



## ROUND TABLE DISCUSSION ON FINANCING ENERGY EFFICIENCY IN LATVIA



**29. septembrī, 2021**  
tiešsaistē

RoundBaltic apaļā galda diskusija  
**PRIVĀTĀ FINANSĒJUMA PIESAISTE ILGTSPĒJĪGAS  
ENERGOEFECTIVITĀTES FINANSĒŠANAI**

**DAUDZDZĪVOKĻU ĒKAS –  
MILZU POTENCIĀLS VAI  
TIKŠĶOŠA LAIKA BUMBA?**



September 29, 2021

On-line event



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### Disclaimer

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## INTRODUCTION AND PURPOSE

The purpose of the National Round Table discussion is to pursue a dialogue between the main stakeholders in Latvia on how to raise private funding for energy efficiency projects and identify common challenges and potential improvements that could be achieved within the current policy context and business practice. This document includes the programme of the event and the topics discussed. Participation is free of charge. The event is held in Latvian with interpretation from/to English, where foreign experts have been invited to give their presentations and share their experience.

The event is a follow-up to the National Round Table that was held on May 6–7, 2021, and it hosts more than 80 participants, stakeholders from the energy efficiency and financial sector, as well as policy makers.

The National Round Table is held within the framework of the “Smart Finance for Smart Buildings” initiative, which is the broader framework for the European Commission’s Horizon 2020 project “Promoting Smart Finance for Smart Buildings in the Baltic region – Poland, Latvia and Denmark – *RoundBaltic*”. This Regional Round Table is focussed on multi-apartment buildings, since considering the time allotted for the discussion, the idea was to spend it with maximum efficiency to address the problems in a specific sector and search for results, since every sector has a range of aspects. When all sectors are covered in a single discussion, the discourse tends to become quite general, and, therefore, it was decided to dedicate each regional discussion to a single sector. Although the focus was on multi-apartment buildings, in each of the parallel sessions the SMEs and the role of the public sector were also discussed.

The project includes a series of forums dedicated to energy investments with the aim of increasing the resources of public and private stakeholders and tightening their collaboration for developing large-scale investment programmes, one-stop agencies, and financing plans for improving energy efficiency.

The objective of the event is to provide policy makers, government authorities and municipalities with constructive recommendations on how to raise private money for financing sustainable energy efficiency in Latvia.

In Latvia, the *RoundBaltic* project is implemented by the Latvian Environmental Investment Fund in cooperation with its associated partners.

The first Regional Round Table was held on-line and split into 2 parts according to the *RoundBaltic* round table concept: there is a main part followed by 3 parallel sessions. The parallel working group sessions were open for all the interested parties that wished to apply, but, as before, some invited participants, representatives of the field and experts were also hosted. They were not public and were not broadcast on any of the social media like *Facebook*, *YouTube*, or any other. The intention was to give the participants more freedom and security in sharing and discussing issues.

Because of the *COVID-19* pandemic, all the events could only be held remotely in virtual space, and the organizers of the discussion had to adapt the structure and format of the event to make it as effective as possible with an emphasis on the discussion itself rather than listening to lectures or presentations, mindful of the goal of *RoundBaltic* to have a round table discussion for generating new ideas and recommendations that could be discussed further afterwards.

The event convened **125** registered participants from **88** organisations.

## AGENDA

### Raising private funds for financing sustainable energy efficiency

<b>Round Table discussion: Multi-apartment Buildings: a Huge Potential or a Ticking Time Bomb? September 29, 2021</b>	
<p><b>09:45 a.m.</b> <b>10:00 a.m.</b></p>	<p>Participant registration Moderator: Reinis Aboltins</p> <ul style="list-style-type: none"> <li>• Opening of the event. – Gunars Ansins, Administration of the Liepaja City Council, Chairperson of the Council</li> <li>• The EU Regulatory Framework: What Does the Future Hold in Store for Us? – Martins Zemitis, the European Commission Representation in Latvia</li> <li>• Experience of the City of Tartu in Refurbishing Multi-apartment Buildings – Kaspar Alev, Tartu City Council, Climate Specialist</li> <li>• Experience of the City of Liepaja in Refurbishing Multi-apartment Buildings – Martins Tidens, Deputy Executive Director (for property issues)</li> <li>• Plans and Intentions of the City of Riga in the Field of Multi-apartment Building Renovation – Janis Ikaunieks, Riga Energy Agency, Director</li> </ul> <p>Q&amp;A session</p>
<b>11:45 a.m.</b>	<b>Short break</b>
<b>12:00 a.m.</b>	<p><b>Parallel session discussions:</b></p> <p style="text-align: center;"><b>1 Decision-making by the owners of the multi-apartment buildings</b></p> <p>Moderator: Artis Ozolins</p> <p><b>How to organise the housing environment and the management of multi-apartment buildings to stimulate the interest of apartment-owners in building renovation and energy efficiency improvements.</b></p> <p><b>Participants of the discussion:</b></p> <ul style="list-style-type: none"> <li>• Martins Auders, Ministry of Economics, Director of the Housing Policy</li> </ul>

	<p>Department</p> <ul style="list-style-type: none"> <li>• Ilze Kukute, Swedbank AS, Head of the State and Municipal Customers’ Service Unit</li> <li>• Jana Samusa, Board Member of the Association of Management and Administration of Latvian Housing</li> </ul> <p><b>2. Financing modalities and options for the renovation of multi-apartment buildings and upgrading their energy efficiency</b></p> <p>Moderator: Gundars Reders</p> <p><b>Participants of the discussion:</b></p> <ul style="list-style-type: none"> <li>• Gatis Silovs, Ministry of Economics, Head of the Energy Financial Instruments’ Unit</li> <li>• Martins Tidens, Administration of the Liepaja City Council, Deputy Executive Director (for property issues)</li> <li>• Jānis Zalums, Swedbank AS, Head of Corporate Services</li> </ul> <p><b>3 Communication: central government authorities – local government authorities – apartment-owner</b></p> <p>Moderator: Reinis Aboltins</p> <p><b>What is the strategic importance of supporting and motivating apartment-owners to renovate their apartment buildings for national and municipal administrative area development?</b></p> <p><b>Participants of the discussion:</b></p> <ul style="list-style-type: none"> <li>• Girts Beikmanis, Chairperson of the Board of the Association of Management and Administration of Latvian Housing</li> <li>• Martins Zemitis, the European Commission Representation in Latvia, Adviser for Economics</li> <li>• Inga Berzina, Chairperson of the Kuldīga County Municipal Council</li> </ul>
01:45 p.m.	<b>Short break: continuation in the main room</b>
02:00 p.m.	<b>The main discussion topics/insights from each session as presented to all the participants of the event</b>
02:30 p.m.	<b>Closing of the event</b>

