

# Following the Money: Latvia

## What is the Just Transition Fund going to finance?

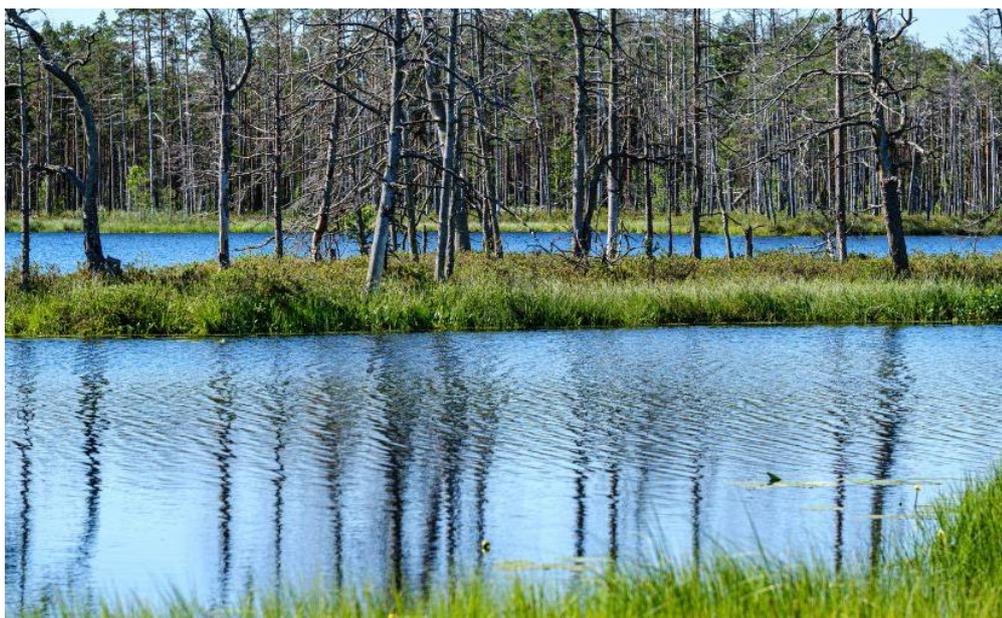


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For more information

**Miłosława Stępień**

Just Transition Coordinator  
CEE Bankwatch Network

[miłosława.stępień@bankwatch.org](mailto:miłosława.stępień@bankwatch.org)

**Maksis Apinis**

Just Transition Campaigner for  
Latvia

Green Liberty

[maksis.apinis@bankwatch.org](mailto:maksis.apinis@bankwatch.org)

**Michiel Stapper**

Assistant Professor at Tilburg  
University

Department of Public Law and  
Governance

[E.W.Stapper@tilburguniversity.edu](mailto:E.W.Stapper@tilburguniversity.edu)

Learn more: [bankwatch.org](https://bankwatch.org)



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This briefing provides an overview of the just transition envisioned in Latvia’s Territorial Just Transition Plan for the four regions designated to receive money from the Just Transition Fund: Kurzeme, Vidzeme, Latgale and Zemgale. It scrutinises and evaluates the economic, environmental and social aspects of the plan, and shows how the various investments are to be divided among the respective policies for each of these areas. Unlike our previous briefings, this time we not only focus on the content of the Territorial Just Transition Plan itself, but also on how the objectives described in the plan specifically translate into the allocation of funds. In short, we follow the money.

The briefing consists of three sections. Following a brief introduction to the Just Transition Mechanism, the second section provides an overview of the methodology underpinning our analysis. The third section identifies what Latvia actually plans to do to alleviate the impacts of the transition to carbon neutrality and explores the allocation of funds for specific types of projects.

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## Introduction to the Just Transition Mechanism

The Just Transition Mechanism is a regional development programme that was announced by the European Commission in January 2020. Its purpose is to provide targeted support to regions in the EU that are likely to be disproportionately impacted by the transition to a carbon neutral economy under the European Green Deal.

