CITYnvest capacity building workshop

Minutes

## Focus country: Latvia, Date and place: 23.02.2016, Riga

## Summary of general sequence and aim of the workshop

The CITYnvest seminar “Exploring innovative financing in energy retrofits in Latvia” was mainly addressed to the Latvian local authorities, financial institutions, investors, ESCOs and policy makers from local and regional level and relevant institutions and it aimed to:

* Raise awareness of existing innovative financing instruments and demonstrate inspiring case studies that could be replicated in Latvian context
* Identify recurrent and potential barriers for innovative financing instruments in energy efficiency retrofitting and brainstorm with participants on the future of those instruments in Latvia
* Identify steps necessary to set up local action plans and implementation of specific actions
* Encourage partnership-building

## Summary of presentations held

All presentations are available on the [CITYnvest website](http://citynvest.eu/content/exploring-innovative-financing-energy-retrofits-latvia-%E2%80%93-inovat%C4%ABvie-finan%C5%A1u-meh%C4%81nismi).

Andris Jaunsleinis, Chairman of the Latvian Association of Local and Regional Governments – Welcome words

The amount of buildings that require energy efficiency measures in Latvia is huge. Thus, there is a big need for cooperation, sharing information, exchanging experiences and best practices between various stakeholders. There is already quite a lot of financial support for the energy efficiency retrofits in buildings. However, there is still a huge demand of best practices, which would facilitate the implementation. It is true, especially in the context of new technologies of heating and insulation, which are becoming more efficient and user friendly.

## Agnieszka Pietruczuk, CITYnvest communications officer – CITYnvest-Increasing Capacities in Cities for Innovative Financing in Energy Efficiency

CITYnvest is a Horizon2020 project, which focuses on innovative financing models for energy retrofits in buildings. The project is active in 5 main areas:

1. We analyse and compare innovative financing models that have already been developed across Europe. Based on gathered data and our experience from pilot regions, we develop guidance materials on financing for energy efficiency renovations of public buildings.
2. We help to introduce innovative financing models in three pilot regions in Belgium (Liège), Bulgaria (Rhodope) and Spain (Murcia).
3. We conduct large scale capacity building programmes. Through a series of workshops we will train more than 650 local authorities and 300 other stakeholders in 10 focus countries (Bulgaria, Italy, Spain, Belgium, Latvia, Lithuania, Romania, Hungary, Austria and France).
4. We monitor investments that have been triggered in the frame of CITYnvest. We collect and analyse data from local authorities in three pilot regions and evaluate our efforts on the ground, which will allow us to determine key success factors and to recommend possible improvements.
5. We promote innovative financing models and share our experience and knowledge.

CITYnvest developed first capacity building materials directed to the local authorities:

* “[Increasing capacities in cities for innovating financing in energy efficiency](http://citynvest.eu/content/review-local-authority-innovative-large-scale-retrofit-financing-and-operational-models)”, which reviews innovative financing and operational models for large-scale retrofits.
* “[Recommendations Decision Matrix](http://citynvest.eu/content/recommendations-decision-matrix-helps-choose-most-suitable-model)”, which contains a set of questions that helps to choose the most suitable financing and operational energy retrofits model.
* “[A guide for the launch of a One Stop Shop on energy retrofitting](http://citynvest.eu/content/guide-launch-one-stop-shop-energy-retrofitting)”, which provides guidance for private and public actors on how to start an energy retrofitting project based on the experience of RenoWatt (Belgium).

## Gatis Sniedzins, Ministry of Economics - The state of art in Latvia in innovative financing for Energy Efficiency

In Latvia, there is a big problem regarding renovations of the properties which belong to business owners or even self-employed individuals. The European Commission considers support provided for renovations of these buildings as giving unfair advantages to the Latvian businesses. Neither the Latvian Ministry of Economics, nor the Latvian Association of Local Governments, agrees with the Commission’s interpretation of the situation.

## Mārtiņš Tīdens, Deputy executive director of Liepaja City - Role of self–governments in increasing energy efficiency

Liepaja city has a long history of renovating buildings and other measures for increasing the energy efficiency. Most of the municipal buildings have been already retrofitted, mainly thanks to the European Funds. The main focus now is on private houses and multi-dwelling buildings. The housing maintenance company of the city of Liepaja plays an active role in this process by engaging with clients and communicating transparently. The most difficult part is always to reach an agreement between the inhabitants. It takes a lot of time, communication activities and informative meetings. This stage is difficult because usually renovations mean increased costs for the inhabitants, which they are not keen to accept. Moreover, in multi-apartment buildings there are always people who are in debt, which has consequences for the whole community.

