targets for reducing greenhouse gas emissions, improved energy efficiency and the use of renewable energy resources. A lot of emphasis is placed on improved well-being of EU citizens. By supporting the implementation of energy efficiency projects, EU Member States can improve the welfare of their population and give a positive impetus to the national economy as a whole. For example, high quality comprehensive housing renovation provides citizens with healthier, safer and more comfortable living conditions while addressing social problems (affordable housing, energy poverty).

Collaboration of the parties involved is and will continue to be the principal cornerstone for achieving the common goals.

The round table discussion showed that stakeholders are hugely interested in implementing energy efficiency projects in the public, residential housing and small and medium-sized enterprises' sectors.

Introductory plenary session

Moderated by energy expert Reinis Aboltins

Opening address

At the opening of the event, all participants were welcomed by Eriks Eglitis, State Secretary of the Ministry of Economics, Andrejs Apaniks, Director of the Sustainable Energy Policy Department of the Ministry of Economics, Rinalds Mucins, State Secretary of the Ministry of Environmental Protection and Regional Development and Reinis Berzins, Board Chairman of ALTUM (on behalf of the Ministry of Finance). The speakers all-as-one emphasized the importance of energy efficiency in fostering sustainable development in Latvia. Currently Latvia benefits from a number of support programmes from the EU funds, for example, 156 million euros are available for renovation of multi-apartment buildings, and 15 million – for manufacturing industry. Also, the development finance institution “ALTUM” offers loans for energy efficiency improvement projects, with the total amount of the initiative at 20 million euros. All representatives unanimously signalled that there was a need for additional support and incentives to finance energy efficiency.



Presentation on EU energy efficiency policies

Lelde Kiela-Vilumsone, spokeswoman for the Energy Directorate-General of the European Commission, gave an overview of the EU energy policy's future initiatives, including energy efficiency, with an emphasis on the "Clean Energy for All Europeans" package. One of the package initiatives "Smart Financing for Smart Buildings" will allow Member States to speed up renovation of buildings. In Latvia it is a very topical issue, as the Long-Term Strategy for Building Renovation has concluded that 69% of the housing stock consists of multi-apartment buildings that are out-dated and low in energy efficiency.



Involvement of private banks in financing energy efficiency

Santa Purgaile, Co-chair of the Lending Committee of the Association of Latvian Commercial Banks, spoke on the involvement of commercial banks in financing energy efficiency projects. Her emphasis was on the need of a clear and targeted strategy for the energy efficiency sector in Latvia. The Association reaffirmed the readiness of banks to expand their activities in financing energy efficiency projects.



As regards renovation of housing, the banks emphasize that apartment owners themselves do not and are hardly going to start renovating multi-apartment buildings on their own initiative; therefore, there is a need for market coordinators such as municipal companies, non-governmental organizations, etc. The demographic decline in the regions is presently seen by the banks as a barrier for financing long-term projects outside the larger cities.

With regard to the ESCO market, the Association stressed that access to long-term financing was the main obstacle, and, therefore, private initiatives such as the LABEEF refinancing fund were seen as very valuable.

Parallel sessions

Session No 1: Public Sector

Moderated by Armands Gutmanis, Board Chairman of META Advisory

The parallel session was attended by national and local government institutions, the private and the banking sectors. Renovation of public buildings is becoming an issue of growing importance for national and local government institutions. Co-financing from the EU funds will be available until 2020, but it is high time to think about how renovation projects are going to be implemented after 2020. The session sought answers to the following questions:

1. How to finance renovation of public buildings now with the aim of doing more than has been made possible through the available EU funding, and how to set about it beyond 2020?
2. What changes should be made in the regulatory instruments to facilitate financing of energy efficiency projects?
3. What market promotion mechanisms (e.g., one-stop-agencies, standardized contracts, assistance in project development) could help to accelerate the implementation of energy efficiency projects in public buildings?
4. What could be the role of energy service providers in the renovation of public buildings?

