Case Study
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Financial instruments and grants combination for energy efficiency of multi-apartment buildings in Latvia

European Commission

European Investment Bank

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Abbreviations

Abbreviation	Full name
AA	Apartment association
CCFI	Climate Change Financial Instrument
CPR	Common Provisions Regulation
CRM	Customer relationship management
EC	European Commission
EEPMB	Energy Efficiency Programme for Multi-apartment Buildings 2016-2023
ERDF	European Regional Development Fund
ESCO	Energy Service Company
ESIF or ESI Funds	European Structural and Investment Funds
EU	European Union
FI	Financial instrument
HOA	Homeowner association
JSC	Latvian Development Finance Institution (Altum)
LIAA	Investment and Development Agency of Latvia
LLC	Latvian Guarantee Agency
MA	Managing authority
OP	Operational Programme
RDF	Rural Development Fund
RRF	Recovery and Resilience Facility
TO	Thematic Objective

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01 Financial instruments and grants for energy efficiency of multi-apartment buildings in Latvia

1.1 Executive summary

This case study presents how financial instruments combined with grants have helped increasing the energy efficiency of multi-apartment residential buildings in Latvia.

The energy efficiency of its residential buildings has been a significant challenge for Latvia with a stock of approximately 23 500 potentially energy efficient multi-apartment buildings[1] to be renovated, many showing signs of ageing and poor structural quality. A crucial issue is high energy consumption, contributing to financial burdens on residents and to environmental degradation.

Latvia's 'Energy Efficiency Programme for Multi-apartment Buildings 2016-2023'[2] has addressed this challenge and encouraged energy efficiency renovations by combining financial instrument and grant support to final recipients. Two financial instruments were initiated under the European Regional Development Fund (ERDF) 2014-2020 Operational Programme (OP) 'Growth and Employment' and managed by Altum, Latvia's state-owned development finance institution. The first instrument is an individual guarantee instrument to secure the underlying renovation loans provided by commercial banks to final recipients. Four major Latvian banks signed cooperation agreements with Altum to provide the underlying loans under the guarantee scheme: Citadele, Swedbank, Luminor and SEB Banka. The second instrument is a loan instrument offered directly by Altum in cases where the final recipient's loan application is declined by the commercial bank. Grant elements were combined with both the guarantee and loan financial instruments in two separate operations to make the support more accessible for apartment owners. To further facilitate the use of the support by final recipients, Altum has been acting as a 'one-stop-shop', being the body implementing the financial instruments and the beneficiary of the grants.

Since the first loan contract in May 2017, a total of 624 projects have been implemented under the 'Energy Efficiency Programme for Multi-apartment Buildings 2016-2023', with 606 completed (comprising more than 18 500 households) and a further 18 still under implementation in 2024[3]. The total eligible costs stand at EUR 308 million, with approved grants of EUR 158 million, guarantees of EUR 70 million and direct loans of EUR 42 million. The programme has demonstrated substantial economic, social and environmental impacts, reducing heating charges, increasing property value, fostering organised environments and contributing to environmental sustainability.

1 Potentially energy efficient buildings with three and more apartments as calculated by the ex-ante assessment in 2015.
2 For more information, visit: https://www.altum.lv/en/services/individuals/energy-efficiency-in-multi-apartment-buildings-2016-2023/.
3 These are financed with ERDF resources under the 2021-2027 programming period.

To ensure the continuity of support to final recipients for their energy efficiency renovations also after the end of the eligibility period for 2014-2020 ERDF resources, the 'Energy Efficiency Programme for Multi-apartment Buildings 2022-2026'[4] programme was launched, which aims to utilise initially EUR 57.3 million in funding from the Recovery and Resilience Facility (RRF). The principles of the support are similar to the initial ERDF co-financed support programme, with the addition of a capital rebate for repayment of part of the loan principal. After the end of the eligibility period for RRF resources, 2021-2027 ERDF programme resources will be used to further support final recipients with the same financial instrument and grant combination under one operation. Latvia's approach of leveraging RRF funds while adhering to the Common Provisions Regulation (CPR) 2021/1060 to enable ERDF resources to be contributed when the eligibility period for RRF finishes, is an example of a long-term strategy to ensure a sustainable support to final recipients, making Europe's multi-apartment buildings more energy efficient.

Funding sources
OP 'Growth and Employment' under the 2014-2020 programming period

Type of financial product
Individual guarantee instrument combined with technical support and investment grant;
Loan instrument combined with technical support and investment grant

Financial size
EUR 201 million from the OP, including EUR 171 million from ERDF (which included EUR 29 million from REACT-EU) and EUR 30 million from national co-financing

Thematic focus
Energy efficiency for residential buildings

Timing of implementation
2015-2023

Partners involved
Managing authority
Ministry of Finance
Intermediate body
Central Financing and Contracting Agency
Responsible authority
Ministry of Economics (Energy Finance Instruments Department)
Body implementing the financial instrument / Beneficiary of grant
Altum
Banks providing the underlying loans
Swedbank, Citadele, Luminor and SEB Banka

4 For more information in Latvian, visit: Energy efficiency of apartment buildings 2022 - 2026 - Altum.

1.2 Key takeaways

The success of Latvia's 'Energy Efficiency Programme for Multi-Apartment Buildings 2016-2023' (EEPMB) lies in its innovative hybrid approach, combining financial instruments and grants. This strategy provides a well-rounded support system for renovation projects, making it an appealing option for apartment owners. Utilising existing schemes, such as commercial banks' lending operations and guarantees, provided a foundation for the programme. At the same time, the introduction of grants during the renovation process adds a unique incentive for final recipients to use the programme.

Learning from past experiences has been a critical factor in the EEPMB's success. Drawing insights from the 2007-2013 programming period, the initiative has evolved with more effective and streamlined processes. New elements such as consultancy, price checking tools, technical supervision and ex-post monitoring were introduced to enhance the programme. This adaptability showcases the importance of continuous improvement in delivering financial support effectively.

The 'one-stop-shop' approach has been instrumental in the programme's success as well. By collaborating closely with the banking sector, the offer has been consistently available and attractive to final recipients without interruptions. At the same time, Altum's internal competence centre, providing technical support and advisory services, played a key role in guiding project applicants through the application process. This seamless access to financial resources has played a pivotal role in encouraging more apartment owners to embark on renovation projects.

The scheme involved a dual role of Altum, acting both as the body implementing the financial instrument and as beneficiary of the grant. This setup created complexities such as distinct internal rules, personnel training and reporting requirements, necessitating significant coordination efforts and specific tools in place. Looking ahead, the transition to a single operation combining grants and financial instruments will streamline the process, enhancing overall operational efficiency.

02 Design of the financial instrument

2.1 Context

Latvia has around 38 600 multi-apartment residential buildings. i.e. those counting more than three apartments, many of which showing signs of aging and poor structural quality. Approximately 23 500 of these buildings have a potential for energy efficient renovation[5]. This is an issue that has long been a concern for both the residents and the government. Overall, investment in housing has stagnated in recent decades and the pace of new construction has remained slow. As of January 2020, only a small proportion of these buildings had undergone renovation, highlighting the significant gap in energy efficiency improvements.

One of the central challenges in these multi-apartment buildings is the high energy consumption for heating, which averaged around 152 kWh/m^2 per year prior to renovation. This not only imposes a substantial financial burden on the residents but also contributes to environmental degradation due to excessive energy consumption. To tackle this issue, owners are encouraged to form homeowner associations (HOAs), which can collectively manage and undertake energy efficiency renovation projects.

The building sector's energy consumption constitutes as much as 40% of the total national energy balance, making it a significant contributor to Latvia's overall energy efficiency objectives. By addressing the energy inefficiencies within the buildings sector, the country can make substantial strides towards its broader energy efficiency targets, reduce its energy-related environmental impact and create a more sustainable and resilient built environment.

However, elevated financing costs, particularly due to high interest rates, have in the past acted as a deterrent for homeowners to engage in such investments. Moreover, when it comes to energy efficiency measures, apartment owners are rather reluctant to implement such projects without grant support. The supply side has also been characterised by barriers in financial accessibility for certain potential investors, specifically those in non-urban regions, small-sized buildings and those managed by individuals with a relatively substantial loan portfolio, despite having economically viable projects. Debt among apartment owners, such as for utility services and/or liabilities of existing loans, was also hindering their capacity to take on new commitments and secure loans from commercial banks.

EEPMB's purpose was therefore to address the diverse challenges in access to finance across the spectrum of building types and locations and ultimately to promote the resolution of the housing issue in Latvia, help to achieve the set climate goals in reducing gas emissions and reduce the level of energy poverty.

5 Ministry of Economics of the Republic of Latvia (2015). Financial accessibility for energy efficiency improvement in multi-apartment buildings. Ex ante assessment.

The financial instruments were implemented by the national Regulation of the Cabinet of Ministers No. 160 with support from the Operational Programme (OP) 'Growth and Employment', priority axis 4 'Shift towards low-carbon economy in all sectors' investment, priority 4.2 'Supporting energy efficiency, smart energy management and use of renewable energy resources in public infrastructure, including the sector of public buildings and housing', specific objective 4.2.1 'Promoting energy efficiency improvement in public and residential buildings', measure 4.2.1.1 'Promoting energy efficiency improvement in residential buildings'. The Regulation of the Cabinet of Ministers was initially approved in March 2016. Subsequently, among multiple amendments, new funding was contributed to the programme in November 2021 by REACT-EU under the specific objective 13.1.1 'Recovery measures in the economic sector', measure 13.1.1.2 'Support for the insulation of multi-apartment buildings'.