The mechanism rests on three separate pillars. The first is the Just Transition Fund, the second is a dedicated just transition scheme under the InvestEU programme, and the third is a new public sector loan facility financed with EU grants and loans from the European Investment Bank. The latter two are discussed in more detail in our briefing on the second and third pillars of the Just Transition Mechanism.<sup>1</sup> Overall, the targeted support provided by the Just Transition Mechanism has led to the mobilisation of around EUR 55 billion in private and public investments.<sup>2</sup>

To be eligible for funding under the pillars of the Just Transition Mechanism, EU Member States were required to negotiate Territorial Just Transition Plans for regions identified as likely to suffer negative socio-economic impacts from the transition to a carbon-neutral economy. This process lasted from the launch of the Just Transition Fund Regulation in June 2021 until the European Commission's approval of the plans, which had to be completed by 31 December 2022. Of the eight countries covered by CEE Bankwatch Network – Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania and Slovakia – seven have had their Territorial Just Transition Plans approved.<sup>3</sup> Only Bulgaria continues to work on its plans owing to the ongoing political instability in the country.

Latvia's four just transition regions are Latgale, Vidzeme, Zemgale and Kurzeme, all of which are closely connected with the peat industry. With the exceptions of Pierīga and Rīga, these regions cover most of the country. However, only one Territorial Just Transition Plan<sup>4</sup> was developed due to the similarity of the economic situations in the four regions. Latvia's sole cohesion policy operational programme for the period from 2021 to 2027 was approved in November 2022. The country will receive a total of EUR 191.6 million from the Just Transition Fund to support the country's transition to a carbon-neutral economy.

All countries who have had their Territorial Just Transition Plans approved have now entered the implementation phase, which means that potential investors are able to apply for funding under all three mechanisms, in accordance with what was established as funding priorities in the approved plans. In most countries, including Latvia, EU funds monitoring committees have been established to oversee the implementation of the just transition projects, a process that is now underway.

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<sup>1</sup> CEE Bankwatch Network, [The Second and Third Pillars of the Just Transition Mechanism](#), CEE Bankwatch Network, 13 March 2023.

<sup>2</sup> European Commission, [The Just Transition Mechanism: making sure no one is left behind](#), European Commission, accessed 9 March 2023.

<sup>3</sup> European Commission, [Just Transition Platform](#), European Commission, accessed 9 March 2023.

<sup>4</sup> Cabinet of Ministers of the Republic of Latvia, [Par Taisnīgas pārkārtošanās teritoriālo plānu](#), *Likumi.lv*, 14 July 2022.

## Methodology<sup>5</sup>

The plan for Latvia was carefully examined and assessed in a four-step process. First, we delved into the primary intended policy outcomes. This involved identifying the key sectors targeted in the plan, summarising estimated job losses and job creation, and analysing the proposed reduction in carbon emissions. We also examined the aspirations related to the phase-out of fossil fuels and the promotion of renewable energy.

In the second step, we closely evaluated the expected impact of the plan. This encompassed a comprehensive analysis of six critical elements: the economic, environmental, employment, and social implications of the plan, as well as potential areas for growth and retraining requirements.

In the third step, we categorised the most significant economic, social and environmental policies in a table format. Economic policies were defined as those directly aimed at the private sector or the improvement of employment conditions. Employment policies were also grouped under economic policies due to their primary benefits for private companies or individuals. Economic policies encompass initiatives such as investments in small and medium-sized enterprises (SMEs), workforce retraining or upskilling, and investments in large businesses. Environmental policies were defined as those that aim to enhance the environment, including increasing renewable energy production and brownfield decontamination. Social policies were defined as those intended to improve the communal and public conditions of regions and specifically benefit large segments of the population. These policies cover investments in social and healthcare, education (excluding retraining or upskilling) and public research organisations.

Economic policies were further categorised into those related to employment, retraining and upskilling, SMEs, and large corporations. Social policies were divided into areas such as social issues, care for children and older people, public sector research and development, education, and small-scale community initiatives. Environmental policies were categorised based on their relationship to energy and land development.

