

PROGRESS REPORT
ON THE IMPLEMENTATION OF THE
NATIONAL REFORM PROGRAMME OF LATVIA
WITHIN THE “EUROPE 2020” STRATEGY

Riga
April 2012

TABLE OF CONTENTS

ABBREVIATIONS	3
INTRODUCTION	4
1. MEDIUM-TERM MACROECONOMIC SCENARIO	6
2. PROGRESS IN THE IMPLEMENTATION OF THE NRP OF LATVIA	9
2.1. OVERALL ASSESSMENT OF PROGRESS IN THE IMPLEMENTATION OF THE NRP OF LATVIA	9
2.2. IMPLEMENTATION OF THE EURO PLUS PACT COMMITMENTS.....	11
2.3. PROGRESS IN IMPLEMENTATION OF THE COUNCIL COUNTRY-SPECIFIC RECOMMENDATIONS	14
2.4. PRIORITY DIRECTIONS OF THE NRP OF LATVIA FOR 2012–2013	23
3. POLICY DIRECTIONS	24
3.1. FINANCIAL STABILITY	24
3.1.1. <i>Developing Sustainable Budget</i>	24
3.1.2. <i>Ensuring Stability of the Banking Sector</i>	25
3.2. PROMOTING COMPETITIVENESS	27
3.2.1. <i>Business Environment and Modernisation of Public Administration</i>	27
3.2.2. <i>Promoting Productive Investments and Exports</i>	32
3.2.3. <i>Innovations, Research and Development</i>	35
3.2.4. <i>Information and Communication Technologies</i>	38
3.2.5. <i>Transport and Environmental Infrastructure</i>	40
3.3. EMPLOYMENT	41
3.4. EDUCATION	48
3.4.1. <i>General Education</i>	48
3.4.2. <i>Secondary Vocational Education</i>	49
3.4.3. <i>Higher Education</i>	50
3.4.4. <i>Lifelong Learning</i>	53
3.5. FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION.....	55
3.5.1. <i>Reducing the Poverty Level</i>	55
3.5.2. <i>Demographic Challenges and Health Protection</i>	57
3.6. ENERGY AND CLIMATE CHANGE	59
3.6.1. <i>Fostering Energy Efficiency</i>	59
3.6.2. <i>Increasing the Share of Renewable Energy</i>	61
3.6.3. <i>Reducing Greenhouse Gas Emissions</i>	63

ABBREVIATIONS

ARTEMIS	A joint undertaking programme for progressive research and technologies in embedded intelligence and systems	LGA	Latvian Guarantee Agency
		MA	Ministry of Agriculture
		MC	Ministry of Culture
CCFI	Climate Change Financial Instrument	ME	Ministry of Economics
		MES	Ministry of Education and Science
CERT.LV	IT Security Incident Response Institution	MEPRD	Ministry of Environmental Protection and Regional Development
CM	Cabinet of Ministers		
CIS	Commonwealth of Independent States	MFA	Ministry of Foreign Affairs
		MF	Ministry of Finance
CO ₂	carbon dioxide	MH	Ministry of Health
CSB	Central Statistical Bureau	MJ	Ministry of Justice
EC	European Commission	Mt	megatons
ERDF	European Regional Development Fund	MT	Ministry of Transport
		Mtoe	megatons oil equivalent
ESA	European System of Accounts	MW	Ministry of Welfare
ESF	European Social Fund	NGO	non-governmental organisation
ETS	Emissions Trading System	NRP	national reform programme
EUREKA	A Europe-Wide Network for Market-Oriented Industrial R&D and Innovation	PMB	Procurement Monitoring Bureau
EUROSTARS	International programme for supporting SMEs performing R&D	RE	renewable energy
		RES	renewable energy sources
FCCM	Financial and Capital Market Commission	R&D	research and development
		SC	State Chancellery
FDI	foreign direct investments	SCS	state capital share
FDL	Draft Fiscal Discipline Law	SEA	State Employment Agency
FTE	full-time equivalent	LLC	limited liability company
GDP	gross domestic product	SJSC	state joint stock company
GHG	greenhouse gas	SLI	State Labour Inspectorate
GMI	guaranteed minimum income	SRS	State Revenue Service
ICT	information and communication technologies	USA	United States of America
IT	information technologies	VAT	value added tax
JSC	joint stock company		
LCR	Latvian Competitiveness Report		

INTRODUCTION

The *National Reform Programme of Latvia for the Implementation of the “Europe 2020” strategy*¹ (hereinafter – NRP of Latvia) and the *Convergence Programme of Latvia*² were approved simultaneously by the Cabinet of Ministers (hereinafter – CM) on April 26, 2011 and submitted to the European Commission on April 29, 2011. The NRP of Latvia describes the medium-term macroeconomic scenario and reflects the main macrostructural bottlenecks of Latvia and the key measures for 2011–2013 to eliminate them, as well as national quantitative targets of Latvia for 2020 in the context of the “Europe 2020” strategy and the key measures for 2011–2013 to achieve them.

According to the Treaty on the Functioning of the European Union (hereinafter – the EU) the NRP of Latvia and the *Convergence Programme of Latvia* are a part of economic policy coordination and surveillance mechanism at the EU level (in the framework of the *European Semester*³). Multilateral surveillance of both programmes is being performed at the EU level, based on which the European Commission may give a policy warning if the economic policy of any EU member state fails to comply with the EU Integrated Guidelines and targets set at the EU level.

Furthermore, it should be taken into account that new economic and fiscal policy surveillance rules (the so-called “six-pack”) consisting of five regulations and a directive⁴ came into force on December 13, 2011. By adopting the new rules in the EU, in addition to the excessive deficit procedure, a macroeconomic imbalances procedure is established to identify timely (using the scoreboard and the alert mechanism) and to correct macroeconomic imbalances (for example, high current account deficit, etc.). Since the national reform programmes of the EU member states are oriented towards implementation of key structural reforms, they help preventing excessive budget deficit and macroeconomic imbalances timely.

The national reform programmes are linked to the EU budget, because part of the measures is co-financed from the EU budget. The EU funds’ financing plays an important role in the implementation of the NRP of Latvia.

In compliance with the Article 121 and 148 of the Treaty on the Functioning of the EU and taking into account the *Integrated Guidelines*⁵, commitments of Latvia under the *Euro Plus Pact*⁶ approved by the European Council on March 24–25, 2011, the Council country-specific recommendations for Latvia⁷, the *Annual Growth Survey*⁸ for 2012 published on November 23, 2011 by the European Commission (hereinafter – EC), the European Council conclusions of March 1–2, 2012⁹, guidance of the EC regarding preparation of national reform programmes of the EU member states¹⁰, Latvia has prepared the *Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020”*

¹ National Reform Programme of Latvia for the Implementation of the “Europe 2020” strategy:
http://www.em.gov.lv/images/modules/items/LV_NRP_lat.pdf

² Convergence Programme of Latvia for 2011-2014:
<http://www.fm.gov.lv/files/files/AD6262091504001304339532127932.pdf>

³ Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance, European Commission, COM(2010)367/2, 30.06.2010.

⁴ Surveillance of economic and fiscal policies: http://ec.europa.eu/economy_finance/economic_governance/index_en.htm

⁵ “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>

⁶ Euro Plus Pact, European Council conclusions of March 24–25, 2011:
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

⁷ Council country-specific recommendations for Latvia, July 12, 2011:
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:215:0008:0009:LV:PDF>

⁸ Annual Growth Survey 2012, http://ec.europa.eu/europe2020/tools/monitoring/annual_growth_survey_2011/index_en.htm

⁹ European Council conclusions, EUCO 10/11, March 25, 2011.

¹⁰ The letter from the Secretariat-General of the European Commission to the EU member states on further progress of the national reform programmes of the EU member states, SG/D1/SW/cf ARES (2010), 22.09.2010.

strategy (hereinafter – Progress Report on the Implementation of the NRP of Latvia) for submission to the EC.

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 (MW), 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 Inter-Institutional Coordination Centre (IICC), the Employers' Confederation of Latvia, the Free Trade Union Confederation of Latvia, the Latvian Chamber of Commerce and Industry (LCCI) and the Latvian Association of Local and Regional Governments (LALRG). The Ministry of Health (MH), the State Chancellery (SC) and the Financial and Capital Market Commission (FCMC) also provided information for the purposes of developing the Progress Report on the Implementation of the NRP of Latvia.

It should be noted that the reforms under the NRP of Latvia and the issues related to the “Europe 2020” strategy are discussed on a regular basis by involving also representatives of social partners and non-governmental organisations, for example, in the Reform Management Working Group chaired by the Prime Minister, in the National Trilateral Cooperation Council, in the Saeima, in several inter-ministerial meetings (the working group for development of the NRP of Latvia), in the National Economy Council established by the Ministry of Economics (all chapters of the NRP of Latvia were discussed in its meetings in the second half of 2011), as well as in bilateral dialogues with the EC (for example, on January 30, 2012).

The Progress Report on the Implementation of the NRP of Latvia consists of 3 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 NRP of Latvia, particularly focusing on the implementation of commitments under the Euro Plus Pact and the Council country-specific recommendations. Chapter 3 gives a detailed description of the NRP policy directions, including key measures for 2012–2013.

All numerical information and data, except for specific cases, are obtained from the Central Statistical Bureau (hereinafter – CSB) or the EU statistical office – Eurostat.

1. MEDIUM-TERM MACROECONOMIC SCENARIO

In 2011, the economy of Latvia continued recovering from the crisis. Gross domestic product (hereinafter – GDP) increased by 5.5% in 2011. The increasing external risks, especially in the euro zone, had no particular impact on Latvia's economy in the second half of 2011. GDP continued increasing also in the 4th quarter (by 1.1% compared to the 3rd quarter according to the seasonally adjusted data).

Exports of Latvian goods and services continue increasing being the key driver of growth. Income from Latvian exports of goods in 2010 exceeded the level of 2010 by 27.7%.

The remaining positive trends in exports foster the increase of manufacturing volumes that have been by 11.7% higher in 2011 compared to 2010. Manufacturing volumes continue growing in almost all industrial sectors, though wood processing, metal processing and production of electronic devices, machinery and equipment contribute the most to the growth of manufacturing. Overall, manufacturing ensured more than ¼ of the total economic growth in 2011. The increase in foreign trade activities fostered also the growth of transport sector by 8% in 2011.

The increase in revenues from export ensured also the growth of domestic market oriented sectors. Trade has increased by 8.7% in a year, while the construction sector increased by 12.4% in 2011 after the substantial decrease during the crisis.

The situation in the labour market is improving along with the growing economic activities. In the 4th quarter of 2011, as compared to the 4th quarter of 2010, the number of employed increased by 3.7% or by 35.6 thousand. According to the labour survey data, the unemployment rate in the 4th quarter of 2011 dropped to 14.3%, which is by 2.6 percentage points lower than a year ago.

The increasing employment and gradually increasing wages foster private consumption (by 4.4% in 2011). Investments are growing rapidly due to the absorption of the EU funds, including public investments in infrastructure and private investments in production equipment. In 2011, investments exceeded the level of the previous year by nearly 25%. Besides, the productive investments are growing faster – in 2011, almost half of non-financial investments were invested in manufacturing and transport.

Table 1

Medium-Term Macroeconomic Scenario

	2010	2011	2012	2013	2014	2015
GDP, million LVL	12 739	14 161	14 690	15 537	16 477	17 478
changes in current prices, %	-2.5	11.2	3.7	5.8	6.0	6.1
changes in constant prices, %	-0.3	5.5	2.0	3.7	4.0	4.0
GDP deflator (y-o-y), %	-2.2	5.4	1.7	2.0	2.0	2.0
Consumer price index (y-o-y), %	-1.1	4.4	2.6	2.0	2.0	2.0
Employment, thousand	940.9	970.5	977.4	988.1	999.6	1011.7
Unemployment rate, % (aged 15–74)	18.7	15.4	14.1	13.3	12.1	10.7
Exports of goods and services, million LVL	6853.4	8399.7	8829.3	9399.1	10 056.2	10 730.4
growth in constant prices, %	11.5	12.6	3.8	5.4	5.9	5.6
Imports of goods and services, million LVL	7034.9	8946.3	9575.6	10 229.8	10 947.5	11 696.3
growth in constant prices, %	11.5	20.7	5.1	5.8	6.0	5.8
Growth of potential GDP	-3.6	-1.0	1.4	2.8	3.6	3.9
contribution:						
- labour	-2.0	-1.0	-0.1	0.4	0.6	0.6
- capital	-0.2	0.2	0.7	0.8	1.0	1.1
- total factor productivity	-1.4	-0.2	0.8	1.6	2.0	2.2
Output gap	-6.8	-0.7	-0.2	0.7	1.1	1.1

Further development of Latvia's economy will be still closely linked to export possibilities. Therefore the highest risk to the growth of Latvia is linked to global economic development. Deteriorating external environment may lead to a decrease in the demand for Latvian exports and the still weak domestic demand will not allow compensating the decreasing growth rates of external demand. Although the growth in 2011 was faster than expected and positive trends are observed in retail trade, manufacturing and tax revenues at the beginning of 2012, still certain external environment risks remain. The three-year liquidity support for the banking sector by the European Central Bank, budget consolidation measures in Italy and Spain, as well as restructuring debt of Greece allowed stabilizing the situation in the eurozone. However, the overall low economic activity in the EU and the expected downturn in 2012 should be taken into account. Taking into account the situation in the eurozone and other risks to the global growth, it is expected that the growth of the economy of Latvia will be 2% on average in 2012.

The medium-term macroeconomic scenario is based on conservative assumptions regarding development of external environment. The macroeconomic development scenario is based on assumptions about decreasing global growth rates in the first two quarters of 2012 followed by returning to the previous growth rates. As a result, short-term adverse influence on the growth rates of Latvia is expected and further growth rates will return to the potential level of 4%. The scenario foresees that successful solutions to the national debt crisis by the governments of the eurozone member states will be found. The macroeconomic development scenario contains the EC external environment assumptions.

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

- Exports of Latvia will grow at a moderate rate. In 2012, the decreased economic growth may lead to a reduced positive effect on the overall economy; therefore no significant increase in domestic demand is expected in 2012. The increase in consumption will be still affected by a relatively high unemployment rate and still high indebtedness of households. Taking into account budget deficit ceilings, public consumption will also grow at a moderate rate in the medium-term;
- Faster increase in private consumption will be affected by relatively slowly growing wages and employment rate, as well as by the high indebtedness of households. Crediting is also not expected to recover significantly, thus preventing a situation where consumption is higher than income;
- The dynamics of investments will be affected by a cautious crediting policy of commercial banks, as well as the private sector investments will be influenced by the awaiting behaviour of entrepreneurs regarding future perspectives. Nevertheless, the scenario expects investments to become one of the growth drivers in the medium-term, though the total investments will remain at a low level. The need for investments is based on the manufacturing capacity load that has nearly reached the pre-crisis level at the moment. Attraction of investments in the medium-term will be fostered by low unit labour costs and successful reduction of the budget deficit;
- No rapid increase in the employment rate is expected in the medium-term as the growth will mainly rely on the increase in productivity which is an important precondition for competitiveness. Unemployment increased during the crisis period and at the moment a rather high structural unemployment risk exists, which might require additional investments in labour requalification in order to reduce it;
- Until 2014, changes in wages will be mainly determined by productivity growth in tradable sectors (i.e. export-oriented sectors). Due to the remaining high

unemployment, the rise in wages in the medium-term will depend on changes in productivity;

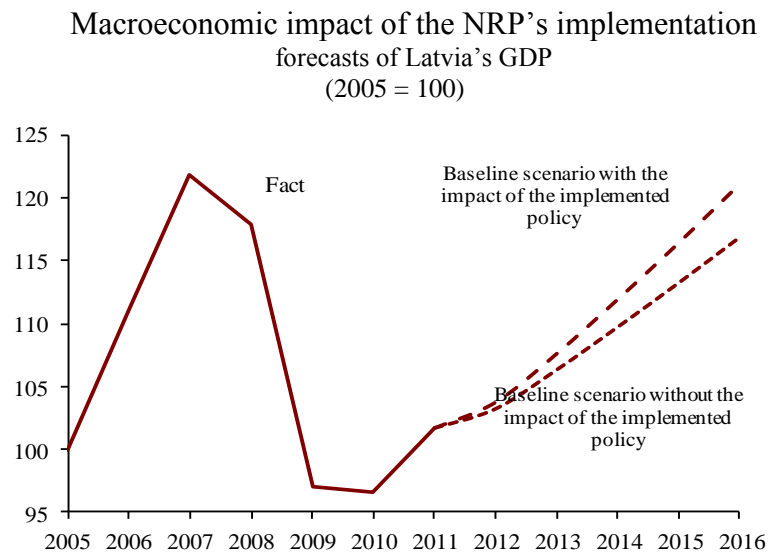
- The rise of the inflation rate in a short term to a great extent will be based on the rise in prices for food and energy resources all over the world. The increase in consumer prices in the medium-term will be limited by the weak domestic demand and the economic growth will be followed by a moderate inflation rate that is typical to balanced growth.

Impact assessment of the NRP of Latvia for the medium-term

The measures included in the NRP of Latvia will have a direct impact on the economy of Latvia in 2011–2013. It is based on public financing that is mainly related to public investments in infrastructure, as well as to direct support to entrepreneurs (mainly by use of the EU funds).

The total financing from the EU funds for the measures included in the NRP for 2011–2013 is slightly more than LVL 2 billion. The implemented policy will foster an increase in investments and private consumption that will affect the growth of GDP by 1.5% annually.

Figure 1



In the medium-term (2014–2015), the impact on GDP is related to changes of the corresponding potential GDP.

2. PROGRESS IN THE IMPLEMENTATION OF THE NRP OF LATVIA

2.1. Overall Assessment of Progress in the Implementation of the NRP of Latvia

Since the approval of the NRP of Latvia in spring 2011, the growth rates of the economy have been faster than expected. Thus, GDP increased by 5.5% in 2011 (the macroeconomic scenario forecasted previously an increase of 3.3%), the number of employed increased by 3.1% (forecasted previously – 1.5%) and the unemployment rate dropped from 18.7% in 2010 to 15.4% in 2011 (forecasted previously – 16.4%).

Furthermore, not only the economy has grown considerably, but also the government was able to implement structural changes in the economy and to turn public finances in a more sustainable direction. Over the last few years, exports have become the key economic driver. Currently, export volumes of goods and services have reached the highest level up to now. The increase in exports is related to the increase in external demand, as well as to improving competitiveness of Latvian producers achieved at the expense of reducing labour costs and increasing productivity.

At the same time, it should be noted that unfortunately not all inhabitants have felt the effect of moderate economic growth which is mainly observed in the manufacturing sector. In 2011, emigration tendencies continued and the unemployment rate was still rather high though kept decreasing.

The three-year international loan programme had been completed successfully at the end of 2011. The programme earmarked a loan of EUR 7.5 billion to Latvia. Taking into account the improving situation of the economy and finances, Latvia did not need the full amount of the available financing. Latvia has used EUR 4.4 billion.

Within the international loan programme Latvia paved the way to implementation of a sustainable fiscal discipline. In order to achieve the set budget deficit target, budget has been consolidated since 2008 in the amount of LVL 2.3 billion with the fiscal impact in the amount of 17% of GDP, including by both cutting expenditures and increasing revenues. During implementation of the international loan programme, Latvia improved the structure of public administration expenditures, significantly reduced the number and wages of the employed in public administration, as well as made social safety net measures more efficient.

Budget consolidation brought changes in taxes, however, the tax burden against the GDP did not increase. A number of entrepreneurship and employment stimuli were introduced – corporate income tax allowances, micro-enterprise tax, faster value added tax refund, etc. After completing the programme, the tax policy is mainly focused on reducing labour taxes.

In June 2011 and February 2012, Latvia successfully returned to the international financial markets by issuing 10-year bonds worth USD 500 million and 5-year bonds worth USD 1 billion respectively. These issues confirm the ability of Latvia to finance the budget needs independently and lay a strong ground for further successful refinancing in financial and capital markets.

