

NATIONAL REFORM PROGRAMME OF LATVIA
FOR THE IMPLEMENTATION OF THE
“EUROPE 2020” STRATEGY

PROGRESS REPORT

Riga

April 2015

TABLE OF CONTENTS

ABBREVIATIONS, UNITS OF MEASUREMENTS, AND DEFINED DESIGNATIONS	3
INTRODUCTION.....	6
1. MEDIUM-TERM MACROECONOMIC SCENARIO	8
2. IMPLEMENTATION OF THE EU COUNCIL RECOMMENDATIONS	11
2.1 FISCAL POLICY, TAXES, AND LONG-TERM SUSTAINABILITY	11
2.2 EDUCATION, SKILLS, SCIENCE, AND INNOVATION.....	13
2.3 SOCIAL AND EMPLOYMENT POLICY, HEALTH CARE SYSTEM	19
2.4. ENERGY INDEPENDENCE, EFFICIENCY, AND TRANSPORT NETWORKS	22
2.5 PUBLIC ADMINISTRATION REFORMS.....	25
3. POLICY DIRECTIONS	29
3.1 FINANCIAL STABILITY	29
3.1.1 Sustainable Budget Development	29
3.1.2 Ensuring Stability of the Banking Sector.....	30
3.2 PROMOTING COMPETITIVENESS	34
3.2.1 Business Environment and Modernisation of Public Administration	34
3.2.2. Promoting Productive Investments and Exports	39
3.2.3 Innovation, Research and Development	44
3.2.4 Information and Communication Technologies.....	49
3.2.5 Transport and Environmental Infrastructure	52
3.2.3 EMPLOYMENT.....	55
3.4 EDUCATION	61
3.4.1 Preschool education	61
3.4.2 General Education.....	62
3.4.3 Secondary vocational education.....	66
3.4.4 Higher Education	69
3.4.5 Lifelong learning.....	73
3.5 FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION	76
3.5.1 Reducing the Poverty Level	76
3.5.2 Demographic Challenges and Health Protection	80
3.6 ENERGY AND CLIMATE CHANGE	84
3.6.1 Promoting Energy Efficiency.....	84
3.6.2 Increasing the Share of Renewable Energy	87
3.6.3 Reducing Greenhouse Gas Emissions.....	89
4. USE OF STRUCTURAL FUNDS	93

ABBREVIATIONS, UNITS OF MEASUREMENTS, AND DEFINED DESIGNATIONS

AIC	Academic Information Centre
AIPY	Agency for International Programs for Youth
ALMP	active labour market policy measures
BEF	Baltic Environmental Forum
BEMIP	Baltic Energy Market Interconnection Plan
BIF	Baltic Innovation Fund
CCFI	Climate Change Financial Instrument
CEF	Connecting Europe Facility
CERT.LV	IT Security Incident Response Institution
CF	Cohesion Fund
CIT	corporate income tax
CM	Cabinet of Ministers
CO ₂	carbon dioxide
CSB	Central Statistical Bureau
DFI	Development Finance Institution
DRG	diagnosis-related groups
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ECL	Employers' Confederation of Latvia
ECVET	European Credit system for Vocational Education and Training
EDS	electronic declaration system
EEA	European Economic Area
EFMF	European Fisheries and Maritime Fund
EQAR	European Quality Assurance Register for Higher Education
EQAVET	European quality assurance in vocational education and training
EQF	European qualifications framework
ERDF	European Regional Development Fund
ESF	European Social Fund
ESFRI	European Strategy Forum for Research Infrastructures
ESG	Standards and Guidelines for Quality Assurance in the European Higher Education Area
ETS	Emissions Trading System
EU	European Union
EU funds	European Structural funds and Cohesion Fund (ERDF, ESF and CF)
EUR	euro, EU single currency
EV	electric vehicle
FCM	Financial and Capital Market Commission
FDL	Fiscal Discipline Law
FTUCL	Free Trade Union Confederation of Latvia
GDE	Guidelines on Development of Education for 2014–2020
GDIS	Guidelines for Development of Information Society for 2014-2020
GDP	gross domestic product
GHG	greenhouse gas
GDSTI	Guidelines for Development of Science, Technology and Innovation 2014–2020

GWh	gigawatt-hour
ICT	information and communication technologies
IDAL	Investment and Development Agency of Latvia
IFLPIS	International Freight Logistics and Port Information System
IPE	Institute of Physical Energetics
IT	information technologies
JSC	joint stock company
LCCI	Latvian Chamber of Commerce and Industry
LLC	limited liability company
LPP	legal protection proceedings
LPR	Latgale planning region
MA	Ministry of Agriculture
Mbps	megabit per second
MC	Ministry of Culture
MD	Ministry of Defence
ME	Ministry of Economics
MEPRD	Ministry of Environmental Protection and Regional Development
MES	Ministry of Education and Science
MF	Ministry of Finance
MFA	Ministry of Foreign Affairs
MH	Ministry of Health
MJ	Ministry of Justice
MoW	Ministry of Welfare
Mt	megatonne
MT	Ministry of Transport
Mtoe	megatonnes oil equivalent
MW	megawatt
NB	national budget
NEET	youth not in education, employment or training
NGO	non-governmental organisation
NLRC	national level research centres
Nm ³	normal cubic meter
NPP	nuclear power plant
NRP	National Reform Programme
OECD	Organisation of Economic Cooperation and Development
PCSS	providers of child supervision services
PIT	personal income tax
PJ	petajoule
PN	private nursery
R&D	research and development
RE	Register of Enterprises
RE	renewable energy
RES	renewable energy sources
SC	State Chancellery
SEA	State Employment Agency
SJSC	state joint stock company

SME	small and medium-sized enterprises
SRS	State Revenue Service
SSEQ	State Service of Education Quality
SO	specific objective
STEM	science, technology, engineering and mathematics
UNO	United Nations Organisation
USD	US dollar
VAT	value added tax
VECC	vocational education competence centre
WB	World Bank
YEI	Youth Employment Initiative
YPLL	years of potential life lost

INTRODUCTION

Latvia has prepared the fourth *Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020” Strategy*¹ (hereinafter — Progress Report on the Implementation of the NRP of Latvia) which is closely linked to the Stability Programme of Latvia for 2015–2018.

In compliance with Article 121 and 148 of the Treaty on the Functioning of the European Union (hereinafter — the EU), the *National Reform Programme of Latvia for the Implementation of the “Europe 2020” Strategy* (hereinafter — the NRP of Latvia) and the *Stability Programme of Latvia* are a part of an economic policy coordination and surveillance mechanism at the EU level (in the framework of the so-called *European Semester*). The European Commission (hereinafter — the EC) assesses the implementation of both programmes and, on the basis of the assessment, presents proposals for the EU Council country-specific recommendations.

The Progress Report on the Implementation of the NRP of Latvia was developed taking into account the *National Development Plan of Latvia for 2014–2020* approved by the Saeima on 20 December 2012, the *Partnership Agreement for the EU Investment funds programming period 2014–2020*, the *Operational Programme Growth and Employment for the EU funds programming period 2014–2020*, the *EU Integrated Guidelines*², commitments of Latvia under the Euro Plus Pact³ approved by the European Council on 24–25 March 2011, the EU Council’s country-specific recommendations for Latvia⁴, the *2015 Annual Growth Survey* published on 28 November 2014 by the EC⁵, the staff-working document *Country Report – Latvia 2015* of the EC services⁶, the European Council requirements and guidelines for updating the National Reform Programmes of the EU Member States⁷ and the European Semester 2015⁸.

The Progress Report on the Implementation of the NRP of Latvia has been prepared by a working group consisting of representatives from the Ministry of Foreign Affairs (MFA), the Ministry of Economics (ME), the Ministry of Finance (MF), the Ministry of Education and Science (MES), the Ministry of Culture (MC), the Ministry of Welfare (MoW), the Ministry of Transport (MT), the Ministry of Justice (MJ), the Ministry of Environmental Protection and Regional Development (MEPRD), the Ministry of Agriculture (MA), the Cross-Sectoral Coordination Centre (CSCC), the Employers’ Confederation of Latvia (ECL), the Free Trade Union Confederation of Latvia (FTUCL), the Latvian Chamber of Commerce and Industry (LCCI) and the Latvian Association of Local and Regional Governments. The Ministry of Defence (MD), Ministry of Health (MH), the State Chancellery (SC) and the Financial and Capital Market Commission (FCMC) also provided information for the Progress Report on the Implementation of the NRP of Latvia.

¹ *The National Reform Programme of Latvia for the Implementation of the “Europe 2020” Strategy* and the *Convergence Programme of Latvia for 2011-2014* were approved simultaneously by the CM on 26 April 2011, and submitted to the EC on 29 April 2011.

² *Europe 2020: Integrated guidelines for the economic and employment policies of the Member States*, 06.05.2010, <http://ec.europa.eu/eu2020/pdf/Brochure%20Integrated%20Guidelines.pdf>

³ Euro Plus Pact, conclusions of the European Council of 24–25 March 2011: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

⁴ The EU Council’s country-specific recommendations for Latvia 2014: http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_latvia_en.pdf

⁵ *2015 Growth Survey*: http://ec.europa.eu/europe2020/pdf/2015/ags2015_en.pdf

⁶ *Country Report Latvia 2015*: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_latvia_en.pdf

⁷ Letter from the EC Secretariat-General to the EU Member States on the content and format of the NRP’s, Ref. Ares(2013)3248869, 15.10.2013.

⁸ Letter from the EC Secretariat-General to the EU Member States on the European Semester 2015, SG/DSG1/D1/AT/ge/ARES(2014)4299822, 19.12.2014.

It should be noted that the issues related to the progress of the “Europe 2020” strategy and delivery of the European Semester, as well as implementation of the NRP of Latvia and the *Stability Programme of Latvia*, incl. the implementation of the EU Council’s country-specific recommendations are discussed on a regular basis at the Cabinet of Ministers (hereinafter – the CM), the Saeima, with social partners, representatives from non-governmental organisations and the civic society, for example, at the National Tripartite Cooperation Council of Latvia, the Saeima Committee for European Affairs, etc. Three bilateral meetings have been held with the EC mainly addressing the progress of Latvia in implementing the EU Council’s country-specific recommendations.

The Progress Report on the Implementation of the NRP of Latvia consists of 4 chapters. Chapter 1 contains an updated medium-term macroeconomic scenario described in the NRP of Latvia. Chapter 2 assesses the progress on the implementation of the EU Council’s country-specific recommendations for 2014. Chapter 3 provides a detailed description of the NRP policy directions, including the progress on the achievement of the quantitative targets of Latvia within the “Europe 2020” strategy. Chapter 4 reflects information on the use of the EU funds.

All numerical information and data, unless otherwise specified, is obtained from the Central Statistical Bureau (CSB) of the Republic of Latvia or the EU statistical office — Eurostat.

1. MEDIUM-TERM MACROECONOMIC SCENARIO

In 2013, the gross domestic product (hereinafter the GDP) increased by 4.2 %. In 2014, economic growth of Latvia slowed down. In 2014, the economic growth was 2.4 % at the same time exceeding the average growth rate of the EU by 1.1 percentage points.

The slowdown of the growth pace in 2014 was determined by tendencies in the external environment — slower than expected growth in the EU, aggravation of the geopolitical situation in the region, mutual economic sanctions between Russia and the EU, as well as deterioration of the overall economic situation of Russia.

The key contributors to economic growth in 2014 were the domestic demand and the sectors related to it, such as construction, financial and insurance activities, as well as public administration, increasing by 8.1 %, 4.7 %, and 4.5 % respectively. The mining industry, electricity and gas supply in 2014 faced a decline of 2.5 %, also the volume of real estate activities decreased by 0.7 %. The volume of manufacturing production decreased by 0.3 %, and it was due to the weak demand in export markets. At the beginning of the year, the growth was hindered by the significant drop in metal production after the suspension of operations of the biggest enterprise in this field, AS “Liepājas metalurģs”, in the spring of 2013.

Private consumption contributed the most to the growth, since it increased by 2.3 % in 2014, whereas public consumption grew even more rapidly — by 3.6 %, but the investment increase was insignificant, constituting 0.2 %. Despite the problems in external markets, export of goods and services in 2014 increased slightly more than in the previous year, namely, by 1.9 %. The increase of exports in wood processing industry by 9 % had the greatest positive influence, and good results were achieved also in exports of mechanisms and devices, as well as products of the chemical industry. But a drop of agricultural and food product exports by 2.3 % and a drop of metal exports by 9.8 % had the greatest negative influence.

Table 1

Medium-Term Macroeconomic Scenario

	2013	2014	2015	2016	2017	2018
GDP, in current prices, million EUR	23 222	24 058	24 847	26 082	27 694	29 408
growth in current prices, %	5.3	3.6	3.3	5.0	6.2	6.2
growth in constant prices, %	4.2	2.4	2.1	3.0	3.6	3.6
GDP deflator (y-o-y), %	1.1	1.2	1.2	1.9	2.5	2.5
Consumer price index (y-o-y), %	0.0	0.6	0.4	1.9	2.5	2.5
Employment, thousand inhabitants	893.9	884.6	884.6	886.4	889.9	893.5
Unemployment rate, % (aged 15–74)	11.9	10.8	10.2	9.8	9.3	9.0
Exports of goods and services, in current prices, million EUR	13 793	13 918	13 847	14 544	15 503	16 604
growth in constant prices, %	1.4	1.9	0.8	4.0	4.5	5.0
Imports of goods and services, in current prices, million EUR	14 471	14 632	14 340	15 091	16 101	17 294
growth in constant prices, %	-0.2	1.5	0.0	4.2	4.6	5.3
Growth of potential GDP contribution:	2.5	2.6	2.8	3.1	3.3	3.5
- labour	0.2	0.0	0.1	0.3	0.3	0.4
- capital	1.2	1.1	1.0	1.0	1.1	1.1
- total factor productivity	1.1	1.4	1.6	1.8	1.9	2.0
Output gap (% of potential GDP)	0.8	0.5	-0.1	-0.3	0.0	0.0

Data source: CSB, estimates of the MF

Although at a slower pace, the situation in the labour market still continued improving in 2014. According to labour force survey, the share of job-seekers dropped to 10.8 % and was by 1.1 percentage points lower than a year ago. The registered unemployment rate at the end of December 2014 declined to 8.3 %, thus reaching a reduction of 1 percentage point in a year. At the same time, the increase in the number of the employed in 2014 has in fact stopped due to the slowdown of the economic growth pace.

Growth of consumer prices remained low in 2014, mainly determined by external factors, including the drop of oil and food prices in the world market. Prices for goods in 2014 decreased by 0.2 %, while the service prices increased by 2.9 %.

The medium-term macroeconomic development scenario has been elaborated in February 2015 based on the summary GDP flash estimate for the 4th quarter of 2014 and statistical information that was available by 11 February 2015. The data about the year 2014 have been technically updated in the macroeconomic development scenario after receiving complete macroeconomic data about 2014, without changing the medium-term growth forecasts.

In the preparation of the forecasts of macroeconomic indicators, the MF has consulted experts from the Bank of Latvia, the ME, and commercial banks. Updated forecasts of the macroeconomic indicators have been presented also to the Fiscal Council.

During the last year, the external environment developments have been among the most significant factors that have affected the economic development of Latvia, and also the biggest medium-term risks to the economic growth of Latvia are related to changes in the external economic environment. The geopolitical situation in the region, the deterioration of the economic situation in Russia, and the drop in the exchange rate of the Russian rouble have been the key negative risks affecting the economic growth of Latvia. The decline of the Russian economy will negatively affect the growth pace of the EU states. More than 70 % of the entire export of Latvia goes to the EU Member States, thus a weaker demand in these markets may slow down the increase in Latvian export.

In addition, the situation in the euro zone still remains unstable. The growth is still weak and a major part of the euro zone countries have faced a deflation that indicated a threat of a long-term stagnation. Political risks regarding the implementation of the structural reforms or uncertainty about the future policy of Greece may cause new shocks in the financial markets. Occurrence of these risks would negatively affect the European growth and slow down also the economic growth of Latvia.

Uncertainty in the external environment affects also the internal processes. Continuous decrease in the amount of issued loans and the low investment level along with historically high capacity utilisation indicators can negatively affect the medium-term growth potential.

At the same time, also a range of positive risks have appeared, and it can promote more rapid economic growth than expected at the moment. The public sector assets purchase programme launched by the European Central Bank, low oil prices, and a lower euro rate can be mentioned as the main positive risks. In addition to this, it can be expected that a successful implementation of the EC investment plan will have a positive effect in the medium term. Successful renewal of production at AS "KVV Liepājas metalurģs" to the planned amount is the main positive internal risk.

The medium-term macroeconomic development scenario has been developed based on conservative assumptions. Still, taking into account the great uncertainties in the external economic environment, risks of the macroeconomic development scenario have a downward nature.

The main assumptions of the medium-term macroeconomic scenario are the following:

- The macroeconomic development scenario has been prepared based on technical assumptions of winter forecasts of 2015 made by the European Commission. These assumptions foresee that the average oil price in 2015 will be USD 53 for a barrel of Brent crude oil, while in 2016, it will be USD 61.5. It is also assumed that the EUR/USD rate in the medium term will be 1.17.
- The forecasts also assume that the economic recovery in the euro zone will remain slow yet stable and that the growth pace will gradually increase reaching 1.5–2 % growth in the medium term. Thus, the demand for Latvian goods and services will grow, thereby facilitating the acceleration of the economic growth rate in 2016 and 2017.
- In the shorter term, the economic growth will be supported by an increase in private consumption, while it is expected that there will be a drop in investments in 2015. As the oil prices will be lower, it is expected that Latvian trade conditions will improve and the increase in export prices will exceed the increase in import prices. As the external uncertainty will mitigate in the medium term, the growth will regain balance between the external and domestic demand.
- The slowdown of the economic growth rate will also be reflected in the labour market. The forecasts assume that the number of the employed in the economy in 2015 will remain unchanged. In the medium term, only a moderate employment increase is expected, and the growth will mainly be ensured by increased productivity. The medium-term wage increase will be equal to productivity changes.
- Changes to consumer prices in 2015 will remain at a low level, and they will be affected by a decrease in the world's prices of energy resources and food, as well as several one-off factors such as an increase in the electricity prices in relation to liberalisation of the electricity energy market and increased fares of public transport. The medium-term increase in the consumer prices is expected to be 2.5 %, determined by a well-balanced economic growth and convergence of the Latvian economy to the average EU level.
- The macroeconomic scenario assumes that the sanctions imposed by Russia will be effective for one year starting from the moment of stipulating them and that they will negatively affect the Latvian growth until the end of 2015 followed by a gradual acceleration of the growth rate.
- The scenario assumes that the slowdown of the economic growth rate in the short-term caused by external shocks will not significantly affect the medium-term growth potential of Latvia. Thus, it is expected that the growth of Latvia in 2015 and 2016 will be below the potential growth and the output gap will be negative. But the medium-term growth will be equal to the potential growth and the output gap will be neutral.

2. IMPLEMENTATION OF THE EU COUNCIL RECOMMENDATIONS

2.1 FISCAL POLICY, TAXES, AND LONG-TERM SUSTAINABILITY

Preserve a sound fiscal position in 2014 and strengthen the budgetary strategy as of 2015, ensuring that the deviation from the medium-term objective remains limited to the impact of the systemic pension reform. Pursue efforts to further reduce the tax burden on low-income earners in the context of a shift towards more growth-friendly property and environmental taxes and by improving tax compliance and collection.

With the approval of the Fiscal Discipline Law (hereinafter – the FDL) at the beginning of 2013, the national fiscal policy is further based on the concept of ensuring a balanced budget in the economic cycle, meaning the amount of the general government structural budget balance must be below -0.5 % of GDP, as defined in the FDL. In 2012, Latvia reached the structural deficit in the amount of 0.5 % of GDP. Thus, the task for the coming years is no longer to reduce the structural deficit, but to maintain it at the level of the medium-term objective, allowing only deviations to the extent referred to in the EU regulations (the Stability and Growth Pact — the SGP).

In the development of the medium-term structural balance objectives, a multi-level approach is being applied, and it allows ensuring that the set structural balance objective complies not only with the national approach, but also with the SGP's provisions, including re-calculation of the output gap after a standardised methodology of the EC. As for the medium term, the following general government structural balance objectives have been defined: -1.0 % of GDP in 2016, -0.9 % of GDP in 2017, and -1.2 % of GDP in 2018 (see a detailed calculation of the general government structural balance in the *Stability Programme of Latvia for 2015–2018*).

In order to strengthen the fiscal framework through effective implementation of the fiscal discipline rules in practice, the Law on the Medium-Term Budget Framework for 2015, 2016 and 2017 has been drafted based on the FDL, using the *top-down planning method* and thus determining the maximum permissible structural deficit and the maximum increase in the general government expenditures compared to the previous year. At the same time, a *bottom-up planning method*, which is based on revenue and expenditure forecasts of the general government sector, is being applied, and according to this method, the general government budget balance is foreseen. In a general situation, the budget balance according to each method differs. If the budget balance according to the first method is bigger than the one estimated according to the second method, the government has in its possession the so-called fiscal space or opportunities to increase expenditures for new policy initiatives or to reduce revenues for new initiatives of the tax policy. If the budget balance according to the first method is smaller than the one estimated according to the second method, the government should perform consolidation measures, by adopting discretionary measures to reduce expenditures or increase revenues.

Considering that Latvia has successfully overcome the crisis and for several years now has been one of the most rapidly growing EU Member States, that the national debt is below 60 % and Latvia reached its medium-term objective already in 2012, the former Convergence Programme for 2013–2016 showed a positive fiscal space that allowed implementing additional measures to reach the fiscal policy objectives.

In 2014 and 2015, a number of significant measures have been implemented to diminish income inequality and labour taxes:

- As from 1 January 2014, the rate of state social security contributions has been reduced by 1 percentage point in total, including the reduction of employer's share from 24.09 % to 23.59 % and the employee's share from 11 % to 10.5 %;

- As from 1 January 2014, the monthly personal income tax (hereinafter – the PIT) non-taxable minimum has been increased from EUR 64.03 to EUR 75;
- As from 1 January 2014, the rate of monthly PIT allowance for dependent persons has been increased from EUR 113.83 to EUR 165;
- As from 1 January 2015, the PIT rate is reduced from 24 % to 23 %;
- As from 1 January 2014, the minimum monthly wage has been raised from EUR 285 to 320, while as from 1 January 2015, it was raised again to EUR 360 per month;
- As from 1 January 2015, the Law On Personal Income Tax provides for an opportunity to apply the PIT allowance for a dependent person (up to 19 years), who studies in a general, vocational, higher, or special education institution and receives income that is a subject to the wage tax or seasonal farm workers tax during the taxation year from 1 June until 31 August.

In order to compensate for the drop in tax revenues due to the reduction of the labour tax wedge, as from 1 January 2014:

- A number of anti-tax evasion regulations have been introduced in the Law on Personal Income Tax;
- The excise duty for petroleum gas and other gaseous hydrocarbons has been increased from EUR 128.06 to EUR 161 per 1000 kilograms;
- The excise duty of EUR 5.65 per 1000 m³ is being applied to natural gas used to operate technological equipment of industrial production and initial processing of raw materials for agricultural needs and endure the necessary technological climate (up to now it was exempt from the excise duty);
- The excise duty for cigarettes was changed twice in 2014 (on 1 January and 1 July), accordingly to an expected increase in the excise duty for cigarettes every year on 1 July over the period from 1 July 2014 until 1 July 2018, as well as the tax structure has been changed by increasing the tax rate on low-price cigarettes;
- A number of new natural resource tax objects have been introduced, as well as the effective natural resources tax rates have been increased for the extraction of natural resources, air and water pollution, for goods harmful to the environment, product packaging, disposable tableware, end-of-life vehicles and waste disposal;
- A new subsidized electricity tax has been introduced.

In order to improve the payment and collection of taxes, additional budgetary assets have been granted in the amount of EUR 32.9 million, including EUR 3.6 million in 2014, EUR 19.3 million in 2015, EUR 10 million in 2016. The key implemented measures are the following:

- Since 1 January 2014, the SRS has been maintaining a list of risk persons and supplies information about the risk persons entered in the register of risk persons to the Register of Enterprises (hereinafter – the RE). In case the Register of Enterprises finds that an application for registration of a company or a merchant, for changes in a registration file or re-registration contains information entered in the SRS list of risk persons, it shall suspend or reject registration or re-registration of the merchant;
- As from 6 January 2014, every user of the electronic declaration system (hereinafter – the EDS), after authenticating in the EDS, receives a notification from the SRS regarding tax debts exceeding EUR 15. Every July and December tax payers will be notified of all current tax debts, including those below EUR 15;
- As from 1 January 2015, the Law On Taxes and Fees contains a new chapter — Chapter XI, *Recovery of overdue taxes of a legal person* — which includes a provision when, subject to certain pre-conditions, the liability for tax debts of a legal person is transferred to its members of the board;

- As from 1 January 2015, based on the amendments to the Law On the Enterprise Register of the Republic of Latvia, the ER must make a decision to suspend a new entry in the Commercial Register when an application about registering a merchant or a foreign merchant's affiliate with the Commercial Register or an application of changes to the registered address of the merchant or a foreign merchant's affiliate, or the address of the merchant or foreign merchant's affiliate has been included in the list of risk addresses;
- As from 2015, the SRS every year until 1 April shall publish information about the total amount of the taxes (fees) paid by taxpayers (legal persons) and administered by the SRS and the average number of employees of the taxpayers (legal persons). As of 1 October 2015, the SRS will make public a single data base of the registered receipts. Such regulation is stipulated by the amendments made to the Law On Taxes and Fees;
- The SRS will also have access to information about payments for leasing and/or credit services made by physical persons during a year. The above information will be received by the SRS from providers of leasing and crediting services (except for credit institutions). For the first time, such information about the payments made by physical persons will be provided in 2016 if the leasing and/or credit payments and related interest payments in 2015 have exceeded EUR 360 per month (EUR 4320 per year). The above regulation has been included in the Law On Taxes and Fees;
- As from 1 October 2014, the taxpayer in the EDS functionality can access *Information about the tax debt* with a new Calculator tool available; the tool helps the taxpayer to calculate the expected tax debt amount on a future date taking into account the increase in penalty, the setting in of the tax payment term or the expiration date of the extended term, and other factors that affect tax debt. Furthermore, the EDS interface that warns about the tax debt has been supplemented by an informative text about the options of the taxpayer when an immediate recovery of the debt is not possible.

The total national budget revenues administered by the SRS in 2014 constituted EUR 7.08 billion that is for EUR 12.4 billion less than expected, and the revenue plan has been fulfilled by 99.8 %. The non-execution of the total budget revenue plan administered by the SRS was mainly affected by a decrease in revenue from the corporate income tax. If compared to 2013, the revenues have increased by EUR 0.25 billion or 3.7 %. The increase in the budget revenues administered by the SRS and the overfulfilment of the revenue plan is mainly achieved on the account of revenues from social insurance contributions, the PIT and the value added tax (hereinafter — the VAT) (see also Chapter 3.2.1).

2.2 EDUCATION, SKILLS, SCIENCE, AND INNOVATION

Step up implementation of the higher education reform, in particular through the establishment of an independent accreditation agency and a financing model that rewards quality. Provide career guidance at all education levels, improve the quality of vocational education and training, including by strengthening apprenticeship, and make progress as regards the employability of young people including by putting in place outreach measures for non-registered youth not in employment, education or training. Take steps for a more integrated and comprehensive research system also by concentrating financing towards internationally competitive research institutions.

In 2014, owing to support of the International Bank for Reconstruction and Development (hereinafter — the World Bank), a **new financing model of higher education** has been developed. In the development of the model, representatives of the higher education sector and social partners have been involved. The conceptual report *New Financing Model of Higher Education* is planned to be approved by the CM in April 2015 after a re-current

harmonisation with the social partners. The report gives an overview of the progress and offers the results of a research conducted by the World Bank, provides suggestions to implement the higher education financing model, and characterises the alternative solutions depending on the available financing and its expected effect on competitiveness and availability of the Latvian higher education.

The conceptual report proposes a three-pillar financing model as the most suitable solution for the socio-economic situation of Latvia with the following central elements:

- base financing (institutional financing to ensure the functioning of education and research);
- performance-based financing (financing that is allocated to reaching the study outcomes and research results);
- innovation financing (future development-oriented financing that promotes specialisation of institutions and profile development).

The elaborated new financing model is aimed at the following objectives: development of research-based higher education, compatibility of the higher education offer and needs of the Latvian economic development and labour market, as well as introduction of the performance management at higher education institutions. The conceptual report calls for the need to develop the higher education financing according to the Knowledge society development model of the World Bank and correspondingly provide a targeted increase in the financing to the research-based higher education that includes:

- optimisation of planning and implementation of the model for distribution of student places;
- launching strategic specialisations of higher education institutions and performance-based financing;
- support for research excellence and innovation.

In 2015, the Concept foresees launching the implementation of the second pillar — performance-based financing of higher education. In 2014, the CM has supported the development of a new budget sub-programme foreseeing additional resources to develop scientific activities of higher education institutions and colleges (EUR 5.5 million in 2015, EUR 6.5 million in 2016, EUR 6.5 million in 2017). Within the Concept, a set of criteria to finance higher education institutions and colleges based on performance indicators of scientific activity has been developed. It is planned to direct the financing to facilitate an increase of human resources in the research and development of technologies, international competitiveness of research. In 2015, programming of the third pillar financing from the EU Structural Funds will be launched within the SO activities of the Operational Programme *Growth and Employment*.

The year 2014 saw the continuation of accreditation of higher education institutions and colleges, as well as of study fields, and licensing of study programmes. Purposeful work is continued on the establishment of **a national accreditation institution**. In November 2014, the CM supported the *Concept on the Improvement of the Quality Assurance System of Higher Education in Latvia* with an aim to establish a national quality assurance institution in Latvia that would act in compliance with European quality standards and guidelines⁹ and facilitate quality, recognition, and international recognition of the Latvian higher education. The Concept foresees that the Academic Information Centre (AIC) will perform accreditation of higher education institutions, colleges, and study fields, as well as licence the study programmes as of 1 July 2015. It is expected that the National Quality Assurance Institution

⁹ Revising the Standards and Guidelines for Quality Assurance in the European Higher Education Area.
http://issuu.com/revisionesg/docs/esg_revision_-_proposal

will commence its operation as of 1 July 2015, whereas in 2018 it could be included in the European Quality Assurance Register for Higher Education and join the European Association for Quality Assurance in Higher Education. The next comprehensive accreditation stage is planned for 2019.

In order to prevent overlapping study programmes in the regions and to encourage cooperation between higher education institutions in the development of joint programmes, an assessment of regulations regarding branches of public higher education institutions and colleges as well as the quality of their activities is planned. The assessment will also define the quality and efficiency criteria for evaluation of activities of the branches.

An international assessment of Latvian science was completed in 2014 in cooperation with the Nordic Council of Ministers' Office in Latvia. An analysis of the science situation in Latvia within the context of the European Research Area (ERA) has been performed and suggestions for effective use of science resources and raising the performance were proposed. In order to promote **the establishment of an integrated and comprehensive research system** focusing the financing in scientific institutions that are internationally competitive, in August 2014, the CM approved the informative report *On the Implementation of Structural Reforms of Science in Latvia until 1 July 2015*. Structural Reforms of Science in Latvia until 1 July 2015 include four main directions:

- reforms initiated by scientific institutions;
- improvement of the regulatory framework and governance in science;
- support measures to facilitate the reforms initiated by scientific institutions;
- creation of a system for monitoring of scientific activities.

