



*Are Funds Intended for Reducing Climate Changes,
Administered by the Ministry of Environmental Protection
and Regional Development, Planned and Used in an
Effective Manner and in Accordance with Requirements
Set Forth in Laws and Regulations?*

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Dear reader!

We have completed a performance audit on the effectiveness of planning and use of funds intended for reducing climate changes and have prepared an audit report.

We have conducted this audit to assess the activities carried out by the Ministry of Environmental Protection and Regional Development and Ltd Vides investīciju funds in attaining the goals of the climate policy and in ensuring the effective use of funds intended for reducing climate changes, as well as in ensuring the sustainability of projects of the Climate Change Financial Instrument.

Climate changes occurring as the result of human activity and changing the composition of atmosphere have been a topical issue on agenda for several decades now. Long discussions resulted in the signing of the Kyoto Protocol. Latvia also joined the Kyoto Protocol, thus undertaking joint liability for the reduction of negative consequences of climate changes.

The climate is changing and we feel the consequences of these changes increasingly more: hot summers and warm winters; long draught periods or on the contrary — long incessant rains and floods in the world. The most well-known manifestation of climate changes is global warming. Global warming is mostly caused by greenhouse gas emissions produced by human activity. One of global warming manifestations is also growing air pollution. Hence, it can be said that negative climate changes affect us today and will affect the health and, possibly, even lives of upcoming generations; therefore, it is our duty to act responsibly already now.

Reduction of climate changes, attainment of climate policy goals and fulfilment of international commitments undertaken by the state are impossible without financial investments. Simultaneously, one should understand that financial resources are limited and, therefore, it is necessary to assess optimal solutions for the investment of resources.

In any case, one should remember that the climate policy is a joint long-term activity and the future situation directly depends on decisions made and actions taken today. Based on activities carried out by the state and results achieved by these activities, we can assess how responsibly the state has acted in reducing climate changes.

We express our gratitude to the Ministry of Environmental Protection and Regional Development and Ltd Vides investīciju funds for cooperation within the framework of the audit, as well as to other experts that provided their opinions in the course of the audit.

*Yours sincerely,
Director of the Department
Ilonda Stepanova*

Main Conclusions

The Ministry of Environmental Protection and Regional Development has failed to elaborate a high-quality action policy to tackle climate change, since, despite the fact that the climate policy covers almost all sectors of national economy, no liability is determined for each ministry in the attainment of the common goal of the climate policy, including the liability of the Ministry of Environmental Protection and Regional Development for the administered contribution of the Climate Change Financial Instrument and the Auctioning Instrument of Emission Allowances with the total financing of EUR 254 million.

In the audit, it has been concluded that the funds of EUR 31.9 million used for the Auctioning Instrument of Emission Allowances have not been invested in effective activities, simultaneously failing to observe the OECD principles of good practice in managing public expenses for environmental protection. Namely: the projects reducing emissions the most are not supported; moreover, 47% or EUR 15 million have been used for one project, the implementation of which will not result in reduction of greenhouse gas emissions at all.

In the audit, activities carried out by MEPRD in the elaboration and coordination of the climate policy, as well as in the administration of the Climate Change Financial Instrument and the Auctioning Instrument of Emission Allowances were inspected.

Problems have been identified also in the planning of funds of the Auctioning Instrument of Emission Allowances, since they are not used for the designated purpose, i.e. reduction of climate changes, since the planned funds of EUR 68.9 million have been systematically used even for expenses non-related to the reduction of climate changes since 2013. These actions allowed for obtaining additional funds for both activities previously planned in the budget of the Ministry of Environmental Protection and Regional Development, for example, increasing remuneration, and funding of other state budget needs.

Climate Policy Planning Documents

Despite that the climate policy covers almost all sectors of national economy, involved ministries are not sufficiently coordinated in attaining the common goal of the climate policy, since no liability is determined for each ministry in the reduction of greenhouse gas emissions.

Implementation of the targeted and timely climate policy in the reduction of greenhouse gas emissions is not ensured also because the Ministry of Environmental Protection and Regional Development regularly delays the elaboration of policy planning documents and documents related to its introduction, for example, the Ministry of Environmental Protection and Regional Development:

- still has not developed a low-carbon emission development strategy, repeatedly postponing development deadlines determined in both the Environmental Policy Guidelines for 2014–2020 and the Government Action Plans, as well as the Action Plans of the Ministry of Environmental Protection and Regional Development for 2014, 2015 and 2016;
- still has not developed a conceptual report on ensuring the fulfilment of goals related to the reduction of potential greenhouse gas emissions of Latvia for a period from 2020 to 2030 in breakdown by sectors, which should include assessment on the effectiveness of current emission-reducing activities of sectors, as well as the costs and benefits of emission-reducing activities implemented in the sectors of national economy (deadline set by the Cabinet of Ministers: 31.07.2016);
- has repeatedly postponed the development of the operation strategy of the Auctioning Instrument of Emission Allowances specified in both the informative report submitted to the Cabinet of Ministers and the Action Plan of the Ministry of Environmental Protection and Regional Development for 2015, which would specify certain priority

activities to be supported, approving it only during the audit, i.e. on 21.10.2016, although the expenses of this instrument have been planned in the budget for five years (since 2012); moreover, the first project competitions of this instrument were announced at the beginning of 2016, i.e. before the development of this strategy;

- has failed to prepare an informative report on the assessment of fulfilment of obligations related to the reduction of greenhouse gas emissions and CO₂ attraction for 2016 (deadline set by the Law on Pollution: 31.12.2016).

