

Energy poverty in Latvia – from definition towards action



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This briefing is a summary of the report [Enerģētiskā nabadzība – no definīcijas līdz rīcībai](#) (in Latvian).

The current energy crisis clearly demonstrates what should have been done in the previous decade in the field of energy efficiency and confirms the need to promote energy literacy among citizens. The current emergency requires funds to

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be spent on immediately preventing its negative consequences, like extremely high energy bills – which may actually make it more difficult to find the necessary funding for long-term solutions like renovating buildings and upgrading heating systems. The energy crisis has created a situation where a large part of Latvia's population suffers from energy poverty, according to its definition – or would suffer if there were no support mechanisms provided by the state and municipalities. However, the definition and measurement of energy poverty in the pre-crisis sense still matters and will continue to matter as long as the problems causing these forms of poverty remain relevant.

One of the first countries to define and legislate the concept of energy poverty was the United Kingdom, which defines households in energy poverty as those that do or would need to spend more than 10 per cent of their total income on energy to ensure adequate comfort in their houses.¹ In Latvia, the approach is more restrictive. It is common for the start of the heating season to be delayed until very late in the autumn or for rooms to be kept at a lower temperature than they should be. In Latvia, 15 per cent of total income could be defined as the percentage below which energy expenditure is disproportionately high.

The EU's energy efficiency directive, approved in 2012, stipulates that it is up to individual nations to reduce energy poverty, encouraging the use of cohesion policy funds to do so. The directive also states that some energy efficiency measures should be implemented as a priority in social housing and households affected by energy poverty. EU directives from 2002² also strengthened the concept of the 'protected user'. Generally, low-income households, large families or pensioners are included among protected users. Unlike the definition of energy poverty, the definition of a protected user appears in every EU country.

In 2016, the commissioner of the European Energy Union, Maroš Šefčovič, stated that one-tenth of Europeans – 50 million people – had difficulties paying their heating bills and 75 per cent of buildings in the EU were not sufficiently energy efficient. In December of the same year, the Energy Poverty Observatory of the European Union was founded. Its main task is to collect and disseminate information on energy poverty, as well as to develop appropriate recommendations for its reduction at the European level. As a result of the observatory's work, the term 'energy poverty' was included in a series of European energy policy documents. Individual countries were assigned the task of defining this term and planning a targeted policy to reduce the problem.

Until now, support measures in Latvia have only been partially and indirectly aimed at reducing energy bills and the risk of poverty, through the electricity market itself and benefits from municipalities. It was only in February 2021 that the country's energy law³ was supplemented with a chapter entitled 'Energy Poverty', which according to the law on social services and social assistance defines that a household affected by energy poverty meets at least one of the following criteria:

- it is recognised as a poor or low-income household and receives material support to cover expenses related to the use of housing;

¹ European Parliament. Directorate-General for Internal Policies, [Energy Poverty](#), *European Parliament*, 2017.

² Directives 2009/72/EC concerning common rules for the internal market in electricity and 2009/73/EC concerning common rules for the internal market in natural gas

³ Saeima, [Enerģētikas likums](#), *Likumi.lv*, *Latvijas Vēstnesis*, 273/275, 22 September 1998.; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 20, 15 October 1998.

- it rents a residential space or a social apartment owned or leased by the municipality in accordance with the law 'on assistance in solving apartment issues or the law 'on social apartments and social residential houses'.⁴

The legal definition of energy poverty itself focuses on living conditions in households in which it is difficult not only to maintain an appropriate temperature, but also to pay for the services provided by energy supply companies or to use them due to low-income, high-energy service costs or the house's poor energy efficiency.

In its national energy and climate plan, Latvia has determined that by 2030, 'the proportion of households that were denied the provision of heat in the home due to poverty' will be reduced, ensuring that this proportion is lower than the EU average of 7.5 per cent.

Compared to Europe as a whole, until 2019 Latvia had below-average performance indicators. In 2017, 9.7 per cent of all residents were denied heating in their homes due to a lack of money (compared to 8.1 per cent across the EU, except UK). After 2019, Latvia's performance improved, in 2021 this indicator decreased to 4.9 per cent (compared to 6.9 per cent across the EU).⁵ Comparing these changes in energy poverty indicators over the years, it can be concluded that the problem has decreased in scale; the share of the population that could not maintain a warm home fell from 29.8 per cent in 2005 to 4.9 per cent in 2021.

We can safely say that without the current support measures implemented by national and local governments, energy poverty would be experienced acutely by the majority of Latvia's population according to the pre-crisis definition. Since the second half of 2021, measures to partially offset the increase in energy prices have been supported. Wider support measures were introduced in January 2022, with further energy price compensation measures approved for both individuals and legal entities in August.

The energy crisis has clearly highlighted the unfinished homework of the past decade in the fields of building renovation and energy self-sufficiency. In this context, the best support mechanisms are those that keep energy prices at a level that makes it clear to households how important the energy transformation is but prevent situations when residents cannot afford to cover other necessities like quality food, medicine, medical services, education, rent and loan payments and avoid making the country economically uncompetitive. Households that were previously exposed to the risk of energy poverty should be especially protected.

