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FIRESPOL - Financial Instruments for Promoting Renewable Energy

REGIONAL ACTION PLAN OF LATVIA

Ministry of Environmental Protection and Regional Development

PROMOTING THE USE OF FINANCIAL INSTRUMENTS

ACTION PLAN — PART I

The Ministry of Environmental Protection and Regional Development (hereinafter - MoEPRD) is the leading national regulatory authority in the field of environmental protection and climate change mitigation, regional development planning and coordination, local government development and monitoring. MoEPRD Investment Policy Department is the responsible body of the EU funds for the 2014-2020 programming period planning and implementation monitoring on activities related to the use of renewable energy sources (hereinafter referred to as "RES") in municipalities and on promoting access to funding, particularly in local governments.

MoEPRD Investment Policy Department is engaged in a variety of activities to meet the targets set for the use of RES, including participation in the Interregional Cooperation Programme INTERREG EUROPE project "Financial Instruments for the Promotion of Renewable Energy (hereinafter referred to as FIRESPOL, Project)"¹, which aims to promote investment in the field of renewable energy by developing proposals for the development of legislative and policy planning documents, thereby alleviating obstacles to the development of this sector.

Within the framework of the Project, MoEPRD as a Project partner has set out the following objective:

"To improve other policy instruments by promoting the availability of financial instruments to finance RES projects".

The Action Plan is the main MoEPRD Project document, which draws up a further course of action by learning from and integrating conclusions from the activities carried out in the course of the Project. The Action Plan is prepared based on the **regional self-assessment of Latvia in the field of RES** (hereinafter "the Self-Assessment Report"), the Project activities, the identified examples of good practice implemented by other Project partners, and consultations with national stakeholders.

The proposed Action Plan has been **negotiated and agreed** with different stakeholders, including other ministries responsible for or involved in the development of the field of RES. Action Plan is designed to ensure links to other national planning documents, the timetable for the implementation of the EU funds for the 2014-2020 programming period and the targets set out in the EU funds programming documents (including documents in the framework of the Operational Programme implementation) and RES promotion and development activities in Latvia.

One of the basic documents for the development of the Action Plan was the Self-Assessment Report, which includes an overview of the most common types of RES and their development potential in Latvia, the analysis of the major project developers in the field of RES, as well as the analysis of the funding available for the production and use of RES. The conclusions are drawn from the Self-Assessment Report and considered in the Action Plan:



Latvia has good potential for the development of RES, as the development of RES is a priority for Latvia and the EU, the State policy planning documents have a strong emphasis on the development of the field of RES and energy efficiency, and RES stakeholders are interested in contributing to the improvement of the legal framework for the RES.



A sound long-term policy for the development of RES needs to be ensured, as a stable policy and legal framework is a prerequisite for successful investment in the development of the field. Specific support mechanisms should be provided for the implementation of the RES policy, which could include financial support for implementing RES projects, support for the deployment of new technologies and integrated planning with both energy suppliers and spatial planning experts to ensure the development of RES projects.

¹<https://www.interregeurope.eu/firespol/>



The development of the RES area should also take into account existing challenges regarding the development and financing of RES, including fragmentation of financial support planning between funding planners, funding types and funding providers.



The use of financial instruments would contribute to the development of RES, as current practice shows that RES project promoters finance projects through grants as well as own funding or loans to provide their share of co-financing. Other financial instruments for financing RES are not widespread in Latvia, although green bonds and individual venture capital investments have been created. Financial institutions, including the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), are interested in financing the development of the RES.



The most appropriate financial instrument for the region would be a **blending financial instrument (pooling of grants and loans into a single financial instrument, a higher proportion of the loan against the grant)**, as it provides economical use of EU funds and long-term support to beneficiaries. When introducing a blending financial instrument, one funder could provide both a grant and a loan that is necessary to implement the project. Nearly all RES project promoters have used credit lines in commercial banks, the State Treasury and used grants.



