

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

PROGRESS REPORT

**RIGA
April 2016**

TABLE OF CONTENTS

ABBREVIATIONS, UNITS OF MEASUREMENTS AND DEFINED DESIGNATIONS	3
INTRODUCTION	5
1. MEDIUM-TERM MACROECONOMIC SCENARIO	7
2. IMPLEMENTATION OF THE EU COUNCIL RECOMMENDATIONS.....	10
2.1. MEDIUM-TERM BUDGET OBJECTIVE	10
2.2. EDUCATION, TRAINING, RESEARCH AND INNOVATION.....	10
2.3. SOCIAL ASSISTANCE AND HEALTH CARE SYSTEM.....	12
2.4. JUDICIAL SYSTEM AND PUBLIC ADMINISTRATION REFORMS	16
3. POLICY DIRECTIONS.....	22
3.1. FINANCIAL STABILITY	22
3.1.1. <i>Sustainable Budget Development.....</i>	<i>22</i>
3.1.2. <i>Ensuring Stability of the Banking Sector.....</i>	<i>23</i>
3.2. PROMOTING COMPETITIVENESS.....	27
3.2.1. <i>Business Environment and Modernisation of Public Administration.....</i>	<i>27</i>
3.2.2. <i>Promoting Productive Investments and Exports</i>	<i>31</i>
3.2.3. <i>Innovation, Research and Development.....</i>	<i>37</i>
3.2.4. <i>Information and Communication Technologies</i>	<i>41</i>
3.2.5. <i>Transport and Environmental Infrastructure.....</i>	<i>44</i>
3.3. EMPLOYMENT.....	46
3.4. EDUCATION.....	52
3.4.1. <i>Preschool Education</i>	<i>52</i>
3.4.2. <i>General Education</i>	<i>53</i>
3.4.3. <i>Secondary Vocational Education.....</i>	<i>56</i>
3.4.4. <i>Higher Education.....</i>	<i>59</i>
3.4.5. <i>Lifelong Learning.....</i>	<i>62</i>
3.5. FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION.....	64
3.5.1. <i>Reducing the Poverty Level.....</i>	<i>64</i>
3.5.2. <i>Demographic Challenges and Health Protection</i>	<i>68</i>
3.6. ENERGY AND CLIMATE CHANGE	70
3.6.1. <i>Energy Market and Infrastructure</i>	<i>70</i>
3.6.2. <i>Promoting Energy Efficiency</i>	<i>71</i>
3.6.3. <i>Increasing the Share of Renewable Energy.....</i>	<i>74</i>
3.6.4. <i>Reducing Greenhouse Gas Emissions.....</i>	<i>76</i>
4. USE OF STRUCTURAL FUNDS	80

ABBREVIATIONS, UNITS OF MEASUREMENTS AND DEFINED DESIGNATIONS

AIC	Academic Information Centre	FCM	Financial and Capital Market Commission
AIPY	Agency for International Programs for Youth	FDI	foreign direct investment
ALMP	active labour market policy measures	FDL	Fiscal Discipline Law
BEF	Baltic Environmental Forum	FTUCL	Free Trade Union Confederation of Latvia
BEMIP	Baltic Energy Market Interconnection Plan	GDE	Guidelines on Development of Education for 2014–2020
BIF	Baltic Innovation Fund	GDIS	Guidelines for Development of Information Society for 2014-2020
CBCR	Country-by-Country-Reporting	GDP	gross domestic product
CCFI	Climate Change Financial Instrument	GDSTI	Guidelines for Development of Science, Technology and Innovation 2014–2020
CEF	Connecting Europe Facility	GHG	greenhouse gas
CEF	Connecting Europe Facility	GWh	gigawatt-hour
CERT.LV	IT Security Incident Response Institution	ICT	information and communication technologies
CF	Cohesion Fund	IDAL	Investment and Development Agency of Latvia
CIT	corporate income tax	IFLPIS	International Freight Logistics and Port Information System
CM	Cabinet of Ministers	IPE	Institute of Physical Energetics
CMM	Committee of Cabinet of Ministers	IT	information technologies
CO ₂	carbon dioxide	JSC	joint stock company
CSB	Central Statistical Bureau	km	kilometre
CSCC	Cross-Sectoral Coordination Centre	KNAB	Corruption Prevention and Combating Bureau
CV	curriculum vitae	kWh	kilowatt-hour
DFI	Development Finance Institution	LCCI	Latvian Chamber of Commerce and Industry
DRG	diagnosis-related groups	LLC	limited liability company
EAFRD	European Agricultural Fund for Rural Development	LPCI	Law on Prevention of Conflict of Interest
EC	European Commission	LPP	legal protection proceedings
ECL	Employers' Confederation of Latvia	LPR	Latgale planning region
ECVET	European Credit system for Vocational Education and Training	MA	Ministry of Agriculture
EDS	electronic declaration system	Mbps	megabit per second
EEA	European Economic Area	MC	Ministry of Culture
EFMF	European Fisheries and Maritime Fund (2014-2020)	MD	Ministry of Defence
EFMF	European Fisheries and Maritime Fund (2007-2013)	ME	Ministry of Economics
eID	electronic identification	MEPRD	Ministry of Environmental Protection and Regional Development
EQAR	European Quality Assurance Register for Higher Education	MES	Ministry of Education and Science
EQAVET	European quality assurance in vocational education and training	MF	Ministry of Finance
EQF	European qualifications framework	MFA	Ministry of Foreign Affairs
EQF	European qualifications framework	MH	Ministry of Health
ERDF	European Regional Development Fund	MJ	Ministry of Justice
ESF	European Social Fund	MoW	Ministry of Welfare
ESFRI	European Strategy Forum for Research Infrastructures	Mt	megatonne
ESG	Standards and Guidelines for Quality Assurance in the European Higher Education Area	MT	Ministry of Transport
ETS	Emissions Trading System	MTG	Medium-Term Budget Goal
EU	European Union	Mtoe	megatonnes oil equivalent
EUR	euro, EU single currency	MW	megawatt
EV	electric vehicle	NB	national budget