2.2 Previous experience

During the 2007-2013 programming period, Latvia had already implemented an ERDF grant programme for energy efficiency investments in residential housing, managed by the Investment and Development Agency of Latvia (LIAA). This initiative resulted in over 740 successfully completed projects, with ERDF funding amounting to EUR 63 million, contributing to improved building conditions and considerable energy resource saving potential.

Experiences from the previous programming period demonstrated the importance of raising awareness and showcasing good practice examples to popularise energy efficiency in buildings. Successful informative campaigns, such as "Let's Live Warmer"[6] effectively increased public interest and understanding of energy efficiency measures. Engagement from the construction industry and the development of new energy-efficient technologies and construction materials were additional positive developments.

However, this prior experience also revealed several significant challenges and obstacles in the path to achieving energy efficiency goals. Notably, financial institutions were often reluctant to finance projects located outside major cities, creating disparities in the distribution of investments. There was also a shortage of construction companies willing to undertake these projects.

Another noteworthy issue was the lack of advisory support, which left project stakeholders without the necessary guidance and expertise. This often led to weak technical documentation posing problems during the construction phase. One of the lessons learnt from these previous experiences was the need of a dedicated competence centre that could provide the required consultations and client support.

Moreover, the procurement process of the construction work was marked by its length and complexity, leading to delays and increased construction costs. Additionally, frequent project amendments due to procurement or other project implementation processes created additional administrative burden, since apartment owners' consent was required each time. Collecting the required number of votes in favour of the investment and later on the implementation of potential changes was often a complicated process, since a two thirds majority vote was needed by regulation. Overall, these lessons learnt highlighted the importance of robust project planning and design.

6 Further information on the campaign can be found at https://www.em.gov.lv/en/lets-live-warmer.

2.3 Ex-ante assessment

The ex-ante assessment[7], which was completed in February 2015, concluded that despite past efforts under the 2007-2013 ERDF grant programme, a significant energy efficiency gap persisted in residential buildings, with only around 6% meeting the required thermal insulation standards. The total financial requirement of energy efficiency investment projects of financially sustainable multi-apartment buildings was estimated at EUR 5.4 billion[8], which corresponded to a funding deficit of EUR 2.9 billion.

The ex-ante assessment identified the following market failures and financing gaps that needed to be addressed:

- **Structural market failures:** The market failures result from the negative environmental impact of multi-apartment buildings, including greenhouse gas emissions. Reducing structural market failures would require the use of funds from the Climate Change Financial Instrument (CCFI)[9], which has not been allocated for this purpose;
- **Suboptimal investment situations:** The owners of these buildings often face challenges in raising sufficient capital for energy efficiency improvements due to the high costs of renovating old structures, long payback periods and limited financial capacity of households. Without financial support, owners may only carry out essential renovations, falling short of government energy efficiency targets;
- **Informational asymmetry and scarcity:** Credit institutions face risks when lending to energy efficiency projects in multi-apartment buildings, making it difficult to evaluate and set interest rates. The main risks are related to the ability of individuals to repay loans, which cannot be accurately forecasted;
- **Scope of projects and transaction costs:** The small average size of energy efficiency projects and the lack of standardisation result in high administrative costs and discourage credit institutions from offering loans;
- **Lack of capacity and experience:** Owners and managers of multi-apartment buildings lack experience in renovation and energy efficiency management. Government support is needed to improve their capacity, potentially through an energy efficiency centre of competence.

The ex-ante assessment concluded that in order to achieve the energy efficiency target for the multi-apartment buildings sector until year 2020, energy efficiency needed to be increased in approximately 1 700 multi-apartment buildings[10]. The total investment costs for the attainment of these targets was estimated at EUR 263 million, for which the financing gap amounted to EUR 57 million.

The ex-ante assessment recommended two financial instrument alternatives: an indirect financial instrument (individual guarantees for credit institution loans) and a direct financial instrument (loans). In order to reduce the payback period of the energy efficiency measures, the ex-ante assessment recommended that the financial instrument should be combined with supplementary non-refundable types of support (i.e. grants and/or interest rate subsidies), that is up to 50% of project costs in case of the indirect financial instrument and up to 35% of project costs when combined with a direct financial instrument. The grant proportions had been defined by the ex-ante assessment, taking into account the maximum regulatory aid intensity thresholds as well as the simulations on the return on investment for different length of project life-cycle and interest rate.

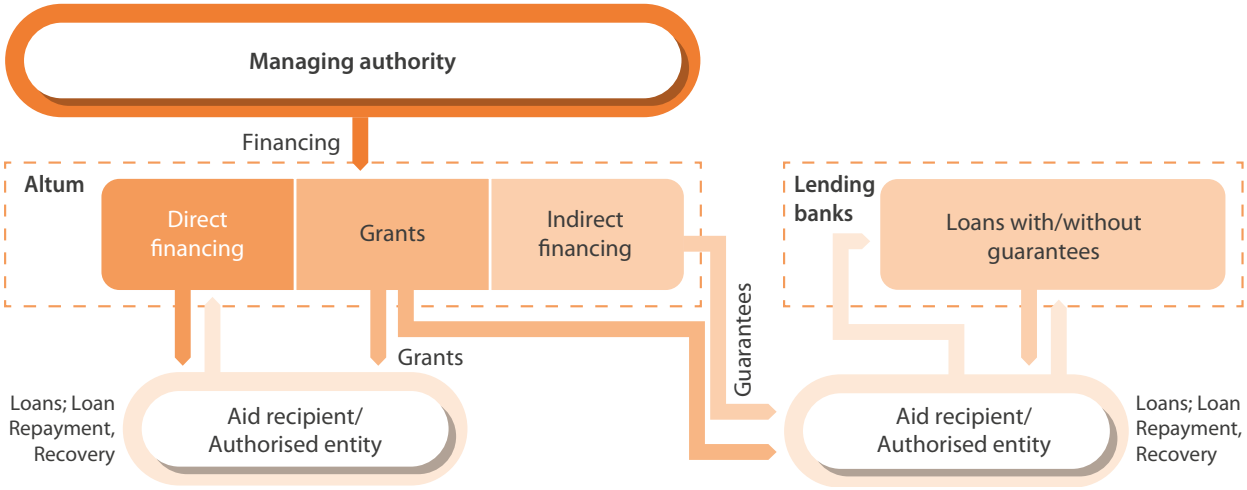
7 Ministry of Economics of the Republic of Latvia (2015). Financial accessibility for energy efficiency improvement in multi-apartment buildings. Ex ante assessment.

8 Taking into account 23 500 multi-apartment buildings with 26 million m^2 area that could potentially be renovated for energy efficiency purposes and 150 EUR/m^2 costs for such renovation activities.

9 The Climate Change Financial Instrument (CCFI) is a state budget programme in Latvia, with the goal of preventing global climate change and adapting to its effects. Administered by the Ministry of Environmental Protection and Regional Development, the CCFI focuses on reducing greenhouse gas emissions through various initiatives, including improving energy performance in buildings, developing renewable energy technologies and implementing integrated solutions.

10 Given that the portion of the energy efficiency target pertaining to multi-apartment buildings is 0.023 Mtoe (263 GWh) and the average heating energy savings per year obtained as a result of renovation of one building are 156 MWh.

Figure 1: Proposed implementation mechanism



Source: Ex-ante assessment

The rationale for the two different paths stemmed from lessons learned in the previous programming period, where financial institutions showed reluctance to approve loans to areas beyond major cities. In such cases, when commercial banks are not willing to provide funding, direct loans would step in. The introduction of the direct financial instrument (loan) was therefore regarded as essential to foster a more equitable development across Latvia, ensuring that multi-apartment building owners throughout the entire country have access to financial resources that are suitable for their needs.

2.4 The financial instruments initiated

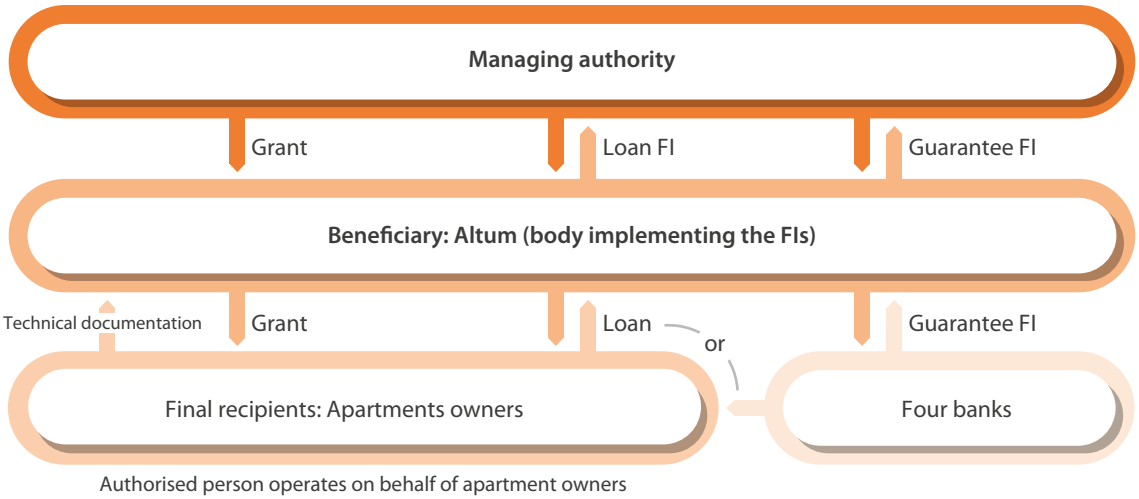
Following the recommendations of the ex-ante assessment, the EEPMB initiated by the managing authority consisted of two financial instruments:

- an ERDF-backed individual guarantee instrument, to secure the commercial loans provided by the banks; and
- an ERDF-backed loan instrument offered directly by Altum, in cases where the loan application is declined by the commercial banks.