When planning the European Union's structural and investment funds, attention should be paid to promoting the use of RES, for example, by **clearly setting out a mandatory RES component if energy efficiency projects are implemented in municipalities**. This would accordingly provide a significant incentive effect, since the RES component is currently optional in such projects, while interest in energy efficiency projects is high. This would contribute to the use of funding, incl. financial instruments, in the RES sector.



The development of the RES sector requires a **complex solution** since the limited availability of funding is not the only barrier to the further development of the RES. Other obstacles include fragmentation of the regulatory framework in the sector, which is based on system operators and major RES providers, changing environmental requirements, negative public treatment of individual RES projects, inefficient solutions related to the generation of energy, etc. However, under the Action Plan, further solutions are offered concerning the development of funding and financial instruments in the sector.

The Action Plan is drawn up in the light of the INTERREG project guidelines, which set out the information to be provided in the Action Plan, including the policy context and instruments, which will be affected by the implementation of the Action Plan; a summary of the action envisaged and a description of the action, including general information on the action, the sub-actions to be implemented, expected outcomes, actors involved, deadlines, costs and sources of funding.

PART II – POLICY CONTEXT

The Action Plan aims to influence:

	Investments in the Operational Programme “Growth and Employment”
	European Territorial Cooperation Programme
X	Other regional development policy instruments

Policy context

Latvia's planned RES indicator for 2020 is 40%. Following the RES Directive and the approved draft of the current Energy and Climate Plan for 2021-2030 submitted to the European Commission for evaluation, Latvia's RES target is 45% by 2030. In 2017, the share of energy produced from RES in gross final consumption was 39.01%, while electricity – 54.58%, heating and cooling – 54.58% and transport – 2.54%.

Support for the promotion of the development of the RES and the achievement of the investment targets shall be provided by the national authorities in the development of RES policies and binding regulatory enactments, thereby giving possible priorities for energy produced by the RES, for example without restricting electricity transmission in the energy system.

An essential element for the development of the RES is the availability of funding from the state budget, municipality budget, European Structural and Investment Funds (Operational Programme “Growth and Employment” for the 2014-2020 programming period). The main available financial mechanisms for support of Latvia's policy RES are listed below, which include the attraction and use of external financing for financing RES projects.



Emission Allowances Auction Instrument (EAAI). EAAI is a state budget programme aimed at mitigating climate change and ensuring adaptation to climate change. This instrument since 2015 funds projects that increase the energy efficiency of buildings, increase the use of RES, promote adaptation to climate change and implement climate policy.



Climate Change Financial Instrument (CCFI). CCFI was a state budget programme aimed at promoting global climate change prevention, adaptation to the effects of climate change and contributing to the reduction of greenhouse gas emissions. CCFI has contributed significantly to the development of RES and energy efficiency, and the post-monitoring of projects is ongoing.



European Regional Development Fund (ERDF) is the European Structural and Investment Fund, the use of which is determined by the Operational Programme “Growth and Employment” for the programming period 2014-2020. Through funding provided by the ERDF, RES projects are provided by grants and the rest of the project funding needed is financed by financial institutions and/or project promoters' funds. Projects financed by the ERDF help to reduce the impact of climate change, including reduction of energy consumption, increasing the share of energy and heat produced from RES and reducing greenhouse gas emissions.



RES projects are also funded from programmes directly administered by the EU, the administration of which involves the EIB, such as the ELENA programme, implemented in Latvia by the national development finance institution ALTUM, thereby providing funding for the various RES projects.

All above mentioned financial mechanisms for support of Latvia's policy RES have a similar funding model - they all support projects mainly in the form of grants, apart from loans that are used to cover self-funding part, and taking into account conclusions from self-assessment and interregional learning experience gained through the implementation of the Firespol project, this aspect is planned to be changed through this action plan.