## **1. PLENARY MEETING: RAISING PRIVATE FUNDS FOR FINANCING SUSTAINABLE ENERGY EFFICIENCY**

### **INTRODUCTION TO THE PLENARY**

Reinis Aboltins, acting as moderator, offered an insight into the *RoundBaltic* project, its history, and spoke about the importance of the project. He also shared some technical information and gave an overview of the event.

The topic selected was specifically dedicated to raising private money, since private money will clearly be indispensable. Therefore, there is a perceived need for constructive solutions on how to raise private money and channel it into energy efficiency projects.

### **PART ONE: THE CURRENT SITUATION IN FINANCING ENERGY EFFICIENCY IN LATVIA**

#### **PRESENTATIONS**

#### **OPENING OF THE EVENT – GUNARS ANSINS, ADMINISTRATION OF THE LIEPAJA CITY COUNCIL, CHAIRMAN OF THE COUNCIL**

Housing is a topic that has always stood at the very top of the list in Liepaja, and Liepaja is the capital of energy efficiency in Latvia. We should also analyse the risks that lie ahead of us.

#### **THE EU REGULATORY FRAMEWORK: WHAT DOES THE FUTURE HOLD IN STORE FOR US? – MARTINS ZEMITIS, THE EUROPEAN COMMISSION REPRESENTATION IN LATVIA**

Our heritage includes multi-apartment buildings with time running short for fixing them. The targets for the future are becoming increasingly ambitious, requiring a 55 % emissions' reduction by 2030, and zero emissions by 2050. The European Commission (EC) has launched another Fit for 55 package to achieve minus 55 % of GHG emissions by 2030. EC has declared a wave of building renovations, since 40 % of all energy consumption is generated by buildings, and they also produce one third, or 36 %, of the global GHG emissions. Around 85 % of our buildings are old buildings that consume at least 2 times more energy than new buildings. There is a huge investment gap, we mostly rely on EU investment, but we need to think about using public money and funds more effectively. The Energy Performance of Buildings Directive requires at least a 9 % reduction in energy consumption, and a new formula will be introduced to calculate the contribution of each country. The principle is “energy efficiency first”, no matter what. More financial resources will be available compared to the previous programming period. Since there are going to be more funds, we need to think about how they can be used more efficiently? How to make buildings climate-neutral or even climate-positive?

### **EXPERIENCE OF THE CITY OF TARTU IN REFURBISHING MULTI-APARTMENT BUILDINGS – KASPAR ALEV, TARTU CITY COUNCIL, CLIMATE SPECIALIST**

The speaker presented the OpenLAB TARTU project with 3 nine-storey buildings. They are going to be renovated according to the near zero energy buildings (NZEB) standard, including renewable energy, smart home management and a tidy environment easy to access for people with disabilities, etc. One of the project participants is the University of Tartu acting in the capacity of a social research partner.

The project communicates with the citizens in two languages: Estonian and Russian. The cost is estimated at 500 eur/m<sup>2</sup>. The average size of an apartment is 50 square metres. This means that each apartment will have to pay approximately 75 EUR per month at a 3 % interest rate for 20 years. Though the project is certainly highly attractive both cost-wise and aesthetically, even with the funding available the apartment-owners NEED persuading, because of the considerable monthly payments for the dwellers, notwithstanding the incomparable benefits. The project would not be possible without additional support, as the three 9-storey buildings are going to be completely renovated at a cost of about 10 million euros, with 2 million euros financed by the project and 8 million coming from KREDEX, which is a lending institution.

### **EXPERIENCE OF THE CITY OF LIEPAJA IN REFURBISHING MULTI-APARTMENT BUILDINGS – MARTINS TIDENS, DEPUTY EXECUTIVE DIRECTOR (FOR PROPERTY ISSUES)**

Almost 70 % of our citizens live in apartment buildings. The renovation starts with an agreement among the citizens. The municipality launched massive outreach activities in 2010. Also, local government representatives are there to participate at apartment-owner meetings. We pay them for such participation, as the meetings usually take place late in the afternoon.

Meetings require preparation, and all the information must be shared in detail, overhead projectors must be rented, etc.