NEET	youth not in education, employment or training	SEDA	State Development Education Agency
NGO	non-governmental organisation	SJSC	state joint stock company
NLRC	national-level research centres	SME	small and medium-sized enterprises
Nm ³	normal cubic meter	SMM	small and medium-sized merchants
NPP	nuclear power plant	SO	specific objective
NRP	National Reform Programme	SRS	State Revenue Service
OECD	Organisation of Economic Cooperation and Development	SSEQ	State Education Quality Service
PIT	personal income tax	STEM	science, technology, engineering and mathematics
PJ	petajoule	TEN-T	trans-European transport network
R&D	research and development	UN	United Nations Organisation
RE	renewable energy	USD	US dollar
RE	Register of Enterprises	VAT	value added tax
RES	renewable energy sources	VECC	vocational education competence centre
SC	State Chancellery	WB	World Bank
SEA	State Employment Agency	WBL	work-based learning
SEC	Sectoral Expert Council	YEI	Youth Employment Initiative
		YPLL	years of potential life lost

INTRODUCTION

Latvia has prepared the fifth *Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020” Strategy*¹ (hereinafter – Progress Report on the Implementation of the NRP of Latvia) which is closely linked to the Stability Programme of Latvia for 2016-2019.

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

The Progress Report on the Implementation of the NRP of Latvia was developed taking into account the *National Development Plan of Latvia for 2014–2020* approved by the Saeima on 20 December 2012, the *Partnership Agreement for the EU Investment Funds Programming Period 2014–2020*, the Operational Programme *Growth and Employment for the EU Funds Programming Period 2014–2020*, the EU Integrated Guidelines, commitments of Latvia under the Euro Plus Pact² approved by the European Council on 24–25 March 2011, the EU Council’s country-specific recommendations for Latvia for 2015-2016³, the *2016 Annual Growth Survey* published on 26 November 2015 by the EC⁴, the Commission’s staff working document *Country Report – Latvia 2016*⁵, and the Letter from the EC Secretariat-General to the EU Member States on the European Semester 2016⁶.

The Progress Report on the Implementation of the NRP of Latvia has been prepared on the basis of information received from the Ministry of Defence (MD), the Ministry of Foreign Affairs (MFA), the Ministry of Economics (ME), the Ministry of Finance (MF), the Ministry of Education and Science (MES), the Ministry of Culture (MC), the Ministry of Welfare (MoW), the Ministry of Transport (MT), the Ministry of Justice (MJ), the Ministry of Environmental Protection and Regional Development (MEPRD), the Ministry of Health (MH), the Ministry of Agriculture (MA), the Cross-Sectoral Coordination Centre (CSCC), the State Chancellery (SC), the Financial and Capital Market Commission (FCMC). It has been discussed with the Employers’ Confederation of Latvia (ECL), the Free Trade Union Confederation of Latvia (FTUCL), the Latvian Chamber of Commerce and Industry (LCCI), and the Latvian Association of Local and Regional Governments on 1 April 2016.