The city of Liepaja carries out several activities in the area of energy efficiency. Liepaja is involved in the Covenant of Mayors, and this involvement allows to take better decisions. Also, the staff working at the city hall is trained to use the microclimate meters and to heat the water. Furthermore, an accounting system has been developed, the city organizes various events and publishes articles as well as participates in the project [Euronet 50/50](http://www.euronet50-50.eu/index.php/news/view/euronet-50-50max) where school children are taught how to act in a eco-friendly manner.

In conclusion, it is very important to have unified support for retrofits from the management of the city and the local government as well as good cooperation between all stakeholders. Local governments should take into account the interest of heating companies, retrofits yards in parallel to building renovations and search for co-financing opportunities.

## Reinis Bērziņš, ALTUM, EU fund support for housing retrofits, procedure of granting

The main aim of ALTUM is to improve energy efficiency in multi-apartment buildings. The project will only be successful in case of coordinated action of all the stakeholders as the project stresses the quality of the renovations and aims to involve the private sector in financing the retrofits.

The following steps are crucial to implement retrofit projects in the framework of ALTUM support:

1. Apartment owners need to agree on renovations.
2. Renovation projects need to be well planned thus an energy audit is necessary
3. ALTUM will develop a competence centre, which will offer advice to the inhabitants, approve energy audits and asses applicability of the project to the market
4. ALTUM will facilitate obtaining financing from commercial banks and other financing institutions
5. ALTUM will provide grants

The funds provided by ALTUM will be mainly for owners of apartments. If ESCOs would like to obtain funding, it will be done through existing guarantees for businesses.

In the optimistic variant, ALTUM will start operating on the 1st of March 2016, however the most probable is that it will start working as of 1st of July 2016.

## Jean-François Marchand, CITYnvest consortium – Energinvest - Overview of various existing innovative financing instruments

CITYnvest has analysed and compared 24 different innovative financing models. This exercise is summarized in the report “[Increasing capacities in cities for innovating financing in energy efficiency](http://citynvest.eu/content/review-local-authority-innovative-large-scale-retrofit-financing-and-operational-models)”.

**Some elements are common to all of the models:**

* The Program Authority is the public entity or organization that is in charge of the program or that controls the Program Delivery Unit. This is typically a national or regional government, a provincial or local authority or council or a city or municipal council. The Program Authority defines the vision and the program scope including the targeted beneficiaries, the level of ambition, the implementation model and the funding vehicle that is being put in place.
* The Program Delivery Unit is the organization that is specifically set-up to implement and execute the program. It can be a public, a public-private or a private entity/organization, depending on the local capabilities and competencies. Program Authority needs to provide sufficient funds that will enable performance of this entity.
* Beneficiaries

**What’s different in various models?**

* There are **two implementation models**: Separate Contracting Based (SCB) and EPC/ESCO. SCB is a method to implement multi-technique energy efficiency or renewable energy projects, by which each step of the process is dealt with by a separate party (energy auditor, engineering company, installer or contractor, maintenance company) and by which individual projects (e.g. boiler replacement, relighting, isolation, etc.) are executed by separate contractors for each technique. Energy Performance Contracting (EPC) or Energy Supply Contracting (ESC) is a method by which an ESCO (Energy Services Company) acts as a unique contractor and assures all the technical and performance risks of the contract.
* There are **several operational models**, which define how the business is organized and what the relationships between the stakeholders are. Possible models include:
* Marketing
* Aggregation
* Facilitation
* Integration
* Financial advice
* Financing
* Assessment
* There are several possible **funding vehicles**:
* Investment fund: the Program Authority or the Program Delivery Unit setup a public, public-private, public-citizens fund to provide total or partial project financing of the program. The fund can operate on a stand-alone basis, in cooperation with the Program Delivery Unit (PDU) or be integrated into the Program Delivery Unit. In this case, the fund takes on the financial risk of the project.
* PDU financing: the Program Delivery Unit acts as the funding vehicle, providing financing, either through own funds (or the Investment fund) or by packaging external financing solutions into an integrated financing service. In this case, the Program Delivery Unit takes on the financial risk of the project.
* ESCO financing: the ESCO or contractor acts as the funding vehicle, providing financing through either EPC financing or ESC financing. In this case, the ESCO takes on the financial risk of the project. The Program Delivery Unit can support the beneficiary with financial advice and financial engineering services providing guidance and consultancy on ESCO financing for its project.
* Conventional financing: the beneficiaries pack internal (own funds) and external financing (financial institutions, utility funds, etc.) solutions in order to finance his projects. In this case, the beneficiaries take on the financial risk of the project. The Program Delivery Unit can support the beneficiary with financial advice and financial engineering services providing guidance and consultancy on available funding for the concerned project.
* The models also differ depending on **who takes the risk**; is it a beneficiary or a Programme Delivery Unit?