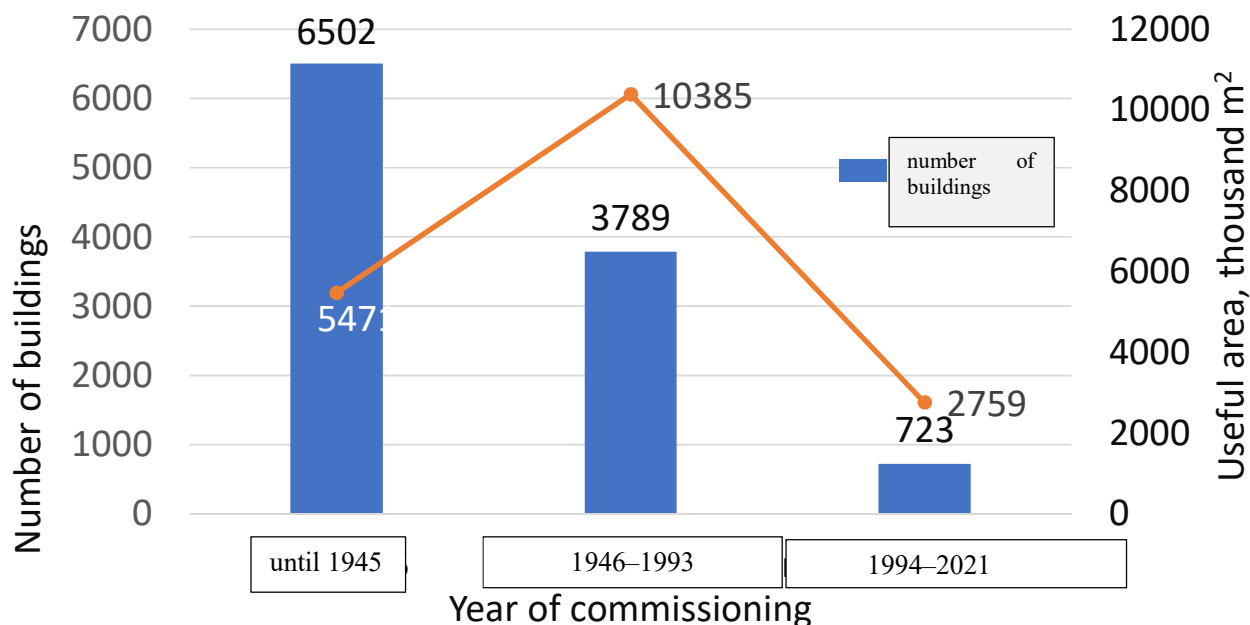
In Liepaja, the occupants of residential buildings have to be persuaded about the benefits of horizontal heating in particular. Management delegation agreements have not always been concluded. In 2007, the City of Liepaja tried to co-finance improvement of buildings and courtyards from its own resources, but now we no longer do it. In Liepaja we still have a long way to go to have all the multi-apartment buildings fully renovated.

### **PLANS AND INTENTIONS OF THE CITY OF RIGA IN THE FIELD OF MULTI-APARTMENT BUILDING RENOVATION – JANIS IKAUNIEKS, RIGA ENERGY AGENCY, DIRECTOR**

Riga has recently been relaunching its building renovation system. It is stated broadly that the housing stock consists of 6,000–6,500 buildings. The average thermal energy consumption is 124.5 kwh/m<sup>2</sup> per year.

The residential housing stock in Riga:





Data from the REA presentation by Janis Ikaunieks.

There are certainly numerous challenges:

- The owners of multi-apartment buildings are unable to arrive at agreements and take decisions.
- Payback times are long, considering the heating tariff.
- The support programmes for housing renovation are fragmented and short-lived and entering them requires complex documentation and lengthy procedures.
- The funds accumulated by the owners of the buildings tend to be insufficient, and debt liabilities often make it difficult to obtain financing for renovation. The implemented energy efficiency measures are not of adequate scope, despite access to a range of EU financial resources.
- There is insufficient capacity in the construction sector for renovating many multi-apartment buildings in a short period of time.

It has been planned to establish REA as a one-stop agency for full-cycle building services in the next period. In addition, we have summarised the investments and project designs required for the renovation of standard-type residential buildings. Most people look at the liabilities incurred and do not think about how much they are going to save after renovation.

Since the last *RoundBaltic* discussion at the National Round Table in May 2021, where the plan to establish an Energy Efficiency Fund was introduced, the Energy Efficiency Fund framework initiative was launched on May 31 under the EC, Energy Cities call for proposals. Though the Fund will not provide all that is required and cooperation with Altum and other financial institutions will continue



anyway, it might be used to raise additional financing for various energy efficiency activities. The EIB has already prepared the ELENA pre-application.

### **Discussions and opinions**

It is confusing that we have plans to renovate only 2,000 buildings in Riga by 2030, when we know that 6,000 buildings urgently require renovation. There is talk about setting up a fund going around, but there is no certainty about it. In neighbouring Lithuania, the new government has planned to renovate 650–1,000 buildings per year, whereas in Latvia the amount of support set aside by the government from the RRB and structural funds for the next 7-year period will cover only about 1,000 buildings. Latvia should have much higher ambitions.

Public private partnership (PPP) is a tool that has not yet been fully explored and could be used for the renovation of the apartment buildings owned by municipalities. This possibility should also be considered. The regulatory framework is available. We should look for private businesses that wish to work with it and earn on it.

### **Conclusions and further recommendations**

- We must provide for financing, which is linear and not cyclical, because not only the project developers are driven to despair, but also the market itself becomes distorted: when there is money from the EC, the builders put their prices up, while as soon as there is no support, things stop altogether.
- In Tartu they have set up a system at a relatively low cost for buildings that are in a very poor condition.
- Liepaja has experience of significant, planned and strategically focused local government involvement and participation in the promotion of the renovation processes of multi-apartment buildings.
- The CFCA points out the importance of considering the PPP model, because the framework is already in place, and it only requires willingness to make it work.

## PART TWO: PARALLEL SESSIONS

### PARALLEL SESSION 1. DECISION-MAKING BY THE OWNERS OF THE MULTI-APARTMENT BUILDINGS

*(THE SESSION WAS HELD ON THE ZOOM PLATFORM AND WAS ATTENDED BY 37 PARTICIPANTS.*

*MODERATOR: ARTIS OZOLINS)*

#### **Participants of the discussion:**

- Martins Auders, Ministry of Economics, Director of the Housing Policy Department
- Ilze Kukute, Swedbank AS, Head of the State and Municipal Customers' Service Unit
- Jana Samusa, Board Member of the Association of Management and Administration of Latvian Housing

#### **INTRODUCTION TO THE SESSION AND ITS OBJECTIVES**

**Successful progress in the renovation of multi-apartment buildings and implementation of energy efficiency measures depends on a series of decisions to be taken by the community of apartment-owners. Although it sounds self-evident, in practice, this is one of the most difficult steps in the process of implementing an energy efficiency improvement project. The reasons are varied: there are differences in the daily routines of the apartment-owners, some of the owners permanently reside abroad, some have higher ability to pay than others, and there is also negligence, indifference, and laziness.**

**The session addressed the issue of decision making by multi-apartment building owners and sought solutions to improve the existing gaps, such as:**

- Key problems for decision making in apartment buildings;
- The owners are not interested and do not understand how far they can go. They lack an ownership mindset regarding their house. Some buildings that require renovation have not been taken into possession by the apartment-owners – the situation must be resolved;
- Apartment-owners should be allowed 2 options: either to manage the property by themselves as a community or to have a manager appointed to them externally.