To make accessing the support instruments more convenient for the apartment owners (or HOA / apartment association (AA) operating on their behalf), alongside the financial instruments, the managing authority decided to include grant elements under the programme, following the recommendations of the ex-ante assessment, to be channelled through the body implementing the financial instruments to the final recipients. These grant elements included both investment grants as well as technical support (i.e. consultations and expertise – including for the preparation of the technical documentation – provided to the final recipients via a dedicated competence center).

Figure 2: The design of the financial instruments and grants

ERDF FIs and grants for energy efficiency in multi-apartment residential builings in Latvia 2014-2020



As the combination of the financial instruments and grants is structured in two separate operations at the level of the final recipients (according to Article 37(8) CPR 2014-2020), Altum plays a dual role as:

- body implementing the financial instrument for the loan and guarantee instruments;
- beneficiary of the grants provided by the MA, which Altum further provided in the form of smaller scale investment grants as well as technical support to final recipients.

2.5 Timetable for set-up and implementation

Table 1 below provides the timeline of the key set-up and implementation steps of the financial instruments and the grant elements.

Table 1: Set-up and implementation timeline of the financial instruments

Time period	Actions taken
February 2015	Ex-ante assessment completed
September 2015	Evaluation of the Latvian proposal for financial instrument and grant use for energy efficiency in residential buildings in the 2014-2020 period, undertaken by the EC
March 2016	Approval of the national Regulation of the Cabinet of Ministers (No. 160)
September 2016	Signature of the Funding Agreement for the financial instruments between the intermediate body and Altum
September 2016	Signature of the grant contract between the intermediate body and Altum
September - November 2016	Signature of Cooperation Agreements with commercial banks
May 2017	First disbursement of a loan to final recipients
November 2021	Approval of the amendment of the national Regulation of the Cabinet of Ministers No. 160 introducing REACT-EU to the EEPMB
July 2022	Approval of the national Regulation of the Cabinet of Ministers (No. 460) introducing the new energy efficiency programme for multi-apartment buildings 2022-2026 using RRF funds
October 2023	Approval of the amendment of the national Regulation of the Cabinet of Ministers No. 160 introducing the second stage of implementation of the EEPMB using ERDF 2021-2027 funds
October 2023	Amendment of Funding Agreement with budget increase
December 2023	End of eligibility period for the EEPMB

15.4 °C ε1.00 22
19.0
17.5
16.0
14.5
13.0

03 Set-up of the financial instruments

3.1 Governance structure

The two financial instruments are managed under the responsibility of the ERDF managing authority for the 2014-2020 OP 'Growth and Employment', the Ministry of Finance (via the Central Financing and Contracting Agency as intermediate body) in collaboration with the responsible authority, the Energy Finance Instruments Department within the Ministry of Economics.

The managing authority has entrusted Altum as the body implementing the financial instrument in line with Art. 38(4)(b)(iii) CPR 2014-2020, which allows the implementation tasks to be awarded directly to a publicly owned financial institution that strives to achieve objectives of public interest in the Member State.

Altum

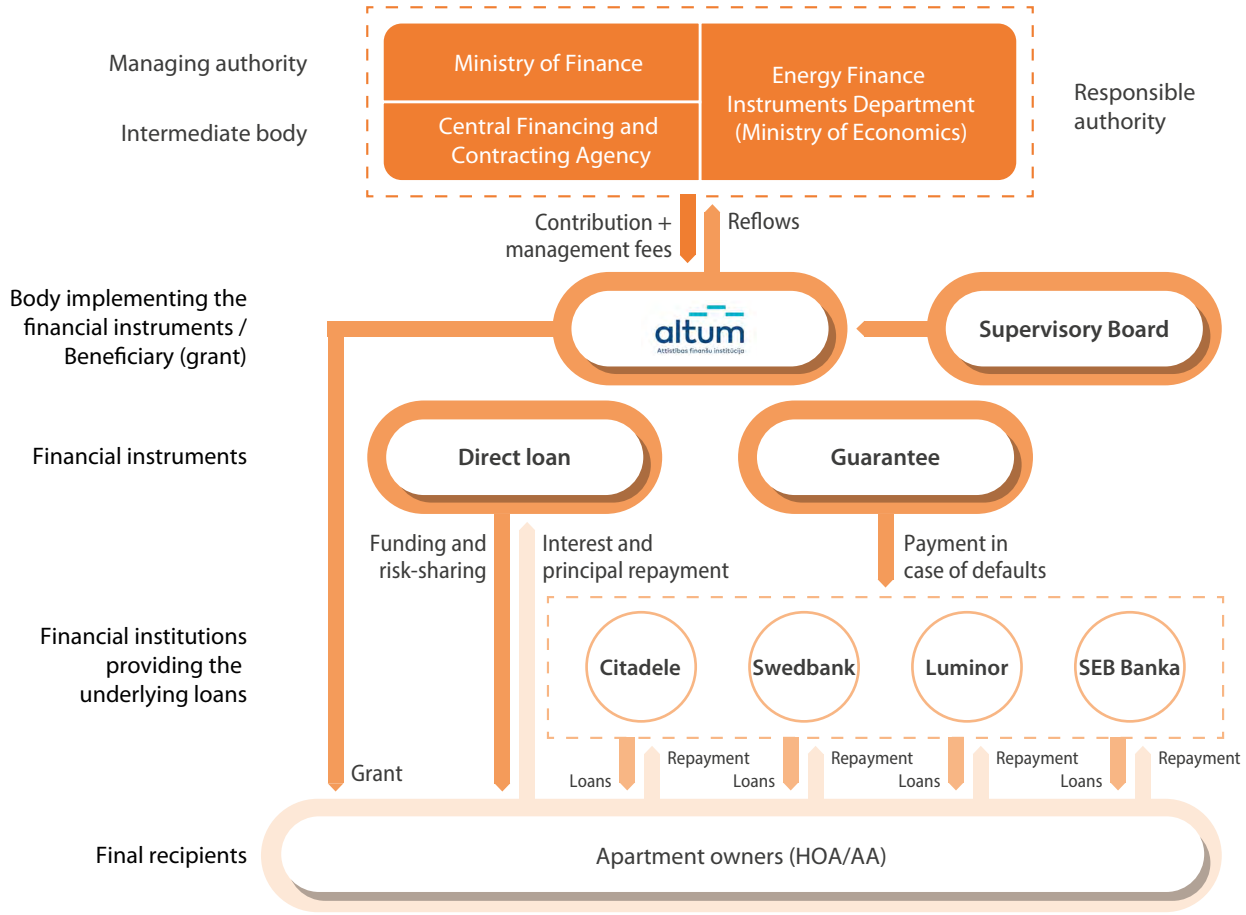
Altum, officially known as JSC "Development Finance Institution Altum", is a state-owned joint stock company established on 27 December 2013 by a directive from the Cabinet of Ministers of the Republic of Latvia. It is a national-scale development and finance institution acting as a 'one-stop-shop' for financial instruments and responsible for implementing various support and development programmes in Latvia. Altum is wholly owned by the Latvian state, with the Ministry of Finance holding a 40% stake and the Ministry of Economics and the Ministry of Agriculture each holding a 30% stake.

Altum's establishment occurred in two stages, involving the consolidation of three state-owned institutions: JSC "Latvian Development Finance Institution Altum", LLC "Latvian Guarantee Agency" (LGA) and JSC "Rural Development Fund" (RDF). The resulting entity, Altum, took over all rights and obligations, including contract commitments with clients and partners of the predecessor institutions, to create a unified financial institution with a new name. Altum's predecessor institutions have a history of implementing support and development programmes to support businesses and residents in Latvia, dating back to 1993. It has implemented financial instruments since 2000, including those funded by EU programmes since 2005.

The decision to designate Altum as the body implementing the financial instruments as well as the beneficiary of technical support and investment grants stemmed from the desire to establish a unified 'one-stop shop' capable of offering comprehensive support within the ERDF OP. Previously, the management of grants and guarantees was distributed among different entities, leading to a less efficient approach. With Altum's incorporation of LGA and its existing capacity to provide loans, consolidating the management of grants and guarantees under Altum aimed to streamline the process and align with the goal of creating a singular, comprehensive support agency. This approach allowed Altum to administer the grant portion with a commercial mindset, offering a more effective process compared to an administrative approach used by agencies. Additionally, Altum's unique capability to attract additional funding for financing loans further solidified its suitability for the role.

The Funding Agreement for the financial instruments as well as the grant contracts were signed between Altum and the Central Financing and Contracting Agency as intermediate body within the Ministry of Finance.