Policy instruments affected

When deciding on policy instruments to be affected, the following aspects and information was considered and taken into account:

- existing situation and the key development gaps identified in the **Self-Assessment Report** that were developed within Firespol project and referred to in Part I;
- identified key development activities, that are needed for the improvement of the use of RES and thought financial instruments, identified through Firespol project activities and stakeholder events;
- **best practices** at the Firespol partner countries, that were presented or discussed at the International learning events (including visits), steering committee, etc., as well as possibilities and best alternatives on how to ensure transposition to Latvian programmes;
- possibilities to impact the Investments in the Operational Programme “Growth and Employment” due to current stage of 2014. – 2020. planning period and investments available (including latest re-allocations to remediate COVID-19 impacts on the economy);
- etc.

After thorough analysis of above-mentioned factors and evaluation of the possibilities to impact the Investments in the Operational Programme “Growth and Employment”, it was concluded that due to current stage of 2014. – 2020. planning period and investments available (including latest re-allocations to remediate COVID-19 impacts on the economy according to the Government decisions), new financial instrument programmes for RES stimulation, cannot be included in the current investment programme. (In addition, it must be taken into account that currently already Operational programme has some activities that encourages the use of RES, for instance, activity "Promote energy efficiency in residential buildings" that is implemented through financial instruments and supports RES use as well. This activity is coordinated by the Development Finance Institution ALTUM, that was visited by the project partners during the Interregional event in February 2020 and that introduced partners with this activity.)

Therefore, the action plan will influence other regional development policy instrument, specifically Emission Allowance Auction Instrument.

The Emission Allowance Auction Instrument

The Emission Allowances Auction Instrument (EAAI) is a state budget programme (ongoing, existing state financed long-term programme operating since 2015) aimed at mitigating climate change and ensuring adaptation to climate change. EAAI is financed by **auctioning state-owned European Union Emission Allowances (EUA) and European Union Aviation Emission Allowances (EUAA)**. EAAI is a specialised instrument focused solely on achieving climate policy objectives.

The current strategy for the operation of the EAAI has been approved by the Cabinet of Ministers, Order No. 265, 21 October 2016. According to the agreed strategy, financing of the EAAI should be used to mitigate climate change. The Law on Pollution (Section 32) stipulates that the use of auction revenues shall be ensured by organising public tenders. According to the strategy, EAAI supports projects that are not economically viable without financial support from the EAAI and ensures a ring fencing between other financial instruments. EAAI supports projects in RES and energy efficiency sectors, including innovation and demonstration activities in these sectors.

The current activities of EAAI are based on four components:

- Financing investment projects – 70%
- Financing of technology and process development projects – 5%
- Financing of innovative projects – 20%
- Administrative expenditure – 5%

Currently, the EAAI strategy is implemented by organising calls for project applications and financing project activities, providing funding in the form of grants.

In the light of the knowledge gained during the Firespol project, the action plan proposes to amend this policy instrument, in particular – to change the EAAI operational approach - to allow the use of EAAI funding in the form of financial instruments. The planned form would be a blended financial instrument and it will be a new funding tool for RES projects used in Latvia.

Main benefits from changing policy documents

In the light of the context and objectives of the RES policy and the financial instruments, the Project foresees one action that will contribute to the development, further deployment and use of RES through developing preconditions for the implementation of the RES projects of the EAAI programme to be financed through financial instruments - i.e., the **introduction of new financial instruments in the EAAI strategic document**.

Impact of the Action Plan on policy instruments:

As a result of Action Plan activities, existing funds will be used more efficiently, **more and long-term funding will be provided for RES projects**, and a transition from grants to financial instruments will be made. Changing the EAAI scheme for RES projects by including not only grants but also blending financial instrument, thus ensuring a more effective and wider use of financial instruments. Combining grants with loans will ensure larger funding amount, that also will be available for use multiple times (after pay-backs), thus developing RES sector and ensuring wider instalments of RES; meanwhile maintaining the interest of project promoters in financial instruments and demonstrate a gradual transition to the use of financial instruments.