The NRP of Latvia reflects the quantitative targets of Latvia for 2020 in the context of the “Europe 2020” strategy (hereinafter – the national quantitative targets), which were set based on the medium-term development scenario of the economy of Latvia, as well as the targets of the Sustainable Development Strategy of Latvia – “*Latvia 2030*”.

According to the national quantitative targets, Latvia plans to reach a 73% employment level by 2020, to increase investments in research and development (R&D) to 1.5% of GDP, to increase the share of persons having obtained tertiary education to 34–36%, to reduce the share of school drop-outs to 13.4%, to reduce the share of people at risk of poverty to 21%, to increase the share of renewable energy sources in gross energy consumption to 40%, etc.

Successful achievement of the national quantitative targets depends on several conditions:

- Overall growth of economy;
- Demographic tendencies which according to forecasts are expected to be negative. The number of working-age population in Latvia will continue decreasing until 2020;
- The budget resources of Latvia will be rather limited until 2015 due to set budget deficit targets;
- Possible EU support, including the EU funds support within the new EU financial perspective after 2013. The Cohesion policy support for convergence of the less developed EU member states and regions and dealing with equal competition conditions for all EU farmers at the EU level should be particularly mentioned here.

Taking into account that only one year had passed since the national quantitative targets had been approved and only some statistical data was available for 2011, rather general conclusions on their achievement could be drawn. Due to the economic recovery, the employment rate has improved from 65% in 2010 to 67.1% in 2011. In general, the macroeconomic scenario leads to the following conclusion: at the moment, there is no need to review the targets of the NRP of Latvia¹¹.

The NRP of Latvia has identified the following key *macro-structural bottlenecks of Latvia to growth and jobs*:

- Reducing the high general government structural deficit;
- Ensuring a well functioning and stable financial sector in the light of the ongoing deleveraging of the private sector;
- Promoting rebalancing the economy towards the tradable sectors and raising productivity levels;
- Avoiding high unemployment from becoming structural and ensuring better matching in the labour market;
- Addressing the weaknesses in the business environment, ensuring efficient use of EU structural funds and adequate access to finance for companies with a view of favouring productive investments.

In a year, since the approval of the NRP of Latvia, notable progress has been achieved in overcoming some of the abovementioned macro-structural bottlenecks.

The general government budget deficit in 2011 was 3.5% according to the European System of Accounts'95 (hereinafter –ESA'95) methodology and that is considerably below the set budget deficit target – the initial budget deficit target for 2011 was 6% of GDP. However, upon implementing budget amendments for 2011 in April 2011 the budget deficit target was set at 4.5% of GDP.

Although the debt level in Latvia remains still high, overall, the share of loans with overdue payments of more than 90 days is shrinking (they were by 16% lower in 2011 compared to 2010). Banks have been able to raise the capital adequacy ratio.

Positive tendencies have been observed in developing a more balanced economy. A gradual transition to sustainable economic model is taking place in the economy of Latvia with exports being the key driver, the ability to compete in domestic and foreign product markets, as well as the ability to be competitive in attracting capital to increase the productive potential of Latvia. It is proved also by the increase in the share of manufacturing in the total value added from 13.4% in 2010 to 14.1% in 2011.

Although a rather high structural unemployment risk remains, positive tendencies have been observed also here. Thus, the number of long-term unemployed shrank by 20% in the 4th

¹¹ A more detailed description of the national quantitative targets is given together with the description of corresponding policies in the Chapter 3.

quarter of 2011 compared to the 4th quarter of 2010. The youth unemployment has decreased by 4.4 percentage points during this period, too.

Latvia has achieved a significant progress in improving the business environment – the evaluation of Latvia in the World Bank's *Doing Business 2012* has improved by 10 positions: Latvia has moved up from the 31st place (*Doing Business 2011*) to the 21st place among 183 countries in the world. As regards the assessment of the business-friendly environment, Latvia is ranked 7th among the EU member states.

The measures of the NRP of Latvia are mainly implemented according to the schedule. Currently, several laws and regulations or activities having a great impact on changes in certain sectors after their approval in the CM and/or the Saeima are at different stages, for example:

- *Draft Fiscal Discipline Law* (the deadline is over for submission of proposals for further consideration of the draft law in the 2nd reading at the Saeima);
- *Amendments to the Law on State Pensions* envisaging an increase in the retirement age and the minimum length of insurance period (approved by the CM on March 27, 2012 and approved in the 1st reading at the Saeima on April 19, 2012);
- *Draft Construction Law* (submitted to the Saeima for the 2nd reading);
- *Amendments to the Financial Instrument Market Law, Annual Accounts Law and Commercial Law*, improving the protection of investors' rights (submitted to the Saeima for the 2nd reading);
- *Amendments to the Law on Scientific Activity* granting the scientific institutes rights to freely deal with (to commercialize, to sell) intellectual property developed using the state budget financing (reviewed in the 1st reading at the Saeima on August 18, 2011).

At the moment, the *Energy Strategy 2030* is being developed and its policy directions will influence the increase in the share of renewable energy and improvement of the situation in the renewable energy sector.

2.2. Implementation of the Euro Plus Pact Commitments

The NRP of Latvia identifies also the measures for implementation of the commitments under the Euro Plus Pact approved by the European Council on March 24–25, 2011.

The following measures have been implemented within a year since Latvia has joined the Euro Plus Pact:

- in the area of **fostering competitiveness**, the government ensured that the increase in wages is linked to increased productivity in the economy. Thus, in 2011, the expenditures of the general budget for wages increased by 4.9% and the productivity – by 7.8%. In 2012, the expenditures of the general budget for wages are expected to be 0.3%, while productivity according to the forecasts will increase by 3%.

For the purpose of fostering competitiveness, it is important to improve the educational system. *Amendments to the Law on Higher Education Institutions* adopted on July 14, 2011 envisage changes in assessing the quality of studies – by replacing the expensive and out-of-date accreditation of study programmes with accreditation of study fields. It will enable a transition to a new accreditation model in higher education thus making the assessment process of Latvian higher education easier and more flexible and it will promote its competitiveness.

The number of vocational education institutions has been optimized and differentiated (from 56 institutions in 2010 to 38 institutions in 2011). Moreover, 12 sectoral expert councils (representatives of sectoral employer organizations, sectoral trade union organizations, public institutions) have been established mainly aimed at developing the qualitative and quantitative order of sectors for the preparation of the labour force.

For the purpose of strengthening international cooperation and competitiveness of science, joint participation of Latvian entrepreneurs and scientists has been ensured in international programmes fostering cooperation between science and industry and development of new products and technologies (within the programmes EUREKA, EUROSTARS, ARTEMIS). At the moment, 20 projects are being implemented aimed at ensuring participation of scientific institutes in international exhibitions, fairs, science congresses and development of new international cooperation research and technology projects.

Cooperation between scientists and entrepreneurs is fostered by the implementation of the *Competence Centre Programme*, within the framework of which, 6 projects were supported in 2011. For the purpose of promoting technology transfer, 8 technology transfer contact points in higher education institutions are supported. The programmes “*Development of New Products and Technologies*” and “*Introducing New Products and Technologies in Production*” are implemented to support the development of new products or technologies, as well as to introduce successfully new products or technologic processes in production. A total of 221 contracts on project implementation were signed within both programmes for the amount of LVL 45 million, 108 of the projects for the total amount of LVL 11.1 million were completed by the end of 2011. In 2011, a new programme “*Development Programme of New Products and Technologies by Micro-, Small and Medium-Sized Enterprises*” has been approved. The programme supports research, corroboration of industrial property rights and certification of new products or technologies. The target group of the *Seed and Start-Up Capital Fund* implemented in Latvia by the LLC “*Imprimatur Capital Baltics*” is innovative/high technology small and medium-sized enterprises. Besides, enterprises with high growth potential can receive also a long-term financing in a form of *mezzanine loans* for implementation of their projects. A new support programme for promotion of *green production* is planned to be launched. A technology incubator (to be opened at the end of 2012) will be established within this programme providing support to green enterprises for the development of innovative products and technologies.

Particular attention is paid to improving the business environment. In 2011, the time period for registering an enterprise in the value added tax (hereinafter – the VAT) register has been reduced and implemented electronic submission of tax declaration to the State Revenue Service (hereinafter – the SRS), as well as simplified issuing process of construction permits, and amendments to the *Financial Instrument Market Law*, *Annual Accounts Law* and the *Commercial Law* have been developed for protecting investors, as well as guidance maps and e-instructions on business start-up have been developed for entrepreneurs on the websites www.latvija.lv and www.solipasolim.lv. In 2012, it is planned to ensure electronic enterprise registration, reduce the number of documents to be submitted to the Register of Enterprises by entrepreneurs, to develop amendments to the CM regulations related to the new *Draft Construction Law*, to improve the Electronic declaration system solution, to simplify the VAT declarations, to revise regulation of arbitration, etc. More detailed information about the implementation of business environment measures is available in the Chapter 3.2.1.

- In the area of **fostering employment**, Latvia is working on reducing the tax burden on labour. By the end of June 2012, proposals for labour tax reform are expected to be developed and submitted to the government. In 2012, time schedule for reducing labour taxes is going to be developed for a 3-year period.

Latvia continues work on combating the grey economy. A working group for combating the grey economy has been established by the decree of the Prime Minister. The main

tasks of the working group are to evaluate and develop proposals for combating the grey economy and ensuring fair competition, as well as to supervise the implementation of the plan of the measures. More detailed information about the implementation of the grey economy measures is available in the Chapter 3.2.1.

In order to improve the labour market situation, almost LVL 50 million have been spent on implementation of active labour market policy measures in 2011, about 86% of that amount is financing from the European Social Fund (hereinafter – the ESF), by providing services to the unemployed and job seekers, such as training, career consultations, measures to increase competitiveness, subsidized employment measures (see Chapter 3.3.).

- In the area of **contributing to the sustainable public finances** – the *Draft Fiscal Discipline Law* and *Draft Amendments to the Constitution of the Republic of Latvia* have been developed and submitted to the Saeima. In order to ensure fulfilment of the Maastricht criterion regarding the budget deficit in a sustainable way, the budget for 2012 is developed with the budget deficit in the amount of 2.1% of GDP. In the upcoming years, Latvia will annually reduce the structural budget deficit by 0.5% of GDP until achieving the medium-term budget objective.

In order to ensure the medium-term budget planning, the Saeima adopted amendments to the *Law on Budget and Financial Management* on December 15, 2011. The amendments envisage preparation of the annual *Law on the Medium-Term Budget Framework* for three-year period, which contains the key medium-term budget targets and priority development directions, as well as the main national macroeconomic and budget indicators. Also the succession principles of planned financial indicators have been determined, thus ensuring a legally binding regulation basis for medium-term planning. The first *Law on the Medium-Term Budget Framework for 2013–2015* along with the annual *Law on the Budget for 2013* will be prepared and submitted to the Saeima by the end of September 2012.

On March 5, 2012, the CM approved the amendments to the *Concept for Long-Term Stability of the Social Insurance System* envisaging:

- a gradual increase of the retirement age to 65 years as of 2014, retaining the possibility of early retirement – 2 years before the set retirement age;
- an increase in the minimum duration of insurance period to 15 years, granting the rights to state retirement pension as of 2014 (simultaneously with the increase in the retirement age) and to 20 years as of 2020.

Relevant amendments to the *Law on State Pensions* were approved by the CM on March 27, 2012 and in the 1st reading at the Saeima on April 19, 2012. According to the *Law on State Funded Pensions*, as of 2013 contributions to Pension Level 2 are expected to be 6% of the mandatory social insurance contribution object.

- In the area of **reinforcing financial stability** – in 2011, the Financial and Capital Market Commission (hereinafter – the FCMC) continued improving the regulation basis aimed at strengthening the bank capital basis and approved the amendments to the *Regulations Regarding Calculation of the Minimum Capital Requirements* and the *Regulations for Establishing the Assessment Process of Capital Adequacy*. By the end of 2012, amendments to the *Credit Institutions Law* and related FCMC regulations with respect to the EU framework for bank capital requirements and liquidity issues will be developed. The deadlines for approval of the amendments to the *Credit Institutions Law* and related FCMC regulations will be closely linked to the approval procedure of

respective directive and regulation in 2012. In 2013, the articles of the regulation providing options to the EU member states will be implemented.

In order to improve cooperation with the neighbouring countries, Latvian institutions continue participating in the working groups established by the responsible ministries, central banks and financial surveillance of the Nordic countries and the Baltic States. An agreement on continued participation in development of public database of financial groups and testing is expected to be launched in the first half of 2012.

In order to inform the society about the financial system, and to raise its awareness about financial risks and the meaning of undertaken commitments, an internet website "Customer School" has been developed in 2011 and is now updated on a regular basis.

Since November 1, 2011, a special permit (licence) is required for providing consumer crediting services. The introduction of the licensing system has made it possible to increase the overall consumer protection level in the non-bank crediting sector.

In order to improve the exchange of crediting information in Latvia, a Credit Office is planned to be established. The office is expected to improve the quality of assessing creditworthiness, provide credit information to a wider range of market participants, to improve the overall payment discipline in the country and to reduce the amount of outstanding commitments, as well as to reduce the credit risk. Currently, this idea is being discussed in public consultation.

Transformation/sale of state-owned banks is being continued. According to the restructuring plan, the entire JSC "Citadele banka" must be sold by the end of 2014. A combined sales strategy will be applied to JSC "Parex banka" envisaging not to sell the entire bank at the moment, but to take all the necessary steps to increase or maintain the asset value. The sales process of the commercial part of the SJSC "Mortgage and Land Bank of Latvia" continues. Besides, the plan for establishing a single development financial institution is being developed. More detailed information about transformation/sale of state-owned banks is available in the chapters 2.3. and 3.1.2.

2.3. Progress in Implementation of the Council Country-Specific Recommendations

During the European Semester of 2011, Latvia was recommended to implement the measures laid down in Decision 2009/290/EC, as amended by Decision 2009/592/EC, and further specified in the Memorandum of Understanding of January 20, 2009 and its subsequent supplements, in particular the last supplement of June 2011.

Latvia has successfully fulfilled these obligations, which is proved by the agreement between the EC and the International Monetary Fund on closing the international loan programme. In December 2011, Latvia signed the *Fifth Addendum to the Memorandum of Understanding between the EU and the Republic of Latvia* thereby undertaking to implement coordinated reforms with the EC also in 2012. This fifth addendum contains an evaluation of the implementation of measures under the *Memorandum of Understanding between the EU and the Republic of Latvia*. It states that in general the set economic policy criteria have been met.

For the purpose of implementing the *Fifth Addendum to the Memorandum of Understanding between the EU and the Republic of Latvia*¹², the following key measures are being implemented in Latvia:

- ***Implementing general programme conditions.*** The *Law on State Budget for 2012* approved by the Saeima at the end of 2011 falls within the fiscal target. Fiscal

¹² Fifth Addendum to the Memorandum of Understanding between the EU and the Republic of Latvia:
http://ec.europa.eu/economy_finance/eu_borrower/mou/20111221_latvia_mou_en.pdf

consolidation measures ensure budget deficit of 2.1% of GDP in 2012 according to the ESA'95 methodology;

- **Ensuring fiscal discipline.** The *Draft Fiscal Discipline Law* (hereinafter – the FDL) and *Draft Amendments to the Constitution of the Republic of Latvia* were submitted to the Saeima on December 6, 2011. On January 12, 2012, the FDL was approved in the first reading at the Saeima and the period for submission of proposals for further consideration of the draft law in the 2nd reading has ended. Requirements of the new *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* have been introduced in the FDL for the 2nd reading at the Saeima, thus ensuring improved consistency with the EU level requirements. The Saeima committees continue to review the *Amendments to the Constitution*. On January 17, 2012, it was reviewed by the Saeima Legal Affairs Committee and forwarding of the *Amendments to the Constitution* for further consideration was postponed until the working group of the Saeima Legal Affairs Committee finishes its work on developing alternative draft amendments to the fundamental law;
- **Fighting grey economy.** In December 2011, the *Plan of Measures for Combating the Grey Economy and Ensuring Fair Competition for 2010–2013* was updated and supplemented with eight new measures. In December 2011, the *Law on Declaration of Property Status and Undeclared Income of Private Persons* was approved by the Saeima and came into force envisaging private persons complying with the criteria set in the law must submit the property status declaration to the SRS from March 1, 2012 until June 1, 2012 and gives private persons an opportunity to declare previously undeclared income imposing a personal income tax rate of 15%. At the same time, regulations have been adopted stipulating that persons having cash savings exceeding the limit defined by the law must deposit the cash in an account in a credit institution so that public institutions could verify the existence of declared cash.

The Saeima adopted the *Amendments to the Law on Taxes and Fees* on March 22, 2012 to introduce the development of the *Enhanced Cooperation Programme* to the law. The law provides that the *Enhanced Cooperation Programme* shall be launched on July 1, 2012.

For the purpose of strengthening tax control capacity, additional financing in the amount of LVL 1.2 million has been allocated to the SRS budget for 2012. In order to organize more efficient tax control, the SRS Tax Control Department and the Customs Audit Board will be merged as of April 2012. Besides, a separate structural unit of the SRS has been established for auditing wage tax and mandatory state social insurance contributions and a separate structural unit for auditing persons having high wages and low paid taxes.

In order to strengthen the capacity of law enforcement authorities in detecting and preventing infringements of law, the *Action Plan of the National Law Enforcement Authorities for 2012* has been developed and it was approved on January 21, 2012. The Plan sets five priority directions for implementation of 35 measures.

The payment system of the Treasury has been revised envisaging that the overpaid tax shall be first used to cover late or current tax payments;

- **Ensuring adequate financing for social needs and a transparent and cost-efficient delivery of social assistance.** On December 30, 2011, the amendments to the *Law on Social Services and Social Assistance* came into force extending the period for providing the state budget co-financing to local municipalities for ensuring the guaranteed minimum income level (the GMI benefit) and the housing allowance. The state budget

co-financing for local governments in the amount of 50% of the financing used for GMI benefits in the previous month will be available up to December 31, 2012. Meanwhile, the state budget co-financing for local governments in the amount of 20% of the financing used for housing allowances in the previous month will be available up to April 30, 2012.

In order to evaluate social assistance, procurement for study “Ex-ante evaluation on the planned social assistance policy reforms” will be announced in April 2012, but the study results are expected at the end of 2012–beginning of 2013.

