Latvia's National Recovery and Resilience Plan

Latest state of play

OVERALL RESOURCES

Latvia’s National Recovery and Resilience Plan (NRRP) sets the package of reforms and investment measures designed by the country in the context of the European Union (EU) response to the crisis triggered by the coronavirus pandemic. In absolute figures, Latvia has decided to use €1 826 millions of grant allocation under the Recovery and Resilience Facility (RRF), while declining to avail of the loan component. These resources represent 0.3 % of the entire RRF, equal to 6 % of the country’s gross domestic product (GDP) in 2019 (the RRF being 5.2 % of EU-27 GDP in 2019).1

Through these resources, Latvia is naturally pursuing national reforms and investments that aim to further promote a dynamic Latvian economy, while addressing a number of structural weaknesses. Latvia is also striving to attain major objectives such as convergence towards higher levels of standard of living, the green transition and digital transformation. Measures under the current plan are to be completed by 2026. Following the Council’s approval of the plan, Latvia received €237 million in pre-financing in September 2021. The next payments, in a total of six instalments, will depend on progress in implementation. The European Parliament, which was a major advocate for the creation of a common EU recovery instrument, participates in interinstitutional fora for cooperation and discussion on its implementation and scrutinises the work of the European Commission.

This briefing is one in a series covering all EU Member States.
Country-specific challenges

In the context of the European Semester, the **Council** adopts **country-specific recommendations** (CSRs), providing Member States with policy guidance on how to implement structural reforms while maintaining budgetary responsibility and sound macroeconomic policies. Under the **Recovery and Resilience Facility (RRF)**, NRRPs are expected to contribute to addressing at least a significant subset of challenges identified in the 2019-2020 CSRs.

The **European Commission** groups the CSRs issued to Latvia in **2019** and **2020** in eight broad categories: 1) Fiscal sustainability; 2) Financial sector; 3) Healthcare; 4) Education; 5) Social inclusion; 6) Research and innovation; 7) Investment; 8) Public administration and business climate.

In 2020, the Council **recommended** that, in line with the general escape clause of the Stability and Growth Pact, Latvia takes all necessary measures to address the pandemic effectively, sustain the economy and support the ensuing recovery. In particular Latvia is recommended to:

1. pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Latvia is expected to strengthen the resilience and accessibility of its health system, including by providing additional human and financial resources;
2. provide adequate income support to the groups most affected by the crisis and strengthen the social safety net. Latvia is expected to mitigate the employment impact of the crisis, including through flexible working arrangements, active labour market measures and reskilling;
3. ensure companies, particularly small and medium-sized enterprises have access to liquidity support. Latvia is expected to front-load mature public investment projects and promote private investment to foster the economic recovery. The country should focus investment on the green and digital transition, in particular on research and innovation, clean and efficient production and use of energy, sustainable transport and digital infrastructures;
4. continue progress on the anti-money-laundering framework.

These CSRs mostly relate to improving productivity, in particular to the need to foster a more innovative and digital economy, factors that various economic analyses have identified as a major hindrance to long-term economic growth in the country. Other challenges include the modernisation of the health system and of the energy and digital infrastructure. In the labour market, progress should be made on facilitating labour mobility and reducing labour market mismatch through appropriate education, lifelong learning, efficient active labour market policies, and better wage bargaining and wage-setting policies.

Analyses also confirm the need to improve social security and to improve access to healthcare while reducing disparities. A final challenge concerns the effectiveness of the public administration, which requires investment in skills, digitalisation, and quality of local public services. In that respect, some analyses stress that, with the expected large increase in capital spending supported by EU funds, continued improvements in public investment management will be critical.

**Objectives and structure of the plan**

On 30 April 2021, Latvia submitted its **NRRP** to the European Commission. In line with the RRF provisions, the Latvian **plan's objectives** are to: 1) help Latvia recover from the severe socio-
economic impact of the coronavirus pandemic; 2) contribute to addressing the Latvian economy’s structural weaknesses (i.e. productivity gap, green and digital transformation, enhancing skills, persistent socio-economic disparities including in access to quality healthcare, an effective public sector and justice system), while focusing on the three strategic axes agreed as common challenges at EU level (digitalisation and innovation, green transition, and social inclusion).

