

Assessment of Latvia's recovery and resilience plan

Key points

- Latvia's recovery and resilience plan contains many green and necessary measures, but it too closely resembles a list of projects intended to fill the holes in the state budget rather than a strategic plan to make the economy more resilient and climate neutral.
- The drafting process for Latvia's plan has not been transparent and has failed to involve all stakeholders in meaningful consultations.
- Despite the potential for energy efficiency and renewables in the country, the plan's proposals could do more to implement the reforms needed for the energy efficiency measures to have an impact, and support for renewable energy could be more ambitious.

Introduction

In order to access the EU's Recovery and Resilience Facility (RRF), Latvia has prepared a national recovery and resilience plan with a total amount of EUR 1.82 billion. The most recent draft of the plan (27 April 2021) seeks to address the following challenges:

- High greenhouse gas emissions and a low share of renewable energy in the transport sector, as well as low energy efficiency in the economy;
- The low level of digitalisation of companies and low level of digital skills compared to the EU average;
- Significant socio-economic differences and inequalities between Riga and other regions of Latvia;
- Limited access to health services and insufficient funding for the health care system;
- Low productivity, which is only 50 per cent of the EU average, and low investment in research and development;
- The high share of the shadow economy and low anti-money laundering capacity;
- Insufficient capacity of public administration for implementing rapid and successful reforms, insufficient knowledge in the application of public procurement and state aid rules, and a high administrative burden and low level of public confidence in public administration.

For more information

Lilija Apine

National Campaigner in Latvia
Zaļā brīvība (Green Liberty)
CEE Bankwatch Network
lilija.apine@bankwatch.org

CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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To deal with these challenges, the government has divided the available resources among six priority areas: (1) climate change and sustainability (37 per cent); (2) digital transformation (20 per cent); (3) reducing inequalities (20 per cent); (4) health (11 per cent); (5) economic transformation and productivity reform (10 per cent); and (6) rule of law (2 per cent).

The climate section of the plan contains a variety of good measures that serve the country's direction towards climate neutrality, such as 'The greening of the transport system of Riga metropolis area'; 'Energy efficiency measures for multi-apartment buildings, private enterprises and municipal and state buildings'; 'Support for increasing energy efficiency in business' and 'Modernisation of electricity transmission and distribution networks'. However, **overall, the plan too closely resembles 'a shopping list' of measures from different ministries intended to fill the holes in the state budget rather than a thoughtful, unified, strategic plan to transform the economy, making it more resilient and climate neutral.**

Apart from one measure on flood risk-reduction infrastructure¹ that environmental non-governmental organisations (NGOs) object to, the public's **greatest objections regarding the recovery plan are based on what the plan does not include.**

Hidden from the public eye, there were discussions and power struggles between ministries, which are dominated by different political parties, when the available funding was divided among them. This has resulted in a plan that is rather short on reforms and investments in areas that could have created a snowball effect towards a low-carbon economy. These include more intentional and extensive support for the greening of the transportation sector and investments in the central heating sector, which promises a significant reduction in greenhouse gas emissions. The Recovery and Resilience Facility provides an opportunity to implement much needed reforms that could truly set Latvia on the path towards climate neutrality and would not require large amounts of investment. Unfortunately, the Latvian recovery plan is too short on reformative elements.

Nevertheless, the only clear support for a carbon-intensive economy in the plan is under the measure to reconstruct road infrastructure in the regions (for reducing inequality).

This assessment² analyses the alignment of Latvia's recovery plan with the EU's climate objectives.

Assessment

Some of the measures proposed are clearly aligned with the EU's climate objectives: 'The greening of the transport system of Riga metropolis area'; 'Energy efficiency measures for multi-apartment buildings, private enterprises and municipal and state buildings'; 'Support for increasing energy efficiency in business'; and 'Modernisation of electricity transmission and distribution networks'. However, the specific proposals made under these measures could be more ambitious and will not do enough to ensure that Latvia achieves EU climate goals.

¹ 'Investments in flood risk reduction infrastructure, including renovation of polder pumping stations, restoration of protective dams, restoration of regulated sections of rivers' will have an unpredictable impact on climate, and would probably have negative impact on biodiversity as well.

² This assessment is based on the version of the [Latvian recovery and resilience plan](#) published on 27 April 2021.

The greening of the transportation sector

The support for the reduction of greenhouse gas emissions in transportation sector included in the newest version of the plan could be more ambitious. The measure ‘The greening of the transport system of Riga metropolis area’ includes the electrification and modernisation of trains, upgrade of trains to reduce emissions, purchase of emission-free public transport vehicles, and construction of bicycle and park-and-ride infrastructure. The plan envisages that these reforms and investments will contribute to behaviour change, making private car users to switch to public transportation or cycling. The reform, although very much welcome, would have benefitted from some accompanying administrative and or fiscal measures that would nudge such a behaviour change.