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

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

² Euro Plus Pact, conclusions of the European Council of 24–25 March 2011: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

³ The EU Council’s country-specific recommendations for Latvia 2015: http://ec.europa.eu/europe2020/pdf/csr2015/csr2015_council_latvia_en.pdf

⁴ *2016 Growth Survey*: http://ec.europa.eu/europe2020/pdf/2016/ags2016_annual_growth_survey.pdf

⁵ *Country Report Latvia 2016*: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_latvia_en.pdf

⁶ Letter from the EC Secretariat-General to the EU Member States on the European Semester 2016, ARES(2015)5723722, 12.10.2015.

The Progress Report on the Implementation of the NRP of Latvia consists of 4 chapters. Chapter 1 contains an updated medium-term macroeconomic scenario described in the NRP of Latvia. Chapter 2 assesses the progress on the implementation of the EU Council's country-specific recommendations for 2015-2016. Chapter 3 provides a detailed description of the NRP policy directions, including the progress on the achievement of the quantitative targets of Latvia within the *Europe 2020* strategy. Chapter 4 presents information on the use of the EU funds.

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

1. MEDIUM-TERM MACROECONOMIC SCENARIO

In 2015, the gross domestic product (hereinafter – the GDP) in Latvia increased by 2.7% achieving a higher economic growth compared to 2.4% in 2014. The growth rate accelerated despite the impact of unfavourable external environment, and, in similarity with 2014, growth was mainly based on domestic demand. Meanwhile, the tense geopolitical situation, the sanctions imposed by Russia on food products produced in the EU, and the overall deterioration of economic situation in the Commonwealth of Independent States (CIS), as well as continuously slow economic growth rate in the euro area had a negative effect on exports.

Private consumption had the biggest contribution to growth in 2015 that was fostered by the rapidly increasing level of wages, very low inflation, as well as decrease in the personal income tax. In 2015, private consumption increased by 3.3%, also public consumption demonstrated a considerable increase – by 3.1%.

Investing activities have been rather moderate in recent years, and the volume of investment has not yet reached the pre-crisis level. In 2015, investment growth in Latvia increased only by 2.6% and remained approximately 30% below the pre-crisis level. The low level of investments and poor dynamics are considerably affected by low lending, relatively low demand, and comparatively high level of debt in both private and public sector, as well as uncertain external economic and political situation.

Total exports of goods and services in Latvia increased by 1% in 2015 (in constant prices). Although in 2015, exports of goods to Russia decreased by 24.4% (in current prices), the total exports of goods in Latvia increased by 1.3%. Exports of goods to the EU member states increased by 1.9% (the largest growth in exports was observed to Lithuania, the Netherlands, Denmark, France, the Czech Republic, etc.), while exports to the third countries (mainly to Algeria, Saudi Arabia, United Arab Emirates, Turkey, USA, etc.) increased by 22.4% which means that Latvian entrepreneurs are gradually acquiring new markets.

The greatest positive influence in growth of exports of goods was increase in exports of mechanisms and electric devices by 10.7%, increase in exports of grain by 30%, as well as wood and wood products by 2.2%, and growth in exports of chemical products by 5.1%. However, the greatest negative influence was decrease in exports of mineral products, textile materials, as well as food and agricultural products – by 14%, 8.9% and 1.3%, respectively.

Considering the external environment, assessing across the sectors, the year 2015 has been more successful in service sectors oriented towards domestic market, while manufacturing industry and agriculture demonstrated good results as well. Manufacturing industry increased last year by 4.3%, as a result of stable growth in wood processing sector, as well as substantial increase in manufacturing of computers, as well as electronic and optical devices. Due to record harvest of grain, agricultural and forestry sectors achieved a 5% growth last year. Hotels and restaurants sector was among the fastest growing sectors in 2015 and showed a 6% increase, as well as sector of art, entertainment and relaxation – 4.7%, and trade sector demonstrating a 3.7% increase.

Volume of industry decreased last year in two sectors: construction by 1.1% and transport by 0.1%. Decrease in transport sector was largely determined by the external situation and the diminishing transit flow from/to Russia, while construction was still affected by high basis effect of the previous year and decreasing activity in construction of buildings.