Figure 3: Implemented governance structure



3.2 Financial size and payments

The EEPMB was financed under the OP "Growth and Employment" 2014-2020 with EUR 170 million from ERDF and EUR 31 million from national co-financing. The total funding was divided into two pots and provided under two separate operations, one supporting the financial instrument with a size of EUR 37 million and the other allocated to the grant component amounting to EUR 164 million. Taking into account the amount set aside for management fees, the available funding amounted to EUR 193 million (of which 85% from ERDF). The schemes were designed in a way that unused grant amounts would be used for the financial instruments. Initially, a decision by the Cabinet of Ministers together with an OP amendment was necessary to carry out the transfer between the different forms of support. However, as of September 2023, a flexibility clause has been included in the Cabinet of Ministers regulation, enabling such transfers without the need for specific decisions each time.

Table 2: Funding sources and amounts

	Funding source	Amount
Financial Instruments	OP "Growth and Employment"	EUR 37 million
	out of which from ERDF	EUR 31 million
	out of which from national co-financing	EUR 6 million
Grants	OP "Growth and Employment"	EUR 164 million
	out of which from ERDF	EUR 139 million
	out of which from national co-financing	EUR 25 million
	Total	**EUR 201 million**

Payments to the financial instruments, in line with Article 41(1) CPR 2014-2020, were made in tranches and were linked to disbursements to final recipients. Accordingly, the funding agreement defined the following payment schedule:

- The first tranche of 25% of the ERDF contribution was paid after the conclusion of the funding agreement;
- The second tranche, for the next 25% was due once at least 60% of the first tranche had been used[11];
- The third tranche, for the next 25% was due once at least 85% of the first two tranches has been used;
- The fourth tranche, for the last 25% was due once at least 85% of the first three tranches has been used.

The schedule for submitting payment requests under the grant contract involved initiating the first request for advance payment after Altum had established agreements with authorised persons for a grant exceeding EUR 1 million. Subsequently, the following request for advance payment was made after agreements for a grant amounting to at least 80% of the pre-paid advance had been concluded. Interim payment requests were mandated to be submitted at least once every three calendar months throughout the project, within one month following the respective period's conclusion. The last payment request was due within one month after concluding the eligibility period (i.e. by 31 January 2024).

11 'Used' means funds have been allocated to cover possible losses of financial intermediaries corresponding to amounts disbursed to final recipients or used to pay management fees.

3.3 Selection of banks providing the underlying loans

As stated in the regulations of Cabinet of Ministers, any commercial banks, credit institutions, international financial institutions or an alternative investment fund could participate as financial institution providing the underlying loans, without the need to go through a selection process.

Financial institutions that wanted to get involved had to sign a bilateral cooperation agreement with Altum. The first cooperation agreement was signed in September 2016 by Citadele. In the end, all major banks operating in Latvia (i.e. Citadele, Swedbank, Luminor and SEB Banka) have signed the agreement between September and November 2016.

3.4 State aid[12]

Compliance with State aid rules has to be assessed at all levels involved in the implementation, such as the body implementing the financial instrument, the entities authorised by final recipients and the final recipients themselves of the financing.

At the level of the body implementing the financial instrument, Altum provided both direct loans and guarantees for the loans from the financial intermediaries. Altum's role is to fill market gaps and its services are understood to be aligned with the market situation. All public funding received by Altum was fully transferred to the final recipients, the owners of the apartments.

The entities authorised by apartment owners, such as unions of apartment owners or house managers (HOA/AA), were considered service providers in the projects. They received payment for their services but may not be viewed as final recipients, as they acted on behalf of apartment owners, who ultimately repay the loans from their funds.

The final recipients of the instruments were the owners of the multi-apartment buildings. Most multi-apartment buildings have a mixed ownership structure, with the majority of owners being natural persons residing in the apartments they own. In cases where the apartment owners reside in the units they own, it is not considered a State aid issue. Some apartments are owned by the State or municipalities. Renting them is seen as a means of providing housing assistance, which does not constitute State aid. However, apartments owned by legal entities are subject to State aid (i.e. *de minimis* aid[13]). If the owner of the apartment is not eligible for *de minimis* aid, co-financing is required. At the final recipient level, the de minimis support received may be cumulated with other de minimis aid, even for the same type of eligible cost. However, the combined aid should adhere to the relevant maximum support intensity for the support unit or cost item, ensuring that it does not exceed 100%.

12 It is the Member State's responsibility to ensure compliance with State aid rules when they give aid through financial instruments (co-) financed by EU shared management funds. This section presents the State aid regime adopted in Latvia and is not an assessment or official position of the European Commission.

13 Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid.

3.5 Monitoring and reporting

Altum and the managing authority employ a multifaceted monitoring approach encompassing financial, performance and risk management, in addition to regular reporting.

Financial monitoring involves systematic reviews of financial data and transactions to ensure the appropriate use of funds. Simultaneously, performance monitoring assesses whether projects achieve their intended goals and objectives. The monitoring period extends for two full calendar years from the final payment date, during which the authorised person submits an annual report on energy consumption. Risk management is an ongoing process, with Altum and the managing authority proactively identifying potential risks that could impact project success and implementing actions to mitigate these risks.

The assessment of loan or loan guarantee applications involved rigorous verification against the eligibility conditions by Altum, as outlined in the financial instruments' Investment Strategy as well as Altum's own internal policies. This monitoring included checks for factors such as final recipient size, tax debts, undertaking in difficulty, project costs and adherence to aid cumulation rules. Importantly, the loan and guarantee agreements explicitly grant Altum, as well as duly authorised national or EU institutions, the right to conduct necessary checks as per applicable laws and regulations.

Regular reporting is a key component, necessitating both the managing authority and Altum to provide periodic reports to relevant authorities, outlining project implementation status, financial expenditures, and achievement of performance indicators.

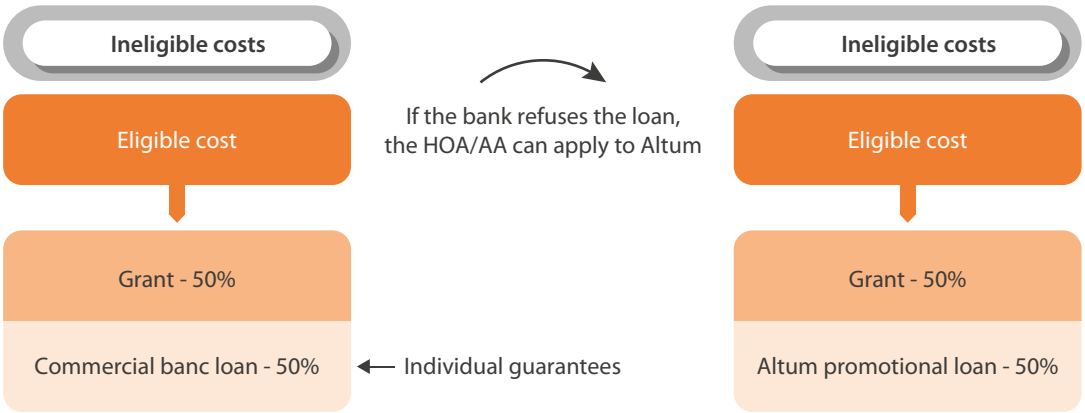
A robust reporting infrastructure established by Altum allows to systematically register and store data in IT systems for all programme participants and final recipients. The key systems put in place encompass a centralised operations management and accounting system, an IT oversight of the loan agreement and guarantee terms, a customer relationship management (CRM) system and a data warehouse for storing historical, reporting and analytical information.

04 Implementation of the financial instruments

4.1 Terms and conditions of financing

The product offering included an individual guarantee instrument and a loan instrument providing lower interest rates. The guarantee instrument operates as an individual guarantee with a maximum guarantee rate of 80%. Initially, the instrument had been launched with 0.65% guarantee fee throughout the entire duration of the guaranteed loan, but it was reduced to 0% for the first five years in order to compensate for the challenges of the energy crisis. The loans finance 50% of the eligible project costs. The financial instrument could be provided only when there is a grant component, amounting to the other 50% of the eligible project costs. This way the grant and the loan could finance up to 100% of the total eligible project costs.

Figure 4: The product offering



In addition to the two financial instruments, the programme offered valuable project development assistance to HOA/AA. For that purpose, Altum established a dedicated competence centre staffed with project managers who provide guidance and advice to HOA/AA, ensuring that the technical documentation meets the necessary standards. To further support project development, Altum provided an online tool for payback calculations, aiding both final recipients and banks in a coordinated manner. Altum also offered assistance in selecting and procuring the construction company.

This technical support service was provided to HOA/AA free of charge and is funded by ERDF, amounting to EUR 7 million. The service can be viewed as a distinct, supplementary grant operation available to final recipients. Importantly, HOA/AA retained the flexibility to decide whether to proceed with the project and financing after receiving the technical support, with no obligation to reimburse the costs incurred during the process.

The proposed energy efficiency measures may not be cost-effective for several scenarios, encompassing approximately 30% to 40% of houses in Latvia. These include buildings with initially low heating energy consumption but high renovation expenses, buildings showing significant wear in building structures and utility systems (i.e. those constructed before 1941), posing significant risks of accidents and requiring substantial capital investments. Additionally, buildings with a limited number of apartments that incur high renovation costs per building square meter, and those with unique renovation and energy efficiency improvement requirements, such as national and local cultural monuments, are expected to face cost-effectiveness challenges under the proposed measures.

