

# Financial support for renewables in Latvia

*It is time we tackle our vulnerabilities and rapidly become more independent in our energy choices. Let's dash into renewable energy at lightning speed.*

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Photo: Canva

## Introduction

A range of geopolitical, economic, and environmental factors explain why a rapid phase-out of fossil fuels is a fundamental necessity for ecological transition in contemporary societies. In early March 2022, the European Commission published the REPowerEU<sup>1</sup> plan, which sets clear goals for ending gas imports from the Russian Federation, picking up the pace towards energy savings and widening the

<sup>1</sup> European Commission, [REPowerEU: Joint European action for more affordable, secure and sustainable energy](#), European Commission, 8 March 2022.

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deployment of renewables. European environmental organisations strongly support future energy systems based on 100 per cent renewables<sup>2</sup> and Paris Agreement compatible scenarios.<sup>3</sup>

In Latvia, energy transformation is guided by EU-level climate and energy policies, and EU funds provide the largest share of public investments. Yet dependency on EU grants has created a fragmentary and government-led approach to implementing energy efficiency and renewable energy projects.<sup>4</sup> To reach short- and mid-term clean energy goals (50 per cent renewable energy sources by 2030), investments must increase, both to avoid potential delays between planning periods and programmes and to take advantage of cooperative financial instruments that include private capital.

## Factors influencing renewable energy source deployment in Latvia

This info sheet provides an overview of public funding and financial instruments for renewable energy source deployment in Latvia that have either already been launched or are planned to be launched this year, as well as provides insight on planned programmes in the coming years. Related investments in sustainable mobility and biomethane are not included. In terms of EU programming periods, 2022 is a transitional year, with some funding still being used from the previous calls while regulations for the new programmes are being designed.

The energy price crisis and the war in Ukraine have moved energy transition into the foreground of politics, resulting in government and private actors showing greater interest in new support measures, and also resulting in the mobilisation of additional funding. The changes in global energy economics and specific national responses will pave the way for reworking the EU Member States' national energy and climate plans in 2023.<sup>5</sup>

Investments in energy efficiency measures have typically attracted more funding than renewables in Latvia, with the exception of a significant increase of woody biomass-based heating systems. Deployment of solar energy is still negligible. The priority, as stated in the 'energy efficiency first'<sup>6</sup> principle in the EU energy system's governance, is to reduce demand and energy losses caused by inefficient technical systems. Whilst efficiency needs for housing renovation and industry are enormous, investments in renewable energy projects often generate synergies with energy sufficiency measures.

Switching to non-fossil energy sources is influenced by price levels, reduced dependence on imports and climate change mitigation factors. We can expect that the growing public demand for energy transition will result in the government updating its plans soon and establishing comprehensive support mechanisms for increasing the share of renewable energy.

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<sup>2</sup> Climate Action Network Europe, [Together for 100% renewable Europe](#), *Climate Action Network Europe*, accessed 25 October 2022.

<sup>3</sup> Climate Action Network Europe and European Environmental Bureau, [Building a Paris Agreement Compatible \(PAC\) energy scenario](#), *European Environmental Bureau*, June 2020.

<sup>4</sup> Agris Kamenders, Claudio Rochas, David Rusnok and Aleksandra Novikova, [Capital raising plan for energy efficiency and renewable energy projects in Latvia](#), *Riga Technical University*, December 2020.

<sup>5</sup> European Commission, [National energy and climate plans](#), *European Commission*, accessed 21 March 2022.

<sup>6</sup> European Commission, [Energy efficiency first](#), *European Commission*, accessed 21 March 2022.