The implementation of the action included in the Action Plan will lead to **a more effective and integrated approach to planning and implementing development of different funding opportunities in the field of RES**.

Intervention:

The action foreseen in this Action plan, is classified as **type 3 intervention** as it relates to amendments to key strategic documents (i.e. EAAI strategic document), with an aim to integrate the lessons learnt from the cooperation and interregional learning by foreseeing creation of new, never before used measures that will have a positive impact on the ways RES is financed, incl., the use of financial instruments. In each action, the specific transfer of experience and accordantly implemented and planned measures are described. The planned action will achieve a type 3 intervention as it will ensure the change the strategic focus of the policy instrument (structural change).

PART III — INFORMATION ON THE ACTIVITIES ENVISAGED

Based on the Self-Assessment Report and other activities of the Project, the activity of the Action Plan was identified to address shortcomings and to contribute to the development of the field of RES, providing the necessary funding and involving different stakeholders.

The activity included in the Action Plan was identified not only based on the Self-Assessment Report, but also on the **best practices** of other FIRESPOL project partners presented in the interregional learning and exchange of experience, study visits, the reviews of the best practices presented by the Project partners, as well as in the discussions with interregional events' participants and national stakeholder group members. The information and inspiration for new ideas was also gathered through the implementation of the FIRESPOL project tasks – identifying best practices and holding interviews with best practice holders, who also gave valuable insights and helped to identify problems that need to be solved or where are best practice further development potentials.

The action of the Action Plan is identified below.

ACTION — Introduction of new financial instruments in the Emission Allowances Auction Instrument (EAAI) strategical document



The action will ensure the better use of **EAAI** for financing RES projects, as at the time of preparation of the Action Plan, the EAAI is used for grants. This aim will be achieved by changing the strategy of the EAAI and by including financial instruments in EAAI implementation. The particular chosen financial instrument - blending financial instrument - includes the combination of grant and loan, thereby ensuring a gradual transition to the use of financial instruments, as well as ensuring sufficient amount of funding for reaching of the targets of RES sector.



ACTION — Introduction of new financial instruments in the Emission Allowances Auction Instrument (EAAI) strategical document

Intervention type – structural change (Type 3)

Relevance to the project

The activity - introduction of new financial instruments in the EAAI strategical document – was proposed due to the fact that EAAI funding is currently issued as grants, except for self-funding part that is mostly issued through loans (the State Treasury or banks). Therefore, the total allocated funding can be distributed only to a limited number of the projects. Meanwhile national RES targets for 2030 request steady move to climate neutrality and increasing of the RES instalments and use of RES. Therefore, new, sustainable ways on how to multiply funding and the effects must be found.

To ensure the sustainability of the financing available to the EAAI, examples of best practices were analyzed. The cooperation with the project partners allowed to identify best practice provided by the Project partner from **Poland** already using blending financial instruments. Within the example of good practice, households in Poland have the possibility of obtaining a loan for the implementation of RES projects and upon successful completion of the project only part of the loan must be paid back.

The practice MoEPRD learn from is the Lubelskie Voivodeship, Poland, where Czyste Powietrze Priority Program was introduced in order to reduce or avoid emission of dust and other pollutants introduced into the atmosphere by single-family houses. The program provided financing on replacement of old heat sources, window and door carpentry, the modernization, installation of RES. Program provided subsidies depending on the income, however, if the investment costs exceeded 53 000 PLN, additional costs could be co-financed as a loan. The programme supported small installation or microinstallation of RES, producing electricity or thermal energy. The program's financial mechanism was implemented via loan/credit contracts including grants. The funding provided within this program is meant for long term and cost-effective investment.

This practice was presented in the Interregional learning event in Croatia, as well as it was discussed with all the other partners and their stakeholders in the following Interregional events. It was also presented to the local stakeholder group. The stakeholders who deal with the EAAI implementation attended the Interregional events in Poland, Croatia, Germany and Latvia, thus having an opportunity to communicate with the Polish partner about the planning, design and implementation of such programme and projects.