Increasing economic activity continues to improve the situation in the labour market. In 2015, the number of employed persons increased by 1.3% on average and reached 896.1 thousand or 60.8% of the total number of population aged 15-74. Simultaneously, growth in the number of economically active persons was slower (by 0.2%) in 2015. There were 994 thousand economically active persons or 67.5% of the population aged 15-74.

While employment numbers are increasing, the unemployment is decreasing – in 2015, the unemployment level decreased to 9.9% or by 0.9 percentage points compared to 2014. 98.2 thousand persons were seeking job – by 9.5 thousand less than in 2014. At the end of January

2016, registered unemployment rate was 9.1% – there were 85.5 thousand unemployed persons registered, which is almost by 800 persons less than the year before.

Growth of consumer prices remained low in 2015, mainly determined by external factors, including the drop of oil and food prices in the world market. The average annual inflation in 2015 was 0.2%, including decrease in prices of goods by 0.7% and increase in prices of services by 2.5%.

Table 1

Medium-Term Macroeconomic Scenario⁷

	2014	2015	2016	2017	2018	2019
GDP, in current prices, million EUR	23581	24378	25424	26903	28585	30429
growth in current prices, %	3.6	3.4	4.3	5.8	6.2	6.5
growth in constant prices, %	2.4	2.7	3.0	3.3	3.4	3.4
GDP deflator (y-o-y), %	1.2	0.6	1.3	2.4	2.8	2.9
Consumer price index (y-o-y), %	0.6	0.2	0.4	2.0	2.5	2.5
Employment, thousand people	885	896	898	900	901	901
Unemployment rate, % (aged 15-74)	10.8	9.9	8.9	8.4	8.0	7.5
Exports of goods and services, in current prices, million EUR	14032	14266	14841	15696	16665	17778
growth in constant prices, %	3.1	1.0	3.0	4.1	4.5	5.0
Exports of goods and services, in current prices, million EUR	14562	14645	15354	16410	17672	19013
growth in constant prices, %	0.8	1.6	3.8	5.3	6.1	6.0
Growth of potential GDP	2.3	2.5	2.7	2.9	3.0	3.0
contribution:						
– labour	-0.3	-0.2	-0.1	0.0	0.1	0.1
– capital	0.9	0.9	1.0	1.1	1.3	1.4
– total factor productivity	1.6	1.7	1.7	1.7	1.6	1.5
Output gap (% of potential GDP)	-0.9	-0.7	-0.4	0.1	0.5	0.9

Data source: CSB, estimates of the MF

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

- The macroeconomic development scenario has been prepared based on technical assumptions of winter forecasts of 2016 prepared by the EC. These assumptions foresee that the average oil price in 2016 will be USD 35.80 for a barrel of Brent crude oil, while in 2017 it will be USD 42.50. It is also assumed that the EUR/USD rate in the medium term will be 1.08.
- The forecasts assume that growth rate in the euro area will gradually increase reaching 2% in the medium-term. Thus, the demand for Latvian goods and services will grow, thereby fostering the acceleration of the economic growth rate in 2016 and 2017.
- The economic growth in the short-term will be based still on private consumption's increase, while the growth in the medium-term will become more balanced in terms of external and internal demand. Exports growth will be provided by vanishing effect of Russia's sanctions, Latvian entrepreneurs finding new markets and products, as well as growth acceleration in the euro area. Investment growth will be stimulated by a more rapid absorption of the EU funds, as well as decline in geopolitical risks in the region;
- The situation in the labour market will be mainly determined by decline in the number of working-age population and moderate economic growth rate. Forecasts assume that the number of employed persons in the economy will have a moderate increase – by 0.2% in 2016. In the medium term, only a moderate employment increase is expected, and the

⁷ The medium-term macroeconomic development scenario has been elaborated in February 2016 based on the summary GDP flash estimate for the 4th quarter of 2015 and statistical information that was available by 15 February 2016. The data for 2015 have been technically updated in the macroeconomic development scenario after receiving complete macroeconomic data for 2015, without changing the medium-term growth forecasts.

growth will be mainly ensured by the increase in productivity. The medium-term wage increase will be equal to productivity changes;

- The increase in consumer prices will be low in 2016 and determined by the low prices of energy resources and food in the world markets. Meanwhile, raised excise duty on oil products, tobacco and alcohol, as well as levying value added tax on accommodation management services will have an increasing impact on inflation. In 2017, the inflation is expected to be 2%, while medium-term increase in the consumer prices is expected to be 2.5% determined by a well-balanced economic growth and convergence of the Latvian economy to the average EU level;
- After the financial crisis of 2007, the potential GDP of Latvia has been growing relatively fast reaching an increase of 2.5-3% annually. Nevertheless, it is approximately twice as slow compared to the pre-crisis period. Decline in available workforce caused by negative demographics and emigration has an adverse effect on growth of potential GDP. For the aforementioned reasons, a rapid growth in employment rates is not to be expected in 2016-2019. Therefore, the potential GDP development in the medium-term depends on the volume of investments and overall growth in productivity.