The reforms initiated by scientific institutions are aimed at implementing recommendations of the international assessment and include the measures for functional and territorial resource consolidation, including strengthening management capacity, increase in the critical mass of research human resources, as well as development of excellence in research. The reforms are implemented based on the results of the External Assessment of Science and a report of the MES *On the Implementation of Structural Reforms of Science in Latvia until 1 July 2015*¹⁰, which is a precondition for investments from the EU funds in the programming period 2014–2020.

According to the recommendations of the international assessment of science in Latvia, financing of the ERDF in the amount of EUR 11.9 million is available for the promotion of support for the consolidation of scientific institutions and to the management of the reorganised scientific institutions, efficiency of resource management, as well as facilitation of excellence in science. It is planned that development strategies of scientific institutions will be prepared/improved for 15 scientific institutions and the number of registered institutions will decrease by at least 15 as a result of their reorganisation or liquidation.

In order to ensure the use of public budgetary resources only by competitive scientific institutions, the CM in 2014 amended the *Procedure for the Calculation and Allocation of Base Financing to Scientific Institutions*. It was stipulated that 10 % of the additional base financing is allocated to competitive scientific institutions that have received an evaluation of “4” and “5” in the international assessment of science, while the scientific institutions that have received a low evaluation (“1” and “2”) and do not participate in the processes of the structural science reforms will not receive the base financing in 2016.

In 2014, the preparation of the *ex-post* evaluation of national level research centres (hereinafter – the NLRC) has been commenced by establishing a working group and preparing a methodology for the evaluation of the NLRC establishment. In April 2015, it is expected to prepare an informative report *On the Territorial Mapping of the Concentration of*

¹⁰ Approved by the CM on 19 August 2014.

Science and Innovation Infrastructure and Research Activity that includes also the ESFRI roadmap.

The number of youth in the total number of unemployed in 2014 has declined by 15 %, as compared to the end of 2013. There were 7.5 thousand young people registered at the State Employment Agency (hereinafter — the SEA) at the end of 2014 (8.8 thousand — at the beginning of the year). 10.4% of the total number of unemployed youth were long-term unemployed, whereas persons after childcare leave amounted to 10.3 % and persons with disabilities to 3.9 %. In 2014, approximately 18.8 thousand of young people participated in the ALMP measures. Youth job placement indicators, if compared to the job placement indicators of the rest of the unemployed, are on average higher by 5 percentage points. The period during which young people remain in the status of an unemployed person is on average two times shorter than in the case of other registered unemployed (on average 3 months in December 2014). In 2014, 10.9 thousand young people found a job. According to the EU Employment Performance Monitor, the labour market segmentation level is low.

Since 2014, the involvement of the youth in the labour market is promoted through the **Youth Guarantee**¹¹ initiative, which foresees that young people aged 15–29 years who are in need of support for integration into the labour market can receive a good-quality offer of employment, traineeship, apprenticeship or continued education within a period of four months from leaving formal education or becoming unemployed.

The youth can participate in both short-term training programmes and one-year or one-and-a-half-year vocational education programmes to obtain a new profession (in the academic year 2014/2015, 2758 pupils started learning in 37 vocational education institutions). It is also possible to participate in the ALMP measures, by acquiring practical skills and work experience in measures “First Youth Work Experience”, “Development of Skills Necessary for a Job in the Non-Governmental Sector”, and other activities implemented by the SEA; furthermore, the support is offered to start self-employment or commercial activity. In addition, granting of scholarships to students of vocational education institutions is ensured (scholarships have been granted to 2006 students). Within the project, starting from 2015, it is planned to support the acquisition of general basic skills, implement improvement of professional skills, and continue education programmes to the imprisoned youth.

In September 2014, the Agency for International Programs for Youth (AIPY) started implementing the specific objective (SO) *To develop the skills of NEET that are not registered at the SEA and facilitate their involvement in education, measures implemented by the SEA with the Youth Guarantee, and activity of non-governmental organisations or youth centres* of the operational programme *Growth and Employment* of the EU funds’ programming period 2014–2020 where work with the target group, youth aged 15–29 (including) that are not involved in employment, education, or training and are not registered at the SEA as unemployed (hereinafter – NEET) — this measure is planned for the summer of 2015 after harmonisation of the per unit costs methodology developed by the MES jointly with the European Commission. Implementation of the activities involving inactive youth is planned in cooperation with local governments and non-governmental organisations working in the field of youth, education, employment and in the social sector. The available financing is EUR 9 million, incl. EUR 7.6 million as the ESF co-financing.

¹¹ On 17 December 2013, the CM approved the Informative report on the implementation of the Youth Guarantee in Latvia in 2014–2018, which served as the basis for preparation of the Youth Guarantee Implementation Plan and submission to the EC on December 20, 2013, as well as preparation of the Informative report regarding implementation of the 1st and 2nd stage of the SO 7.2.1 “Promotion of employability of youth not in employment, education or training through the Youth Guarantee” of the EU funds operational programme “Growth and Employment”.

In case the youth have never acquired basic education, their return to the general education system is funded from the government budget.

The ongoing **vocational education** reforms are continued to improve the quality, attractiveness and relevance of vocational education to the labour market needs, as well as to promote the interest of students in vocational education.

The aim is to achieve a balance in the share of students of vocational education and general secondary education in favour of vocational education from 38.1/61.9 (in the academic year 2013/2014) to 50/50 in 2020. In order to increase the number of students acquiring vocational education, a number of measures to improve the attractiveness of vocational education are being implemented, for example, improvement of the vocational education institution network and modernisation of infrastructure, by increasing the quality of education programmes (also through the implementation of short vocational education programmes and a gradual transition to modularisation of vocational education programmes), promotion of students' social security, ensuring apprenticeships and innovative approaches to vocational education in cooperation with the Sectoral Expert Councils representing all interested parties.

As from the academic year 2013/2014, 6 vocational education institutions have launched the implementation of work-based learning elements, which involves a close link between learning theory and practical work, providing for an opportunity to acquire a qualification in 17 professions. So far, 148 students and 29 companies have been involved in the pilot project. At the same time, further negotiations with employers' organisations are taking place regarding the possibilities to involve more companies in the work-based learning process by applying incentives. The pilot project is continued also in the academic year 2014/2015, and it is expected that during the academic year, about 12–15 vocational education institutions will participate therein involving approximately 500 pupils in various programmes, in cooperation with more than 200 companies. A decision is going to be made on implementing the best and most effective work-based learning model at the system level along with the necessary amendments to the legislation based on the assessment of the project results and taking into consideration the opinion of employers' organisations and other social partners.

In order to raise the quality of practical learning, 292 teachers and apprenticeship supervisors in companies had an opportunity to improve their knowledge and professional skills in 2014 (the total costs of the project — EUR 64.5 thousand).

The improvement and differentiation process of vocational education institutions continues. In the period between 2010 and 31 December 2013, the number of vocational education institutions under the supervision of the MES has been reduced from 90 to 34. In the academic year 2014/2015, there were 33 vocational education institutions under the supervision of the MES.

By 8 February 2015, 15 vocational education institutions with higher learning and working results¹² have been granted the status of a vocational education competence centre (hereinafter — the VECC), which foresees also an additional financing to the teachers for the execution of additional functions. Another three vocational education institutions are expected to obtain the status of the VECC by the end of 2015.

In order to promote the use of the ERDF funds invested in the public education infrastructure and at the same time ensuring qualitative service provision to the unemployed,

¹² Criteria for granting the status of the VECC are stipulated in Regulations of the CM *Procedure of Granting and Cancelling the Status of Vocational Education Competence Centre*.

in 2014, an experimental pilot project was implemented for unemployed training at vocational education establishments, which is planned to be continued also in 2015¹³.

For the purpose of promoting the attractiveness of primary vocational education and increasing the share of young people who acquire vocational education and a qualification, including facilitating a more serious attitude towards acquiring education and a profession, a total of 6.4 thousand students have received scholarships at least for one month in 2014 through the financing of EU funds, and 897 of them have received support for acquiring the initial vocational education programmes to obtain the second professional qualification level in one academic year or the third professional qualification level of the general vocational education in one and a half academic years.

Amendments to the Vocational Education Law have been submitted to the Saeima for the 3rd reading with an aim to improve the management of vocational education institutions, including a framework to create a convention of vocational education institutions and its competence, to further develop the activities of Sectoral Expert Councils in order to ensure the compliance of the Latvian vocational education classification levels with the Latvian qualifications framework level (which for its turn complies with the European qualifications framework), as well as to envisage an opportunity to implement work-based training as a type of implementing vocational education programmes.

In August 2015, it is expected to submit to the CM a *Plan for the Career Education Implementation in National and Municipal Institutions of General and Vocational Education*, which will include a description of a model for introducing career support measures at each level of education and also the key principles, objectives, and directions for action of the career education development policy, as well as an analysis of the description of introducing the optimum career measures. The improved legislation of the career support system gave an opportunity to impose an obligation on local governments to ensure children and youth career education and to define the main concepts in the Education Law. In 2015, quality evaluation methodologies for the activity of education institutions and examination centres and for the implementation of education programmes have been improved, by including the issue of career education in the accreditation process of general education and vocational education on the agenda.

At the same time, a range of support measures are implemented and tools to provide access to information about the education and job opportunities are being developed (for instance, *Career Week* — a national level programme of measures for students of general education institutions, the website *World of Professions*, an e-game *Try a Profession*, a national database of education opportunities NIID.LV). Local government, private and other initiatives are implemented in order to raise the youth awareness of the labour market, for example, the youth career portal www.prakse.lv, in cooperation with the ECL, implemented a project *Virtual Apprenticeship*.

The number of teachers-career consultants at the education institutions is growing (for example, over the past few years, the number of teachers-career consultants in general education has increased from 54 (in the academic year 2012/2013) to 82, mainly part-time employees. Workshops for training and exchange of experience are organised for career support specialists of education institutions with an aim to learn new methods for individual and group consultations, for work with parents, and in matters of youth career choices, work with the youth from the risk groups in the pedagogical process, and informative seminars about the development trends in the leading sectors of the economy and changes in the qualification requirements for the employed. At the same time, support of the EU funds is

¹³The pilot project was implemented within the sub-activity *Training of the Unemployed and Job Seekers* of the operational programme *Human Resources and Employment* in the programming period 2007–2013.

expected to be provided in 2014–2020 to ensure access to career development support for the students in general and vocational education institutions.

2.3 SOCIAL AND EMPLOYMENT POLICY, HEALTH CARE SYSTEM

Reform social assistance and its financing further to ensure better coverage, adequacy of benefits, strengthened activation and targeted social services. Increase coverage of active labour market policies. Improve the cost-effectiveness, quality and accessibility of the healthcare system.

In compliance with the directions of action approved by the government for the improvement of social security systems, including social care, the concept *On Setting of the Minimum Income Level*¹⁴ has been approved in October 2014. A common and adequate socially and economically justified minimum income level that would serve as a benchmark for the development of support measures and policy for the Latvian population is the first stage of improvement of the social security system and social assistance system. To continue the commenced reform, in 2015, by involving the field experts, social partners, and local governments, a working group has been established. By 15 November 2015, the working group will:

- analyse the legal framework of the current situation of social assistance, state social benefits, minimum pension, and unemployment benefits, by evaluating their efficiency and effectiveness in the context of poverty and income inequality;
- evaluate the financing spent for the abovementioned support measures;
- define the link between social assistance, state social benefits, minimum pension, and unemployment benefit and the minimum income level; identify regulatory enactments and amendments needed to introduce the minimum income level;
- calculate the financing needed to implement the measures, by categorising it according to the financial sources (national budget, special budget, budget of a local government); and
- prepare a Plan of Introducing the Minimum Income Level.

It is planned that the system will be introduced in 2017.

One of the instruments to improve the social assistance system is work on the development of a monitoring system. In the autumn of 2014, the work was completed on establishing an information system for the monitoring of the national social policy and drafting its regulation. The monitoring system will improve the opportunities of supervision and analysis of social services and social assistance in order to adequately respond to the needs of various support target groups and to improve the availability of the social services.

To eliminate the shortcomings of the social assistance system that were identified in the study of the WB, *Latvia: Who is Unemployed, Inactive or Needy?*, proposals to amend the legal framework have been prepared. Amendments of Social Services and the Social Assistance Law (proposals have been submitted to the 2nd reading of the Saeima in February 2015) prescribe additional stimuli to motivate the beneficiaries of social assistance to get a paid job, by introducing a gradual phase-out of social assistance benefits 3 months after starting employment and, during that time, disregarding the income of the individual to the extent of the monthly minimum wage. At the same time, the state family benefit will not be taken into account in the income assessment, in order to improve the access for families with children to social assistance. In September 2014, proposals to amend the legal

¹⁴ Approved by the CM Decree No. 619 of October 30, 2014.

framework of social assistance have been drafted¹⁵, and they were supplemented with a type of income – financial asset deposits – that will further be taken into consideration when evaluating the income, in order to improve both coverage and accessibility of social assistance.

Along with the development of conceptual changes, former mechanisms and provisions are continuously improved to activate the unemployed, including the recipients of the social assistance benefits. Amendments to the Social Services and Social Assistance Law have been drafted, envisaging improvement of the professional rehabilitation service separating the system of vocational assessment. The envisaged changes are aimed at ensuring of more effective cooperation between the Social Integration State Agency and the SEA to integrate in the labour market persons with a disability or health problems and to provide support that is most suitable to person's needs and skills.

In addition to the already implemented unemployed activation measures (such as the conditions of the suitable job and searching for a job, specified in 2013, the cooperation pilot project implemented by the SEA and social services in 2014) and improvement of the ALMP measures, and implementation of new measures (for instance, introduction of profiling the unemployed in 2014, implementation of measures that promote regional mobility and youth involvement), work on the development of provisions of the ALMP measures in order to ensure their compliance with the changing market situation, needs of the job-seekers, and ensuring the coverage and accessibility is continued on a regular basis. In 2014, work was commenced on the development of conditions of implementing the ALMP measures that are co-financed from the EU funds, by reviewing the criteria of implementing the measures and adjusting them to the current situation in the labour market (the support to facilitating regional mobility was broadened also to include those who participate in training and subsidised employment, as well as to attract additional specialists, so that the measures would be available to an even broader range of persons with special needs, etc.). In the second half of 2014, public discussions about the most effective and suitable opportunities to activate the long-term unemployed were completed. In February 2015, proposals have been submitted to the government for review.

With an aim to ensure a well-balanced and steady growth of the labour market, in February 2015, the committee of the CM approved *Inclusive Employment Guidelines for 2014-2020*. They envisage increasing employment of older employees, reducing the share of long-term unemployment, poverty risk of the employed, and bridging the pay gap between men and women, as well as increasing in actual wage dynamics of the employed.

At the same time, it should be noted that the ALMP measures are provided at the SEA based on an individual rather than a group approach, as well as on the evaluation of skills and knowledge using the profiling and job-seeking support system, taking into consideration aspects of the supply and demand of the labour market. The share of the unemployed/job-seekers to be involved in any of the ALMP measures is not specified, rather it is defined according to the current situation and capacity of the labour market, as well as on the ability of service providers to render a quality service. In certain cases, such measures as career consultations and/or enhancing competitiveness (short classes and lectures, including about job search methods) involve all of the unemployed during the unemployment period. As the labour market situation improves, the measures are adjusted also by strengthening the role of consulting and customised approaches and of the support in job search.

In 2015, the national health protection budget has been increased (by EUR 31.2 million if compared to 2014). The government in February 2015, in the approved action plan, has undertaken to create a sustainable health care system, by ensuring a steady and predictable

¹⁵ Amendments to CM Regulations Regarding the Recognition of a Family or Person Living Separately as Needy.

financing for health care, including, by assessing the possibilities to introduce a mixed health care financing model. This ensures that the public financing to the health care sector is growing each year relatively and in absolute numbers, if compared to the financing of the previous year. By ensuring an increase of the state budget assets in the healthcare sector, it will be possible to increase the set of health promotion measures and the amount of the health care services paid from the national budget, to reduce the waiting time (queues to receive services), to improve the availability of reimbursable medicinal products, to continue reducing patient contributions and co-payments, as well as to increase the wages of medical practitioners.

On 14 October 2014, *Public Health Strategy for 2014–2020* was approved. The Strategy has been prepared to continue the commenced implementation of the public health policy, as well as to update new development objectives and action directions, in order to reach those objectives, by improving and renewing the health condition of the Latvian population, especially of those at the risk of social exclusion and poverty, over the next seven years. The Strategy outlines an increase of wages of medical practitioners.

The aim of activities in the health sector during the programming period 2014–2020 of the EU funds is to support the development and implementation of health network development guidelines in the priority disease areas (cardiovascular, oncologic, perinatal and neonatal period care, and mental health) and the quality assurance system, particularly in order to improve the health of people at the risk of social exclusion and poverty. Health promotion has always been a significant part of the health policy, which received unreasonably small funding under the circumstances of insufficient financing of the health sector. Thus 20 % of the total financing earmarked for the health promotion and disease prevention in the EU funds programming period for 2014–2020 is a significant step towards increasing the healthy life years of the Latvian population and preventing premature deaths by maintaining, improving, and restoring health.

In December 2014, an agreement has been concluded and cooperation has been commenced with the World Bank to conduct a study in order to develop health network development guidelines in the priority disease areas. As a result of the study, the measures to be taken will be identified, incl. concerning disease prevention and health promotion, early diagnostics, the competence of each level of health care, and technological provision. It is expected to direct the investment in the priority health care fields to improve and develop both the system (organisational changes) and the infrastructure. The work on elaboration of *A Single National Quality Assurance System* has been launched.

On 1 January 2015, a patient contribution for in-patient medical treatment was reduced from EUR 13.52 to EUR 10 per day, as well as a medical treatment institution can collect not more than EUR 31 for a surgical manipulation in an operation room once during the in-patient stay instead of the former EUR 42.69. In 2016, the government has undertaken to reduce the patient co-payments to EUR 7 per day thus significantly improving the availability of hospitals to critically ill patients.

To reduce the co-payments for medicines, a number of amendments to the regulations of the Cabinet of Ministers have been drafted to facilitate the entry and availability of cheaper medicines in the Latvian market.

At the same time it should be noted that in order to ensure availability of health care services to poor people, as well as to continue developing out-patient health care services, measures of *Social Security Network Strategy* are continued within the national budget that is earmarked to the health sector.

Measures were implemented, in order to partially introduce a diagnosis-related group (DRG) recording and payment system, and measures were taken to expand the available range of e-health solutions.

2.4. ENERGY INDEPENDENCE, EFFICIENCY, AND TRANSPORT NETWORKS

Accelerate the development of gas and electricity interconnections to neighbouring Member States to diversify energy sources and promote competition through improved integration of the Baltic energy markets. Pursue efforts to further increase energy efficiency in transport, buildings and heating systems.

Within the Baltic Energy Market Interconnection Plan (BEMIP), Latvia has committed to complete the **opening of the energy market** and to terminate the regulation of electricity retail prices by 2015. On 3 June 2013, when Nord Pool Spot started to operate in Latvia, a new *Elsport* bidding area was launched in Latvia, thus achieving the long-term objective, namely, to develop a transparent and open Baltic electricity market that would be connected to the Nordic region electricity market, thus ensuring public accessibility and reliability of electricity prices. *Elsport* is an energy market with auctions for the next-day delivery of energy, while *Elbas* or the cross-country current day energy market in Latvia was opened on 10 December 2013. The advantages of the *Elbas* market include the opportunity of wholesale market participants to balance their trade portfolios more precisely after closing the *Elsport* market.

The opening of the energy market in Latvia was launched in 2007. Until 1 April 2012, households and merchants with the annual turnover or the total balance sum not exceeding LVL 7 million (EUR 9.9 million) and with the number of employees not exceeding 50, had the rights to receive energy at regulated tariffs (the share of the open energy market reached 35 % of the total consumption). As from 1 April 2012, medium-sized energy consumers with the connection voltage exceeding 400V and the rated current of the input protection device exceeding 100A have been involved in the open market (the share of the open energy market reached 66 % of the total consumption). But from 1 November 2012, only those consumers who consume energy for household needs have the opportunity to purchase energy at regulated tariffs (the share of the open energy market reached 75 % of the total consumption). On 1 January 2015, all household users were involved in the energy market, and thus the opening of the energy market in Latvia was finished.

Latvia has the obligation to transpose the requirements of the Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC into national legislation. Thus, the **liberalisation of natural gas market** in Latvia, according to the Amendments to the Energy Law approved by the Saeima on 13 March 2014, has been divided into two stages. During the first stage, from 4 April 2014, system operators must provide all system users and any applicant, who requests it, with an equal and transparent access to the relevant system, by providing services of natural gas transmission, distribution, storage and liquefied natural gas services to them; and the natural gas transmission system has to be open for input of biogas and gas produced from biomass, as well as liquefied natural gas turned into a gaseous condition. During the second stage, on 3 April 2017, independence of the natural gas distribution system operator should be ensured and not later than by 3 April 2017, Latvia has to ensure independence of transmission system operator and grant the right to all natural gas users to freely choose the natural gas supplier and change them without restrictions, unless one of the following circumstances occurs before the abovementioned date: the natural gas system of Latvia is directly connected with the interconnected natural gas system of any EU Member State, except Estonia, Lithuania or Finland, or the share of the dominant supplier in the total consumption of natural gas in Latvia is below 75 %.

In March 2015, the CM approved a roadmap to reforms of the natural gas market, as well as made a decision on a model of separating the transmission system operators — a complete separation of property rights as of 3 April 2017. By 1 June 2015, all the necessary

amendments to the laws and regulations should be drafted. Thus, the liberalisation of natural gas market in Latvia is expected to be finalised by 3 April 2017.

As regards **energy interconnections**, the Connecting Europe Facility (CEF) has been established within the EU multiannual budget for 2014–2020. It is aimed at providing financial support for the energy infrastructure in the amount of EUR 5.85 billion.

To facilitate the development of energy infrastructure projects, on 29 October 2014, the EC adopted a decision on the selection of measures to promote projects of common interests and on allocation of grants to projects that develop an energy infrastructure within the CEF support instrument. The financing allocated to the call of the 1st round projects of the implementation decision reached EUR 647 million. In total, in the call of 1st round, 68 projects were considered and 34 project proposals received support.

Table 2

CEF support to the projects in relation to development of the Latvian energy infrastructure

No.	Name of the Project	Project applicant	Requested financing, million EUR (EU co-financing, %)	Granted financing, million EUR (EU co-financing, %)
1	The 3 rd interconnection of Estonia–Latvia and strengthening the internal Estonian transmission network with GVL Harku-Sindi (Cluster Estonia-Latvia between Kilingi-Nõmme and Riga) (construction)	"Augstsprieguma tīkls" AS / "Latvijas elektriskie tīkli" AS / "Elering" AS	129.8 (75 %)	112.3 (65 %)
2	Stage 3 of Kurzeme Ring (internal line between Ventspils, Tume, and Imanta) (construction)	"Augstsprieguma tīkls" AS / Latvijas elektriskie tīkli AS	61.2 (50 %)	55.1 (45 %)
3	The project of modernise and expand Inčukalns underground natural gas storage facility (Stage 1) ¹⁶	AS "Latvijas Gāze"	37.5 (42 %)	0 (0 %)

The total financial support to these and other projects of the Baltic region is EUR 506.5 million that is 78 % of the entire financing that has been granted in the call of projects of the CEF Stage 1. In compliance with the approximate schedule of the EC regarding the call of the 1st stage projects of CEF financing, from January until April 2015, work on elaboration of individual grant agreements and decisions is to be done.

The project of the third interconnection of the electricity between Latvia and Estonia is planned to be implemented by 2020. It will help to eliminate the bottleneck situation in the interconnection between Estonia and Latvia and increase the interconnection transfer capacity for the electricity market. It will guarantee a safe electricity supply in the Baltic region, efficient operation of the electricity market in the Baltics and competitiveness in and between the Baltic States and the Nordic countries. At the moment, the Latvian and Estonian transmission system operators are evaluating the line and carrying out environmental impact assessment.

¹⁶ The project is very significant from the point of view of development of the gas infrastructure and energy security. On 14 October 2013, the project was included on the list of projects of the EU common interests, still it did not receive the EU co-financing within the CEF support instrument approved on 29 October 2014. The project has been submitted for review to include it on the 2nd list of the common interest projects serving as a precondition to receive further co-financing within the CEF support instrument. Overall, the Inčukalns modernisation project can be considered as a precondition to a successful operation of the Latvian and regional gas market that will ensure greater benefits from other implemented common interest projects such as Lithuanian-Polish gas interconnection (GIPL).

The project of Stage 3 of the electricity transmission network Kurzeme Ring, is expected to be finished in 2018. The construction of Kurzeme Ring is aimed at improving the stability and safety of electricity supply in Kurzeme and the entire Baltic region, to increase the opportunities to construct new connections in the region and to ensure a possible increase in the transit flow by constructing a 700MW direct current connection between Sweden and Lithuania.

Modernisation of Inčukalns underground gas storage facility is closely linked to other natural gas infrastructure projects of the EU common interest in the Eastern Baltic cluster.

In March 2014, *the Electromobility Development Plan for 2014–2016*, which foresees activities for successful introduction of electro mobility, including the development of an EV charging infrastructure, as well as the development of laws and regulations that define the support to the use of EVs has been approved.

By implementing **energy efficiency** measures in the final energy consumption and energy transformation sector, Latvia is moving towards the set target to achieve energy savings in the amount of 0.67 Mtoe by 2020. Over the past years, the gross domestic energy consumption has decreased by 0.16 Mtoe (from 4.6 Mtoe in 2008 to 4.31 Mtoe in 2013).

A number of support programmes for measures to improve energy performance and efficiency of centralised heating systems of multi-apartment residential buildings and development of cogeneration plants have been implemented within the EU funds programming period 2007–2013.

In the EU funds programming period 2014–2020, Latvia plans to support manufacturing industry enterprises, improvement of energy performance of residential and public buildings, the use of renewable energy sources (hereinafter — the RES), as well as modernisation of centralised heating systems. The indicative planned support amount of EU funds for these activities is EUR 333.5 million, including EUR 280.4 million for energy efficiency of buildings and the use of RES and EUR 53.2 million for the modernisation of the centralised heating systems. Additional EUR 31.4 million will be invested to increase the energy performance of municipal buildings in accordance with the local government integrated development programmes. Based on the measures stipulated in the operational programme *Growth and Employment*, the responsible ministries will develop support introduction provisions to the abovementioned energy efficiency measures to ensure that the support to the project implementation is available from 2015/2017. An option to provide the support through financial instruments is under consideration to ensure a financially efficient and sustainable support model.

Projects for increasing energy efficiency are supported also by the Climate Change Financial Instrument (CCFI). The CCFI projects have been implemented through 16 open tenders, and a part of them provides support to increasing energy efficiency, transition to RES and development of climate-friendly technologies. More than EUR 204.2 million have been committed for the project implementation. By the end of 2014, implementation of 2331 projects has already been completed, while the implementation of other 240 projects was continued.

The open tender of project submissions *Emission reduction technologies, including renewable energy, sustainable buildings and technology development* under the EEA's Financial Mechanism 2009–2014 Programme *National Climate Policy* has been concluded in 2014. Within the open tender, 7 projects with the total co-financing of programme in the amount of EUR 5 million have been supported with the key activities that are related to the construction of low energy consumption buildings, use of RES technologies, and creation, testing, and demonstration of innovative technologies or products that reduce CO₂ emissions. The project activities must be implemented not later than by 30 April 2016.

The CM Regulations on Industrial Energy Audits have been adopted to promote industrial energy efficiency, and their scope along with the introduction of the new energy efficiency directive in laws and regulations of Latvia has been broadened by applying the requirements to all large companies. In order to ensure the consumption of energy efficient products and the exemplary role of the state, *Amendments to the Public Procurement Law* have been drafted and are currently being coordinated. It is expected that in the future only energy efficient products and services can be procured for the needs of the central government.

On 1 October 2014, the Construction Law entered into force stipulating that during the entire economically justified term of exploitation, a building and its elements should conform to significant requirements, including energy efficiency requirements. In 2014, stricter requirements were included in the CM Regulations as regards regulatory and maximum values of heat permeability ratios of the construction elements and linear thermal bridges.

To ensure increasing energy cost-effectiveness in energy production, transmission, distribution, and end consumption and to promote the development of the energy performance service market, and strengthen the exemplary role of the state in the field of energy efficiency, *Amendments to the Law on Energy Performance of Buildings*, *Amendments to the Energy Law*, as well as to the Energy Performance Law have been submitted to the CM.

An informative report *On Energy Consumption Data of State Buildings* has been prepared to provide the relevant information to launch the annual renovation process of 3 % of buildings owned and used by the state.

In relation to **transport networks**, there are two SOs in the 4th priority axis of the operational programme *Growth and Employment*, namely, *to develop the infrastructure of charging electric vehicles in Latvia* (ERDF funding — EUR 7.1 million) and *to develop an environment-friendly public transport infrastructure* (CF funding — EUR 108.5 million). In 2014, the work was launched on elaboration of laws and regulations to commence implementation of SOs.

Furthermore, implementation of the activity *Public Transport outside Riga* (ERDF funding — EUR 20 million) was continued in 2014, and within it, the tram-car infrastructure in Daugavpils and Liepāja cities are being reconstructed.

In September 2014, the EC announced the first transport tender of the CEF, within which projects can be submitted aimed at facilitating the energy performance in the transport sector. In the first project submission tender, Latvia submitted 2 project applications to the EC, as well as participated in 4 cooperation projects submitted to the EC, incl. the Riga city municipal JSC “Rīgas Satiksme”, in cooperation with the Netherlands, Lithuania, and Estonia: H2-node Riga, which envisages the planning of a hydrogen infrastructure in the corridors of the TEN-T core network.

2.5 PUBLIC ADMINISTRATION REFORMS

Complete judicial reforms including the pending reforms of insolvency, arbitration and mediation frameworks to ensure a more business- and consumer-friendly legal environment. Step up public administration reforms, including by implementing state-owned enterprise management reform and increasing institutional and financial independence of the Competition Council.

In 2014, in order to **continue the judicial reforms and increase the efficiency of the court process**, a number of new measures were implemented, as well as legislative and administrative reforms that were implemented in the previous years have been introduced:

- an option has been envisaged to hand over civil cases, the consideration of which on the merits has not been started, to other courts within the region or other regional courts, if it can lead to a more expedient resolution of the case;
- matters that arise from the law of obligations and when the claim amount exceeds EUR 210 thousand will be heard at district (city) courts (previously — the jurisdiction of regional courts);
- applications for approval of an auction deed have been handed over from regional courts to district (city) court Land Register Offices for reviews;
- reforms are continued to introduce the *clear court instances*;
- the number of judges at the first instance courts in the Riga court district has been increased by 10 positions;
- the work on the *court house reform* continued. In March 2015, the Sigulda Court and the Riga City Central District Court were reorganised;
- the development has continued concerning the use of video conferences and introduction of e-solutions. It is expected to promote access to courts through the ERDF support within the operational programme *Growth and Employment* for 2014–2020, by introducing appropriate solutions to reduce the length of proceedings and promote access to judiciary information (e-proceedings, electronic process, an opportunity to obtain information about the case online, automated processing and publishing of judgements, etc.);
- to strengthen and broaden the role of the Council for the Judiciary, amendments to the Law on Judicial Power have been drafted, and they envisage the competence of the Council for the Judiciary in the appointment and dismissal from the office of a chair of district (city) courts and regional courts; in the transfer of a judge to a vacant judge position at a court of a higher or lower level; in establishing the procedure of judge selection, apprenticeship, and qualification exam; in the approval of training programmes of judges and court employees.

