



Preparatory Report Capacity Building Program

Focus Country Latvia

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Preface

This preparatory report is produced in the framework of the CITYinvest project funded under the European Union's Horizon 2020 research and innovation programme. The aim of this report is to gather relevant information for the organisation of a successful national capacity-building workshop in Latvia. It serves as a guiding document for any involved stakeholder and as a steppingstone towards the development of a long-term strategy.

The aim of the national workshop is to bring together the entire value chain of decision makers and stakeholders to seize the energy efficiency market in Latvia: from interested individuals, to SMEs such as local ESCOs, project developers, local, regional and national authorities. Having a key role in stimulating and implementing innovative financing models for energy efficiency, local authorities will be one of the main target group of the workshop.

Thanks to this report and to the workshop, we will attend to explore which innovative financing models identified in this project suits the Latvian conditions to reach the EE objectives. Furthermore, we aim at initiating further debates amongst stakeholders after the workshop and giving an opportunity to participants to remain active and in contact with peers and experts.

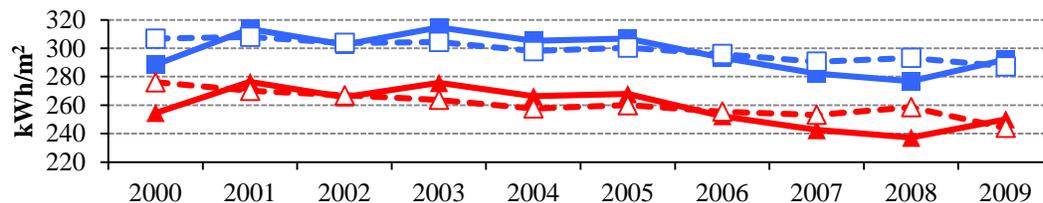
For further information how to get involved, please visit www.CITYinvest.Eu or contact info@cityinvest.EU.

National context:

Latvia is situated in the region of latitude 57 N (as Stockholm, Sweden). The climate conditions are to some extent maritime, as in mid Scandinavia.

Energy consumption of buildings takes 40% of total energy balance in Latvia. Living stock in Latvia includes ~ 352 thousand houses, with total area 86,9 mio m². The average length of the Latvian heating season is 200 to 210 days per year. The heating period depends on the outdoor temperature and is slowly increasing due to citizens' higher demands for comfort. According to the largest District Heating company (Rigas siltums, delivering 52% of heat in Latvia) the length of the heating season in Riga was 210 days (2002/03) and 192 days (2010/11).

Average energy consumption of households for heating and hot water in 2009 was 250 kWh/m² (continuous blue line in the chart). Average energy consumption of households for heating and hot water - with climate correction was 244 kWh/m² (dashed blue line in the chart). Average heat energy consumption of households for heating only – 197 kWh/m² (continuous red line). Average heat energy consumption of households for heating only – With climate correction – 193 kWh/m² (dashed red line).



Average heat demand for traditional dwellings is 230–210 kWh/m². For new and renovated buildings, heat consumption is 100-150 kWh/m². According to the 2030 National Energy Strategy, the average heat consumption should be less than 150 kWh/m².

The amount of renovated buildings in Latvia differs from city to city: in the capital, Riga nearly 5% of houses are renovated, in some smaller municipalities – even 30-50 %.

Most of the multi-apartment buildings have a mixed ownership – 59,0% , single private individual – 29,4% , municipal property – 4,8% legal entities – 4,2% , state property – 0,2%. Flat owners can set up an association, and arrange a housekeeping company which would act on their behalf for maintenance purposes. The buildings where a housekeeping association was not set up, these buildings are maintained by municipal housekeeping companies. The biggest example is Riga where 38% of houses are maintained by Riga city municipal housing company “Rigas namu parvaldnieks”, and under their management only ~ 5% of houses were renovated.

In multi-apartment buildings retrofitting projects are difficult to implement because approval of at least ¾ of apartment owners in the building is required to obtain financing and to start a project. As result, buildings renovations in Latvia in general moves very slowly. Before 2015, with few exceptions, retrofitting and thermos-insulation are implemented with support of EU funds period 2007-2017 – activity 3.4.4.1. with financing 77,9 million EUR.