Therefore, eligible buildings must have a minimum of three apartments and adhere to ownership restrictions. In buildings with at least five apartments, one apartment owner should own no more than 20% of the total number of apartment properties, or in an undivided multi-apartment residential building, 20% of the assumed share of the common property. In buildings with three or four apartments, such ownership by one apartment owner should not surpass 49%. However, these restrictions do not apply to apartments owned by the state or municipality or to social houses owned by specific associations or foundations.

The programme also set specific project requirements, which include stringent energy efficiency standards. After renovation, the heating energy consumption in the building must be lower than 90 kWh/m^2 per year. There are defined methods for calculating energy efficiency, and post-renovation control and verification processes are in place. Additionally, the financial viability of projects is assessed through an economic analysis, with a positive internal rate of return over a 35-year period. The total indebtedness of the multi-apartment residential building due to utility bill payment arrears, attributed to services such as management, waste management, heat supply, water supply and sewerage services related to the utilisation of the apartment property, should be below 10% of the aggregate invoices for these services during the previous year.

In addition, in case of the guarantee instrument, the respective commercial bank must certify that the repayment period is not less than 10 years, and there is a preferential fixed interest rate or a constant part of the interest rate (in case the interest rate comprises both fixed and variable components) for a duration of at least 10 years. As a result of such requirement, it can be ensured that the benefit of the guarantee is transferred to the final recipients in the form of reduced interest rates and longer maturity.

The eligible final recipients were apartment owners, or HOA/AA operating on their behalf. In case of HOA, the credit quality was evaluated based on the building's collective financial performance (including overdue payments for utilities, such as heating) rather than assessing individual members within the HOA. Consequently, loans were extended to the HOA, which assumes the responsibility of collecting payments alongside utility bills from apartment owners. In many cases, an authorised representative for the HOA was a corporate entity, such as a syndic or a municipal heating company, acting on behalf of the HOA in various financial matters.

Table 3: Product key characteristics

	Loan instrument	Guarantee instrument
Loan amount	No maximum limits	Max. EUR 3 million guaranteed
Preferential interest rate	Fixed at 3.5%	n/a
Guarantee rate	n/a	Up to 80%
Guarantee fee	n/a	Free of charge for the first 5 years, 0.65% for the remaining period
Maturity of the loan	Up to 20 years	
Eligible final recipients	Apartment owners, or HOA/AA operating on their behalf	
Grant amount	50% of the total eligible project costs	
Eligibility period	Until 31 December 2023	

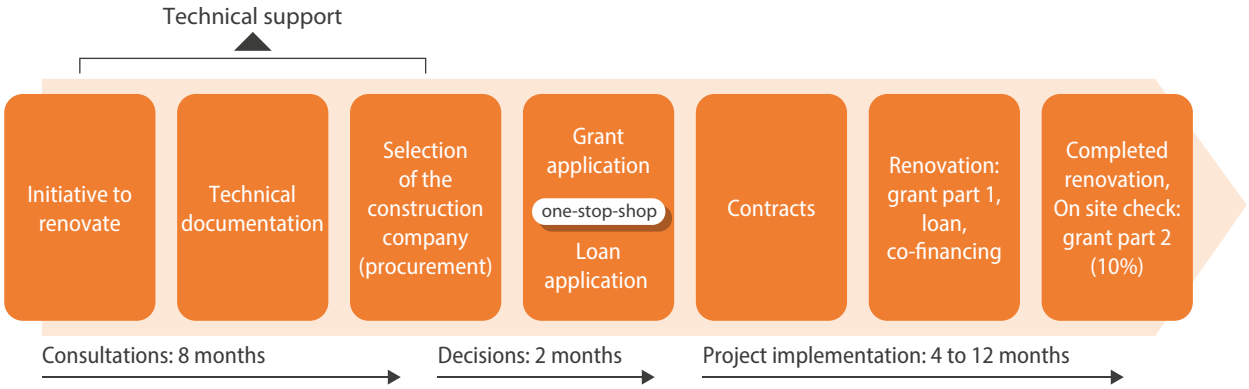
4.2 Appraisal process

During the implementation of energy efficiency projects, both Altum and the commercial banks had dedicated roles and tasks throughout the various stages of the process.

Altum oversaw grant eligibility and made final decisions regarding grants. It provided essential project development assistance, including project design and the procurement of construction companies. Altum also maintained comprehensive documentation to justify and support the investments that are eligible for grants. In case of direct loans, Altum also assessed the repayment capacity of apartment owners, ensuring they have viable options for repaying the loan while adhering to the principles of sound financial management.

On the other hand, in case of guaranteed loans, commercial banks were tasked with conducting their standard due diligence procedures and utilising dedicated tools provided by Altum to assess project eligibility and the payback period. Commercial banks transmitted the grant documentation to Altum for the final decision, checked the invoices provided by the HOA/AA and facilitated combined payments, including both the financial instrument and grant, to construction companies or ESCOs.

Figure 5: Project implementation process



A two thirds majority vote at a general meeting of apartment owners was the prerequisite for the initiation of the project. This was relaxed by the amendment to the Law on Apartment Property in February 2021, allowing the decision to be taken if apartment owners representing more than half of all apartment properties vote in favour. The vote is followed by the selection of an authorised person, the development of the technical documentation related to energy efficiency improvement measures and the selection of the construction company. As part of the technical support mechanism during the application phase, Altum evaluated the compliance of the technical documentation as well as the compliance with the requirements of the supplier selection process and assesses the consistency of the project implementation costs with average market prices. Altum also informed the authorised person about the amount of State aid corresponding to the grant and financial instrument.

Once the technical documentation was approved and the construction company was selected, the HOA/AA could apply for financing through one of the four commercial banks. Altum offered an online tool for simulating the financing of the investment and estimating the payback period, which is an important help in the decision-making process.

When the loan application was accepted by the bank, the HOA formally voted on it before proceeding with the bank to sign the loan agreement. Following this, the HOA could initiate an application for the investment grant to Altum using a dedicated web tool. When a commercial bank loan was involved, the grant was also channelled through the bank (one-stop-shop) and disbursed to the construction company along with the loan funds, based on the submitted invoices.

In case commercial banks had declined the loan application, the HOA/AA had the option to submit the applications for the loan and for the grant directly to Altum (one-stop-shop).

Historically, most projects were financed by commercial banks, but since 2022, there has been a substantial increase in the uptake of Altum direct loans, resulting in a more balanced distribution between the two financing options. Altum's financing of projects that were initially turned down by commercial banks has broadened the coverage within the targeted scope of the EEPMB. These projects were primarily situated in remote regions with limited business prospects or had extended payback periods, making them less appealing to traditional banks.

Renovation of the multi-apartment residential building in Liepāja, E. Veidenbauma street 2A

Year of construction: 1960
Number of apartments: 55
Total area: 2 788 m²
Financial instrument: Guarantee
Date of decision: August 2017
Total cost of the project: ca. EUR 304 000

The investment received 50% of the total project cost as an investment grant, while the remaining part was covered by the loan guaranteed by Altum at 80% guarantee rate. The executed renovations encompassed several key activities, including insulating the basement cover, replacing windows and front doors, insulating the roof, facade, plinth, passage, installing inflow valves, reconstructing the heating system and heating unit, and constructing lightning protection. Initially, the projected heat energy consumption for heating stood at 118.21 kWh/m² per year. However, post-monitoring data evaluation revealed a notable reduction, with the achieved average heat energy consumption now standing at 32.54 kWh/m² per year, showcasing significant savings of 72%. The building has now attained a B energy class following the successful implementation of these comprehensive restoration measures. From a financial perspective, the renovation resulted in cost savings of EUR 3.9 per square meter per year.

Source: Altum

Although Altum's guarantee does not secure elements of projects that represent ineligible costs under the financial instrument's Investment Strategy, these project elements might still be able to be financed by a separate loan from commercial banks. This situation might arise if the projects involved measures not directly associated with the energy efficiency scope outlined in the OP, but the final recipients opted to implement them as part of a comprehensive renovation. In rarer instances, a pre-approved project could become ineligible based on the actual invoices, leading to cases where Altum's guarantee would not be applicable.

The investment grant operation featured a uniform grant rate of 50% of the project's total costs. To be eligible, investments must result in energy consumption levels below 90 kwh per square meter. Altum carried out ex-post monitoring to check whether the energy efficiency results achieved are maintained for two years after the renovation. Although varying grant rate intensities were previously employed, all projects fell within the higher grant rate range. The average grant amount stood at EUR 250 000, with some grants reaching as high as EUR 500 000. Altum typically pre-financed 90% of the grants (part 1 in Figure 5) as advance payments, with the remaining 10% (part 2 in Figure 5) disbursed upon the project's successful completion.