As regards the **human resources development policy in the context of the judiciary**, professional evaluation of judges' work was continued in 2014. The initial stage of evaluation of all of the current judges is expected to be completed by 2016. Afterwards, judges are going to be evaluated once every 5 years. In March 2015, the CM approved the Action Plan on Strengthening Capacity and Developing the Competences of Human Resources of the Judicial Power and Law Enforcement Institutions for 2015-2020. It foresees that one of the main priorities is training and raising qualification of employees of law enforcement institutions through the development of new training programmes, interdisciplinary training, and the promotion of the use of modern technologies in the training process.

As for **reforms in the insolvency process**, in March, 2015, amendments to the Insolvency Law, as well as accompanying amendments to the Civil Procedure Law entered into force. They foresee changes to the legal protection proceedings and to the insolvency process of a legal and physical person, as well as other procedural improvements. In addition, work on the reform of the insolvency administrators' profession is being actively continued taking into account that as from 1 July 2015, a status of the state official will be applied to the insolvency administrators. As a result of the reform, transparency of activities of the insolvency administrators and improvement of the image of the profession will be ensured, as well as the supervision system will overall be strengthened.

To reduce to a minimum dishonest or unlawful action of persons at real estate auctions that are organised by sworn bailiffs and within insolvency procedures, it is planned to organise them in an electronic form, thus diminishing all the risks in relation to mutual communication of the auction participants.

As for the **reforms of regulation of mediation and arbitration**, in June 2014, the Mediation Law entered into force, and it primarily regulates settlement of disputes through mediation in civil matters and still applies to the dispute solving in other law fields.

On 1 January 2015, the Law on Arbitration Courts entered into force, which aims to restore the public trust to the institute of an arbitration court and the provision of the rule of law of the arbitration courts' activities. Thus, stricter requirements to founders of the regular arbitration court have been stipulated. During the transitional stage of the law, the legal framework envisages that the founder of the regular arbitration court must submit an approval to the Register of Enterprises on the compliance of the regular arbitration court with the statutory requirements for the foundation and conditions of activity of the court by 1 June 2015.

To implement changes in the human resources development policy of the **public administration**, by development of a professional and politically neutral public service, including the introduction of single selection principles in public administration on the whole, in September 2014, the CM approved the Draft Public Service Law. In December 2014, it was considered in the 1st reading of the Saeima.

Starting from 1 September 2015, a centralised selection of institution heads will be performed. According to this, draft regulations of the CM have been elaborated, and currently they are in the process of inter-institutional harmonisation.

In the Latvian School of Public Administration, a gradual transfer is taking place to organising systematic and purposeful training. Already now, learning in the Latvian School of Public Administration is organised in modules for various groups of the employed, including the development of general and special competences.

In December 2014, the CM approved the *Public Administration Policy Development Guidelines for 2014–2020*. The objective of the Guidelines is an effective, available, innovative, professional, and result-oriented public administration. By 1 September 2015, an evaluation of the remuneration system in the public administration will be prepared, by drafting an informative report with proposals for the improvement of the remuneration system to make it competitive and motivating.

On 1 January 2015, the ***Public person enterprises and capital shares governance law*** (hereinafter — the Governance Law) entered into force. To introduce in practice the provisions stipulated in the Governance Law, the CM must determine the public administration institution that is to perform the tasks under the above law in relation to the governance of state enterprises and state capital shares (hereinafter — the Coordination Institution).

Transitional Provisions of the Governance Law stipulate that by 1 July 2015, the CM must define (1) the procedure of nominating candidates for positions of the management board and supervisory board (council) members in enterprises; (2) the procedure of assessing the operational results and financial indicators of an enterprise; (3) the procedure of forecasting a profit share to be paid out in dividends in state enterprises and public-private enterprises where the state is a shareholder (stockholder); (4) standard articles of association of a public person enterprise; (5) the procedure of stipulating the descriptive indicators to define the necessary number of the management board and supervisory board (council) members in an enterprise; (6) the procedure of selling the shares that have been created as a result of capitalisation.

The Transitional Provisions of the Governance Law also define that by 1 November 2015, the Coordination Institution must elaborate and approve the statutory guidelines to establish the general strategic objectives of the state participation, methods to evaluate the operating results of an enterprise, information publishing guidelines, guidelines for the

development of a medium-term operation strategy, as well as the procedure of how the holder of state capital shares provides the Coordination Institution with information necessary that is needed to make the annual public report about state-owned enterprises and capital shares.

By 1 September 2015, the Coordination Institution must elaborate and submit to the CM and the Saeima the first centralised public report about the state-owned enterprises and capital shares for 2014. By 1 January 2016, the superior decision-making body of a public person (the CM, a local government), must evaluate direct participation in enterprises and at the same time must also define the general strategic objective of the public person's participation.

In order to effectively introduce the Governance Law, its requirements must be complied with by all subjects who they apply to, including all holders of public person capital shares (both the state and local government) and all public person enterprises (both the state and local government).

To strengthen the activities of the **Competition Council** and ensure more effective supervision of competition, as well as to facilitate its financial independence, the draft law on *Amendments to the Competition Law* has been elaborated and supported at the CM meeting on 5 January 2015. The draft law contains improvements that prevent the identified shortcomings, as well as takes into account the conclusions of the Court of Justice of the European Union and the practice of the EU Member States. In order to strengthen the financial independence of the Competition Council, the government has agreed that the stamp duty prescribed in the draft law for evaluating a merger should be allocated to the Competition Council, thus strengthening the administrative capacity of the institution.

3. POLICY DIRECTIONS

3.1 FINANCIAL STABILITY

3.1.1 Sustainable Budget Development

The stability of public finances is the key aspect in promoting economic growth based on the development of a counter-cyclical fiscal policy in a longer term, thus reducing the risks of economic overheating in the years of rapid growth and fostering economic activity during economic recession, as well as the management of public resources to boost economic growth and the quality of life of the population.

The global economic crisis severely affected the economy of Latvia, leading to a critical situation in the financial sector and the government budget. In order to improve the unsustainable fiscal position, restore balance in the economy and to increase national competitiveness, Latvia implemented comprehensive budget consolidation measures that affected the scope and the quality of public services. At present, Latvia has resumed growth achieving a considerable progress in fiscal position. However, the severe consequences of the crisis are obvious in a number of the important sectors of the economy. Inadequate financing has aggravated issues that need to be solved in order to avoid irreversible processes like road collapsing. Therefore, the coming years in the national fiscal policy are marked as a post-crisis period, during which the state should invest every effort to provide adequate financing to the implementation of its functions, whilst fully respecting the requirements of the fiscal discipline.

Key policy directions and measures:

- ***Strengthening fiscal discipline*** (responsible institution — the MF)

The aim is to strengthen the national legal framework to ensure development of sustainable, counter-cyclical fiscal policy, by strengthening medium-term budget planning, as well as by stipulating clear conditions for defining fiscal targets.

Starting from 6 March 2013, when the Fiscal Discipline Law entered into force, introduction of fiscal provisions has been ensured in the process of planning the state budget and medium-term budget framework both of 2014 and 2015.

Not only the development and approval of the fiscal discipline framework, but also the use of instruments to introduce the fiscal discipline regulation in practical budgeting and its monitoring play a major role. Compliance with the fiscal discipline norms both in the process of the budget planning and in the execution stage is the obligation of the Fiscal Discipline Council (hereinafter — the Council) that was established in 2014. When drafting the Law on the State Budget for 2015 and the Law on the Medium-Term Budget Framework for 2015, 2016, and 2017, the Council prepared a fiscal discipline monitoring report, indicating that, overall, the principles and provisions of the FDL have been observed.

In 2014, another FDL instrument was introduced — general management of fiscal risks — with an aim to ensure the stability of fiscal indicators in the medium term, independent of the changes caused by external factors, as well as to reduce the impact of changes caused by external factors on fiscal indicators during each year of the period of the medium-term budget framework law. In cooperation with the central state institutions, information about fiscal indicators under their competence has been summarised, and based thereon, a Fiscal risk declaration defining the fiscal security reserve for 2017 in the amount of 0.1 % of GDP has been developed.

- ***Ensuring sustainability of the pension system*** (responsible institution — the MoW)

The aim is to foster long-term sustainability of the system. Ageing of the population poses a high risk to the stability of the state social insurance system both at the moment and in the future.

According to the Law on State Pensions, as of 2014:

- The retirement age is increasing gradually by three months every year until reaching 65 years by 2025 (62 years 6 months in 2015). At the same time, the possibility remains to request an old-age pension two years prior to reaching the defined retirement age (60 years 6 months in 2015). As a result of increasing the retirement age, decreasing of demographic load and the social insurance system load favourably affect the financial balance of the state social insurance budget.
- The minimum social insurance contribution period has been increased from 10 to 15 years, granting the rights to receive an old-age pension and from 15 to 20 years starting with 2025. The increase in the minimum social insurance contribution period to receive the old-age pension is stimulating a payment of the state social insurance contributions.
- The financing of additional payments for old-age and disability pensions is ensured from the state basic budget, thus unburdening the special budget of social insurance;
- The social contribution ceiling has been restored (EUR 46.4 thousand in 2014, EUR 48.6 million in 2015).

Since 2013, indexation of the granted pensions has been resumed, by initially indexing the small pensions, and since 2014, by indexing pensions or a part of pensions of up to EUR 285 considering both the consumer price index and 25 % of the percentage of the actual increase in the social insurance contribution wage. Since 2015, the indexation base will be linked to the average social insurance contribution wage of the previous calendar year in the state, and the pensions or their part that do not exceed 50 % of the average social insurance contribution wage of the previous year in the state will be indexed. At the same time, proposals have been prepared about the application of a higher index in the pension indexation, i.e. by considering the consumer price index and 50 % of the percentage of the actual increase in the social insurance contribution wage.

In 2014, for the first time since 2009, revenues of the social insurance budget exceeded expenses, and the year was concluded with a positive balance. A positive budget balance is expected also in the coming years.

3.1.2 Ensuring Stability of the Banking Sector

Over the past 6 years Latvian banks have implemented significant measures to strengthen their capital base in the amount of EUR 2.7 billion. Thus, they have been able to maintain a sufficient capital base to cover inherent and potential risks of banking activity. Overall, the banking sector is well capitalised. The capital adequacy ratio of the banking sector remained high in 2014, reaching 20.8 % at the end of the year (the minimum capital requirement — 8 %), whereas the Common Equity Tier 1 capital ratio was 18.1 %. The majority of banks have taken the opportunity to strengthen the capital base, by including the audited profit of the financial year (i.e. a half-year or nine months), while as the amount of loan depreciation exceeds the amount of issued loans, the amount of risk-weighted assets continue shrinking.

The liquidity ratio of the banking sector remained high and was 63.1 % at the end of December 2014, thus exceeding the minimum requirement more than twice. The remaining low lending and rapidly increasing balance of deposits resulted in rather extensive increase of liquid assets accumulated by banks.

Since the second half of 2010, the quality of loans has been gradually improving along with the improving economic situation. The share of loans that were past due more than 90 days in the total banking sector loan portfolio decreased from 8.3 % to 6.9 % in 2014. The share of loans with payments more than 90 days overdue remained high, 77.2 % at the end of 2014.

As the financing of foreign banks, mainly parent banks, is gradually decreasing, the role of client deposits in the financing structure of the banks is increasing. Since the end of 2008, liabilities towards monetary financial institutions have reduced by 3/4 or EUR 10.4 billion, whereas the total amount of deposits has increased by 60 % or EUR 8.3 billion.

The key policy directions and measures:

- ***Strengthening the capital base of banks and setting stricter liquidity requirements*** (responsible institution — the FCMC)

According to the Regulation of the European Parliament and of the Council of 26 June 2014¹⁷, from 1 January 2014, banks are subject to stricter capital adequacy requirements (the procedure for estimating capital requirements; qualitative requirements for capital elements to be included in the relevant equity tier, restrictions on inclusion of certain elements in equity and deductions of equity) and a Common Equity Tier 1 capital ratio of 4.5 % and a Tier 1 capital ratio of 6 % have been introduced in addition to the total capital adequacy ratio of 8 %.

After the observation period, the revised liquidity coverage ratio is expected to be introduced at EU level as of October 2015 and the leverage ratio is expected to be introduced on 1 January 2018, while the requirement to credit institutions to publish the leverage ratio was introduced on 1 January 2015.

According to the amendments to the Credit Institution Law which entered into force on 28 May 2014, the FCMC is appointed as the responsible institution of application of macro-prudential instruments, including the establishment of a counter-cyclical capital buffer to limit excessive credit growth, and it is entitled to define the requirement for a systemic venture capital buffer to reduce structural risks. The Credit Institution Law prescribes the authorisation to the FCMC to implement measures to ensure stable operations of credit institutions that comply with the law.

- ***Reorganisation/sale of state-owned banks*** (responsible institution — the MF, the ME)

The aim is to recover the state-invested financing as efficiently as possible, to provide high quality bank services, to ensure a stable national financial system, as well as to ensure compliance with the state support restructuring plan approved by the EC. In order to achieve the aim, the following measures are implemented:

- regarding a development financial institution (hereinafter — the DFI). In March 2014, the Saeima approved amendments to the Law on State and Local Government Capital Shares and Capital Companies envisaging a type of alienation of shares of capital companies — investment in the capital of another state capital company. After introducing the amended law, the CM in August 2014 approved a decree on investing the shares and stocks of SJSC “Latvian development financial institution Altum”, LLC “Latvian Guarantee Agency”, and SJSC “Rural Development Fund” in the equity

¹⁷ Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 *on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 introducing the international bank oversight standard Basel III into the EU legislation.*

of the DFI with a subsequent integration of the capital companies. A reorganisation agreement of the four capital companies was concluded in September 2014. In November 2014, the Law on Development Financial Institution was proclaimed, stipulating activities of a completely integrated DFI, as well as the delegation of the DFI's activities, by implementing state support and development programmes through a full or partial implementation of financial instruments.

- regarding JSC “Citadele banka” and JSC “Reverta” (former JSC “Parex banka”). In 2011, the CM approved the sales strategy of the JSC “Citadele banka” and of JSC “Parex banka” envisaging mutually unrelated sales processes, by applying the most suitable solution to each bank.

Taking into account the situation in the Baltic banking market and the unstable European financial markets, the CM, in late 2011, made a decision to postpone the sales process of JSC “Citadele banka”. Yet, in July 2013, the CM made a decision to resume the process of attracting investors for JSC “Citadele banka”. As a result of a tender, two international consultants were involved in 2013 — *Societe Generale* and *Linklaters*. The task of the international investment bank *Societe Generale* was to analyse the market situation, identify the best model for attracting investors to the bank, and to attract investors. The task of the legal consultant *Linklaters* was to prepare the documents in relation to the investor attraction. In December 2013, the CM made a decision to support the *Strategy for Attracting Investors to JSC “Citadele banka”*. In October 2014, the CM approved the conclusion of purchase transaction concerning the shares of JSC “Citadele banka”, and in November 2014, the purchase agreement of the shares of JSC “Citadele banka” was signed by SJSC “Privatizācijas aģentūra”, an international group of twelve investors, and *Ripplewood Advisors L.L.C.* The process of attracting the investors to JSC “Citadele banka” (the purchase transaction of the shares of JSC “Citadele banka”) is expected to be finished in April, 2015.

As regards JSC “Reverta”, at the meeting in February 2015, the CM made a decision to continue implementing the strategy “Combined Solution” approved by the CM in 2011 envisaging not to sell JSC “Reverta” shares in a bulk, but to sell the assets that require higher total costs for maintenance and management than the expected increase in the value in the restructuring period of JSC “Reverta” defined in the restructuring plan. From May 2012, JSC “Reverta” has been operating as a professional management company of problematic assets, taking into account the change of the status and the name and giving up the credit institution license as approved by the FCMC. According to the restructuring plan approved by the EC, JSC “Reverta” is expected to operate until 2017.

- **Stability of the financial sector** (responsible institution — the MF)

The objective is to facilitate the stability of the financial sector promoting sustainable growth of the Latvian economy.

In March 2014, the CM approved the Development Plan of the Financial Sector aimed at promoting the stability of the financial sector. The plan prescribes the tasks, the responsible institutions, the terms and the supervision procedure of the plan execution, as well as gives an opportunity to adjust the plan in this format depending on the future economic situation and challenges. All the necessary measures are structured in themes in seven action directions:

- in the sector of credit institutions — improvement of the regulatory environment of credit institutions, creation of a single supervision mechanism and a single adjustment mechanism, strengthening of the macro-prudential supervision, facilitation of diversifying the credit institutions' financing sources, reduction of the risk of money laundering;

- in the capital market — transparent alienation of state capital shares, promotion of development of the domestic securities market, promotion of corporate debt securities;
 - in the judicial system — raising qualification and promoting specialisation of judges, fighting debt accruals of homeowners, creation of a mechanism to settle financial disputes, simplification of the procedure to apply relief stipulated in tax conventions;
 - in state support programmes — adjustment of support programmes to solve market deficiencies, centralisation of management of support programmes;
 - in alternative financing types — development of the venture capital sector, introduction of credit guarantee instruments of a medium and long term, development of savings and loan associations and improvement of their regulation, strengthening and optimisation of the institutional capacity of supervision, elaboration of a neutral tax regulation to alternative investment funds so that the effective tax rate (burden) would not reduce if compared to the regulation of 2013;
 - regarding financial literacy — development of the financial literacy direction, organisation of informative and educational campaigns to reduce the consumers' credit burden and inform about financial services, support to management of venture capital;
 - in the insurance sector — broadening the range of professions with mandatory third party insurance and with mandatory additional insurance for accidents, raising the limits in certain types of the mandatory third party insurance, coordination of the system of mandatory insurance types, effective management.
- ***Informing the public about financial services and improving the regulation of consumer protection rights in the field of consumer crediting*** (responsible institutions — the FCMC, the ME)

The aim is to provide the potential users of financial services with a general insight into the financial sector and its development tendencies to ensure access to financial services to customers while meeting their needs and abilities. In order to achieve the aim, various measures are implemented, including:

- The FCMC is regularly updating the educational online vortal “Customer School” (www.klientuskola.lv). The website contains informative materials about popular financial services and associated risks, as well as new services. The “Customer School” gives every user an opportunity to receive e-mail consultations;
- In March 2015, already the third Financial Education Week took place, and its motto was “Save knowledge! Save knowingly!”. Within this event, guest lectures were organised, new teaching materials were developed, necessity of financial knowledge in life of each person was popularised in the public space with the help of a public object — a money-box;
- In February 2014, cooperation partners signed a Memorandum of Implementation of the National Strategy for Financial Literacy (prepared after consulting with the experts of the International Network for Financial Education of the Organisation for Economic Co-operation and Development);
- The FCMC in cooperation with the Research Centre SKDS in 2015 implemented the first social study of financial literacy of the Latvian population, identifying the participation level of Latvian residents in the financial sector and their knowledge and usual practical action in relation to various financial services. The data of the study serve as a ground to a new measurement system of the FCMC — Financial Literacy Index, which will further characterise the financial knowledge level of the Latvian residents in a current year;
- The FCMC has created a summary and comments about statistical indicators that describe the financial stability and sustainability of Latvian households since 2004 and

that will be useful to anyone who wants to understand macro-economic events in the context of households over the last decade.

On 1 November 2011, a non-bank creditor licensing system was introduced, thus guaranteeing the existence of financially stable creditors in the market in the long term. In 2013, several proposals for the improvement of the consumer crediting market have been prepared and promoted, particularly focusing on the payday loans sector. The proposals for promoting responsible repayment of loans and the proposals for interest rate limits wait their approval by the Saeima.

3.2 PROMOTING COMPETITIVENESS

3.2.1 Business Environment and Modernisation of Public Administration

Latvia has been ranked 23rd among 189 countries on the ease of doing business in the WB's *Doing Business* 2015 report. It should be noted that Latvia has made progress in all 10 areas of *Doing Business* over the past 2 years. Latvia is ranked 9th among the EU Member States.

The key policy directions and measures:

- **Reducing administrative barriers** (responsible institutions — the ME, the MJ, the MEPRD, the SC)

The aim is to constantly improve the regulatory basis for the business environment in cooperation with entrepreneurs and to develop electronic services relevant to the needs of entrepreneurs.

The progress in improving the business environment is fostered by the implementation of the annual *Action Plan for Improvement of Business Environment*, and the main activities in 2014 were:

- *in starting a business* — a simplified registration of micro-enterprise taxpayers in the process of company foundation;
- *in the tax field* — on 1 June 2014, a version of the Electronic Declaration System (hereinafter — the EDS) has been put into operation implementing the functionality of payroll tax booklets available to all users (physical persons) of the EDS.
On 1 October 2014, amendments to the Law on Value Added Tax entered into force, thereby reducing the administrative burden to repeat registration in the Register of VAT Payers of the SRS to those VAT payers with regard to which insolvency proceedings have been announced.
- *in the construction process* — a simplified procedure to receive a construction permit. The new Construction Law and the subordinate CM Regulations have been approved and entered into force in October 2014. Work on finalising the practical introduction of the Construction Information System is continued. The results of a survey of companies conducted in 2014 show that companies on average need 68 days (81 days in 2011) to harmonise the necessary construction procedures;
- *in the sector of real estate* — electronic registration of real property has been introduced, as well as the one-stop-shop principle in the real property registration process has been introduced;
- *enforcing contracts* — on 1 January 2015, the new framework for arbitration courts entered into force prescribing the procedure for the establishment of arbitration courts and defining the fundamental principles of their activity to ensure efficient and fair resolution of civil disputes at the arbitration court. Starting from this year, the portal

www.tiesas.lv offers an opportunity to a physical person to follow the data of court proceedings where the represented legal person is a party to the case;

- *closing a business* — in March 2015, amendments to the Insolvency Law entered into force prescribing improvements in the regulatory framework of insolvency of legal persons, as well as well-balanced changes to insolvency provisions of physical persons.

The following tasks have been prioritised within the Action Plan for Improvement of Business Environment for 2015:

- *in starting a business* — to simplify the requirements for registering a company at the Commercial Register, to convert the documents of companies stored in the archive of the RE to a digital format, and cancel the geographical jurisdiction of the company matters;
- *in the construction field* — by 1 July 2015, to draft and re-issue Latvian Building Codes, to ensure overall functioning of the Construction Information System;
- *in the tax field* — to ensure the adoption of the draft Annual Accounts Law and the Law on Consolidated Annual Accounts, envisaging simplified requirements for micro- and small enterprises. In March 2015, the CM approved the Draft Annual Accounts Law and the Law on Consolidated Annual Accounts to transpose the Directive 2013/34/EU (the draft law must enter into force by 20 July 2015). The work on the introduction of tax payments according to the FIFO method and the introduction of a single account for all tax payers has been launched (taking into account the necessary changes to the SRS system, as well as amendments to the regulatory framework, it is expected to be implemented in 2021);
- *enforcing contracts* — to continue working on the improvement of legal proceedings, to promote the adoption of the regulation of arbitration courts at the Saeima, as well as to urgently improve the procedure for defining the principles for the specialisation of judges and the procedure for the determination of the case workload indicators;
- *closing a business* — sorting out the regulatory framework to introduce the use of electronic documents in judicial authorities, to submit the amendments to the Civil Procedure Law for approval envisaging the introduction of a single electronic auction model in the process of execution of a judgment and in the insolvency process.

- **Modernising public administration** (responsible institutions — the MF, the MEPRD, the ME, the SC)

The aim is to build a more efficient and economic public administration. The key action directions are:

- Simplifying administrative procedures for entrepreneurs and citizens. In 2014, work on studying ways of reducing the administrative burden and elaboration of proposals continued in the following fields: reducing the administrative burden to record the private sector activities and store the records, solving the problems of long-term unemployment, administrative planning and implementing the cultural policy, ensuring the protection of intellectual property;
- Developing e-government and e-services, the one-stop-shop principle. The measure is aimed at streamlining public administration processes, by ensuring access to public services for citizens and entrepreneurs. At present, citizens and entrepreneurs have access to about 2000 state and local government public services provided in more than 900 places throughout Latvia. This system is expensive and inefficient from the viewpoint of citizens and entrepreneurs, and the state.

According to the *Concept on Improvement of Public Services System* approved in 2013, a pilot project of a single customer service centre network was concluded in June 2014,

and it was implemented in Riga and 4 other towns and cities in different regions to identify the capacities of institutions and readiness to work in a single place, thus providing access to services in regions. Based on the results of the pilot project, a chapter of the Concept on the improvement of face-to-face customer service has been supplemented. The amendments to the Concept envisage the creation of single customer service centres of the state and local government in 89 municipal, 21 regional, and 9 national development centres from 2015 until 2020.

To extend the functionality for the purpose of registering enterprises on the website www.latvija.lv, a number of solutions have been developed to ensure a link with a virtual e-signature and to ensure authentication of legal entities in case the signatory of the legal entity has the right of sole representation of the legal entity and the right has already been registered at the Register of Enterprises;

- Reforming the governance of public person capital shares and commercial activity of public persons. The measure is aimed at ensuring more efficient governance of public person capital shares and commercial activity of public persons according to the principles of good corporate governance, as well as evaluating the necessity for public persons to engage in business.

On 1 January 2015, the Public person enterprises and capital shares governance law entered into force. The main novelties are: a new coordination institution of state capital shares to be created, establishment of objectives for the participation of a public person in enterprises, development of a medium-term operational strategy of enterprises and continuous assessment of the results achieved, implementation of disclosure requirements of information, preparation of annual reports of state-owned capital shares, supervisory boards (council) establishment rights in the largest enterprises, a transparent procedure of nomination of the management board and supervisory board (council) candidates, etc.

Amendments to the State Administration Structure Law have been drafted, and they envisage changing the conditions, the setting in of which entitles a public person to establish an enterprise or to participate in an existing enterprise. The amendments to this law were adopted at the Saeima in the 2nd reading in March 2015.

- ***Improving the regulatory basis and its application in employment legal relations and labour protection*** (responsible institution — the MoW)

In order to continue improving the regulations of employment legal relations and labour protection, in cooperation with social partners:

- On 1 January 2015, amendments to the Labour Law entered into force with the purpose of strengthening the principles of flexicurity in employment legal relations, as well as improving the quality of business environment and solving several topical questions. The amendments prolong the maximum term of a contract with a definite term (from three to five years), reduce the administrative burden on an employer in case of collective redundancy. The amendments introduce clearer and more precise provisions both to the employer and employee concerning a notice of dismissal. Furthermore, provisions regarding employment of minors, conclusion of employment contracts, guarantees to donors and working hours and breaks, and wage have been specified. The law also contains provisions regarding the reduction of non-registered employment by providing the controlling institutions with a possibility to instantly obtain information from the employer about concluded employment contracts during inspections, as well as by incorporating a condition that delegates the CM, if necessary, to define those types of commercial activities which impose an obligation on the employer to issue a certificate to an employee when entering into an employment contract, etc.;

- To ensure the compliance of labour protection requirements with the Construction Law, as well as compliance of labour protection coordinator training with the new training system in the field of labour protection, in July 2014, the Regulations of the CM, *Labour Protection Requirements in Performing Construction Work*, were amended;
- In 2015, it is expected to approve the *Labour Protection Policy Guidelines for 2015–2020* based on the new strategy framework of the EU for labour safety and health protection for 2014–2020. It is planned to pay special attention in the Guidelines to the provision of information about a safe work environment and promotion of preventive culture, more effective introduction of labour protection requirements in companies, facilitation of monitoring, supervision, and control of the labour protection field, promotion of health of the employed and prevention of occupational diseases considering the most urgent risks;
- With the support of the EU funds, 16 e-services have been set up at the State Labour Inspectorate, and they are available for individuals and enterprises on www.latvija.lv since November 2014. A part of the new e-services has been introduced to simplify the administrative burden of legal persons. The e-services for physical persons provide an opportunity to fill in an application electronically in order to receive a consultation or propose a particular action of the State Labour Inspectorate regarding the matters of labour law and labour protection.

- ***Combating shadow economy*** (responsible institution — the MF)

Diminishing shadow economy is one of the key priorities in 2015. Thus, an Advisory Council for Limiting Shadow Economy has been established, and it assesses and makes suggestions to improve the business environment and promote public integration. Social partners and cooperation partners, as well as representatives of institutions and the most active representatives of the society are invited to the meetings organised by the Council. Along with the Advisory Council for Limiting Shadow Economy, the Shadow Economy Combating Council, which is led by the Prime Minister and involves representatives of public administration institutions and non-governmental organisations, continues its work.

The main task of limiting the shadow economy is to change the norms and attitude of society, first of all, focusing the attention on measures that affect the behaviour and attitude. The selection of the measures is based on an assumption that changes to the attitude and norms of society will allow the most rapid achievement of the needed fiscal improvements. The changes to the norms of society will also speed up the achievement of the necessary improvements of the business environment where an excessive proportion of the shadow economy can be seen as a significant problem of the business environment.

To assess more precisely the efficiency of the implemented measures to fight the shadow economy in the area of competence of the SRS, at the end of 2014 and at the beginning of 2015, the SRS calculated the tax gap (deficit) for 2013, and as a result the value added tax gap was 18.5 %, the state social insurance mandatory contribution gap was 26.6 %, the personal income tax gap was 25.4 %, the excise duty gap of cigarettes was 30.7 %, the excise duty gap of diesel fuel was 17.0 %, and the excise duty gap of petrol was 8.8 %. As a result of the measures implemented by the SRS, it is planned to reduce the tax gap from 1 to 4 percentage points by 2016.

To improve tax collection for a faster recovery of the established tax losses, in 2014, the SRS started the implementation of a new approach to tax administration. Initially, the society and entrepreneurs are informed about the fields in which supervision measures of tax administration will be performed more actively, urging the entrepreneurs to independently make sure that tax obligations are fulfilled, by granting a relevant time period for doing so. If this time period does not yield positive results, the SRS carries out preventive measures such

as surveys of officials of construction companies or car repair companies about the business activity of the company. Thus, the SRS gives an opportunity to merchants to calculate and pay the taxes in full to the state, declare the undeclared revenues, the actual number of employees, and actual wages without sanctions, if this has not been done before. If after evaluating the results of voluntary fulfilment of tax liabilities of tax payers it is concluded that they have not achieved the set results and tax payments to the budget do not match the average indicators in the sector, repressive measures will be imposed on such taxpayers, such as thematic inspections, as well as tax audits, and as a result, not only taxes can be calculated, but also a penalty may be imposed to the tax payer.

In 2014, this approach was implemented in the field of vehicle service and repairs and was launched in the field of dentistry. In 2015, the SRS plans to address beauty parlours, the construction sector, wholesale (incl. of excise goods), and sales of used cars.

- ***Implementing the Services Directive in Latvia*** (responsible institution — the ME)

To strengthen the services market, Latvia has fully implemented the requirements of the *Directive 2006/123/EC of the European Parliament and of the Council on services in the internal market* (hereinafter — the Services Directive) by adopting and implementing relevant laws and regulations and by carrying out comprehensive screening of national laws regulating the services, as well as by creating a single contact point for administrative procedures.