## Ton Overmeire, Energy Fund The Hague – Case Study Presentation

Energy Fund The Hague is an example of using European money in a different way; instead of providing grants, the money is used to develop financial instruments. In that scheme, the money will be repaid and available for reinvestment in other projects.

In 2007, when the works of the Energy Fund The Hague started, no one thought financial instruments were necessary. However, the city of The Hague decided to set up the revolving fund in order to prepare a structure for the new financial horizon 2014-2020. The fund was set up with the support of the JESSICA programme.

Energy efficiency is one of the most logical fields to use financial instruments as there is a huge potential for pay back. However, for the cities, financial instruments should not be a way to make money but a way to reach policy goals.

Presentation of [a video featuring the first loan given by the Energy Fund den Haag.](http://citynvest.eu/content/csi-europe-financial-instruments-action)

**Fund level – key criteria:**

* Clear rules for setting up Financial Instruments. Advice from EIB
* Independent Fund management – the manager decides which projects should be funded. The salary of the manager should be linked to the results achieved by the fund.
* Public & Private investment – Fund allows to attract private money to the city. The city should not fund 100% of the projects.
* Public Investment plan needs to be developed by the local authority in order to define policy goals that should be reached via the fund.
* Revolving equity investments, loans and guarantees.
* Off balance – there is no financial risk for the city.

**Project level – key criteria:**

* Project should be part of an integrated urban development strategy.
* (Partial) profitability or revenue generation potential.
* Eligibility criteria in accordance with ERDF regulations/OP - first project funded via this instrument had to fulfil the eligibility criteria of ERDF and the Operational Programme. However, once the money revolves, next projects don’t need to comply with those criteria.

**Difficulties**

* Ex-ante assessment before establishing the fund – to make sure that this instrument is optimal in given conditions
* State aid rules
* Competitive procurement of fund managers
* Let go of control – the local government doesn’t decide which projects are funded. The fund manager decides on the projects based on the Public Investment Plan.
* Flexibility investment strategy
* Development of project pipeline – ELENA can assist
* Phased drawdown of funds into the FI

## Claudio Rochas, Sunshine project – Case Study Presentation

Providing safe, healthy, comfortable and affordable long-term housing is a challenge. Right now, in Latvia there is high level of housing deprivation and in the multi-apartment buildings, basic services are at risk: piping systems don’t work, roofs leak etc. This problem needs to be addressed in a comprehensible way.

**Barriers:**

* Capital availability
* High cost
* Technical issues
* Debts
* Convincing inhabitants

**The challenge: how can we provide deep renovation?**

150-160 million EUR are available for renovations but more than 4 billion EUR are needed. Thus it is impossible to fund all renovations via grants system.

The grants should be used to:

* Develop an industrial approach to construction
* Lower maintenance and operational costs
* Providing access to financing

The solution is to use energy savings to finance deep renovation.

The Sunshine project aims to match technical needs with the financial component. Sunshine develops standardized programmes and procedures for EPC. 50% energy savings is the minimum target for Sunshine. More information: [www.sharex.lv](http://www.sharex.lv)

## Andra Feldmane, Adviser on entrepreneurship issues, Latvian Association of Local and Regional Governments - Innovative financing for energy efficiency in Latvia: barriers and solutions

Construction workers need jobs but the situation in the regions is not good as there should be more incentives. The utility prices have a big impact on households; they make up a large portion of expenses, which is a concern to inhabitants as they don’t have high incomes. That’s why there is a need to increase employment rates locally.

The renovation programmes shouldn’t only focus on maximum energy efficiency but should also include buildings that only need simple repair works.

In many regions there is a problem with clear definitions of responsibilities and liabilities of energy auditors as well as with untrustworthy construction companies, which should be mentioned on some sort of black list.

Project developers should know various existing models and they should be able to provide written reports on this subject. They should be able to aggregate municipalities as well as financial instruments. Moreover, municipalities need to take a more active role as project developers.