Under energy-efficiency improvement measures, support for purchasing zero-emission vehicles for businesses to replace fossil-powered vehicles has been added (and will support the purchase of 1,269 vehicles in total). Also, the newly added measure ‘Modernisation of electricity transmission and distribution networks’ includes investments for the development of electric car charging points as well as a reform to define obligations for fuel traders to install electric charging points for the expansion of the electric charging network. Although it is not clear how much would be invested specifically in the development of new charging points, this is certainly a step in the right direction.

Total non-ETS segment transport emissions in Latvia are 29 per cent of the total greenhouse gas emissions. Road transport contributes to 93.9 per cent of total transport emissions, and passenger vehicles constitute 76 per cent³ of these. In other words, passenger vehicles contribute to 76 per cent of road transport emissions and more than 71 per cent of total transport emissions. Hence, if the plan wants to have an impact on emissions, it should target this segment. Therefore, the newly added support for the electrification of the passenger vehicles to reduce the sector’s emissions is welcome. However, more support could have been added through removing administrative barriers and creating positive incentives.

Previous measures promoting the use of biomethane in transportation⁴ have been left out of the updated plan due to public consultations and the comments of the European Commission. The main objection from environmental NGOs was that investments in biomethane would not be the most effective use of public funds for reducing emissions in the transportation sector. However, unfortunately, the Latvian government’s response was simply to remove these measures, leaving less funding for the greening of transportation sector, without adding new, more effective measures. Also, it is unfortunate that the establishment of a biomethane certification system was left out, since it is a needed measure.

³ Latvijas Vides Geoloģijas un Meteoroloģijas Centrs, [GHG Inventory for 2019, 2020](#).

⁴ These measures were: ‘Purchase of vehicles of the State Fire and Rescue Service of the Ministry of the Interior’, ‘Purchase of vehicles intended for the implementation of municipal functions and provision of services’, ‘Establishment of a system of proofs of origin for biomethane purchase of State fire service specialized vehicles’, and ‘Adaptation of transport and machinery required for farms (including agricultural production) and enterprises to operate with biomethane’.

Energy efficiency improvement measures

The plan includes the following measures: ‘Improving the energy efficiency of apartment buildings and the transition to the use of renewable energy technologies’; ‘Increasing energy efficiency in business (including the transition to the use of renewable energy technologies in heat supply and related research and development activities (including bioeconomy), which is planned to be implemented nationally in the form of a combined financial instrument’; ‘Improving municipal buildings and infrastructure by facilitating the transition to renewable energy technologies and improving energy efficiency’; and ‘Improving energy efficiency in public sector buildings, incl. in historic buildings’.

After public consultations and comments from the Commission, more resources have been allocated for energy efficiency measures for multi-apartment buildings (an additional EUR 20 million) and for increasing energy efficiency in business (an additional EUR 40 million). Funding has been reduced for public sector buildings, including historic buildings, where the proposed reforms would not result in significant energy savings. These developments are very positive and will contribute to achieving the updated goal of renovated multi-apartment buildings included in the Latvian National Energy and Climate Plan (NECP).

However, this area of the plan lacks reformative elements as well. To speed up energy efficiency improvements in the residential housing sector (even without the financial support of EU funds and mechanisms), measures that would remove administrative barriers should be included. For instance, these measures should include easing the process of making collective decisions for the renovation of the building (in residential buildings that are not divided into apartments) as well as widely introducing individual heat meters in multi-apartment buildings for improved energy saving habits.

There is a great potential to reduce emissions by improving the central heating system⁵; therefore, it is important to invest in this sector as well, with a special emphasis on improving energy efficiency, promoting new connections and increasing the share of renewable energy sources in the heat supply by promoting zero-emission technologies (heat pumps, solar panels) and storage technologies (storage tanks, electric batteries). However, the plan allocates no resources for this purpose.

Support for renewable energy production

The updated plan allocates a significant amount (EUR 80 million) towards a newly added measure, ‘Modernisation of electricity transmission and distribution networks’, which will improve the integration of renewable energy in the system. Apart from this, the only other investment for renewables in the plan is a limited amount included as part of the energy efficiency measures.