Projects implemented under 3.4.4.1 activity:

Project developers	Number of finished projects
SIA „Ventspils nekustamie īpašumi” (Ventspils)	29
SIA „Valmieras namsaimnieks” (Valmiera)	27
SIA „Namsaimnieks” (Limbažu novads)	18
SIA „Ozolnieku KSDU” (Ozolnieku novads)	15
SIA „Namu serviss APSE” (Liepāja)	13
SIA „InvEsco” (Cēsis, Sigulda, Rīga, Salaspils, Ādaži)	11
SIA „Liepājas namu apsaimniekotājs” (Liepāja)	11
DzīKS „Bāka-NK” (Ventspils)	10
SIA „CDzP” (Cēsis)	10
SIA „Saimniecība 24” (Valmiera)	9
SIA „Talsu namsaimnieks” (Talsu novads)	9
SIA „Smiltenes NKUP” (Smiltenes novads)	7
SIA „Jelgavas nekustamā īpašuma pārvalde” (Jelgava)	6
SIA „Alūksnes nami” (Alūksnes novads)	6
DzīKS „Bāka-2” (Rīga)	5
SIA „Vilkme” (Ropažu novads)	5
SIA „Latvijas namsaimnieks” (Ādaži, Rīga)	4
SIA „Grobiņas novada namsaimnieks” (Grobiņas novads)	4
SIA „ADAX 2” (Talsu novads)	4
SIA „JK namu pārvalde” (Jēkabpils)	4
14 smaller developers	3
21 projektu iesniedzējs	2
242 smaller developers	1
Total 297 project developers	535

Legislative framework:

The main national documents regulating energy efficiency in building sector are:

- **Latvia Energy Long-Term Strategy 2030** - Scope: increasing energy security and the promotion of sustainable energy. With regard to energy efficiency, the goal is to decrease the average heat consumption in the housing sector to 100 kWh/m² (endorsed in Parliament 10.06.2010).
- **Latvian National Development Plan 2014–2020**¹ - In line with the previous plan (2007-2013), this strategy includes measures on Energy efficiency and Production of Energy. Among these measures are programmes to support the improvement of energy efficiency in public and residential buildings, as well as the use of RES for heating and cooling systems; support to innovation in the field of energy efficiency technologies (including support for pilot projects); promotion of energy efficiency and RES in district heating; support the use of RES in transports, in particular through development of appropriate infrastructures; and finally, development of the energy infrastructure network. It is planned that those measures will be co-funded by EU funds, in particular the Structural and Cohesion Funds.
- **Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC** – this document gives the main guidelines for Latvian energy sector: increasing energy efficiency in all parts of energy chain; with obligate tasks: to ensure 1,5% energy saving from all final energy, supplied to end users. It means that wide-scale renovation of the housing buildings stock are necessary. Regarding buildings, belonging to the state or municipalities, the task is to renovate 3% of the buildings. Both targets seem to be an arbitrary decision, which did not consider limited funds at disposal of the building's owners, nor the number of buildings that have already been renovated.
- **"Law on energy efficiency"**, which is supposed to be a framework for implementation of the directives above is under discussions in Latvian Parliament. The adoption of this law is very delayed, taking into account that the final results of energy efficiency measures should be achieved in 2020.
- **Energy law**² is the "roof law", describing general principles of energy management in Latvia (power, gas and heat). There are many concrete rules of Cabinet of ministers issued in power, gas and heat areas.
- **Electricity trading law**³ – describes electricity supply issues, including subsidies for poor people.
- **Law on the Energy Performance of Buildings**⁴ - enforced on 9 January 2013. This law significantly improves the current regulation of energy performance of buildings, supplementing it with the novelties included in the Directive of the European Union, and Encourages owners of new or renovated buildings to use RES heating and cooling systems, when possible.

¹ <http://www.odyssee-mure.eu/publications/national-reports/energy-efficiency-latvia.pdf>

² <http://likumi.lv/doc.php?id=49833>

³ <http://likumi.lv/doc.php?id=241279>

⁴ <http://www.res-legal.eu/search-by-country/latvia/tools-list/c/latvia/s/res-e/t/policy/sum/156/lpid/155/>

In the middle of 2013, regulations subject to the Law on the Energy Performance of Buildings were adopted:

- Cabinet Regulation No. 348 of 25 June 2013 “Regulations Regarding the Methodology for Calculating the Energy Performance of Buildings”;
 - Cabinet Regulation No. 383 of 9 July 2013 “Regulations Regarding the Energy Certification of Buildings”;
 - Cabinet Regulation No. 382 of 9 July 2013 “Regulations Regarding the Independent Experts in the Field of Energy Performance”.
- **National Renewable Energy Action Plan (NREAP) 2014-2016 and Latvia 2020 renewable energy targets:**
 1. Overall target: 40% of share of energy generated from renewable sources in gross final energy consumption;
 2. Heating and cooling: 53% of heat consumption met by renewable sources;
 3. Electricity: 60% of electricity demand met by electricity generated from renewable energy sources.