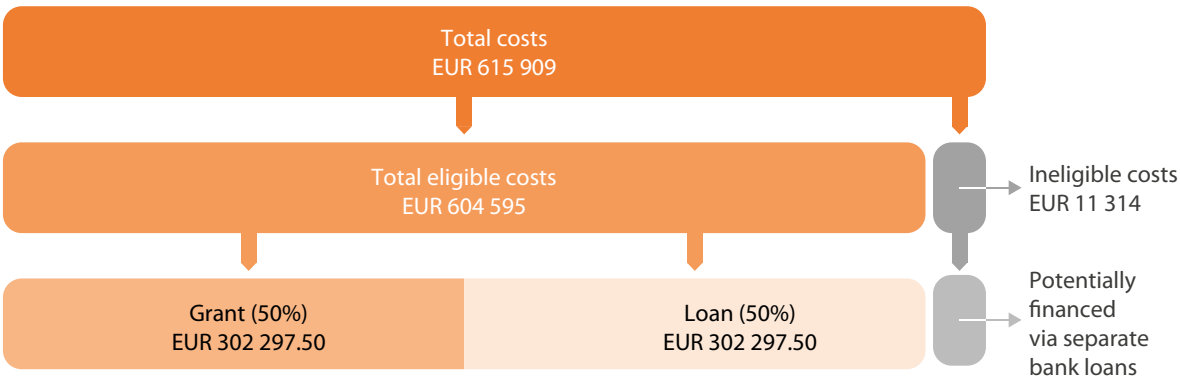
Figure 6 below provides an indicative example of project financing according to types of costs, highlighting the cost elements that are considered eligible for financing under the programme as well as those that are not eligible.

Figure 6: Indicative example of project financing according to types of costs

Type of work or name of structural element	Estimated cost (EUR)
Construction site preparation	29 655.58
Dismantling works	7 788.52
Facades	193 912.33
Windows and doors	62 637.26
Insulation of the basement	21 229.31
Roofing works	3 764.51
Indoor works	30 292.78
Attic insulation	13 172.70
Landscaping	6 475.81
Heating, ventilation and air conditioning	64 917.37
External electrical networks	8 776.30
Overhead expenses (7%)	**30 983.57**
Including labor protection (2%)	**619.67**
Profit (8%)	**35 409.80**
TOTAL	**509 015.82**
VAT (21%)	**106 893.30**

EUR 11 313.88 of which is considered ineligible costs, as there is no direct/indirect impact on energy efficiency. That part could be financed from separate loan provided by Regulations of the Cabinet of Ministers No. 481.

(NB: Generally eligible under ERDF, but ineligible under the RRF programme. In that case it could be financed from separate loan).



Source: Altum

4.3 Visibility and communication

Communication was a key part of Altum's strategy for implementation of the EEPMB's financial instruments. Effective promotion of the opportunities created by the financial instruments and the benefits of energy efficiency renovations was an essential to secure sustainable demand for the financial instrument products. The effective marketing of the EEPMB was identified as being a key success factor alongside other measures implanted at the same time such as project management and implementation support, the development of a competence centre and simplification of regulations.

A small specialist team was established within Altum to develop and deliver the communication strategy for the financial instruments. External professional expertise was also used where appropriate to produce high quality professional materials to be used in campaigns.

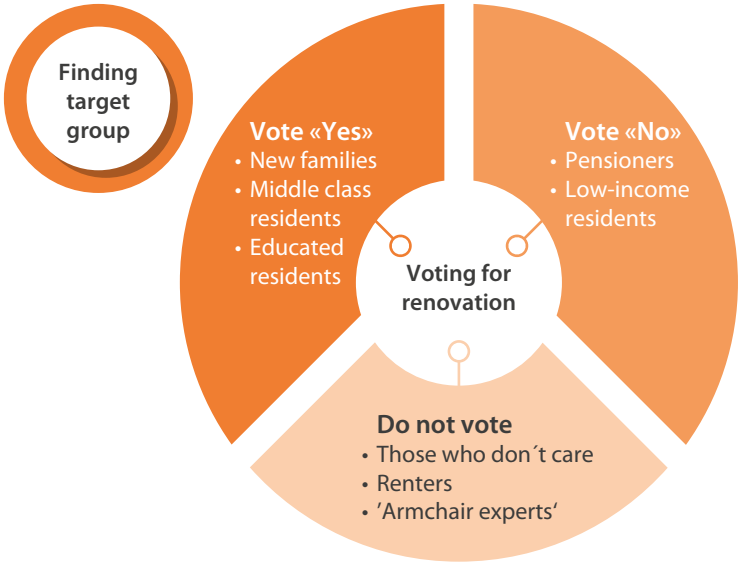
The communication strategies implemented by Altum varied during the different stages of implementation. In the initial phase, emphasising the concept of lower heating bills was crucial, engaging in active communication to generate interest. The early campaigns used examples of successful energy efficiency projects to convey the benefits of the initiative, reinforcing the understanding of the process. For example, Altum produced a three-part documentary entitled 'How to live better'[14] which described the renovation process and highlighted the improvements in both energy efficiency and the general condition of the property.

As the programme progressed and completed projects became available, Altum shifted to showcasing project examples, recognising that residents place greater trust in examples than traditional advertising. As well as inspirational videos, Altum produced more factual content with more detailed descriptions of how to implement energy efficiency projects to inform potential final recipients how to kickstart their projects.

One aspect of the implementation that was strongly supported through the communication activities was the process within AA/HOAs necessary to secure approval to the proposed project from the majority of residents in the multi-apartment block. As described above, more than 50% of residents needed to vote in favour of the project to enable it to proceed. Altum adopted a professional approach in identifying the target groups for their communications. Figure 6 shows an illustrative example of how residents of a multi-apartment block can be divided into segments. This then informs the communication strategy to reach the different groups. For example, in the example below a campaign may seek to target the potential 'Vote no' group through channels most commonly used by the target groups identified in that category.

14 https://www.youtube.com/watch?v=EJI7AFqJbgs.

Figure 7: Illustrative example of target groups in a multi-apartment block



Source: Altum

Constant technical support – as mentioned above – is another key feature of Altum's communication, providing detailed information about project preparation, implementation and document preparation. Altum tailors its communication to different audiences, sharing renovation experiences, offering expert videos with technical insights and creating documentaries to support the development of a bankable project pipeline. Notably, a recent 'Award' campaign showcasing the 'top 10' energy-efficient buildings in Latvia garnered significant interest, further enhancing Altum's outreach and impact and interest in the EEPMB amongst future final recipients.

Residential housing renovation in Sigulda, Lakstīgalas street 3

Year of construction: 1960
Number of apartments: 12
Total area: 745 m²
Financial instrument: Guarantee
Date of decision: April 2019
Total cost of the project: ca. EUR 219 000

The investment received 50% of the total project cost as a grant, while the remaining part was covered by the loan guaranteed by Altum at 80% guarantee rate. As part of the renovation project, a comprehensive set of restoration activities was carried out. This included insulating the basement cover, replacing windows and basement doors, insulating the attic cover, upgrading the facade and plinth, installing inflow valves, reconstructing the heating system and heating unit, and implementing lightning protection. Before the renovation, the heat energy consumption for heating stood at 181.5 kWh/m² per year. The achieved average heat energy consumption impressively reduced to 31.55 kWh/m² per year, reflecting substantial savings of 83%. Additionally, the building has now attained a B energy class after the successful implementation of these restoration measures. In terms of financial benefits, the cost savings amount to EUR 8.90 per square meter per year.

Source: Altum

05 Transition to the 2021-2027 programming period

There were 18 projects approved for financing under the EEPMB, which were not implemented until the end of the eligibility period (i.e. 31 December 2023). With an amendment to the Regulation of the Cabinet of Ministers No. 160 approved on 31 October 2023, a second stage of implementation was introduced to the EEPMB with support provided under the specific support objective "Promotion of energy efficiency and reduction of greenhouse gas emissions" within the framework of the measure "Increasing energy efficiency in residential buildings, including by developing the ESCO market (in multi-apartment, private and small-apartment building complexes)" of the 2021-2027 programming period. For projects initiated within EEPMB, support could be provided for eligible expenses of energy efficiency improvement measures incurred from 1 December 2023 (inclusive) to 1 October 2024.

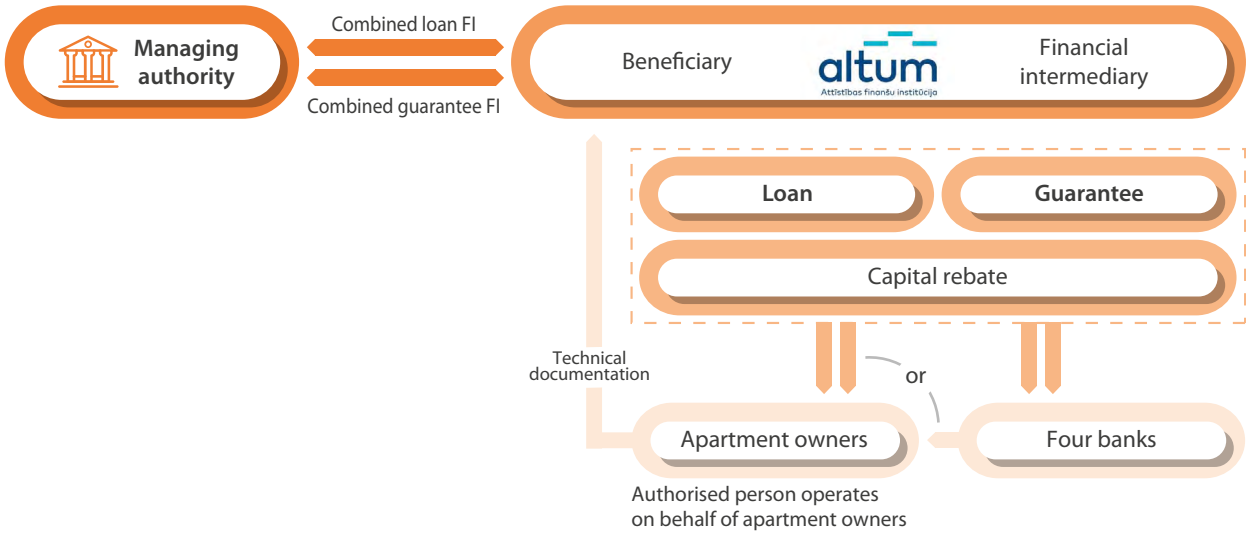
In parallel, on 14 July 2022, the Cabinet of Ministers approved the new energy efficiency programme for multi-apartment buildings 2022-2026 as a successor of EEPMB following the end of the 2014-2020 ERDF eligibility period. The objective remains to improve the energy efficiency of multiapartment buildings and transition to the use of renewable energy technologies. The Ministry of Economy signed the funding agreement with Altum to implement this subsequent support programme as well.