Latvia has fully ensured 20 basic services electronically as defined by the EU. It is now possible to electronically request and receive almost all services related to the Services Directive (Single Electronic Contact Point is available on the single state and local government services portal www.latvija.lv, which includes descriptions of services related to the Services Directive), by introducing the relevant provisions in related regulatory enactments, enabling a person to request a service electronically by sending an application with the secure electronic signature and accompanying documents to the official e-mail given in contact information or receive the service electronically.

In 2012, the *Plan of Measures for the Implementation and Application of the “Silence Means Consent” Principle in the Administrative Practice of Responsible Institutions* was approved envisaging an initial implementation of the “silence means consent”¹⁸ in 15 services.

In 2015, *Amendments to the Action Plan for Improvement of Business Environment for 2014–2015* have been elaborated foreseeing the introduction of the “silence means consent” principle in 17 more services.

- ***Improving the absorption of EU funds*** (responsible institution — the MF)

The measures implemented in 2014 for the improvement of the management and control system of the EU funds include strengthening the methodological support offered to the institutions that are involved in the management of the EU funds with a number of methodological and explanatory materials that are developed and updated on a regular basis with an aim to ensure a single practice among the institutions and to reduce the risk of incurring costs. In addition, a forum has been organised with an aim of exchanging experience among the responsible and cooperation institutions of the EU funds concerning the assessment of key changes and to agree on application of a single practice to identify the key changes and perform control, in the consideration of the possible solutions and an

¹⁸The “silence means consent” principle is one of the tools fostering modernisation of public administration. The principle defines that in case a responsible institution does not reply to a permit application it will be considered that the service provider has received the permit and is entitled to start service provision.

approach in the new programming period of the EU funds. Furthermore, cooperation with law enforcement institutions has been strengthened through organisation of mutual training *System Introduction of EU Structural Funds and Cohesion Fund for the Programming Period 2007–2013, Discrepancy Administration, and Protection of Financial Interests* implemented in collaboration with the Latvian Judicial Training Centre. Within the training, awareness of the system of introduction of the EU funds in Latvia has been raised, thus facilitating protection of financial interests and cooperation between the institutions that are engaged in administration of the EU funds and law enforcement institutions, improving and strengthening understanding about the procedure of how, within the EU fund projects, ineligible costs are detected and how they are recovered.

In the report period, the development of the management and control system of the EU funds for the programming period 2014–2020 has been continued in line with the directions indicated by the EU funds — reducing the administrative burden on funding beneficiaries, clear allocation of functions among the authorities dealing with the administration of the EU funds, focusing on results, clear risk management strategy. In 2014, the Law on Management of the EU Structural Funds and Cohesion Fund for the Programming Period 2014–2020 and a number of CM Regulations¹⁹ entered into force and *Risk Management Strategy of Institutions Involved in Management of the EU Funds for the Programming Period 2014–2020* has been approved. Thus, work continued on simplifying the system of the EU funds expecting a reduction of the number of institutions involved in the administration, inter-institutional cooperation, avoiding overlapping functions, developing an efficient monitoring and control system, including full introduction of e-governance, reducing the administrative burden on funding beneficiaries, and others.

3.2.2. Promoting Productive Investments and Exports

In order to promote structural economic changes in favour of production of goods and services with a higher added value, implementation of the industrial policy is one of the priorities of the Latvian policy. The Guidelines on the *National Industrial Policy for 2014–2020* have been approved by the CM in May 2013. The Guidelines identify the following main policy directions of action: development of industrial areas, promotion of access to finance, increased innovation capacity, issues related to access to labour and qualification, promotion of exports and reduction of energy resources costs; a plan of measures for the next 3 years has been prepared based on the abovementioned directions.

The *Guidelines for Promoting Latvian Exports of Goods and Services and Attracting Foreign Investments for 2014–2019* and the Action Plan for their implementation have been approved by the CM in May 2013 in close connection with the National Industrial Policy. The guidelines are aimed to promote competitiveness of the economy of Latvia in the open product (goods and services) and capital markets.

The key policy directions and measures:

- **Support to improve access to finance for enterprises** (responsible institutions – the ME, the MF, the MA)

The objective is to promote access to finance for enterprises to start and develop a business, by providing loans and venture capital investments.

¹⁹Regulations of the *CM Requirements for Establishment of the Management and Control System of the EU Structural Funds and Cohesion Fund for the Programming Period 2014–2020*; Regulations of the *CM Procedure of Ensuring Functions of the Revision Institution for the Programming Period 2014–2020 of the EU Structural Funds and Cohesion Fund*; Regulations of the *CM Procedure for the Institutions Involved in Management of the EU Structural Funds and Cohesion Fund to Elaborate the Programming Documents and Introduce these Funds for the Programming Period 2014–2020*.

In November 2014, the Law on Development of National Specialized Development Financing Institution (DFI) was announced, and it envisages activities of a completely integrated DFI, as well stipulates the delegation of the DFI's state support programs through a full or partial implementation of financial instruments (see Chapter 3.1.2).

In order to improve access to finance (considering the conclusions of the SME Access to Finance ex ante Assessment for Latvia), the following state support programs for enterprises are provided:

- The mezzanine loan programme (introduced in 2011) aimed to provide access to finance for the development of those enterprises, which cannot obtain necessary funding for the implementation of business project from commercial banks due to insufficient collateral or high debt ratio. The total amount of the mezzanine loan fund constitutes EUR 29.8 million. By the end of 2014, 15 mezzanine loan agreements are signed for the total amount of EUR 7.9 million. Since June 2014, *loan guarantees and short-term export credit guarantees* are financed from the mezzanine loan fund. In the period until the end of 2014, within the mezzanine loan fund, 14 short-term export credit guarantee transactions for the total amount of EUR 0.8 million and 58 loan guarantee transactions for the total amount of EUR 12.8 million are financed;
- Early stage and later stage venture capital investments to start up and develop a business. Within state introduced 6 venture capital funds unsecured loans and venture capital investments for companies in all their development stages are provided. Pursuant to the contracts signed with financial intermediaries, the total public funding available for venture capital investments and soft loans is EUR 68.1 million. The amount of the private co-financing is EUR 22.4 million. By the end of 2014, 101 venture capital investments are made for the total funding of EUR 33.3 million, including 51 seed capital investments for the total funding of EUR 4.9 million, 9 start-up capital investments for the total funding of EUR 4 million, 12 venture capital investments for the total funding of EUR 15.2 million, 29 growth capital investments for the total funding of EUR 9.2 million.
- Large scale (up to EUR 15 million) venture capital investments within the Baltic Innovation Fund (hereinafter — the BIF) to facilitate growth of enterprises are provided. The total public funding of the BIF is EUR 100 million (a share of the co-financing of the Latvian Guarantee Agency — EUR 20 million). Two (*BaltCap* and *BPM Capital*) of four selected funds have started the investment period at the end of 2014;
- The Start-up Programme aimed at supporting self-employment and start-ups (introduced in 2009). The total available funding of the programme is EUR 27.1 million. By the end of 2014, 1343 contracts for the total financing of EUR 24.2 million are signed. Since January 2015, loans for start-ups are further provided within the loan programme for the improvement of business competitiveness.
- Loans for the improvement of business competitiveness (introduced in 2009). The aim of the programme is to ensure availability of funding for those enterprises, who have economically viable business plans but have no access to the commercial banks funding due to increased business risks. Within the programme, micro-loans, loans to operating enterprises to facilitate their further growth, and loans to start-ups are provided. The available public funding for the programme is EUR 63.38 million and additional private co-financing in the amount of EUR 21.4 million is attracted. By the end of 2014, 143 loan agreements are signed for the total funding of EUR 78.1 million;
- SME Growth programme. The programme provides two types of loans — for investments and for working capital, including credit lines and loans for the production of agricultural products. The funds of the European Investment Bank in the amount of

EUR 100 million are used for the implementation of the programme. By 2014, 1075 loan agreements are signed for the total funding of EUR 66.6 million ;

- Latvian and Swiss Micro-Lending Programme. Within the Programme, enterprises can receive financial support for the implementation of their business projects (micro-loans in the amount of up to EUR 14 thousand). By August 2014, also grants were provided. Within the programme loans for investments and working capital are provided. The total amount of the program funding is EUR 7.1 million, of which EUR 6.5 million was allocated for loans (80 % Swiss co-financing) and EUR 0.6 million — for grants. By 2014, 1050 loan agreements are signed for the total funding of EUR 8.7 million. Funding was fully absorbed already by August 2013, therefore new loans are financed from the additionally available financing made from the repaid loans. Support provision will be continued in 2015;
- Micro-loan support programme (the programme is available since July 2014). The aim of the programme is to provide access to micro-loans in the amount of up to EUR 25 thousand for start-ups and operating enterprises willing to develop. In compliance with agreements concluded with the financial intermediaries, the available public funding in the programme is EUR 1.1 million. The financial intermediaries also provide private co-financing of up to 50 % of the loan amount. By the end of 2014, 30 micro-loan agreements are signed for the total funding of EUR 0.4 million;
- Support for agricultural, rural and fisheries development. The amount of the credit fund of certain investment measures under the Rural Development Programme and the European Fisheries Programme in 2011–2013 was EUR 44.7 million. By the end of the measure implementation, the financing of the approved measures reached EUR 32.9 million.

Moreover, producers of agricultural products can apply for support for a purchase of liquid assets (the amount of the credit line is EUR 25.6 million). Since the financing available for producers of agricultural products has already been absorbed, new loans are financed from the repaid loans. By the end of 2014, 1118 loans had been granted in the amount of EUR 51.6 million. Since 2012, financing for the purchase of agricultural land is available as well (the total amount of available financing — EUR 30 million). By the end of 2014, 518 loans have been granted for the total amount of EUR 25.9 million.

- ***Promoting investments, incl. attracting foreign direct investments*** (responsible institution – the ME)

The aim is to attract foreign direct investments (hereinafter — the FDI) to sectors oriented towards external demand.

The Investment and Development Agency of Latvia (hereinafter — the IDAL) and the Foreign Economic Representative Offices of Latvia provide their services to Latvian enterprises and foreign investors according to the one-stop-shop principle. The IDAL and the Foreign Economic Representative Offices of Latvia deal with serving potential and existing investors: they provide the necessary information, communicate with the relevant institutions, offer objects for the implementation of investment projects and appropriate investment incentives. The Coordination Council for Large and Strategically Important Investment Projects ensures harmonised inter-institutional cooperation for successful implementation of investment projects. The Coordination Council is composed of ministers from interested ministries and invited representatives from state and local government institutions, infrastructure enterprises, non-governmental organisations, and other experts.

The activities for the attraction of FDI were focused on the priority countries by preparing/developing offers for certain sectors and fields and intense wide investor post-service has been implemented in 2014 and is being continued in 2015.

In 2014, another stage of the EU structural funds programme for the construction and reconstruction of the industrial space has been announced for the total amount of EUR 5.1 million, incl. the financing of the EU funds of EUR 2.5 million. As a result, for the needs of entrepreneurs, the area of 15 thousand square metres is provided. The CIT allowances will be applied to new production technology equipment, and the CIT allowances on large investment projects above EUR 10 million will be maintained at least until 2020.

- ***Supporting access to foreign markets*** (responsible institution — the ME, the MFA)

In order to increase export volumes of Latvian enterprises and access to new markets, the following measures are implemented:

- Coordinating foreign economic policy and organisation of the network of the Latvian Foreign Economic Representative Offices abroad. In 2013, there were 44 diplomatic and consular missions of Latvia. In 2014, Latvia continued expanding diplomatic missions, thus creating preconditions for Latvian entrepreneurs to enter the new markets and to foreign investments. In 2014, new diplomatic missions were opened in India and the United Arab Emirates. The preparations to open an embassy in South Korea will start in 2015. Furthermore, work on broadening the Latvian diplomatic missions in rapidly developing world regions, as well as the countries of the leading trade blocks, such as Brazil and Singapore, will be continued. Also the Foreign Latvian Honorary Consul Network continued expanding in the previous year. New Latvian Honorary Consulates in India (Bangalore), Mongolia (Ulaanbaatar), Ukraine (Chernihiv Region), Turkey (Alanya Region), as well as in EU Member States have been opened. In 2015, active work on expanding the Honorary Consul Network to less covered regions of Africa, Latin America, Middle East, and Southeast Asia is to be performed. Taking into account the costs of opening and maintaining the missions, opening of joint embassies together with other EU Member States, as well as sharing the administrative costs for their maintenance are considered;
- For dealing with solutions to economic issues, there are 14 Latvian Foreign Economic Representative Offices operating and providing support to Latvian entrepreneurs. The offices are located alongside embassies, thus ensuring synergy for solving political and economic issues. Latvia is interested in adapting to global changes occurring in the world's economy, finding new cooperation partners, fostering access to new markets, attracting investments to the economy, and diversifying export markets;
- Direct export support services for enterprises — in 2014, 1380 consultations on export-related issues including foreign markets, specific trade requirements, and searching for business partners have been provided, as well as 16 seminars on export skills and informative seminars on foreign markets have been organised and 27 sectoral market reports have been prepared. Moreover, 37 trade missions (the number of entrepreneurs – 201) and 66 individual business visits to potential cooperation partners abroad have been organised. The abovementioned services are expected to be provided within the available resources in 2015;
- Supporting enterprises in taking external marketing measures, by fostering integration of enterprises into international supply chains, encouraging Latvian enterprises to participate in international exhibitions and trade missions. In 2014, 654 enterprise applications for the support have been evaluated.

In response to the food import ban imposed by Russia in August 2014, additional government budget overcommitment financing in the amount of EUR 8 million has been granted to re-focus the export markets. Additional EUR 4 million have been allocated to the IDAL, increasing the number of planned trade missions to new markets, organisation of national stands at international exhibitions, and organisation of Latvian days in a number of target markets. Additional EUR 3 million is available to a company to cover travel and accommodation costs when participating at exhibitions abroad, as well as to obtain certificates for exporting the goods to new markets. Additional EUR 1 million is available to company associations (clusters) to absorb external markets.

The Foreign Economic Policy Coordination Council operates in Latvia and is chaired by the Minister for Foreign Affairs and composed of employees of public institutions, as well as representatives from the IDAL, the ECL, and the LCCI. In 2014, two Council meetings took place including the adoption of decisions on such key questions as statutes of the Latvian External Image Policy Coordination Council and export promotion plans and development of Latvian higher education.

- ***Strengthening the capacity of municipalities in the attraction of companies and investments*** (responsible institutions — the MEPRD, the MT, the ME)

The aim of the measure is to strengthen the role of municipalities in attracting investments and promoting entrepreneurship by:

- Preparing proposals for the improvement of the municipal financial system (including consideration of all the possible changes in the taxation policy) and expansion of rights of municipalities to handle their property. By 1 July 2015, under the guidance of the MF, a Draft Law on Municipal Financial Equalisation will be drafted and submitted to the CM. Proposals will be developed for providing more opportunities to local governments to be flexible in setting the rent for built-up land plots in case of renting the land for construction of industrial object or performing economic activities, by setting specific criteria (conditions) in the binding regulations;
- Improving the access to and quality of services provided by local governments, by introducing the one-stop-shop principle (see Section 3.2.1), by reducing the administrative burden on entrepreneurs and residents when using local government services;
- Improving and developing transport and environmental infrastructure in local governments (see Section 3.2.5);
- Improving the public business infrastructure of the state and local governments. By the end of 2014, 71 urban infrastructure projects have been implemented with the support of the EU structural funds. By the end of 2015, it is planned to complete 61 more projects aimed at the development of culture infrastructure (for instance, the project of the Liepāja concert hall) and the improvement of the public infrastructure that is important to entrepreneurship (traffic infrastructure projects);
- In compliance with the Operational Programme “Growth and Employment”, in the programming period 2014–2020 of the EU funds, the local government will have access to support for increasing the amount of private investment in local governments by investing in business development according to territorial specialisation set in development programmes of the local governments and based on the needs of local entrepreneurs, support to revitalise the territories by regeneration of degraded territories, as well as support for improving energy performance of municipal buildings, and the total financing of the EU funds prescribed for this objective reaches EUR 326.9 million (ERDF);

- Providing support in the amount of EUR 6.6 million (100 % ESF financing) for the attraction of specialists to planning regions, cities, towns, and counties, as well as for building the capacity of planning regions and local government development planning. By the end of 2014, 232 specialists have been attracted and development capacity has been ensured in 55.7 % of local governments and planning regions;
- With the financing of the Norwegian Financial Mechanism (2009–2014) in the amount of EUR 1.1 million, within the project *Implementation of Regional Policy Activities in Latvia and Development of Regional Development Measures*. The project runs from November 2013 until April 2016. The key activities of the project are related to the development of a regional business and innovation system. Introduction of the business and innovation system in the pilot region — the Latgale planning region (hereinafter — the LPR). Since the LPR is the most underdeveloped planning region in Latvia, characterised by long-term negative economic, social, and demographic trends, the measures (visits of non-governmental organisations representing local governments and entrepreneurs to neighbouring countries, participation and representation of local governments in investment forums, preparation of an investment catalogue of the LPR, development of a new website www.invest.latgale.lv, establishment of the LPR's representation in Riga, etc.) under the activity will be focused on activating local resources and local partnerships among entrepreneurs, local public institutions, culture and education institutions, the financial sector and non-governmental sector and increasing the development level of the region;
- In order to expand the capacities of local governments and instruments in promoting entrepreneurship and attracting private investments, support will be provided to large local governments for external marketing measures (offering them to prepare marketing materials in English, providing opportunities to participate in international exhibitions and prepare materials for investment attraction), as well as training of local governments' specialists and involved parties will be organised;
- Development of support measures for the attraction of qualified labour and entrepreneurs to remote and underdeveloped regions. Within the activity, learning from the Norwegian experience and taking over the best practices for the development and implementation of support measures are carried out.

3.2.3 Innovation, Research and Development

The target of the NRP of Latvia regarding investments in R&D for 2020 is 1.5 % of GDP.

Table 2

Investment increase trajectory of R&D

	2008	2009	2010	2011	2012	2013	2020
Total financing for R&D (million EUR)	141.6	85.2	109.6	141.4	145.4	139.5	500.0
% of GDP	0.62	0.46	0.60	0.70	0.66	0.60 ²⁰	1.5

Source: Eurostat

²⁰Total investments in R&D in Latvia in 2013 were 0.60 % of GDP (in 2012 – 0.66 % of GDP). Business sector investment in 2013 was 21.8 % of the total investments in R&D or 0.13 % of GDP (0.16 % of GDP in 2012). The state financing and financing to higher education institutions in 2013 has slightly increased in actual numbers still remaining unchanged against GDP, namely, 0.16 %. The amount of foreign investments, including the EU Structural funds investments in R&D in actual number has decreased in 2013 and constituted 0.31 % of GDP in 2013 (0.33 % of GDP in 2012).

The weak progress of investments in R&D in the recent years can be explained with a low share of private sector investments that has reduced, if compared to the pre-crisis period, and, as the growth resumed, it practically has not increased, and also with the fact that there is an insufficient amount of public financing to R&D and the fact that more than a half of the total investments in R&D is foreign financing, incl. the financing of the EU Structural funds. Additionally, there is a small share of high technology sectors, which is demonstrated by the share of high-tech goods in the total exports that made 8 % in 2013 and 6.4 % in 2012²¹.

The main challenges in the R&D field in Latvia²²:

- Insufficient long-term financing of science;
- A small number of employed in science and research, technology development and innovation and insufficient replacement of personnel engaged in these areas;
- Fragmented structure and overlapping management functions of scientific institutions;
- Weak potential of commercialisation of research results, insufficient cooperation and coordination between the research, technology development and innovation institutions, higher education and manufacturing sectors (lack of qualified specialists who could implement innovative projects and elaborate new technologies or products);
- Underdeveloped international cooperation;
- The business structure of Latvia is mostly made up of small and medium-sized enterprises with no capacity to invest in R&D and a relatively low high technology sector.

In preparation of the programming period 2014–2020, in 2014, a general evaluation of measures and investments (incl. of the EU funds) in the R&D sector implemented up to now was carried out. It was concluded that in order to ensure the achievement of the set indicators of the NR's objective to the extent of 1.5 % of GDP by 2020, a change of the approach is needed, namely, a shift of the economy towards production of goods and services with a higher value added should be implemented, incl., increasing the role of manufacturing, modernisation of manufacturing and services, development of export complexity, and implementation of the Smart Specialisation Strategy. As a result, a new-concept complex strategy has been developed envisaging a well-balanced and complementary set of support instruments.

On 28 December 2013, the CM approved the *Guidelines on Research, Technology Development, and Innovation for 2014–2020* (hereinafter — the GRTDI) setting an objective to develop the Latvian science, technology and innovation sector into a sector capable of competing at the global level and satisfying the development needs of the economy and the society. The GRTDI define the trajectory to achieve investments in R&D to the extent of 1.5 % of GDP by 2020, as well as the required measures and indicators to achieve the target. The Guidelines also include the Smart Specialisation Strategy, a national economy development strategy defining the economy transformation directions, growth priorities, and smart specialisation fields and prescribing a well-determined focus of research and innovation resources in the fields of knowledge where the state has relative advantage or a basis to create such advantage. The key direction is economic transformation to knowledge- and technology-driven growth and catching up towards the development of knowledge-based skills. The strategy also identifies the following specialisation areas: (1) knowledge-based bio-economy, (2) biomedicine, medical appliances, bio-pharmacy and bio-technology,

²¹ EU-28 average share of high-tech goods in the total exports in 2013 constituted 15.3 %.

²² Guidelines on Research, Technology Development and Innovation for 2014–2020

(3) advanced materials, technologies and engineering systems, (4) smart energy, and (5) the ICT.

To implement the abovementioned, the Cohesion policy financing in the programming period 2014–2020 within the thematic objective no. 1, *Research, Technology Development, and Innovation* of the Operational Programme “Growth and Employment” will be allocated to strengthen the innovation capacity, as well as to create an innovation system that facilitates and supports technology progress in the economy by developing solutions.

At the same time, it can be concluded that the R&D target trajectory set in the NRP and envisaging that the amount of total investments in 2015 should reach 1 % of GDP or about EUR 241 million is a very serious challenge and might not be reached if the current investment pace in R&D remains unchanged.

To reach the Latvian objective of the total amount of investments in R&D at 1.5 % of GDP by 2020, the state budget financing to R&D should be significantly increased, as well as corresponding activities to attract the private sector financing to R&D should be envisaged. At the same time, it is necessary to create a well-balanced structure of science, technology development, and innovation financing composed of a wide range of institutional tools and financing tools, and it is necessary to offer corresponding tools that promote the attraction of private sector investments and foreign financing, incl. financing of the EU framework programme’s *Horizon 2020*.

The EC’s report on the progress in Innovation Union (2014) emphasizes that the weak progress of Latvia in the field of innovation still significantly lags behind the average indicators in Europe²³. Failure to tackle the abovementioned issues will make it difficult for Latvia to compete internationally. The disproportional share of low base financing to science (in 2015, 51 % of the required) promotes non-strategic, “from project to project” approach to science development and contributes to fragmentation of financial resources. The reduced public programme financing is insufficient to make joint scientific efforts to tackle common issues and has no boosting effect on the attraction of private financing.

In 2014, additional government budget financing in the amount of EUR 2.8 million has been allocated for the base of scientific institutions and EUR 1.6 million has been allocated for covering the VAT in the projects within the EU Framework programme, as well as changes to provisions of allocating the base financing to science have been made.

In order to encourage private sector investments in R&D, as of 1 July 2014, enterprises making investments in R&D are eligible for tax relief, providing for a possibility to write off certain R&D costs in the year when such costs are incurred by applying a value-increasing coefficient of 3.

The key policy directions and measures:

- ***Developing potential of scientific activity*** (responsible institution — the MES)

In 2014, consolidation of scientific institutions was commenced. It is expected that as a result of the consolidation, 20 competitive scientific institutions will operate in 2020. In compliance with recommendations of the international assessment, the consolidation is carried out by focusing the resources in the best state scientific institutes of universities, as well as in research centres. To support the consolidation, CM regulations were drafted to implement the sub-activity *Institutional Capacity Development of Research Institutions* of the supplement to the Operational Programme “Entrepreneurship and Innovation”, envisaging the ERDF financing in the amount of EUR 11.9 million, including EUR 4.5 million to develop scientific excellence and EUR 7.4 thousand to support scientific institutions’ consolidation (see also Section 2.2). The support is provided for measures of the scientific institutions

²³ http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014_en.pdf

aimed at introducing recommendations of the international assessment, drafting development strategies of research programmes of the scientific institutions, developing the legal basis and plans of uniting institutions, introducing merger and reorganisation measures, as well as developing the resource management and result administration system of scientific institutions. The projects will be implemented until the end of 2015. To facilitate the consolidation and focus the resources in competitive institutions, changes to provisions of allocating the base financing to science have also been introduced in 2014, stipulating that additional financing is granted to the scientific institutions that have received an evaluation of “4” and “5” in the international assessment of science, while those that have been evaluated with “1” and “2” and do not participate in the consolidation processes of scientific institutions will not receive the base financing in 2016. Taking into account that the next assessment of science is planned in 2017, the scientific institutions that received a low mark are asked to search for opportunities to integrate with stronger institutions, thus fostering the resource concentration and formation of the critical mass in these institutions.

The following key activities are implemented to increase investments in R&D:

- Continuing support is provided to 9 national level research centres for concentration and development of science and technologies where financing is provided for the modernisation of research infrastructure and laboratories and purchase of new equipment within the first stage of the ERDF sub-activity “Development of Research Infrastructure” (2011–2015), thus modernising a total of 27 involved scientific institutions. The ERDF co-financing in the amount of EUR 80.2 million has been granted for the development of research centre infrastructure in the programming period 2007–2013;
- Within the activity of the EU Structural Funds, *Attraction of Human Resources to Science*, implementation of 48 projects was continued in 2014 envisaging the support to the science field that facilitates creation of work places to new and re-emigrated scientists and attraction of new scientists to researches with financing of research work costs of the new scientist groups. The total eligible financing to implement the activity is EUR 23.1 million;
- In order to foster integration of research and manufacturing and implementation of research results in line with the national priority research directions, within the activity of the EU Structural Funds, *Support to Science and Research*, implementation of 24 projects for the total eligible financing of EUR 9.2 million is continued, and the implementation of 41 practical researches for the total eligible financing in the amount of EUR 11.7 million has been launched in 2014;
- In order to facilitate participation of scientific and research institutions in the EU research and innovation basic programmes and to promote international cooperation in the field of research and technologies, in 2014, the CM supported provisions to implement the Stage 2 of the activity of the EU Structural Funds, *Support to International Cooperation Projects in Research and Technologies*. It is expected that the project implementation will be commenced in 2015 for the total eligible financing of EUR 2.1 million. Furthermore, the programme *BalticBonus*, which was established in 2013 and which covers project elaboration costs for the participation of scientists of the Baltic States in competitions of the programme *Horizon 2020*, has been launched. A total of EUR 139 thousand has been allocated to this measure in 2014.

Furthermore, the implementation of the Smart Specialisation Strategy of Latvia, which was approved in 2013 and foresees the development of the knowledge base in fields that are significant to the economy transformation, was commenced in 2014. Wide discussions with representatives from organisations of the research and economy sector were organised in all

5 smart specialisation fields discussing the scope of smart specialisation sectors, possible competitiveness niches, experience of previous public investments, and the needed support to innovation development within each field.

To focus the research and develop the human resources of science in these knowledge fields, implementation of 14 state research programmes was started in 2014 with the total public budget financing of EUR 4.4 million. According to the priority directions in science, to finance the fundamental and applied researches (2014–2017), projects in the amount of EUR 4.4 million were funded, as well as projects of the state research programmes in the amount of EUR 6.2 million were funded in 2014. Objectives and tasks of the state research programmes were harmonised with guidelines of the Smart Specialisation Strategy and *Horizon 2020*.

- ***Developing a long-term cooperation platform for enterprises and scientists*** (responsible institutions — the ME, the MES)

In 2014 and 2015, support is continuously provided to 6 competence centres. The EU Structural Funds programme *Competence Centres* will be implemented by the end of 2015 with the total public financing in the amount of EUR 53.2 million. It is expected that as a result of all competence centres, private co-financing to R&D activities in the amount of at least EUR 10 million will be additionally attracted. In the established competence centres, a total of 224 industrial researches and development projects of new products and technologies are being implemented, and it is planned that 86 projects will be completed by 1 March 2015.

Work on the improvement of the technology transfer system continued in 2014, by attracting financing of the EU Structural Funds programming period 2014–2020. The technology transfer system is developed in order to increase the revenues of scientific institutions from commercialisation of the state-funded research, as well as to achieve that the research results of the scientific institutions are market-oriented and are implemented in practical entrepreneurship.

At the same time, in order to boost the development of research infrastructure within the ERDF activity *Development of Research Infrastructure*, 15 projects have been implemented in 2014 (ERDF — EUR 110.8 million). The projects are expected to be implemented by 31 August 2015. The implementation of the projects is expected to result in the modernisation of 27 research institutions, thus creating a modern, adaptive research infrastructure system to provide the basis of complex fundamental and applied researches and allowing Latvian research institutions to integrate into the EU Common Space in Research and Cooperation.

- ***Supporting the development of innovative enterprises*** (responsible institutions — the ME, the MF)

In 2014 and 2015, implementation of business projects was continued foreseeing the development and introduction in production of new products and technologies, incl. the development of those that are aimed at technologies with reduced environmental impact, as well as the projects that involve company investments in the establishment of new production units were continued.

Within the sub-activity *Development of New Products and Technologies*, implementation of 116 projects (for the total financing of EUR 37.6 million) was supported in 2014 and 2015. As of 1 March 2015, 113 projects have been completed for the total financing of EUR 35.5 million.

In the state support programme co-financed by the EU Structural Funds *High Value-Added Investments*, in 2014 and 2015, implementation of 107 supported projects was

continued with the total financing of EUR 134.4 million. As of 1 March 2015, EUR 95.8 million has been paid to the implementers of the projects within the programme, and 39 projects for EUR 66.2 million have been completed. In 2014, Stage 4 of the project selection was organised within the programme with the available financing of EUR 82.1 million and 104 agreements on the support to company projects with the total amount of EUR 72 million have been concluded.

From the end of 2012 until April 2014, project applications were submitted within the sub-activity co-financed by the EU Structural Funds, *New Product and Technology Development Programme in SMEs (innovation vouchers)*. The total available EU Structural Funds financing in the programme was EUR 2.85 million. As of 30 April 2014, 42 projects had been submitted within the programme, and 22 of them had been supported (contracts signed) for the total financing of EUR 0.26 million. As of 1 March 2015, 10 of these projects have been completed for the total financing of EUR 0.11 million.

Implementation of the Norwegian financial instrument programme, *Green Industry Innovation*, continues in 2014 and 2015. In 2014, support was provided to 3 projects for the total amount of EUR 1.5 million, but at the end of 2014, Stage 2 of the project selection was announced for the remaining available financing of EUR 6.27 million. 22 project applications are under review. At the same time, within the programme, the Green Technology Incubator, where pre-incubation support is provided to 70 business idea development teams, has launched its operations. In 2014, two selections of small amount grant scheme project applications were announced, and within this process, 10 project applications for the total financing of EUR 1.1 million were supported.

Starting from 1 July 2014, companies can apply the Corporate Income Tax incentive to their R&D costs that can be written off in the year when they have originated, by applying a value-increasing coefficient of 3. The eligible R&D costs, to which the tax incentive can be applied, include the company's scientific and scientific and technical personnel costs in relation to R&D work, costs of research services received from scientific institutions, as well as costs of certification, testing, and calibration services when receiving the services from accredited certification, testing, and calibration institutions.