While preparing the forecasts of macroeconomic indicators, the MF consulted with experts from the Bank of Latvia and the Ministry of Economics, as well as the European Commission and International Monetary Fund. Macroeconomic indicator forecasts have been approved by the Fiscal Discipline Council upon publishing its opinion on 19 February 2016⁸.

Internal and external environment factors that might both accelerate or slow down the economic growth compared to basic forecast have also been taken into consideration when working on macroeconomic forecasts. The positive risks are related to a more rapid increase in lending in Latvia, stronger economic growth in the EU and other main trade partner countries of Latvia, as well as securities purchase programme implemented by the European Central Bank and the EC's Investment plan which may have a stronger impact on the European economy than expected.

Negative risks may be related to potential deterioration of geopolitical situation and further slowdown in the world economic growth. Likewise, low level of investment in Latvia over a longer period of time, as well as wage growth that is faster than productivity growth deteriorating Latvia's competitiveness may have negative impact on growth.

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

⁸ <http://fdp.gov.lv/jaunumi/fiskalas-disciplinas-padome-apstiprina-finansu-ministrijas-makroekonomikas-prognozes>

2. IMPLEMENTATION OF THE EU COUNCIL RECOMMENDATIONS

2.1. MEDIUM-TERM BUDGET OBJECTIVE

Ensure that the deviation from the medium-term budgetary objective in 2015 and 2016 is limited to the allowance linked to the systemic pension reform.

Both for 2015 and 2016, the overall government budget was prepared in accordance with the provisions of the *Law on Fiscal Discipline*, including defining structural budgetary balance targets in accordance with the approach setting that the only permissible deviations from the medium-term budget objectives (MTO) are the ones related to increased contributions into the pension level 2.

Based on its 2016 winter forecasts, the EC concluded that Latvia has ensured compliance with structural balance condition and expenditure increase condition in 2015. However, structural balance check for 2016 indicates a slight deviation risk, while expenditure increase condition – a substantial deviation risk. Upon examining the submitted results and data on both conditions used in calculations (the main differences between the results of the conditions are determined by the use of different potential GDP time series), it has been concluded that, in the current situation, structural balance condition best reflects the fiscal effort performed by Latvia. Therefore, the overall evaluation indicates a minor deviation from the MTO in 2016.

2.2. EDUCATION, TRAINING, RESEARCH AND INNOVATION

Improve vocational education and training, speed up the curricula reform and increase the offer for work-based learning. Ensure that the new financing model of the higher education system rewards quality. Better target research financing and incentivise private investment in innovation on the basis of the Smart Specialisation Framework.

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

Vocational education content reform was initiated to ensure a transition from subject-based vocational education content to result-based learning, as well as to introduce a modular approach in implementation of vocational education programmes. The first stage of the reform (2011-2015) was concluded on 30 November 2015. Development trends within this sector were studied covering characterisation of sectoral labour force and preparation of sectoral descriptions. Sectoral Expert Councils were established, and they are working actively. In 2015, the improvement or development of vocational qualification exam content for 32 professional qualifications was completed simultaneously, and professional standards and basic requirements of specialisation qualification according to the needs of qualifications of the economic sector have been developed or improved. Vocational education content reform will be continued with the support of EU funds (*see Chapter 3.4.3*).

The improvement of the vocational education institution network under the MES has been completed – in 2015, 9 vocational education institutions with a small number of students were reorganized by merging them with educational institutions qualifying as vocational education centres. Thus, the number of secondary education institutions under the MES decreased from 60 institutions in 2010 to 24 by the end of 2015 (*see Chapter 3.4.3*).

On 23 April 2015, the Saeima adopted *Amendments to Vocational Education Law* prescribing improvement in the management of vocational education institutions, including a framework to create convents of vocational education institutions and its competence, to further develop the activities of Sectoral Expert Councils in order to ensure the compliance of the Latvian vocational education classification levels with the Latvian qualifications framework level, as well as to set the legislative framework for implementation of the **work-based learning (WBL)**.