#### **Key questions and comments during the discussion:**

- Banks need two things for financing apartment building renovation projects: 1) informed apartment-owners; 2) a responsible manager.
- There is a strict procedure regarding the houses that have not been taken into possession by the apartment-owners. There are guidelines to be observed – the guidelines should be simplified to make it easier for the apartment-owners to take over the building.

- One solution is to increase the scope of the manager's rights if the apartment-owners fail to come to a decision on preserving the building's envelope. There is a mechanism for pricing and carrying out vitally important work in the buildings that have not been taken over by the apartment-owners. Things are more difficult in the houses that are in the apartment-owners' possession.
- Even with electronic voting, the procedures, and the time frame for carrying out the activities must be discussed in detail: who prepares the documents for decision-making, when they are posted, how many days before the vote they must be made accessible, what the period of electronic voting is, what the procedures for collecting opinions, writing, and posting the minutes are, and how feedback is made available.
- The older the house, the more money needs to be invested in the running repairs. As a result, any savings will be spent.
- Estonia has an example of using an EU Funds' programme to educate residential housing management associations in housing management matters and train them in project management. We need not reinvent the bike. A similar educational and motivational programme might also be set up in Latvia.
- To facilitate decision making on the part of the occupants of the buildings, the municipality should pay for the "preliminary tasks" required before construction work has started; such tasks would include the complex task of performing the energy audit, developing the technical design project, informing the occupants of the residential houses, and conducting "senior tenant" training.

## PARALLEL SESSION 2. FINANCING MODALITIES AND OPTIONS FOR THE RENOVATION OF MULTI-APARTMENT BUILDINGS AND UPGRADING THEIR ENERGY EFFICIENCY

*(THE SESSION WAS HELD ON THE ZOOM PLATFORM AND WAS ATTENDED BY 31 PARTICIPANTS. MODERATOR: GUNDARS REDERS, LTV JOURNALIST)*

### **Participants of the discussion:**

- Gatis Silovs, Ministry of Economics, Head of the Energy Financial Instruments' Unit
- Martins Tidens, Administration of the Liepaja City Council, Deputy Executive Director (for property issues)
- Jānis Zalums, Swedbank AS, Head of Corporate Services

### **INTRODUCTION TO THE SESSION AND ITS OBJECTIVES**

**In Latvia there are 26,000 buildings that require renovation and an energy efficiency upgrade. Since most of these buildings have suffered from under-investment over the past 30 years, it may not be possible to upgrade their energy efficiency without in-depth renovation. When doing the required in-depth renovation of Latvian multi-apartment buildings, citizens must count with the additional cost. Currently, the European Union's 50 % financial support programme for the improvement of the energy efficiency of multi-apartment buildings is the only facilitating and enabling programme providing for better energy efficiency of the multi-apartment buildings.**

**Although the support is useful, the amount is so small that in the present scenario it will take 175 years to renovate all the buildings in Latvia. The session addressed the following aspects:**

- Available financial support for increasing the energy efficiency of multi-apartment buildings and related aspects.
- The need to raise awareness of the change in attitude required (in relation to the maintenance of property and the associated costs).
- Proposal for an alternative model on how to use the EU financial support.
- Commercial banking experience, challenges, and recommendations to facilitate financing of energy efficiency measures in apartment buildings.

**Introductory presentations for the discussion:**

**Gatis Silovs, Ministry of Economics, Head of the Energy Financial Instruments' Unit**

- The MoE is working with the well-known European Union support programme aimed at improving the energy efficiency of multi-apartment buildings. The programme has been running for 10 years.
- As we look at the good examples, it is true to state that municipal support in persuading the citizens is important beyond doubt. The result is obvious in the municipalities that undertake to do so.
- The MoE underlines that financial support for the renovation of housing from the EU funds is available, has been available and will continue to be available in the future. Financing is available by waves. Unfortunately, we depend on the 7-year budgets – a framework, where funding is allocated for longer support periods. Interruptions in funding indicate that this kind of financial support is in high demand and is being successfully absorbed. Nearly 1,000 project applications have been received for implementation during the current support period. This is no small amount, although we must acknowledge that 26,000 houses in Latvia need renovation and energy efficiency improvements.
- We should not rely solely on EU financial support. Therefore, the MoE has set up a Housing Repairs Loan Fund sourcing loans for non-energy-related renovation and refurbishment of buildings.
- The cost analysis of building renovation leads to convincing evidence that it is economically more affordable to renovate the building than to buy a new home.
- Considering all the benefits, i. e., the monetary savings on the cost of heating and future repairs, the current 50 % financial support programme allows citizens to renovate their buildings without, in fact, paying for them out of their pockets. Unlike in Lithuania and Estonia, financial support for housing renovation in Latvia has so far been estimated in a way that presumes no out-of-pocket payments for the citizens. The MoE's is of an opinion that these are extremely generous conditions.
- There are no plans to change the amount of financial support in Latvia either now or in the foreseeable future, as the 1,000 building renovation project applications that have currently been submitted required a huge amount of persuading and convincing, and it is not yet the case that the occupants are very keen on accepting the support. It will be

recalled that the support is cyclic, but this is how the EU cash flow works, so the MoE will retain their current approach to support.

- Last year, the State Audit Office of the Republic of Latvia carried out a survey on the maintenance of apartment buildings in Latvia: they found that the perception of the citizens regarding maintenance of their buildings needed to be changed and concluded that the building management fees in Latvia were extremely low (0.10–0.20 eur/m<sup>2</sup>). No provisions are made for covering the cost of refurbishment.
- We have ambitious goals, but we cannot abide by the principle that the refurbishment of a building must, under no circumstances, entail additional costs for the citizen, in other words, that all costs will be entirely covered from the savings.
- It must be clearly understood that the financial support provided by the EU is intended for improving the energy efficiency of buildings, and not for their renovation. Therefore, the occupants of the multi-apartment buildings must consider the additional costs in the case of in-depth renovation. This is especially true because the buildings were constructed 40–50 years ago, and very little has been invested in their maintenance over the last 30 years.
- Our *Excel* calculations show that with lower support intensity we could stretch out the money to cover more buildings, but in practice, it would entail higher additional costs for the project implementers, and this would hardly have a significant overall positive effect.