In 2012, contributions to the Pension Level 2 constitute 2%, but as of 2013 the contributions are expected to reach 6%. By the end of 2012, proposals regarding revision of the principles for calculation of administrative costs of the state funded pension scheme and the customer consultation system will be submitted to the CM;

– ***Implementing the financial sector measures:***

- ***On the Mortgage and Land Bank of Latvia*** (hereinafter – the Mortgage Bank). Contracts with potential buyers of packages of the commercial part of the Mortgage Bank are planned to be signed already in May 2012. However, it should be noted that after signing the contracts, the FCMC and the Competition Council must give all the required permits, and all the necessary steps to receive the agreement of the EC Directorate-General for Competition must be taken, as well as to ensure practical implementation of the sales transaction, i.e. to transfer assets and liabilities to the buyer’s bank, which is a technically complex and time-consuming process. Therefore, according to the current schedule complete alienation process of the commercial part of the Mortgage Bank might end by the end of March 2013;
- ***On the Citadele bank and the Parex bank***. On December 27, 2011, the CM made a decision to postpone the sales process of the JSC “Citadele banka” due to the situation in the Baltic banking market and the unstable European financial markets. It is planned to resume the sales process of the JSC “Citadele banka” as soon as the situation in the financial markets improves. According to the restructuring plan, the entire JSC “Citadele banka” shall be sold by the end of 2014. Meanwhile, a combined sales strategy will be applied to the JSC “Parex banka” envisaging not to sell the entire bank at the moment, but to take all the necessary steps to increase or maintain the asset value. The shareholders’ meeting of the JSC “Parex banka” made a decision on December 28, 2011 to give up the credit institution licence. The FCMC board meeting of March 15, 2012 made a decision to cancel the licence for credit institution activity issued to the JSC “Parex banka” and permitted the JSC “Parex banka” to reorganize the bank by registering it as a commercial company that is in no way related to credit institution activities. By giving up the status of the bank, the state no longer will be obliged to capitalize state deposits as it was defined by the restructuring plan to ensure activity of the bank according to the requirements for credit institutions. However, according to the EC approved restructuring plan, it will continue developing assets, i.e. credit recovery and take-over of pledges so that the state could recover the maximum of the financing invested in its deposits;
- ***On optimizing the development financial institution system***. In November 2011, the Advisory Council for Coordination and Improvement of the State Support Programmes was established. The main task of the Council is to evaluate the existing state support instruments in terms of content and practice, as well as provide proposals for establishment of a complete development financial institution. Currently, the plan for establishment of a single development financial

institution is expected to be elaborated by July 1, 2012 and implemented by the end of 2012. An essential pre-condition for elaboration of the plan for establishment of a single development financial institution is successful implementation of the transformation process of the SJSC “Mortgage and Land Bank of Latvia”, including the sales of the commercial part of the bank. Considering the complexity of the sales and asset transfer, as well as the need to carry out legal analysis on possibilities to merge the existing institutions, the current timeframe may be amended;

- ***On the Latvian Guarantee Agency*** (hereinafter – the LGA). On January 27, 2012, the terms of reference of the LGA capacity evaluation was sent to the EC for coordination. Based on the EC comments received on March 12, 2012, the terms of reference are being updated and will be resubmitted to the EC for coordination by the end of June 2012. Procurement is expected to be announced in April and a report will be prepared by the end of June. In February 2012, proposals for the policy for using free resources of the investment fund were prepared;
- ***Ensuring adequate, efficient and transparent management and implementation of the EU funds:***
 - ***On the ERDF activity “Development of Research Infrastructure”***. In 2012, LVL 23.5 million (EUR 33.5 million) are planned to be paid for this activity. Since LVL 14.6 million (EUR 20.7 million) have been already paid to beneficiaries by the end of 2011, it can be concluded that the obligations under the *Memorandum of Understanding between the EU and the Republic of Latvia* to pay the beneficiaries financing of EUR 50 million by 2012 within the activity “Development of Research Infrastructure” will be fulfilled;
 - ***On additional safeguard in the system and procedures for quality monitoring and control of construction of EU co-funded roads and bridges***. In the 1st quarter of 2012, the *Strategy for Improving the Road Quality Assurance* was prepared. It contains additional measures to improve the road construction monitoring system, to improve the technological process and specifications of construction and repairs, to extend the warranty period to five years instead of three years as it is now, as well as measures to apply the principles of economic profitability to construction design and construction supervision procurements, i.e. involving highly qualified and experienced engineers instead of the current requirement for a minimum level of qualification and lower price criterion;
 - ***On improving management and absorption of the EU funds***. In order to improve the quality of evaluations, a seminar “Building Capacity to Evaluate the EU Funds” is planned in May 2012. Training on applicable evaluation methods to the implementation of the outcome-based policy in the EU funds management will take place during the seminar, as well as a discussion will be held on the future plans for conducting evaluations, including conditions of the *ex-ante* evaluation and applicable methods.

In order to improve efficiency of the use of studies co-financed by the EU funds, including the technical assistance financing, the State Chancellery is preparing a report on studies co-financed from the EU funds available to the institutions, their results and practical application, as well as on the planned studies. The report above is expected to be considered at the meeting of the EU funds Monitoring Committee in May 2012.

The Ministry of Finance (hereinafter – the MF) has launched the Cohesion policy planning activities for the planning period 2014–2020. In order to ensure

introduction of an efficient and transparent EU funds management system within the planning period 2014–2020, eight potential institutional system models have been developed for further discussions and decision-making.

Taking into account that the Saeima Legal Affairs Committee did not support the proposal for implementation of a new type of external regulations – the minister’s regulations – this issue was not forwarded for further consideration and it was not planned to delegate decision-making to the level of the managing authority under the Section 9f of the Annex 1 of the *Fifth Addendum to the Memorandum of Understanding between the EU and the Republic of Latvia*. Since this is systemic issue to be dealt with at the entire public administration level, it cannot be specifically separated with respect to the implementation of the EU funds. This task should be subordinated to the task referred to in Section 10c of the Annex 1 of the *Fifth Addendum to the Memorandum of Understanding between the EU and the Republic of Latvia*. The state should first deal with the issue on delegation of technical and administrative decision-making to the level of ministries in general, and then determine what kind of decision-making should be delegated to the managing authority.

Information about additionally implemented measures to speed up the absorption of EU funds is available in the Chapter 3.2.1;

– ***Improving management and performance of human resources and decision-making in the public administration:***

- ***On the new public administration strategy.*** In March 2012, the Council for Development of Public Administration Human Resources was established to develop by May 1, 2012 a draft policy planning document on development of public administration human resources, including issues of the civil service system, wages, motivation and competence improving system.

In order to improve the situation and retain the best employees in public administration, according to the *Law On Remuneration of Officials and Employees of State and Local Authorities*, it will be possible to grant the most competent employees an additional payment in the amount of 20% of the monthly wage for contribution to work and quality in 2012. There will be also a possibility to pay an additional payment to employees of the SRS and other institutions contributing to combating the grey economy and promoting fair competition for successful implementation of the measures for combating the grey economy. By the end of April 2012, a conceptual document on further development and improvement of motivation system will be developed aimed at making the remuneration closely linked to performance results, thus improving performance efficiency and attracting and retaining competent employees in public administration;

- ***On a national planning system.*** The work has been started on *Preparation of the Informative report on further approach to assessing the development planning system* and the report is expected to be submitted to the CM for consideration by May 31, 2012;
- ***On wider use of the subsidiarity principle in decision-making.*** The State Chancellery in cooperation with the Ministry of Justice has started to work on revision of documents to be submitted to the CM with an aim to identify those types of documents, approval of which could be delegated to ministers. An informative report is expected to be prepared by the end of May 2012;

- **Promoting more efficient use of energy and natural resources:**
 - **On the implementation of the energy-related EU legislation.** The *Directive 2009/72/EC* of the European Parliament and of the Council *concerning common rules for the internal market in electricity* has been fully transposed by carrying out further liberalization of the electricity market. With the CM decree of December 5, 2011, a decision was made to detach the transmission system operator JSC “Augstsprieguma tīkls” thereby subordinating the company to the MF;
 - **On transposing the Renewable Energy Directive.** The *Directive 2009/28/EC* of the European Parliament and of the Council on *the promotion of the use of energy from renewable sources* has been fully transposed by a range of the CM regulations and amendments to effective laws. Simultaneously, an informative report has been prepared which evaluates efficiency and usefulness of existing support mechanisms, as well as provides proposals for system improvement;
 - **On improving energy efficiency.** The measures *Improvement of Heat Insulation of Multi-Apartment Buildings* and *Improvement of Heat Insulation of Social Residential Buildings*, as well as informative campaign “Live Warmer” for tenants of multi-apartment residential buildings will continue until 2013. As of March 13, 2012, 812 project applications for improvement of heat insulation of multi-apartment buildings have been submitted. Moreover, 431 contracts on renovation of buildings for the total amount of LVL 55.8 million have been signed, and 68 of them have been completed. At the moment, the available financing of the ERDF within this activity is LVL 16.1 million. In order to increase the requirements for energy efficiency of buildings, a new *Law on the Energy Efficiency of Buildings* has been developed, as well as relevant CM regulations are expected to be amended to reduce the acceptable heat energy consumption in buildings. Currently, consulting is provided regarding the use of financial instrument and support mechanism in improvement of housing energy efficiency to ensure continuous renovation process of buildings (see also Chapter 3.6.1.);
- **Implementing effective active labour market and education policies:**
 - **On long-term unemployed and the coupon system in the unemployed training process.** The wage subsidies system is planned to be improved within the budget for 2012. Changes in the existing system will apply to practical training at the employer, thus ensuring proper motivation of employers planning to hire new employees to participate in the measure. The extent of the subsidy will be gradually reduced during the measure, thus reflecting the increase in the compensating productivity, as well as a requirement will be set to sign employment contract for the training period and a requirement to employ the participant for at least 6 months after completing the training. The long-term unemployed support system will be improved also by the planned reforms of the State Employment Agency (hereinafter – SEA) (profiling, support to job searching, filling vacancies as fast as possible).

In order to improve the range of measures to increase qualification within the coupon system, an automatic reservation system has been introduced in 2012. It provides information on available study programmes in education institutions and vacant positions in study groups to all interested persons. The education institutions have an opportunity to update the information online in the system on available study programmes and the number of students per group. Also, in 2012, the work on providing customers with a possibility to fill in evaluation questionnaires electronically is expected to be finished. The lifelong learning options will be

improved by intense evaluation of conformity of study programmes to the labour market demand;

- ***On reforms in education and science.*** Vocational education applies the financing model “money follows the student” – financing for implementation of a vocational education programme is calculated based on the number of students and the implemented education programme. In order to ensure complete improvement of infrastructure in vocational education institutions through the EU funds investments by developing modern and up-to-date education institutions, the Ministry of Education and Science (hereinafter – the MES) has resumed implementation of the ERDF activity “Modernisation of Equipment and Improvement of Infrastructure for Implementation of Vocational Education Programmes” by preventing potential losses in the state budget and discontinuing projects that lack financing for their complete implementation. The MES has undertaken to use the available ERDF resources in a focused manner, therefore, new principles for assessing vocational education institutions have been developed for selection of applicants within the second project selection stage of the EU funds activity “Modernisation of Equipment and Improvement of Infrastructure for Implementation of Vocational Education Programmes”.

Higher education reforms envisage a transition from accreditation of programmes to accreditation of study fields, including international assessment of quality, resource adequacy and sustainability of study programmes. The measure is currently under development, and it is expected to be implemented in 2013. In 2011, the international assessment process of study programmes in higher education institutions across Latvia has been launched. The government action plan envisages introduction of a new fundamental financing model to higher education and their alternatives, *ex-ante* evaluation and discussion of proposals.

The work has been started on international assessment of scientific institution with an aim to assess and consolidate efficiency and development strategies of scientific institutions by involving foreign experts. In 2011, preparatory work was carried out: developing criteria and assessing methodology for experts, preparing self-assessment reports of scientific institutions and entering into the single information system, translating the self-assessment reports, but in 2012, international experts are planned to be invited to carry out an external assessment;

- ***Improving the state owned asset and real estate management:***
 - ***On administration and management of state companies.*** The *Draft Concept for Commercial Activities of Public Persons* and the *Draft Concept for Management of State Capital Shares* were considered at the CM committee meeting on December 19, 2011, as well as at the Reform Management Working Group’s meeting on February 16, 2012. A working group has been established to evaluate the issues discussed in the concepts according to the research “Evaluation of the Criteria for the Purpose, Need and Status of Participation of a Public Person in a Capital Company” ordered by the State Chancellery. These issues will be submitted to the CM for making the final decision in May 2012. In 2012, all required amendments to laws will be developed and adopted for implementation of solutions proposed in the concepts and approved by the CM. By the end of 2012, the process aimed at evaluating whether all capital companies are acting according to the principles of commercial activity of public persons, and whether it is useful to keep state capital shares (hereinafter – the SCS) in state possession will be launched. By the end of March 2013, the CM possibly will have made a decision on whether a

capital company must keep the status of a capital company or whether it must be transformed to an institution (a public agency), as well as a decision on continuing the participation of the state. An SCS management institution is expected to be established by the end of March 2013 and the system for the SCS management will be improved by mid-2013;

- ***On centralization of the state real estate management.*** An informative report aimed at discussing two key issues is currently under development: the progress of implementing centralization of the real estate management and planning of new construction investment projects within the three-year budget. The informative report is expected to be submitted to the CM by July 1, 2012;
 - ***On supporting Air Baltic.*** After the collapse of JSC “Latvijas Krājbanka”, the state exercised its pre-emption rights and purchased the shares of the JSC “airBaltic” owned by the LLC “Baltijas aviācijas sistēmas”. The main task to be fulfilled in 2012 is to implement a 5–7 year business plan of the JSC “airBaltic” and to work on attracting investors for ensuring further development of the JSC “airBaltic” and keeping at least 51% of the shares in state ownership;
- ***Strengthening public procurement:***
- ***On allocating sufficient funding.*** In 2012, financing in the amount of LVL 122.9 thousand is allocated within the project “*Technical Assistance for the Procurement Monitoring Bureau in Administration and Monitoring of the EU funds*” for the purpose of building capacity of the Procurement Monitoring Bureau (hereinafter – PMB) in carrying out pre-examination of procurements financed by the EU funds. In 2012, additional financing in the amount of LVL 50 thousand has been allocated to the capacity building of the PMB for consideration of applications (complaints) and preparation of proceeding documents. In order to improve the Electronic Procurement System (hereinafter – EPS), extend the product catalogue and centralize procurements of local governments, additional financing in the amount of LVL 250 thousand is annually allocated during the period of 2012–2014. The financing allocated in 2012 is intended for the EPS adaptation to the needs of new catalogues and product groups, ensuring data protection, maintaining performance and functionality level, EPS improvements, three new job positions (employees) for the work with new EPS users;
 - ***On mandatory centralized procurement of local governments.*** During the meeting of the State Secretaries on June 16, 2011, the draft law *Amendments to the Public Procurement Law* was announced envisaging that not only direct public administration institutions but also local governments and their institutions are further obliged to purchase goods and services from centralized procurement institutions or via these institutions specified by the CM. Since no agreement has been reached with the Latvian Association of Local and Regional Governments regarding its objections during the coordination process, the abovementioned draft law has been submitted to the CM for making a decision on forwarding it to the Saeima for opening a discussion;
 - ***On laws and regulations regarding administrative responsibility/penalties for violations in public procurement process.*** The draft law *Amendments to the Latvian Administrative Violations Code* is expected to replace the effective, yet outdated, articles of the law with new ones, subjecting to administrative responsibility for violations in public procurement process. The rules identify the nature of violations, subjects to whom responsibility applies, the amount of fines, as well as designate the PMB as the competent institution to impose responsibility.

The draft laws *Amendments to the Public Procurement Law* and *Amendments to the Latvian Administrative Violations Code* accordingly expand the scope of the PMB functions. The abovementioned draft laws are expected to come into force on April 1, 2013. The legislation package has been submitted for consideration at the CM committee meeting;

- **Strengthening competition in open markets:**
 - ***On allocating additional funding to the Competition Council.*** Additional financing in the amount of LVL 0.15 million has been allocated to the Competition Council within the state budget for 2012. It will help the Competition Council to keep the existing highly qualified officials, as well as to fill a part of the vacancies. Based on the allocated financing for 2012, the Competition Council has made relevant changes in the list of positions by revising and increasing the wages of the personnel as much as possible. By use of the available resources, the institution plans to train the personnel in such specific topics required in the work of experts as taking and processing e-evidence, experience exchange, and joint investigation with experts in competition protection institutions of the Baltic States, involving experts and legal counsellors in the EC working groups for enforcement of competition laws in specific sectors of economy, etc.
 - ***On commercial activity of public persons and meeting its requirements.*** These issues will be discussed together with the approval of the *Draft Concept for Commercial Activities of Public Persons*. It is expected that the CM might approve it in May 2012. The concept is aimed at evaluating the existing institute of commercial activity of a public persons and the need for a public person to act as an entrepreneur. The Ministry of Environmental Protection and Regional Development (hereinafter – the MEPRD) plans to launch investigation of the situation regarding commercial companies of local governments and their management, among all to investigate also the legal background for establishing a commercial company of a local government. As regards ports – the opinions of sectoral associations have been clarified, proposals for improving the efficiency of the port supervision model and strengthening the independence and professionalism of the administration have been discussed, as well as a report will be prepared by the end of May 2012 for submission to the CM;
 - ***Reviewing ports' taxation regime (special economic zones).*** The Action Plan of the Government foresees that by May 31, 2012, evaluation will be prepared for efficiency of the existing ports' supervision model and proposals will be provided for improving its efficiency and strengthening independence and professionalism of the administration, as well as to prepare all the necessary laws and regulations regarding maintaining the status of a free economic zone in Latvian ports after 2017 and to coordinate them with the EC;
- ***On the Draft Construction Law.*** The *Draft Construction Law* currently is in the 2nd reading at the Saeima. It envisages reduction of time required for construction coordination procedures to 69 days and 6 procedures. Currently, the Saeima is considering the proposals submitted for the 2nd reading. The Saeima is expected to approve the draft law by July 2012.

2.4. Priority Directions of the NRP of Latvia for 2012–2013

In 2011, the first Latvian Competitiveness Report 2011 (hereinafter – the LCR)¹³ was prepared by involving internationally recognized researchers and competent consultants representing the sectors of the economy. The main objective of the LCR is to provide a general evaluation of competitiveness of the economy of Latvia, thus laying a foundation for a fact-based policy.

The concept of competitiveness in the LCR is based on productivity and focuses on factors that have direct or indirect impact on it. Based on statistical analysis and a number of theoretical and empirical research conclusions, the medium-term tendencies (supply-side) of development of the economy, as well as the short-term conditions (demand-side) were analysed. In the draft LCR, two in-depth studies were carried out by analysing the export product space, as well as by analysing innovation and small enterprise exports and financing.

Based on the LCR evaluation of competitiveness, the authors of the report have identified the following problem areas of Latvian competitiveness:

- *Inequality*: Latvia is one of the least equal societies in Europe;
- *Innovations*: Latvia's innovation performance persists as one of the poorest in the EU;
- *Industry*: the Latvian share of manufacturing to GDP and manufacturing productivity are the lowest in the European Union;
- *Education*: the evidence points to quality problems in parts of Latvia's education system;
- *Financial markets*: Latvian financial market development has persistently lagged behind that of other new market economies in Europe;
- *Grey economy*: the informal economy in Latvia persists as one of the largest in the EU.

Having analyzed the achieved progress of the NRP of Latvia and taking into account the priorities set in the Annual Growth Survey 2012, the Spring European Council conclusions of March 1-2, 2012, and the LCR conclusions, the key priority directions for implementation of the NRP of Latvia in 2012–2013 are the following:

- Developing sustainable budget (budget deficit targets: in 2013 – 1.4% of GDP, in 2014 – 0.8% of GDP, in 2015 – 0.3% of GDP according to the ESA'95 methodology);
- Promoting competitiveness (developing and implementing industrial policy, etc.);
- Improving business environment, including reduction of labour taxes, combating the grey economy;
- Reforms in education (developing new education financing models, reforms in vocational education, etc.);
- Reducing the risk of structural unemployment (active labour market policy, lifelong learning).

The following chapter provides a detailed description of policy areas of the NRP of Latvia, focusing particularly on the description of the priority measures for 2012–2013 described above.

¹³ Draft Latvian Competitiveness Report 2011: http://www.mk.gov.lv/files/latvijas_konkuretspejas_izvertejums2011_final.pdf

3. POLICY DIRECTIONS

3.1. Financial Stability

3.1.1. Developing Sustainable Budget

The NRP of Latvia determines reduction of the high general government structural deficit as one of the key macro-structural bottlenecks to growth and jobs.

Consolidation measures implemented by the government in 2010 and 2011 resulted in decreased budget deficit to 8.2% and 3.5% of GDP, respectively, according to the ESA'95 methodology. The total fiscal impact of budget consolidation measures in 2008–2012 constitutes LVL 2.3 billion or 17% of GDP.

Key policy directions and measures to ensure sustainable budget:

- ***Fiscal consolidation*** (responsible institution – MF)

The approved budget for 2012 has been developed within the fiscal target. The implemented fiscal consolidation measures ensure budget deficit of 2.1% of GDP in 2012 according to the ESA'95 methodology.

The structure of consolidation is based primarily on revision of expenditures instead of increasing revenues and combating the grey economy, apart from measures to improve tax administration and real estate's tax reform, thus causing no extra pressure on the increase in inflation.