Use of Research Results in the Development of the Climate Policy

Although the Ministry of Environmental Protection and Regional Development is responsible for the development of the climate policy and must facilitate the effective use of research results in the development of the sector policy, the ministry was unable to provide information on studies carried out in the field of climate and their use in the development of the action policy during the audit and prior to the preparation of the Draft Audit Report, specifying that ministry experts had not participated in the implementation, accounting or storage of studies in the field of climate.

Auditors have conducted a study of publicly available information and identified that since 2014, studies related to the field of climate have been financed from the State budget, including within the framework of a foreign financial instrument, in the amount of at least EUR 1.9 million, for example:

- the Environmental Protection Fund of Latvia finances studies aimed at ensuring support for the introduction of the climate policy (the Ministry of Environmental Protection and Regional Development is responsible for the elaboration and introduction of the climate policy); moreover, the Ministry of Environmental Protection and Regional Development has performed the harmonisation of work tasks of these studies, has supervised their fulfilment and/or assessed the results of studies;

- within the framework of the State Research Programmes for 2015–2017, two research programmes related to the field of climate are implemented, and the Ministry of Environmental Protection and Regional Development has participated in the determination and harmonisation of goals and tasks of the State Research Programmes;
- the programme “National Climate Policy” of the EEA Financial Instrument for 2009–2014 is administered by the Ministry of Environmental Protection and Regional Development and eight studies related to the development of the climate policy are being elaborated within the framework of this programme.

During the harmonisation of the Draft Audit Report, the Ministry of Environmental Protection and Regional Development indicated that the ministry nonetheless had used completely all its financed studies in the field of climate policy, purposefully identifying and obtaining information on topical studies in the field of climate.

Taking into account that the Ministry of Environmental Protection and Regional Development provided additional information on studies conducted in the field of climate policy only during the harmonisation of the Draft Audit Report (i.e. in February of 2017, the auditors of the State Audit Office were unable to express an opinion on the use of studies in the development and introduction of the climate policy.

Planning of Activities of the Auctioning Instrument of Emission Allowances

Auditors have concluded that the activities of the Auctioning Instrument of Emission Allowances administered by the Ministry of Environmental Protection and Regional Development are not planned in a targeted manner. It is evidenced by the fact that the Ministry of Environmental Protection and Regional Development has failed to act in accordance with the international OECD principles of good practice and has failed to carry out the effectiveness assessment of activities of the Climate Change Financial Instrument, the implementation of projects of which was

administered by the ministry before the Auctioning Instrument of Emission Allowances. It should be noted that the financing of the Climate Change Financial instrument, just as the financing of the Auctioning Instrument of Emission Allowances, was used for financing projects related to the limitation and reduction of greenhouse gas emissions.

Consequently the funds of the Auctioning Instrument of Emission Allowances in the amount of EUR 31.9 million, in accordance with calculations performed by auditors, are currently invested in projects with extremely low efficiency indicators, up to 35 times lower than those in project competitions of the Climate Change Financial Instrument. To assess the effectiveness of the Auctioning Instrument of Emission Allowances, auditors compared the annual decrease in CO₂ emissions planned in the projects of the Auctioning Instrument of Emission Allowances and the Climate Change Financial Instrument to the financing of the instrument.

The Ministry of Environmental Protection and Regional Development has failed to choose to finance activities which would most facilitate the reduction of emissions from the Auctioning Instrument of Emission Allowances.

During the audit, following the activity assessment of applicants in the projects of the Climate Change Financial Instrument, it was concluded that the demand of project applicants for financing exceeded the possibilities of the financial instruments, and 303 project applications in total were rejected due to the unavailability of funds.

Taking into account the limited financial possibilities of the Climate Change Financial Instrument, the high activity of applicants, as well as significantly higher emission reduction effectiveness indicators as compared to the previous project competitions of the Auctioning Instrument of Emission Allowances, the continuation of competitions similar to the Climate Change Financial Instrument, using the funds of the Auctioning Instrument of Emission Allowances, should be assessed.

In developing the regulations of project competitions of the Auctioning Instrument of Emission Allowances, the Ministry of Environmental Protection and Regional Development has failed to

set the selection of projects reducing greenhouse gas emissions as a priority, since only a small number of project assessment criteria is related to the assessment of reduction of greenhouse gas emissions; moreover, one competition does not envisage the direct assessment of reduction of greenhouse gas emissions at all or supports the construction of new buildings, which essentially is deemed as an emission-increasing activity.