Speakers:

1. “Setting up a regional initiative for Energy Performance Contracting in Public Buildings”, Christoph Thomsen, Climate Protection and Energy Agency (KEA), ELENA InEECO project
2. “Public sector and performance based projects”, Toivo Miller, Principal product and business development manager, European Bank for Reconstruction and Development (EBRD)
3. “Renovation of public buildings with a guaranteed energy efficiency”, (H2020, Accelerate SUNSHINE project) Agris Kamenders, Director of “Ekodoma”
4. “EIB advisory services for energy performance contracts”, Laurent Bender, Lending manager, European Investment Bank

The first presentation was by the KEA representative sharing Germany’s experience in implementing energy performance contracting (EPC) projects in the public sector. KEA (a government-funded agency) provides technical support for developing municipal energy efficiency projects in accordance with the EPC principles (up to 15 years). Six out of 30 staff members of the Agency work on EPC project development starting with feasibility studies and public procurement up to project implementation. In Germany the EPC market has been operational for 20 years, but public institutions still need technical support in project development. KEA is a so-called “one stop agency”, and as such has a very important role in project development. The practice works very well in Germany. In countries where the EPC market is less developed, it is worth considering projects with shorter payback and guarantee periods to allow the market to adapt to the new conditions. KEA's representative stressed that it was very important for national and local government institutions to discuss issues with industry representatives.

In his presentation, the EBRD representative stressed the importance of political support for successful development of the energy efficiency market. In turn, through attracting EPC providers (ESCOs) municipalities are able to secure private funding and / or expertise to implement high quality projects. An ESCO will not go for a poor quality project, since the company's returns are directly related to the energy savings achieved. Toivo Miller also stressed that there was a critical need for market coordinators (in the role of project developers) for the market to evolve. Project developers may be both private and public organizations, but they have to work within a long-term perspective. The EBRD is currently active in the Western Balkans, Slovenia and Lithuania, where EPC projects are implemented in hospitals, district heating, street lighting and the public buildings' sector. Implementation of projects in these countries has been facilitated by political support.

The representative of "Ekodoma" noted that the prevailing practices do not ensure high-quality energy efficiency projects, as in the case of EPCs. The currently operating service providers do not provide long-term guarantees; therefore "Ekodoma", as partner of the "Accelerate SUNShINE" project, together with the municipalities, already tends to incorporate an energy savings' guarantee of five years into public procurement documents. Adoption of a similar approach would provide greater responsibility on the part of the contractors, as they would have to keep track of the operation of the installed equipment and systems and ensure that energy savings are achieved. If energy savings are not achieved, the service providers would have to remedy the deficiencies with their own resources. Unfortunately, a longer guarantee period cannot be required unless the PPP model is used, but PPP projects take about a year and a half to implement. Co-financing from EU funds could be combined with private funding even under the currently operating support programmes, if permitted by legislation.

The EIB's presentation showed that the bank offered various support measures for project development or technical assistance. One of the solutions was to raise funds from the ELENA programme.

In addition, the EIB spokesman said that Eurostat and the EIB had [published a roadmap](#) on May 7 of the current year to enable Member States apply off-balance sheet accounting for EPCs. [Accountancy rules](#) have been published already in September 2017.

In the course of the discussion the session identified several major obstacles hampering implementation of energy efficiency projects in the public sector and ways to overcome them:

1. **Obstacle:** Public (national and local government) authorities lack competence in project development, management, implementation and monitoring.
Solution: Promote one-stop agencies that are going to develop projects and elaborate standardized procurement procedures and model contracts for different sectors (hospitals, schools, prisons, administrative buildings, street lighting, etc.). Initially, pilot project development would require ELENA funding. The energy savings achieved through the public buildings' energy efficiency programme could be channelled into a fund that would finance technical support for project development. After 2022, the fund's account would be credited with an estimated 1.5 million euros per year.
2. **Obstacle:** Public authorities may undertake long-term liabilities (for a term exceeding five years) only under PPP conditions, leading to a very time-consuming and complex process.
Solution: Make the necessary amendments enabling public institutions to undertake long-term liabilities (for up to 20 years as defined in the Energy Efficiency Law),

permitting services to be paid from the achieved energy savings. The approach would not create any additional burden on the state budget.

3. **Obstacle:** Municipalities may only take out loans for specific purposes (renovation of nursery schools, schools, cultural buildings, implementation of EU funded projects).
Solution: Change the regulations so that local governments could take out loans for any project that achieves guaranteed energy savings.
4. **Obstacle:** EPC provider investments are recorded in accountancy as public debt.
Solution: Change the regulations in line with the Eurostat and EIB accounting rules and roadmap.
5. **Obstacle:** Lack of political support for EPC market development.
Solution: Clarify the positive aspects of EPC projects.
6. **Obstacle:** Lack of accessible short- and long-term financing for project implementation; prevailing instability in the construction market due to grant programmes.
Solution: Public institutions should cooperate with the private sector to raise both short-term and long-term financing through developing different support and financial instruments. In addition, communication with foreign financial institutions (EIB, EBRD, etc.) should take place. The approach is going to ensure stable and sustainable development in the energy efficiency market.