Approval of the budget for 2012 with the deficit below 3% of GDP serves as a precondition for suspending the procedure of preventing and correcting excessive budget deficits initiated by the EU, as well as ensures the fulfilment of the Maastricht criterion on budget deficit, thus building grounds for Latvia to introduce the euro on January 1, 2014.

The general government budget deficit is expected not to exceed 1.4% of GDP in 2013, 0.8% of GDP in 2014 and 0.3% of GDP in 2015.

- ***Strengthening fiscal discipline*** (responsible institution – 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.

The *Draft Fiscal Discipline Law* (hereinafter – FDL) has been developed stipulating binding fiscal conditions for the annual budget and medium-term budget alike. The draft law introduces basic principles, instruments, and fiscal condition for developing fiscal policy and amendments to the *Constitution* have also been developed.

The FDL and relevant amendments to the Constitution have been submitted to the Saeima on December 6, 2011. On January 12, 2012, the FDL was approved in the first reading at the Saeima and the period of submitting proposals for further consideration of the draft law in the 2nd reading is now closed. *Amendments to the Constitution* are still under consideration at the Saeima committees (see detailed information in the Chapter 2.3).

- ***Ensuring sustainability of the pension system*** (responsible institution – MW)

The aim of the measure is to promote long-term sustainability of the system. Ageing population is a high risk to stability of the state social insurance system both currently and in the future.

In order to promote sustainability of the pension system, the *Concept for Long-Term Stability of the Social Insurance System* has been amended envisaging:

- A gradual increase in the retirement age to 65 years starting with 2014, keeping the possibility of early retirement;
- An increase in the minimum length of insurance period from 10 to 15 years, granting rights to receive the old-age pension starting with 2014 and from 15 to 20 years starting with 2020;
- Relieving the social insurance special budget from atypical (not covered by social insurance contributions) expenditures, i.e. by transferring the additional payments of old-age pension or disability pension to the general government budget as of 2014.

Relevant amendments to the *Law on State Pensions* were approved by the CM on March 27, 2012 and supported in the 1st reading at the Saeima on April 19, 2012.

3.1.2. Ensuring Stability of the Banking Sector

The NRP of Latvia identifies ensuring a well-functioning and stable financial sector in the light of the ongoing deleveraging of the private sector as one of the key macro-structural bottlenecks to growth and jobs.

Over the last three years, Latvian banks have strengthened their capital base at the total amount of LVL 1.4 billion. Thus, they were able to cover losses caused by the deteriorating credit portfolio and maintain sufficient capital to cover inherent and potential risks of banking activity. In general, the banking sector is sufficiently capitalized. The capital adequacy ratio of the banking sector in 2011 remained high and reached 17.4% at the end of the year (minimum requirement – 8%), while the Tier 1 capital ratio was 14.2%. The majority of banks have taken the opportunity to strengthen the capital base, by adding the audited profit of the financial year (i.e. a half-year or nine months). As the crediting pace slows down, the amount of risk-weighted assets continues shrinking.

Liquidity ratio of the banking sector remained high and was 63.9% at the end of December 2011, thus exceeding the minimum requirement significantly. The remaining low crediting has led to rather high resources in liquid assets accumulated by banks.

Since the second half of 2010, the quality of loans has been gradually improving. The share of loans with overdue payments above 90 days shrank from 19% to 17.5% in a year, driven by a significant decrease in the amount of loans with more than 90 days overdue payments in the credit portfolio of resident enterprises (in 2011 – by 27%).

As the financing of foreign banks, mainly parent banks, decreases gradually, the role of non-bank deposits in the bank financing structure is gaining importance. Currently, the amount of resident and non-resident deposits exceeds the pre-crisis level.

Key policy directions and measures to ensure development of the banking sector:

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

In 2011, amendments to laws and regulations regarding the assessment process of capital adequacy and calculation of the minimum capital requirements were made. The amendments stipulate the minimum requirements for the process of assessing capital adequacy, as well as introduce additional requirements for assessing market risks and planning the subordinated capital. A requirement was envisaged to apply capital requirements for settlement risks also to the non-trading book and stricter internal model standards were set for calculating market risk capital requirements as well as other requirements were imposed.

By the end of 2012, amendments will be developed to the *Credit Institutions Law* and related FCMC regulations with respect to the new EU framework for bank capital requirements and liquidity issues – a proposal for the Directive of the European Parliament and of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and a proposal for the Regulation of

the European Parliament and of the Council on the prudential supervision of credit institutions and investment firms. The deadlines for approval of the amendments to the *Credit Institutions Law* and related FCMC regulations will be closely linked to the approval procedure of the respective directive and regulation in 2012. In 2013, the articles of the regulation providing options to the member states will be introduced.

- ***Reorganization/sale of state-owned banks*** (responsible institutions – MF, 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 consistence with the EC-approved state support restructuring plan. In order to achieve the aim, the following measures are being implemented:

- In 2011, the CM approved the *Strategy for Sale of the Commercial Part of the Mortgage Bank* and its implementation has been launched. Contracts with potential buyers of the commercial part packages of the Mortgage Bank are planned to be signed already in May 2012. According to the current schedule, the sales process of the commercial part of the Mortgage Bank might be completed by the end of March 2013. The sales process of the commercial part of the Mortgage Bank should have no impact on the development functions of the Mortgage Bank, which are implementation of state support programmes and ensuring their continuity. In order to ensure efficient management of state support measures, the work on establishment of a single development financial institution has been started;
- In 2011, the CM approved the sales strategy of the JSC “Citadele banka” and of the JSC “Parex banka” envisaging mutually unrelated sales processes, by applying the most suitable solution to each bank. According to the sales strategy, the JSC “Citadele banka” is going to be sold at an auction. However, taking into account the situation in the Baltic banking market and the unstable European financial markets, at the end of 2011, the CM made a decision to postpone the sales process of the JSC “Citadele banka”. It is planned to resume the sales process of the JSC “Citadele banka” as soon as the situation in financial markets improves. According to the restructuring plan, the entire JSC “Citadele banka” is expected to be sold by the end of 2014;
- In 2011, the further activity model of the JSC “Parex banka” was developed envisaging a change of status of the bank and giving up the credit institution licence. The FCMC board meeting of March 15, 2012 made a decision to cancel the licence for credit institution activity issued to the JSC “Parex banka” and permitted the JSC “Parex banka” to reorganize the bank by registering it as a commercial company that is in no way related to credit institution activities. By giving up the status of a bank, the requirements of capital adequacy will no longer be binding for the JSC “Parex banka”, as well as it no longer has to pay the FCMC a financial stability fee and make contributions to the deposit guarantee fund. Therefore, the state will no longer be obliged to capitalize state deposits as it has been defined by the restructuring plan to ensure activity of the bank according to the requirements for credit institutions. According to the EC approved restructuring plan, the JSC “Parex banka” will continue developing assets, i.e. credit recovery and take-over of pledges so that the state could recover the maximum of the financing invested in the JSC “Parex banka”. The JSC “Parex banka” will operate until 2017.

- ***Informing society on financial services and improving regulation of consumer protection rights in the field of consumer crediting*** (responsible institutions – FCMC, ME)

The aim is to provide a general view on the financial sector and its development tendencies for potential users of financial services, as well as to strengthen supervision of the

financial services sector to ensure that financial services are available for consumers and appropriate to their needs and abilities. In order to achieve the aim, the following measures are being implemented:

- Internet website “Customer School” has been developed, maintained and updated on a regular basis, thus informing the society about the financial system of Latvia and raising awareness of financial risks and the meaning of undertaken commitments;
- As from November 1, 2011, a non-bank creditor licensing system has been introduced, thus guaranteeing the existence of financially stable creditors in the market in the long term. The licensing system allows increasing the overall consumer protection level in the non-bank crediting sector, by ensuring that only service providers of stable financial state are participating in this market, thus reducing potential risks and improving the overall control and supervision carried out by the responsible authority in the non-bank crediting market.

In order to ensure consumer protection further and awareness of financial services, the relevant laws and regulations are expected to be improved by the end of 2013 by covering the entire crediting sector in one law. At the moment, the measure is at an early preparation stage, as the EU directives on mortgage crediting are being developed. After adopting this directive, the relevant draft legislation will be developed, including legislation to transpose the abovementioned directive in case of its adoption.

3.2. Promoting Competitiveness

3.2.1. Business Environment and Modernisation of Public Administration

The NRP of Latvia identifies improvement of business environment and efficient use of the EU funds as one of the main macro-structural bottlenecks for growth and jobs.

The competition for investments intensifies in the world and the business environment plays a significant role. Latvia has made significant progress in improving the business environment – in the World Bank’s *Doing Business 2012* report Latvia ranks 21st among 183 countries, which is by 10 places higher than a year ago. As regards the assessment of business-friendly environment, Latvia is ranked 7th among the EU member states which is by 2 places higher than a year ago. It should be noted that in comparison with the neighbouring countries, Latvia lags behind in such areas as starting a business, taxes and accounting, and some problems are observed also in solving commercial disputes.

Key policy directions and measures for improving the business environment:

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

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

The progress in improving business environment is promoted by the implemented activities of the *Annual Action Plan for Improvement of Business Environment* and the main measures in 2011 were:

- The government approved the new *Draft Construction Law* envisaging reduction of time required for construction harmonization procedures to 69 days and 6 procedures. Currently, the Saeima is summing up proposals for the 2nd reading;
- Amendments to the *Commercial Law*, *Financial Instrument Market Law* and the *Annual Accounts Law* have been prepared envisaging aligning of regulation for protecting investors. Drafts have been approved by the CM and currently are being reviewed by the Saeima;

- Roadmaps for entrepreneurs have been developed on the possibility to complete electronically the required procedures/public services, and new e-instructions have been prepared regarding the *Doing Business* topics and published in the portal www.latvija.lv and website www.solipasolim.lv.

The aim of the *Annual Action Plan for Improvement of Business Environment* for 2012 is to achieve simple and high-quality business services and more e-services. Some of the most important ones envisage the following for the year 2012:

- To introduce electronic registration of enterprises and to reduce the number of documents to be submitted;
- Along with the new *Construction Law* to align related CM regulations;
- To continue implementing the one-stop-shop principle in registration of property data and corroborating the title;
- To ensure the usage of e-services in legal proceedings thus allowing to reduce time required for solving commercial disputes and foster access to courts, which will improve the opinion of entrepreneurs on communication with public institutions.

- ***Reducing labour taxes*** (responsible institution – MF)

The aim is to increase competitiveness of Latvian entrepreneurs by reducing the labour tax burden down to the level of other Baltic States.

In 2012, a time schedule for reducing labour taxes is going to be developed for a 3-year period thus ensuring competitive labour costs, promoting economic activity and employment and reducing grey economy in a fiscally neutral manner. Issues on reducing tax rate and raising the non-taxable minimum and tax relief for dependants will be dealt with within the framework of this reform. According to the Action Plan of the Government, the time schedule for reducing labour taxes (by 9 %) is going to be submitted to the CM by June 30, 2012.

- ***Modernizing public administration*** (responsible institutions – MF, MEPRD, ME, SC)

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

- Simplifying administrative procedures for entrepreneurs and citizens. In August 2011, the CM approved the *Plan of measures for reducing the administrative burden, simplifying administrative procedures and improving quality of public services for entrepreneurs and citizens* envisaging implementation of 25 measures (mostly amending laws and regulations, optimizing functions of controlling institutions, etc.). The plan of measures is also linked to the target set by the European Council in 2007 – to reduce the administrative burden by 25% by 2013.

In 2012, the plan of measures will continue to be implemented. Moreover, some studies aimed at measuring the administrative burden in certain sectors will be carried out in 2012, as well as developed amendments to laws and regulations for simplifying administrative procedures and improved mechanisms to involve the society in identifying the administrative burden and finding solutions;

- Developing e-government and e-services. The measure is aimed at making the public administration procedures more efficient by ensuring access to public services for citizens and entrepreneurs. It is planned to improve the exchange of electronic information and documents between institutions, to consolidate and centralize standard services of state information technologies and to develop interoperability of state information systems from 2011 to 2014. It is expected to use and develop a centralized electronic procurement system, as well as to give up issuing paper registration certificates, permits for different activities and licences.

In 2011, the *Electronic Government Development Plan for 2011–2013* has been approved envisaging that 73% of population will use internet on a regular basis, 75%

of households will have access to broadband services in 2013 and 50% of population will use e-government in 2015. By late 2011, 20 e-services have been introduced, about 150 e-services are expected to be introduced in 2012 and about 50 e-services in 2013.

In 2011, the work on improving operation and availability of state information systems has been started – the *Concept for Implementation of a Single Authentication Mechanism in State Information System* was approved, proposals were prepared for mutual data exchange and data exchange for ensuring and improving electronic services in public administration, the *Regulations on the Single State Geospatial Information Portal* were adopted, the *Guidelines for Information System Safety* were prepared and other improvements were introduced. The planned measures in 2012 and 2013 are the following – to develop draft laws and regulations for a single authentication, interoperability and state information system register; to develop regulation basis for the ICT resource catalogue and to work on further ICT optimisation and development policy in public administration, as well as to create the ICT resource catalogue; to start working on development of a single electronic document exchange system;

- Introducing the one-stop-shop principle in state and local government services. The measure is aimed at improving the provision of state and local government services by developing onsite and electronic service access points, by developing a single, person-oriented service culture, thus satisfying the needs of a person – all at the same time and place even if it involves several institutions. The one-stop-shop principle is expected to be introduced by 2014.

In 2011, the *Concept for Introducing the One-Stop-Shop Principle in Access to State and Local Government Services* and a model for assessing the one-stop-shop operation, services and quality thereof have been developed in 2011.

In 2012, all public services are being evaluated and classified to prepare the *Public Services Register* (catalogue), as well as it is planned to start working on the *Draft Public Services Law*;

- Further optimisation of public institution functions. The measure is aimed at increasing efficiency of public administration by revising their functions. The work on function auditing was started in 2009 and expected to continue until 2014. As a result of the function auditing, centralization of the supporting functions (accounting, human resources, and information technologies) of public administration institutions is carried out, some functions are transferred to other institution, or institutions are undergoing liquidation. In general, the number of employed in public administration and accordingly also government budget expenditures will be reduced in the medium term;
- Reforming management of state capital shares and commercial activity of public persons. The measure is aimed at ensuring more efficient management of state capital shares, as well as evaluating the need for public persons to engage in business in the future. In 2011, the *Draft Concept for Management of State Capital Shares* and the *Draft Concept for Commercial Activities of Public Persons* have been prepared. The CM plans to approve these draft concepts in May 2012. In 2012, all required amendments to laws will be developed and approved for implementing solutions proposed in the concepts and approved by the CM. It is also planned to align the system for management of state capital shares by the mid-2013.

- ***Improving regulation basis for employment legal relations, labour protection and their application*** (responsible institution – MW)

The aim is to ensure pre-conditions for high quality jobs by:

- Strengthening the flexicurity principles in labour legal relationships. In June 2011, the *Amendments to the Labour Law* came into force envisaging that, in case of reducing the number of employees, the employer no longer has to inform the SEA on the number and professions of the employees to be dismissed at least one month prior to redundancy. In cooperation with social partners, the provisions of the *Labour Law* regarding fixed-term employment contracts, the amount of extra payment for overtime work, etc. will be forwarded for revision in 2012;
- Introducing new e-services at the State Labour Inspectorate (hereinafter – the SLI). In 2011, the SLI developed 8 e-service prototypes, and it is expected that the SLI will have 16 e-services in 2012;
- Implementing public information and training measures regarding labour rights and protection issues in cooperation with social partners – the Free Trade Union Confederation of Latvia and the Employers' Confederation of Latvia.
The total public financing in 2011 amounted to LVL 1.8 million including the EU funds financing in the amount of LVL 1.5 million; the total public financing for 2012–2013 amounts to LVL 1.9 million, including the EU funds financing in the amount of LVL 1.7 million.

- **Combating the grey economy** (responsible institution – MF)

The grey economy affects the government budget revenues and distorts the business environment mainly by creating unequal competition among entrepreneurs. Thus, the solution of this problem should be intensified by developing more new proposals for combating the grey economy.

In 2010, the *Plan of Measures for Combating the Grey Economy and Ensuring Fair Competition for 2010–2013* (hereinafter – the Plan) was prepared. During 2011, the Plan was updated and supplemented with new measures several times. The Plan sets the main directions for combating the grey economy:

- Reducing the administrative burden;
- Ensuring efficient operation of the controlling institutions;
- Imposing sanctions;
- Cooperating with social partners;
- Promoting transition of entrepreneurship from non-registered economy to registered economy and supporting honest entrepreneurs, etc.

At the moment, the Plan includes 66 measures, and 47 of them have been completed by January 1, 2012 (5 measures to be implemented on a continuous basis) and the rest of the measures are continued to be implemented (12 measures are undergoing coordination). Several important measures are planned to be carried out and implemented in 2012:

- To intensify the battle against failure to install and use electronic tax and other payment registration devices and systems or failure to observe the procedure for their use. Proposals on increasing responsibility for the abovementioned have been submitted to the Saeima;
- To adopt laws and regulations on implementation of the tax support measure. The tax support measure is a single measure for a partial discharge of overdue payment and fine imposed on those taxpayers who will pay the principal debt within specified time period (estimated fiscal impact – LVL 15 million);
- To revise the tax regime for the small enterprises in order to increase the level of voluntary tax payments in the small enterprise group and to simplify and clarify the applicable tax system to small enterprises;
- To limit validation of artificial transactions, the legal form of which fails to comply with their economic nature for tax purposes. Tax laws will contain anti-evasion rules,

namely, further transactions will be evaluated in general, despite the fact that each separate transaction does not show any sign of evading tax payments;

- To evaluate the possibility of linking tax payments to the eligibility conditions for state services, for example, health care services in order to motivate people to pay taxes.

- ***Implementing the Services Directive in Latvia*** (responsible institution – 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 of December 12, 2006 *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 electronic basic services 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 provides 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.

The “silence means consent” principle is one of the tools fostering modernization of public administration. The principle defines that in case a responsible institution fails to make a timely decision on the application for a permit, it shall be considered that the service provider has received the permit and is entitled to start service provision. By amending the laws and regulations, the “silence means consent” principle is applied to administrative practice as of March 1, 2012.

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

The EU funds absorption is being improved by updating the EU funds procurement control system and the regulation basis. The main directions for improvements:

- To reduce the ineligible expenditure risk and losses for the government budget and funding beneficiaries, the EU funds procurement control system was improved in 2011. Amendments to the laws and regulations came into force on January 1, 2012 and they expand the scope of institutions entitled to perform pre-examination of the procurement, determining the division of responsibilities, as well as the need for harmonizing methods of pre-examinations;
- To ensure more open and transparent EU funds procurement procedures and to avoid ineligible expenditures, amendments to the CM “*Regulations Regarding the Procurement Procedure and the Procedures for the Application Thereof to the Projects Financed by the Commissioning Party*” are being forwarded in early 2012. The amendments are aimed at preventing interest conflicts, excluding suppliers and providers committing material breaches from procurement procedure (breaches that are considered as a threat to the fundamental interests including financial interests of the EU and Latvia) and also suppliers and providers who are suspected of being involved in the grey economy and including suppliers and providers having tax debts, etc.;
- To simplify the possibility of receiving advance payments for implementation of projects co-financed by the EU funds and to reduce the administrative burden on financing beneficiaries, it is expected to envisage that a legal person (except local governments) may open a transaction account in a credit institution for the receipt of

an advance payment (reserving the possibility to open an account for advance payments also in the Treasury), while a natural person may open a transaction account for advance payments only in a credit institution;

- To ensure improvements in the absorption of EU funds in 2012 and 2013, some changes have been made in the normative regulation for several EU Structural Funds activities to facilitate the entrepreneurs' access to credits or guarantees for implementation of projects thus preventing situations, when a contract has been signed with the project applicant, but a credit institution fails to sign the contract on granting the credit. The unutilized EU funds financing is also going to be reallocated by granting additional financing to employment promotion activities in the amount of LVL 37 million (for 2012 and 2013);
- To find a solution for optimising the EU funds management system, the work on developing potential models of the EU funds institutional system for the next planning period (2014–2020) has been started. At the moment, there are eight potential models differing from each other by the number of involved institutions and the degree of centralization.