**Martins Tidens, Administration of the Liepaja City Council, Deputy Executive Director (for property issues)**

- With due respect to what has been going on in this field since 2009 and bearing in mind that every beginning is difficult, but also looking at our neighbouring countries, I would like to remind you of the metaphor that we here, in Latvia, behave like “hedgehogs in the fog” [*reference to a popular animation – translator*] tiptoeing through the fog to find our way to the orchard. It seems that the neighbouring countries are starting to see through that fog, and I am slightly afraid of how we are going to compare to each other after the 7 years. It is, therefore, important to seek ways and means of doing things better and faster.
- In Latvia, the need for the renovation of multi-apartment building (improved energy efficiency included) currently exceeds the available funding more than 25 times. Given that the current money is intended for the renovation of multi-apartment buildings over a period of 7 years, it will take 175 years under the present scenario to renovate all the buildings in Latvia that need refurbishing. It is clear that these buildings will hardly be around to see it, as they are already heavily worn out, so alternative financing scenarios must be considered at a much faster pace.
- At a national scale, we need political will to trigger an economic spin-off providing for jobs, demand for building materials, improved well-being of citizens and the country's climate objectives.
- The proposed alternative model is as follows: **instead of allocating grants, the EU funding might be used to subsidise loan interest rates and the loans might be extended to 20–25 years.** This model would slightly increase the project implementation

costs for citizens, but compared to the current (grant) model, where 100 million euros would be spent on renovating 400 houses, the alternative model could provide for the renovation of 1,266 houses (in the case of a 20-year loan period) or 1,010 houses (in the case of a 25-year loan period), which is substantially more for the same amount. The mechanism would have the following advantages:

- Highest efficiency in absorbing public resources
- Use of the loan package for refinancing and obtaining new resources after the buildings have been renovated
- Easier coordination with the European Commission
- Clear prerequisites for housing renovation relating to all the parties involved
- Facilitation of the development of *ESCO* services
- No risky ineligible costs
- Clarity about how to act when the EU funded support period comes to an end
- NO to any financial correction for citizens, since it kills their motivation to engage in housing renovation projects

#### **Jānis Zalums, Swedbank AS, Head of Corporate Services**

- Swedbank has experience with thermal insulation projects for multi-apartment buildings dating back to 2004. The portfolio contains 420 projects for a total outstanding amount of 39.5 million euros. Over the last 4 years Swedbank has provided financing for 128 projects for the total amount of 28.3 million euros.
- The projects are very complex and require considerable investment, especially during the initial period.
- Swedbank has financed projects in all the regions of Latvia.
- There have been many challenges of a diverse nature during the time when the projects were implemented. The greatest initial challenge relates to the unwillingness of citizens to renovate, decision-making and dealing with the documentation. Other challenges include:
  - Lack of knowledge
  - Little support for the establishment of associations
  - Low ability to pay on the part of the apartment-owners
  - Project management capacity and quality
  - Procurement by the contractor, work quality and capacity
  - Huge amount of documentation
- In general, the banks have an interest in lending for such projects and their interest will persist and increase, because if we look at the 128 projects that Swedbank has financed over the last 4 years, the CO<sup>2</sup> emissions that have been saved are equivalent to about 15,000 cars switching from diesel to electric engines. The impact is enormous, so from the point of view of the climate goals, the national effort of promoting the energy efficiency upgrade in the housing sector through renovation must be redoubled.
- Admittedly, grants are very motivating for apartment-owners, but it is not less important for all the stakeholders (the state, the municipalities, and the citizens) to know and understand why and where we want to go and when we want to get there.

#### **Key questions and comments during the discussion:**



- **Question:** The EU funding system that works in cycles has been mentioned today as one of the factors holding back progress. Have there been any considerations on how to counteract the cyclical nature of public financial support? Does the Ministry of Economics have any comments about what should and could be changed?
- **Answer:** We now have a new Altum program – the Housing Repairs Loan Fund. The Housing Repairs Loan Fund was established to provide transitional funding at the times when the energy efficiency programme funding is not available. We should bear in mind that the energy efficiency programme is specifically targeted to energy efficiency improvements, and it has this tempting, huge grant. The Housing Repairs Loan Fund does not use European money; the money comes from other sources and can be given out in loans.
- **Comment:** On the one hand, it is welcome that Altum has launched such a programme, but does the Ministry of Economics really consider that a programme solely for issuing loans can replace a programme of grants covering part of the costs? We know for sure that it is the grant element that puts things into motion. By launching the Altum programme without the grant element we essentially duplicate what the commercial banks have offered and will always offer. Therefore, does the Housing Repairs Loan Fund programme really address the cyclical nature of financial support?
- **Answer:** We must realize that the possibilities for grants are limited. The money for grants mainly comes from the European Union. The Housing Repairs Loan Fund is, indeed, not a substitute for the grant programme. It is used additionally to the grant programme in situations where the commercial banks consider the building too risky for the loan. The essence of the Housing Repairs Loan Fund is that one does not have to wait until the house has accumulated enough money to cover the cost of repairs, because the money for carrying out the required works can be borrowed now and the monthly payments for housing management can be channelled for loan payback.
- **Question:** Does not the State have any instruments for filling the gaps in the energy efficiency programmes, even if the European Union grant funding arrives later.
- **Answer:** There is such a possibility, but “at the end of the day”, the government must collect the money that has been issued in grants. It is very simple: we put 200 million euros of EU money into grants for thermal insulation of apartment buildings. We understand that withdrawing 200 million euros from the state budget is a very painful decision at a time when we are talking about salaries for the medical staff and for the teachers. I would like you to be reminded that residential houses are private property, the government has its priorities and government resources are not unlimited, and I emphasise once again – we are speaking about private property.
- **Comment:** There was a condition in the previous Altum support programme that citizens could choose ESCO for the implementation of their projects. Unfortunately, we know of no projects that have been implemented in this way. Apparently, the terms of the programme have not been acceptable for the ESCO companies. If we were able to create programmes with terms and conditions that prove interesting not only for Latvian but also for international ESCO companies, things would be set into motion.
- **Comment:** With ESCOs citizens will no longer be able to choose between cheap and good. The result will be good, but that means it will not be cheap. Are the occupants of apartment houses ready for higher costs?