The *Amendments to Vocational Education Law* define WBL as one of vocational education forms as well as delegates the CM to determine the procedure for organisation and implementation of WBL.

A WBL pilot project was implemented during academic year 2014/2015 in cooperation with approximately 200 enterprises (involving approximately 500 students in 40 programmes); 15-20 educational institutions applied and served as experimental platform for potential WBL model and approach implementation.

EU funds programming period for 2014–2020 provides support for implementation of WBL, as well as implementation of apprenticeships at an employer's enterprise (the indicative planned financing is EUR 21.9 million, including EUR 18.6 million from the ESF). It is planned to involve 3150 students in WBL and ensure participation of 25671 students in apprenticeships at employers' enterprises.

On 30 December 2015, the CM approved the *Career Education Implementation Plan for State and Municipal General and Vocational Education Institutions for 2015–2020*, requiring to develop and approve the implementation of career development support models in state and municipal general and vocational education institutions, to develop modern methodological and informational material resources, providing for access to career development support services in general and vocational education institutions (*see Chapter 3.4.2*).

In 2014, with the support from the World Bank (WB) a new higher education financing model was developed, and representatives from higher education sector as well as social partners were involved in this process. Considering Latvia's socio-economic situation, a three-pillar financing model was proposed as the most suitable solution containing the following main elements (pillars): 1) base financing (institutional financing to ensure the functioning of education and research); 2) performance-based financing (financing that is allocated to reaching the study outcomes and research results); 3) innovation financing (future development-oriented financing that promotes specialisation of institutions and profile development).

Legislative base setting out criteria for allocation of performance-based financing was developed in 2015. The calculation of the amount of allocation for higher education institutions is based on criteria allowing to assess contribution of these institutions in terms of achieving policy goals (including regeneration of human resources within research and technological development, internationalisation of research and international competitiveness, linking research to the sectoral and regional needs, development of creative and artistic projects) during the current financing period. For development of performance-based financing, until 2017, additional resources will be allocated for financing of research-based higher education.

In 2015, planning of development financing from the EU Structural Funds for 2014-2020 was initiated. At the same time, amendments are being drafted for the CM *Regulations on Procedures for the Financing of Institutions of Higher Education and Colleges from the State Budget* intended to review financing of the basic costs of a study place.

Between 2016 and 2018, a research on improvement of management of higher education institutions will be conducted in cooperation with the WB, covering assessment of internal management and financial administration of higher education institutions in the context of new higher education financing model.

As of 1 July 2015, the Academic Information Centre (AIC) has taken over accreditation of higher education institutions and study fields, as well as organising of licensing of study programmes, in order to stimulate the improvement of study programme quality. It is planned that the AIC could be included in the European Quality Assurance Register for higher education (EQAR) in 2018. In order to strengthen the capacity of the AIC and improve the professional expertise of the staff, starting from 2016, the EU Structural Funds will be used as a part of project *Ensuring support for compliance with EQAR requirements to the Agency*. It is intended that the next comprehensive accreditation stage will take place in 2019 (*see Chapter 3.4.4*).

In 2015, a structural reform in science was carried out focusing on functional and territorial resource consolidation, strengthening management capacity, increase in the critical mass of research human resources, as well as development of excellence in research, in order to ensure a more efficient concentration of financing for research, development and innovation to achieve *Smart*

Specialisation Strategy goals. The reforms are implemented based on the results of the External Assessment of Science and a report of the MES *On the Implementation of Structural Reforms in Science in Latvia until 1 July 2015*, which is a precondition for the investments from the EU structural funds and the Cohesion Fund in the programming period for 2014–2020.

An informative report *On the Territorial Mapping of the Concentration of Science and Innovation Infrastructure and Research Activity* has been prepared as a basis for intended investments in science infrastructure in the EU funds programming period for 2014–2020. In 2025, an agreement with JASPERS⁹ was reached on expert support in development of conditions of implementation of R&D infrastructure to facilitate high-quality development and assessment of submitted projects.

In 2015, regulation of allocating the base financing to science was further clarified stipulating that scientific institutions with low evaluation score would not receive the base funding starting from 2016. Scientific institutions with low evaluation score will be given the opportunity to be integrated in stronger scientific institutions facilitating both concentration of resources and establishment of critical mass. The next assessment of scientific institutions will take place in 2017.

In order to implement the merging of scientific institutions, re-organisational measures, as well as support development of scientific institution resource administration and management system, 14 scientific institution development strategies were developed within the ERDF financing¹⁰ in 2015, while the number of scientific institutions registered in the Register of Scientific Institutions has decreased by 16 as a result of scientific institution structural reforms.