Within the Norwegian financial instrument project, *Implementation of Regional Policy Activities in Latvia and Development of Regional Development Measures*, five regional competitions for innovative business ideas will be organised. The competition is intended for every interested person, who wishes to start a business and has an innovative and viable business idea. The total financing for the competition is expected in the amount to EUR 105.7 thousand. In order to draw attention to regional development-related issues and focus also on the potential of regions, competitions of business ideas will be held in each planning region. The regional idea competitions will be organised in 2015. All planning regions will be involved in the organisation of the regional competition for innovative business ideas and participate in the distribution of information about it in each region.

3.2.4 Information and Communication Technologies

The aim is to ensure equal access to electronic communications across Latvia, to increase the contribution of ICT to the growth and innovation of all sectors of the economy. The activity direction envisages implementation of measures set in the flagship initiative Digital Agenda for Europe of the Europe 2020 strategy in Latvia.

In 2014, 72 % of Latvian population used internet on a regular basis (at least once a week). At the beginning of 2014, the number of broadband²⁴ internet access lines in Latvia reached 24.8 per 100 persons (23.6 in mid-2013).

In mid-2014, in 71 % of cases, the internet connection in Latvia using fixed lines ensured a data transfer speed of ≥ 10 Mbps (Mbit/sec), in 51 % of cases, the data transfer speed was 30 Mbps and more, and in 38 % of cases, the data transfer speed was above 100 Mbps (on average in the EU, in the case of 18 % of fixed lines, the data transfer speed was above 30 Mbps in mid-2013).

In October 2013, the CM approved the *Guidelines for Development of Information Society for 2014–2020* (hereinafter — the GDIS) which define the priorities of the ICT area for the programming period 2014–2020. The GDIS is based on the objectives set in the flagship initiative Digital Agenda for Europe of the Europe 2020 strategy. The GDIS aims to develop knowledge-based economy and improve the overall quality of life through opportunities of the ICT, thus contributing to an increase in efficiency of public administration and competitiveness and growth of the country, as well as creation of jobs.

The key policy directions and measures:

- ***Developing infrastructure*** (responsible institution — the MT)

The aim is to ensure equal access to electronic communication services across Latvia.

Within the *State Support Programme for Optical Network*, by the end of 2015, it is expected to embed optical cables with the total length of 1866 km and build 177 access points, as well as launch the second stage in order to increase the length of the embedded optical cables by 2800 km and to increase the number of access points by approximately 300 points by 2018. The broadband network will be developed based on the EU recommendations and in those geographic areas where there is no efficient competition and where no next generation networks would be established in the nearest future without the public support (EU funds or state support). Project realization will be carried out in such intensity that do not jeopardize competition, and would not give a competitive advantage to any electronic communications merchant.

- ***Ensuring access to digital content and e-services*** (responsible institutions — the MEPRD, the MC, the MH)

The aim is to increase the amount of digital content and the number of e-services, thus ensuring their wider use (see also Section 3.2.1).

The concept of *ICT Organisational Management Model of Public Administration* approved in February 2013 envisages major reforms in the public ICT management by developing centralised ICT platforms. After the approval of the concept, most ministries have centralised the ICT management and user support, as well as have created centralised software solutions for efficient management of its IT infrastructure.

In 2014, 1075 librarians of public libraries were trained to encourage visitors to use the e-services available in the portal www.latvija.lv. Digitalisation of cultural content and development of e-services to improve access to infrastructure and content of libraries, museums, and archives by introducing new e-services was continued in 2014.

The implementation of the ERDF co-funded projects within the 1st round of e-Health was completed in 2014. The implementation of 2nd round projects of e-Health has been launched in 2013 and will be completed in 2015 commencing operation of a single health

²⁴In Latvia, access is considered to be a broadband connection if it is constantly in an online mode and the data transmission speed is at least 144 Kbit/s, basic broadband speed is 2 Mbit/s, high-speed broadband speed is 30 Mbit/s and very high-speed broadband speed is 100 Mbit/s.

electronic information system that will allow medical establishments and pharmacies to enter data in the health electronic information system. The public will have access to the e-health portal ensuring an opportunity to patients to access all data stored in the health information system, to register with a family physician, to submit an application for the receipt of the European health insurance card, as well as access to e-prescription and sick-list services will be ensured.

- **Increasing ICT security** (responsible institutions — the MD, the MEPRD)

For the purpose of secure use of IT, the Law on Information Technology Security was approved and came into force in 2011. In compliance with the law:

- A critical IT infrastructure protection system has been created and a procedure has been established for planning and implementing IT critical infrastructure security measures;
- The IT Security Incident Response Institution (CERT.LV) has been established;
- The procedure in case of the IT security incidents has been defined;
- Standard requirements have been set in the field of IT security for public and local government institutions, as well as electronic communication enterprises ensuring public electronic communication networks;
- The National Information Technology Security Council has been established to coordinate the planning and implementation of IT security-related tasks in Latvia.

In January 2014, the CM approved the guidelines on the *Cyber Security Strategy of Latvia for 2014–2018*, describing the cyber security situation in Latvia and defining the fundamental principles, aims and strategic priorities of cyber policy making in the following five priority directions of action: cyber security management and resources, rule of law in the cyberspace and reducing cybercrime, public awareness, education, and research, readiness and ability to respond to crisis situations, international cooperation. A Plan of Action is being drafted and will be approved by the CM for the implementation of the priority directions. In 2014, the priority tasks were: preparation for Latvia's Presidency in the Council of the EU, strengthening the national ICT security and international cooperation, as well as raising public awareness and understanding about extensive and secure use of the ICT.

According to the Regulation of the European Parliament and of the Council *On Electronic Identification and Trust Services for Electronic Transactions in the Internal Market*, each Member State is expected to establish a national qualified supervisory body of trust service providers to promote trust in cross-border cooperation and cross-border processing and recognition of electronically signed documents in the EU. In February 2015, the CM approved an informative report envisaging the establishment of a relevant competent institution in Latvia.

- **Developing e-skills** (responsible institutions — the MEPRD, the MT)

The aim is to foster the development of information society by giving the opportunity to the Latvian population to learn e-skills relevant to their education and professional activity.

The e-skills development policy should be seen in the light of the GDIS. The ICT education and e-skills have been identified as one of seven action directions in the GDIS. Activities in the e-skills area should encourage small and medium-sized entrepreneurs and citizens to learn e-skills.

In order to achieve the GDIS objective to promote e-skills, the following activities have been defined: improvement of e-skills of the population, entrepreneurs and employees of public administration, training of the employed organised in a form of a partnership, e-skills training for the unemployed and job seekers, including by involving employers, etc. Access to the acquisition and mastering of e-skills is provided to all society groups, especially to

children and youth, seniors, the poor, unemployed, and individual merchants using the public library network. To popularise these opportunities, the public libraries are active participants of the annual initiative of the European Commission, the campaign *E-skills Week*. 30 % of the public libraries engaged in the campaign in 2014 implementing more than 500 measures related to the development of e-skills. It is expected to develop an integrated curriculum in education areas for children from the age of 5 years up until the 6th grade (including algorithmic thinking and information literacy), development of digital teaching materials for general education, etc. Ergonomic improvements are planned to be made in the study environment and support for introduction of innovative ICT solutions to the study process is expected to be provided for the implementation of the improved general education content in regional secondary schools, improvement of teachers' qualification, incl. business skills, leadership, creativity, ICT and foreign language skills, etc.

Starting from September 2015, it is expected to offer a pilot project of 5 computer science learning curricula to schools, and this serves as a precondition of introducing the new competence-based education standard.

The following items in the Section 6 "Planning further action" of the GDIS envisage the promotion of e-skills of teachers in general education schools and heads of education institutions:

- Improving professional qualification of teachers, including business skills, leadership, creativity, ICT and foreign language skills by allocating EUR 8.5 million for this purpose;
- Improving practical skills of teachers and field practice advisors involved in vocational education (including ICT skills, by allocating EUR 5 million for this purpose).

The implementation of the GDIS is expected to improve the medium level ICT skills of the population, reaching 40 % in 2020 and reducing the share of people that have never used internet from 18 % in 2014 to 9 % in 2020.

Promotion of the ICT education and e-skills learning will result in improvements of e-commerce, thus enterprise turnover from internet sales will reach 15 % in 2020 and the public administration efficiency (GRICS indicator²⁵) will be increased from 75 % in 2014 to 85 % in 2020.

In 2014, LLC "Lattelecom" and the MEPRD, together with partners, launched a partnership initiative, *E-Index of Latvia* (www.eindekss.lv), with an aim to prepare an evaluation and understand how actively and appropriately to their situation institutions and local governments use solutions provided by modern ICT in order to raise the quality of the provided services and foster their availability to the residents and merchants.

Throughout 2015, an integrated e-governance informative campaign is being implemented with an aim to encourage the public to try using e-services and their opportunities so that a maximum number of the residents would use the e-governance opportunities and explain the positive benefits thus reducing concerns, fostering trust, achieving a shift in the attitude, motivating the switch to the electronic channel as the primary channel of service provision and receipt.

3.2.5 Transport and Environmental Infrastructure

The main aim of the **transport** policy development is a competitive, sustainable and co-modal transport system that can ensure high quality mobility. In order to achieve this, the work must be focused on two directions — to increase competitiveness of Latvian transit and logistics services, as well as to ensure internal and external accessibility and high quality mobility throughout the country.

²⁵ Governance Research Indicator Country Snapshot.

The transport infrastructure network in the country is sufficient to ensure domestic mobility and international accessibility. However, the quality (primary) and sustainable development of the network plays a major role.

An assessment of both state and municipal roads and streets shows that the overall technical condition of roads is insufficient and does not correspond to the needs of economic, safe, convenient, and environmentally friendly traffic. Approximately a half of roads with asphalt surface are in a very bad or even critical condition. One third of gravel roads are in a bad condition.

It should be noted that in some separate sections of the railway lines, insufficient carrying capacity is possible if the amount of cargoes increases. In order to increase the carrying capacity, SJSC “Latvijas dzelzceļš”, owing to co-financing of the CF, is already implementing and plans to implement several infrastructure development projects, incl. projects of modernisation of railways, communications, and the alarm system. The intention to electrify several railways is an essential factor in achieving considerable energy efficiency and reducing a significant amount of harmful emissions.

Freight transit plays a major role in the economy of Latvia, constituting approximately 1/3 of the total exports of all types of services.

The development aim of **the environmental protection infrastructure** for 2011–2015 is to ensure quality water management services for the Latvian population by improving and developing water management, to ensure pre-processing of waste prior to recycling, processing, regeneration, or disposal, to improve infiltrate treatment, as well as to develop separate waste collection and sorting, and to complete re-cultivation of closed dump-sites.

The key policy directions and measures:

- ***Ensuring a high quality and competitive infrastructure of logistics and transit services*** (responsible institution — the MT)

The aim of the measure is to increase competitiveness of logistics services and to ensure the carrying capacity of the EU external border according to the potential flow of cargo and passenger transport.

The main directions for 2012–2014 were the reconstruction and improvement of railway, road, port, and air transport infrastructure, as well as the development of the International Freight Logistics and Port Information System (IFLPIS). The total public financing from 2012 to 2014 was EUR 613.6 million, incl. EUR 216 million in 2014 and EUR 186.8 million in 2015.

In 2014, the implementation of the project *Construction of the Second Railroad with the Length of 52 km Skrīveri–Krustpils* was completed using the co-financing from the Cohesion Fund. The total eligible costs are EUR 93.4 million, incl. the CF co-financing EUR 65.5 million and financing of the SJSC “Latvijas dzelzceļš” in the amount of EUR 27.9 million.

In 2014, the implementation of the largest launched CF projects continued – reconstruction and construction of state main roads. The length of roads reconstructed within the projects financed by the EU funds amounted to 146.5 km in 2014.

In 2014, within the EU funds programming period 2014–2020, reconstruction of the state main road surface was launched in order to raise the carrying capacity, and, as a result, the reconstructed roads will allow providing the missing connection section with the TEN-T network development and reducing their maintenance costs.

In 2014, development of infrastructure to move port operations of the Riga port away from the city centre, development of Riga International Airport infrastructure, which ensure raising the carrying capacity of the airfield, increasing the safety level, and reducing the

environmental impact, as well as at the national level coordination of TEN-T financed project selection was continued as well.

In 2015, the programming period 2007–2013 projects are scheduled for completion, including the implementation of the IFLPIS project with the total project financing in the amount of EUR 2.7 million. Within the project, the server technical infrastructure of the informative system has been purchased and installed, a contract has been signed, and work on system development and the planned integration had begun. Currently, the system is being tested by potential users, as well as laws and regulations that regulate the activities of the IFLPIS are under review.

- ***Improving state regional roads*** (responsible institution — the MT)

State regional roads are improved with the ERDF co-financing. The total public financing for regional roads in 2012 amounted to EUR 41.1 million, incl. the financing from the EU funds EUR 34.9 million, EUR 44.6 million in 2013, incl. EUR 37.9 million from the EU funds, and EUR 28.7 million in 2014, incl. EUR 24.4 million from the EU funds.

The total length of regional roads reconstructed within EU-financed projects in 2014 amounted to 82.1 km. Reconstruction of state regional roads that connect development centres of the international, national, and regional significance with the TEN-T road network has been launched in 2014 within the EU fund programming period 2014–2020.

- ***Improving the environmental infrastructure*** (responsible institution — the MEPRD)

The environmental infrastructure is improved with the CF and the ERDF support, by attracting also state, local government, and private co-financing.

By the end of 2014, water management systems have been modernised, thus increasing the number of people having access to centralized water management services. The improvement works are planned to be continued in 2015, thus ensuring operations of 272 modernised water management systems. Thus, 67.7 % of the population will be receiving quality drinking water supply services and 63 % of the population will be receiving waste water management services.

At the same time, the waste management infrastructure has been improved by constructing waste landfills in accordance with the requirements of the legislation, developing separate waste collection and sorting and performing dump-site re-cultivation. By December 31, 2014, 1078 separate waste collection points, 29 waste sorting sites, 11 composting sites and 15 sorting and reloading centres have been set up. As a result of the abovementioned activities, the average share of separate waste collection points has reached 856 people per one point. In 2014-2015, it is planned to improve waste landfill sites — overall, the infrastructure of 9 landfill sites is planned to be improved with the CF support by 2015 — as well as to promote the development of a separate waste collection system by providing support to 20 enterprises and achieving re-cultivation of several dump sites — in 2014, 15 household dump sites all over Latvia have been re-cultivated, while another 16 dump sites are planned to be re-cultivated by the end of the EU funds programming period.

To reduce the anthropogenic load, the environmental protection infrastructure has been developed also in *Natura 2000* territories by implementing 2 projects in 2014 including the establishment/improvement of 35 territories. By the end of 2014, 38 territories had been created/improved, thus exceeding the planned objective. In order to reduce the anthropogenic load, it is planned that by the end of 2015, 45 territories of *Natura 2000* will be improved.

Financing is also allocated to reducing the risk of floods, construction of hydrotechnical structures, and to environmental monitoring.

The total EU fund financing for the development of the environmental infrastructure in 2014 was EUR 83.2 million, incl. the majority of ESF financing – EUR 66.6 million that was invested in the development of water management. EU funds financing in the amount of EUR 96.1 million is expected to be allocated for the development of environmental infrastructure in 2015 since the projects of the current EU funds programming period are about to be completed and the bulk of final payments to the EU fund projects are expected in 2015.

3.2.3 EMPLOYMENT

A target to reach a 73 % employment rate (population aged 20–64) by 2020 has been set in the NRP of Latvia. Over the past few years, economic growth has fostered an increase in the employment level — from 2011 until 2014, the number of employed on average has increased by 1.2 %. In 2014, the employment rate for the given age group has increased to 70.7 %.

Table 3

Trajectory of achievement of the employment level (residents aged 20–64) target

	2008	2009	2010	2011	2012	2013	2014	2020
Employment rate, %	75.4	66.6	64.3	66.3	68.1	69.7	70.7	73.0

Data source: CSB

Economic growth is expected to further boost the employment. However, the growth rate might slow down as the growth will be mainly determined by the increase in productivity. Despite that, Latvia is likely to even exceed the employment target in 2020 as there have been faster improvements in the labour market over the past few years than expected. Moreover, the increase in the employment rate will be partially affected by the expected decline in the number of working-age population (see Section 3.5.2 for details of demographic challenges).

The key elements of the employment policy of Latvia:

- Fostering labour demand — promoting economic activities and entrepreneurship, including reduction of labour taxes, combating unregistered employment, indirect and direct state support measures for entrepreneurs, measures to reduce administrative barriers, implementing support measures for micro-enterprises, business incubators, etc. (see Section 3.2);
- Strengthening labour supply — improving competitiveness of unemployed and persons at the risk of unemployment in the labour market, including the improvement of skills to match the labour market demands (vocational continuing education, informal education for the unemployed, consultations and professional mobility), lifelong learning measures, consultations on business start-ups, etc.;
- Promoting matching of labour supply and demand²⁶, including improvement of the education system, involvement of employers' organizations in the improvement of education quality, forecasting consistency of labour demand and supply, educating labour market participants, including pupils and students, about the labour market and career issues (see Section 3.4 on education reforms).

²⁶The ME prepares an annual *Informative Report on Medium-Term and Long-Term Labour Market Forecasts* based on which the MES and the SEA adjust the supply.

In 2014, Latvia continued and improved the active labour market policies (hereinafter – the ALMP) measures to improve labour skills and qualifications, measures to improve involvement and activation of the unemployed, for example:

- Improvement of the job search system and support measures;
- Improvement of cooperation among the employment services, local governments, as well as involvement of NGOs to provide more effective support to long-term unemployed;
- Introducing the unemployed profiling system;
- Expanding the mobility support;
- Promotion of youth employment and reduction of unemployment and inactivity.

In 2014, the ALMP have involved 127 thousand people. In 2014, EUR 40.5 million have been spent on the ALMP measures, incl. the ESF co-financing in the amount of EUR 27.8 million. About 44 % of the financing has been spent for raising and improving qualification of the unemployed, about 21 % for organisation of paid temporary public works, about 29 % for supporting the most disadvantaged unemployed and creation of subsidised jobs, including youth initiatives and implementation of the *Youth Guarantee*, slightly over 6 % for raising the qualification of the employed and for business initiatives. Within the ALMP measures, 156.3 thousand services were offered in 2014 (one person could participate in several activities). A total of 73 thousand unemployed have found a job in 2014, 40 % of them have found a job after completing an active measure (except information days of the measure to increase competitiveness).

In order to promote the employment and foster labour mobility, in the programming period 2014–2020, it is expected to raise the qualification and skills of the unemployed to match the labour market demand, to promote NEET youth involvement in employment and education through the *Youth Guarantee*; to maintain the capacity to work and employment of elderly employed as long as possible; to foster the integration of the most disadvantaged unemployed into the labour market; to improve the integration of the long-term unemployed into the labour market; as well as to improve the integration of people at the risk of discrimination in the society and in the labour market.

With an aim to ensure a well-balanced and equalised development of the labour market, to create a policy that stimulates the establishment of new jobs in the economy, reduce negative consequences of unemployment, help the unemployed and job-seekers that are in an unfavourable situation to return to the labour market, as well as fully use the potential of human resources, in February 2015, the committee of the CM supported *Inclusive Employment Guidelines for 2014–2020*.

The key policy directions and measures:

- ***Improving training measures for the unemployed*** (responsible institution — the MoW)

The aim is to improve the quality and efficiency of the process of training the unemployed by improving the training measures in education institutions and at an employer, as well as by improving access to these measures. In order to achieve the aim, the following measures are being implemented:

- In December 2014, the CM approved the legal framework for training measures envisaging also mobility support measures, more flexible payment forms, as well as outcome-based payment provisions. A fee for the training will be paid to the education institution in case the learning outcome is achieved. If the training is terminated due to the fault of the unemployed or job-seeker, the education institution will receive a payment for the training costs according to the actual attendance of the unemployed or job-seeker, while the latter will compensate the assets that have been invested in their training. In the 1st quarter of 2015, within the support provided by the EC to developers

and implementers of the work-based learning policy, incl. social partners, the work-based learning quality aspects, partnership formation possibilities, and cooperation models with employers were analysed;

- Within vocational and non-formal education programmes, e-learning and flexible learning forms are being developed within the competitiveness raising measures (lectures in e-environment, an opportunity to contact teachers and receive online consultations, etc.);
- Since the 3rd quarter of 2013, the profiling system of the unemployed has been implemented allowing for more efficient and faster filling of vacancies and offering the most suitable ALMP measure to an unemployed through an individual approach. As of December 2014, 97 % or 79.6 thousand of the registered unemployed had been profiled.

In 2014, a total of approximately 25 thousand persons participated in the training measures. The total public financing in 2014 was EUR 17 million, incl. the financing of the EU Funds EUR 11.2 million²⁷. The financing in 2015 has been estimated to amount to EUR 10 million, incl. the financing of the EU Funds EUR 7.3 million.

- ***Implementing support measures to reduce youth unemployment*** (responsible institutions – the MoW, the MES)

The aim is to develop practical skills of the youth aged 15–29 (including) and to foster the possibility for them to find a job successfully by developing and implementing the measures aimed at the unemployed youth.

Within the *Youth Guarantee*, the following measures are being implemented:

- From January 2014, youth at the SEA in cooperation with a career consultant and other specialists can find out their strengths, receive information about vacancies in Latvia, obtain new skills and the first work experience, as well as receive support to entrepreneurship. A total of 10 measures are offered to the youth. Application for this support can be submitted at 28 offices of the SEA throughout Latvia;
- From September 2014, initial vocational education programmes are being implemented; the youth can obtain the second or third professional qualification level in any of approximately 70 professions (apprenticeship, scholarship, and paid student residence are also available) in 1.5 academic year. One can apply for this support in vocational education institutions throughout Latvia (the project is implemented by the SEDA);
- In the spring of 2015, it is planned to launch a new project with an aim to return to education and involve in the labour market those youth that have left formal education early due to different reasons and have not sought support from the SEA or social services. It is expected that the support will be available in all municipalities and an individual measure programme will be elaborated for such inactive youth developing his/her skills and helping to engage in education.
- At the end of 2014, Latvia became involved in a pilot project implemented by the EC, *Awareness-Raising Measures within the Youth Guarantee*. This project includes communication activities in various Latvian regions so that the youth would be informed about and could use the available support measures.

²⁷Including financing for short-term programmes to improve competitiveness (career consultations and measures to improve competitiveness).

In total in 2014, within the *Youth Guarantee*, support has been provided to 6 thousand youth, of whom 2.2 thousand were men (or 38 % of all recipients of the support) and 3.8 thousand were women (62 %).

The total public financing in 2014 was EUR 4.7 million, incl. the financing of the EU Funds in the amount of EUR 4 million. The financing in 2015 has been estimated to amount to EUR 13.8 million, incl. the financing of the EU Funds amounting to EUR 11.7 million.

Along with the above measures:

- The status of a customer of the *Youth Guarantee* is granted to the youth who will be involved in 1 and 1.5 academic year vocational education programmes of the MES. Certain *Youth Guarantee* measures are intended for the youth aged 25–29: they are provided support in job search, participation in measures to increase competitiveness, career consultations, support for business or self-employment start-ups, subsidised employment measures and involvement in the one-year and one-and-a-half-year vocational education programmes. The total financing for the implementation of the *Youth Guarantee* for 2014–2020 is EUR 66.7 million, incl. the EU budget special allocation for financing the youth employment initiative — EUR 29 million, ESF financing of EUR 32 million, the government budget co-financing of EUR 4.5 million, and private co-financing of EUR 1.14 million;
 - To foster the involvement of NEET youth in education, measures implemented by the SEA within the *Youth Guarantee*, and activity of non-governmental organisations or youth centres, in December 2014, the AIPY organised 7 informative seminars on opportunities of local governments to participate in the implementation of the project “Know and Do”. The informative seminars took place in all Latvian regions and were attended by 276 participants from 94 local governments. The AIPY in cooperation with field experts has started working on development of methodology guidelines for local governments when working with the youth of the target groups. The total estimated financing of the project implementation is EUR 9 million, incl. ESF financing EUR 7.65 million;
 - Within the Latvian and Swiss cooperation programme *Support for the development of youth initiatives in peripheral or disadvantaged regions*, 19 training measures for the youth (3–6 individuals in each programming region) with the total number of participants reaching 373 have been implemented;
 - Annual state budget support is provided to youth centres and youth organisations for the implementation of informal education programmes for the youth. In 2014, support to implementation of the youth policy reached EUR 330.5 thousand, out of which EUR 186.6 thousand were allocated for the support of youth centres and youth organisations. In addition to the annual support, financing in the amount of EUR 60.7 thousand has been allocated in 2014 for support measures to promote social inclusion of the youth.
- ***Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility*** (responsible institution — the MoW)

The aim is to activate the economically inactive population groups, especially social assistance clients, by providing more efficient and targeted support to long-term unemployed and by promoting geographical labour mobility. To achieve this aim:

- Within the ESF co-financed activity “Support for the implementation of regional action plans for the promotion of employment”, the conditions on participation of unemployed in the paid temporary public works have already been simplified in 2013, thus

expanding the current target group (the unemployed not receiving unemployment benefits and having the status of an unemployed person for at least six months) and providing the support to people who receive no unemployment benefits and have the status of an unemployed person for less than six months but have been unemployed for at least 12 months. In 2014, the measure has involved 19.2 thousand unemployed;

- As of 2013, participation provisions have been simplified also for people having found a job farther from their permanent place residence and wishing to apply for financial support within the regional mobility measure *Job in Latvia*. The measure is designed for people having the status of an unemployed person for at least 2 months instead of 6 months as previously planned. In 2014, the measure has involved 205 new unemployed. The above support in 2015 is being expanded providing it to the unemployed who obtain new skills and participate in subsidised employment measures;
- Implementation of the *Pilot Project of Cooperation between the SEA and Social Service*, collaboration with social services has been improved to establish whether there is any objective obstacle preventing the unemployed, who is also a client of social services, from starting the job;
- The implementation requirements of the paid temporary public work programme have been revised in 2014, by including a selection of a range of services that match the unemployed profile to eliminate obstacles preventing the person from integrating into the labour market. Further on this programme will not be financed from the ESF (the special employment budget of state social insurance will be the financing source). It is planned to implement an activation programme of the long-term unemployed offering the following services: establishment of a health condition for the offered job and for active employment measures envisaged in the individual job-seeking plan, as well as vocational assessment helping to evaluate the obtained skills, qualification, and work experience, and search a position that is most suitable for the health condition and skills of the unemployed. Unemployed with addiction problems will be provided support in the Minnesota 12-step programme foreseeing, in addition to the current practice, also 2 days for detoxication, if needed. In addition, also an emotional stress therapy will be provided. To make the involvement of the unemployed in these measures easier, the project also envisages a compensation of travel costs of an unemployed to a treatment institution and receipt of an opinion of a narcologist. In cooperation with the Social Integration State Agency, vocational assessment for the long-term unemployed with a disability will be implemented.

The total estimated eligible financing to these measures is EUR 40 million, including the ESF financing in the amount of EUR 34 million and the state budget financing of EUR 6 million. In total, 20 thousand long-term unemployed are expected to be engaged in the new programme.

The total public financing for paid temporary public work in 2014 amounted to EUR 8.5 million, incl. co-financing of EU funds in the amount of EUR 7.2 million. The financing in 2015 has been estimated to amount to EUR 3.6 million.

- ***Making the work of the State Employment Agency more efficient*** (responsible institution – the MoW)

The aim is to improve the existing working methods in the SEA and to introduce new ones, thus ensuring a faster inclusion of the unemployed into the labour market, by offering the customers timely and quality services and ensuring more efficient cooperation with employers. To achieve this aim:

- The assessment of the efficiency of the services offered by the SEA and impact assessments of labour market policy measures are being performed on a regular basis with the support of the ESF. An efficiency assessment of the ALMP measures conducted within the WB's study serves as the basis for planning measures to promote employment in the programming period 2014–2020. For example, profiling and support to individual job seeking is being implemented;
 - A prototype of a short-term forecasting model was completed in 2014;
 - The SEA offers career consultation services to the unemployed, job seekers, and persons at the risk of unemployment. In 2014, the SEA has provided career consultations to 45.7 thousand unemployed and job-seekers (12.7 thousand of them were long-term unemployed, 4.1 thousand were youth who receive consultations also at schools, 4.5 thousand were persons with a disability, 18 thousand were elderly people)²⁸. The methodology to work with the youth has been improved within the *Youth Guarantee* in 2014.
- **Promoting self-employment and entrepreneurship** (responsible institutions — the ME, the MA, the MoW)

The aim is to provide support for business start-ups and micro-enterprises to promote the establishment and development of new competitive micro-, small, and medium-sized enterprises by supporting business incubators, organising training of young entrepreneurs and issuing loans and grants, as well as promoting non-agricultural entrepreneurship or employment in rural territories.

In order to promote the establishment and development of new micro-enterprises, a regulatory framework for promoting support activities for micro-enterprises was implemented in 2010:

- *Amendments to the Commercial Law* introduced on May 2010 prescribed an opportunity to establish a limited liability company with reduced equity capital and reduced the state fees, thus decreasing the total costs of business start-up. According to the data of the RE, from 1 May 2010 until 31 December 2014, 71 thousand limited liability companies have been registered, and 41.2 thousand or 57 % of them were limited liability companies with reduced equity;
- Since autumn 2010, the introduced Micro-Enterprise Tax Law has encouraged the registration of 40.2 thousand micro-enterprise taxpayers at the SRS, out of which about a half are new enterprises. Currently micro-enterprises employ over 84 thousand registered employees;
- Regulation of patent fees has encouraged activity of micro-business operators. From 1 January 2010 until 1 December 2014, 1855 applications to register payments of patent fees from 2221 payers of the patent fee to the SRS have been approved. On average, there are 353 patent fee payers per month.

In order to help new enterprises develop by supporting them at their early stage and providing infrastructure and consultation services, implementation of the ERDF co-financed programme Business Incubators was continued in 2014. Business incubation services were available in all regions of Latvia, in more than 20 towns and cities of Latvia. As a result, 9 business incubators in the regions of Latvia and a creative business incubator in Riga supported 1248 enterprises in 2014. Incubated enterprises have created (maintained) 1364 work positions and 864 new products. A total of EUR 12.8 million have been spent to provide support services of business incubators within the programme from 2009 until 2014,

²⁸In compliance with the law, the SEA in Latvia provides labour market-related career consultations to all residents, incl. pupils (and ever more often schools are visited).

and EUR 3.1 million of them have been spent in 2012, while EUR 5.3 million have been spent in 2013. EUR 3.5 million was paid in 2014.

In order to boost economic activity of the working-age population, including the unemployed who have expressed a wish to start a business or self-employment, as well as to promote the development of new enterprises, within the start programme, economic operators were provided both loans and consultations. The total available financing to implement the programme is EUR 27.1 million. By the end of 2014, 1343 contracts for the total financing of EUR 24.2 million have been concluded. To ensure availability of such support to merchants by the end of 2015, as from January 2015, loans to business start-ups are issued within the business competitiveness section of the loan programme.