In Latvia, there are no technical standards for retrofit projects thus the owners of the buildings never know what the real savings will be. The costs of project development are not eligible while applying for grants. ALTUM, together with the Ministry of Economics, develops standards for the renovation projects, which would allow inhabitants to take informed decisions on what kind of model they could apply for.

There are 3 elements of the process:

1. technical standard

2. expertise and loans

3. implementation

The quality of the renovation works themselves is also an issue. It is necessary to ensure good quality, not only in the plans but also on the ground.

Another challenge is the fact that small projects are not eligible to benefit from the European Investment Bank or the Junker’s Plan funds thus bundling of investments is necessary. Therefore, the speaker invited Latvian municipalities interested in developing a common platform for energy efficiency to get in touch with LALRG, as the association could play a role of a facilitator in such a project.

## Ton Overmeire, Energy Fund The Hague - Development of a local action plan–what needs to be done?

Local authorities need to understand that financial instruments are not about grants. They allow to attach private money to cities but they should not make money for municipalities but rather allow to reach the policy goals.

The following 4 steps ([illustrated by the animation](http://citynvest.eu/content/financial-instruments-are-not-rocket-science)) are crucial while developing financial instruments:

1. complying with regulations on the EU and state level
2. complying with the state aid rules
3. establishing governance of the financing instrument
4. facilitating technical assistance and developing pipeline of projects.

Technical assistance is extremely important. The difficulty lies in changing the traditional way of thinking. The costs of the project are not important, what is important is the financial result of the project. Investors need to follow projects with more interest rate.

Municipalities need to develop a public investment plan, which will allow to reach the policy goals. However, the decision on concrete projects should be taken by the body appointed to govern the instrument, not by the politicians.

It’s better to start the financial instruments on a smaller scale and grow with time thanks to getting attention and funding from other entities and people.

## Additional presentations: Kaspars Kalniņš, Valmiera City

Local government is responsible for 10% of the buildings in the city. Half of the buildings are maintained by a Valmiera local maintenance company. First renovations were financed by loans from financial institutions. Often, only the facades were renovated thus no energy savings were achieved. A deep and complete renovation should also include renovation of pipes, joints and fittings. However, it is very difficult to receive funds for renovation of sewing lines because it doesn’t lead to energy saving.

Since 2012 there are binding local regulations on renovating buildings. Valmiera city concluded several projects in 2010. The key factor for success is support from the city council.

While renovating multi-apartment buildings, banks require that at least 70% of flat owners agree on renovation and that is very difficult to achieve because renovations increase the costs for inhabitants. Thus there should be a project manager appointed, who would coordinate the works and then there won’t be problems.

## Kristaps Zvaigznītis, Housing preserving and energy efficiency bureau

In Latvia, only a few municipalities are engaged in energy efficiency renovations. On the national level not everything is running smoothly; not only the availability of business models and financing are limited but also the cooperation.

Renovations are more economically justified than the construction of new buildings. There is no need to start from the top level, but from the very bottom: the inhabitants.

How to promote energy efficiency among citizens?

Advertising on social media, meetings events for inhabitants (in the evening), advertising campaigns.

## Ģirts Beikmanis, Housing Association

Cities with high cost of heating are more active in renovations. Housing associations worked with the ESCO model but it’s not easy to convince the inhabitants and the managers of buildings. People don’t trust ESCO thus the project developer has to work to convince them gradually. Another issue is how to include horizontal heating in ESCO model. Horizontal heating allows people to regulate temperature in order to try to save money. Installing meters outside of apartments can be some sort of a solution.

## Summary of the interactive session:

## Moderator: Anda Kursisa, Pasive House LatviaParticipants:

* Timurs Saifiuļins, Riga Energy Agency
* Kaspars Kalniņš, Valmieras pilsētas pašvaldība
* Dzintars Jaunzems, RENESCO
* Ilze Kukute, Swedbank
* Ģirts Beikmanis, Latvijas Namu pārvaldītāju un apsaimniekotāju asociācija
* Ina Bērziņa – Veita, SIA "Salaspils siltums"
* Kristaps Zvaigznītis, Ēku saglabāšanas un energotaupības birojs

The participants discussed the issue of how to promote financial availability for energy retrofits projects. At first, the moderator encouraged each participant to define the biggest problem related to this issue. As a second step, each expert was supposed to suggest a solution to the problem.