Planning of Funds of the Auctioning Instrument of Emission Allowances

In the audit, deficiencies have been identified also in the planning of funds of the Auctioning Instrument of Emission Allowances.

Over the period from 2013 to the end of 2016, the funds of the Auctioning Instrument of Emission Allowances in the total amount of EUR 68.9 million have been systematically used in the process of both budget planning (EUR 33.4 million) and budget execution (EUR 35.5 million) for financing other expenses non-related to the Auctioning Instrument of Emission Allowances and even to the reduction of climate changes (for example, state aid for a child above a year and a half up to the beginning of primary education, if the child receives a service from a private provider of children supervision services, as well as for the partial coverage of deficit of funds for paying for medicinal products to be compensated and medicinal devices).

Thus, the Ministry of Environmental Protection and Regional Development has used a mechanism how, without increasing total expenses of the budget, to obtain additional funds for both – budgeted expenditure of the activities of the Ministry of Environmental Protection and Regional Development in the amount of at least EUR 1.3 million (for example, levelling of salaries for ministry employees and annual performance evaluation bonuses, purchase of computer programme licences and training of users, as well as purchase of computers and servers) as well as to increase its medium-term budget for upcoming years by at least EUR 4 million per year.

Using the greatest share of funds of the Auctioning Instrument of Emission Allowances for other purposes (71%) negatively affects the financial balance of the consolidated state budget (according to the cash flow principle) for upcoming years, since the state will have to find additional funds for financing the goals of the Auctioning Instrument of Emission Allowances in the amount of EUR 35.5 million, taking into account that all the revenue obtained from the auctioning of emission allowances must be used for the implementation of the climate policy.

Sustainability of Projects of the Climate Change Financial Instrument and Compliance of Supervision with Requirements Set Forth in Laws and Regulations

The Ministry of Environmental Protection and Regional Development has failed to carry out sufficient activities to facilitate the attainment of goals for projects, during the implementation of which no planned decrease in CO₂ emissions was achieved, thus failing to promote the sustainability of projects.

In general, the competitions of the Climate Change Financial Instrument are implemented successfully, since the total CO₂ emission decrease specified in project applications is exceeded by 13%. However, in assessing each project individually, it has been identified that on average 19% of implemented projects fail to reach the planned decrease in CO₂ emissions overall by 64,878 tons. Taking into account calculations performed by scientists on the environmental impact caused by one ton of CO₂, auditors have calculated that the decrease in CO₂ emissions that has not been achieved in a timely manner in the projects of the Climate Change Financial Instrument within a period from 2011 to 2015 has failed to ensure the reduction of environmental harm in the amount of at least EUR 1.9 million.

Despite the fact that the Ministry of Environmental Protection and Regional Development identified the need to introduce amendments to the competition regulations of the Climate Change Financial Instrument already in 2015, no amendments have been introduced over two years and the identified problems have not been solved yet. Until 01.01.2017, the Ministry of

Environmental Protection and Regional Development has not made any decisions on the possible recovery of funds in projects, in which the planned decrease in CO₂ emissions is not achieved.

There is a risk that by delaying the introduction of amendments to competition regulations for a long time, the funds of EUR 3.8 million invested in 26 projects could no longer be recovered.

Currently, it is not determined that recovered funds for results non-achieved in projects would have to be invested in activities related to the reduction of climate changes following the fulfilment of obligations under international agreements on the selling of units of a certain amount.

With Ltd. Vides investiciju fonds failing to assess monitoring reports in a timely manner, the assessment of problems that occurred as the result of project implementation and their elimination is significantly delayed to achieve the CO₂ emission decrease planned in project agreements.

Recovery of Project Assessment Costs in the Event of Non-signing of Agreements after the Approval of Projects

The Ministry of Environmental Protection and Regional Development has failed to act economically, by failing to request the guarantee payment stipulated by Laws and Regulations in cases when project applicants had not entered into agreements on project implementation after their approval, thus failing to ensure the collection of EUR 9,960 into the state budget.

Crucial Recommendations

Based on the conclusions of the performance audit, the Ministry of Environmental Protection and Regional Development as a state administration institution in the field of climate policy has been provided with recommendations, the implementation of which would facilitate a targeted planning and introduction of the climate policy, investment of funds of the Auctioning Instrument of Emission Allowances in more cost-efficient activities and prevent their use for purposes non-related to climate changes, as well as ensure the supervision of project results.

As the result of the audit, ten recommendations were provided in total; the implementation of these recommendations would facilitate the targeted planning and introduction of the climate policy, investment of funds of the Auctioning Instrument of Emission Allowances in more cost-efficient activities and prevent their use for purposes non-related to climate changes, as well as ensure the supervision of project results.



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