Compared to a scenario without the RRF, the Latvian government estimates that this increase in investment should raise GDP by up to 0.6 % and employment by 0.2 % by 2026. The RRF is also naturally projected to increase overall investment in the Latvian economy in 2026 by around 0.41 % of GDP in 2020-2026, as compared to the baseline scenario, which could contribute to improving the country’s potential output in the long term.

Addressing the seven flagship areas for investments and reforms identified by the European Commission for the RRF,2 the Latvian plan is structured around six components, each to be implemented through a mix of investment and reform:

1. 'Climate' aligns with and aims at addressing the challenges of Latvia’s National Energy and Climate Plan. It aims at supporting the transition to sustainable transport, increasing energy efficiency in all sectors, boosting modernisation of the electricity grid and decarbonisation. Related measures concern improving the Riga area transport system, modernising the electricity transmission and distribution network, and switching to renewable energy.

2. 'Digital transformation' aims at improving coordination mechanisms for public digital services, digital skills and addressing Latvia’s digital challenges. Related measures concern upgrading public information and communication technology (ICT) platforms and infrastructure, encouraging the digitisation of businesses and deploying 5G.

3. 'Reducing disparities' seeks to enhance social and territorial cohesion. Related measures focus on support for regional and local road network improvement, support for regional business park development, improvement of social care services and investment in affordable housing.

4. 'Health' seeks to strengthen health services, increase the effectiveness of the healthcare system and ensure fair access to care. Related measures focus on modernising hospitals and secondary ambulatory care.

5. 'Economic transformation' aims at promoting a knowledge-intensive, competitive and resilient economy and strengthening the higher education system. Related measures focus on promoting innovation clusters and on higher education reform.

6. 'Rule of law' aims at strengthening the capacity of law enforcement agencies to combat the shadow economy and economic crimes. Related measures focus on digitalising and modernising the governance of the judicial system.

Across its six components, the Latvian plan exceeds the expenditure targets the RRF Regulation sets at 37 % of NRRP resources for the green transition and at 20 % for the digital transformation, (see cover page).

Table 1 – Components of Latvia’s NRRP

<table>
<thead>
<tr>
<th>Component</th>
<th>RRF resources (€ million)</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Climate</td>
<td>676.2</td>
<td>37 %</td>
</tr>
<tr>
<td>Component 2: Digital transformation</td>
<td>365.3</td>
<td>20 %</td>
</tr>
<tr>
<td>Component 3: Reducing disparities</td>
<td>370</td>
<td>20 %</td>
</tr>
<tr>
<td>Component 4: Health</td>
<td>181.5</td>
<td>10 %</td>
</tr>
<tr>
<td>Component 5: Economic transformation</td>
<td>196</td>
<td>11 %</td>
</tr>
<tr>
<td>Component 6: Rule of law</td>
<td>37</td>
<td>2 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 826</strong></td>
<td></td>
</tr>
</tbody>
</table>

Data source: European Commission, SWD(2021) 162.
Reforms

Overall, the Latvian plan includes 24 reforms (see Table 2), stressing that these are an essential part of and a catalyst for implementation of the plan.

Table 2 – Reforms to receive support under Latvia’s NRRP

<table>
<thead>
<tr>
<th>No of projects</th>
<th>Reform measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>C1 - Climate: Green Riga metropolitan transport system</td>
</tr>
<tr>
<td></td>
<td>C2 - Digital transformation: Modern and digital national processes and services</td>
</tr>
<tr>
<td></td>
<td>C3 - Reducing disparities: Reformed territorial administration</td>
</tr>
<tr>
<td></td>
<td>C4 - Health: Comprehensive and integrated healthcare system</td>
</tr>
<tr>
<td></td>
<td>C5 - Economic transformation: Innovation system governance and private R&amp;D investment</td>
</tr>
<tr>
<td></td>
<td>C6 - Rule of law: Tax administration and customs</td>
</tr>
</tbody>
</table>