Session No 2: Residential Housing Sector

Moderated by energy expert Reinis Aboltins

The audience of the parallel session included representatives from national and local government institutions, house managers, heat supply companies, commercial banks, ESCOs

and the non-governmental sector. Energy efficient homes have always been a topical issue, but in Latvia the improvement process is very slow, and only about 3% of the multi-apartment buildings have been renovated. The session sought answers to the following questions:

1. What are the main features of a one-stop agency that would make it best suited for the needs of the housing renovation market in Latvia; what are the regulatory amendments required to facilitate financing of energy efficiency projects?
2. What legislative changes should there be to speed up the implementation rate of energy efficiency projects?
3. How do financial instruments, such as the guarantee scheme for housing renovation, lead to structural changes in the market, helping financial institutions to expand their range of activities by making investments in energy efficiency and offering affordable loans for home owner?

Speakers:

1. “Experimental deployment of Picardie Pass Rénovation”, Alice Morcrette, Director of the Picardie PASS renovation, SPEE, France
2. “Promotional programmes for energy efficiency in buildings”, Bettina Dorendorf, Vice-President of KfW, Germany
3. “Improving energy efficiency in privately owned family houses: opportunities and challenges”, Aldis Grekis, ass. professor, dr.sc.ing., Riga technical University Construction Engineering Department
4. “Practical experience of renovating multiapartment residential houses”, Ingus Salmins, Energy Efficiency Programmes department manager, ALTUM

Before the discussion was launched, the housing group was divided into 3 smaller groups: group 1 discussed matters related to the one-stop agency, group 2 – the regulatory changes required and group 3 – financial instruments.

One-stop agencies

The discussion focussed on what the principal one-stop agency should be like to match the needs and the profile of the housing renovation market.

The one-stop agency should be able to operate continuously and sustainably, as a long-term project, given that the process of renovation of a multi-apartment building may take up to two years from the day when the decision is taken to completion. The Agency should operate on a long-term basis, so that all the owners could have its support.

The Agency's strategy should be focussed on long-term support for the renovation of multi-apartment residential buildings and / or private family houses. The Agency should be transparent, open and customer-oriented when ensuring the implementation of the strategy.

The main activities of the Agency should include financial consultancy and advice on energy efficiency, technical assistance and other issues, given the complexity and scale of the housing energy efficiency measures, as well as the low awareness of energy efficiency and the related processes among Latvian citizens.

The Agency's organizational chart should provide for an initial number of branch offices located in the regions. The regional offices should have the role of advising and informing customers. Any further monitoring or control of the economic and technical aspects of energy efficiency projects would then take place in the national one-stop agency. The one stop agency could operate under the auspices of either “Altum” or the Ministry of Economics. On this issue the participants were divided in their opinion.

Possible sources of funding for the one-stop agency would be:

1. Funds from the national and local government budgets;
2. Financing raised from EU projects or funds;
3. Introduction of an energy efficiency tax and part of the immovable property tax revenue.

Changes in regulatory requirements

All the participants of the debate unanimously reaffirmed the need to propose changes in a number of laws and regulations for streamlining the work of administrative institutions and regional agencies by combining potential grants and loans from various sources.

In order to make multi-apartment renovation projects attractive to financial institutions as an investment object there should be effective utility debt collection to avoid a situation that the cost has to be borne by the residents who pay their bills regularly.

One suggestion was to introduce an energy efficiency tax on buildings. Multi-apartment buildings with low energy performance (for example, with thermal energy consumption above 150 kWh / m² per year) would then be levied with an energy efficiency tax, incentivizing the owners to improve their property to benefit from an energy efficiency tax rebate after renovation.

Given that the residents of multi-apartment buildings largely consist of senior citizens and people with low incomes, and both groups can hardly afford to increase their monthly housing expenses, while being part of the decision-making process on energy efficiency works, there is a need for regulatory changes, stipulating that national or local authorities should cover the additional costs associated with energy efficiency improvements for the elderly and the low-income residents. This would be a way to avoid resistance from the less advantaged group to decisions in favour of energy performance improvements in the residential sector.

The number of multi-apartment buildings requiring improvements in energy performance exceeds 23 000 in Latvia. To facilitate large-scale renovation of multi-apartment buildings, projects should be merged into larger groups (by standard design series or within one street or housing block). Larger-sized projects could be more interesting for investors and the terms for securing funds might become more favourable. Larger energy efficiency projects would create competition between construction companies, and lower the total cost of construction. In addition, there is a need for developing industrial energy performance solutions (industrially produced façade panels) to shorten construction times and ensure that work can be carried out in winter.

