

New aid programme for boosting energy efficiency in businesses (2) 1/31/22



ESG Tax Practice, PwC Latvia
Alina Ruskova

Our Flash News edition of 12 July 2022 informed MindLink subscribers about a new aid programme based on rules recently adopted by the Cabinet of Ministers.¹ In that article we looked at eligible entities, qualifying activities and excluded industries. This article explores the aid instrument and the programme's status.

The aid instrument and how it works

The aid instrument is a loan from Altum Development Finance Institution or a parallel loan (jointly with another financier²) and a capital discount cancelling some or all of that loan. The aid programme provides for a loan of up to EUR 5 million per entity and a capital discount of up to 30% of the total investment project, but not to exceed EUR 1.5 million.

Maximum permissible aid intensity is calculated according to additional investment costs required to achieve a higher level of energy efficiency. The maximum aid intensity (a capital discount together with a loan subsidy equivalent, including a loan extension) will be stated in an agreement between Altum and an entity and cannot be increased at a later date.

Under the aid programme, an entity may file more than one loan application but the total aid is capped at EUR 5 million regardless of how many applications are made. One project application may cover measures to be implemented in two or more non-residential buildings, manufacturing facilities, warehouses, or engineering systems.

The level of a capital discount is set at once, i.e. Altum includes this in its decision awarding the aid to an entity. However, the discount is actually applied (i.e. some or all of the loan or principal is cancelled) only if the entity has carried out the project (the proposed measures) and fulfilled the stated criteria. A capital discount is either awarded in full (if all conditions are met) or is not awarded at all (if the entity has failed to meet one, several or all of the conditions). A capital discount is applied once the entity presents Altum's confirmation that the conditions have been fulfilled on completing the project.

To qualify for a capital discount, the aid recipient will have to meet two criteria:

- 1 tonne of CO₂ equivalent greenhouse gas reduction per year achieved for each EUR 2,500 of the capital discount;
- 1 MWh per year in primary energy savings achieved for each EUR 5,000 of the capital discount.

To qualify for a capital discount on a change of equipment, an entity has to achieve 25% primary energy savings, assessed against the equipment being replaced or in an ancillary process supporting the manufacturing process.

The aid programme's status and time limits

Although the Cabinet of Ministers' rule came into force on 18 June 2022, the aid programme's time limits are linked to "the date Altum begins taking applications". Altum has yet to announce the programme, and the Cabinet rule defines Altum's targets, such as:

- Altum is to conclude loan agreements totalling at least EUR 20 million by 31 December 2023.
- Altum is to conclude loan agreements totalling at least EUR 72,351,600 by 31 December 2024.

Altum seems likely to start entering into loan agreements next year, so now is the time for entities to establish their eligibility for the aid.

It's important to note that the aid will be awarded in a competition, i.e. it will primarily go to entities promising a larger primary energy reduction. An annotation to the Cabinet of Ministers' draft rule explains that initially (i.e. from the date Altum begins taking applications) for the first three months, Altum will be taking applications expected to achieve at least 40% primary energy savings on completing the project. After those three months, entities expected to achieve 35% primary energy savings on completing the project will be able to apply. After six months, Altum will be taking applications from entities expected to achieve 30% primary energy savings on completing the project (if there is any financing still available). Projects will be evaluated and agreements concluded in the order in which applications arrived, with priority given to entities capable of achieving the largest primary energy savings on completing the project.

Altum's loan or parallel loan does not have a prescribed minimum time limit, while the maximum (including a possible extension) is 20 years. Early repayment is allowed (except for the part related to the capital discount).

If your company needs assistance in assessing whether it's eligible for the aid and whether its proposed activities (i.e. costs) qualify, our team will be happy to help. If you have any questions, please reach out to Alina Ruskova, PwC's ESG tax practice leader.

¹The Cabinet of Ministers' Rule "EU Recovery and Resilience Facility Plan's Reform and Investment Path 1.2 "Improving energy efficiency" Investment 1.2.1.2.i. "Improving energy efficiency in business (including a shift to renewable energy technologies in heating and R&D activities (including in bioeconomy))" Measure 1.2.1.2.i.1. "Improving energy efficiency in business (including a shift to renewable energy technologies in heating))" implementing provisions")

²Another financier under the Cabinet Rule is a credit institution, its branch or subsidiary, a finance house authorised to provide financial services in Latvia, an investment fund authorised to provide financial services in Latvia, an international financial institution such as the European Bank for Reconstruction and Development, the European Investment Bank, the Nordic Investment Bank, and the Council of Europe Development Bank.