In May 2012, the CM approved the *Regulations on the Lending Programme for the Purchase of Agricultural Land*. Loans of up to EUR 430 thousand are available within the programme for one borrower for the purchase of agricultural land to produce agricultural products and purchase existing buildings on the land if the cadastral value of the building does not exceed 30 % of the cadastral value of the land. The total budget of the programme is EUR 30 million. By the end of 2014, within the programme, 518 loans have been granted in the amount of EUR 25.9 million.

3.4 EDUCATION

3.4.1 Preschool education

The objective set for the field of preschool education is to ensure that by 2020 at least 95 % children (aged 4 to mandatory school age) are involved in preschool education. In 2012 in Latvia, there were 93.3 % children of the above age (by the 1st grade) involved in preschool education.

An autonomous function of each local government is to ensure an opportunity to obtain preschool education in an educational institution that is the nearest to the place of residence of the children who live in the relevant administrative territory. Practice shows that many local governments fail to provide a place in a municipal preschool education institution to children over 1.5 and whose domicile is in its territory. According to the data provided by local governments, in September 2012, there were 8047 children waiting for a place in a preschool education establishment.

The key policy directions and measures:

- ***Ensuring access to preschool education*** (responsible institution — the MES)

Considering the above challenge, the issue of preschool availability was brought forth and in 2013 an independent legal framework (a programme) to alternative child care services — financial state support to private preschool education institutions (the PPEI) and private providers of child supervision services (the PCSS) — was developed. The support programme is expected to run until the end of 2015 provided that local governments from September 2013 until December 2015 will find a way to solve the issue of access to preschool education.

According to the data provided by local government, in September 2014, about 11.2 thousand children were registered for a place in municipal preschool education institutions, and this number might reach 8.8 thousand in September 2015. This means that the queues for places in municipal preschool education institutions have reduced, still a place is not provided to all preschool children.

According to operative information at the disposal of the ministry, EUR 8.8 million of the national budget were spent in 2014 to reduce the queues to preschools, which amounted

to 64.4 % of the allocated assets of the national budget to 2014 (EUR 13.6 million), since not all parents have taken the opportunities provided by the state. In addition to the state support, according to information of local governments, the issue of queues most often is being solved by searching options to create additional groups, renovating the preschool education institutions and building their extensions, optimising the number of children in the education institutions that have the needed area per child and that can ensure the observation of relevant hygiene norms. At the same time, possibilities to form groups under elementary schools, elementary boarding schools, secondary schools, and children and youth centres are considered. As a result, from 2011 until the end of 2014, local governments managed to establish new groups to more than 3.8 thousand children.

In order to completely solve the issue of availability of preschool education services, one of the proposals foresees continuing the current state support programme to the PPEI and PCSS and allocating a state support to short-term education opportunities of 4-year-old children (who have not received a place at a preschool education institution) at preschool education institutions. Furthermore, a solution should be offered to increase the number of places by expanding preschools (building or renovation) in the local government where an increase in the number of residents and birth is expected.

To ensure the state support to the provision of child supervision and preschool education services to children aged 1.5 to the mandatory school age, the financing needed for 2016 constitutes EUR 13.6 million.

3.4.2 General Education

The target of the NRP of Latvia is to reduce the share of early school leavers (aged 18–24) to 13.4 % by 2020. Taking into account the progress in achieving this target so far, Latvia has set the new target 10 % for 2020.

Table 4

Trajectory for decreasing the share of early school leavers

	2008	2009	2010	2011	2012	2013	2014	2020
The youth having elementary or lower education level and of those who are no longer learning	15.5	13.9	13.3	11.6	10.6	9.8	8.5	13.4 (10.0)

Data source: CSB

As the acquisition of elementary education is compulsory, a number of measures are being implemented at local government (school) level to encourage pupils to return back to school, and therefore the share of early school leavers is low in basic education. However, there are some regional differences: in 2014, there were 11.7 % early school leavers aged 18–24 in rural areas (14.4 % in 2013) and 6.6 % – in cities and towns (7.1 % in 2013). Differences in terms of gender slightly reduced where the share of early school leavers among girls constituted about 5.1 % in 2014 (5.8 % in 2013), while the share among boys was 11.7 % (13.6 % in 2013).

In 2014, the following studies were performed: *Support to Involvement and Return to Education of Early School Leavers aged 18–24: Grounds of Compensatory and Preventive Measures* and *Study on Reasons and Risks of Early School Leaving among Youth aged 13–18*. In the spring 2015, the study *Formation of Policy Alternatives to solve the Early Learning Termination Problems*, is planned to be carried out. The objective is, based on the quantitative data, to elaborate a policy formation alternative offering a systematic solution of the early learning termination issue. At the same time the study is aimed at executing the ex-

ante provisions set by the Partnership Agreement as for the EU investment fund programming period 2014–2020.

The key policy directions and measures:

- ***Ensuring access to primary and secondary education*** (responsible institution — the MES)

The state has established a single procedure stipulating how an education institution should inform parents, the local government or public authorities when a pupil is absent from the education institution without a justified reason, as well as the record-keeping of children at the mandatory education age has been improved. According to the data on children not registered in any list of education institutions (in 2011, 12.5 thousand; in 2012, 12.6 thousand; in 2013, 14.2 thousand; in 2014, 15.7 thousand) compiled by the State Service of Education Quality, the total number of children at the mandatory education age that have not been registered at any education institutions is changing, and the number of children that have left the country according to the data of local governments is particularly tended to grow (in 2014, 13 thousand). By 2013, the number of children, about whom local governments do not have information, has decreased significantly (in 2011, 3327; in 2012, 2648; in 2013, 393). In 2014, local governments informed that they did not have information about 427 children.

In order to ensure monitoring of education quality for the purpose of improving the curriculum quality, within the EU funds programming period 2014–2020, support is going to be provided to education research, including participation in international education quality research, development of monitoring instruments and the implementation of monitoring.

A competence approach-based national standard for basic education has been launched in 2014. Owing to the support of the EU funds, since 1 September 2015, it is planned to approve this standard in general education institutions and the competence approach-based curriculum is planned to be gradually introduced in practice in grades 1 through 12, including the aim to improve the knowledge of young people and raise the interest in hard sciences, as well as to enhance and develop the role of career education and consultations in the education process. In 2015, the quality evaluation methodology of activity of education institutions and examination centres, as well as implementation of education programmes has been improved updating the question about the career education in the accreditation process of general education and vocational education.

In cooperation with social partners, in March 2014, development of a new teacher wage calculation model and a teacher wage increasing schedule has been launched, and the approbation thereof has been commenced in October of the same year. The new teacher wage payment model envisages improving the work quality of teachers ensuring a transparent wage system and equal remuneration for equal work, promoting efficient use of financial resources, and providing education availability. Solutions offered by the new teacher wage payment model envisage:

- A definite 36-working-hour week with the average number of contact hours — 24;
- A number of teacher position units calculated at the national level, by determining the teacher position salary;
- The teacher position salary depends on the average number of pupils in a grade regardless of the school location;
- A possibility to reasonably direct the financial assets of state target grants to the wage of teachers of a particular school group;
- Public financing for teacher wage reaches a school preventing multiple allocations of the funds.

Inclusive education is focused on two main target groups: children and youth at the risk of exclusion due to their developmental condition, abilities or health condition and youth at the risk of exclusion due to social conditions. Implementation of EU fund activities substantially contributes to the development of the support system and measures, as well as to the development of a proper infrastructure of educational institutions necessary for the integration of these young people. From 2007 to 2013, in 36 general and 63 special education institutions, infrastructure was adjusted to children with special needs, and 46.6 % of pupils with special needs were integrated into general and vocational education institutions.

The informative report of the CM prepared in July 2014 *On Financing Model of Special Education* includes measures to introduce changes in the financing of special education also in the context of implementing the inclusive education principle.

In 2014, the demand for assistant services continued increasing ensuring assistance to pupils with a disability when moving at an education institution, including the breaks and extended-day groups, out-of-class events and when accessing venues of the events organised by the education institution, as well as support to participate in the events, support when making contact and communicating with other pupils, teachers, and other persons, and support to self-care was provided. Assistant services in 2014 were received by 245 pupils.

It is further planned to increase the interest of general education schools, particularly teachers and heads of educational institutions in approaching each pupil individually and in developing a favourable educational environment to meet the pupils' needs.

The planned measures of the reform to improve the general education are included in the *Guidelines on Development of Education for 2014–2020*²⁹ (hereinafter – the GDE), as well as defined in detail in the draft *GDE Implementation Plan for 2015–2017*.

Moreover, support is planned to be provided within the EU funds programming period 2014–2020 for preventive and compensatory measures to ensure accessibility of education and reduce early school leaving, thus achieving that children or youth continue education at general or vocational education institutions, graduate, or acquire a qualification that could be used in the labour market, as well as providing support to involvement of young people in interest-related education measures for successful integration of the youth in the education system and the labour market.

- ***Introducing modern teaching methods*** (responsible institution — the MES)

The aim is to modernise and foster access to the teaching process, including vocational education institutions and evening schools, to develop distance learning opportunities for adults by implementing a customized approach and introducing compensating mechanisms (“second chance” education), modernising education institutions and improving methodological teaching provisions and environment (see Section 3.4.4 for information about the “second chance” education options).

The total financing for the purchase of modern teaching aids in 2013 amounted to EUR 2.8 million, whereas in 2014, the available financing was increased by EUR 4.6 million. The financing to purchase modern teaching aids in 2015 remains at the level of 2014. In 2014–2020, the following modernisation of the study process is expected to be supported through the EU funds:

- To introduce a competence approach-based curriculum by developing guidelines for preschools and a basic education standard, as well as a national standard for general secondary education. At the same time, it is planned to improve the autonomy of schools in flexible planning of the curriculum and the study process. The new competence approach-based curriculum is expected to be approbated as of the academic

²⁹ Approved by the Saeima on 22 May 2014.

year 2015/2016, envisaging its subsequent introduction (from the 1st grade) in the academic year 2018/2019;

- In relation to ensuring the development and approbation of the contents of competence-based curriculum of general education, work on the project implementation has been commenced in 2014, and, starting from 1 September 2017, *State Preschool Education Guidelines*, which is one of the normative acts that regulates the preschool education, is planned to be amended. The total planned amount of the project financing constitutes EUR 14 million (incl. ESF financing of EUR 11.9 million, NB financing of EUR 2.1 million).
- To increase the knowledge and interest of young people in hard sciences, thus improving the studies of science, technology, engineering and mathematics (hereinafter – STEM) subjects through a complex set of measures. In order to raise the motivation and interest of students in natural sciences, schools must cooperate with higher education institutions, thus increasing the future student flow in the study fields of STEM, including medicine and creative industries;
- To improve and develop the role of career education in the education process. It is expected to improve the informative and methodological base of career education, provide career consultations to students at general and vocational education institutions, as well as to implement other career support measures in cooperation with employers and other institutions that are involved in the career development process;
- To improve the monitoring of education quality. It is expected to provide support to education research, including participation in international education quality research, development of monitoring instruments, implementation of monitoring, result analysis and preparation of proposals, as well as to the development of scientifically justified instruments and indicators for the assessment of learning environment quality. In addition to current international OECD education quality indicators, the existing education quality indicators will be improved and new ones will be developed and implemented in the quality assessment of general and initial vocational education programmes. Proposals for complementing state examination systems with identifying state examinations in natural sciences are planned to be prepared, as well as a special monitoring of STEM subjects and natural sciences is expected to be carried out.

The total expected EU funds financing in 2014–2020 is EUR 145.5 million, incl. co-funding from the ESF in the amount of EUR 123.7 million.

At the same time, complex support will be provided for the improvement of a general education institution network at a regional level in the programming period 2014–2020 based on the development strategies of regions and regional associations, providing support for improvement of natural science laboratories to implement basic education programmes, purchase of necessary teaching materials and technical equipment, adjustment of the learning environment at general education institutions implementing vocational education programmes; modernisation of dormitories; establishment and modernisation of infrastructure at national level secondary schools and gymnasiums; introduction of innovative ICT solutions in the study process; development of methodological centres in the field of STEM and ICT; improvement of sports infrastructure at general education schools; adaptation of buildings and purchase of teaching materials and technical equipment for education institutions, which are implementing an education process from the 1st to the 6th grade. The total expected financing is EUR 162.8 million.

3.4.3 Secondary vocational education

By 2020, the share of the number of students in vocational education and secondary education is planned to be changed in favour of vocational education to 50/50. In the academic year 2014/2015, 11.7 thousand of students have been enrolled in vocational education programmes (in 2013/2014, they were 11.5 thousand). Although the number of young people is falling due to demographic challenges, the implemented measures have resulted in an increase in the number of young people preferring to continue their education in vocational education programmes, reaching the share of 38.1/61.9 in the academic year 2013/2014, thus approaching the target for 2020.

The key policy principles for changing the share of the number of students in favour of vocational education include measures to make general vocational education more attractive, for example, modernisation of infrastructure, quality of education programmes, social security of students, career education measures, cooperation with employers to ensure apprenticeships and potential jobs, ensuring innovative approaches to vocational education, including introduction of work-based learning elements.

On 1 September 2014, enrolment in the vocational education programmes of the project, *Implementation of Initial Vocational Education Programmes within the Youth Guarantee* was commenced, with scholarships financed from the assets of the above project (see Section 2.2).

On 30 April 2015, the implementation of the project financed by the ESF, *Acquisition of Vocational Education Programmes, Basic Skills, and Competences to Continue Education and Professional Career*, is going to be concluded, and it is planned that as a result, 4300 students will obtain a professional qualification, incl. 80 of them obtaining the qualification in March 2015.

To ensure preparation of specialists according to requirements of the labour market, as a result of the reform of vocational education curriculum, it is expected to create regular cooperation mechanisms with social partners and field organisations that would ensure compliance of the vocational education content with the needs of the sectors. The extent of enrolment in specific vocational education programmes is determined based on the medium- and long-term labour market forecasts made by the ME, opinion and recommendations of industry expert councils to involve and keep the youth in the professions needed for the sectors and coordinated with the Tripartite Cooperation Sub-Council of Vocational Education and Employment.

The total public financing in 2014 within the activity *Promotion of Initial Vocational Education Attraction* for scholarships amounted to EUR 8.7 million per year, incl. EU funds financing in the amount of EUR 6.4 million. The scholarships in the initial vocational education programmes with the ESF co-financing in the amount of EUR 14–71 were available to all students with good academic achievements, while the amount of scholarships in one-year and one-and-a-half-year vocational education programmes was EUR 71–114. The project implementation will end on 31 August 2015.

To foster the quality of vocational education curriculum, improve the apprenticeship quality and availability, support is envisaged in the EU funds programming period 2014–2020 to implement work-based learning and apprenticeship, and to implement it at an employer's enterprise (the indicative planned financing is 21.9 million).

The key policy directions and measures:

- ***Implementing structural reforms in vocational education*** (responsible institutions — the MES, the MC)

The aim is to improve the quality of vocational education, thus ensuring its conformity to the labour market needs, as well as to foster efficient use of available resources by streamlining and differentiating the number and regional locations of vocational education institutions (from 60 secondary vocational education institutions in 2010 to 30 institutions in 2015).

In order to optimise the number and locations of vocational education institutions in the regions, the institutions are encouraged to obtain the status of a vocational education competence centre (hereinafter — the VECC). At the moment, a VECC status has been granted to 15 vocational education institutions. Another three vocational education institutions are expected to obtain the status by 3 December 2015.

In order to enable the students to acquire vocational education as close to their place of residence as possible and for local governments to be able to independently improve the education institution network within its administrative territory, 11 small (300 and fewer students) vocational education institutions could be transferred to local governments, thus ensuring a possibility to acquire both general and vocational education programmes at the same place, ensuring a rational and efficient use of infrastructure and training equipment of educational institutions. In case a local government does not wish to take them over, small vocational education institutions are expected to find an opportunity to incorporate into the VECC as a regional education institution (branch) or ensure the transfer of vocational education programmes to the VECC in order to provide the students with an opportunity to continue the started studies. In both cases, the conformity of vocational education programmes to be taken over with the regional labour market demands will be assessed, emphasising work-based learning as the priority.

In 2014, two small vocational education institutions have been added to the VECC, thus supporting the regional labour market needs and at the same time highlighting the implementation of work-based learning. Considering the VECC prestige, financial resources to develop education institutions in regions and the capacity to attract the EU funds financing, and ensure a high education quality, it is expected that the VECC regional structural units will be able to increase the number of students and ensure their future development.

The total public financing in 2014 for the modernisation of teaching equipment and improvement of infrastructure of vocational education institutions was EUR 46.1 million, incl. ERDF financing in the amount of EUR 39.6 million.

In compliance with the *Guidelines in Streamlining Vocational Education Institution Network for 2010–2015*, to ensure further implementation of structural reforms of the education system, it is planned to provide complex support to vocational education institutions, especially to the VECCs, for the modernisation of infrastructure ensuring compliance of the learning environment with development of the economy fields and improving availability of vocational education within the EU funds programming period 2014–2020 (the indicative planned financing is EUR 104.8 million).

- ***Strengthening the cooperation with sectoral social partners to improve and develop vocational education*** (responsible institution — the MES)

In 2011, the 12 sectoral expert councils that were established within the ESF project *Establishment of a Sectoral Qualification System and Restructuring Vocational Education* continue working by fostering cooperation between sector employers and vocational education institutions and developing qualitative and quantitative demand of sectors for

labour force preparation, identifying the labour market demands for the preparation of qualified specialists through internship at enterprises of the sectors.

Improvements to the sectoral qualification system are planned in compliance with the qualification framework of Latvia and accordingly with the eight levels of qualification framework of Europe.

In 2014, restructuring of the content of vocational education was launched based on a flexible modular approach. Within the above ESF project, development of 56 modular vocational education programmes and content of professional qualification exams for 32 professions was launched in 2014, as well as 80 profession standards or basic requirements of specialisation qualification according to the needs of qualifications of the economic sector have been elaborated or improved. Experts from the FTUCL and ECL are attracted to the assessment to examine the relevance of the curriculum of education programmes and professional qualification exams for the requirements of the labour market.

The total public financing for the development of the field qualification system and for re-structuring the vocational education is EUR 3.4 million (100 % financing of the EU funds). The financing spent in 2014 amounted to EUR 0.89 million and the planned financing in 2015 is EUR 0.84 million. The project implementation will end on 31 August 2015.

In order to introduce the commenced reform of the vocational education content and to create a quality curriculum that corresponds to the needs of economy growth and is linked to work-based learning, within the EU funds programming period 2014–2020, it is planned to support the field examination and improvement of the field qualification structure, the development of profession standards and basic requirements of specialisation, the development of content of principal programmes of vocational education and professional qualification exams, as well as the development of modular vocational education programmes and teaching aids, and methodology materials (the indicative planned financing is EUR 12.9 million).

In addition, with the assistance of the EU funds, it is planned to improve professional skills of vocational education teachers observing the changing requirements of the labour market and technology development, as well as the new content of vocational education. Furthermore, to ensure more quality internship and qualification internship and foster the involvement of employers in the implementation of vocational education, it is expected to increase the teaching competence of internship supervisors (the indicative planned financing is EUR 6.5 million).

Within the implementation of *the Recommendation of the European Parliament and of the Council of 18 June 2009 on the European Quality Assurance in Vocational Education and Training (EQAVET)*, the SSEQ has been appointed the coordinating authority of this framework. The common Quality Assurance in Vocational Education and Training (EQAVET) is being implemented based on common European criteria in order to foster and supervise continuous improvements in vocational education and training, to facilitate the introduction and improvement of its quality, transparency, and harmonisation of the policy measures, thus fostering mutual trust, recognition, mobility of teachers and students, as well as adult education. The framework structure includes quality assurance and improvement cycles for planning, introduction, evaluation, and revision supported by the single quality criteria, descriptions, and indicators thereof.

To ensure the improvement of the quality of vocational education, development of a methodology for the quality assessment of vocational education has been commenced in cooperation with social partners in the initial vocational education and vocational continuing education, as well as corresponding amendments to laws and regulations will be drafted in the first half of 2015.

In 2014, within the EU education, training, youth, and sport programme, *Erasmus+*, a national expert group of the ECVET (the European Credit system for Vocational Education and Training) was established and trained concerning the matters of introduction of the ECVET, as well as the public was informed and a seminar was organised for representatives of 65 Latvian vocational education institutions, *Basic Principles of the ECVET to Mobility*.

3.4.4 Higher Education

The target of the NRP of Latvia is to ensure that 34–36 % of the population (aged 30–34) has acquired tertiary education by 2020.

Table 5

Trajectory of achievement of the tertiary education target

	2008	2009	2010	2011	2012	2013	2020
Number of population having acquired tertiary education, aged 30–34, thousands	42.7	47.3	50.3	47.8	48.5	53.2	61.1
Number of population aged 30–34	158.3	157.2	155.8	133.2	130.4	130.6	178.0
Share, %	27.0	30.1	32.3	35.9	37.2	40.7	34–36

Data source: Eurostat

The NRP target for 2020 with regard to the share of population having acquired tertiary education has been reached already in 2013. Although this indicator is expected to slightly drop starting from 2017 due to demographic tendencies, there is no reason to believe that it might be lower than 40 % in 2020.

In Latvia, the tendency of reducing number of students has been observed for the 7th year already. At the beginning of the academic year 2014/2015, a total of 85.9 thousand students were studying in higher education institutions of Latvia, which was by 4 % lower than in the previous academic year. However, if compared to the academic year 2005/2006, when the number of students in Latvia reached the maximum level, the number of students has decreased by 34.5 %. The decreasing number of students over the last four years was mainly the result of demographic factors and the impact of the economic crisis in 2008–2010 facilitating emigration and reducing the abilities to pay for higher education studies. In the academic year 2014/2015, there were 34.7 thousand students or 40 % of the total number of students studying in state-funded study positions. Although the total number of students has decreased, the number of students in state-funded study positions is tended to grow by 1–2 % per year. Based on the medium and long-term labour market forecasts, about 70 % of the state-funded study positions represent national priority areas, producing high value added and high-cost areas: natural sciences, engineering, health care, as well as master and doctoral studies that are important for the preparation of both new teaching staff and scientists.

On 12 November 2013, the government approved the *Plan of Measures for Development of Higher Education and Science from 20 November 2013 until 31 December 2014*, with an aim to continue implementing the necessary tertiary education and research reforms to ensure high quality, internationally competitive and science-based tertiary education implemented by efficiently administered institutions with consolidated resources.

The key policy directions and measures:

- ***Modernisation of higher education — implementation of a new financing model of higher education*** (responsible institution — the MES)

A new financing model of higher education was developed in 2014 with the support of the World Bank, and it is aimed at the development of research-based higher education, introduction of achievement management in higher education institutions, and compatibility of the higher education offer and needs of the Latvian economic development and labour market. Representatives of the higher education sector and social partners were involved in the development of the model. Implementation of the new financing model is described in the conceptual report *Implementation of New Financing Model of Higher Education in Latvia*, which is planned to be approved by the CM in April 2015 after a re-current harmonisation with the social partners. The report gives an overview of the progress and outcome of the research performed by the World Bank and makes suggestions to implement the financing model of higher education, and describes alternative solutions depending of the available financing and its expected effect on competitiveness and availability of the Latvian higher education.

The conceptual report proposes a three-pillar financing model as the most suitable solution to the socio-economic situation of Latvia with the following main elements: key financing (institutional financing to ensure the study run and research); achievement-based financing (the financing that is allocated for reaching the study and research results); innovation financing (future development-oriented financing that promotes specialisation of institutions and profile development) (see Section 2.2).

- ***Ensuring equal access to higher education*** (responsible institution — the MES)

The policy is directed towards promoting availability of and participation in tertiary education. The aim is to improve the mechanism for granting scholarships, as well as study and student loans, thus giving a larger number of people an opportunity to study and promoting a more targeted choice of the study field.

Within the context of the new financing model of tertiary education, it is necessary to improve the mechanism for granting scholarships, as well as study and student's loans, thus giving a larger number of people an opportunity to study and promoting a more targeted choice of the study field.

The support in the form of a study loan (loan for covering the tuition fee) and the student loan (loan for covering living costs and other costs) plays a major role for students to be able to start, continue and successfully complete studies. In 2014, the crediting of student and study loans from assets of credit institutions with a state warranty was ensured according to demand. In 2014, a total of 392 contracts were concluded on granting the student loans for the total amount of EUR 1.8 million, along with 1904 contracts on granting a study loan for the total amount of EUR 8.8 million. It is planned to improve the student support system specifying the credit discharge provisions to certain professions and increasing in proportion the amount of budgetary assets in 2015 and 2016. To ensure a quality and operative system of issuing student loans and study loans by reducing the administrative burden of debtors, work continues on the improvement of system regulation of crediting student loans and study loans from assets of credit institutions with a state warranty.

- ***Establishment of a national institution for quality assurance*** (responsible institution — the MES)

The policy direction is oriented towards the improvement of a quality assessment system of higher education and creation of provisions for the establishment of a national quality assessment agency and its registration at the EQAR register.

Accreditation of study fields has been introduced in 2013. The regulation regarding the accreditation of study fields has been developed based on the quality standards and principles laid down at the European level in the *Standards and Guidelines for Quality Assurance in the European Higher Education Area* (ESG). The accreditation process and the decision-making involve all the stakeholders, including the ECL, the Students Association of Latvia, the Latvian Trade Union of Education and Science Employees, among others. As highlighted in the report by the European Commission (2014) on the progress in quality assurance in higher education, only seven EU Member States have ensured active participation of employers in the monitoring process of higher education, and Latvia is among those countries. At the same time, participation of international experts in the assessment of study fields is mandatory. The accreditation process is transparent and open, and expert reports on the study fields are available to the public.

In 2013, a new procedure for licensing study programmes was introduced — *Regulations on Licensing Study Programmes* — defining stricter criteria for licensing study programmes, thus improving their quality.

In November 2014, the CM supported the *Concept on the Improvement of the Quality Assurance System of Higher Education in Latvia*, which is a vision harmonised with social partners for the establishment of an institutional system to ensure sustainable quality of tertiary education foreseeing the creation of a national higher education quality assurance institution as the centre for the implementation of relevant higher education QA principles and for the organisation of accreditation and licensing. The Concept is aimed at establishing a national quality assurance institution in Latvia that would operate in compliance with the European quality standards and guidelines and facilitate quality, recognition, and international recognition of the Latvian higher education.

The Concept foresees that the Academic Information Centre (AIC) will perform accreditation of higher education institutions, colleges, and study fields, as well as grant licences to the study programmes starting from 1 July 2015. It is expected that the National Quality Assurance Institution will commence its operation on 1 July 2015, whereas in 2018 it could be included in the European Quality Assurance Register for Higher Education and join the European Association for Quality Assurance in Higher Education. The next comprehensive accreditation stage is planned in 2019.

To foster the inclusion of the national quality assurance agency for higher education (hereinafter — the Accreditation agency) in the EQAR register, within the EU funds programming period 2014–2020, it is planned to support the measures and expert training of the initial operation quality of the Accreditation agency (the total indicative financing is EUR 1.5 million, incl. ESF financing EUR 1.27 million).

- ***Modernising the material-technical base of higher education institutions and raising the efficiency of resource use*** (responsible institution — the MES)

The aim is to improve the provision of advanced devices, equipment and technologies in such priority fields of studies as natural sciences, mathematics and information technologies, engineering, manufacturing and construction, as well as to use the public and attracted private financing rationally.

In 2014, the infrastructure of 1 higher education institution has been modernised, and a total of 24 higher education institutions have been modernised from 2010 until the end of 2014, i.e. 77.4 % of the total number of higher education institutions (31) implementing priority programmes.

By the end of 2014, a total of 24 higher education institutions had implemented their ERDF projects, whereas 7 higher education institutions continue modernising rooms and equipment within projects until 31 August 2015. The total public financing in 2014 was EUR 13.9 million, incl. EUR 12.8 million from the EU funds.

To ensure a modern study environment suitable for research conditions for the implementation of the STEM study programmes, incl. the medicine and creative industries, and at the same time to ensure a territorially focused creation of study spaces and foster the matching of higher education with the needs of economic development and the labour market, it is planned to support the development of a territorially focused infrastructure of the studies and scientific work within the EU funds programming period 2014–2020 (the total indicative financing is EUR 44.6 million, incl. ERDF financing of EUR 37.9 million).

- ***Reducing fragmentation of study programmes, joint use of resources*** (responsible institution — the MES)

The policy direction is aimed at consolidation and joint use, elaboration of joint study programmes, strategic specialisation of higher education institutions.

To ensure quality and competitive higher education, within the EU funds programming period 2014–2020, it is planned to support the improvement of competences and skills of academic personnel, attraction of new lecturers (doctoral students) and foreign lecturers to work for higher education institutions (the total indicative financing is EUR 34.4 million, incl. ESF financing of EUR 29.2 million).

To ensure a cooperation between higher education institutions by focusing the material and intellectual resources, within the new EU funds programming period 2014–2020, it is planned to support the development and improvement of support strategies of higher education institutions, implementation of external assessment recommendations, operation of study field councils, incl. support to re-structure the studies and update the study content, as well as improve the efficiency of the system of internal quality provision of higher education institutions in compliance with the quality assurance standards and guidelines in the European Higher Education Area, support development of e-solutions, incl. to inter-institutional cooperation solutions (the total financing: EUR 20 million, incl. EUR 17 million, (100 % financing of the EU funds).

In 2013, a total of 315 new science doctors obtained a scientific degree at Latvian higher education institutions, which is by 48 more than in 2012. The number of doctors has increased owing to the support of the EU funds to master and doctoral studies.

Owing to the support of the ESF, a total of 2030 master students and 1949 doctoral students have received scholarships in the time period from 2007 until the end of 2014, including 158 master students and 141 doctoral students have obtained scholarships anew, and 126 master students and 36 doctoral students of them have obtained ESF scholarships anew in 2014. The aim is to increase the share of highly qualified professionals in the priority fields of the labour market (natural sciences, mathematics, IT, engineering, health care, environmental sciences and creative industries).

Further support is expected to be provided to doctoral students involving them in practical projects and scientific researches, especially in the study fields of sciences (technology, engineering, and mathematics). Within the EU funds programming period 2014–2020, implementation of Stage 1 of *Post-doctoral Grants* is to be launched

in 2015 (the total indicative financing to post-doctoral research is EUR 64 million, incl. ERDF financing of EUR 54.4 million).

In order to prevent fragmentation of study programmes, including that of doctoral study programmes, and to promote the preparation of qualified top level specialists to match the labour market demands, it is planned to provide support within the EU funds programming period 2014–2020 for the development of joint doctoral study programmes and the study programmes in the official languages of the EU, incl. to cover the costs of accreditation at international professional organisations and international publicity of the developed and accredited study programmes (the total indicative financing is EUR 10.8 million, incl. ESF financing of EUR 9.2 million).

- ***Attracting foreign students*** (responsible institution — the MES)

At the beginning of the academic year 2014/2015, there were 5272 foreign students from 83 countries studying in higher education institutions of Latvia constituting 6 % of the total number of students. This is by 18 % or 797 students more than in the previous academic year. Most of the foreign students are from Germany (16.7 % of the total number of foreign students), Uzbekistan (10 %), and Russia (10 %). In 2013, provisions to work with foreign students were simplified, for example, by granting rights to develop and implement study programmes jointly with higher education institutions of other countries and to issue joint certificates. Currently, there are three joint study programmes with foreign higher education institutions. In 2013, a joint study programme, “International and European Law”, has been additionally licensed to be implemented by Riga Graduate School of Law in cooperation with the University of Copenhagen. The joint master study programme, “International tourism event management”, of the Vidzeme University of Applied Sciences that will be implemented in cooperation with the Klaipėda University has also been submitted for licensing. Already 8 accredited joint study programmes in cooperation with foreign higher education institutions are being implemented in 2015 in Latvian higher education institutions. The analysis carried out by the MES shows that higher education institutions often do not completely take the advantage of the opportunities granted by law, namely that 20 % of the total amount of credits of a study programme can be implemented in official languages of the EU, as well as to attract academic personnel as guest lecturers. Therefore, a range of measures to support higher education institutions, including support to develop programmes in the official EU languages, support of post-doctoral studies and the abovementioned thematic doctoral study centres, are being planned.

