

LATVIA'S RECOVERY & RESILIENCY PLAN

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The Latvian draft Recovery and Resilience Plan (RRP) was first published in January 2021, following public consultations at the end of 2020. Initially, the plan was '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. Public participation was limited and the first draft plan received wide criticism from many stakeholders, including NGOs, business associations, and local municipalities.

Environmental NGOs expressed their concerns as well as sent several letters to the government and European Commission. As a result of this pressure, the government organized series of public consultations and significantly redrafted the plan excluding sections e.g. on gasification of the transport sector, reforestation measures (nature conservation organizations expressed their concerns about the possible significant harm).

The new Latvian RRP (27 April 2021) includes measures worth €1.82bn (or 6% of domestic GDP) and is significantly improved contributing to the green transition and 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 digitalization 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% 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.

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

The climate section of the plan contains a variety of measures that serve the country's direction towards climate neutrality, such as:

- **The greening of the transportation sector** includes the electrification and modernization 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 behavior change, making private car users 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 behavior change.

- **Energy efficiency improvement measures** – the latest plan allocates more resources for energy efficiency measures for multi-apartment buildings (an additional EUR 20 million) and 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).
- **Support for renewable energy production** (EUR 80 million) is a newly added measure, including 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 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.
- **Adaptation to climate change** has received the greatest criticism from environmental NGOs. Due to the pressure from NGOs, 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 biggest concerns still are about the measure on flood risk-reduction infrastructure, which could have significant adverse effects on nature depending on the solutions used and projects funded (not specified in the RRP).

Climate governance of the package is also unclear as RRP does not foresee any mechanisms for how the climate targets of the plan will be assessed and supervised. It should be noted that climate and energy policy in Latvia is supported by the National energy and climate board which is a multi-stakeholder institution chaired by the Prime-minister. Unfortunately, the board has not been involved in the development of the RRP.

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.