3.2.2. Promoting Productive Investments and Exports

The NRP of Latvia identifies the necessity to promote rebalancing of the economy towards the tradable sectors and raising productivity levels as one of the key macro-structural bottlenecks for growth and jobs.

Over the last few years, the paradigm of economic growth has been changed in Latvia – from domestic demand based growth to export-driven growth. In order to promote competitiveness of entrepreneurs in open product markets, apart from cost competitiveness, all the structural policy measures aimed at increasing the ability of the economy to attract capital, modernize manufacturing and expand the demand area are also of great importance.

Therefore, one of the policy priorities of Latvia is *Development of a modern industrial policy* which is expected to be developed by the late 2012. It is aimed at promoting structural economic changes in favour of production of goods and services with higher value added. The industrial policy is planned as an internationally recognized economic concept based cross-sectoral policy for development of overall economy and it will include both basic activities (related to improvement of infrastructure, tax and education system, etc.) and development activities (innovations, development of R&D, clusters and other factors).

The key policy directions and measures for promoting productive investments and exports:

- **Support for access to finances** (responsible institutions – ME, MF, MA)

The aim is to provide financial support for development of commercial activities and facilitate access to loans and provide support for risk investments.

In 2011, an advisory council for coordination and improvements of state support programmes has been established. The main task of the council is to evaluate the existing state support instruments in terms of content and practice, as well as to provide proposals for establishment of a single development financial institution. It is planned to prepare a plan for establishment of the financial institution by July 1, 2012. The new financial institution will administer the entire range of products together in one place, thus not only simplifying the access procedure to the state financial instruments, but also ensuring deeper understanding of available products and faster response to market failures.

In order to improve the access to financial resources for business start-ups and development, the following financial instruments were offered to entrepreneurs in 2011:

- Loans for improvement of competitiveness and growth of enterprises. The aim – to improve competitiveness of small, medium-sized and large enterprises by granting investment and current assets loans to enterprises, which have economically reasonable plans for future activities, but cannot access financing of credit institutions due to increased risks. The target audience of the programme is enterprises operating in the manufacturing industry. By December 31, 2011, loans in the amount of LVL 37.5 million (incl. LVL 24.5 million from the EU Structural Funds) have been granted to enterprises. In 2012–2013, the programme expects to pay LVL 10.5 million annually (incl. LVL 6.9 million from the EU Structural Funds);
- Individual guarantees for improvement of business competitiveness. The aim – to ensure enterprise access to credit resources for business activities in situations where collateral available to the enterprise is not sufficient to obtain the necessary loan. The target audience of the programme is enterprises operating in the manufacturing industry. By December 31, 2011, guarantees in the amount of LVL 60 million (LVL 30.2 million in 2011) have been issued to enterprises within the programme. Only EU Structural Funds financing is available within the activity. In 2012, guarantees in the amount of LVL 30 million are expected to be issued, and in 2013 – in the amount of LVL 31.5 million;
- Small and medium-sized business micro-crediting programme. The aim – to improve enterprise access to finance. It is possible to receive either a current assets loan or an investment loan, or both loans together. Financial resources of the European Investment Bank (LVL 70 million) have been attracted for the implementation of this programme. By December 31, 2011, loan agreements for LVL 18.1 million have been signed. Investment and current assets loans in the amount of LVL 142 million are expected to be available by the end of 2013. The financing of the EU Structural Funds has not been attracted for this programme;
- Latvian and Swiss micro-lending programme (launched in September 2011). Financial support (micro-loans and grants) is intended for implementation of business projects of micro-enterprises – for investments and current assets. By December 31, 2011, loan agreements for LVL 0.65 million have been signed;
- Seed and start-up capital instrument. The aim – to support technology transfer and venture capital. Seed and start-up capital funds invest in micro, small and medium-sized enterprises for examination, evaluation and development of the initial concept of the product or business idea, as well as product development and initial marketing. By December 31, 2011, 7 seed capital investments in the amount of LVL 0.5 million and 2 start-up capital investments in the amount of LVL 0.6 million (incl. total public financing – LVL 0.9 million out of which LVL 0.8 million – the EU funds) have been made. Seed capital investments in the amount of LVL 1.7 million and start-up capital investments in the amount of 2.3 million are planned to be made from 2010 to 2016;
- Venture capital instrument. Venture capital funds investments are available for micro, small and medium-sized enterprises. Investments are intended for development of business products and initial marketing, as well as for business growth and expansion. By December 31, 2011, 5 venture capital investments in the amount of LVL 3.5 million (incl. total public financing – LVL 2.3 million out of which LVL 2.1 million – the EU funds) have been made. Investments amounting to LVL 19.4 million are planned to be made in 14 enterprises from 2010 to 2016;
- Short-term export guarantees. The aim is to support exporters by covering the risks related to export transactions and serving as collateral for receiving financing for export transactions. By December 31, 2011, guarantees in the amount of LVL 4.4 million (LVL 1.3 million in 2011) have been issued within the programme. Only

EU Structural Funds financing is available within the activity. In 2012, guarantees in the amount of LVL 2 million are expected to be issued, and in 2013 – in the amount of LVL 2.2 million;

- Current assets loan programme for producers of agricultural products. Support in the amount of LVL 18 million for purchasing current assets is available until December 31, 2013. From May 5, 2010 until December 1, 2011, 501 loans for LVL 16.2 million have been granted;
- Support for agricultural, rural and fisheries development (credit fund). Implementation of credit fund is available through several investment measures of the *Rural Development Programme* and the *European Fisheries Programme* in the amount of LVL 31.4 million (2011–2013). As of early 2012, the credit fund financing for approved measures reached LVL 18.3 million;
- Mezzanine instrument (launched in November 2011). The total financing of the activity “*Mezzanine Loans for Investments to Improve Competitiveness of Enterprises*” co-financed by the EU funds is LVL 17.7 million (including the EU funds financing in the amount of LVL 10.6 million). The instrument is aimed at providing long-term financing to enterprises in addition to bank loans to cover all investment project costs for tangible and intangible assets related to establishing a new enterprise, expanding the existing enterprise, diversifying production of existing enterprise with new additional products or significant change in general production process. At the moment, 2 applications for mezzanine loans in the amount of LVL 1.1 million have been approved.

- **Attracting foreign direct investments** (responsible institution – ME)

The aim is to attract foreign direct investments (hereinafter – FDI) to sectors oriented towards external demand in order to ensure access to necessary financial resources for economic development of Latvia and to achieve higher productivity levels.

The Coordination Council for Large and Strategically Important Investment Projects ensures harmonized inter-institutional cooperation for successful implementation of investment projects. It is composed of the ministers of economics, transport, finance, foreign affairs, environmental protection and regional development, agriculture, education and science, as well as the involved representatives from public and municipal institutions, infrastructure enterprises, non-governmental organizations and other experts.

In 2011, the *Strategy for Attraction of Foreign Direct Investments* and the Action Plan for its implementation were developed. It contains a body of measures to increase investor motivation (investment stimuli offer, appropriate labour, developed industrial areas, marketing activities, etc.). In order to avoid applying all costs related to industrial electricity connection to investors, a new procedure for calculating electricity tariffs came into force as of 2012.

Considering the limited resources, activities for the attraction of FDI in 2012–2013 are focused on the priority countries by preparing/developing offers for certain sectors and fields – target sector analysis and preparation of offers, work with potential investors and intense wide investor post-servicing. In 2012, it is planned to implement an EU structural funds programme for improving industrial areas, as well as ensuring necessary infrastructure connections.

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

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

- Coordinating foreign economic policy and expanding the network of the Latvian Foreign Economic Representative Offices abroad – 2 new offices have been opened in priority countries in 2011, while in the 2nd quarter of 2012, the representative office will be opened in China. It is planned to open the representative office also in Belarus;

- Direct export support services for enterprises – in 2011, 1500 consultations on export-related issues including foreign markets, specific trade requirements and searching for business partners have been provided, as well as 17 seminars on export skills and informative seminars on foreign markets have been organized and 47 sectoral market reports have been prepared. Moreover, 27 trade missions (the number of entrepreneurs – 259) and 72 individual business visits to potential cooperation partners abroad have been arranged. In 2012 and 2013, the abovementioned services will be provided in the framework of the available resources;
- Supporting enterprises for implementation of external marketing (fostering integration of enterprises into international supply chains, encouraging Latvian enterprises to participate in international exhibitions and trade missions). In 2011, 332 contracts on support have been signed with enterprises. In 2012 and 2013, the number of signed contracts on support depends on enterprise activity and submitted applications.

A total of LVL 4.6 million including ERDF financing of LVL 2.7 million have been utilized within these activities in 2011. At the moment, LVL 15.2 million including ERDF financing LVL 11.1 million are planned for these activities in 2012–2013.

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

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

- Preparing proposals for improvement of municipal financial system (including considering all possible changes in tax policy) and extension of rights of municipalities to handle their property (amendments to laws and regulations are expected to be submitted to the CM by December 30, 2012);
- Improving access to and quality of the services provided by local governments by introducing the one-stop-shop principle (see the policy direction *Modernizing public administration* in the Chapter 3.2.1);
- Improving and developing the municipal infrastructure (see the policy direction *Transport and environmental infrastructure* in the Chapter 3.2.5);
- Reducing municipal administrative barriers to entrepreneurship, for example, costs of entrepreneurs related to advertising services are expected to be reduced in 2012.

The total public financing in 2011 was LVL 5 million (excluding infrastructure financing), including the EU funds financing – LVL 4.9 million. In 2012 and 2013, the total public financing (excluding infrastructure financing) is LVL 22.3 million including the EU funds financing – LVL 14.4 million and the European Economic Area financing in the amount of LVL 7 million.

3.2.3. Innovations, Research and Development

The target of the NRP of Latvia regarding investments in research and development (hereinafter – R&D) for 2020 is 1.5% of GDP.

Table 2

R&D target's achievement trajectory					
	2008	2009	2010	2015	2020
Total financing for R&D (million LVL)	99.5	59.9	77.0	169.2	331.1
% of GDP	0.62	0.46	0.60	1.0	1.5

There are the following challenges for increasing the financing for R&D in Latvia:

- A small number of employed in science and research (ageing of scientists, insufficient number of doctoral candidates);

- Underdeveloped scientific and research infrastructure, insufficient number of up-to-date equipped laboratories for implementing technology-oriented projects;
- Weak commercialization potential of research results, poor cooperation between scientific and industrial sectors;
- The business structure of Latvia is composed mainly of small- and medium-sized enterprises with no capacity to invest in R&D, and relatively low high technology sector.

Key policy directions and measures to increase investments in R&D:

• ***Developing potential of scientific activity*** (responsible institution – MES)

The aim is to improve efficiency, quality and international competitiveness of studies and research.

The following activities are being implemented to increase investments:

- Establishment of 9 national level research centres for concentration and development of science and technologies has been launched;
- Attraction of human resources to science has been supported by establishing new scientific groups for conducting interdisciplinary research, by engaging doctoral students, new scientists and scientists wishing to return to Latvia, and foreign scientists in scientific work. Until the end of 2011, 553 scientists and doctoral students were engaged in the science expressed in a full-time equivalent (FTE) (i.e. 40 hours a week), which is 6.13% of the total number of employed in science and research expressed in FTE. In 2012, it is planned to continue supporting scientific groups by organizing second project selection stage in the amount of LVL 5.2 million;
- Ensured joint participation of Latvian entrepreneurs and scientists in programmes fostering cooperation between science and industrial sector and development of new technologies and products (within EUREKA, EUROSTARS, ARTEMIS programmes);
- Implemented international assessment of scientific institutions (2012);
- Modernizing research infrastructure and laboratories (in 9 national level research centres) and purchase new equipment (2011–2015). In general, 27 scientific institutions within the national level research centres are expected to be improved.

The total public financing in 2011 is LVL 20.9 million including the EU funds financing in the amount of LVL 26.9 million; the total financing for 2012–2013 is LVL 63.8 million including the EU funds financing in the amount of LVL 31.1 million.

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

The aim is to develop a framework for efficient cooperation between scientists and entrepreneurs, thus improving the research infrastructure and supporting joint research as well as fostering technology transfer.

One of the key activities in this area is the *Competence Centre Support Programme* which envisages joint industrial research conducted by scientists and entrepreneurs and development of new products. In 2011, 6 projects were supported within the programme. At the same time, conditions of the *Competence Centre Support Programme* are being updated to improve conditions of research service procurement procedure and cooperation. The programme is planned to be implemented up to 2015. Its total public financing (the EU funds) is LVL 37.4 million and it is expected to attract additional co-financing from the private sector in the amount of LVL 20.1 million. The competence centres will involve at least 72 enterprises and 11 scientific institutions.

For the purpose of supporting technology transfer, 8 *Technology transfer contact points* in higher education institutions are supported. The public financing (the EU funds) in the amount of LVL 1.9 million is available for supporting activity of the technology transfer contact points by 2013. From 2009 until the end of 2011 activity of the technology transfer contact points resulted in commercialization proposals of 198 research project outcomes, submitted 132 patent applications (16 of them are international patent applications), signed 162 cooperation agreements between enterprises and scientists. The total public financing (the EU funds) in 2011 was LVL 0.3 million, but the financing for 2012–2013 is LVL 0.7 million.

For the purpose of implementing *Cluster development* initiatives aimed at fostering cooperation between enterprises, as well as cooperation between these enterprises and research institutions, implementation of 7 cluster projects in the fields of electronics, chemistry and pharmacy, metal processing, light industry, logistics and related industries were supported, as well as a space technology development cluster project was implemented in 2011. The state budget financing for implementation of these projects constituted LVL 0.2 million in 2011. For expanding existing cluster initiatives and promoting new ones, the *Cluster Programme* will be implemented as of 2012 by attracting the EU funds financing. The total public financing (the EU funds) by 2015 is LVL 3.4 million (LVL 1.7 million in 2012–2013). The programme is expected to result in at least 8 clusters and to attract private sector financing in the amount of LVL 0.5 million.

In 2011, implementation of 122 *research projects of practical nature* was continued in the state priority scientific areas and important sectors of Latvian economy. The projects are implemented by 29 scientific institutions. The projects have resulted in 4 international patent applications.

For the purpose of the *Establishment of Commercial Research Infrastructure*, project applications were evaluated in 2011, and as a result, 11 project applications were approved in 2012. It is planned to sign contracts and launch project implementation until June 2012. No financing was granted within the activity in 2011, while in 2012–2013 it is planned to grant financing in the amount of LVL 28.9 million, LVL 21.4 million of the financing, indicatively, is the EU funds financing and LVL 7.5 million – private co-financing. The total EU funds financing for research projects of practical nature and establishment of commercial research infrastructure by 2015 amounts to LVL 82.7 million.

- ***Supporting development of innovative enterprises*** (responsible institution – ME)

The aim is to support innovative enterprises in developing and introducing new products and technologies in production, as well as to increase the number of innovative enterprises.

Support of the programmes “*Development of New Products and Technologies*” and “*Introducing New Products and Technologies in Production*” is intended for business projects aimed at development of new or significantly improved products or technologies, as well as introduction of successfully developed new products, services or technologic processes in production, including purchase of equipment and technologies. In 2011, implementation of projects approved within the first selection stage was continued and the second stage of the programme “*Introducing New Products and Technologies in Production*” was organized.

A total of 221 contracts on project implementation were signed within both programmes in the amount of LVL 45 million, 108 of the projects for the total amount of LVL 11.1 million were completed by the end of 2011.

In 2012–2013, the support for implementation of project approved within both programmes will be still available. The total public financing (the EU funds) in 2011 was LVL 5.5 million, but the total public financing (the EU funds) in 2012–2013 is LVL 30.5

million. The projects implemented within the programmes “Development of New Products and Technologies” and “Introducing New Products and Technologies in Production” are expected to attract also co-financing of the private sector in the amount of LVL 90.5 million.

In order to raise the potential of Latvian enterprises to invest in knowledge- or technology-based projects, the *High Value Added Investment Programme* is being implemented. In 2011, implementation of 23 approved projects for the total public financing (the EU funds) of LVL 49.9 million was continued and implementation of the projects is expected to attract private co-financing in the amount of LVL 83.1 million. The second stage of project selection is being organized in the 1st quarter of 2012. The total public financing of the programme in 2012 is LVL 12.2 million, but the total public financing in 2012–2013 is LVL 21.1 million.

A new support programme “*Development Programme of New Products and Technologies by Micro-, Small and Medium-Sized Enterprises*” has been approved at the end of 2011. The support will be available for purchasing external services to conduct research, corroborating industrial property rights and certifying new product or technology. The total available public financing (the EU funds) within the activity is LVL 2 million and a call for project applications will be announced in 2012, but implementation of projects is expected to be launched in 2013. The total public financing in 2012–2013 is LVL 1.8 million. The programme is expected to support 200 enterprises introducing new products and technologies and to attract private sector co-financing in the amount of LVL 1.2 million.

By attracting the Norwegian financial instrument, a new support programme for promotion of “*green*” production is planned. A technology incubator will be established within this programme providing support in the amount of LVL 2.4 million to green enterprises for development of innovative products and technologies. The total programme financing is LVL 7.9 million and 120 enterprises are expected to be supported within the programme. The technology incubator is likely to start operating at the end of 2012.

3.2.4. Information and Communication Technologies

The aim is to ensure equal access to electronic communications across Latvia, to increase contribution of information and communication technologies (hereinafter – 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.

Key policy directions and measures to increase investments in ICT:

- ***Developing infrastructure*** (responsible institutions – MEPRD, MT)

The aim is to ensure equal access to electronic communication services across Latvia. The study on access to next generation networks carried out by the Ministry of Transport in 2011 shows that 84% of rural municipalities do not have any access to middle stage extensions of electronic communication services and none of electronic communication enterprises plans to establish it in these territories in the next three years.

On November 9, 2011, the EC approved a state support scheme “*Next Generation Networks in Rural Territories*” in the amount of LVL 71.5 million financed by the ERDF. The first stage of the state support scheme is expected to be implemented within the framework of the EU funds programme activity “*Ensuring Equal Access to Electronic Communication Services throughout the Country (Development of Broadband Network)*”. In 2012, the first project selection stage for development of broadband networks in “white” territories (i.e. territories where no electronic communication enterprise provides next

generation access network services to end users) has been launched, thus establishing optical network connection points for further development of internet access networks. The total public financing of the measure in 2011–2015 is LVL 18.6 million, including the EU funds financing – LVL 16.2 million. The total public financing after project application in 2012 is LVL 0.9 (the EU funds – LVL 0.8 million, in 2013 – LVL 6.9 million (the EU funds – LVL 6 million), in 2014 – LVL 6.5 million (the EU funds – LVL 5.7 million), in 2015 – LVL 4.1 million (the EU funds – LVL 3.6 million).

The *Concept for Development of the Next Generation Networks (Broadband)* is planned to be developed by the end of 2012.

- ***Ensuring access to digital content and e-services*** (responsible institutions – MEPRD, MC, MT)

The aim is to increase the amount of digital content and the number of e-services thus ensuring their wider use.

The *Electronic Government Development Plan for 2011–2013* has been approved in 2011 aimed at ensuring access to public services thus increasing efficiency of public administration and reducing its expenditures (see policy direction *Modernizing public administration* in the Chapter 3.2.1).

In 2012 and 2013, it is planned to continue projects for digitalization 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.

The 2nd *Stage Concept for the State Unified Library Information System* will be developed in 2012 envisaging further development of information system thus ensuring public access to information and e-services. The *Concept for National Digital Collection* is being developed with an aim to create a model for planning, management and financing of the digitalization process of cultural content to ensure digitalization, maintenance and public access opportunities from 2013 until 2020.

- ***Introducing a digital single market*** (responsible institution – MEPRD, MT)

Introduction of a digital single market is aimed at fostering trust in the internet environment, to ensure infrastructure (broadband internet, etc.), as well as to deal with various issues related to cooperation, intellectual property rights etc.