In order to ensure the next generation of financial instruments can utilise both RRF and 2021-2027 ERDF resources, Altum ensured compliance with both the CPR 2021/1060 and the RRF regulation[15]. A single ex-ante assessment has been carried out and an Investment Strategy has been developed to secure compliance with both the 2021-2027 ERDF programme eligibilities and the national Recovery and Resilience Plan. Thus, a single suite of products has been developed that can utilise the different funding resources. However, the EC rules on the prohibition of double financing (implemented also in the national regulations) do not allow the blending of the two sources of funding at the level of final recipient transactions. Therefore, a separate block of finance was kept for each source of funding and each loan could only be financed by either RRF or ERDF funding, as indicated in the loan contracts and corresponding publicity material. Separate records are kept and reported for the different funding sources by Altum and the participating banks, ensuring a clear audit trail and preventing any overlap between the two funding streams.

15 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

Figure 8 shows the structure of the next generation financial instruments.

Figure 8: The design of the two financial instruments with capital rebate



Source: Altum

Similarly to the previous programming period, financing is made available in form of loan and guarantee instruments, with similar features as their predecessors (i.e. loan and guarantee term up to 20 years, guarantee rate up to 80% of the loan, maximum loan amount of EUR 3.75 million). The main difference is that the combination of financial instrument and grant will be done in one operation under the CPR, which notably implies that grants will be managed by Altum as the body implementing the FI under financial instruments' rules. This time, in addition to the technical support, the programme offers a capital rebate for repayment of the principal amount of the loan under both schemes. As defined in the investment strategy, the capital rebate can be for an amount not greater than 49% of the loan principal. To benefit from this grant component, the HOA/AA would have to apply to Altum for reservation of the capital rebate after the finalisation of the technical documentation. An energy audit must be carried out prior to the submission of the loan application, which concludes whether 30% of primary energy savings can be achieved during the implementation of the project. The capital rebate can be activated when the project has been completed and provided that the project results indeed is at least 30% of primary energy savings (note that in the previous programme, the requirement was 30% of energy savings only for heating).

The maximum eligible project cost for primary energy saving of 1 MWh/year is EUR 5 000. The support for project management can be up to 3% of the total project costs. While VAT was eligible under the schemes implemented under the ERDF 2014-2020 programme, it is not eligible under the RRF.

The RRF funding was approved by the Cabinet of Ministers in July 2022 and Altum opened the application process for final recipients in December 2022. The Cooperation Agreements signed with the commercial banks back under the EEPMB was renegotiated for the new programme without a new call for expression of interest. The new programme commenced implementation when no new applications were accepted under the EEPMB (the evaluation of the projects already submitted and the awarding of grants and implementation of projects continued afterwards until the termination of the programme).

Initially, EUR 57.3 million of resources through the RRF were committed to continue to finance the renovation measures via the new programme. Altum received the first advance payment amounting to 30% of the total contribution in 2023. The payment of the second tranche of 30% can be requested once at least 70% of the first advance payment have been committed to final recipients. The final payment can be requested after 100% of the first advance payment and 70% of the second payment have been committed.

As defined by the Cabinet of Ministers Regulation, it is anticipated that Altum would have approved projects for at least EUR 40 million under the RRF programme by September 2024, and by the 4th quarter of 2024 the reduction of primary energy consumption in apartment buildings with improved energy efficiency would be 2884 MWh per year (20% of the projects would have been completed). During this time, as the new programming period had not been launched yet, the RRF resources would ensure that the offer for final recipients would continue without disruption. Moreover, as highlighted above, the implementation under this bridging programme already anticipated the ERDF 2021-2027 funds involvement and set-up aligned with CPR, ensuring a smooth transition between the programming periods. The deadline for implementing the recovery fund investments is until 31 August 2026. After the eligibility period for the RRF resources ends, the 2021-2027 ERDF programme resources will continue to support final recipients.

Combination of financial instruments and grants in the 2021-2027 programming period

The new CPR introduced significant flexibilities for combining financial instruments with grants, facilitating a more integrated approach to achieving policy objectives. This combination allows for a wider range of support options, such as interest rate subsidies, investment grant and capital rebates, enhancing the impact of financial instruments. By requiring both forms of support to be provided by the body implementing the financial instrument and ensuring that the grant element is linked and necessary to the financial instrument, the new CPR reduces competition between grants and financial instruments. The flexibility in grant intensities and the comprehensive support package, including technical support, further increase the ability of managing authorities to tailor financing solutions effectively across various sectors such as energy efficiency.

For further information on combination, please see the fi-compass factsheet, Knowledge Hub notes 1 and 2, past event recording and slides and podcast on the fi-compass website.

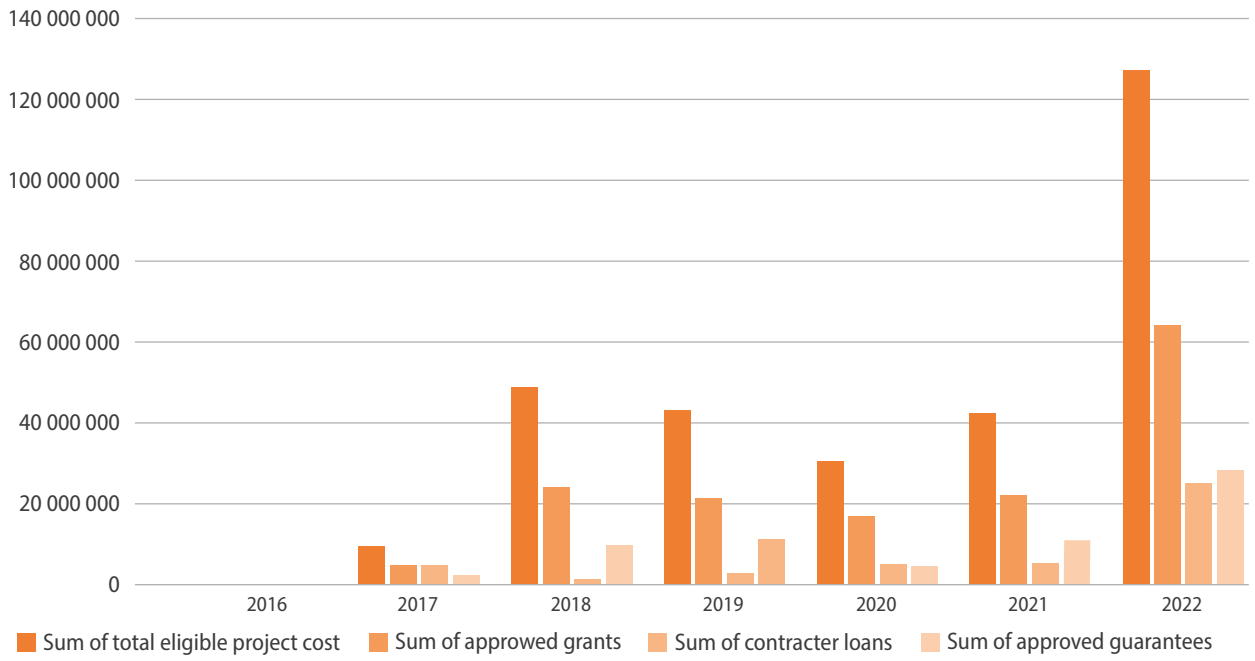
06 Achievements of the 2014-2020 EEPMB

The first loan contract under the 2014-2020 ERDF co-financed EEPMB was signed with a final recipient in May 2017. Since then, a total of 624 projects have been implemented, out of which 606 have been completed.

The total eligible costs of the investment projects supported by the instruments at closure of the programme reached EUR 307 million. The sum of approved grants equalled EUR 157 million, the approved guarantees amounted to EUR 70 million and the direct loans provided by Altum comprised a sum of EUR 42 million.

The chart below illustrates the project implementation progression over the years. There was a substantial increase in approved grant applications in 2018, attributed in part to an intensive communication campaign conducted by Altum during that period. The programme's popularity experienced a modest decline in 2020, influenced by the impact of the COVID-19 pandemic and the relevant measures implemented to address the negative economic consequences of the outbreak. The subsequent increase in applications in 2022 can be attributed to the energy crisis in conjunction with the end of the eligibility period. There were no new approvals in 2023 under the EEPMB as the successor programme was already open to receive the new applications.