In order to achieve above enlisted targets Latvia runs following incentive schemes:

1. Creation of suitable cross-sector legislation framework supporting sustainable development of renewables with an aim to protect natural environment of Latvia;
 2. Measures supporting raising awareness on climate change and renewables;
 3. Measures supporting energy efficiency and energy savings in buildings (public administration, educational, private);
 4. Supporting deployment of renewables in all sectors;
 5. Reduction of GHG emissions; development⁵.
- **The Law on Green Public Procurement and the Implementation of the Exemplary Role of the Public Sector**⁶ support the use of energy efficiency technologies by the public sector (it also applies to technologies using RES). Green public procurement guidelines are in place since 2009. It is as well planned to have increased the number of green procurements by 20% in 2013, which seems ambitious.
 - **Covenant of Mayors: In Latvia**, 19 cities joined to the covenant of Mayors. The capital developed a detailed sustainable energy efficiency action plan for Riga city. This plan includes building renovation, transport, street lightning, etc. However, financing of the buildings renovations is an issue which has not been solved within the plan.

Agreements on improving energy efficiency by developing and implementing local authority energy efficiency action plans are implemented since mid-2011. Individual cities have

⁵ http://passregsos.passiv.de/wiki/ESCO_in_Latvia

⁶ http://www.measures-odyssee-mure.eu/topics_out.asp?tipo=Topic&Cod_mr=8&Cod_te=Latvia&stato=completed

developed sustainable energy action plans within the framework of the Covenant of Mayors. However, a clear public sector strategy at national level is not defined.⁷

There is a number of measures aimed at improving energy efficiency in public buildings. Most of them have only been implemented after 2010, so no savings have been achieved yet.⁸

- **Minimum efficiency requirements for boilers**, combined power and heat production equipment and maximum permitted losses in the district heating network are stipulated.
- **The Law On Administration of Residential Houses⁹** - the article 6 of the Law states that the buildings administrators and managers are obliged to provide the minimum energy efficiency measures. However, considering the complex ownership of apartments (nearly all flats are private, but buildings as a whole units are not privatised and often are managed by municipal communal companies), they are not direct interested in energy efficiency and other changes of the situation.

Obstacles to implementation of wide scale retrofits:

- Poor management of residential buildings, lack of capacity and experience of building owners and managers to implement energy efficiency measures.
- Many individual owners of apartments refuse to participate in renovation projects. The level of economic wealth of inhabitants varies and are reluctant to take large loans that would allow to finance deep renovation of residential buildings.
- Lack of regular and information and publicity on necessity to increase energy efficiency.
- Low level of awareness of the importance of the energy efficiency measures among the municipalities.
- Not sufficient technical and financial support for municipalities for project preparation and implementation. In the project implementation phase, several problems can be observed related to low quality technical documentation of the project and problems with ensuring appropriate procurement procedure. This is partially related to the prohibition to include in the eligible costs the project administration costs.
- Insufficient number of professionally trained specialists (building managers, energy auditors, designers, construction workers), lack of qualified workforce.
- Standards for renovation projects don't exist.

⁷ Energy Efficiency in Europe - Assessment of Energy Efficiency Action Plans and Policies in EU Member States 2013
http://www.energy-efficiency-watch.org/fileadmin/eew_documents/Documents/EEW2/Latvia.pdf

⁸Energy Efficiency in Europe - Assessment of Energy Efficiency Action Plans and Policies in EU Member States 2013
http://www.energy-efficiency-watch.org/fileadmin/eew_documents/Documents/EEW2/Latvia.pdf

⁹ <http://likumi.lv/doc.php?id=193573>

Financial framework:

Energy efficiency financing is a crucial issue for inhabitants and local authorities in Latvia, as many of them (especially the largest cities) have heavy heating debts¹⁰.