For the purpose of the safe use of information technologies (hereinafter – IT), the *Law on Information Technology Security* was approved and came into force in 2011. In compliance with the law:

- IT critical 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;
- instructions have been prepared on how to act in the case of IT security incidents;
- standard requirements have been set in the field of IT security for public and municipal institutions, as well as electronic communication enterprises providing public electronic communication networks;
- the National Information Technology Security Council has been created to coordinate the planning and implementation of IT security related tasks in Latvia.

In 2012, the *IT Security Strategy of Latvia* is planned to be developed and the financing for CERT.LV has been significantly increased to ensure higher capacity, especially when dealing with malicious IT security incidents.

In 2011, the regulation basis for introduction of electronic identity cards in Latvia was approved, and as of April 1, 2012 the electronic identity cards are available in Latvia serving

as a personal identity document, a travel document within the EU, and personal electronic identity and authentication means for electronic services, as well as means for creating (using) the e-signature.

- ***Developing e-skills*** (responsible institution – MEPRD, MT)

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

The *Development Plan of Electronic Skills for 2011–2013* has been approved in 2011. By implementing this plan, the Latvian population is expected to improve their ICT user skills, practical skills and e-business user skills. In 2013, only 4% of all population will have poor computer skills, 27% will have average skills, and 21% will have advanced skills, while the number of people using internet banking will reach 52%.

For the purpose of developing e-skills, preparation of motivating presentation materials on the use of e-services was launched, as well as training of unemployed to acquire ICT skills and the *EU e-skills week* was organized in 2011.

For the purpose of developing e-skills, training for promoting e-commerce will be organized; consultants will be trained to work with target groups at risk and the *EU e-skills week* will be organized in 2012.

The e-skills week of 2012 includes also user training in the IT security issues by offering free visits (computer checking) at the CERT.LV computerologist.

3.2.5. Transport and Environmental Infrastructure

Transport infrastructure in the country is sufficient, however, it needs constant improvement. One of the biggest problems is insufficient road quality, which is also one of the traffic safety risks and a factor hindering transit development. The insufficient carrying capacity of railroad lines in certain line sections should be also noted.

The main aim of the transport policy development is competitive, sustainable and co-modal transport system that can ensure high quality mobility by efficient use of resources including the EU funds. In order to achieve it, the work shall be focused in two directions – to increase competitiveness of Latvian transit and logistics services in the EU single market and to promote the image of Latvia as being a stable economic partner for cooperation with the EU member states and third countries, as well as to provide internal and external access and high quality mobility throughout the country.

The aim of the development of environmental protection infrastructure for 2011–2015 is to provide quality water management services to 68% of Latvian population by improving and developing water management, to ensure pre-processing of waste prior to disposal, to improve infiltrate treatment and develop new waste cells in existing landfills of waste, as well as to develop separate waste collection and sorting and to continue dump-site re-cultivation.

Key policy directions and measures to improve transport and environmental infrastructure:

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

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

The main directions for 2011–2013 are reconstruction and improvement of railway, road, port and air transport infrastructure, as well as development of the International Freight

Logistics and Port Information System. The total public financing is LVL 355.2 million, including the EU funds financing – LVL 292 million (2011–2013).

The total public financing in 2011 was LVL 109 million, including the EU funds financing – LVL 78.6 million. The total public financing for 2012 and 2013 is LVL 246.1 million, including the EU funds – LVL 213.4 million.

- **Improving regional roads in the country** (responsible institution – MT)

Regional roads in the country are improved through the ERDF financing. Projects for improving regional roads of the total length of 97 km have been completed in 2011. Overall the total length of regional roads reconstructed by the end of 2011 within the activity constitutes 181 km. In 2012, projects for improvement of regional roads with the total length of 99 km are expected to be completed, in 2013 – 54 km.

The total public financing in 2011 was LVL 39.9 million, including the EU funds financing – LVL 33.9 million. The total financing for 2012 and 2013 is LVL 63.6 million, including the EU funds financing – LVL 54.1 million.

- **Improving environmental infrastructure** (responsible institution – MEPRD)

By the end of 2011, 59% of the Latvian population have been provided with quality water supply services and 54.3% of the population have been provided with quality waste water management services.

In 2012, about 130 water management enterprises or systems will be modernized, thus increasing the number of population having access to centralized water management services (share of population receiving quality drinking water supply services in 2012 – 61.8%; share of population receiving safe waste water management services – 55.4%). Waste management infrastructure will be improved by providing support to enterprises engaged in waste management sector (the number of implemented business projects in 2012 – 10).

The total public financing in 2011 was LVL 39.1 million, including the EU funds financing in the amount of LVL 37.6 million. The total financing for 2012 and 2013 is LVL 81.1 million, including the EU funds financing – LVL 78.3 million.

3.3. Employment

The NRP of Latvia has set a target to reach 73% employment rate (population aged 20–64 years) by 2020.

Table 3

Employment target's achievement trajectory (population aged 20–64 years)

	2008	2009	2010	2015	2020
Number of population (aged 20–64)	1400.3	1403.9	1405.3	1390.4	1322.1
Number of employed (aged 20–64)	1061.1	941.9	913.7	958.4	965.1
Employment rate, %	75.8	67.1	65.0	68.9	73.0

The economic growth in 2011 has fostered an increase in employment thus reducing the high unemployment rate caused by the crisis. However, no rapid increase in employment is expected in the upcoming years as the growth will rely mainly on an increase in productivity.

Key elements of the employment policy in 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 Chapter 3.2);

- Strengthening labour supply – improving competitiveness of persons at unemployment risk in the labour market, including improvement of skills;
- Promoting matching of labour supply and demand¹⁴, including improvement of education system, involvement of employers’ organizations in 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 (on the reforms in education see Chapter 3.4).

The NRP of Latvia identifies reduction of structural unemployment risk and ensuring better matching in the labour market as one of the key macro-structural bottlenecks for growth and jobs.

The structure of unemployment has changed during the crisis – the number of long-term unemployed has increased, thus increasing the risk of cyclical unemployment (relied on the substantial decrease in production volumes during the crisis) to turn into structural unemployment.

In 2011, Latvia continued working on adjusting the labour market policy measures to economic changes, gradually terminating short-term measures aimed at elimination of the crisis-related consequences and launching measures to increase labour quality and activity. In order to diminish the adverse social impact of economic downturn on the labour market and improve the situation in the labour market, the financing for implementation of active labour market policy measures has been increased significantly over the last few years, using nearly LVL 50 million of the financing in 2011 (approximately 86% is the ESF financing). For comparison, the financing used in 2008 constituted LVL 11 million, in 2009 – LVL 32 million, in 2010 – LVL 64 million. In 2011, about 234 thousand services have been provided to the unemployed and job seekers (one unemployed or job seeker may receive several services).

Various active labour market policy measures for improving labour skills and qualification were continued in 2011, for example:

- Training coupon system was introduced with the principle “money follows the unemployed” – the unemployed himself/herself chooses the educational institution and the SEA pays a certain amount for the education;
- New youth-oriented measures were developed and implemented – “Job place for youth” and “Support for youth volunteers” aimed at developing practical skills of the youth thus strengthening their competitiveness in the labour market;
- Implementation was concluded for the measure “Work Practice in Local Governments with a Grant” launched during the crisis period and intended for people who do not receive unemployment benefits and want to obtain or maintain practical working skills. Since January 1, 2012, this measure has been replaced by temporary public works.

In 2012, Latvia has the following priority tasks to foster employment and improve labour supply:

- Promoting youth employment and reducing unemployment;
- Improving the unemployed profiling system by involving those persons in financial-intensive measures who cannot find a job without significant financial state support;
- Improving the job searching system;
- Improving and differentiating the career consultation system according to client groups (youth, disabled persons, long-term unemployed, etc.);
- Studying and promoting regional mobility;
- Gradually reducing subsidies within the support, differentiating depending on the degree of disability, etc.

¹⁴ The ME prepares an annual report on labour market forecasts based on which the MES and the SEA adjust supply.

In order to solve topical employment policy issues, the *Action Plan for Implementation of Cross-Sectoral Employment Policy* will be developed by the end of 2012 in cooperation with all interested ministries and closely involving employers in the process.

Key policy directions and measures for improvement of labour supply:

• ***Improving the training measures for the unemployed*** (responsible institution – MW)

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 employer.

Since May 2011, the unemployed can receive training coupons for acquisition of professional education and informal education programmes, and 23 thousand unemployed participated in the measure with the coupon method in 2011. All training measures in 2011 involved almost 39 thousand people and the total financing was LVL 18.7 million (85% of it was the ESF financing). Implementation of the unemployed training with the coupon method has a positive impact already on involvement of less qualified unemployed in training and on improving the training quality. In order to improve organization of the training with the coupon method, amendments to the regulations regarding organization of the training measures will be prepared in 2012.

In the 3rd quarter of 2012, the measure “*Unemployed training in cooperation with employers’ organisations and sectoral associations of employers’ organisations*” is planned to be launched. This measure is likely to involve 7 thousand people by the end of 2014. Conditions of the measure are being developed in cooperation with representatives of employers and its aim is to prepare highly qualified specialists required by employers in the priority sectors of Latvian economy and export-oriented services sectors.

By continuing training measures, it is planned that about 40 thousand people will be involved in 2012. The total public financing in 2011 was LVL 18.7 million, including the EU funds financing in the amount of LVL 13.6 million¹⁵. The total public financing in 2012–2013 (planned) is LVL 22.7 million, including the EU funds financing – LVL 14.7 million.

• ***Implementing support measures to reduce youth unemployment*** (responsible institution – MW, MES)

The aim is to develop practical skills of the youth and to foster the possibility for them to find a job successfully by developing and implementing the measures oriented towards unemployed youth.

Measures “*Job place for youth*” and “*Support for youth volunteers*” were launched in 2011. These measures are aimed at developing practical working skills of the youth thus strengthening their competitiveness in the labour market. In 2011, these measures involved 3.5 thousand young people (financing in 2011 was LVL 3.4 million, 85% of it is the ESF financing). By continuing the measures in 2012, it is planned to involve 2.4 thousand young people.

In 2012, a new measure “*Youth workshops*” will be implemented. In the framework of this measure, the youth will have an opportunity to try hand in three professional areas in a vocational education institution, being engaged in each area for three weeks to get an insight in its specific nature. A grant of LVL 40 will be paid within the measure (for disabled youth – LVL 60). In 2012, 200 young people are expected to participate in the measure as a part of a pilot project.

¹⁵ Including financing for short-term programmes to improve competitiveness (career consultation and measure to increase competitiveness).

The total public financing for youth measures in 2011 was LVL 3.4 million, including the EU funds financing – LVL 2.9 million. The total public financing in 2012–2013 (planned) is LVL 2.3 million, including the EU funds financing – LVL 1.8 million.

Since 2010, one-year and one-and-a half-year vocational education programmes are implemented using the ESF support to make it possible for the youth, who have chosen not to study at the university after completing a school, to enter the labour market as soon as possible, thus preventing the risk of youth unemployment. The size of a training group and the training field is agreed with employers to foster youth participation in the labour market. In 2011, 682 students or about 79% of the students, who enrolled in these groups in October 2010, obtained professional qualification within these groups. In 2012, another 716 young people are expected to obtain a professional qualification and in 2013 – 602. At the moment, only secondary school graduates are supported, i.e. youth aged 19–25 years. The MES plans to expand the scope of target groups, thus supporting also youth aged 16–19 years.

Based on the European Council conclusions of March 1–2, 2012, in April 2012 Latvia prepared proposals on the promotion of youth employment and reduction of unemployment. Support programmes aimed at supporting job search, well-considered choice of profession, obtaining youth qualification, developing skills and competences, obtaining work experience and regional mobility are going to be continued within the active labour market policy. Motivation and financial support for business start-ups (see Chapter 3.2.2) and returning youth without education and a profession in the education system (see Chapter 3.4) are measures of great importance in reducing the youth unemployment.

- ***Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility*** (responsible institution – MW)

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

- By implementing the measure “*Work practice with a grant in local governments*” from September 2009 until the end of 2011. It was aimed at diminishing social consequences of the crisis and its impact on the labour market. The total financing for the measure was LVL 54.3 million. In total, 122.9 thousand people participated in the measure throughout its implementation. Various improvement works, repairs of public buildings, works in social care, etc. were carried out in practice places in local governments. This measure was one of the short-term measures to diminish the consequences of the crisis and is no longer implemented in 2012;
- By implementing temporary paid public works as of 2012, considering the need to continue supporting the long-term unemployed and other disadvantaged groups of unemployed who find it difficult to return to the labour market after a long time due to outdated working skills and lack of work experience. The measure replaces the previously implemented measure – *Work practice with a grant in local governments*, however the following differences exist between these two measures:
 - The local government can choose which priority disadvantaged groups of unemployed (for example, single parents, disabled people, youth, etc.) to involve in the measure in the particular territory;
 - State mandatory social insurance contributions for pension insurance are paid for the unemployed involved in the measure;
 - The participant may request two days per month to search a job or participate in other active labour market policy measures;
- By developing new measures to promote regional mobility in 2012.

The total public financing for these measures in 2011 was LVL19.1 million, including the EU funds financing – LVL 14 million. The total public financing in 2012–2013 (planned) is LVL 14.3 million, including the EU funds financing – LVL 14.1 million.

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

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

- By assessing the impact of labour market policy measures and the SEA services' efficiency on a regular basis. In July 2011, the SEA signed a contract on conducting surveys, polling, evaluations and assessments, including also regarding the SEA services' efficiency until the end of 2013;
- By improving career consultation services. In 2011, the SEA developed three new career consultation methodologies, revised the content of the existing career consultation support methodologies, updated the catalogue of professions, etc. In 2012, the SEA plans to continue methodological work and improve career consultation support methodologies by focusing on various target groups of the unemployed, including the early school leavers, elderly people and others. In 2012, the SEA plans to introduce a system of profiling the unemployed to assist agents in their work with different target customer groups;
- By improving the monitoring system of educational service providers. In 2012, an electronic registration system for training is planned to be introduced, thus allowing to organize groups and provide information to the unemployed on vacant positions in specific training programmes and education institutions.

The total public financing in 2011 was LVL 0.6 million, including the EU funds financing – LVL 0.5 million, the total public financing in 2012–2013 is LVL 1.8 million, including the EU funds financing – LVL 1.5 million.

- ***Improving the training measures for the unemployed*** (responsible institution – MW)

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 employer.

Since May 2011, the unemployed can receive training coupons for acquisition of professional education and informal education programmes, and 23 thousand unemployed participated in the measure with the coupon method in 2011. All training measures in 2011 involved almost 39 thousand people and the total financing was LVL 18.7 million (85% of it was the ESF financing). Implementation of the unemployed training with the coupon method has a positive impact already on involvement of less qualified unemployed in training and on improving the training quality. In order to improve organization of the training with the coupon method, amendments to the regulations regarding organization of the training measures will be prepared in 2012.

In the 3rd quarter of 2012, the measure “*Unemployed training in cooperation with employers' organisations and sectoral associations of employers' organisations*” is planned to be launched. This measure is likely to involve 7 thousand people by the end of 2014. Conditions of the measure are being developed in cooperation with representatives of employers and its aim is to prepare highly qualified specialists required by employers in the priority sectors of Latvian economy and export-oriented services sectors.

By continuing training measures, it is planned that about 40 thousand people will be involved in 2012. The total public financing in 2011 was LVL 18.7 million, including the EU funds financing in the amount of LVL 13.6 million¹⁶. The total public financing in 2012–2013 (planned) is LVL 22.7 million, including the EU funds financing – LVL 14.7 million.

- ***Implementing support measures to reduce youth unemployment*** (responsible institution – MW, MES)

The aim is to develop practical skills of the youth and to foster the possibility for them to find a job successfully by developing and implementing the measures oriented towards unemployed youth.

Measures “*Job place for youth*” and “*Support for youth volunteers*” were launched in 2011. These measures are aimed at developing practical working skills of the youth thus strengthening their competitiveness in the labour market. In 2011, these measures involved 3.5 thousand young people (financing in 2011 was LVL 3.4 million, 85% of it is the ESF financing). By continuing the measures in 2012, it is planned to involve 2.4 thousand young people.

In 2012, a new measure “Youth workshops” will be implemented. In the framework of this measure, the youth will have an opportunity to try hand in three professional areas in a vocational education institution, being engaged in each area for three weeks to get an insight in its specific nature. A grant of LVL 40 will be paid within the measure (for disabled youth – LVL 60). In 2012, 200 young people are expected to participate in the measure as a part of a pilot project.

The total public financing for youth measures in 2011 was LVL 3.4 million, including the EU funds financing – LVL 2.9 million. The total public financing in 2012–2013 (planned) is LVL 2.3 million, including the EU funds financing – LVL 1.8 million.

Since 2010, one-year and one-and-a half-year vocational education programmes are implemented using the ESF support to make it possible for the youth, who have chosen not to study at the university after completing a school, to enter the labour market as soon as possible, thus preventing the risk of youth unemployment. The size of a training group and the training field is agreed with employers to foster youth participation in the labour market. In 2011, 682 students or about 79% of the students, who enrolled in these groups in October 2010, obtained professional qualification within these groups. In 2012, another 716 young people are expected to obtain a professional qualification and in 2013 – 602. At the moment, only secondary school graduates are supported, i.e. youth aged 19–25 years. The MES plans to expand the scope of target groups, thus supporting also youth aged 16–19 years.

Based on the European Council conclusions of March 1–2, 2012, in April 2012 Latvia prepared proposals on the promotion of youth employment and reduction of unemployment. Support programmes aimed at supporting job search, well-considered choice of profession, obtaining youth qualification, developing skills and competences, obtaining work experience and regional mobility are going to be continued within the active labour market policy. Motivation and financial support for business start-ups (see Chapter 3.2.2) and returning youth without education and a profession in the education system (see Chapter 3.4) are measures of great importance in reducing the youth unemployment.

¹⁶ Including financing for short-term programmes to improve competitiveness (career consultation and measure to increase competitiveness).

- ***Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility*** (responsible institution – MW)

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

- By implementing the measure “*Work practice with a grant in local governments*” from September 2009 until the end of 2011. It was aimed at diminishing social consequences of the crisis and its impact on the labour market. The total financing for the measure was LVL 54.3 million. In total, 122.9 thousand people participated in the measure throughout its implementation. Various improvement works, repairs of public buildings, works in social care, etc. were carried out in practice places in local governments. This measure was one of the short-term measures to diminish the consequences of the crisis and is no longer implemented in 2012;
- By implementing temporary paid public works as of 2012, considering the need to continue supporting the long-term unemployed and other disadvantaged groups of unemployed who find it difficult to return to the labour market after a long time due to outdated working skills and lack of work experience. The measure replaces the previously implemented measure – *Work practice with a grant in local governments*, however the following differences exist between these two measures:
 - The local government can choose which priority disadvantaged groups of unemployed (for example, single parents, disabled people, youth, etc.) to involve in the measure in the particular territory;
 - State mandatory social insurance contributions for pension insurance are paid for the unemployed involved in the measure;
 - The participant may request two days per month to search a job or participate in other active labour market policy measures;
- By developing new measures to promote regional mobility in 2012.

The total public financing for these measures in 2011 was LVL19.1 million, including the EU funds financing – LVL 14 million. The total public financing in 2012–2013 (planned) is LVL 14.3 million, including the EU funds financing – LVL 14.1 million.

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

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

- By assessing the impact of labour market policy measures and the SEA services’ efficiency on a regular basis. In July 2011, the SEA signed a contract on conducting surveys, polling, evaluations and assessments, including also regarding the SEA services’ efficiency until the end of 2013;
- By improving career consultation services. In 2011, the SEA developed three new career consultation methodologies, revised the content of the existing career consultation support methodologies, updated the catalogue of professions, etc. In 2012, the SEA plans to continue methodological work and improve career consultation support methodologies by focusing on various target groups of the unemployed, including the early school leavers, elderly people and others. In 2012, the SEA plans to introduce a system of profiling the unemployed to assist agents in their work with different target customer groups;

- By improving the monitoring system of educational service providers. In 2012, an electronic registration system for training is planned to be introduced, thus allowing to organize groups and provide information to the unemployed on vacant positions in specific training programmes and education institutions.