In the fourth and final step, we consulted the Cohesion Open Data Platform<sup>6</sup> to investigate the allocation of funds for specific policies. We calculated the percentage of the total budget allocated within the Just Transition Fund to each policy. It should be noted that just transition regions will also receive money from other EU funds, including the second and third pillars of the Just Transition Mechanism, the European Social Fund, the Modernisation Fund, and the cohesion policy funds, as well as national funds. However, it was not possible to include an analysis of all these additional allocations in this briefing.

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<sup>5</sup> Our methodology was developed in collaboration with Michiel Stapper, Assistant Professor at Tilburg Law School, drawing from his previous work. See: Michiel Stapper, [The Road to a Just Transition – A Comparative Analysis of Territorial Just Transition Plans](#), *Foundation for European Progressive Studies*, April 2022.

<sup>6</sup> European Commission, [Cohesion Open Data Platform](#), *European Commission*, accessed 9 September 2023.

## Following the money: the Just Transition Fund for Latvia

### Planned policy implementation outcomes

**Table 1.** Planned outcomes of the just transition process in Latvia based on the Territorial Just Transition Plan.<sup>7</sup>

Regions	Sectors targeted	Estimated job losses	Estimated new jobs	Reduction in greenhouse gas emissions	Phase-out of fossil fuels	Renewable energy percentage in 2030
<b>Kurzeme, Vidzeme, Latgale, Zemgale</b>	The peat sector, particularly businesses that use peat for energy generation	74 jobs directly or indirectly impacted by the phasing out of peat as an energy source	1,260 employed in recultivating degraded peat extraction sites, along with 1,923 jobs or qualifications in partner sectors	95,682 metric tonnes of carbon dioxide equivalent emissions per year	Peat to be phased out of energy production by 2030	The target set in the former NECP (but not in the Territorial Just Transition Plan) is 50% of final energy consumption. The updated NECP will set a revised target of 57%.

Latvia’s four just transition regions are Latgale, Vidzeme, Zemgale and Kurzeme, all of which are closely connected with the peat industry. The just transition process aims to phase out the use of peat for energy production. However, civil society organisations such as Green Liberty and Bankwatch have indicated that this should not be the only type of peat use that is phased out, given Latvia’s significant role in the peat extraction industry in Europe; Latvia produces 31 per cent of the peat used in the professional horticulture sector in the EU.<sup>8</sup> However, as noted in our previous briefing, the plan only focuses on ending the use of peat for energy production:

The use of peat in the energy sector is very minor. According to the Plan, 32 kt of CO<sub>2</sub> equivalent are produced from peat use for energy, which comprises only 2.4 per cent of all emissions from the peat sector. This is only 0.5 per cent of all peat use. The other 99.5 per cent is used for agriculture, horticulture and forestry, and this is not at all addressed in the Plan. It is necessary to completely stop peat combustion, yet it is not just combustion that should be banned. Any excavation of peat is problematic because of how wetlands work as carbon sinks. This aspect is completely neglected, and the Plan never considers the impacts of the extraction of peat for

<sup>7</sup> Developed by CEE Bankwatch Network based on a methodology by Michiel Stapper and data contained in Estonia’s Territorial Just Transition Plan.

<sup>8</sup> LIFE REstore, [Īsfilma par kūdras ieguves nozari Latvijā](#), LIFE Restore, 23 July 2019.

other uses. Thus, this is a missed opportunity for the initiation of a significant phase-out of peat extraction.<sup>9</sup>

Latvia's Territorial Just Transition Plan only briefly refers to climate neutrality goals, and then in the context of two outdated documents: the national strategy for achieving climate neutrality by 2050, published in 2019,<sup>10</sup> and the national energy and climate plan, published in 2020.<sup>11</sup> Soon to be updated, the new version of the national energy and climate plan is expected to improve the targets for reducing greenhouse gas emissions, with the previous target of a 6 per cent reduction by 2030 (compared to 2005) increasing to 17 per cent. The revised plan was submitted in December 2023, but concerns over the climate and energy targets still remain. The Territorial Just Transition Plan fails to detail the process for achieving climate neutrality, focusing instead on the economic challenges facing the regions.