Reforms in green and digital infrastructure, regional development, research and innovation, as well as in health and in ensuring the rule of law could help to further boost investment. In particular, reforms to the Riga transport system will improve the city’s green credentials. Reforms accelerating the digital transformation and improving the level of digital skills in the population will be crucial for a successful move toward a more knowledge-intensive economy. Reforms guaranteeing better regional cohesion could also reduce disparities. Reforms in the governance of the health sector and reforms ensuring a more efficient, high quality and effective health system could contribute to improving the provision of health services. Reforms in the higher education and innovation systems are crucial to bolstering Latvia’s growth potential over the medium to long term. Finally, reforms ensuring respect for the rule of law and reinforcing tax administration should guarantee a transparent use of resources and a reduction in potential for economic and financial misconduct.

Investment

The NRRP financial resources aim at boosting the resilience of the Latvian economy, focusing on 61 investment projects that should contribute to increasing the country’s growth potential in the long term. Table 3 provides an overview of the main projects and resources, including the largest projects, as examples for each component.
### Latvia’s Recovery and Resilience Plan

Table 3 – Largest measures to be supported under each mission of Latvia’s NRRP

<table>
<thead>
<tr>
<th>Mission</th>
<th>Largest projects and % of the component</th>
<th>Allocation € million</th>
<th>No of projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1 - Climate</td>
<td>Improvements to Riga city public transport system: 44%</td>
<td>36.2</td>
<td>11</td>
</tr>
<tr>
<td>C2 - Digital transformation</td>
<td>Increasing energy efficiency: 34%</td>
<td>36.3</td>
<td>18</td>
</tr>
<tr>
<td>C3 - Reducing disparities</td>
<td>Electricity transmission and distribution network modernisation: 12%</td>
<td>37.0</td>
<td>10</td>
</tr>
<tr>
<td>C4 - Health</td>
<td>Modernisation and digitalisation of the administration: 35%</td>
<td>181.5</td>
<td>5</td>
</tr>
<tr>
<td>C5 - Economic transformation</td>
<td>Support for strengthening the health infrastructure in university and regional hospitals: 92%</td>
<td>196.0</td>
<td>3</td>
</tr>
<tr>
<td>C6 - Rule of law</td>
<td>Instrument to support the development of innovation clusters: 56%</td>
<td>37.0</td>
<td>14</td>
</tr>
</tbody>
</table>

The investments in climate measures aim at addressing buildings’ energy efficiency, transport emissions, deployment of renewables and decarbonisation of electricity. The component contains two main areas of intervention. The first relates to improvements to the Riga city public transport system (representing 44% of the total investment in this component). The second, 34% of the total investment, will target energy efficiency in multi-apartment buildings, central government, historical and municipal buildings, and the business sector. The investments in digital transformation aim at addressing the low level of digital skills, low uptake of digitisation by businesses, and digital connection infrastructure. The component also aims at improving e-government, the interoperability of systems and data management, and to develop ICT infrastructure and e-services. A further 35% of the investment will target public-sector digitalisation: 34% for the private sector; 26% for digital skills. The investments in component three attempt to address social disparities in Latvia by creating more jobs in the regions, improving regional connectivity and access to services, providing more affordable housing, improving school infrastructure, helping to up-skill and re-skill workers and unemployed people, strengthening the social safety net, improving accessibility to private and public buildings for persons with disabilities, and constructing new long-term care facilities for the elderly. The investments in healthcare aim to contribute to the accessibility, efficiency and resilience of Latvia’s health system. Some 82% of the investment targets the improvement of infrastructure of 3 university hospitals in Riga, 7 regional hospitals and 40 ambulatory care institutions. The investments in economic transformation attempt to address low investment in R&D and a fragmented research and innovation system. Of this investment, 56% of the measures target support for stimulating innovation, while 42% target research effectiveness. The investments in rule of law respond to the challenges of effectiveness of public administration. Some 11% of the investment measures aim at improving the analytical system and its capacity, 47% targets customs modernisation, 27% seeks to reinforce Latvia’s anti-
money laundering capacity and judicial system, and 15 % should support a professional, transparent and accountable public administration.