- **Comment:** The reality is that the ESCO option has been and will continue to be available. We know that ESCOs works in Western countries. We have also tried to implement the system in Latvia. The first cases have not been successful enough to be used as promoters of the idea that ESCO will now provide the ultimate solution. Citizens feel scared by the long term of the ESCO contract (25 years), so they prefer to use the services of an experienced and good housing manager.
- **Question:** Is there a standardised ESCO contract that clearly defines the responsibilities and obligations of the parties so that there are no misunderstandings during the 25-year contract period? If such a contract has been developed, has it been presented to the homeowners or ESCO companies in Latvia with the result that they have not chosen to respond?
- **Answer:** The contract has been developed and is available. The contract is essentially concluded for a period of 25 years, and it is extremely difficult to withdraw from it afterwards, which is unofficially stated to be the biggest problem. People in Latvia are very reserved about concluding long cooperation agreements with a private company under condition that the cooperation will have to continue no matter what.
- **Question:** What could encourage commercial banks to become more actively involved in the financing of such projects: real estate tax rebates, compensation of interest payments, guarantees?
- **Answer:** The availability of a guarantee would certainly contribute to encouraging bank involvement. Currently, commercial banks have access to guarantees both from the European funds and from Altum. Availability of guarantees would particularly facilitate the involvement of commercial banks in the projects that do not have a grant element in them. As regards real estate tax rebates, they are offered by a few municipalities only. Riga has made them available. To offer such a rebate is a municipality initiative. It would certainly be advisable to introduce the practice in all the municipalities.
- **Comment:** Real estate tax rebate is a good tool and an incentive. Taking a more far-sighted approach, if we do not achieve the climate targets and the municipalities have to buy CO<sup>2</sup> allowances, meaning that high CO<sup>2</sup> pollution levels will cost money after 2030, we are talking here of the “stick” rather than the carrot. A discount on real estate tax enables the municipality to buy the chance of avoid the “stick”.
- **Comment:** Real estate tax rebates already work in Riga, and they are sufficiently tempting, motivating and effective as an incentive. It should be borne in mind, however, that the real estate tax is set by each municipality, and a tax rebate reduces the revenues of the municipality's budget. Like with a grant or a subsidy, the amount that has not been collected must be reimbursed, so somebody must pay for it. Loan maturity extension to diminish the amount of monthly loan payments for the citizens might work as an instrument. It is the only instrument where the money would not come out of a particular pocket with somebody having to reimburse it.
- **Comment:** Be it interest rates, subsidies, grants, tax discounts or state budget financing – it is all money that must be taken out of somebody's pocket, and it will have to go back.
- **Comment:** I am not too optimistic that interest rate subsidies as something that the European Commission will approve very fast. Experience shows that the European Commission takes its time to approve any innovative schemes, but it is, nevertheless, worth looking at the numbers and how it could work.

- **Question:** Looking ahead to 2030, we heard from the European Commission that we must triple the rate of building renovation to achieve our climate goals. Will the funding that is currently available and will be available over the next seven years be sufficient to achieve the objectives set, even if everyone is keen on doing so?
- **Answer:** We currently have 200 million euros available. In the next 2–3 years, we are going to face major changes. Achieving the goals of the Fit for 55 package will require much bigger changes in the way we work. The European Commission understands, in principle, and has clearly stated that the current financial instruments will not be sufficient to triple the pace of renovation and that new financial instruments and new incentive schemes will have to be developed. I have only heard about this as a draft plan, but I can sense that in 2, 3, 4 years' time we shall have clear indications from the European Commission about the instruments available and how we are going to achieve these objectives.
- **Comment:** With the current support mechanism, availability of 200 million euros means renovation of 800 houses over 7 years, or even fewer houses, since the prices in the building sector are going up. And the question is what else we could do to ensure there are more than just 800 renovations throughout Latvia. We need to renovate 400 houses in Liepaja alone. No doubt that coordination with the European Commission is a complex process, but if we come up with a statement that we have a different solution and we can stretch out the 100 million euros to renovate 1,200 buildings instead of 400, it would be an important argument and impact!
- **Question:** Are there any known estimations regarding the initiatives of the European Commission as part of the Fit for 55 package?
- **Answer:** The European Commission announced this initiative only in the summer of this year. The indicative aid amounts will be equivalent to what has already been made available to us. However, achieving the Fit for 55 goals will come at a cost for all of us.
- **Comment:** Once again, I would like to emphasise that we shall have to change the paradigm of our thinking. Our approach so far has been that housing renovation should come with no additional costs for the occupants of the houses. In the future, maintenance of our homes or their renovation will become one of our regular cost items. It will no longer be possible to have our homes renovated and gain energy efficiency at no cost.
- **Comment:** Availability of private funding is not a problem. Banks are willing to lend money for these projects. The problem is that the apartment-owners are reluctant to accept the money without a large grant element. One can create a support instrument to cover 1,000 houses and even 5,000 houses. It is easy to reduce the aid intensity in an *Excel* table and, thus, increase the number of houses covered. The question is whether the citizens are prepared to apply and implement their projects at the higher cost. At the end of the day, the decision whether to renovate the building or not is taken by ordinary people who must vote, and undeniably there are exceedingly many houses that simply refuse to implement these projects in the face of the cost increases. Our goals and wishes are one thing, while the realities are another thing. Experience shows that the crucial factor is whether people are able to pay.
- **Question:** So even if all the citizens wanted to renovate their homes and needed no persuading, there would not be the required amount of support for them?