### **Predicted economic, employment, environmental and social impacts of the just transition in Latvia**

The main objective of the Territorial Just Transition Plan is to shift away from the use of peat as an energy source, thus ensuring the green transition of local economies in the affected regions. The plan states that phasing out peat as an energy source will affect the socio-economic development of companies and municipalities that use peat for energy production, and that fostering an appropriate and climate-friendly environment for productive investments in the regions will depend on the greening of local businesses, including the production of renewable energy based on green technologies.

However, since the plan fails to consider the existing shortage of workers in the regions, the expectation that opportunities will be created through recultivation measures, such as afforestation and repurposing degraded peatland as berry fields, is overly optimistic. Additionally, the plan lacks a rigorous scientific approach to addressing the potential environmental impacts of the proposed recultivation measures. For instance, the plan focuses too narrowly on the impacts of the peat industry on energy production and not enough on the broader ecological consequences of converting degraded peatland to forests and berry fields, including the effects on biodiversity.

Additionally, the plan envisages the rehabilitation of degraded peatland with the aim of restoring wetland and swamp habitats. However, these activities will only apply to areas that are designated as Natura 2000-protected habitats, which represent only 12.4 per cent of all the regions due to be restored. The remaining 87.6 per cent of peatland will be recultivated as berry fields or forest plantations. To complicate matters, the recultivation methods selected in the plan are justified based on scientific data that fail to properly consider greenhouse gas emissions in the context of specific land use.

The plan contends that investments in climate-friendly vehicles will reduce the social and economic consequences of the transition and improve employment opportunities, synchronising with efforts to diversify businesses and support workers in regions most affected by the transition. It is also assumed that

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<sup>9</sup> CEE Bankwatch Network, [Assessment of Latvia's Territorial Just Transition Plan](#), CEE Bankwatch Network, 3, 22 February 2023.

<sup>10</sup> Ministry of Environmental Protection and Regional Development of Latvia, [Informative Report: Strategy of Latvia for the Achievement of Climate Neutrality by 2050](#), Ministry of Environmental Protection and Regional Development of Latvia, 2019.

<sup>11</sup> Ministry of Economics of Latvia, [Latvia's National Energy and Climate Plan 2021-2030](#), Ministry of Economics of Latvia, 2020.

the more efficient use of resources and the anticipated reduction in daily energy consumption will further facilitate this transition.

Based on the statistics provided in the plan, Latvia's peat extraction sites, 53 per cent of which are state-owned, generate greenhouse gas emissions of around 199.9 kilotonnes of carbon dioxide equivalent (kt CO<sub>2</sub>e) per year. It estimates that the total emissions from the sites in the just transition regions most affected by the reorganisation of the peat industry are 153.4 kt CO<sub>2</sub>e. According to the plan, selecting the most effective recultivation method will result in a reduction in greenhouse gas emissions of up to 225.56 kt CO<sub>2</sub>e, representing a 16 per cent reduction in peat extraction emissions within the land use, land use change and forestry (LULUCF) sector. This aligns with the goal set in the 2050 national climate strategy that the LULUCF sector will contribute to a 61 per cent reduction in emissions by 2030. The plan claims that the overall goal of recultivation will lead to the full future use of the sites, preventing adverse effects on the surrounding environment and promoting the integration of peat mining sites into the landscape. However, research indicates that these targets will only be achieved if recultivation activities such as fruit-growing and forest planting are supplemented with additional measures, which are currently not outlined in the plan.

The plan ambitiously predicts that only 74 jobs will be directly or indirectly lost as a result of phasing out peat as an energy source. These losses will be offset by new employment opportunities created through reskilling and promoting economic activity, such as peatland recultivation, in degraded peatlands and other affected areas. This shift towards a greener economy through the recultivation of degraded peatlands and other measures is expected to result in 3,183 new jobs, including those in related industries. For example, there are plans to create new jobs not only by recultivating traditional peat mining sites, but also by revitalising business areas, leading to 466 new jobs.