**Governance**

Latvia has created a clear governance framework to ensure the implementation, monitoring and control of the plan. In particular, Latvia’s Ministry of Finance, which is the Managing Authority for cohesion policy programmes will also act as the national coordinator for the RRF. The Ministry of Finance will work closely with line ministries, the State Chancellery and the Central Finance and Contracting Agency to ensure and monitor the implementation of the plan.

Implementation will be based on the existing cohesion policy framework. The RRF implementation process will be ensured under the framework of the existing management and control system for EU funds (2014-2020). The Latvian Cabinet of Ministers shall lay down the procedures for implementing and monitoring the recovery and resilience plan and the procedures for using the related ICT system.

The NRRP was the subject of several public discussions and debates, which covered the plan’s main elements. A series of thematic public consultations, open to civil society organisations, social partners, local authorities and other stakeholders, were organised between December 2020 and March 2021. From 8 February to 9 March 2021, all interested parties had the opportunity to submit their views and comments by taking part in the public consultation on the draft plan. Stakeholders’ engagement in the implementation is planned to be established through the management and control system used for the implementation of cohesion policy support, where stakeholders’ representatives form an integral part of the EU funds Monitoring Committee.

The NRRP broadly outlines Latvia’s communication plans. The objectives of the communication strategy are in line with the RRF Regulation and aim to raise awareness about the NRRP’s contribution to the Latvian and European recovery and to the green and digital transition. Moreover, the NRRP-related communication will be integrated in the overall communication strategy for EU funding.

**Commission assessment**

On 22 June 2021, the European Commission assessed the Latvian NRRP positively, proposing that the Council approve it. For 10 out of the 11 assessment criteria set in the RRF Regulation (Annex V), the Commission attributed the highest possible rating (A) to the plan (see Figure 2). Criterion No 9, cost justification, was the only one to receive a B (medium), the same rating the Commission attributed to all NRRPs it had assessed positively by the same date.

Under criterion No 1, the Commission concludes that Latvia’s plan provides a comprehensive and adequately balanced response to the economic and social situation, contributing appropriately to the six pillars under the RRF. The NRRP includes an extensive set of coherent and mutually reinforcing reforms and investments that contribute to effectively addressing all, or a significant subset, of the economic and social challenges outlined in the 2019 and 2020 CSRs (criteria No 2 and 11).
The Commission finds that the plan focuses on growth-enhancing reforms and investments that should improve Latvia’s growth potential, labour market conditions and social resilience (criterion No 3). According to the Commission’s estimations using QUEST model simulations, the economic impact of the NRRP could increase Latvia’s GDP by between 1.3 % and 2 %, and result in up to 7 000 additional jobs by 2026.³

A wide range of NRRP reforms in key policy areas are meant to address long-standing barriers to economic growth, which should enable the plan to elicit enduring structural changes with a lasting impact on the Latvian economy and society (criterion No 7). Medium- and long-term increases in productivity growth should stem from several measures, including investments in digitalisation, the green transition and education and research, as well as reforms (e.g. of public administration and the justice system) expected to improve the business environment. In addition, labour supply and equal access to skills are likely to increase thanks to labour market reforms and targeted investments. The plan also proposes significant reforms in health, social inclusion, higher education and skills. The plan’s most ambitious measures are related to the reform of governance and financing of higher education institutions, the preparation of a comprehensive human resources strategy in healthcare, and the introduction of annual indexation of minimum income benefits. These measures are expected to have a lasting impact and to contribute significantly to addressing challenges in higher education, health and social inclusion.

The Commission estimates the share of the allocation devoted to the green transition at 37.6 % (criterion No 5), above the RRF requirement (37 %). The plan is consistent with the 2020 Commission country-specific guidelines on the implementation of the Latvian national energy and climate plan. Latvia’s Plan devotes 21 % of its allocation to supporting the digital transformation (criterion No 6), exceeding the RRF requirement (20 %).

According to the Commission, no measures under the plan cause significant harm to the environment, in line with the do-no-significant-harm (DNSH) principle embedded in the RRF provisions (criterion No 4). While the volume and quality of information regarding the cost estimates vary across measures, the estimated total costs of the NRRP are deemed reasonable and plausible, in line with the principle of cost-efficiency and commensurate to its expected impact (criterion No 9).