Considering the risks of energy poverty and the need to renovate buildings, the state's existing short-term support measures are generally positive. However, **to solve the problem in the long term, it is critical that the government emphasises that the new support being offered is only for this heating season and should be seen as a measure to allow households to buy time in preparation for the next cold season**, when extensive support will no longer be provided. This may help motivate households to do what they can themselves to reduce consumption rather than to rely solely on the state for help. At the same time, support measures for improving energy efficiency, specifically for low-income households should be expanded.

⁴ Inese Helmane, '[Definē, kas ir enerģētiskā nabadzība](#)', *LV portāls*, 16 February 2021.

⁵ Eurostat, '[Inability to keep home adequately warm - EU-SILC survey](#)', accessed on 11 January 2023.

In 2022, the number of people classified as poor has almost doubled compared to 2020. However, in the context of this indicator over the past 15 years, including the increase that occurred during the 2008 financial crisis, this number is still relatively small. Evaluating the increase in the number of low-income and poor people, as well as the relevant support expenses over the past year, it is likely that the support mechanisms implemented by national and local governments have so far prevented an even faster increase in the number of people at risk of energy poverty.

The housing stock in Latvia is rapidly aging; energy consumption is high and thermal technical performance is poor. Only 3 per cent of buildings in terms of number and 5 per cent in terms of area were built after 2003 and meet the currently valid thermal technical requirements.⁶ The role of local governments in the process of building renovation is essential, but until now they have mostly dealt with the consequences of these issues, providing low-income residents with support in covering energy costs but paying little attention to improving the energy performance of buildings. In the current energy crisis, measures to improve energy efficiency can potentially pay off significantly faster, but there is also a lot of uncertainty.

On the one hand, residents have become more interested in applying for energy efficiency improvement programmes for buildings in 2022. However, they are also very cautious due to the prevailing uncertainty: it is common for new projects to be submitted, but a large number of projects are also discontinued. This depends heavily on government actions and communication. In the summer of 2022, when the government had not yet publicly confirmed the planned support measures for the next heating season, but energy prices were continuing to rise, residents' interest in building renovation was very high. However, as soon as the government announced support measures for heating costs, this demand eased noticeably.

'Energy efficiency first' is the most important policy planning principle in the energy sector of both Europe and Latvia. The current energy crisis clearly illustrates the fact that the principle has not been implemented, meaning that a large amount of state money now has to be spent on short-term needs to offset energy costs.

At the same time, financial opportunities for building renovation projects are expanding, as additional EU funds are available from the Recovery and Resilience Facility and will soon also be available from REPowerEU. This will create an opportunity to prioritise improving the energy efficiency of buildings. Renovation measures provide an opportunity not only to reduce energy consumption and decrease the severity of global warming, but also to save buildings from poor technical conditions.

The new energy efficiency measures include several significant improvements. In addition, a specific support programme for vulnerable and low-income households will be designed using cohesion policy funds, although specific criteria for this programme have not been made public yet. In the existing measures financed by the Recovery and Resilience Facility, vulnerable and low-income groups have limited access to this type of EU funds support. The value-added tax (21 per cent) for building renovation projects will no longer be eligible for funding support, which is consistent with the EU's requirements. This means that the value-added tax, in addition to other ineligible costs, will have to be covered by the residents themselves. Accordingly, for the standard programmes (for all except low-income households) the maximum grant

⁶ Ministry of Economy of the Republic of Latvia, [Informatīvais ziņojums par ES fondu finanšu resursu izmantošanu un standarta risinājumiem sērijveida daudzdzīvokļu dzīvojamā māju energoefektivitātes uzlabošanā](#), Ministry of Economy of the Republic of Latvia, 12 August 2018.

amount of 49 per cent specified in the programme will actually be slightly below 40 per cent in reality. From 2016 to 2022, the total eligible costs of approved projects increased by an average of 63 per cent.⁷ High costs create risks that citizens will be unwilling or even unable to use this money.

The energy efficiency of buildings is not only a climate and energy issue, but also a distinctly social and economic issue. Unfortunately, the funds provided by EU programmes will only be able to cover a relatively small part of the necessary investments. **Mechanisms must be found to ensure the continuity of funding availability so that municipalities can provide greater support to residents in managing renovation projects, implementing a standardised approach to the renovation of the same types of buildings and promoting a district approach** to renovating multi-apartment buildings. At the same time, there needs to be a discussion about also applying the reduced value-added tax rate of 12 per cent to energy efficiency improvements for buildings to promote energy saving instead of consumption. Currently, the full rate of 21 per cent is applied to energy efficiency measures, whereas the reduced value-added tax rate of 12 per cent is applicable to the purchase of household fuel and heat supplies (as is also the case for fossil gas).⁸

Funded by



'The RegENERate project has received funding from the LIFE Programme of the European Union.'



⁷ Skaitliskās modelēšanas institūts, [Altum Daudzdzīvokļu māju energoefektivitātes programmas statistika](#), Skaitliskās modelēšanas institūts, 22 September 2022.

⁸ The import of fossil gas transported using a natural gas system or networks connected to this system, fossil gas transport ships, or fossil gas which is pumped into a fossil gas system or main pipeline network for the import of electricity, heating energy or cooling energy through heating or cooling networks is not subject to value-added tax.