## Renewable energy source funding programmes in 2022

Figure 1. Timeline for public renewable energy source funding schemes in 2022

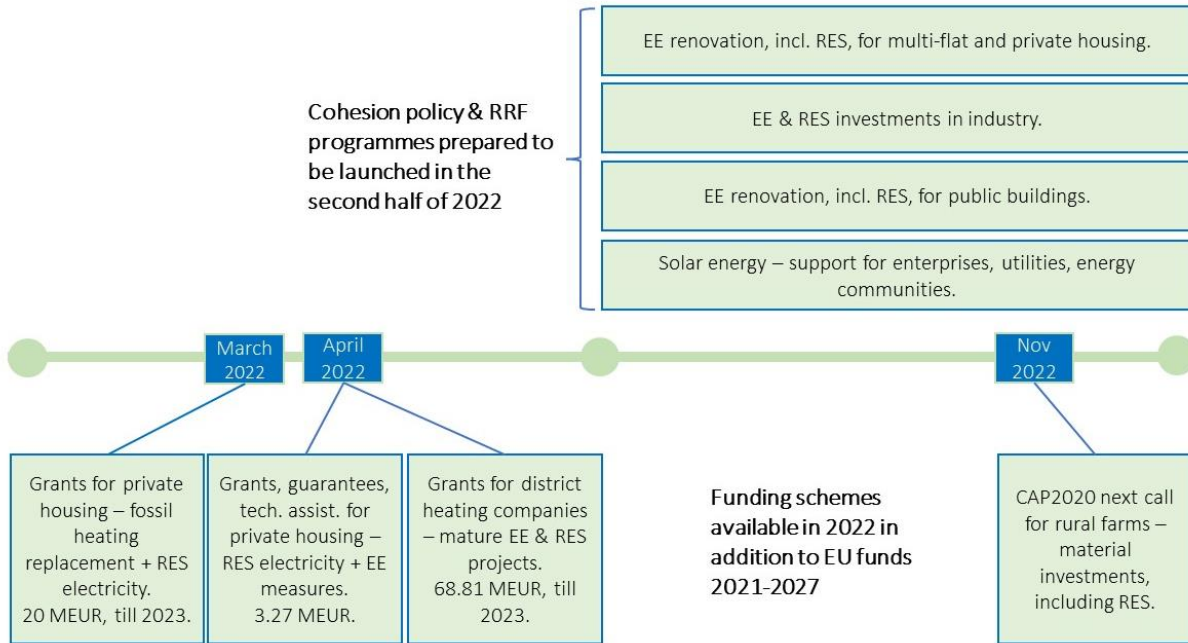
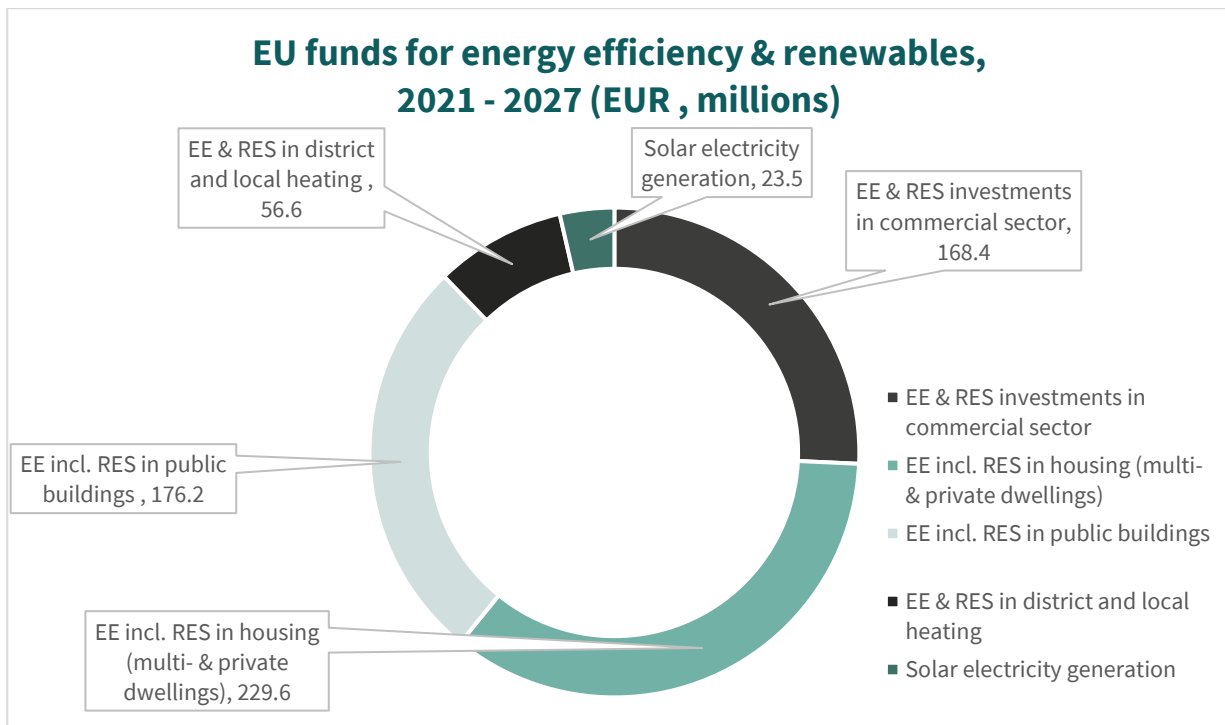