There are also several other best practice examples from Lubelskie Voivodeship that attracted MoEPRD's attention. In particular, these were several RES projects financed by Regional Fund for Environmental Protection and Water Management in Lublin (i.e. Photovoltaic power plant of 400 kW in Rogatka; Photovoltaic power plant of 360 kW in Kicin). These projects were funded by repayable assistance in form of the loan with a low interest rate (2%). The administrative similarity to the Latvian institution managing the RES projects financed from the income from carbon emission trading - Environmental Investment Fund - also made MoEPRD to realise the possibility to implement new RES projects through the financial instruments. However, taking into account the situation that currently financial instruments in pure form of loans are barely attractive to Latvian companies, there might be a need for promotive mechanisms such as combined financial instruments.

After a detailed analysis of this practice and thorough discussions with Latvian stakeholders and other FIRESPOL partners and their stakeholders, it was concluded that a similar approach could also be applied in Latvia, except in Latvian case, the idea should be transferred to a wider extent - allowing to use blending financial instrument when financing also larger and other type of RES projects.

Nature of the action, actions envisaged

In order to implement action - introduction of new financial instruments in the EAAI strategical document - specific sub-actions were identified in order to introduce a similar approach in funding RES projects in Latvia.

Sub-actions to be implemented:

1. Discussion with national partners
The sub-action includes the organization of the discussion with national partners (local stakeholder group, involved institutions) about possible solutions and defining proposals to accordantly modify the EAAI strategical document by foreseeing the use of financial instruments in order to enhance the RES funding market and to complement other already existing policies;
2. Submission of the proposal
The sub-action includes discussion with the responsible party and submission of the prepared proposals on the introduction of the financial instruments in the scope of EAAI strategical document to the responsible party for it to evaluate modifications proposed;
3. Model
 - Development of the proposals for particular implementation models for financial instrument that is best applicable for the promotion of the use of RES in Latvia, taking into account the experience of currently used financial instrument models in other sectors, other countries, and evaluating the best model alternative from a legal and practical point of view;
 - Proposals sent to responsible party.

(These conclusions will be taken into account in the future, when the amendments proposed in the Action Plan will be implemented in practice in the scope the EAAI on financial instruments programming in real projects.)

4. Coordination of the amendments and inter-institutional agreement reaching process
Ensuring that the proposals are included and correctly represented in the document, participation in the inter-institutional agreement reaching process*, including the evaluation of other proposals received from other institutions and reconciliation of the modified document with social partners, ensuring the new amendments are clear to all parties concerned.

(*inter-institutional agreement reaching process is done according to the national legislation, and may require several iterations until the agreement is find);

5. Approval
Ensuring the approval of the proposal in the Cabinet of Ministers (government).



Expected outcome

The expected results of the proposed action are amendments to the EAAI strategical document by introducing financial instrument as one of the funding tools for RES projects (see sub-actions above).



Expected benefits

The proposed measures will include complementing the EAAI strategical document (amendments to the existing strategy) with a new form of financing for RES projects, the blending financial instrument, which

includes a grant and a loan. The use of the blending financial instrument will enable more efficient use of available financial resources, long-term financing and facilitate the transition from grants to financial instruments.

Expected benefits of the implementation of the proposed action and blending financial instrument:

- The principle that **EAAI supports projects that would not be carried out without the financial support of the EAAI** will be maintained, as part of the blending financial instrument is a grant.
- **Economically viable projects are supported**, which will be part of the blending financial instrument - loan.
- The project promoter can receive all the necessary funding for the implementation of the project from **one institution**.
- The project promoter can receive a loan for the financing of the project even in cases **where the necessary loan guarantees are not available**.
- **Reduction of the administrative burden for the project promoter**, since the project evaluation is carried out by one organisation - one institution provides both the grant and the loan.
- **Economical use of financial aids**: the part of the blending financial instrument loan may be used to finance other projects after the repayment of the loan.