Annual borrowing by municipalities cannot exceed 20% of their current budget revenue. The accounts of municipalities are monitored by the Council on Control and Surveillance. Sanctions can be taken against municipalities failing to repay their debt. Local governments can also be put under the supervision of the Ministry of Finance, in case of financial problems.¹¹

In order to renovate the building stock, Latvia uses mainly EU Funds, such as the Structural Funds or the Life programme, to finance projects. It also uses programmes launched by the European Economic Area (EEA) and in particular the Norwegian Financial Instrument (NFI). Programmes within the framework of the NFM are implemented through a series of call for proposal.

There were high expectations related to the EU fund for "Increasing Energy Efficiency in Multi-Apartment Buildings from the EU programming period 2014 -2020". However the funding programme has not yet been agreed with the European Commission and big scale renovation of buildings are on hold.

In Latvian national activity 4.2.1.1. nearly 150 million EUR is planned for increasing the energy efficiency of houses. A new stock company "Development financial institution "ALTUM" was created, as the institution proceeding with implementation of current state aid programmes according to governmental mandate. It is responsible for implementation of the given measure/financial instrument. ALTUM shall develop business plan, describing the establishment, principles of works, conditions and terms of the given financial instrument, procedures of supervision of loan repayment and recovery, procedure for co-operation with other financial institutions (credit institutions, investment funds, ESCO, etc.). ALTUM shall provide consultative support for potential beneficiaries and supervise the technical documentation of the energy improvement project (energy audit, technical inspection report, technical project, etc.) before granting

financial assistance to particular beneficiary. The financial assistance is granted to the person authorised by the community of flat owners of multi-apartment building. The described activity of "ALTUM" started in 2015 and will continue until the 31 December 2022.

- **Concrete rules follows to the Activity 3.4.4.1-** "Improvement of Heat Insulation of Multi - Apartment Residential Buildings" of the addendum Operational Programme "Infrastructure and Services" (Cabinet of Ministers Regulations No.284)

Climate Change Financial Instrument¹² (CCFI) - Investment support programme for renewable technologies in heat and electricity production to reduce greenhouse gas (GHG) emissions from municipal and business entities as well as households. The planned support intensity varies from 65 % to 35 % depending on the beneficiary. The investment support

¹⁰<http://bnn-news.com/heating-debts-latvias-largest-cities-lvl-18-7-million-municipalities-lvl-11-2-million-105001>

¹¹ <http://www.oecd.org/countries/latvia/46051679.pdf>

¹² http://www.varam.gov.lv/lat/darbibas_veidi/KPFI/

programme for renewable technologies for heat and electricity production provides financial incentives for public institutions and businesses (excluded from the ETS).

- **Latvian Environment Investment Fund**¹³ - Scope: reducing environmental pollution, promoting the implementation of environmental protection projects and also to increase the capacity of municipalities and commercial organisations in preparation and carrying out of qualitative and effective projects from their idea to realization.

Main barriers to get significant results of energy efficiency measures:

- Shortage of accessible resources and lack of financial incentives for encouraging investment in energy efficiency. Opportunities of attracting financing have not always been fully seized in Latvia. Some of financial instruments, like JESSICA programme, have not been used at all. The investment required in the renovation area is much greater than the available resources thus a serious consideration should be given to how to attract more private investment and to introduce incentives or measures encouraging citizens to become more energy efficient.
- Low availability of a long term financing (up to 20 years) or public financing to cover investments.
- Limited amount of state grants and lack of cheap loans due to budgetary restrictions.
- Reluctance of commercial banks to provide credits for renovation or provide financing on less favourable conditions.
- Low interest of ESCO in risky projects. In a case of involving ESCO the price of service and apartment owners money flow are unclear.
- Debts of building owners for utilities and credit obligations for the purchase of a dwelling, as well as other financial limitations restrict the ability to undertake new obligations or to receive a loan from commercial banks.
- Long investment repayment period for energy efficiency measures which in most cases does not match repayment periods assigned by commercial banks.
- High amortization of multi dwelling building constructions and engineering systems which increase renovation costs.
- Individual tax benefits for energy efficiency improvements are not stipulated. Possible increase of the real estate tax after renovation.