Support for post-doctoral research will be ensured under the EU funds programming period for 2014–2020. Post-doctoral research support programme envisages development of skills of approximately 450 young scientists, increase in scientific capacity and better career-starting opportunities, as well as attracting private investment. First stage of post-doctoral research project selection will start in 2016 as a part of this project.

2.3. SOCIAL ASSISTANCE AND HEALTH CARE SYSTEM

Take concrete steps to reform social assistance, ensuring adequacy of benefits, and take measures to increase employability. Reduce the high tax wedge for low-income earners by shifting the tax burden to other sources less detrimental to growth. Take action to improve the accessibility, cost-effectiveness and quality of the healthcare system and link hospital financing to performance mechanisms.

Setting a single, nation-wide, adequate, and socio-economically justified minimum income level serves as a basis for further support and policy planning for residents of Latvia.¹¹ This is the first stage in **improvement of social assistance** and social security systems.

In 2015, the development of the *Minimum Income Level Introduction Plan for 2017–2020* was initiated. The measures envisaged in this plan are primarily aimed at securing a minimum income support for families with children and persons of retirement age, if they, for a number of objective reasons, have failed to obtain income securing a sufficient minimum level. Drafting of legislative acts on introduction of minimum income level (MIL) and presentation thereof to the government is planned for 2016.

One of the most significant challenges for introducing minimum income level is attracting additional funds from state budget. This issue will be considered in context with the Latvian tax system assessment carried out by the WB in which one of the tasks is related to securing a sufficient tax income base in social security and health care sectors, taking into account the low rate of funding from GDP compared to other EU member states.

⁹ The overall assistance for project preparation in European regions.

¹⁰ The sub-activity 2.1.1.3.3 Institutional Capacity Development of Research Institutions of the Supplement to the Operational Programme of EU Funds Programming Period for 2007–2013 “Entrepreneurship and Innovation”.

¹¹ The concept *On Setting of the Minimum Income Level*, approved on 30 October 2014.

To eliminate the shortcomings of the social assistance system that were identified in the study of the WB, *Latvia: Who is Unemployed, Inactive or Needy?* – proposals for amendments to the legislative framework have been prepared. The *Amendments to Social Services and Social Assistance Law* (proposals are being reviewed in the Saeima for the 2nd reading) prescribe additional incentives to motivate social assistance recipients to engage in paid work by introducing a gradual suspension of payment of benefits 3 months after commencement of employment. Along with the elaboration of conceptual changes, former mechanisms and provisions are being continuously improved to engage the unemployed more actively, including the recipients of the social assistance benefits. The *Amendments to the Social Services and Social Assistance Law* (proposals are being reviewed in the Saeima for the 2nd reading) have been drafted, envisaging improvement of the professional rehabilitation service by separating the system of vocational assessment from it. The envisaged changes are aimed at ensuring a more efficient cooperation between the Social Integration State Agency and the SEA in integration of persons with disabilities or health problems into the labour market and in providing support that is most suitable to person's needs and skills.

Overlap of registered unemployed with **active labour market policy measures** has remained stable over the past years – approximately 11%. In 2015, 104 thousand persons or 60% of the total number of unemployed seeking support in the SEA (173 thousand persons in total) had participated in at least one of the measures offered by the SEA. It must be pointed out that involvement of registered unemployed in ALMP measures is carried out in accordance with the results of profiling (see Chapter 3.3).

In 2015, 69266 registered unemployed found job, and 30% of them had previously participated in one of the SEA support measures.

In 2015, a number of significant measures had been implemented **to diminish the income inequality and reduce labour taxes**. Starting from 1 January 2015:

- Personal Income Tax rate (PIT) was lowered from 24% to 23%;
- The *Law On Personal Income Tax* provides the opportunity to apply the PIT relief for a dependent person (up to the age of 19 years), who studies in a general, vocational, higher, or special education institution and receives income that is a subject to the wage tax or seasonal farm workers tax during the taxation year from 1 June until 31 August.

However, starting from 1 January 2016:

- a differentiated non-taxable minimum has been introduced stating that yearly differentiated non-taxable income amount will vary depending on the total income;
- monthly PIT allowance for dependent persons has been increased from EUR 165 to EUR 175, while persons of legal age and able-bodied persons have been removed from the list of persons eligible to receive allowance for dependent persons (except children under the age of 24 engaged in studies and disabled persons);
- a solidarity tax has been introduced aimed at preventing the regressive tax system that emerged after the maximum amount of the object of state social security mandatory contribution was reintroduced on 1 January 2014 (EUR 46400 in 2014, EUR 48600 in 2015 and 2016).