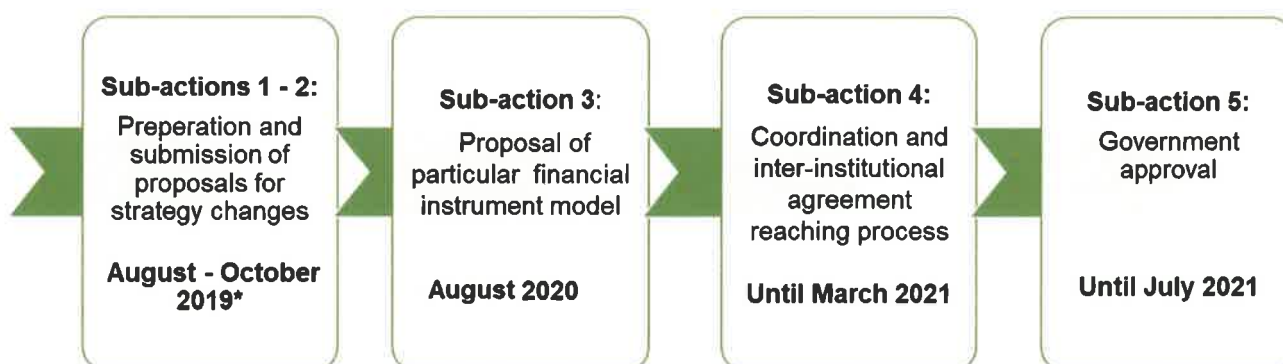
Involved parties

It will be the responsibility of the MoEPRD's Climate Change Department (CCD) to modify the EAAI strategical document. The changes of the existing strategy will include a justification for the creation and use of the blending financial instrument and the definition of the bodies responsible for the management of the blending financial instrument.



Deadline

The activities related to the modification of EAAI strategical document that foresees the introduction of a blending financial instrument are listed below:



* the sub-actions 1-2 had to be done at the end of Phase 1, despite the fact that by their nature they are Phase 2 actions. This is related to the fact that the document was opened for changes in end of 2019, and if the proposals were not sent then, the rest of the implementation of the action plan (starting from June 2020), would not be possible. The proposals were submitted exclusively due to Firespol project (i.e. they would not be done otherwise) and due to the need to implement action plan.



Costs

The costs relate to the time that takes the CCD experts to amend the EAAI strategy in line with the activities included in the Action Plan. The estimated salary costs of staff shall be EUR 6 000.00 (costs of one person-month for two experts and management costs).

The next step will be the detailed planning of the implementation of the EAAI strategy, the implementation of a blending financial instrument will be carried out outside the implementation of the Action Plan.



Sources of funding

The funding source for expert salary is EAAI funding (administrative expenditure) and state budget.

The source of funding for EAAI strategy change will be the state budget. The funding for the management of the grant share of the blending financial instrument is already included in the current EAAI strategy. The funding for the management of the loan part of the blending financial instrument will be provided by the interest received from the loans.

The source of funding for the creation of a blending financial instrument will be revenue from auctioning European Union Emission Allowances and European Union Aviation Emission Allowances. In 2019, for example, it was EUR 147 000. It should be noted that the loans made will be repaid, thereby ensuring long-term funding availability.



General information

The Ministry of Environmental Protection and Regional Development has developed this Action Plan, and its implementation will be coordinated with other line ministries involved in the development and implementation of the RES and financial instruments in the Republic of Latvia.

Project: **FIRESPOL - Financial Instruments for Promoting Renewable Energy**

Partner organisations: Agencia Extremeña de la Energía (Spain)
 Lubelskie Voivodeship (Poland)
 Southern Regional Assembly (Ireland)
 HA Hessen Agentur GmbH (Germany)
 Fond za zaštitu okoliša i energetske učinkovitost (Croatia)

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