Problems mentioned by the experts

* Improved energy efficiency means improved property tax, which is a burden for flat owners.
* From a perspective of banks, there is a need of more reasonable solutions. Local governments need to have a clear view on how to implement buildings renovations and how to maintain and monitor them. That kind of information would help banks to provide loans.
* Lack of sustainable financial instruments, except for grants and loans.
* Cooperation with inhabitants is difficult, not all of them support renovations.
* Need to map the interests of all stakeholders.
* Need to divide project risks from the long term risks.
* Lack of 20-years loans on the market.
* Lack of long-term vision.
* No sufficient cooperation between all stakeholders.

Remarks from the audience:

1. It is not true that property tax needs to increase with renovations. Local authorities have the possibility to wave the tax for a limited period of time.
2. Cooperation with the inhabitants needs to be structural. It is not possible to reach an agreement with all inhabitants. It should be sufficient to have an agreement from 51% of inhabitants.
3. There is always a construction risk but in case of renovations of multi-apartment houses there is also a payment risk. Will people keep paying their bills? Thus it’s very important to share this risk and put it in the right hands and to work with trusted stakeholders. However there is no need for a black list, as banks know very well who they can trust.

Reaction of Ilze Kukute: Currently banks are not able to offer 20 years loans. Currently banks can only ask for guarantees for loans that are given for more than 10 years and banks consider that a serious problem. The banks would like to have shorter terms and they desire flexibility, which means better conditions for clients but now this possibility is limited.

Jean-Francois Marchand’s reaction: Rome hasn’t been built in one day and not every project can be financed immediately. The CITYnvest review of different models features examples that require less than 10-years repayment period. Good, profitable projects and good customers that have debt capacity will receive loans from banks. There is a huge potential and Latvian stakeholders should start with what is possible.

Solutions proposed by the experts:

* Incentives for inhabitants related to the tax on property.
* From the perspective of banks, there is a need to build new houses, which would allow people to buy new apartments more easily. Banks already developed special programmes to build new flats but the municipalities are not using them.
* Better housing policies and improvement of housing maintenance services, including cooperation with inhabitants.
* Development of ESCO market in order to have players who can bear the part of the technical risk of the project and improve the quality of the works. City maintenance companies can become ESCOs by using EPC.
* Establishment of state administrator services to check the quality of energy efficiency.
* Legal possibility to create revolving funds by municipalities.
* Standardization of the projects.
* Launching of a national information campaign to improve the living environment and sustaining residential funds.
* Bring order in existing laws.

Remarks from the audience:

1. Necessity to develop a state development bank. That would allow not to worry about receiving EU funds in the future.
2. Need to push the Cabinet of Ministers to develop a platform for projects of municipalities, which would allow to receive funds from the European Investment Bank.
3. Utility debts need to be established as a priority. If 10% of inhabitants in a building has debts, the building is not able to participate in a renovation project. Thus there is a need to establish a system of debt collection, which would be more efficient than the existing one.
4. Construction works can be done only for 6 months a year. If there are right foundations developed, it’s possible to work all year round.
5. ESCO model can help to convince apartment owners, as then they don’t have to think of the house maintenance any more. It has also solved the problem of low quality of energy audits.
6. It is necessary to attract professional construction companies to the projects.

Reaction of Ilze Kukute: Main problem is that initially the communication was wrong from the side of the developers. Not all the instruments and shareholders were involved. Last year they attacked banks. Developing a working group that would gather all stakeholders could help.

Reaction Jean-Francois Marchand: The main concern for Latvia is multi dwelling residential buildings. Following the example of [Energie Posit’if](http://citynvest.eu/content/energies-posit%E2%80%99if-3) could help Latvian stakeholders.

## Summary of way forward and next steps:

## Mārtiņš Tīdens, Deputy executive director of Liepaja City – Closing remarks

Local governments can always find some bureaucratic excuses not to do something. But finances are available and there are projects that are possible to be realized. A working group, which would allow the experts to come together to share opinions, exchange experiences and discuss future plans should be set up.

## Andris Akermanis, Adviser on Energy Issues, Latvian Association of Local and Regional Governments – Conclusions

No matter how competent project managers are, there is still a big need to attract people to the energy efficiency projects thus awareness-raising campaigns are crucial. Without marketing there is no chance to succeed. LALRG supports the idea of developing a competences centre and hopes that ALTUM will be given the right tasks to absorb existing funds.

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Annexes:

1. List of participants



1. Agenda