Financial instruments

The participants mentioned that transferring part of the immovable property tax revenue to an energy efficiency fund that, at least initially, would cover the costs of the building's energy audit and technical documentation, might be one solution to promote energy efficiency projects in multi-apartment buildings.

The discussion concluded that financial instruments would be likewise required in the future to ensure funding for energy efficiency measures in multi-apartment buildings across the country also after 2020. In the future financial instruments should be used as a risk reduction tool for energy efficiency projects to facilitate fund-raising from commercial banks or other funding bodies. They would promote competition between commercial banks, and citizens would get loans on better terms.

In order to raise funds, it is important to communicate with international financial institutions such as KfW and EIB that can provide significant financing support for energy efficiency in the housing sector. KfW's experience which could be useful in Latvia for speeding up renovation of buildings might be very valuable. In Germany, large-scale renovation of multi-apartment buildings took place in the 90's, with several million homes refurbished within a decade.



Session No 3: SMEs

Moderated by Ansis Bogustovs, journalist of Radio Latvia and TV24

Among the many groups represented in the parallel session there were government authorities, educational institutions, the private sector (entrepreneurs) and finance institutions. Despite a range of support programmes for implementing energy efficiency measures in industry, entrepreneurial activity in this area remains low. One of the problems is that businesses do not see the benefits from energy efficiency measures resulting in increased productivity or competitiveness. The session sought to find answers to the following questions:

1. What are the success stories and the barriers for financing SME energy efficiency?
2. What are the current drivers for SMEs to implement and pay for energy efficiency measures?
3. What financial products are required to ensure implementation of energy efficiency measures by SMEs?

Speakers:

1. “Energy efficiency: challenges and practice”, Kaspars Osis, Chairman of the Energy Committee of the Latvian Chamber of Commerce and Industry (LCCI)
2. “Energy efficiency: key to raising productivity and competitiveness in business”, dr.habil.sc.ing., professor Dagnija Blumberga, Riga Technical University (RTU)

The LCCI presentation showed the results of an energy survey conducted by the LCCI. According to the survey, 70% of companies had their energy costs on the Board's agenda. 68.8% of the companies acknowledged that they had introduced energy efficiency measures to reduce energy costs, while 27% of the businesses indicated that energy costs were not a significant part of their company's costs. The LCCI presentation contained an overview of the LCCI's Energy Policy Guidelines. As stated in the Guidelines, energy efficiency is the only energy cost element that can be controlled locally; therefore, it should be prioritized with due regard for certain principles: (1) Investment support for energy efficiency should be available for any energy efficiency project, with preferential treatment of industrial projects that have financially more efficient and predictable results within grant programmes; (2) In view of the rapid development of technologies, an approach should be found to summarize the best practices in energy efficiency globally in a way that is public and ensures quality; (3) The ESCO (energy service company) model should be promoted in energy efficiency projects, especially for the industrial projects linked to grant programmes; (4) Development of an obligation scheme linked to energy efficiency that increases the overall cost of energy above the average level in EU and the other Baltic States should not be supported. The presentation of the LCCI listed a number of challenges: (un)availability of meter data and the absence of a sub-accounting; the impact and predictability of changes in the structure of price components; (un)availability of appropriate funding; lack of specific knowledge; lack of confidence in technology and / or output; the lessor-lessee dilemma; insufficient government and management support. LCCI gave an insight into the savings that could be made by simply replacing lighting fixtures and outsourcing their supply and maintenance to an ESCO.

The opportunities offered to businesses by ESCO were also highlighted in the RTU presentation within a dedicated section “ESCOs FOR INDUSTRIAL BUSINESS DEVELOPMENT” containing a vivid example of the link between primary energy consumption and production output and the differences in energy consumption one year after a contract has been signed, at the same production volume. The presentation highlighted the need for a systemic approach to developing the ESCO industry with due account of the political, macroeconomic, the legal and financial frameworks. In addition to ESCOs, the RTU presentation contained an overview of a company's energy cost items: energy supply, buildings and equipment, lighting, transport, water supply and sewerage systems. Energy costs can be assessed from a quality and quantity aspect. To assess volume, it is essential to record energy consumption data because the gains can hardly be assessed if prior status has not been recorded. The need for a systemic approach in company development was also emphasized: one way is to invest in an energy efficiency measure with the shortest pay-back time, but the best long-term gains come from investing in a set of measures that are accomplished together.