In 2014, measures for promoting higher education exportability and recognition of Latvian higher education were implemented, incl. maintenance of the website www.studyinlatvia.eu and www.studyinlatvia.lv, to inform potential foreign students about the study programmes, the Latvian culture and education system. The website is linked to social networks, where students can ask questions of their interest and receive information about education opportunities in Latvia.

3.4.5 Lifelong learning

The aim is to ensure that 15 % of the population (aged 25–64) would be continuously involved in the learning process by 2020 (5.5 % in 2014). From 2009 until 2012, participation in adult education dropped by 1.1 percentage points in the EU on the whole, thus significantly falling behind the target. Meanwhile in Latvia, the participation in adult education increased by 1.3 percentage points in the given time period — from 5.3 % in 2009 to 6.5 % in 2013.

Table 6

Participation of people aged 25–64 in the education process

	2008	2009	2010	2011	2012	2013	2014	2020
Share, %	6.8	5.3	5.0	5.1	6.9	6.5	5.5	15.0

Data source: CSB

The GDE measures are focused on the introduction of the lifelong learning principle, while one of the action directions envisages expanding education opportunities for adults (for example, expanding the second chance education opportunities, support for employers in educating employees, as well as support of raising the qualification of the employed based on employers' requirements, etc.).

The key policy directions and measures:

- **Promoting cooperation and ensuring coordination among the partners involved in adult education** (responsible institution — the MES)

The *European Programme for Adult Education* was implemented from October 2013 until June 2014, with an aim to promote cooperation and establish common coordination and exchange of information among the partners involved in adult education, including higher education institutions, private partners, public, municipal, and non-governmental institutions (the total financing was EUR 136 thousand, incl. the EC financing of EUR 102 thousand).

The EC project, *National Coordinators for implementing the European Programme for Adult Education* is continued in 2015, with an aim to expand the institutional and human resources that are involved in adult education and to continue developing the supervision model of the adult education system commenced in the previous project. Within the project, information about the adult education opportunities throughout Latvia will be provided and adults from risk groups will be advised (the total financing is EUR 125 thousand, incl. the EC financing of EUR 94 thousand).

At the same time, it is expected to elaborate an *Implementation Plan of the Model for Adult Education System* by the end of 2015 including in it basic principles, objectives, and action directions of lifelong learning policy, incl. an analysis on the optimal mechanism to introduce and supervise adult education support.

Support for building capacity of vocational education institutions in adult education is expected to be provided in the EU funds programming period 2014–2020, envisaging promotion of cooperation with employers, improvement of competences of administrative and teaching staff within the context of study organisation, methodological matters and technology development, as well as implementation of assessment of competences obtained outside formal education within the context of labour migration processes, informative measures by involving industry expert organisations (the total indicative financing is EUR 6.5 million).

- **Developing national qualifications framework and adjusting its level to the European qualifications framework** (responsible institution — the MES)

The aim is to introduce the National qualifications framework of Latvia, thus fostering a transition to an education based on learning outcomes, as well as to link it to the European qualifications framework (hereinafter — the EQF) by reflecting the corresponding EQF level in the certificates on formal education of Latvia.

In 2014, amendments to laws were developed and implemented in order to introduce ISCED11 education classification and thus specify the EQF levels and provision of information to the public about the framework of the EQF and Latvian qualifications was

continued, by organising seminars and conferences. At the same time the CM approved amendments to the Vocational Education Law envisaging a requirement to indicate the Latvian qualification framework levels in documents that approve vocational education and professional qualification.

- ***Ensuring assessment of knowledge, skills and professional competences obtained outside formal education*** (responsible institution — the MES)

The aim is to develop and introduce a mechanism to assess and recognise knowledge, skills, and professional competences obtained outside formal education, as well as to receive a professional qualification document.

In 2014, 21 education institutions were delegated to evaluate professional competence that has been obtained outside the formal education system, by signing a delegation agreement. From 2011 until the end of 2014, a total of 1922 persons have obtained a new professional qualification according to the procedure for assessing professional competence obtained outside formal education, and this number includes 589 persons in 2014.

In 2015, methodological materials about the assessment of professional competences obtained outside formal education are expected to be updated in cooperation with social partners, thus reaching a common understanding of the implementation of this service among education institutions.

- ***Second chance education as a compensating mechanism to reduce the number of early school leavers*** (responsible institution — the MES)

The aim is to ensure sufficient opportunities for a second chance education for early school leavers. Adults wishing to complete the started formal primary and secondary education after a certain period of time are given an opportunity and access to the second chance education.

In the academic year 2014/2015, many education institutions offered opportunities to acquire education in the evening (shift), distance, and continuing education programmes. In order to ensure the second chance education, a total of 320 licensed education programmes, including 131 evening (shift) and 189 distance (including continuing education) general education programmes are being implemented in the academic year 2014/2015.

The opportunities to acquire a second chance education will be provided also in 2015, using the infrastructure of public education institutions for the training of unemployed as well.

- ***Supporting improvement of employee qualifications according to employers' requirements with respect to employee training within sectors*** (responsible institutions — the ME, the MoW, the MES)

The aim is to give the employed (aged 25 years and older) an opportunity to improve and enhance the knowledge and skills required for the job by acquiring programmes for professional improvement or informal education programmes.

The ESF support programme *Support to Employee Training for Improving Competitiveness of Enterprises — Support to Training in Partnerships* with the total available public financing of EUR 31.7 million is being implemented with the aim to promote direct participation of enterprises in raising the qualification of the labour force (financing in 2014 — EUR 6 million).

The work on draft regulations *Regarding Support Measures for Employers in Additional Education of Employees, the Procedure for Implementation of Support Measures*

and the *Criteria for Granting the Support* has been launched, envisaging financial support for employers in providing education to employees.

In Latvia, similar to most European countries, the population is ageing. Since the active ageing policy in Latvia is still at its early stage of development, a draft *Development of Latvia's Comprehensive Strategy of Active Ageing for Extending and Improving the Working Life of the Population* has been developed (within the EU programme for employment and solidarity — PROGRESS) with an aim to use the available financial support for the development of active ageing strategy, particularly focusing on employment issues. The project envisages cooperating with the OECD to conduct a research and provide recommendations for improvement of the active ageing situation. The project will be implemented from 1 February 2014 until the end of 2015.

Within the EU funds programming period 2014–2020, it is expected to provide support for improvement of professional qualification and competence of employed, including support for career consultation services and support to mechanisms to involve person at the risk of social exclusion in the measures of professional improvement in order to prevent mismatch of the labour force qualification with demand of the labour market in a timely manner, promote competitiveness of the employees, and increase the labour productivity according to requirements of the labour market. Development of a project within the *Improvement of Professional Competence of the Employed* was commenced in 2015. It is expected to launch the projects in the 1st quarter of 2016 (the total indicative ESF financing is EUR 27 million).

The total financing of the EU funds for lifelong learning measures organised by the SEA in 2014 was EUR 2.2 million. In the new programming period of the EU funds, the lifelong learning activities will be implemented by the MES.

3.5 FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION

3.5.1 Reducing the Poverty Level

The target of the NRP is to reduce the number of persons at the risk of poverty and/or of those living in households with low work intensity by 121 thousand or 21 % until 2020. Taking into account the medium-term macroeconomic development scenario, the expected increase in employment and decrease in unemployment, as well as the fact that the increase in employment and income from wages for households has a direct impact on the reduction of the poverty risk, the poverty target for 2020 is most likely to be achieved.

Table 7

The trajectory of achievement of the poverty reduction target

	2008	2009	2010	2011	2012	2013	2020
Share of people at-risk-of-poverty (%)	26.4	20.9	19.0	19.2	19.4	21.2	
Share of persons at-risk-of-poverty and/or persons living in households with low work intensity	27.3	23.6	22.1	21.9	21.8	23.1	21.0 (or preventing the poverty risk for 121,000 people)
The number of persons at-risk-of-poverty and/or persons living in households with low work intensity (thousand)	583	495	454	441	434	456	

Data source: CSB

The situation has been gradually improving since 2011 and the poverty risk has been reduced for households with the main income from paid work, as well as for families with children. Like in the pre-crisis period, the poverty risk tends to grow for certain population groups, such as persons with fixed income (for example, retired persons), single parent households, and low-income earners.

At the same time, the main challenges to the achievement of the poverty reduction target are:

- A large sector of informal economy affecting the social security level of people working there in case of social risk, thus increasing the burden on the state and local government expenditures on social security in the long-term;
- The high share of employed making state mandatory social insurance contributions from the minimum wage (about 30 %) that will affect their income level after retirement;
- The high indebtedness level of households (consumer credits, mortgages, debts for public utilities) — as a result, people with relatively medium or high income may fall into the category of social assistance beneficiaries.

In comparison with other EU states, there is a large income inequality level in Latvia. The Gini index (35.5 %) of Latvia in 2013 was the highest when compared to other EU states. Furthermore, the quintile share ratio index (S80/S20) — 6.5, was one of the highest in the EU. There was an even increase in income for all households in 2013 when compared to 2012. The most rapid income increase was in the poorest (1st quintile) households (by 11.6 %) and the richest (5th quintile) households (by 11.2 %), while the increase in the rest of quintiles was 8.5–11 %. Although income at the disposal of household in 2013 reached the level of 2008, it should be noted that income among the Latvian households in 2013 is more evenly distributed than in 2008.

The Structure of Earnings Survey data show that in 2014 when compared to 2013, the share of the employees, who received wage of up to EUR 285 after taxes, decreased by 9.8 percentage points. The greatest increase (by 5.2 percentage points) was experienced by the population with wage in the amount of EUR 285–450 after taxes.

The key directions of the reforms and measures implemented in 2014 and 2015 are oriented towards reducing the tax burden of the labour force, increasing income of low-earning employees and of families with children, improvement of the material support and services to persons with a disability, as well as of the groups of population at the risk of poverty and social exclusion. Social service, social work, and social security system reforms in relation to use of the minimum income scheme have been commenced in 2014.

One of the budget priorities of the Law on the Medium-Term Budget Framework for 2014, 2015 and 2016 determined by the Latvian government is reducing the income inequality. In 2015, the minimum monthly wage was raised from EUR 320 to 360. Within the budget priorities, the CM in 2015 supported the need to increase the state support to children with a disability and with celiac disease, as well as the state social benefits to people, who participated in the liquidation of the Chernobyl NPP accident consequences and to families of those who died after participating in liquidation of the Chernobyl NPP accident consequences from EUR 85.37 to EUR 100.

As regards the development of professional social work, particular attention in 2014 was paid to improvement of legislation with an aim to specify the competences of the involved institutions and allocation of responsibilities for tackling social problems of the client, to expand the supervision of social work specialists, to improve the social work education and systems of improving professional qualifications. In December 2014, the government approved the amendments to the Social Services and Social Assistance Law as for the support to local government to ensure supervision of social work specialists and

improvement of their professional competence. The amendments prescribe to cover 50 % of costs of local governments for the provision of the above service from 1 July 2015 until 31 December 2022. As this activity is implemented, the needy and low-income persons and families, as well as other clients of the social service will receive professional and efficient support of a social worker. The above draft law is still to be approved by the Saeima.

In 2015, the development of the de-institutionalisation plan, which was launched in the previous year, is continued. It is expected that starting from 2016, long-term social care and social rehabilitation service institutions (hereinafter — Care institutions) will be able to welcome only adults with severe mental disorders. It is also planned that limitations of placing clients in Care institutions will force local governments to develop the range of social services in their territories so that the persons who are not eligible, as well as those who are already in a care institution but wish to establish independent living could receive the support and social services that are needed for such independent living. Amendments to the Social Services and Social Assistance Law (approved in the 1st reading of the Saeima in February 2015) specify certain aspects stipulated in other laws and regulations, duties of municipal social services, care institutions, and municipal institutions for orphans and children left without parental care, as well as cooperation with the orphan's courts in order to rapidly and successfully ensure the upbringing of orphans and children left without parental care in a family environment, a duty of the social services to provide the necessary support to orphans and children left without parental care after the end of out-of-family care when they come of age.

Along with the change of social service provision system, work on the development of the current community-based social services is taking place. Thus, in 2014, in local governments, new group houses (apartments) and day care centres for persons with mental disorders were created. With the use of state co-financing, 3 new day care centres and one group house (apartment) for persons with mental disorders were created in 2014. In addition, the methods to provide social services using IT and ICT have been modernised.

In order to ensure implementation of the *Guidelines of the UN Convention on the Rights of Persons with Disabilities for 2014–2020*, the measures planned in 2014 are related to assessing the access to education for children with disabilities and children with special needs, as well as improvement of the relevant legislation, revising and extending the list and the scope of social services for persons with disabilities and specifying the organization of the disability expertise. Starting from 1 July 2014, the allowance of persons with severe disability who need special care has been increased. And starting from 1 July 2014, also the material support for persons with a disability of Group I or II, who receive the state social security benefit, has been increased. The disability expert-examination system that foresees that, when establishing a disability of persons aged over 18 years up until the moment of granting the old-age pension, not only health disorders, but also limitations of activity and functioning caused by disorders are taken into account, and this improved system that complies with international criteria entered into force on 1 January 2015. This system defines the establishment of a disability group and loss of ability to work, expressed as a percentage. The new disability expert-examination system will be more precise and objective, as well as more understandable to clients and specialists who are involved in disability expert-examination.

A crucial support for reducing poverty and social exclusion in 2014–2020 will be provided through measures co-financed by the EU funds. Within the programming period, EUR 225 million or 35 % of the ESF financing has been allocated to the objective, *Fostering social inclusion and fighting poverty and any type of discrimination*. In addition, it is planned to allocate also EUR 193 million or 8 % of ERDF financing to this objective.

On 12 March 2014, the Regulation of the European Parliament and of the Council on the Fund for European Aid to the Most Deprived (hereinafter — the Fund) came into force.

The general objective of the Fund is to reinforce social cohesion with the EU, to promote social inclusion and fight poverty, thus achieving the *Europe 2020* strategy target of reducing the number of people at-risk-of-poverty and social exclusion by at least 20 million. This target may be achieved by providing non-financial support to the most deprived persons in a form of material assistance and measures to boost social inclusion. The operational programme for the Fund and legislative framework has been approved envisaging the financing of EUR 41 million for non-financial support to the most deprived in the programming period 2014–2020. In addition to the EU financing, the state budget co-financing in the amount of 15 % is also planned for the implementation of the Operational Programme. According to the Operational Programme, the Funds financing will be allocated for food aid and material assistance to children.

The key policy directions and measures:

- ***Reducing income inequality*** (responsible institutions — the MF, the MoW)

The aim is to reduce the tax burden on the economically active population and population groups at high risk of poverty (especially families with children and people with low income).

The key measure implemented in 2014 is the establishment of an adequate level of minimum income (see Section 2.3).

To foster increasing the level of income of retired persons and an increase of pension harmonised with the rise in wage, indexation of pensions/remunerations according to improved procedure was carried out, namely, indexing the pensions/remunerations after the actual consumer price index and applying 25% of the percentage of the actual increase in the social insurance contribution wage. With regard to the high risk of poverty and social exclusion for population of the pension age, elaboration of amendments to legal framework was launched in 2015 so that 1) the index to be applied in indexation of pensions would include 50 % of the average rise of the social insurance contribution wage; 2) the procedure of updating the pension capital would be improved when the annual index thereto of the social insurance contribution wage is smaller than “1”.

As of 1 January 2015, the state family benefit is differentiated according to the number of children in the family: EUR 11.38 per month for the first child, EUR 22.76 for the second child, and EUR 34.14 for the third and each next child.

By 20 April 2015, it is expected to submit for review the report of the CM *On proposals to introduce the differentiated non-taxable minimum from 2016 by complex evaluation of personal income tax relief and reduction of tax burden of the labour force* is expected to be submitted for the review in the CM. The report is developed in accordance with the task of *Declaration of Implementing the Planned Activities of the Cabinet of Ministers Led by Laimdota Straujuma*: “To introduce a progressive non-taxable minimum of the personal income tax as of 2016, thus increasing it for recipients of small wages, leaving almost unchanged for recipients of average wage, while not applying it to those who receive wages that significantly exceeds the average wage in the state. At the same time, to increase the PIT relief allowances for dependants by evaluating the possibility to apply a greater relief allowance for the second and every next child in a family.”

- ***Encouraging people at risk of poverty and social exclusion to participate in the labour market*** (responsible institution — the MoW)

To foster the return or inclusion of the persons at the risk of poverty or social exclusion to the labour market, in 2014, with the use of the national state budget, social and

professional services, as well as services of technical aids were provided to these persons (the total financing was EUR 10.4 million).

Furthermore, ALMP measures were implemented for these groups of population ensuring jobs co-financed by the state. The total public financing for these measures in 2014 amounted to EUR 4.4 million, incl. EU funds financing of EUR 1.3 million.

In addition to the measures described above, the possibilities to introduce social entrepreneurship in Latvia were evaluated in 2014. In October 2014, the CM approved the concept *On Possibilities to Introduce Social Entrepreneurship in Latvia* with an aim to assess alternative options for the development of inclusive social entrepreneurship in Latvia offering a support direction to operators of social entrepreneurship. A pilot project in order to examine and define the best solutions will be commenced in 2016, with the ESF support.

- ***Eliminating discrimination threats and stereotypes, as well as fostering participation of the civic society*** (responsible institution — the MC)

The aim is to ensure support measures enabling groups of population at risk of social exclusion, including the Roma, third country nationals of a different culture, religion, language and ethnical origin, and persons excluded due to poverty and regional remoteness to take active part in all aspects of life of the European society. To achieve the aim, various forms of civil participation are strengthened and promoted, as well as any kind of discrimination is restricted.

Within the thematic objective of the development priority *High Employment Level in Inclusive Society* of the operational programme *Growth and Employment (2014–2020)*, it is planned to provide support to the integration of various ethnical groups, incl. the Roma, as well as to support discrimination prevention measures. Basic activities of a set of Roma integration measures are envisaged in the implementation plan until 2016 of the *National Identity, Civic Society, and Integration Policy Guidelines for 2012–2018*. To foster Roma integration and participation of the civic society in the implementation of the policy, support from the national budget within the open project tender is provided on a regular basis to the Roma NGO's projects (2 projects were implemented in 2013 and 4 in 2014). The Advisory Council for the Implementation of the Roma Integration Policy has been working under the MC since 2012 with an aim to promote Roma participation.

In 2014, within the programme for employment and solidarity, *PROGRESS 2007–2013*, the EC within the project tender supported the project *Different people, various experiences, one Latvia II* with an aim to raise awareness of the society and build professional skills of employees of the public sector. It is planned to develop a study on the Roma situation in Latvia in 2015 within this project.

3.5.2 Demographic Challenges and Health Protection

Negative **demographic** changes are observed in Latvia — the decrease and ageing of the population and a relatively high death rate. At the beginning of 2015, the number of Latvian population was 1.98 million. Since 2000, the number of population has decreased by 390 thousand or 16.5 %. The rapid ageing of the population is a particularly critical problem – the number and proportion of children is decreasing and the number and proportion of elderly people is increasing. At the same time, it should be noted that the international long-term emigration is decreasing and immigration increases along with the gradual economic growth. The negative migration balance has significantly shrunk since 2009.

Tackling demographic issues has been one of the urgent issues on the political agenda over the recent years. In order to decide on all measures to improve the demographic situation, the Demographic Affairs Council was established, focusing on such issues in 2014

as the improvement of support measures for families with children, recognition of the status of a large family.

In order to facilitate the link to the Latvian diaspora abroad and encourage the return of Latvian people back to Latvia, the *Return migration support measure plan for 2013–2016* was approved in 2013. The Plan contains 8 directions of action aimed at supporting and helping those Latvian nationals and their relatives living abroad who have decided or plan to return to Latvia by providing information in various situations of life. The work on compiling information and creating the section “Return to Latvia” on the state and local government website www.latvija.lv is continued in 2014, by linking the compiled information to local government services, including e-services.

In 2013 and 2014, Latvia has implemented a number of support measures to families with children, at the same time increasing the insurance and state social benefits for childcare, increasing the personal income tax relief rate for a child, and introducing relief of various taxes to large families. In addition, investments to childcare and education systems were made: a state support programme to eliminate waiting lines to preschool education institutions (kindergartens) was introduced, support to purchase teaching aids was provided, and a grant for free lunch at schools was increased. As a result of these and other measures, the accumulated average income from benefits when childcare is provided to a child under 1.5 year has increased by 20–45 %, as well as support to families with children in three years has increased by almost 25 % (by 1.08 % of GDP in 2014).

Despite the fact that a number of **public health** indicators in Latvia lag far behind the average EU indicators, they are improving gradually.

The average life expectancy at birth in Latvia is one of the lowest in the EU. It was 73.3 years in 2010, which is 92 % of the EU, while it reached 74.4 years in 2013. The decreasing death rate and the increasing average life expectancy at birth fosters a gradual rise in the healthy life years indicator which has increased by 5 years, reaching 59.1 years in 2012 compared to 2007³⁰. The main causes of the years of potential life lost (hereinafter — YPLL) are external causes (mostly suicides and traffic accidents), diseases of the cardiovascular system and malignant tumours. The target indicators of Latvia for improving public health are reflected in the Table 8.

Table 8

Trajectory of achievement of the YPLL target

	2008	2009	2010	2011	2012	2013	2020
YPLL per 100 thousand people (aged up to 64 years)	7386	6897	6477	6140	5967	5911	5300

Data source: CSB

The analysis of the YPLL dynamics for the period of time 2008–2013 shows that the YPLL target for 2020 will be achieved, if the current trends remain unchanged and the necessary investments in public health are made in the coming years.

³⁰ EUROSTAT data: Healthy Life Years (from 2004 onwards).

The key policy directions and measures:

- ***Improving the birth rate and social protection measures focusing on families with children*** (responsible institutions — the MoW, the MEPRD, the MJ)

The aim is to ensure and improve the state and local government support to families with children, as well as to encourage parent integration in the labour market. Measures to reach the aim:

- Measures that ensure a position at a preschool education institution for children over the age of 1.5 years (see Section 3.4.1);
 - The legal framework has been improved as of 1 September 2013, to provide alternative services to children. By January 2014, legally registered babysitting service providers — 485 nannies and 146 legal entities providing alternative services — have helped to resolve the issue with waiting lines for preschool education institutions of local governments;
 - In March 2015, the CM supported the *Concept on Improvement of Adoption and Out-of-family Care System* envisaging the implementation of a number of measures in the coming years with an aim to improve the support that is to be provided to foster parent, as well as improve the out-of-family care system. **The measures envisaged in the Concept are planned to be introduced gradually, starting from 2016;**
 - Starting from 2015, restrictions to sickness, maternity, paternity, and parents' benefits set during the crisis have been cancelled. Starting from January 2015, differentiation of the state family benefit according to the number of children in a family has been renewed. EUR 11.38 per month for the first child in a family, EUR 22.76 for the second child (twice the amount), and EUR 34.14 for the third and each next child (three times bigger than the one for the first child in a family).
- ***Developing a quality and efficient health care services system, reducing the risk factors of diseases, eliminating the impact of traumatism and environmental risks on public health*** (responsible institution — the MH)

The aim is to decrease morbidity and mortality, ensure efficient management of the health care system and use of resources, promote early diagnostics of diseases, improve the health care for chronic patients and implement health promotion measures. In October 2014, *Public Health Strategy for 2014–2020* was approved.

Not all plans have received the necessary financing. For successful implementation of the *Cardiovascular Health Improvement Action Plan for 2013–2015*, additionally needed financing for the years 2014 and 2015 is EUR 6.8 million, however EUR 103.9 thousand were allocated in 2014, whereas EUR 211.23 thousand were allocated in 2015. Using the granted financial assets, public awareness campaigns were implemented with an aim to explain in a plain manner the risk factors of cardiovascular diseases, to raise awareness about a diet that is good for the heart health, as well as to explain symptoms of chronic cardiovascular diseases when a family physician should be visited in due time to carry on regular heart health checks, explain symptoms of myocardial infarction and brain stroke when emergency medical care should be contacted immediately, etc. Some measures of the plan are expected to be implemented with the financing from the EU funds.

When starting the activities of the EU funds programming period 2014–2020, in December 2014, a contract was signed and cooperation launched with the WB on a study to develop the health network development guidelines in the priority disease areas (cardiovascular, oncologic diseases, mental health, perinatal and neonatal care). It is expected

to direct the investment in the priority health fields to improve and develop both the system (organisational changes) and infrastructure.

Starting from 1 January 2014, for children having state reimbursed medicinal products in the reimbursement amount of 50 % or 75 %, further on, drugs and medical equipment are going to be reimbursed in the amount of 100 % (except non-reference medicine). As well as additional assets from the national budget in the amount of EUR 4.6 million were spent to increase the provision of child health care services paid by the state, including reduction of queues to consult specialists, to health care in a day in-patient hospital and examinations and therapy of children, as well as to diagnose and treat oncology patients, and pay for the relevant laboratory tests. Apart from routine vaccines, vaccination of newborns against rotavirus has been launched as of 1 January 2015, as well as children who live in endemic territories of tick-borne encephalitis can receive a vaccination against it paid by the state since 2010.

Matters concerning child safety and injury prevention are topical. Since 2012, public awareness campaigns have been implemented to reduce injuries among children and prevent the sudden infant death syndrome, informative materials for parents have been developed, interactive educational activities have been implemented for preschool and primary school children about the safety and prevention of injuries, as well as family physician teams have been encouraged to engage more effectively in provision of information to new parents about child safety issues, incl. injury prevention. The operation and updates of the portal “grutnieciba.lv” have been ensured since 2014.

Since 1 January 2015, a patient contribution for in-patient treatment has been reduced from EUR 13.5 to EUR 10 per day, as well as medical treatment institutions can collect not more than EUR 31 for a surgical manipulation in an operation room at a time during the in-patient stay instead of the former EUR 42.69 for a surgery. At the same time it should be noted that, in order to ensure availability of health care services to poor people, as well as to continue developing the out-patient health care services, measures (patronage visits, the second nurse attracted to a family physician’s place of practice, compensated patient contribution and purchase of medicines to poor persons, etc.) of Social Security Network Strategy are continued also in 2014 and 2015 within the national budget that is envisaged for the health sector.

In order to strengthen and increase the role of primary health care (hereinafter — PHC) in the prevention, diagnostics, and treatment, as well as to improve the quality of PHC, the *Plan for the Development of the Primary Health Care for 2014–2016* was approved in April 2014. A part of the measures under the plan requires additional financing from the government budget. The total additional financing from the government budget necessary for the implementation of the plan for a three-year period is EUR 14.8 million; within the medium-term budget, additional financing for 2015, 2016, and 2017 was not allocated. Certain measures of the plan are expected to be implemented within the EU funds financing.

However, in 2015, within the measures of the *Public Health Strategy for 2014–2020*, it is planned to evaluate an opportunity to introduce a mixed health care financing model as one of the solutions foreseeing the link between health and social budget. Furthermore, the Law on Health Care Financing envisaging to change the healthcare system financing by introduction of state mandatory health insurance will also be further evaluated within the implementation of this measure.

Moreover, the following activities are planned in 2015 and 2016 to achieve the target:

- To reach an annual increase in the public financing to the health area;
- To draft health network development guidelines in the priority disease areas (cardiovascular, oncologic diseases, mental health, perinatal care), foreseeing both

organisational changes and improvement of infrastructure of the health care system in cooperation with the WB;

- To improve the access, the quality and follow-up of PHC services, particularly for persons with chronic diseases, as well as to increase the role of PHC in the prevention, early diagnostics and treatment of diseases;
- To continue the development of out-patient services, including day care hospitals in order to improve access to these services and to promote efficient use of health care resources;
- To implement measures in order to improve efficiency of in-patient health care by continuing the introduction of a diagnosis-related group payment model in in-patient health care;
- To launch the operation of a unified electronic information system of the health area;
- To launch health promotion and disease prevention activities according to the SOs in the health sector of the Operational Programme *Growth and Employment* within the EU funds programming period for 2014–2020;
- To reduce patient contributions and other co-payments for the reimbursed medicines;
- To attract health workforce to regions.

3.6 ENERGY AND CLIMATE CHANGE

The economic crisis has significantly changed the overall situation in the energy sector. In order to plan sustainable long-term development of the energy sector and to achieve the energy targets under the NRP of Latvia, the informative report *Long-Term Energy Strategy of Latvia 2030 — Competitive Energy for Society* (hereinafter — the Strategy) has been approved in 2013. The Strategy outlines the directions of long-term action for a secure energy supply, competitiveness, energy efficiency, and the use of renewable energy (hereinafter — RE). In 2014, work on the energy policy planning document, *The Energy Development Guidelines for 2014–2020*, was commenced. At the same time, the existing state support mechanisms for energy production from the RES have been assessed and revised.

3.6.1 Promoting Energy Efficiency

The aim of the Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (hereinafter — Directive 2012/27/EU) is to promote energy efficiency and ensure the achievement of the headline energy efficiency target of 20 % and lay the foundation for further improvement of energy efficiency.

According to the requirements of Directive 2012/27/EU, Latvia has submitted the *Informative Progress Report of the Indicative National Energy Performance Objective for 2014–2016* to the EC summarising the planned energy performance measures by 2016. Within the implementation of the Directive 2012/27/EU, Latvia has to achieve the indicative national energy efficiency target, which includes two binding targets to be pursued: the annual final energy savings of 1.5 % supplied to final consumers and annual renovation of 3 % of the national stock of buildings.

The national energy efficiency target corresponds to the following amounts of energy savings expressed in figures:

- The total indicative national energy efficiency target³¹ — the primary energy savings in 2020 — 0.670 Mtoe (28 PJ);
- The annual energy saving target of 1.5 % supplied to end consumers³² — the final energy savings in 2020 — 0.213 Mtoe (8.9 PJ);
- The annual renovation target of 3 % of the state-owned building area (maximum estimates — 678.5 thousand m²) together with the renovation of municipal buildings — energy saving during the entire period of 2014–2020 – 0.016 Mtoe (0.67 PJ or 186 GWh).

The assessment of possible energy savings and calculation of the targets were based on the GDP forecasts until 2020 envisaging changes in energy demand, the current energy policy that sets indicative RE policy targets until 2020 and energy efficiency policy until 2016.

Table 9

Trajectory of achievement of the energy efficiency target

	2008	2009	2010	2011	2012	2013	2020
Primary energy consumption** (Mtoe)	4.47	4.25	4.33	4.14	4.41	4.31	Primary energy saving 0.67 Mtoe**

* *Gross domestic energy consumption — non-energy consumption: according to the requirements of the Directive 2012/27/EU*

** *According to the requirements of the Directive 2012/27/EU*

Latvia is moving towards the set target to achieve energy savings in the amount of 0.67 Mtoe in 2020 (the total energy savings in both the final consumption and the transformation sector). The gross domestic energy consumption has decreased from 4.47 Mtoe in 2008 to 4.31 Mtoe in 2013 already by now (decrease by 0.16 Mtoe), and the implementation of energy efficiency measures has an important role in this progress.