In addition, the assessment deems that the control systems put in place by Latvia are adequate to protect EU financial interests, concluding that the plan provides sufficient details on national measures to prevent, detect and correct cases of conflict of interest, corruption and fraud in the use of financial resources (criterion No 10). A multi-level governance system to ensure effective implementation and monitoring of the plan has been established. The monitoring and reporting mechanisms, which include clear, realistic and appropriate milestones and targets, are well defined and in line with the intended purposes (criterion No 8).

**Council decision and pre-financing**

On 13 July 2021, EU economic and finance ministers approved the assessment of the Latvian NRRP, as part of the first batch of 12 implementing decisions adopted by the Economic and Financial Affairs Council (Ecofin) under the RRF. The Annex to the Council implementing decision on the Latvian NRRP sets out the reforms and investment projects under the plan, the arrangements and

![Figure 2 – Commission ratings by criteria](image-url)
timetable for its monitoring and implementation, including relevant milestones (qualitative achievements) and targets (quantitative achievements), as well as the related indicators.

The Council confirmed that Latvia is to receive €1 826 million in grants over the lifetime of the plan. The grant component has two parts: a fixed allocation amounting to €1 641 million to be committed by 31 December 2022; and a provisional allocation of €185 million for 2023 commitments, to be updated on the basis of the relevant provisions in the RRF Regulation.

Following the Council’s approval, the European Commission and Latvia signed the financing agreement, which cleared the way for the payment of a pre-financing equivalent to 13% of the country’s grant allocation. On 13 August 2021, the Commission disbursed pre-financing amounting to €237 million, which enables Latvia to kick-start the implementation of its NRRP.

Part of the pre-financing will cover projects already ongoing in 2020-2021 that are consistent with RRF provisions, since the RRF enables Member States to cover eligible measures begun after 1 February 2020 (the outbreak of the pandemic). Subsequent payments will be made in instalments, subject to progress in the implementation of investments and reforms, based on a decision by the Commission that Latvia has satisfactorily fulfilled the relevant milestones and targets (see Figure 3). The Commission may pay the pre-financing and the instalments in one or several tranches, depending on the availability of funding. The pre-financing shall be cleared over time, being deducted proportionally from subsequent payments. The final deadline for the completion of milestones and targets is 30 September 2026.

**European Parliament**

Following the outbreak of the pandemic, the European Parliament was a major advocate of the launch of a common EU recovery instrument and established the RRF as a co-legislator with the Council. The European Parliament also demanded to be involved in the shaping, adoption and implementation of the recovery fund, and to play a role at the centre of the decision-making process to ensure the funding’s democratic accountability.

Based on the RRF Regulation and the Interinstitutional Agreement (IIA) on budgetary matters, Parliament can scrutinise the work carried out by the Commission in the assessment of national plans. Within the European Parliament, the Conference of Presidents has established a Standing Working Group on the scrutiny of the RRF, comprising the Committee on Budgets (BUDG) and the Committee on Economic and Monetary Affairs (ECON). This Working Group prepares and follows up the recovery and resilience dialogue that Parliament holds every two months with the representatives of the European Commission.

In addition, the IIA provides for dedicated interinstitutional meetings between Parliament, the Council and the Commission on the implementation of the broader Next Generation EU recovery instrument. These meetings are organised in camera and are to take place at least three times per year. Through the discharge procedure, Parliament will also ensure democratic scrutiny of how NGEU resources are spent.

**Milestones and targets**

Apart from the 13% pre-financing disbursed in August, all other NRRP payments will depend on progress in the implementation of the Latvian plan. The 13% pre-financing will be deducted proportionally from each instalment. In total, six instalments are planned, each linked to the achievement of a number of milestones (qualitative goals) and targets (quantitative goals). Based on the RRF Regulation, Latvia must commit RRF resources by the end of 2023, while payments must be made at the latest by the end of 2026. Figure 3 shows that around 60% of the payments for grants are expected to be concentrated in the first three instalments. Overall, Latvia will have to meet 112 milestones and 102 targets to implement its NRRP entirely.
The first instalment amounts to €231 million (or €201 million net of pre-financing) and is linked to 9 milestones. These include measures such as: closing the digital divide for educational institutions and socially vulnerable pupils’, broadband infrastructure development, establishing a fund to finance the construction of affordable housing, development of educational institutions’ infrastructure including equipment, access to social and employment services in support of minimum income reform, modernisation of the process of identifying money laundering and investigating economic crimes, improvement of the competition environment, including procurement ICT and analytical capacity-building.