The total public financing in 2011 was LVL 0.6 million, including the EU funds financing – LVL 0.5 million, the total public financing in 2012–2013 is LVL 1.8 million, including the EU funds financing – LVL 1.5 million.

3.4. Education

3.4.1. General Education

The target of the NRP of Latvia is to reduce the share of early school leavers (aged 18–24 years) to 13.4% by 2020.

Table 4

Trajectory for decreasing the share of early school leavers					
	2008	2009	2010	2011*	2020
Share of early school leavers	15.5	13.9	13.3	11.8	13.4

* - provisional data

In order to achieve the target successfully, it is necessary to diminish the negative impact of several existing factors. By maintaining and improving the financing model “money follows the pupil”, it is planned to increase the interest of general education schools in approaching each pupil individually and in a pedagogically reasonable way, as well as in developing a favourable educational environment that meets the pupils’ needs thus increasing the overall level of the required pedagogical support to students with learning difficulties. At the same time, by improving (unburdening) the content of education subject standards for the first stage of primary education, namely grade 1–6, the pre-conditions for reducing the study load of students will be developed. An additional planned solution is also to increase the independence of schools in flexible planning of study content and process. The target includes also optimal planning of holidays and development of unified education quality indicators at the state level, thus giving a school even more possibilities to optimize the study process.

Key policy directions and measures to decrease the share of early school leavers:

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

The aim is to ensure accurate accounting of pupils, by introducing a single procedure within the framework of normative regulations stipulating how an education institution should inform parents, municipal or public institutions if a pupil is absent from the education institution without a justified reason, and to ensure support to the youth at the risk of social exclusion and teaching support to the youth with learning difficulties.

In order to reduce the number of unjustified non-attendance cases and to promote a decrease in poor educational achievements and repeated schooling years, since February 2011, the state has established a single procedure stipulating how an education institution should inform parents, municipal or public institutions if a pupil is absent from the education institution without a justified reason. In February 2012, the procedure regarding enrolment and discharging of students from general education institutions (except boarding-schools and special education institutions) was adopted. The procedure stipulated mandatory support measures for students with learning difficulties so that they would repeat a year only in certain cases. In the academic year 2011/2012, the share of students repeating a year has decreased from 2.5% to 1.7% compared to the previous academic year.

The total public financing in 2011 is LVL 3.2 million, including the EU funds financing – LVL 3 million; the total financing in 2012–2013 is LVL 4.2 million, including the EU funds financing – LVL 4 million.

- ***Introducing modern teaching methods*** (responsible institution – MES)

The aim is to modernize 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), modernizing education institutions and improving methodological teaching provisions and environment (see Chapter 3.4.4. *Lifelong Learning* for information on the “second chance” education options).

Modernization of the study process is carried out as follows:

- By implementing reforms in general education programmes. Educational content for children aged 6–11 years will be improved based on the abilities of the particular age group. The new educational content is expected to be gradually implemented starting with the academic year 2013/2014;
- By developing general education distance learning options and “second chance” education opportunities. The MES has developed and approved sample educational programmes for general education distance learning and several education institutions offer accredited general education distance learning programmes. These programmes are being implemented.
- By updating school library funds. In 2012, the state will provide support to general education schools for purchasing modern teaching materials. A plan for providing up-to-date educational literature to school libraries will be developed by June 1, 2014.

The total public financing in 2011 was LVL 1.9 million, including the EU funds financing – LVL 1.6 million.

3.4.2. Secondary Vocational Education

By 2015, the share of the number of pupils in vocational education and secondary education are planned to be changed in favour of vocational education from 37/63 (in 2010) to 50/50 (in 2015), thus ensuring an increase in the share of qualified labour.

Key policy directions and measures to improve the quality of vocational education thus ensuring its conformity to the labour market requirements:

- ***Implementing structural reforms in vocational education*** (responsible institutions – MES, 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 optimising and differentiating the number and regional location of vocational education institutions (from 56 institutions in 2010 to 29 institutions in 2015). Moreover, 13 vocational education competence centres, 14 vocational specialized education institutions and 2 vocational schools for the acquisition of basic skills are expected to be established.

Currently, there are 6 vocational education competence centres. In 2012, the work on improving the criteria has been started by defining the status of vocational education competence centre for a vocational education institution.

The total public financing in 2011 is LVL 31.6 million, including the EU funds financing – LVL 27.0 million; the total public financing in 2012–2013 is LVL 13.6 million, including the EU funds financing – LVL 11.7 million;

- By modernising material base and improving infrastructure of vocational education institutions (see detailed information in Chapter 2.3).

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

12 sectoral expert councils to develop qualitative and quantitative demand of sectors for labour preparation have been established.

20 vocational education standard programmes and 35 continuing education programmes are planned to be improved through the ESF support. The sector survey process was launched in 2011, 12 sectors will be evaluated in 2012, and based on the evaluation results, profession standards will be developed or updated and vocational education programmes will be developed by using a model-based approach and base for qualification examination content of vocational education will be also developed. In 2011, the evaluation of knowledge, skills and competences obtained outside formal education, which is described in Chapter 3.4.4, was launched.

The EU funds financing in 2011 is LVL 0.3 million, the EU funds financing in 2012–2013 is LVL 2 million.

3.4.3. Higher Education

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

Table 5

Tertiary education target's achievement trajectory

	2008	2009	2010	2020
Number of population having acquired tertiary education, aged 30–34 years, thousands	42.7	47.3	50.3	61.1
Number of population aged 30–34 years	158.3	157.2	155.8	177.9
Share, %	27.0	30.1	32.3	34-36

The number of students in Latvia has been decreasing already for five years. In the academic year 2011/2012, a total of 97 041 students are studying in higher education institutions of Latvia, which is by 6.6% lower than a year ago. The decreasing number of students over the last three years resulted mainly due to the impact of the economic crisis and it showed a lower access to higher education due to economic reasons. Currently, the number of students studying for state budget financing is 34 797 students or 36% of the total number of students. About 70% of the state funded study positions represents areas of national priority, producing high value added and high-cost areas – natural sciences, engineering, health care, as well as master and doctoral studies which is important for preparation of both new teaching staff and scientists.

The task of Latvian higher education policy is to ensure high quality, efficient and accessible higher education according to the national and regional needs. Advantages of Latvian higher education system are a wide range of regional higher education institutions and

branches, thus giving everyone an opportunity to study, as well as an attractive crediting system.

Key policy directions and measures to increase the number of population having higher education:

- ***Modernizing higher education*** (responsible institution – MES)

The aim is to increase efficiency, quality and international competitiveness of studies and research; to ensure better conformity of the obtained qualification and skills with the labour market requirements.

The reform envisages a transition from programme accreditation to accreditation of study fields, *int. al.*, by performing international assessment of study programme quality, resource adequacy and sustainability. The measure is being developed and will be implemented in 2013.

By March 20, 2012, 17 out of 28 study fields have been assessed. As a result of the assessment, the following has to be done by May 2013: expert recommendations must be prepared for further improvement, updating, development, consolidation, closing, fostering international competitiveness, efficient use of resources and financing from state budget, as well as recommendations must be prepared for the improvement of the process of evaluating and accrediting study programmes and improvement of the regulation system.

The Law “*Amendments to the law on higher education institutions*” adopted on July 14, 2011 provides a normative basis for a transition to the new accreditation model in higher education – to accreditation of study fields, thus making the assessment process of higher education in Latvia easier and more flexible, thus fostering its competitiveness, as well as the law introduces several other measures to modernize higher education, for instance, a possibility to implement joint study programmes, a possibility to recognize study achievements obtained outside formal education, increase requirements for academic staff in higher education institutions (as of September 1, 2013, 40%, 50% and 65% of the academic staff in higher education institutions, academies and universities respectively must have doctoral degree), higher requirements for implementation of doctoral study programmes, an obligation for the higher education institutions to implement own quality assurance systems, etc. As of September 1, 2014, at least 5% of the academic staff in higher education institutions has to be foreign visiting professors, visiting associate professors and guest lecturers who have held an academic position in any accredited higher education institution in the EU member states, except Latvia for last five years.

According to the abovementioned *Amendments to the law on higher education institutions*, new CM regulations regarding licensing and accreditation have to be developed and adopted by September 1, 2012.

The total public financing in 2011 is LVL 0.2 million, including the EU funds financing – LVL 0.2 million; the total public financing in 2012–2013 is LVL 0.8 million, including the EU funds financing – LVL 0.8 million.

- ***Modernizing the material-technical base of higher education institutions and raising the efficiency of resources' use*** (responsible institution – MES)

The aim is to improve the provisions with 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 rationally use the public and attracted private financing.

In 2011, implementation of the ERDF co-financed projects was completed in 3 higher education institutions – Liepāja Maritime College, Riga Teacher Training and Educational Management Academy and Riga Technical University. As a result of the projects, the higher education institutions' infrastructure was modernized and the supply was improved with advanced devices, equipment and technologies in priority study fields. In total, 6 projects have been implemented so far.

The total public financing in 2011 is LVL 17 million, including the EU funds financing – LVL 13.9 million; the total public financing in 2012–2013 is LVL 38.1 million, including the EU funds financing – LVL 44 million.

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

The aim is to improve the mechanism for granting scholarships and study and student loans, thus giving a larger number of people an opportunity to study and promoting more targeted choice of study field. The new mechanism is planned to be introduced in 2013.

In order to support socially disadvantaged students and to make the higher education more accessible, amendments to the regulations regarding the procedure for granting scholarships have been developed and introduced, stipulating that in case two or more students have presented equal achievements and scientific results, the scholarship shall be first granted to those students who conform to the set criteria, which means that social, family and financial conditions of the student will be considered.

In 2010–2011, development of performance indicator-based financing model of higher education was launched by adding such performance indicators to the existing model as the number of publications, the share of foreign students, employment indicators of graduates that determine the level of higher education quality. At the moment, an expert group is planned to be established to identify and evaluate some more alternative options for higher education financing and conduct a research on financial aspects. By 2014, it is planned to prepare the normative basis for a new higher education financing model and to implement it.

- ***Improving the quality of studies and scientific activity*** (responsible institution – MES)

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), by evaluating the efficiency of master and doctoral studies on a regular basis and by developing new innovative study programmes, as well as by granting scholarships to students. It is planned that on average 700 master students and 200 doctoral students annually will be prepared and receive a scholarship. In 2011, 18 higher education institutions have granted scholarships to 345 master students and 287 new science doctors have obtained a scientific degree in priority fields through the ESF support.

The number of persons having obtained doctoral degree in the academic year 2011/2012 has increased by 117.4 % in comparison with the academic year 2010/2011. In total, 1028 master students have received scholarships in priority fields through the ESF support from 2009 until the end of 2011, which is by 50% more than a year ago.

The total number of master students having received scholarships through the ESF support is expected to increase by 215 persons in 2012, but in 2013 – by 119 persons. As regards doctoral students, the total number of doctoral students having received the ESF support is expected to increase by 50 persons in 2012, and in 2013 – by 50 persons. By the end of 2011, the number of doctoral students having received scholarships through the ESF support is 1393, which is by 38% more than a year ago.

The total public financing in 2011 is LVL 11.2 million, including the EU funds financing – LVL 12.5 million; the total public financing in 2012–2013 is LVL 8.03 million, including the EU funds financing – LVL 10.2 million.

- ***Attracting foreign students*** (responsible institution – MES)

At the beginning of the academic year 2011/2012, there were 2716 foreign students from 74 countries studying in higher education institutions of Latvia which constitute 2.8% of the total number of students and is by 39% or 768 students more than in the previous academic year.

In 2011, measures to make it easier for higher education institutions to attract foreign students were implemented, for example, granting higher education institutions legal rights to develop and implement study programmes jointly with higher education institutions in other countries and to issue joint certificates, as well as to offer foreign students possibility to receive state budget scholarship for studies. In January 2012, the CM regulations “*Procedure for granting scholarships to non-residents*” were approved envisaging granting scholarships to foreign students. The Academic Information Centre has established a department for promotion of higher education exportability that provides support in the form of information and consultations to higher education institutions, as well as coordinates participation of higher education institutions in foreign and international educational exhibitions.

The electronic catalogue of study programmes in foreign languages available in higher education institutions of Latvia has been prepared. It is expected that the implementation of the abovementioned measures will increase the share of foreign students in Latvia to 3% in the total number of students in 2013.

3.4.4. Lifelong Learning

The aim is to ensure that 15% of the population (aged 25–64 years) would be continuously involved in the learning process by 2020 (12.5% – by 2013).

In order to achieve this aim, it is necessary to make lifelong learning accessible for anyone irrespective of age, gender, previous education, place of residence, income level, ethnic identity, functional disorders, etc., as well as to develop high quality adult education supply and a harmonized system of laws and regulations and efficient resource (including finances) management.

Key policy directions and measures to implement the lifelong learning principle:

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

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

The self-assessment report on linking the education system of Latvia was prepared in the second half of 2011 and submitted to and defended at the 12th session of the European Commission’s EQF Advisory Group on October 4, 2011. In 2012–2013, it is planned to ensure development of initial vocational education qualifications system within the ESF project. After revising the system, amendments to regulations will be made to ensure a transition to the 8-level qualification system.

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

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

In 2011, the procedure for obtaining professional qualification that conforms to professional competence of first, second or third professional qualification level if the person has obtained the knowledge during lifetime or through informal education. Professional competence has to be assessed by taking a professional qualification examination according to the procedure for centralized professional qualification examinations specified in relevant laws and regulations. At the moment, knowledge and skills obtained outside formal education can be assessed in 23 education institutions.

In order to appraise assessment of knowledge obtained outside the formal education system, 80 people will be given an opportunity to assess their knowledge and skills free of charge and obtain appropriate professional qualification in case of successful examination.

By January 13, 2012, 35 persons have received the certificate of professional qualification based on the experience gained during lifetime or in informal education programmes. It is expected that 25 persons will take part in assessment in 2012 and 20 persons in 2013.

Along with expanding the opportunities to recognize knowledge obtained outside the formal education system, a procedure for recognition of study outcomes (higher education) of previous education and professional experience has been developed and approved by the CM on January 10, 2012.

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

The aim is to ensure sufficient second chance education opportunities for early school leavers.

Adults wishing to complete started formal primary and secondary education after a certain period of time were given an opportunity and access to the second chance education.

At the beginning of the academic year 2011/2012, there were 25 evening (shift) schools and 69 evening classes and part-time consultation points within the full-time schools across Latvia.

For the purpose of supporting evening schools, *Amendments to the general education law* were adopted in 2011 defining the role and tasks of evening schools in adult education at the same time giving a possibility for evening school to implement also adult informal education programmes, thus expanding the education programme options and availability.

For the purpose of ensuring the second chance education, 58 education programmes for evening (shift) and correspondence education, as well as 65 professional continuing education programmes to be implemented after full or partial acquisition of primary education programme were licensed. In order to maintain and to improve the achieved results, the previously launched measures will be continued in 2012 and 2013.

- ***Supporting improvement of employee qualification according to employers' requirements with respect to employee training within sectors*** (responsible institution – ME)

The ME in cooperation with the largest sectoral associations implements the support programme “*Support to employee training for improving competitiveness of enterprises – support to training in partnerships*”.

In 2011, implementation of 16 projects for the EU funds financing in amount of LVL 15 million was launched. By the end of 2011, LVL 3 million have been used and 2226 persons have been trained. The training will continue also in 2012–2013 and the EU funds financing in the amount of LVL 10.8 million has been allocated to this programme.

- **Implementing training programmes to involve adult employees in lifelong learning** (responsible institution – MW)

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

In 2011, a total of 10 923 employed persons participated in the SEA lifelong learning measures. In 2012, the programme is expected to involve 1340 employed persons. The total EU funds financing in 2011 is LVL 2.6 million and in 2012–2013 – LVL 1.9 million.

3.5. Fighting Poverty, Demographic Challenges and Health Protection

3.5.1. Reducing the Poverty Level

The target of the NRP of Latvia is to reduce the share of people at-risk-of-poverty to 21% by 2020 or to prevent the risk of poverty or exclusion for 121 thousand people.

Table 6

Poverty reduction target's achievement trajectory

	2008	2009	2010	2020
Share of persons at-risk-of-poverty (%)	26	21	19	21 (or by lifting 121 000 people out of the risk of poverty)

The data on monetary indicators of poverty and income inequality shows that the share of people at-risk-of-poverty in Latvia is decreasing: 25.7% in 2008, 21.3% in 2009 and 19.3% in 2010. However, the total income of population is also decreasing, thus reducing the poverty threshold – in 2010 it was LVL 149 per month in a one person household (in 2009 – LVL 160, in 2008 – LVL 192). Therefore, the share of people under the poverty threshold also decreased although their income was the same or even lower than before.

To reduce the risk of poverty, the NRP of Latvia focuses mainly on measures aimed at reducing the income inequality, encouraging participation of persons, who are at the risk of poverty and social exclusion, in the labour market, eliminating discrimination threats and preventing stereotypes in the society and in the labour market.

Key policy directions and measures to reduce the poverty level:

- **Reduction of income inequality** (responsible institutions – MF, MW)

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) and to facilitate their ability to provide for themselves and to escape poverty. In order to achieve the aim:

- The developed *Tax Policy Strategy for 2011–2014* envisages reducing labour tax burden, including the increase of the non-taxable minimum of the personal income tax, which is an important step towards reduction of the labour tax burden on the people with low income. In 2012, a time schedule for reducing labour taxes is going to be developed for a 3-year period thus ensuring competitive labour costs in the region, promoting economic activity and employment and reducing the grey economy in a fiscally neutral manner. According to the Government's Action Plan the *Tax Policy Strategy for 2011–2014* and the time schedule for reducing the labour tax burden (by 9

percentage points) is going to be submitted to the CM by June 1, 2012 (see the policy direction *Reducing labour taxes* in the Chapter 3.2.1.);

- The developed *State Family Policy Guidelines for 2011–2017* set the following key directions: raising the rate of personal income tax allowance for dependent persons or introducing a differentiated personal income tax policy, as well as finding a solution for applying real estate tax rate by linking the rate to the number of people living in the particular property, and finding a solution for improving the living conditions of large families and reducing the risk of poverty. The abovementioned changes in the tax policy are going to be implemented gradually based on the economic situation and budget resources of the country.

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

The aim is to foster social inclusion of the most disadvantaged groups of the population. In order to achieve the aim, active labour market policy measures are being implemented, among them also measures for certain groups of people by employing the most disadvantaged people in state co-financed workplaces (see also Chapter 3.3.). In 2011, measures for certain groups of persons involved 2.6 thousand people. In 2012–2013, the measures are expected to involve 3.7 thousand people.

The total public financing for measures for certain groups of people in 2011 was LVL 5.6 million, including the EU funds financing of LVL 3.2 million. The total public financing in 2012–2013 (planned) is LVL 8.4 million, including the EU funds financing of LVL 4.1 million.

- ***Eliminating discrimination threats and stereotypes, as well as fostering participation of civil society*** (responsible institution – MC)

The aim is to promote social inclusion of the most disadvantaged groups of the population and give an opportunity to the third country nationals of different culture, religion, language and ethnical origin to take active part in all aspects of the European society. The measure is implemented as follows:

- By limiting any kind of discrimination. In 2011, the *Guidelines of National Identity and Society Integration for 2012–2018* were approved providing measures to limit any type of discrimination, development and implementation of a third country citizen policy and measures for implementing Roma integration;
- By supporting integration of newly arrived third country nationals. The financing from the European Fund for the Integration of Third-Country Nationals for the activity in 2011 is LVL 0.6 million. In 2012 and 2013, the planned financing for the activity is LVL 1.4 million;
- By expanding participation opportunities for civil society. The activity of NGOs and the CM Cooperation Memorandum Council has been ensured by involving the NGO representatives in development of policy planning documents and organizing public discussions. Starting from the end of 2012, NGOs will receive support for building capacity and implementing their activity, for measures to encourage active participation of civil society, increasing the welfare for certain target groups (for example, population groups at risk of social exclusion), promoting democratic values and human rights. The total financing of the programme is LVL 7.3 million for the period from 2012 until 2016.