In the course of the discussion the session identified some key problems that hold back companies from introducing energy saving measures:

1. Lack of awareness at some or all company levels. Lack of knowledge at management level has a particularly high impact, since it is the managerial level that decides on the measures to be taken and the investment required.
2. Mind-set and mistrust of third parties (ESCOs, energy auditors, etc.), technologies and outcomes from energy efficiency measures;
3. Businesses prioritize immediate profit rather than energy efficiency, since they lack awareness about the long-term benefits gained from energy efficiency measures;
4. Some negative perceptions of the term “energy efficiency” have been noted;
5. The Law on Energy Efficiency and its requirements are applicable only to a small part of companies: the current regulatory framework sets requirements for large enterprises and large electricity consumers which are a small part of the total number of companies in Latvia. There is no regulatory framework for other companies that would incentivize them to think about energy efficiency;
6. Lack of communication between entrepreneurs and policy makers, resulting in decisions that may not maximize the potential benefits for the business sector;
7. There is no leader to flag the energy efficiency idea. There is need for a social campaign promoting energy efficiency together with greening and asking if “there is still anything I have not yet accomplished?” and encouraging entrepreneurs and citizens to look at the broader perspective.

Sections 10 and 12 of the Law on Energy Efficiency require large enterprises to carry out energy audits on a regular basis and large power consumers to implement an energy management system, perform at least three energy efficiency measures and report back to the Ministry of Economics on the energy savings achieved. Undertakings that do not fulfil this obligation have to pay energy efficiency fees in accordance with Section 13 of the Law. The fee is then transferred to the State Energy Efficiency Fund (hereinafter - SEEF). In accordance with Section 7, Paragraph 5 of the Law on Energy Efficiency, SEEF resources are used for state support programmes in the following areas:

1. for achieving the mandatory final energy consumption targets;
2. for public awareness and education activities in the area of energy efficiency.

In the ensuing discussion a range of uses for the NEEF funding and general activities for promoting energy efficiency in companies were considered:

1. Develop an informative platform (independent website) for accessing information on energy efficiency measures, i.e.:
 - Information on technologies
 - Information on energy savings that may be gained through specific energy efficiency measures;
2. Energy efficiency training for entrepreneurs who have not fulfilled the obligations set out in Sections 10 and 12 of the Law On the Energy Performance of Buildings and are, therefore, paying fees;
3. Pilot projects for energy performance improvements with outcomes to be reported back to the entire industry;
4. Interest rate subsidies;

5. Mandatory procurement component rebates for companies that implement energy efficiency measures;
6. Ban on participation in some types of public procurement for companies that do not achieve a certain energy efficiency level;
7. Loan subsidies if a certain level of energy efficiency has been achieved.

The discussion identified a set of motivational instruments for companies:

1. Competitions, for example, for “the most energy efficient company” award (consider expanding the competition for “the most energy efficient building in Latvia” award);
2. Recognition of companies for energy efficiency achievements;
3. Funding for employee training in energy efficiency awarded to the winners of the competition;
4. Promoting positive ambitions by setting specific deadlines for implementing each measure.

The discussion evolved around the most reasonable scheme for using SEEF, depending on the amount of funding available. With SEEF funds below 600 thousand euros, it would be reasonable to stick to various information and education activities. These events tend to be small projects that require limited resources and benefit wider circles of the public. They promote public awareness, including entrepreneurial awareness, of energy efficiency measures, the importance and potential of these measures, in turn contributing to more active implementation of energy efficiency measures by business operators.

SEEF funds of up to 2 million euros could be used for extended support, including interest rate subsidies for loans aimed at improving energy efficiency in companies. Accumulated SEEF funds exceeding 2 million euros could be used for partial loan subsidies. The subsidized part of the loan would depend on the level of energy efficiency achieved through the investment. SEEF funds of more than 5 million euros could lead to grant support programmes.





Session No 4: Involvement of the finance sector in financing energy efficiency

Moderated by Ivars Golsts, independent finance expert

The parallel session was attended by representatives of national and local government institutions, finance institutions (commercial banks, the State Treasury, Riga Stock Exchange, etc.) and energy performance project implementers, including ESCO.