- **Answer:** We cannot deal with all the repairs 30 years outstanding in a very short time. Miracles do not happen.
- **Comment** Latvia needs a national level fund supported by the European Investment Bank and issuing low interest loans, and a 55 % positive vote should count as sufficient (the Latvian banks as a minimum require a 2/3 positive vote and they have higher interest rates), and the fund must raise private investment.
- **Answer:** This is already the case. Altum issues loans at a 51 % positive vote (it is true, however, that the commercial banks require a 2/3 majority or even higher). Altum already attracts money from the EIB and other financing sources, and what we call Altum money is essentially money that citizens obtain *via* Altum.
- **Question:** In Lithuania, a similar fund with low interest rates and a small number of votes required for decision-making has already been operating for a long time. To mention Altum, the housing property is eligible for an Altum loan only if the commercial banks have refused to provide them with financing. And Altum has not that much money at all. If they managed to establish such a fund with a large amount of money in Lithuania, why have we not established such a fund with a lot of money in Latvia yet? Estonia, too, has had such a fund for a long time, and Lithuania has had it for 10 years.
- **Answer:** Essentially, Altum already operates that kind of a fund. It borrows money from the EIB and on-lends it to its clients. That is true, Altum does not compete with commercial banks and, therefore, we need financing from commercial banks.

### PARALLEL SESSION 3. COMMUNICATION: CENTRAL GOVERNMENT AUTHORITIES – LOCAL GOVERNMENT AUTHORITIES – APARTMENT-OWNER

*[THE SESSION WAS HELD ON THE ZOOM PLATFORM AND WAS ATTENDED BY 16 PARTICIPANTS. MODERATOR: REINIS ABOLTINS]*

#### **Participants of the discussion:**

- Girts Beikmanis, Chairperson of the Board of the Association of Management and Administration of Latvian Housing
- Martins Zemitis, the European Commission Representation in Latvia, Adviser for Economics
- Inga Berzina, Chairperson of the Kuldīga County Municipal Council

#### **INTRODUCTION TO THE SESSION AND ITS OBJECTIVES**

The condition of the multi-apartment buildings constructed during the Soviet era keeps deteriorating in Latvia. Left unattended, these houses will continue to age until they pose a danger to their occupants and become a social problem. Latvian homeowners can apply for financial support from the EU structural funds in the form of a grant for upgrading energy efficiency. This support is available in cycles and in amounts that are sufficient for a small number of homes only. The support, although provided only for energy efficiency measures in the buildings, contributes also towards their repair and renovation, as thermal insulation measures alone are inadequate for significant improvements in energy efficiency. The financial support available in cycles can cover the needs merely of a small number of buildings, but even then, only

**very enterprising apartment-owners manage to accomplish the full project cycle, from idea to implementation. A large share of the apartment-owners addressed cannot, do not and do not want to understand the necessity of renovating their apartment-buildings. To change the perception of homeowners and their paradigm of thinking, there is a need for planned and strategic communication initiated and coordinated by central and local governments authorities. During the session, the following aspects and specific recommendations were discussed:**

- What is the strategic importance of supporting and motivating apartment-owners to renovate their apartment buildings for national and municipal administrative area development?

#### **Introductory presentations for the discussion:**

#### **Girts Beikmanis, Chairperson of the Board of the Association of Management and Administration of Latvian Housing**

- In Latvia, following privatisation (when the tenants became owners) that took place 25 years ago, the apartments have become private property, and if we fail to encourage the apartment-owners to decide on the issues around their properties and make the appropriate changes, it will be difficult to achieve any changes regarding the energy efficiency and renovation of the buildings.
- The houses are in a sad technical condition, the energy efficiency indicators are low and there is a great deal to be done.
- In fact, it is only either the “stick” or the “carrot” that works. The “stick” is unlikely to work, because the young generation can now pack up their bags and leave the country.
- Latvia does not yet have an explicit government housing policy showing where we are headed for.
  - 23.5 % of the Latvian residents live in dwellings that have significant damages
  - Inadequate visual and technical surveying
  - High fire hazards
  - The scale of the necessary investments has not been identified and their economic feasibility has not been assessed
  - The housing management estimates do not include all the necessary repairs because of the cost-cuts demanded by the apartment-owners
  - The construction boards underperform as to the number of surveys carried out
  - Legislation does not evaluate overall causality
- The municipalities, as they consider how to develop their area, should not forget about their historical heritage which importantly includes the residential districts where most of the Latvian citizens reside.
- Solution-focussed communication is required!

#### **Artis Roberts, Deputy Chairperson of the Kuldiga County Municipal Council**

- Supporting and motivating apartment-owners to renovate multi-apartment buildings is strategically important for national and municipal administrative area development because:

- The citizens benefit economically
- Energy efficiency measures help to take care of the buildings and their surroundings, and improve the living conditions for all the people around
- The buildings have a longer lifetime
- Support and motivation contribute to changes in the mindset, the habits, and attitudes of citizens
- Kuldīga has 30 thermally insulated apartment buildings, accounting for about ½ of the multi-apartment buildings in the city. Outside of Kuldīga, there are 5 buildings that have been thermally insulated.
- Projects have been developed and procurement has been carried out for another few houses, but people do not seem to be very active.
- Kuldīga has a large heritage of historical buildings. A historical buildings' rescue programme has been developed. Citizens are very actively involved in this programme. Each year the municipality invests 200,000 euros in the implementation of the programme. The programme does not provide for energy efficiency improvement measures in the classical sense, such as a thermal insulation layer applied to the building's envelope, but the renovation of the windows, doors and the heating systems also leads to energy savings.
- The municipality also finances the operation of a building restoration centre, where citizens can learn how to renovate their historic buildings properly. People use it a great deal.
- The programme for re-vamping the courtyards of multi-apartment buildings, with the municipality financing 50 % of the improvement cost is an attractive municipal support programme of a smaller scale but equally important. The municipality allocates 60,000 euros annually for these purposes covering about 15 projects.
- By working on such small-scale projects citizens gain awareness and confidence that they have the power to come together, agree and do things of public benefit, and that, in turn, motivates them to move onto large scale projects such as the comprehensive renovation of a multi-apartment building and its energy efficiency upgrade.
- This proves that putting things into motion does not necessarily require large amounts of financial support. A great deal can be achieved with a little support for the first steps.
- The success of energy efficiency upgrade projects in multi-apartment buildings depends on the factors listed below and ranked in the following order:
  - The house has an advocate who is willing and able to convince the rest of the occupants
  - The occupants of the house have assurance that the implementation of the project will be of economic benefit to them
  - Functional and visual improvements will be achieved
  - Positive feedback from the neighbouring houses regarding successful implementation of a project
- Reasons for stalling the projects that have been started:
  - Higher monthly costs for the households
  - A sceptical and distrustful attitude towards the project promoters
  - Periodic/cyclical availability of public financial support

- High requirements for fund-raising
- Feedback on an unsuccessful and poorly implemented neighbouring project
- The Kuldīga municipality has plans to give financial support for the development of the technical documentation for apartment building renovation and energy efficiency projects. The planned aid intensity is 50 %.