Figure 9: Evolution of the implementation of investment projects



Source: fi-compass, based on Altum

The programme has achieved significant outcomes, encompassing economic, social and environmental benefits. There has been a tangible economic impact with a reduction in heating charges, coupled with an increase in property value. On the social front, the initiative has led to the renovation of buildings, fostering a more organised and aesthetically improved environment. Moreover, the programme has contributed to environmental sustainability by lowering energy consumption, subsequently reducing the overall environmental impact and making progress in CO_2 reduction.

Table 4: Key performance indicators

Indicator	Target	Results[16]
Number of households with improved energy consumption	19 589	21 901
Number of guarantees	423	325
Number of direct loans	49	185
Average heat consumption in renovated apartments	90 kwh/m^2	57 kwh/m^2
Additional power produced from renewable energy resources (i.e. solar and biomass)	0.86 MW	1.34 MW
Calculated reduction of greenhouse gases per year (of CO_2 equivalent)	15 227 t/annually	24 403 t/annually

Source: Altum

The programme has left a pronounced impact in the wider economic context as well. Its contribution to job creation within these industries has likely played a role in lowering unemployment rates. The programme's stimulation of increased investment in construction and energy as a result of the financial instruments has not only driven economic activity in these sectors but has also fostered broader economic growth. Moreover, the financial instruments' support has been instrumental in market development, opening new avenues and expanding existing ones, thereby contributing to economic diversification. Regionally, the programme has played a vital role in enhancing the overall liveability and attractiveness of different regions, thus contributing to comprehensive regional development in Latvia.

16 Results as at 30 June 2024.

Multi-apartment building renovation in Sigulda, Instituta street 10

Year of construction: 1979
Number of apartments: 66
Total area: 4 618 m²
Financial instrument: Guarantee
Date of decision: August 2017
Total cost of the project: ca. EUR 778 000

The investment received 50% of the total project cost as a grant, while the remaining part was covered by the loan guaranteed by Altum at 80% guarantee rate. With an average cost of EUR 170 per square meter, the project achieved remarkable results. As part of the renovation project, the basement cover was insulated, windows and exterior doors were replaced, the attic cover, facade and plinth were insulated, inflow valves were installed, the heating, cold and hot water systems were rebuilt, and lightning protection was installed. It led to a significant 71% reduction in heat energy consumption, cutting the heat consumption from 159 kWh/m² per year to just 45.63 kWh/m² per year. After the restoration measures, the building has obtained B energy class. This substantial improvement not only enhanced the building's energy efficiency but also considerably reduced operating costs (cost saving amounts to EUR 5.80 per square meter per year after renovation). Additionally, the project achieved a reduced payback period, making it more attractive for both property owners and financial institutions.

Source: Altum

07 Lessons learned

7.1 Main success factors

The hybrid approach of financial instruments and grants created a well-rounded support system for renovation projects.

The combination of financial instruments and grants has proven to be an effective approach, offering a well-rounded support system for energy-efficient renovation of multi-apartment residential housing. The investment grants provided during the renovation process in two instalments was a novelty compared to the previous programming period. This hybrid approach addressed both the financing needs of apartment owners and provides an incentive in the form of a grant, creating a well-balanced and attractive package for those looking to undertake renovation projects.

The flexible structure of the programme, adjusting its role based on the activity of commercial banks, showcased resilience and the ability to substitute operators when necessary.

Instead of relying solely on guarantees, a flexible scheme was created where Altum was able to swiftly pivot to provide direct loans to final recipients itself. This responsiveness to market conditions ensured the uninterrupted flow of financial support to apartment owners, even in situations where the engagement of commercial banks was limited.

Learning from past experience has led to the development of more effective, streamlined processes that benefit both apartment owners and financial institutions.

Another crucial factor contributing to the success of these instruments was the ability to learn from past experiences, particularly from the 2007-2013 programming period. Careful analysis of what did not work well allowed for significant improvements in the delivery of financial support. The availability of technical support co-funded by ERDF, in the form of consultancy, the price checking tool for the construction work, technical supervision during the process of renovation and ex-post monitoring were all new elements introduced to improve the programme.

The seamless access to finance through a 'one-stop-shop' approach was been instrumental in making the offer consistently available and attractive to final recipients.

The 'one-stop-shop' approach has also played a vital role in the success of these financial instruments. By working closely with the banking sector, the offer was been made not only attractive but also consistently available for final recipients without interruptions. This seamless access to financial resources encouraged more apartment owners to embark on renovation projects.

The availability of an in-house competence centre further facilitated project implementation from the final recipients' perspective.

The establishment of an in-house competence centre by Altum, offering technical support and advisory services, emerged as a crucial success factor. This expert support facilitated project applicants in navigating the application process, ensuring the success of their projects.

Enhanced awareness increased the utilisation of the financial instruments.

Furthermore, the improvement in raising awareness among apartment owners to implement renovation projects has been a significant success factor. As owners become more informed and motivated, the uptake of these financial instruments has increased.

The continuity of support for energy efficiency in multi-apartment buildings was ensured by leveraging both the RRF and ERDF for the 2021-2027 period.

Following the end of the 2014-2020 ERDF eligibility period, the new energy efficiency program approved by the Cabinet of Ministers in July 2022 facilitated a seamless transition by utilizing RRF resources initially. Once RRF resources are exhausted, ERDF funds will continue to provide support, ensuring no disruption in financial assistance. This strategic approach, supported by a single ex-ante assessment and Investment Strategy, complying with both CPR and RRF regulations, allowed for an effective and coordinated use of funding sources across the programming periods.

7.2 Main challenges

The process of reviewing technical and tendering documentation proved to be resource-intensive for Altum. This challenge arose due to the necessity for several exchanges between AA/HOA and Altum to produce a satisfactory document. In practice, it was not uncommon for the tendering documentation to require numerous amendments before the selection process could even be initiated. The time and effort invested in this review process could strain Altum's resources, delaying the overall project timeline and potentially impacting the efficiency of grant disbursement.

Simultaneously, AA/HOA often required substantial project management support from Altum during the construction phase. However, Altum had a limited number of project managers available for these tasks, which might have constrained their capacity to provide comprehensive assistance to all projects. This scarcity of project managers could lead to delays and hinder the smooth execution of renovation initiatives.

One significant challenge stemmed from the complex and restrictive State aid treatment at the level of apartment owners. Navigating these requirements and ensuring compliance could be demanding. Simplifying the treatment and making it more straightforward could reduce administrative burden and ensure that apartment owners have a clearer understanding of the available support, encouraging more of them to undertake renovation projects.

There was also an ongoing challenge related to the calculation of the payback period. Consideration was being given to replacing this with a maximum project cost per square meter. This change, while potentially beneficial, required careful implementation and adjustment.

Furthermore, the reluctance of banks to finance projects in less developed areas or of small size posed an obstacle. This reluctance increased in 2020, potentially due to the economic impact of the COVID-19 outbreaks and concerns about the declining population, further complicating the funding landscape for these projects.

Additional challenges emerged during the construction phase, particularly concerning construction companies. These companies sometimes encounter difficulties in securing the necessary insurance. This issue might result from companies handling too many projects simultaneously, which insurance providers assess as a high-risk activity. Moreover, insurance companies have stringent risk assessment criteria. Consequently, the construction sector faces at times hurdles in accessing insurance.

The grant management and disbursement model in two operations, while effective, has its share of complexities. It implied two distinct internal rules and corresponding training of personnel as well as two reports to be submitted to the managing authority, which required high coordination efforts and specific tools in place for Altum. The combination of grants and financial instruments in one operation helps the grant disbursement process and enhance the ease of access to funds for apartment owners.

7.3 Outlook

During the planning of the new programming period, a consistently high level of interest was observed among clients regarding the EEPMB. Consequently, Altum has maintained its focus on this sector for the future as well.

In early 2023, Altum, in collaboration with the Ministry of Economy, initiated the development of new ERDF financial instrument / grant combination support programme for energy efficiency renovation of multi-apartment residential buildings to be implemented during the EU Cohesion Policy programming period 2021-2027. This programme will complement the existing funding of the Recovery and Resilience Facility, topping up the financial instruments implemented under RRF with up to EUR 170 million additional resources from the 2021-2027 ERDF programme. It will keep the focus on energy efficiency in buildings and energy-efficient equipment, promoting the use of renewable energy technologies. Furthermore, the new funding will open opportunities for initiatives like technology transfer, prototyping, innovation, and digitisation.

Residential building renovation in Vecumnieki, Rīgas street 33

Year of construction: n/a
Number of apartments: 24
Total area: 2 187 m²
Financial instrument: Direct loan
Date of decision: June 2019
Total cost of the project: ca. EUR 526 000

50% of the total project cost was covered by the investment grant and the remaining part was financed directly by Altum's direct loan instrument. The building underwent comprehensive renovations, including the insulation of the basement cover, replacement of windows and exterior doors, insulation of the attic, facade, and plinth, as well as the installation of inflow valves and the reconstruction of the heating system. Initially, the projected heat energy consumption for heating stood at 159.19 kWh/m² per year. The post-monitoring data revealed a substantial reduction of 71%, with the achieved average heat energy consumption reduced to 46.66 kWh/m² per year. In terms of financial benefits, the renovation resulted in cost savings of EUR 5.70 per square meter per year. Following these restoration measures, the building has achieved a B energy class, indicating improved energy efficiency.

Source: Altum

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