According to the plan, the reclamation of historical peat mining sites will reintegrate these areas into the economic cycle through activities such as growing berries and trees or re-profiling peatland. These investments in increasing biological diversity are also expected to contribute to the development of ecotourism. Primarily, the focus will be on upskilling and retraining affected employees to adapt to the needs of the labour market in response to the green transition. The recultivation of historical peat extraction sites is expected to create demand for 1,260 employees through activities such as fruit-growing, forestry, and the re-profiling of peatland.

To ensure that personnel in either newly established or existing jobs in other sectors receive the proper training, the plan will provide support for enhancing qualifications and retraining. With regard to the development of human resources, educational institutions in the Vidzeme, Latgale, Zemgale, and Kurzeme regions offer several professional and higher education opportunities for employees looking to improve their skills or retrain in various fields. For instance, universities in Vidzeme provide opportunities in disciplines ranging from technology and design through information and communications technology to renewable energy.

## Where will the money go?

**Table 2.** Planned allocation of funds for Latvia.<sup>12</sup>

			<b>Amount (EUR)</b>	<b>Percentage (approximates)</b>	
<b>Economic policies</b>	Employment		0	0%	
	Retraining/upskilling		16 946 467	8.8%	
	SMEs (≈24.8%)	Investments in SMEs		41 887 812	21.9%
		Incubators		0	0%
		Research, development and innovation in SMEs		3 529 885	1.8%
	Large corporations (≈5.7%)	Investments in large corporations		0	0%
		Research, development and innovation in large corporations		10 378 764	5.4%
<b>TOTAL</b>			<b>72 742 928</b>	<b>38.0%</b>	
<b>Environmental policies</b>	Energy (≈18.6%)	Investments in renewable energy sources	21 511 508	11.2%	
		Infrastructure of renewable energy sources	0	0%	
		Energy communities	0	0%	
		Energy efficiency and retrofitting	12 354 597	6.4%	
	Land development and other environmental projects (≈31.7%)	Land decontamination	54 916 063	28.7%	
		Waste	0	0%	
		Mobility	21 179 311	11.0%	
		Climate adaptation, including water management projects	0	0%	
<b>TOTAL</b>			<b>109 961 479</b>	<b>57.4%</b>	
	Social issues		0	0%	

<sup>12</sup> Developed by CEE Bankwatch Network based on a methodology by Michiel Stapper and data on the Just Transition Fund allocation for the 2021–2027 budgeting period available from the Cohesion Open Data Platform. See: European Commission, [Just Transition Fund \(JTF\)](#), *Cohesion Open Data Platform*; see also: Annex 1.

<b>Social policies</b>	Care for children and older people		0	0%
	Research, development and innovation in the public sector		0	0%
	Education (not retraining or upskilling)		0	0%
	Small-scale community initiatives		0	0%
<b>TOTAL</b>			<b>0</b>	<b>0%</b>
<b>Technical assistance</b>			<b>7 369 492</b>	<b>3.8%</b>
<b>Other</b>			<b>1 532 920</b>	<b>0.8%</b>
<b>SUM TOTAL</b>			<b>191 606 819</b>	

At approximately EUR 192 million, Latvia’s allocation from the Just Transition Fund is one of the smallest in the EU, with 38 per cent of the fund earmarked for economic development, 28.7 per cent for land decontamination, and 17.8 per cent for energy-related projects. Based on the fund allocation, it seems that social impacts will be alleviated as a by-product of the spending on economic diversification, energy transformation and land decontamination.

The plan aims to address the social, employment, economic and environmental impacts of the transition through the following measures:

- upskilling employees in the peat sector and providing support in obtaining qualifications;
- developing the public infrastructure necessary for business and enhancing skills as the region transitions to a climate-neutral economy;
- ending the use of peat as a source of energy, including recultivating degraded peatland and replacing peat-fired boilers with renewable solutions;
- research and development for the sustainable use of natural resources in the context of environmental and climate goals;
- greening business and introducing product development measures;
- supporting more energy-efficient practices and the adoption of energy-saving technologies among local businesses;
- restoring peatland habitats located in Natura 2000 sites;
- promoting the use of emissions-free vehicles in municipalities.