### **Martins Zemītis, Representation of the European Commission in Latvia. Adviser for Economics**

- First and foremost, communication should be strategic, i. e., our words must match our actions.
- This means that we may not say that climate neutrality in Latvia will be achieved by a certain year if we know that we have more than 27,000 houses to deal with, while our target for the next 9 years is just 2,000 houses. Our communications, therefore, must be credible and proportionate, that is to say, we may not come up with more promises on behalf of our central and local government authorities than they are ready to fulfil.
- At the same time, the citizens of Latvia need a clear understanding of what we want to achieve in energy efficiency in Latvia. The Lithuanians and Estonians have stated very explicitly in their renovation strategies that they are working towards a climate-neutral building sector, or at least Class C energy efficiency in all their buildings to be achieved by 2050. The question in Latvia is currently as follows: Do we have a goal and what is that goal? Is the goal only as big as the European money, or is it slightly more ambitious, though probably less ambitious than in Lithuania or Estonia?
- Renovation of buildings and striving for higher energy efficiency must be seen in a broader context, i. e., not as individual projects that are launched and completed, but as a solution to a specific, topical problem, such as the growing energy cost.
- There should be less technical jargon. Things should be explained in simple words.
- Media have an extremely important role to play. It is very important for the central and local government authorities to identify the media and the respective communicators who engage with these issues to provide an informed and positive analytical background that supports the implementation of energy efficiency measures.
- Regional pride or competition are also good motivators that can be put to use and work well.
- Centres of Excellence encourage citizens to act.
- “Open door” days in the projects that have already been implemented.
- It is important to convey that energy efficiency improvements in the building may lead to beautiful architecture making the city and the environment look more attractive and adding to life quality.
- The social and economic situation of the citizens is not necessarily an obstacle to renovation. There are buildings in Latvia, for example, in the Liepāja Military Port area, where the social and economic situation of the citizens has not been a barrier to renovation. There is much more to be said about such cases to the public.



**Key questions and comments during the discussion:**

**Comment:** The Tukums municipality has binding regulations on supporting citizens to do energy efficiency upgrades in their buildings; the occupants of the buildings where energy efficiency improvements have been under way may additionally receive municipality co-financing for improving their courtyards. It works, but progress is slow. There is a lack of grass-roots level initiatives. Project development, including obtaining financial support from the European Structural Funds, takes so long (2–3 years) that citizens have lost some of their belief in the success of their project.

**Question:** Would it help if we openly told our citizens from the very start that the implementation of the energy efficiency project will be a lengthy process, or would it, on the contrary, discourage people?

**Answer:** Citizens understand that it takes time to implement a project, but, as with all things, there is a limit to patience.

**Comment:** Unfortunately, the laws and regulations are written from a position, also upheld by the media, that the apartment-owners are only responsible for their private property, i. e., the apartment, and not for the whole house. The apartment-owner must feel that the municipality is not indifferent, that it cares about having the building in good order – then the projects are going to work. As long as the apartment-owners do not feel they belong to the house or the municipality, there will be a lot of problems.

**Comment:** Often, a large bill, a leaking roof or an ugly façade serves as a reason to brace oneself and implement these projects. For example, the low thermal energy costs in many municipalities in Latvia do not motivate people to act, because the monetary savings are insignificant.

**Comment:** There is not going to be one solution that works for everyone. Difficult as it may be to work with individual houses, it would be more progressive and far-sighted to work with larger communities, for example, residential areas, because we would have better scaling effects. Financiers are also happier to enter a larger project than a smaller project. We must try to think on a slightly larger scale.

**Comment:** I would like to emphasize that taking care of the building is the responsibility of apartment-owners, it is like the responsibility that we undertake towards the state through participating in an election. We must involve apartment-owners in decision-making. Listen, people, no one in is going to put your hand up and decide for you.

## PART THREE. THE INSIGHTS FROM EACH SESSION AND THE CONCLUSIONS PRESENTED BY THE MODERATORS

### SUMMARY

**The recommendations regarding the tasks that require immediate action are as follows:**



- Encourage active cooperation of all stakeholders, i. e., including the central and local government authorities, without waiting and relying solely on the initiative of the apartment-owners of multi-apartment buildings.
- At the national level, promote education of both apartment-owners and multi-apartment building managers regarding renovation processes and ways and means of raising the necessary funding.
- Through laws and regulations give more power to multi-apartment building managers if the apartment-owners are unable to make decisions on critical repairs in the building.
- Through laws and regulations require higher responsibility of apartment-owners for the technical state and the structural and visual condition of their co-owned building and its compliance with the requirements for energy efficiency.
- At the municipal level, develop publicly available guidelines for a range of joint decision-making procedures by the apartment-owners of a multi-apartment building and draft standardized and compliant model documents (invitations, questionnaires, minutes, etc.).
- At the national level, search for ways to address the cyclical nature of financial support for energy efficiency. Financing that comes in cycles has a significant impact on the pricing of construction work in the period when such support is available, and it is also discouraging for the implementation of energy efficiency improvement projects due to the long process of their development and coordination.
- Extend the loans for energy efficiency improvement projects to a term of 20–25 years, thereby reducing the monthly cost burden on households.
- The MoE will evaluate the possibility of using the EU money for energy efficiency improvement projects to subsidise the interest rate of loans (granting loans with a 0 % interest rate to the owners of multi-apartment buildings for energy efficiency upgrades) combined with a 20–25-year loan maturity period.
- At a national and municipal level, communication must be strategic and genuine, i. e., actions must be consistent with what is said. This means that we should not talk about the climate neutrality goals to be achieved without clearly indicating the sources of the financing required, the actions to be taken and the amount of time their achievement will take. Empty words undermine confidence and discourage action!