Figure 2. Estimate of EU funds for climate and energy objectives from 2021 to 2027



Data: [Ministry of Economics](#), 2022

## EU funds post-2020: cohesion policy and recovery fund

EU funds statistics for 2014 to 2020<sup>7</sup> show that most of the funding has already been spent. The priority direction ‘Transition to a low carbon economy in all sectors’<sup>8</sup> in the ‘Growth and Employment’ programme provided EUR 480.6 million for energy efficiency and renewable energy source investments for commercial facilities, the housing stock, public buildings, district heating systems and sustainable mobility.

Latvia’s Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) funds, however, allow extensions of some previous programmes, including investments in the energy efficiency and conversion to renewable energy sources of the district heating system, which are designed to alleviate the rising costs of gas-based heating systems. In April, another call was launched for the municipal district heating companies. The EUR 68.81 million programme supporting the switch from fossil (e.g. gas) to renewable (e.g. wood chips) fuels, prepared by the Ministry of Economics, will be implemented by the end of 2023. There are 39 high-readiness projects in different municipalities which were identified in a study carried out by Latvian Association of District Heating Companies.<sup>9</sup>

In October of this year, the number of microgenerators installed in Latvia reached 10,000 – a fivefold increase since the end of 2021. The rapid breakthrough in microgeneration is driven by the citizens' interest in renewable energy solutions in the context of the energy crisis, but state support programmes for the use of solar energy in households have also been an important contributing factor.

In Latvia, traditionally, the most important source of public investment in climate and energy policy measures has been the budget funds of the European Union. It will remain so in this planning period, which lasts until 2027. In project financing, solutions are sought to expand the range of financial instruments, for example by replacing the grant approach with loans with a capital discount and guarantees. It is equally important to find the most effective approach in the preparation of project applications in order not to create additional competition between municipalities and to guarantee that the resources invested in the development of high-quality applications produce results.

There are several new programmes under construction, combining funds from the cohesion policy programme<sup>10</sup> and the recovery fund.<sup>11</sup> The Ministry of Economics estimates that energy efficiency and renewable energy source programmes for housing, public buildings and commercial facilities will be opened before the end of 2022. Although the grants and loans will focus on energy efficiency measures, the programmes all provide support for renewable energy source installation. Importantly, the new programmes should result in a wider adoption of solar photovoltaics or collectors on multi-apartment buildings. The regulation on prosumerism and collective self-consumption will be discussed in the parliament before 2023.

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<sup>7</sup> Ministry of Finance of the Republic of Latvia, [EU funds 2014-2020: Implementation progress](#), *EU funds Latvia*, last updated 17 March 2022.

<sup>8</sup> Ministry of Finance of the Republic of Latvia, [EU funds 2014-2020](#), *EU funds Latvia*, last updated 1 April 2020.

<sup>9</sup> Ministry of Economics of the Republic of Latvia, [Pašvaldībām jau aprīlī būs pieejams atbalsts centralizētās siltumapgādes katlumāju pārslēgšanai no gāzes uz atjaunojamo energoresursu kurināmo](#), *Ministry of Economics*, 8 March 2022.

<sup>10</sup> Ministry of Finance of the Republic of Latvia, [EU funds 2021-2027](#), *EU funds Latvia*, last updated 30 June 2021.

<sup>11</sup> Ministry of Finance of the Republic of Latvia, [Eiropas Atveseļošanas fonds](#), *EU funds Latvia*, last updated 20 September 2021.

Another opportunity is the upcoming programme for solar energy, which will be a beneficial force for starting the first energy communities in Latvia. However, the total public funding for renewables investments is limited, and experts expect significant adjustments in the coming years.

According to Latvia's Partnership Agreement with the European Commission for the new planning period, EUR 839 million will be invested in Latvia by 2027 to contribute to achieving the goals of renewable energy, energy efficiency and climate resilience.