There are no plans to directly invest in new employment. However, 8.8 per cent of the fund will be spent on retraining and upskilling programmes, including a study programme and retraining measures for the responsive and targeted integration of people at risk of unemployment into the labour market, with a particular focus on removing the social barriers faced by vulnerable groups. This portion of the fund also includes support for an upskilling programme aimed at helping workers gain new qualifications and support for labour force training to reflect the skill demands of businesses. It also covers regional training programmes focused on improving the qualifications or retraining employees specialising in administration or local governance.

A relatively high percentage (21.9 per cent) is to be spent on investments in SMEs. This includes a programme for the development of enterprises and start-ups that promote the introduction of more resource-efficient low-carbon technologies and the greening of business processes in the most affected regions. SMEs will also be indirectly supported by green business zones, which will be developed either within the framework of public-private partnership or solely by the municipalities.

The plan envisages that certain activities related to the recultivation of degraded peatland, such as the planting of berry fields, could be owned and operated by SMEs. A small portion of the allocation (1.8 per cent) will target the promotion of research, development and innovation among SMEs. Specifically, a programme will be created to encourage SMEs to collaborate with research institutions in finding solutions to the sustainable use of natural resources, particularly targeting Latvia's environmental and climate goals, the reduction of greenhouse gas emissions, and the restoration of the affected regions. There are also plans to create a research platform and a centre of excellence to support the implementation of pilot and demonstration projects related to the sustainable use of natural resources. While there are no plans to invest in incubators or large corporations directly, some of the research and development activities listed above will target big business (5.4 per cent of the fund).

Renewable energy sources will receive significant investment (11.2 per cent). This will involve adapting thermal energy production and cogeneration equipment used by municipalities and public heat supply service providers or replacing these facilities with alternative renewable energy sources instead of relying on peat as a fuel source. Additionally, financial support will be provided to a programme aimed at encouraging SMEs and start-ups to promote energy efficiency among local businesses by introducing renewable energy technologies and self-consumption practices such as installing solar panels and utilising biomass for energy production. These efforts will be complemented by related research and development activities that promote the introduction of more resource-efficient low-carbon technologies and the greening of business processes in the affected regions. Support will be provided for the development of demonstration projects, with 6.4 per cent allocated to energy efficiency and retrofitting measures. Infrastructure for renewable energy sources and the development of energy communities are not supported under the plan.

Land decontamination measures receive the largest allocation (28.7 per cent). These measures involve the recultivation of degraded peat extraction sites to preserve land resources, ensure the further productive economic use and reintegration of the sites, prevent adverse impacts on the surrounding environment, and reduce greenhouse gas emissions from peat mining. However, it should be noted that the recultivation measures planned favour afforestation and berry plantations, which may not be the best use of the land