It has been gratifying, however, to see that the newly updated plan includes reforms for boosting renewables, such as facilitating conditions for the design and construction of wind power plants on state forest lands; introducing regulations for wind farm impacts (low frequency sounds, etc.); introducing regulations for the

⁵ CEE Bankwatch Network, Zaļā brīvība, *District Heating - The role of EU investments*, February 2021.

implementation of offshore wind energy projects; introducing regulations for issuing permits for the operation of the RES single contact point; expansion and improvement of the Net system for promoting prosumer activity; development of a framework for the operation of electricity communities; development of a framework for the operation of electricity communities; and development of a planning document on electricity storage from renewable energy sources and the necessary measures for the integration of energy sectors.

This can be seen as significant progress, although an even greater increase of renewables in the total energy balance could be achieved by creating and implementing a plan for eliminating subsidies for the use of fossil fuels to ensure that climate neutrality goals are met.

Adaptation to climate change

The measures included under the adaptation to climate change component of the plan have received the greatest criticism from environmental NGOs.

The measure ‘Investments in flood risk reduction infrastructure, including renovation of polder pumping stations, restoration of protective dams, restoration of regulated sections of rivers’ raised serious concerns about whether this could negatively impact wetlands – not only CO₂ absorption, but also biodiversity. If the plan stated that only green solutions would be used, the measure could be acceptable, but the absence of such a guarantee signals that plans exist to implement projects that might not be very nature sensitive.

Another proposed measure is ‘Adaptation of the disaster management system to climate change, coordination of rescue and rapid response services’, which includes a reform that is related to streamlining structures and functions and a review of the location of service units, as well as investments in the construction of 43 disaster management centres, six separate fire depots and the College of Fire and Civil Protection, all of which should meet the ‘nearly zero-energy building’ standards. Although necessary, this measure does not align with the essence and purpose of this financial instrument, since it will not make any significant change to the economy. It is rather a measure intended to fill a hole in the state budget and should be financed using the state budget or EU cohesion fund.

Due to the pressure from civil society, the updated plan excludes the measure ‘Investments in attracting [greenhouse gas] emissions and promoting forest sustainability - replacement of unproductive forest stands, afforestation, care of young stands’, which, first, could release more CO₂ than it absorbs, and second, would have a negative effect on biodiversity.

The quality of the ‘do no significant harm’ principle assessment

For most of the measures within the climate section of the plan, the ‘do no significant harm’ principle assessment has been done satisfactorily, since these measures will clearly have a positive impact on the climate and environment, with very limited negative impacts (for example, during the building and production phase). The exception is the measure proposed by the Ministry of Agriculture under adaptation to climate

change: ‘Investments in flood risk reduction infrastructure, including renovation of polder pumping stations, restoration of protective dams, restoration of regulated sections of rivers’.

The assessment for this measure is very short and does not provide any justification, only stating that ‘the measure will not have a significant impact on the particular environmental aspect’ and provides incomplete or questionable information. For instance, it mentions that environmental impact assessments (EIAs) have been conducted for these projects, but elsewhere it states that EIAs will be executed in the future. When it comes to the ‘do no significant harm’ principle assessment for measures in other sections of the plan, there are a few shortcomings. For instance, the measure ‘Support for the introduction of new products and services in business’ is assessed as ‘causing no [greenhouse gas] emissions, given the nature of the measure (support for the development of new digital products and services)’. However, the description of the measure does not state that only those products or services that replace existing, more polluting products or services will be introduced. At the current level of detail, it is almost impossible to assess the possible impacts; therefore, stating that the measure will not have any adverse impact is just an assumption. In general, it seems that it is automatically assumed that if the measure is digital, it has no connection to the physical world and therefore no impact on the environment, which of course is not true. For example, servers that provide digital solutions or internet consume increasing amounts of energy and raw materials and impact climate change and circular economy objectives.

Conclusion

The Latvian recovery plan could be described as a ‘step in the right direction’. There are some truly good and very needed measures – for the transportation sector, for energy efficiency and for reforms that will boost renewables – but still, it does not contain enough ambitious reformative elements. Reforms do not necessarily require large amounts of resources, and this instrument provides the perfect opportunity to craft and carry out reforms that would create a snowball effect towards a low-carbon economy.

Overall, with very few exceptions, the Latvian plan does align with the European Green Deal; however, this plan does not say that Latvia wants to lead the way towards a green, climate-neutral Europe. It rather says that we are okay with following others there, as long as we get to keep our dream of catching up with the unsustainable consumption levels of western Europeans.

This publication has been prepared with the financial assistance of the European Union and is part of a project of the European Climate Initiative (EUKI) of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). Its content is the sole responsibility of CEE Bankwatch Network and can under no circumstances be regarded as reflecting the position of the donors.

Supported by:



Federal Ministry
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based on a decision of the German Bundestag



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