The Cohesion Policy objective 'A greener Europe with low carbon emissions towards climate neutrality, promoting a clean and fair energy transition' includes specific objectives for energy efficiency and renewable energy support. Programmes will thus be available for both building renovation and renewable energy production. The terms of the programmes are still being developed, but the total funding will be more than EUR 600 million. The operation of energy communities will also be supported. The priority on climate change includes several specific support objectives for the use of zero-emission technologies:

- Promotion of energy efficiency and the reduction of greenhouse gas emissions in buildings. In the programme for multi-apartment houses, renovation is combined with the deployment of renewable energy sources for heat or electricity production.
- Renewable energy sources in heat supply: increasing renewable sources and energy efficiency in local and individual heat supply. Support is provided via a financial instrument with a capital discount.
- Renewable energy sources and energy efficiency in industry and other commercial activities.
- Renewable energy source promotion – solar electricity, installation of production and storage equipment (merchants, municipal corporations, energy communities). Support is provided via a financial instrument with a capital discount.

Cohesion policy programmes are created in synergy with Latvia's recovery plan; the first selections are planned at the end of 2022. It is important to note that for the first time the support conditions will also be suitable for building energy communities (about EUR 20 million, solar electricity), although only for energy communities with high energy capacity.

## Altum's financial instruments

Altum<sup>12</sup> is a state-owned financial institution that implements those energy efficiency and renewable energy programmes not covered by the grants provided by the Central Finance and Contracting Agency.<sup>13</sup> Altum provides loans, capital discounts and guarantees, as well as technical assistance for project developers. Its sources of funding include EU funds, other financial mechanisms and capital markets.

This year, a programme for private housing in the amount of EUR 3.27 million was also launched, offering grants and guarantees for energy efficiency improvements and renewable energy-based electricity (for solar or wind energy microgeneration (up to 11.1 kilowatts (kW)) in households). Around 600 households are planned to

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<sup>12</sup> Altum, [Homepage](#), accessed 21 March 2022.

<sup>13</sup> Central Finance and Contracting Agency, Republic of Latvia, [Homepage](#), accessed 21 March 2022.

participate in the programme. In addition, there is an ongoing energy efficiency and renewable energy programme that enables enterprises to obtain loans on more favourable terms.

## Emission Allowances Auction Instrument

The Emission Allowances Auction Instrument<sup>14</sup> (EAAI) is a state budget programme for climate change mitigation projects. Its funding is sourced through Latvia's participation in the EU emissions trading system.

In March 2022, the Ministry of Environment and Regional Development launched the first renewable energy support programme for private housing. It will allocate EUR 20 million to homeowners that stop using fossil fuels in domestic heating systems by switching to heat pumps, renewable electricity or district heating. The maximum support per individual project is EUR 15,000 (50 per cent of the costs of the appliance). This programme is specifically designed for individual dwellings and will not apply to renewable energy installations in multi-flat buildings or commercial facilities. The funds are intended for the period until the end of 2023. In case of high interest, the Ministry will consider the possibility of increasing the funding.

Within the framework of the EU Emissions Trading System, the Modernisation Fund will also be established in the coming years. It will provide funding for the use of renewable energy technologies to modernise energy supply systems in accordance with climate policy goals.

## Rural Development Programme

Latvia's Rural Development Programme, under the Common Agricultural Policy (CAP2020), includes the measure 'Investments in material assets',<sup>15</sup> which also provides funding for renewable energy generation for self-consumption (grant intensity at 50 per cent of direct costs). At the end of 2020, only a few projects for financing under this programme had been submitted, leaving most of the EUR 16 million in public funding intact. However, interest in renewable energy is expected to have grown significantly over the past few years.

The next selection will start in November 2022. According to the regulations of the Cabinet of Ministers, the investments include equipment for RES (biofuel, biogas, sun, wind, geothermal heat pump) heat energy; electricity production and; use in existing and new production buildings (including greenhouses) for heating, cooling, power supply.

Support for investments in the use of renewable energy or increasing energy efficiency will also be provided in the new planning period in the strategic plan of the Common Agricultural Policy.



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<sup>14</sup> Emission Allowances Auction Instrument, [News](#), accessed 21 March 2022.

<sup>15</sup> Rural Support Service, Republic of Latvia, [Lauku attīstības programmas \(LAP\) investīciju pasākumi 2014-2020](#), Rural Support Service, Republic of Latvia, accessed 21 March 2022.