In the current market conditions, investors have little interest in energy efficiency. Banks often provide loans based on customer credit status or property value, but the benefits of energy efficiency improvements are not likely to be taken into account. The EEFIG (Energy Efficiency Financial Institutions Group) 2015 report highlighted *inter alia* the following problems:

1. Lack of evidence that investment in energy efficiency provides for returns makes it more difficult to assess the gains and the financial risks;
2. Lack of commonly accepted procedures and standards for underwriting energy efficiency investments increases transaction costs.

The session sought answers to the following questions:

1. What is the current situation regarding financial products for energy efficiency in Latvia?
2. What do private financial institutions need to become fully involved in financing energy efficiency?
3. How can standardization tools, such as IREE (ICP's Investor Ready Energy Efficiency™) and EEFIG (Energy Efficiency Financial Instruments Group) risk and underwriting toolkit, be put to better use for promoting financing of energy efficiency in Latvia?
4. What role could financial instruments play in bolstering financing of energy performance?

Speakers:

1. “Derisking energy efficiency finance”, Steve Fawkes, senior adviser of the Investor Confidence project and principal author of the EEFIG underwriting toolkit, EnergyPro. Ltd., UK
2. “Financing energy efficiency in Latvia: banking sector experience”, Ilze Kukute, department manager, Swedbank

The session was launched by Steve Fawkes with a presentation on risk mitigation in energy efficiency projects. One of the key tasks for facilitating financing of energy efficiency measures is up-scaling for bigger projects. Currently, there are several challenges: projects have low investment levels; processes have not been standardized and projects lack quality.

A gradual start is required for risk reduction. In the initial phase, risks are going to be high, but with more experience and standardization, the risk level will go down. One of the most difficult aspects is getting the project ready or developing it, for which there is likely to be no finance.

Facilitation of market development requires the following:

1. Financing;
2. Project development and up-scaling into larger packages;
3. Standardization of procedures (contracts, procedures, construction work). Standardization reduces the likelihood of failure to achieve the project results and reduces transaction costs; it also enables up-scaling for large packages and increases the capacity of the parties involved.

Ize Kukute, representing Swedbank, gave an account of banking experience in financing energy efficiency projects in Latvia. She highlighted a number of problems:

1. Contracts and procedures have to be more streamlined;
2. Banks are not in favour of financing projects in the regions because of their depopulation;
3. If the client is a public institution, it is important to assess the risk of how long the building is going to be used for governmental or municipal functions;
4. The public sector should communicate with the banks to address shortness of financing for energy efficiency projects. Banks are ready to engage in financing public projects;
5. Closer dialogue should take place with national and local government institutions to facilitate project implementation in the municipal sector;
6. National and local government budgets will hardly be able to cover implementation of wide-scale energy efficiency projects; therefore it is important to think about raising private investment;
7. Municipalities and citizens lack capacity and knowledge to develop sound project;
8. ESCO pilot projects are needed in the public sector for best practice demonstration to other public bodies and citizens;
9. The State needs a sustainable policy for renovation and investment in buildings that would take into account the impact of depopulation.

There were several questions from the audience, namely:

1. Who should develop ESCO projects? Should it be the private or the public sector?
Response: This is of little importance. The important thing is to have developers for such projects.
2. What is the position taken by the banks on long-term loans for energy efficiency projects?

Response: Given the risks and the extended ROI period, banks will hardly be able to offer low interest rates on loans. Banks would be in favour of loan periods of a maximum of 10 to 15 years. Also, citizens are not willing to undertake long-term liabilities. Banks would be in favour of financing short-term projects, whereas international finance institutions are ready to finance long-term investments.

Notably, a financing institution is only a small link of a longer chain. It is vitally important to define the role of each link in the chain and to amend the laws and regulations accordingly, and promote standardization. Standardization might be considered not only for Latvia alone, but for all the Baltic States as a whole, in order to make energy efficiency financing attractive for major financial market operators.

The participants of the discussion supported the idea that the Ministry of Economics and ALTUM should promote implementation of ESCO pilot projects to facilitate understanding of the ESCO model and the legislative changes required. The Ministry of Economics should take the initiative and become the “flag-bearer” for promoting the required legislative processes and communicating with the parties involved. If there is a demand, there is also going to be an offer.



Concluding session

All the participants convened again in the concluding session, and the moderators of the parallel sessions presented the outcomes of the discussion by highlighting the main barriers and proposals for promoting implementation of wide-scale energy efficiency projects in Latvia.

One of the representatives came up with an interesting proposal to the effect that an “Energy Efficiency Day” should be marked in the calendar for drawing public attention to the importance of energy efficiency.