The energy efficiency policy measures until 2020 are expected to ensure the achievement of the target. Multi-apartment residential buildings, local government and public institution buildings, industry, services sector and transport, as well as centralised heating systems have the largest energy efficiency potential. Overall, the implementation of energy efficiency measures is expected to foster the transition to an energy-efficient economy and increase the competitiveness of industry and other sectors.

Low energy efficiency causes the risk of reduced energy security, sustainability, and competitiveness, and raising this level is the fastest and the most cost-efficient way to reduce the risks, at the same time creating additional jobs and fostering growth. To reach maximum energy savings, energy performance should become a horizontal cross-sectoral policy objective.

The key policy directions and measures:

- ***Improving energy efficiency in households and industrial production*** (responsible institution — the ME)

Two activities were implemented in the EU funds programming period 2007–2013: *Measures to improve heat insulation of multi-apartment buildings* and *Measures to improve heat insulation of social residential buildings*.

³¹ According to the 2013 *Progress Report on the Implementation of the National Reform Programme of Latvia within the Europe 2020 strategy*. Savings are determined as the difference between the base scenario and the scenario with measures. These savings do not refer to the absolute reduction of national energy consumption. It refers to the limit of the increase achieved by those measures. The methodological requirements for notifying about the target have been laid down in Annex V to the Directive 2012/27/EU.

³² The annual final energy savings correspond to the national mandatory accrued final energy savings 0.850 Mtoe.

The measures to improve heat insulation of multi-apartment buildings are aimed at increasing energy performance of multi-apartment residential buildings, thus ensuring sustainable housing and efficient use of energy resources. By March 2015, 851 projects have been approved for the ERDF financing of EUR 74.9 million, out of which 541 projects have been completed for the ERDF financing of EUR 43.84 million. For the purpose of promoting the activity, an extensive information campaign has been carried out thus encouraging apartment owners to get involved in the management of the common property and improvement of the energy performance of buildings.

Improvement of energy performance of buildings plays a major role in achieving the energy efficiency targets defined in the EU and policy planning documents of Latvia. Investments in housing insulations have been efficient; the average heat energy savings after renovation comprise 43 %. The average period of return on investments in these projects is approximately 22 years.

In order to implement the measures to improve heat insulation of social residential buildings, a total of 55 contracts for EUR 5.1 million have been concluded by April 2015, and 54 of them have been completed.

Within the EU funds programming period 2014–2020, measures to increase energy efficiency in public and residential buildings are planned to be supported: renovation of buildings, energy certification of buildings and construction works to improve energy performance, as well as the use of RES in buildings for achieving particularly high energy performance and causing no negative impact on centralised heat supply. The support is expected to be provided in the form of loans with partial discharge of the principal amount. The planned ERDF financing for increasing energy performance of residential buildings amounts to EUR 150 million, and for increasing energy performance of public buildings, EUR 97.9 million.

Efficient use of energy resources and reduction of energy consumption in manufacturing are also planned to be supported within the EU funds programming period 2014–2020: measures to improve energy performance of industrial buildings, energy certification and construction works to increase energy performance, and purchase and installation of new RES-based manufacturing equipment for generation of heat. The estimated CF financing is EUR 32.56 million.

- ***Improving energy efficiency in public buildings*** (responsible institution — the MEPRD)

The aim is to provide financial support to projects for increasing energy performance of public and industrial buildings in order to reduce greenhouse gas (hereinafter — the GHG) emissions. Complex solutions are supported within the complex measures: activities for the conversion from fossil to renewable energy resources and for the energy efficiency increase. The total CCFI financing in 2014–2015 for the implementation of complex measures in projects is EUR 28 million.

In 2014, a total of 116 projects co-financed by the CCFI in the amount of EUR 31.2 million have been implemented within the CCFI tender *Complex Solutions for Reducing Greenhouse Gas Emissions*, making investments in technological industrial equipment and improvement of energy performance, as well as fostering the use of renewable energy sources. The implementation of 120 projects will be completed in 2015.

From 2011 until 2014, 14 projects have been implemented to increase energy performance in buildings of state and local government institutions, enterprises, and individuals, and for construction of new energy efficient buildings within the tender *Low Energy Consumption Buildings* for the total CCFI financing EUR 4.4 million.

Within the EU funds programming period 2014–2020, it is planned to rebuild and reconstruct municipal buildings, perform energy certification and construction works to

improve energy efficiency (insulation of building envelopes, reconstruction of engineering systems of buildings, installation of recuperation, energy control, and control devices, incl. smart meters and ventilation systems), as well as use of RES in building if especially high energy performance indicators are reached and installation of RES equipment along with the energy performance measures is economically justified. A significant support criterion is a positive financial return from investments and reduced energy costs to end consumers. The estimated ERDF financing is EUR 31.4 million.

- **Introducing an efficient lighting infrastructure in public territories of municipalities** (responsible institution — the MEPRD)

Three stages are being implemented within the CCFI tender “*Reducing Greenhouse Gas Emissions in Lighting Infrastructure in Public Territories of Municipalities*” to provide financial support to municipalities in introducing a lighting infrastructure to reduce the current electricity consumption, thus reducing GHG emissions. 56 projects were implemented from 2012 until 2014 for the total financing of the CCFI of EUR 6.6 million. Project implementation is planned in 2015, as well.

- **Improving energy efficiency in heat production** (responsible institution — the ME)

The aim of increasing the efficiency of centralised heat supply systems is to reduce energy losses in transmission and distribution systems and to promote replacement of fossil fuels with renewable fuels.

Project implementation within the EU funds programming period 2007–2013 is continuing. By March 2015, 145 projects were approved for the total financing of the CF in the amount of EUR 82.7 million, out of which 56 projects have been completed for the CF financing of EUR 41.2 million. The project implementation is expected to result in installation of heat capacity of 323 MW and reconstruction of 168 km of heating pipes.

Energy efficiency and the use of local RES in centralised heat supply is planned to be fostered within the EU funds programming period 2014–2020: reconstruction of heat sources, including the purchase and installation of technological equipment, as well as reconstruction and construction of heat transmission and distribution systems with an aim to reduce heat losses. The estimated CF financing is EUR 53.19 million.

3.6.2 Increasing the Share of Renewable Energy

The quantitative target of Latvia is to increase the share of energy produced from RES in the total gross final energy consumption to 40 % by 2020, while the share of RE in the transport sector must reach at least 10 % of the gross final energy consumption in transport.

Table 10

Trajectory of achievement of the renewable energy target

	2005	2011	2012	2013	2020
Share of renewable energy (%)	32.3	33.5	35.8	37.1	40.0

Assessment of the current progress in use of RES when producing energy shows that also in the future use of RES in Latvia will develop positively. Considering the impact of the current and expected energy efficiency measures on the total gross final energy consumption, as well as other support measures to foster RE consumption (including electricity produced from the RES, the mandatory procurement mechanism, and support activities in the heat sector), the proposed target of the RE share in 2020 will be reached.

Table 11

Forecasted development trajectory regarding energy from the RES in heating and cooling, electricity and transport, % of the final energy consumption in each sector

	2005	2011	2012	2013	2020
Heating and cooling	42.7	44.8	47.4	49.7	53.4
Electricity	43.0	44.7	44.9	48.8	59.8
Transport	1.4	3.2	3.1	3.1	10.0

The requirements of the Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources (hereinafter — Directive 2009/28/EC) and individual targets of EU member states imposed by the directive are binding on Latvia.

The measures to be implemented and the expected outcomes of a broader use of RE are closely related to the progress of promoting energy efficiency, particularly, the energy efficiency target for 2020, which is defined in the Directive 2012/27/EU (see Section 3.6.1). Latvia still has a high energy saving potential in all final energy consumption sectors. Due to technology development trends and global challenges, Latvia is revising its support mechanisms for the production of RE by making them more flexible and economically justified. Legislation regulating the RE sector was amended in 2012 and 2013 to improve the investment environment for the development of the planned projects, thus fostering the overall energy policy planning. The support measures implemented by now have encouraged producers to start project planning and invest in electricity production using the RES. However, in order to maintain competitiveness of the economy, current support mechanisms for the RE are being revised at the moment, including careful assessment of total costs and aid intensity. When launching additional harmonisation with the EC, it is evaluated whether the granted support, incl. in correlation with investment support, for mandatory procurement of energy produced by plants or the guaranteed fee for the installed electric power is compatible with the internal market of the EU, and whether the support sum does not exceed the necessary minimum.

The key policy directions and measures:

- **Adjusting the legal basis** (responsible institution — the ME)

The aim is to promote a broader use of the RES in energy production and consumption, including in the transport sector, as well as the use of sustainable biofuel and bioliquids.

In compliance with Part one of Section 30¹ of the Electricity Market Law, an energy net payment system has been introduced in Latvia on 1 January 2014. Within the system, household users who generate electricity for their own needs (final consumption) and who, according to the calculated consumed and produced energy volume, have delivered a greater volume of energy to an operator of the distribution system network than consumed, the relevant volume of energy will be accounted for in the next electricity payment period within the calendar year.

Laws and regulations were amended in 2014 to prevent unjustified risk of the energy price increase for all end users of energy. The above amendments ensure that the mandatory procurement costs do not increase as a result of unforeseen increases in the sales price of natural gas, by limiting the changeability of the component — the end tariff of natural gas sales — that forms a part of the formulae of setting the price of the mandatory procurement, fixing the maximum limit of this component (369.93 EUR/Nm³) at the level of the sales price of natural gas in March 2014 (277.46 EUR/Nm³) that will be used also in the future instead of the changing ratio.

- ***Ensuring the availability of financial resources for the production of renewable energy*** (responsible institutions — the ME, the MEPRD, the MA)

The aim is to promote a broader use of local RES in the energy production and consumption, to promote energy production in cogeneration, and diminish the dependence on the imports of primary energy resources.

Implementation of projects for the promotion of development of cogeneration power plants using RES continues within the EU funds programming period 2007–2013. Until 2015, 10 contracts have been concluded for the CF financing of EUR 29.6 million, out of which 8 projects have been completed for the CF financing of EUR 21.21 million. Within the implementation of projects, the expected installed capacity is 36 MW(el) and heat capacity 105 MW.

The total public financing in 2011–2013 for the support to energy production from biomass of agricultural and forestry origin, if the produced energy is intended to be used mainly outside the farm, was EUR 201.9 million (incl. financing from the EU funds in the amount of EUR 133 million). By February 2015, 40 projects of new plants had been implemented for the public financing of EUR 43.5 million, incl. 3 biogas cogeneration plants have received public financing for their establishment in the amount of EUR 1.2 million from March 2014 until March 2015.

- ***Promoting the use of biofuels in the transport sector*** (responsible institutions — the ME, the MEPRD, the MA)

The aim is to promote sustainable production and consumption of biofuels in the transport sector of Latvia, thus also indirectly fostering the production of biofuels.

In 2015, it is planned to keep the mandatory biofuel admixture, to continue applying the reduced excise duty rates to biofuels, as well as to increase accessibility of biofuels for all consumers.

During the last 10 years, biofuel blends with fossil fuel containing at least 30 % biofuel (B30) were consumed only in 2009 when the consumption reached 360 tons. This means that the application of the reduced excise duty rates to fuel B30 according to the initial objective to foster the production and consumption of local biofuels was not justified. Thus, in compliance with the Law on Excise Duties, it has been stipulated that as of 1 January 2015, fuel B30 has the same excise duty rate as diesel fuel.

In order to promote the use of biofuels in public transport and state and local government vehicles, as well as to increase the demand for electric vehicles, proposals for *Amendments to the Public Procurement Law*, the *Public Transport Law* and the *Law on the Procurement of Public Service Providers* have been prepared, stipulating that the commissioning party, upon arranging a procurement of vehicles, should take into consideration whether the vehicle engine is compatible with high concentration biofuel blends with fossil fuel, pure biofuel, or electricity. The economic justification of the amendments is currently being elaborated.

3.6.3 Reducing Greenhouse Gas Emissions

The target of Latvia is to limit the total national GHG emissions so that by 2020 they would not exceed 12.19³³ Mt CO₂ equivalent. This target includes the fulfilment of other international commitments. The objective for GHG emissions does not include emissions and sinks generated in land use, land use change and forestry activities, forestry field or

³³The GHG emission target for 2020 has been specified — 12.16 Mt CO₂ equivalent according to the EC Decision of 26 March 2013 *On Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC*.

sequestration thereof. The actual GHG projections demonstrate that the GHG emission target for 2020 will not be reached unless additional measures are introduced.

According to the results of the National GHG Inventory Report of 2014³⁴, the total Latvia's GHG emissions in 2012 were 10.98 Mt CO₂ equivalent. Most of emissions were generated in the energy (40.3 %), transport (25.4 %), and agriculture (22 %) sectors.

Table 12

Trajectory of achievement of the greenhouse gas emissions target

	2008	2009	2010	2011	2012	2013 ³⁵	2020
The total GHG emissions, Mt CO ₂ equivalent	11.5	10.9	12.0	11.1	11.0	10.9	12.2
EU ETS emissions ³⁶ , Mt CO ₂ equivalent	2.7	2.5	3.2	2.9	2.7	2.6	2.3 ³⁷
Non-ETS emissions ³⁸ , Mt CO ₂ equivalent	8.8	8.4	8.8	8.2	8.2	8.3	9.6 ³⁹
Non-ETS emissions (% compared to 2005)	6.5	1.7	6.4	0.0	0.3	1.2	17.0

Overall, in 2012, the total emissions corresponded to the projected trajectory of the target achievement. According to initial information, the total amount of Latvia's GHG emissions in 2013 was 10.94 Mt CO₂ equivalent. This indicates a small decrease if compared to 2012. Decrease of emissions are mainly observed in the field of energy.

Non-ETS emissions in Latvia constitute more than ¾ of GHG emissions. Within the non-ETS, key sectors of emissions are the energy sector — 60.7 % of the total non-ETS emissions in Latvia in 2013 (33.9 % in the transport sector, 26 % – in the non-ETS stationary energy). Furthermore, agricultural activity generates a great amount of GHG emissions, namely, 30.2 % of the total non-ETS GHG emissions in Latvia in 2013.

The key policy directions and measures:

- **Limiting non-ETS emissions** (responsible institutions — the MEPRD, the ME, the MA, the MT)

In the transport sector, indirect positive impact on the reduction of GHG emissions can be achieved with a number of EU instruments: requirements of CO₂ emissions for new vehicles and of sulphur content in fleet fuel, transition to electric transport, further electrification of railway infrastructure, etc. In the coming years, further improvement of the transport infrastructure is planned, namely, improvement in regional road networks, development of specialised transport corridors positively affecting organisation of the transport flow. Yet, overall, the possibilities to reduce GHG emissions in the transport sector are limited.

³⁴ UN Framework Conventions on Climate Change:

http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/8108.php

³⁵ European Environment Agency http://cdr.eionet.europa.eu/lv/eu/mmr/art08_proxy/envu9nrlq/

³⁶ EU ETS mainly includes Latvian heat and electricity producers, as well as the largest industrial production units, namely, cement, tile, brick, glass fibre, and iron and steel material production units.

³⁷ In compliance with the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC with an aim to improve and expand the quota trading system of GHG emissions of the Community.

³⁸ Sectors outside the EU ETS, like transport, small-sized industry and energy, agriculture. The specific non-ETS targets for fields have been defined by the EC Decision of 26 March 2013 *On Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC*.

³⁹ According to Annex 1 of the EC Decision of 26 March 2013 on Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC (applying the values of the global warming potential laid down in the second assessment report by the Intergovernmental Panel on Climate Change) and the EC Implementing Decision of 31 October 2013 on the adjustments to Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC.

In the sector of agriculture, it is possible to reduce emissions in the field of manure management since biogas can be produced from the collected and accordingly stored manure. By 2020, Member States will have access to the support for the use of renewable energy resources and reduce GHG emissions, and within the support, they will be able to finance projects in the field of agriculture. The second possible measure in the field of agriculture for the reduction of GHG emissions is to reduce the use of nitrogen mineral fertilizers and use organic fertilizers to a greater extent; however, implementation of this measure is encumbered by the fact that there is still a low level of the usage of mineral fertilizers comparing to the average indicators of the EU and to reach good harvest indicators the volume in fact should be increased. Increase in the share of use of organic fertilizers is hindered by the fact that organic fertilizers in Latvia are not sufficiently available in relation to a low density of livestock.

The measures to reduce the non-ETS sector emissions were mainly supported by the CCFI launched in 2010. Improvement of energy performance of commercial and public buildings, as well as improvement of efficiency of production equipment and facilitation of use of RES was implemented within the CCFI projects (see Section 3.6.1). In order to promote the reduction of GHG emissions, the tender “Reducing Greenhouse Gas Emissions in the Transport Sector — Support to the Introduction of Electric Vehicles and Their Charging Infrastructure” was organized in 2014 within the CCFI which supports the introduction of new manufactured vehicles which by construction uses energy from the electricity stored in the vehicle and GHG emissions of 0 g/km (electric cars) and of new public charging points in Latvia. Implementation of 131 projects were launched in 2014 for the total financing of the CCFI EUR 3.7 million, and it is expected to complete the projects in 2015.

- **Research, innovations, raising public awareness** (responsible institution — the MEPRD)

The aim is to promote a transfer of products and technologies reducing GHG emissions in Latvia, as well as to support measures in order to change public behaviour.

Several studies have been conducted in Latvia in the fields of emission reduction and renewable energy resources. Research has mainly been financed by the CCFI and by the by research centres that are attracted to the National Research Programme, Administration of Latvian Environmental Protection Fund, *Horizon 2020*, such as the Riga Technical University and others.

Within the National Research Programme for 2014–2017, approved by the CM, the programme *Energy efficient and low-carbon solutions for a secure, sustainable and climate variability reducing energy supply* has been launched. The main objective thereof is to develop scientific and methodology justification of the instruments for the implementation of Latvian climate and energy policy long-term framework until 2030 and methods for evaluating the expected impact and to use them to reduce GHG emissions and assess indicative costs of reaching the RES objectives, including to perform cost assessment in the sectors of economy and to separately evaluate the sectors that are and are not involved in emission trading.

The Administration of the Latvian Environmental Protection Fund funded three projects concerning the reduction and monitoring of emissions in 2014. These projects were developed in cooperation with the Baltic Environmental Forum (BEF), the Institute of Physical Energetics (IPE), and the Institute of Environmental Protection and Heating Systems of the Riga Technical University. The main objective of the project was to prepare forecasts of GHG emissions to the non-ETS sector and pollution of dust from burning devices and sulphur dioxide emissions.

Within the *Horizon 2020* programme, one project dealing with issues of emissions and climate change has been approved in Latvia. This project is to be implemented in the upcoming years. *Enhancing ecoSystem sERvices mApping for poLicy and Decision mAking* (ESMERALDA) project is implemented in cooperation with 25 partners from all over the Europe. The project is aimed at developing an assessment methodology to evaluate and plan green infrastructure, protected eco-systems, agriculture, and water and climate policies.

Since 2011, 14 projects have been implemented in Latvia for the development of GHG emission-reducing products and technologies for the total CCFI financing of EUR 1.6 million within the tender *Development of Technologies Reducing Greenhouse Gas Emissions*. Within the framework of the completed projects, equipment prototypes have been developed for waste water cooling and conducting the produced heat to water heating, an efficient technology has been developed for burning low-emission non-fossil fuel using water electrolysis product as a catalyst, an energy efficient solar panel has been developed, etc. By the end of 2014, 13 projects have been implemented for the total CCFI financing of EUR 2.4 million within the tender *Development of Technologies Reducing Greenhouse Gas Emissions and Implementation of Pilot Projects*. The CCFI financing has been used for the development and presentation of innovative products or technologies with a potential of reducing GHG and a potential of practical use, as well as technologies for international experience and knowledge transfer through the implementation of pilot projects to present practical application of innovative technologies reducing GHG.

In 2014, the open competition *Raising capacity to researches and measures to increase knowledge of the society about climate changes and their consequences*, of small amount grant scheme project applications under the EEA's Financial Mechanism 2009–2014 Programme *National Climate Policy* was concluded. Within the grant scheme, 15 projects with the total co-financing in the amount of EUR 1.7 million have been supported. The main project activities are related to educating various target groups of society in the matters of climate change (implementation of informative campaigns and seminars, elaboration and implementation of training programmes, development of education and study modules, and of scientific researches). The projects will be implemented by April 2016.

4. USE OF STRUCTURAL FUNDS

Investments co-financed by the EU Investment funds (incl. EU Structural Funds (ERDF and ESF) and the Cohesion Fund, as well as EAFRD and EFMD) within the programming period 2007–2013 resulted in a significant motivational impact on the economic activity. Furthermore, in the programming period 2014–2020, the planning documents of the EU Investment funds have been elaborated so that the investments would foster the achievement of the objectives of *Europe 2020* strategy ensuring a strategic and effective investment with an aim to preserve the positive impact on the economic growth in the coming years, as well.

The ERDF and the CF financing for the achievement of the Europe 2020 strategy targets

To achieve the target set in the Europe 2020 strategy, within the Operational Programmes, *Entrepreneurship and Innovations* and *Infrastructure and Services*, of the programming period 2007–2013, it is planned to allocate the public financing in the amount of EUR 1.37 billion (incl. ERDF and CF financing EUR 1.29 billion). The above financing promotes the achievement of targets of the *Europe 2020* strategy:

- Employment: public financing in the amount of EUR 358.47 million, incl. ERDF and CF financing of EUR 326.75 million;
- Investment in R&D: public financing in the amount of EUR 463.79 million, incl. ERDF financing of EUR 451.88 million;
- Education: public financing in the amount of EUR 315.29 million, incl. ERDF financing of EUR 280.94 million;
- Social inclusion: public financing in the amount of EUR 239.62 million, incl. ERDF financing of EUR 218.64 million;
- Energy and climate change: public financing in the amount of EUR 201.16 million, incl. ERDF and CF financing of EUR 198.86 million.

The ESF financing for the achievement of the Europe 2020 strategy targets

In the programming period 2007–2013, the achievement of the following *Europe 2020* strategy targets is being supported with the ESF financing: improving competitiveness, improving the education system, fostering employment, implementing labour market reforms to ensure flexicurity, reducing non-registered employment, and increasing participation in the labour market (including fostering the employment of elderly people and lifelong learning), as well as promoting social inclusion to reduce poverty.

With the ESF support, competitiveness is being fostered, and reforms in vocational education and ALMP measures, lifelong learning and social inclusion measures are being implemented within the priority directions under the NRP of Latvia.

To achieve the *Europe 2020* strategy targets, public financing in the amount of EUR 541.93 million is allocated for measures complying with the following *Europe 2020* strategy targets:

- Employment: public financing in the amount of EUR 280.99 million;
- R&D: public financing in the amount of EUR 1.38 million;
- Education: public financing in the amount of EUR 125.05 million.

The ESF support is also envisaged for support measures that contribute simultaneously to the achievement of several *Europe 2020* strategy targets:

- Employment and R&D: public financing in the amount of EUR 55.11 million;
- Employment and education: public financing in the amount of EUR 17.88 million;
- Employment and social inclusion: public financing in the amount of EUR 48.02 million;
- Education and social inclusion: public financing in the amount of EUR 13.5 million.

Allocation of financing of the EU Investment funds programming period 2014–2020 and its link to the Europe 2020 strategy

For continued successful introduction of the EU Investment Funds (ESF, ERDF, CF, EAFRD, and EFMD), a total of EUR 5350.1 million is available. According to the thematic objectives defined in *Regulation (EU) No 1303/2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006* that link the Cohesion Policy with the *Europe 2020* strategy, the Partnership Agreement for the EU Investment funds programming period 2014–2020⁴⁰ provides an indicative allocation of the EU Investment funds financing and link with the national *Europe 2020* targets (see Table 13).

Taking into account the development level and the economic needs of Latvia, investments are expected in all thematic objectives. Detailed information about the thematic objectives, chosen priority axes, and investment priorities, as well as information about the planned supported activities and link of thematic objectives with the national targets in the context of *Europe 2020* is available in the Partnership Agreement for the EU Investment funds programming period 2014–2020, as well as in the Operational Programme *Growth and Employment*⁴¹ of the EU funds programming period 2014–2020, *Rural Development Programme of Latvia for 2014–2020*⁴², and *Action Programme for Fishery Development for 2014–2020*⁴³.

Table 13

Indicative allocation of the EU Investment funds financing and its link to the national *Europe 2020* targets

Thematic objective	ERDF	ESF	CF	EAFRD	EEF	YEI	Total	Link with national objectives in the context of <i>Europe 2020</i> strategy
1. Strengthening research, technology development, and innovation	467,519,706	0	0	13,370,863	0	0	480,890,569	<p>Objective of the NRP: investments in R&D – 1.5 % of GDP.</p> <p>NRP challenges: a small number of the employed in science and research, underdeveloped infrastructure of science and research, insufficient number of advanced laboratories for the implementation of technology projects, weak commercialisation potential of research results, weak cooperation between the sectors of science and industry, the structure of Latvian business is mainly formed of small and medium-sized enterprises which have no R&D investment</p>

⁴⁰ Approved by the CM Decree No. 313 of 19 June 2014 “On the Partnership Agreement for the EU Investment funds programming period 2014–2020” and EC Decision No. C(2014) 4237 of 20 June 2014 On Approval of Partnership Agreement. Available at: <http://www.esfondi.lv/page.php?id=1149>.

⁴¹ Approved by the CM Decree No. 62 of 4 February 2015 “On Operational Programme “Growth and Employment” of the EU Structural Funds and Cohesion Fund Programming Period 2014–2020 and EC Decision No. C(2014) 8508 of 11 November 2014, On Approval of the Operational Programme “Growth and Employment”. Available at: <http://www.esfondi.lv/page.php?id=1149>.

⁴² Available at: <https://www.zm.gov.lv/lauku-attistiba/statiskas-lapas/lauku-attistibas-programma-2014-2020/latvijas-lauku-attistibas-programma-2014-2020-gadam?nid=1046#jump>

⁴³ Available at: <https://www.zm.gov.lv/zivsaimnieciba/statiskas-lapas/ricibas-programma-zivsaimniecibas-attistibai-2014-2020-gadam?id=3515#jump>

Thematic objective	ERDF	ESF	CF	EAFRD	EEF	YEI	Total	Link with national objectives in the context of <i>Europe 2020</i> strategy
								capacity and a small high technology sector, insufficient financing of the public budget and private sector, non-compliance of knowledge and skills of the employed with the labour market needs.
2. Enhancing access to and use, and quality of ICT	172,783,829	0	0	0	0	0	172,783,829	<p>According to the target of the flagship initiative Digital Agenda for Europe of the Europe 2020 strategy for 2020, every person in the EU should have an opportunity to subscribe to an internet service with the download speed ≥ 30 Mbit/s and at least 50 % of the EU households subscribe to an internet service with the download speed ≥ 100 Mbit/s. It is also emphasised that the EU Member States should facilitate distribution and use of completely cooperative e-government services.</p> <p>NRP challenges: provision of well-balanced economic development increasing the contribution of ICT to the growth and innovation of all sectors of the economy.</p>
3. Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EFMF)	296,191,300	0	0	370,273,187	95,185,869	0	761,650,356	<p>NRP challenges: improvement of the business environment, provision of merchant access to finances with an aim to support productive investments, small share of the SMEs in the export structure, sophisticated implementation of marketing activities abroad, non-compliance of knowledge and skills of those employed in SMEs with the labour market needs.</p>
4. Supporting the shift towards a low-carbon economy in all sectors	286,344,229	0	194,266,292	40,173,411	0	0	520,783,932	<p>Objectives of the NRP: 40 % of RE share in the gross energy final consumption; savings of primary energy 0.67 Mtoe;</p> <p>Limitation of GHG emissions in the sectors outside the ETS so that the increase would not exceed 17 % if compared to 2005</p>
5. Promoting climate change adaptation and risk prevention and management	65,819,321	0	0	201,823,430	0	0	267,642751	<p>Flagship initiative “Resource-efficient Europe” of the Europe 2020 strategy prescribes the necessity of measures to reduce and prevent the flood risk</p>
6. Protecting the environment and promoting resource efficiency	367,097,718	0	190,138,398	201,823,430	24,397,873	0	783,457,419	<p>NRP challenges: improvement of business environment by developing the waste management infrastructure water management infrastructure and ensuring availability and achievement of public services.</p> <p>Within the flagship initiative “Resource-efficient Europe” of the Europe 2020 strategy, the priority of water resources policy is water saving and effective use, ensuring its availability in sufficient amounts and</p>

Thematic objective	ERDF	ESF	CF	EAFRD	EEF	YEI	Total	Link with national objectives in the context of <i>Europe 2020</i> strategy
								quality, as well as returning it to the environment in an acceptable quality. It also envisages that the demand for primary raw materials will reduce as the processing level is increased, as well as valuable materials will be reused.
7. Promoting sustainable transport and removing bottlenecks in key network infrastructure	235,477,563	0	924,294,295	0	0	0	1,159,771,858	The objective of the flagship initiative “Resource-efficient Europe” of the <i>Europe 2020</i> strategy — separation of economic growth and use of resources, support to transition to a low-carbon economy, increase the use of renewable energy resources, modernise the field of transport, and foster energy performance by development of a sustainable transport infrastructure.
8. Promoting stable, quality employment and supporting labour mobility	0	135,410,788	0	117,753,689	12,750,000	29,010,639	294,925,116	Objectives of the NRP: 73 % of the residents aged 20–64 should be employed. Reduction of the share of people at the risk of poverty by 21 % or prevention of risk of poverty and exclusion of 121 thousand people.
9. Promoting social inclusion and combating poverty and any kind of discrimination	193,377,447	225,160,750	0	70,177,238	0	0	488,715,435	Objectives of the NRP: 73 % of the residents aged 20–64 should be employed. Reduction of the share of people at the risk of poverty by 21 % or prevention of the risk of poverty and exclusion of 121 thousand of people.
10. Investing in education, skills and lifelong learning	277,460,786	238,500,493	0	16,198,463	0	0	532,159,742	Objectives of the NRP: The share of early school leavers (aged 18–24; %) is 13.4 %. The share of residents aged 30–34 and having higher education is 34–36 %.
11. Enhancing institutional capacity of public institutions and stakeholders and efficient public administration	0	18,063,357	0	0	0	0	18,063,357	NRP challenges: to reduce the administrative burden on enterprises, improve the quality of business legislation, and foster creation of a business-friendly environment.
Total	2,362,071,899	617,135,388	1,308,698,985	1,031,593,711	132,333,742	29,010,639	5,480,844,364	

In 2014, Latvia, in cooperation with other EU Member States and neighbouring states, participated in the development of programmes for the target *European Territorial Cooperation* for 2014–2020 of the European structural and investment funds ensuring that they are handed over for approval to the European Commission in order to promote entrepreneurship and development of territorial balance, employment raise, environment

protection and preservation of cultural and historical heritage, prevention of social inequality, as well as raising administrative capacity of public institutions and NGOs after implementing cross-border initiatives in cooperation with foreign partners in the new period.

For the programming period 2014–2020, ERDF financing in the amount of EUR 93.6 million has been granted to Latvia for the ETS objective, still the overall gain of Latvia will depend on the ability of Latvian partners to create a competitive partnership and prepare high quality project applications competing with partners from other member states of the programmes.