¹³ http://www.lvif.gov.lv/?object_id=460

Energy Efficiency market :

In Latvia the prices of energy are regulated by the state thus it is difficult to speak about real heat service market. ESCO type of financing is slowly developing but until recently, it had to face low awareness and lack of appropriate legal framework, slowing its development¹⁴.

However, **the Operational programme 'Infrastructure and Services'** has been developed. It provides support for the implementation of measures concerning the renovation of multi-apartment houses and social residential building, and is co-financed by the EU Regional Development Fund. The goal is to increase energy efficiency of residential buildings and the efficient use of energy resources. These measures are accompanied by information campaigns and technical support. Multi-apartment buildings whose annual heat consumption exceeds 230 kWh/m² are obliged to improve energy efficiency. Moreover, the new programme "Improvement of Heat Insulation of Multi - Apartment Residential Buildings", for the new EU programming period 2014-2020 started in the second half of 2015.

Citizens still are not convinced about the need to renovate apartment buildings. The apartment owners don't perceive the whole building as their property and are afraid of various financing models for energy retrofits, as well as do not have a knowledge about renovation process and possible technical solutions.

¹⁴ http://passregsos.passiv.de/wiki/ESCO_in_Latvia

Long-term recommendations:

Due to the low incomes of inhabitants (who live in soviet-time non energy efficient flats), weak support of commercial banks, lack of incentives and willingness of flat owners to deal with energy efficiency of houses, it is difficult to draft a long-term recommendations at this stage.

However, during the workshop in Latvia and in the follow-up phase, we will attend to draft long-term recommendations on how to increase the use of financial instruments for energy retrofits.

The answers to key questions addressed during the workshop will be written down in an '**Outcome summary document**' that will be send to all participants. The document will include the following chapters

- What are the barriers for innovative financing in Latvia?
- How to support local authorities in Latvia to stimulate further energy efficiency actions?
- Contact information of speakers and of participants
- Links to further information
- Indication on how CITYnvest can further support

Additionally, we will gather feedback from the events participants via a written questionnaire to be filled in at the end of the workshop to assess the impact of the event. Moreover, on the workshop web page there will be an open text question where participants can write more elaborated feedback until a month after the event.

National Workshop:

Format

The aim of the workshop is to show evidence of innovative financing models that successfully have been applied in different EU Member States with a focus on possibilities to replicate them in Latvia. The main objective of the workshop is to raise awareness of existing innovative financing instruments, to demonstrate inspiring case studies and to brainstorm with the stakeholders on the future of the innovative financing instruments in Latvia and the obstacles that could hinder their development. The workshop will work as steppingstone to stimulate collaboration between stakeholders, to show inspiring and successful examples and to discuss a step-by-step approach.

The event will gather policy makers and practitioners mainly from local authorities but also from regional, national authorities, representatives of financial institutions, investors and other relevant institutions.

The suggested format of the workshop will benefit the participants in terms of :

- Getting an overview of the innovative financing instruments;
- Getting inspired by the presented case studies;
- Networking and exchanging opportunities between the participants and /or with the speakers/experts

Schedule

Location: Riga

Date: 23 February 2016

Time	Topic	Speaker
45 minutes	Introduction	
30 minutes	Presentation of various existing innovative financing instruments +Q&A	
20 minutes	NETWORKING COFFEE BREAK	
20 minutes	Presentation of a relevant case study 1 - EU country + Q&A	
20 minutes	Presentation of a relevant case study 2 - Latvia + Q&A	
20 minutes	Barriers and solutions	
40 minutes	LUNCH BREAK	

1.5 hours	Interactive session on the strategy development	
15 minutes	COFFEE BREAK	
30 minutes	Conclusions of the interactive session	
20 minutes	Development of a local action plan – what needs to be done?	
30 minutes	Closing remarks and conclusions	

National communications multiplier

Name: Latvian Association of Local and Regional Governments

Short description: The Latvian Association of Local and Regional Governments (LALRG) is a public organisation associating local and regional governments of the Republic of Latvia on voluntary basis. It was founded in December 1991. Today, in accordance with the article 96 of the law "On Self-Governments", the LALRG has authority to represent municipalities in the negotiations with the Cabinet of Ministers as the LALRG associates more than a half of all types of municipalities. 117 municipalities are members of LALRG.

Website: www.lps.lv

Other communication channels (newsletters, social media etc.): newsletter