3.5.2. Demographic Challenges and Health Protection

Negative demographic changes are observed in Latvia – decrease and ageing of the population and a relatively high death rate. According to the Population Census 2011, the size of Latvian population as of March 1, 2011 was 2.07 million. Since the last Population Census 2000, the size of population has decreased by 309 thousand or 13%. The reason for the decrease of the population is both vital statistics (the number of deaths exceeds the number of births) and international migration – by 119 thousand and 109 thousand people, respectively.

The demographic processes result in a rapidly ageing society – the number and share of children decreases and the number and share of elderly people increases in the total number of population. In combination with migration tendencies, the abovementioned leads to a need to develop measures to improve the demographic situation.

Taking into account the bad demographic situation, in 2011 the *Demographic Affairs Council* has been established and led by the Prime Minister. The Demographic Affairs Council has set four priorities – ensuring access to pre-school education institutions, development and implementation of reproductive health support measures and preventive programmes; applying real estate tax allowances to large families; keeping the current amount of the family state benefit in 2012.

Key policy directions and measures to deal with demographic challenges:

- ***Social protection measures directed towards families with children*** (responsible institutions – MW, MEPRD, MJ)

The aim is to ensure and improve the state and municipal support to families with children, as well as to encourage parent participation in the labour market. The aim is being achieved by:

- Supporting families with children by substituting income or providing material support in situations of social risk or in case income is lost or has decreased – by paying social insurance benefits (maternity, paternity, etc.), state social benefits (child birth benefit, child care benefit, family state benefit, disabled child care benefit, etc.), as well as by paying the set minimum child maintenance to single parents;
- Providing psychologist consultations to adopters, foster families, guardians, host families, families with children in crisis situation, children left without parental care, as well as by organizing different support groups;
- Ensuring access to all child care institutions for all children. Through the support of structural funds, 13 preschool education institutions have been constructed or expanded, 39 preschool education institutions renovated or improved, thus creating 2366 new places for children in preschool education institutions. The support was provided also to ensure access to alternative care services by investing in the development of such infrastructure that fosters children's opportunities to spend their free time – implementing a total of 19 projects.
The total financing allocated for implementing these activities as of March 2012 was LVL 34 million, including the EU funds financing – LVL 22.66 million which helped to complete implementation of 53 projects and 15 projects are being implemented;
- Fostering family stability and welfare. In 2012, the Action Plan for implementation of the *State Family Policy Guidelines for 2011–2017* in 2012–2014 is expected to be updated. It sets five directions of action – founding a family and marriage, planning family life and having children, support for implementing parent duties, family stability and out-of-family care.

- **Measures to improve the health of mother and child** (responsible institution – MH)

The Minister for Health has announced the year 2012 as the Year of Mother's and Child's Health in Latvia. The "Plan for Improvement of Mother's and Child's Health for 2012–2014" has been developed envisaging certain measures to improve the care for pregnant women and new-borns, infertility treatment and cross-sectoral cooperation in the reproductive health sector. As regards infertility treatment, the plan envisages reimbursing costs of diagnostic tests for infertility, medical insemination procedures/manipulations and infertility treatment medicine from the state budget resources.

- **Developing a quality health care services system, reducing the risk factors of diseases, eliminating the impact of traumatism and environmental risks on public health** (responsible institution – MH)

The aim is to ensure efficient management of the health care system and use of resources, as well as to decrease morbidity and mortality from diseases, promote healthy and safe working environment, reduce traumatism and morbidity from external causes.

A number of public health indicators in Latvia lags far behind the average EU indicators. For instance, the average life expectancy at birth in 2009 reached 92% of the average EU indicator. Mortality caused by diseases of the circulatory system is the main cause of death in Latvia (54.1% of all deaths in 2010) and is twice as high as the average EU indicator. Mortality caused by malignant tumours is the second most common cause of death in Latvia, and although the total number of case of malignant tumours is close to the average EU indicators (except lung cancer), the mortality rate is higher in Latvia. External causes are the third most common cause of death in Latvia, but it is the main cause of lost years of potential life¹⁷ (mostly suicides and traffic accidents). The second most common cause of lost years of potential life is diseases of the circulatory system, the third – malignant tumours.

The target indicators of Latvia for improving public health are given in Table 7.

Table 7

Lost years of potential life target's achievement trajectory					
	2008	2009	2010	2015	2020
Lost years of potential life per 100 000 people (aged up to 65 years)	7043	6494	6768	6633	6430

The measures implemented in 2011 and planned measures for 2012 and 2013:

- In 2011, the *Public Health Strategy for 2011–2017* was approved, the key objective of which is to extend the healthy years of life of Latvian population and to prevent early mortality by maintaining, improving and recovering health;
- In order to plan further development of health care and promote efficient use of health care resources, the *Development Plan of Health Care System for 2013–2015* and the *Development Plan of Health Care System Human Resources for 2013–2015* are planned to be developed;
- In order to introduce e-health services, an e-health website is planned to be developed;
- In order to prevent unjustified calls to the Emergency Medical Service and increase its capacity for processing justified calls, a service – the *family doctor consultation phone* has been introduced as of May 1, 2011 within the Social Safety Net Strategy. The service is available outside the working hours of family doctors – evenings and nights of working days and around the clock on weekends and holidays;

¹⁷ Lost years of potential life or lost health and life is an indicator used for characterising early mortality and preventable causes of death. It is used for preventing the national socio-economic loss.

- In order to increase the interest of medical treatment institutions in the improvement of working efficiency and patient care, a payment model of diagnosis-related (typical) groups will be developed by 2013 and introduced to in-hospital health care;
- In 2012, the work on development of the *Concept of the Health Insurance System* is expected to be finished. The aim of the concept is to provide a solution for ensuring availability of certain state-financed health care services to persons representing socially vulnerable population groups, as well as population groups that are subject to relief from patient co-payments within the current system and those inhabitants who are subject to deduction of personal income tax by employers or they make special contributions to a special account for the health budget, at the same time envisaging collecting full payments for medical services from the rest of inhabitants.

3.6. Energy and Climate Change

The economic crisis has significantly changed the situation in the energy sector. In order to plan sustainable long-term development of the energy sector and to achieve the energy targets set in the NRP of Latvia, the *Energy Strategy 2030* is being developed at the moment. This document will set long-term directions of action for safe energy supply, competitiveness, energy efficiency and use of renewable energy (hereinafter – the RE). At the same time, the existing state support mechanisms for energy production from renewable energy resources (hereinafter – the RER) are being assessed and revised.

3.6.1. Fostering Energy Efficiency

The NRP of Latvia sets a target to reach energy savings of 0.668 Mtoe (total energy savings in both final consumption and transformation sector) by 2020.

Table 8

Energy efficiency target's achievement trajectory

2008	2009	2010	2020
Gross domestic energy consumption 4.6 Mtoe	Gross domestic energy consumption 4.3 Mtoe	Gross domestic energy consumption 4.54 Mtoe	Energy savings 0.433 Mtoe (excl. transformation sector) or 0.668 Mtoe (incl. transformation sector) compared to 2008

Low energy efficiency causes the risk of decreased energy security, sustainability and competitiveness. The heat supply in buildings and the transport sector have the highest potential for achieving energy savings through state support instruments, while energy efficiency in the manufacturing sector is a present market reality and a precondition for competitiveness, especially for large companies.

In the forthcoming years, the support programmes for improving energy efficiency of the existing housing and public buildings will be continued, particularly in the multi-apartment sector, as well as mandatory energy efficiency requirements for licensed centralized heat supply operators will be defined thus contributing to energy savings by 2020.

Key policy directions and measures to increase energy efficiency:

- **Building insulation** (responsible institution – ME)

The total available EU funds financing in 2009–2013 for improvement of multi-apartment building insulation is LVL 47.8 million. By the end of 2011, projects in the amount of LVL 2.3 million have been completed and contracts for LVL 22.1 million have been signed. For the purpose of promoting the activity, a wide information campaign has been carried out thus encouraging apartment owners to get involved in management of the common property and improvement of building insulation.

In order to increase energy efficiency of multi-apartment buildings and to reduce the payments for heat energy in multi-apartment buildings where no complex renovation is performed, the regulations were amended in 2011 defining the maximum acceptable heat energy consumption (over the last three years – <230 kWh/m² per year on average), and if the maximum consumption is exceeded, the energy efficiency measures must be carried out.

The total available EU funds financing for improvement measures of social residential building insulation is LVL 4.8 million. By the end of 2011, projects for the amount of LVL 0.9 million have been completed and contracts for LVL 4.6 million have been signed.

The household sector is one of the most important consumers in the final energy consumption, constituting 35.5% of the total final energy consumption. By insulating social and multi-apartment residential buildings, energy efficiency of at least 20% is expected to be achieved. In 2012, the ME will prepare the first energy savings monitoring report, which will sum up information on the energy savings achieved as a result of the implemented measures to improve energy efficiency of buildings in 2011.

In 2012, different information measures on the available support for multi-apartment building insulation is expected to be continued, as well as new types of potential instruments and support mechanisms are planned to be developed for increasing energy efficiency in residential buildings.

- ***Increasing energy efficiency in public and industrial buildings*** (responsible institution – MEPRD)

The aim is to provide financial support to projects for increasing energy efficiency in public and industrial buildings in order to reduce greenhouse gas emissions (hereinafter – GHG). Complex solutions are supported within the measure – reduction of heat energy and electricity consumption, as well as efficient energy supply of buildings. The total climate change financial instrument (hereinafter – the CCFI) in 2010–2013 for implementation of the measure is LVL 75.5 million.

In 2011, implementation of projects for improving energy efficiency in public buildings was launched for the total financing of LVL 72.2 million, including the CCFI financing – LVL 23.3 million and the EU funds financing – LVL 35.9 million. Within the call for projects, complex solutions for increasing energy efficiency of buildings, as well as construction and reconstruction of low energy consumption buildings are supported.

In order to provide complex solutions for increasing energy efficiency in manufacturing enterprises, projects for the total public financing of LVL 3.1 million (CCFI financing) have been implemented and contracts for the amount of LVL 7 million have been signed by the end of 2011. Project implementation is expected to be completed by the end of 2012.

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

The aim is to provide financial support to municipalities to introduce such lighting infrastructure that allows reducing the current electric energy consumption and thus also the GHG emissions. In early 2012, projects for the total CCFI financing of LVL 2.8 million have been approved. The measure is planned to be implemented until mid-2012.

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

The programme for modernizing the heat supply systems through the EU structural funds support is being continued. The total EU funds financing for 2007–2013 is LVL 53.3 million.

The aim of increasing the efficiency of centralized heat supply systems is to reduce heat energy losses in transmission and distribution systems and to promote replacement of fossil fuels with renewable or other types of fuels. The total EU funds financing available within the

measure is LVL 42.3 million. By the end of 2011, contracts on the EU funds financing for the amount of 25.9 million have been signed within the measure.

Submission of projects for measures to increase energy efficiency of heat supply systems in enterprises was opened until February 2012. The aim is to promote the use of heat energy produced from RER in industrial production. The EU funds financing for the amount of LVL 13 million is available in 2012–2013.

3.6.2. Increasing the Share of Renewable Energy

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

Table 9

Renewable energy target's achievement trajectory				
	2008	2009	2010	2020
Share of renewable energy (%)	29.8	34.3	32.5	40.0

Table 10

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

	2005	2009	2010	2015	2020
Heating and cooling	42.7	47.9	43.8	48.6	53.4
Electricity	44.9	42.0	42.1	51.4	59.8
Transport	0.9	1.1	3.3	4.6	10.0

There are the following challenges for raising the share of energy produced from the RES in the overall final energy consumption:

- The existing legal framework does not fully ensure complete conformity of the RE to the EU requirements;
- The comparatively low competitiveness of the RE compared to the exported fossil energy.

Key policy directions and measures to increase the share of renewable energy:

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

The aim is to promote a broader use of the RES in energy production and consumption, including the transport sector, as well as the use of sustainable biofuel and bioliquid fuel. In 2011, a range of measures have been carried out to adjust the legal basis. The necessary amendments to laws and regulations have been made to ensure their consistency with the requirements of the Directive 2009/28/EC of the European Parliament and of the Council of April 23, 2009 on the promotion of the use of energy from renewable sources. Criteria have been set for sustainability of biofuel and bioliquid fuel, along with their implementation mechanism, a procedure has been established for supervision and control by developing a national certification scheme. Furthermore, a procedure has been established for issuing proof of origin of the produced electricity amount to electric energy producers using RER for production of electric energy.

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

The aim is to promote a broader use of local RER in energy production and consumption in Latvia, to promote energy production in cogeneration, thus diminishing dependence of Latvia on the import of primary energy resources.

Contracts on development of cogeneration plants using RER for the entire amount of available EU funds financing of LVL 21.4 million have been signed by the end of 2011. Within the implementation of projects, the expected installed capacity is 36 MW_{el} and heat capacity of 105.8 MW.

For construction of biomass cogeneration plants in 2011, the CCFI financing in the amount of LVL 8.4 has been allocated. Within the projects, 9 new biomass cogeneration plants with total installed heat capacity 11.55 MW are expected to be constructed in 2012.

In 2011, implementation of projects continued, thus ensuring technology transition from fossil to RER. The total CCFI financing of the measure was LVL 6.3 million, while projects for the total CCFI financing of LVL 0.8 million were completed in 2011.

In 2011, the CCFI financing of LVL 23.7 million was allocated to support 24 enterprises in implementation of technologies using renewable energy resources for production of heat energy and electricity, as well as in ensuring a transition from technologies using fossil energy resources to technologies using renewable resources. For the purpose of promoting transfer of GHG reducing products and technologies in Latvia, in 2011, 34 local municipalities and direct or indirect administration institutions have launched implementation of projects for the total financing of LVL 4.05 million, including the CCFI co-financing – LVL 2.87 million.

In the household sector in 2011, 1135 contracts have been signed on purchase and installation of technology equipment for the production of micro-generation heat energy or electric energy in residential buildings for the total CCFI financing – LVL 4.1 million. By the end of 2011, 335 projects for the CCFI financing of LVL 1 million have been completed. In 2012, 2000 projects (on cumulative basis) are expected to be implemented in the household sector.

The total public financing of LVL 141.9 million (including the EU funds financing – LVL 93.5 million and the CCFI financing – LVL 42.8 million) is available in 2011–2013 for support to energy production from agricultural and forest biomass if the produced energy is intended for the use mainly outside the farm. Until March 2012, projects for the public financing of LVL 18.5 million have been implemented. Applications for the public financing of LVL 47.8 million have been approved. The total number of supported farms is expected to exceed 80 farms. Until March 1, 2012, 53 projects for the total eligible costs of LVL 47.6 million, out of which LVL 18.5 million have been paid and 27 projects have been partially or fully paid, have been approved within the sub-measure “Energy production from agricultural and forest biomass” (biogas) of the Rural Development Programme for 2007–2013.

In 2011, the regulatory framework has been amended to ensure stricter regulation regarding the use of agricultural residues. A condition has been introduced providing that at least 30% of all raw materials must be animal by-products or derived products. Moreover, a condition has been introduced providing that the beneficiary must be able to produce at least 70% of the total raw materials for energy production in his/her farm. Taking into account these conditions, projects for the total eligible costs of about LVL 10 million are expected to be approved by mid-2012.

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

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

Currently, efficiency of the existing support mechanisms and the need for implementation of new support mechanisms is being evaluated in order to foster achievement of the target set in the NRP of Latvia.

By setting the sustainability criteria for biofuels, competition of biofuel producers with other biofuel producers from the EU member states is improved. The national target for the transport sector includes only biofuel that meets the sustainability criteria.

Within the measure to promote biofuel consumption in 2012–2013, it is planned to keep the mandatory biofuel addition, excise tax allowances for biofuels and biofuel blends with fossil fuel containing at least 30% biofuel, as well as to increase availability of biofuels to all consumers.

3.6.3. Reducing Greenhouse Gas Emissions

Latvia's target is to limit the total national GHG emissions so that in 2020 they would not exceed 12.19 Mt CO₂ equivalent. This target includes fulfilment of other international commitments. The target of GHG emissions excludes emissions caused by the forestry and its attraction.

Table 11

Greenhouse gas emissions target's achievement trajectory					
	2008	2009	2010	2015	2020
GHG emissions, Mt CO ₂ equivalent	11.7	11.0	12.1	12.4	12.2
GHG emissions in non-ETS sectors (% compared to 2005) ¹⁸	8.0	8.0	8.0	13.0	17.0

According to the initial results of the GHG Inventory Report for 2012¹⁹ the total GHG emissions of Latvia in 2010 were 12.05 million tons CO₂ equivalent. In comparison with 2009, the total GHG emissions of Latvia have increased by 10%. The increase in emissions in the ETS sector was determined by the increased fuel consumption in the transformation sector (centralized heat supply systems) due to harsh winter conditions, launch of a new electricity production block, as well as increasing production capacity of the largest cement factory. The increase in emissions in non-ETS sectors was determined at approximately equal shares by the increase in transport emissions, agricultural emissions and small central heating system emissions.

Overall in 2010, emissions were within the expected trajectory of achievement of greenhouse gas emissions target, slightly exceeding the planned value for the total GHG emissions. However, the remaining tendency, especially with respect to the increase in production and economic recovery from the crisis, might lead to a more rapid increase in emissions in the forthcoming years, especially in the ETS sector. It does not pose any problem for Latvia to achieve the target of +17% set within the Effort-Sharing Decision, but the ETS operators will have to be probably particularly flexible (international loans or purchasing the missing emission allowances) to cover their emissions. Thus, the overall national GHG emissions target may have to be revised and accordingly increased in coming years.

Key policy directions and measures to limit GHG emissions:

- **Limitation of non-ETS sector emissions** (responsible institutions – MEPRD, ME, MA, MT)

The measures to reduce the non-ETS sector emissions are mainly supported by the CCFI programmes and implementation of projects within these programmes has been

¹⁸ Sectors outside the EU Emission Trade System (EU ETS), for example, transport, small-sized industry and energy sector, agriculture.

¹⁹ Website of the European Environment Agency: <http://cdr.eionet.europa.eu/lv/eu/ghgmm/envtwqdg>

launched only in 2010. The planned emissions reduction policy and measures must be continued by assessing and measuring the actual emissions reduction achieved therein.

The NRP of Latvia does not require new additional reforms for dealing with the abovementioned climate policy issues. The policy directions and measures to reduce emissions given in the programme are expected to be continued.

- ***Research, innovations, informing society*** (responsible institution – 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 the public behaviour.

For the purpose of the transfer of GHG reducing products and technologies in Latvia, 2 projects for the total CCFI financing of LVL 0.15 million have been implemented in 2011. Within the completed projects two equipment prototypes have been developed for waste water cooling and conducting the produced heat to water heating, thus achieving the estimated heat energy savings of 345 MWh per year in a 108-apartment residential building and 124 MWh per year in a 40-apartment residential building. Furthermore, an efficient technology has been developed for burning low-emission non-fossil fuel using water electrolysis product as a catalyst.

In 2012–2013, the CCFI financing in the amount of LVL 4 million will be available for development of GHG emissions reducing technologies, including implementation of pilot projects. The CCFI co-financing will be granted for development and presentation of innovative products or technologies if such a product or technology has GHG reduction potential or it can be practically used, as well as for national and international experience and knowledge technology transfer by implementing pilot projects to show how innovative GHG emissions reducing technologies operate in practice.

Since 2011, 16 projects have been implemented to increase public awareness of the meaning and possibilities of GHG emissions reduction. Mass media have made publications and radio and TV shows, unions and professional associations have developed educational programmes and hosted seminars for different target groups. The total CCFI financing in 2011 was LVL 0.15 million, in 2012 – LVL 0.09 million.