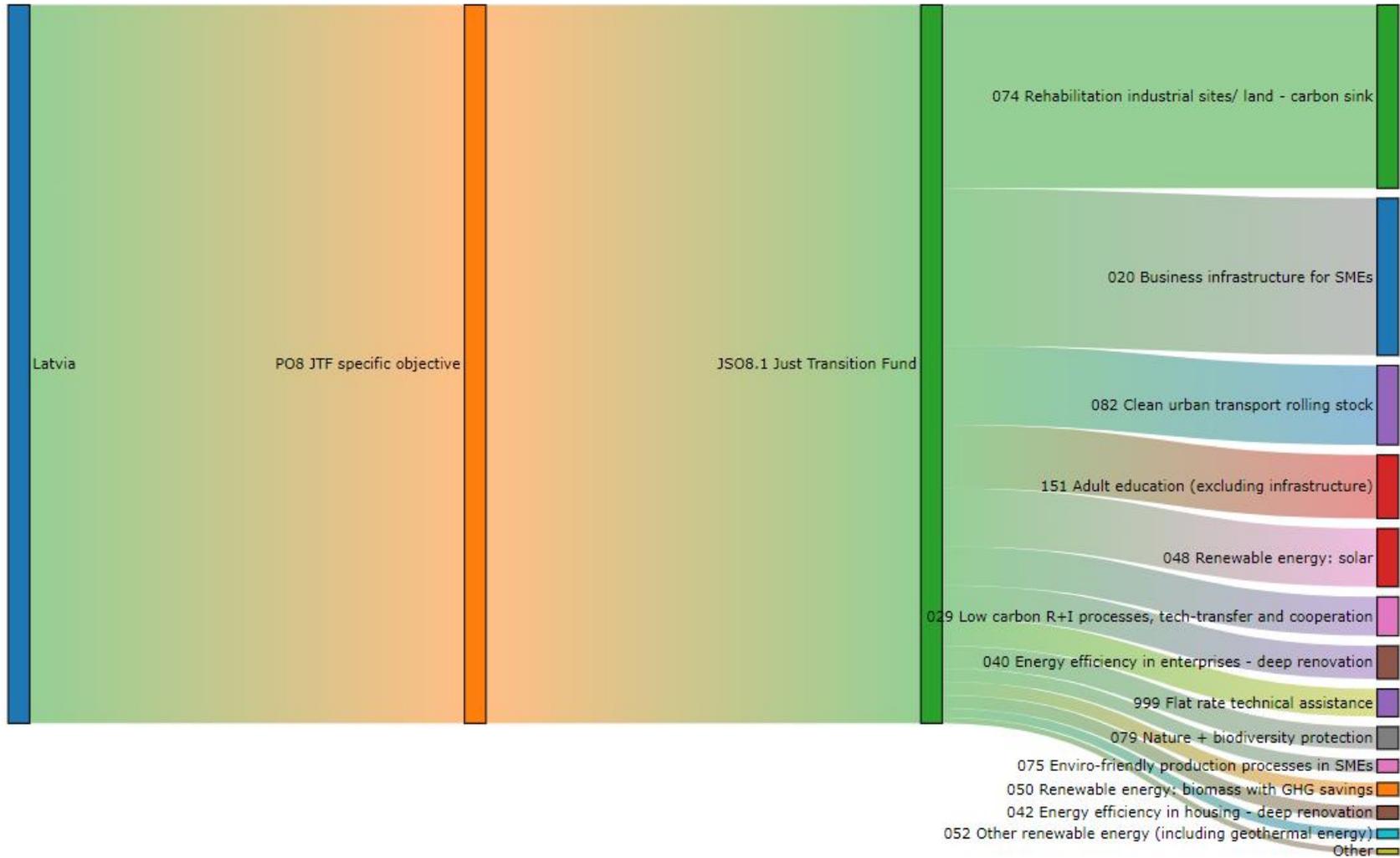
from the perspective of climate, biodiversity and landscape. At sites located in Natura 2000 territories, rewilding activities, such as wetland habitat restoration, will also take place.

Under the plan, Riga Technical University has been selected to receive technical assistance for a decision-making tool they are currently developing in partnership with the engineering consultancy COWI. The tool, which will assist planners in selecting the most appropriate method for recultivating or restoring abandoned peatland, employs a rigorous scientific method for determining which recultivation interventions are most effective in reducing greenhouse gas emissions. Finally, in an attempt to green the transport sector, 11 per cent of the fund will be allocated to a programme that promotes the use of emissions-free vehicles in municipalities.

While there is no direct allocation to tackle social issues, the expectation of the plan is that measures aimed at achieving other targets will partially address these needs, based on the broad assumption that the funding of economic diversification will somehow mitigate both the social impacts of the transition and existing social disparities. Research and development, as well as education in the public sector can be partially covered through the general allocation to such aims mentioned above.

## Annex 1

**Table 3.** Just Transition Fund allocation for Latvia.



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