**Views of Latvian stakeholders**

In February 2021, the Environmental Advisory Council expressed concern that the reforms and investments proposed in the draft version of the NRRP did not turn Latvia’s economic course towards a green transition that would help to achieve the EU’s common targets for the climate, nature and society.

In March 2021, social partners the Free Trade Union Confederation of Latvia (LBAS) and Employers’ Confederation of Latvia (LDDK) shared the view that the draft Latvian plan required conceptual adjustment and improvement. They also stressed that government bodies’ consultation of Latvian social partners during development of the plan could have been improved.

In March 2021, Vilnis Kirsis, Deputy Chairman of Riga City Council, commented that ‘the reform of the current public transport system will also foresee a reduction of the carbon dioxide emissions of the transport sector and will significantly improve the sustainable, safe and efficient public transport services available to the residents and visitors of Riga in general’.

**Expert debate and assessment**

The Organisation for Economic Co-operation and Development (OECD) recently noted that the size of the Latvian population is declining fast due to ageing and emigration, and that productivity growth declined following the 2008 global crisis. The OECD stresses that policies to enhance digital transformation have a key role to play in addressing these issues.

In the latest ‘Going For Growth’ report on Latvia, the OECD notes that the European recovery and resilience mechanism and low interest rates offer a unique opportunity not only to mitigate the immediate consequences of the pandemic but also to enhance green and digital transition. The OECD also underlined that such investments should be complemented by measures that improve skills and facilitate the reallocation of labour and capital.

The International Monetary Fund (IMF) points out the need for proactive job creation policies and strengthened active labour market policies, as well as the need for continued efforts to improve
productivity and the business environment. In that respect, the IMF stresses that Latvia’s public investment plans focus appropriately on green and digital transformation, as well as social protection, but also underlined that transparency and governance, especially in project selection and public procurement, are key to their efficiency.

Bankwatch, a network monitoring the environmental impact of international finance, concludes that overall, ‘the plan too closely resembles a shopping list of measures intended to fill the holes in the state budget rather than a thoughtful, unified, strategic plan to transform the economy’.

**EUROPEAN PARLIAMENT SUPPORTING ANALYSIS**

Next Generation EU: A European instrument to counter the impact of the coronavirus pandemic, EPRS, July 2020.


**OTHER SOURCES**

Bruegel European Union countries' recovery and resilience plans, December 2021.

European Commission, Latvia’s recovery and resilience plan, December 2021.

IMF, Article IV Consultation with the Republic of Latvia, September 2021.


**ENDNOTES**

1 The graphics and tables in this briefing are based on data from the Latvian NRRP, from the Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Latvia, from the Annex to the Council decision, and from the European Commission Staff Working Document (SWD(2021) 162 final) on analysis of the Latvian recovery and resilience plan. Data used reflect their source at the time of extraction; moreover, there may be discrepancies between data from different sources.

2 The flagship areas are: 1) Power up – Clean technologies and renewables; 2) Renovate – Energy efficiency of public and private buildings; 3) Recharge and Refuel – Sustainable transport and charging stations; 4) Connect – Rapid broadband services; 5) Modernise – Digitalisation of public administration; 6) Scale-up – Data cloud capacities and sustainable processors; 7) Reskill and upskill – Education and training to support digital skills.

3 These results do not include the possible positive impact of structural reforms.

**DISCLAIMER AND COPYRIGHT**

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.


eprs@ep.europa.eu (contact)

www.eprs.europarl.europa.eu (intranet)

www.europarl.europa.eu/thinktank (internet)

http://epthinktank.eu (blog)

First edition. The ‘NGEU delivery’ briefings are updated at key stages throughout the lifecycle of the plans.