

MODERNISATION FUND
Accelerating the transition to climate neutrality

Modernisation fund annual report for Latvia for the preceding year 2022



Ministry of Climate and Energy of the Republic of Latvia

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Introduction

The Modernisation Fund operates under the responsibility of beneficiary Member States, who work in a close cooperation with the European Investment Bank (EIB), the Investment Committee set up for the fund and the European Commission in accordance with the Commission Implementing Regulation EU 2020/1001 of 9 July 2020 laying down detailed rules for the application of Directive 2003/87/EC (EU ETS Directive).

The Ministry of Environmental Protection and Regional Development of the Republic of Latvia was the responsible institution of the Modernisation Fund until 2023. After a reorganisation in January 2023, the Ministry of Climate and Energy of the Republic of Latvia (hereinafter – Ministry of Climate and Energy) has taken over the responsibility as the main governing body for the implementation of the Modernisation Fund in Latvia.

The Modernisation Fund is funded from revenues from the auctioning of 2 % of the total allowances for 2021-2030 under the EU Emission Trading System (EU ETS). Latvia has a share of 1.44% of the total or 3 968 834 Modernisation Fund allowances. The net asset value in euro within the Modernisation Fund for Latvia as at 31/12/2022 was 54 160 005.50 EUR.

In accordance with the Implementing Regulation (EU) 2020/1001 annual report was prepared by the Ministry of Climate and Energy and provides an overview of investment activities of the Modernisation Fund for the preceding year 2022. Progress has been made with regards to updating legal framework for the implementation of the fund and developing investment proposal to be submitted in early 2023. Since Latvia has not yet begun financing investments with funding from the Modernisation Fund, detailed information as specified in Annex II of the Implementing Regulation (EU) 2020/1001 will be given in future reports.

Progress in 2022

The Implementing Regulation (EU) 2020/1001 laying down detailed rules for the application of the EU ETS Directive is transposed at a national level in **Law “On Pollution”**¹. The necessary amendments were approved by the Cabinet of Ministers on May 17th 2022, and entered into force on July 19th 2022. The new chapter “Modernisation fund” of Law “On pollution” includes three new articles which set out the framework for the fund, the use of funding, as well as the reporting conditions.

According to the article 32.¹² (5) of Law “On pollution” **Draft Cabinet Regulation “Rules of operation of the Modernization Fund and multiannual operational programme”**² (hereinafter – Draft Regulation) has been developed and is under final rounds of consultations with sectoral ministries and social partners. Draft Regulation will determine

¹ Available: <https://likumi.lv/ta/id/6075-par-piesarnojumu>

² Available: https://tapportals.mk.gov.lv/legal_acts/0e48e31d-c3f1-47a7-9e1d-d6bd8c2a3e24

the rules of operation of the Modernisation Fund in Latvia, the multiannual operational program until 2030 and delegation of certain tasks and responsibilities to the public limited liability company “Latvian Environmental Investment Fund”.

The priority areas for the use of the Modernisation Fund financing in Latvia laid down in the Draft Regulation are:

1. Promotion of the purchase of zero-emission vehicles and development or modernisation of appropriate charging infrastructure for municipalities (including municipal capital companies), bodies of the public administration, and enterprises with a vehicle fleet of at least 5 already registered internal combustion engine vehicles or who provide public transport services.
2. Promotion of energy efficiency improvements and the use of renewable energy resources for enterprises in energy generation, transmission and production processes, modernisation or expansion of electricity infrastructure and the introduction of smart technologies and digital solutions, and the related measures that comply with circular economy principles.
3. Promotion of renewable energy usage in multi-apartment buildings, municipal and governmental buildings, including support for the creation of the infrastructure needed for its operation.

The Draft Regulation also describes the procedure for the creation of the internal control system for the implementation of the Modernisation Fund in Latvia, as well as the development of visual materials and rules for their use.

Next steps

To receive financing from the EIB and to start national program implementation, the Ministry of Climate and Energy has prepared a priority investment proposal “Energy efficiency in transport sector – support for introduction of electric vehicles and corresponding charging infrastructure” which will be submitted to the EIB, The Investment Committee, and the EC in early 2023. The programme intends to give support in form of a grant for the purchase of electric vehicles and infrastructure for their charging to municipalities, bodies of public administration and enterprises. 5 million EUR will be requested from the EIB to finance the programme. After approval of the investment proposal an open project tender will be developed.

The Ministry of Climate and Energy plans a new investment proposal submission in 2023 with accordance to the Modernisation Fund financing priority areas in Latvia laid down in the approved Draft Regulation.