In order to compensate for the drop in tax revenues due to the reduction of the labour tax wedge, in the beginning of 2015 and 2016, several tax amendments related to consumption and environment taxes had been made¹².

¹² Excise-duty rate has been increased on alcoholic beverages, all tobacco products and certain petroleum products, and the reduced duty rate on diesel fuel B30 has been removed. Starting from 1 July 2016, excise-duty shall be applied on liquids used in electronic cigarettes. Duty rate on alcoholic beverages and tobacco products shall be gradually increased until 2018. Starting from 2016, an increased vehicle operation tax rate shall be applied to trucks with gross vehicle mass up to 12t and corporate cars, and a new taxable corporate vehicle object has been introduced. Additionally, in order to simplify administration of value added tax, from 1 January 2016, the Value Added Tax Law sets a limit on deduction of input tax for purchase and operation of cars in the amount

In order to improve the **accessibility of the health care system**, health budget has been increased by EUR 23.3 million in 2016 compared to the budget initially approved in 2015. At the same time, it must be noted that state funding for health care is still insufficient (in 2016, budget expenditures on health care accounted for 3.02% of GDP). Creating a sustainable health care system is one of the priorities set by the new government, ensuring a stable and predictable health care funding, including performing by mid-2016 an assessment of possibilities to introduce a new health care funding model. Within the framework of health care budget planning, funding for improvement of health care service accessibility, reducing queues and ensuring competitive salaries for medical staff are matters of priority.

In 2015, the WB performed an assessment on framework of health promotion measures in Latvia, and this assessment is used as a basis for draft terms for a project attracting EU funding for implementation of health promotion and prevention measures. Attracting funds for implementation of the said measures will start at the end of 2016. Investments in health care priority areas shall be used for the following: system (organizational changes) and health promotion measures, improving accessibility of medical treatment and medical support personnel in the regions, improving qualification of medical treatment and medical support personnel, as well as for improving and developing the infrastructure.

In 2015, work on Single National Quality Assurance System had begun. It envisages applying unified quality requirements to resources, processes and results used in health care. In 2016, elaboration of Single National Quality Assurance Concept is planned.

Starting from 1 January 2016, reimbursement of hepatitis C outpatient treatment medicine has been increased from 75% to 100% of the cost. Hepatitis C treatment expenditure per patient may be up to EUR 40000; approximately 5% of the total health budget in 2016 will go to treatment of hepatitis C. Setting up a hepatitis C monitoring system, including a patient register, for accumulation and analysis of accurate data is expected to be completed by 1 December 2016. At the same time, starting HIV therapy at an early stage of the disease has been ensured in line with the recommendations of the World Health Organization.

In order to reduce the co-payments for medicines, a number of amendments to the regulations of the Cabinet of Ministers have been drafted to facilitate the entry and accessibility of cheaper medicines in the Latvian market. Additional EUR 3 million were allocated to reimbursement system for medicinal products in 2015 in order to reduce the patient direct payments, thus granting additional 17700 unique patients with reimbursable medicinal products.

In December 2015, amendments to the Cabinet of Ministers Regulations on State Agency of Medicines Price List for Chargeable Services were adopted providing that the State Agency of Medicines applies a discount of 90% to national registration procedure fee for registration of essentially similar medicines – generic medicines or medicines of similar biological origin.

Starting from 2017, continuing improvement of medicinal product accessibility for residents, a possibility for further reduction of medicine prices and patient co-payment for reimbursable medicinal products will be reviewed in accordance with the budgetary options; improvement of accessibility of pharmacies in areas where there are none is expected, as well as accessibility of 24/7 pharmacies in the cities.

Additional EUR 10 million have been allocated in 2016 aimed at increasing the salaries of both medical and all other personnel employed at state and municipal medical institutions. It provides that the lowest monthly salary rate of medical personnel per standard load shall be increased in accordance with their qualification category and constitute a salary increase of approximately 7%. Meanwhile, general practitioners receive a fixed monthly payment of EUR 424.39 instead of the previous EUR 347.39 based on calculation of the actual number of

of 50% (as opposed to the previous limit of 20%). Moreover, measures aimed at reduction and combating of shadow economy have been introduced in order to improve payment and collection of taxes.

patients. Following the WB recommendations, work on a new human resource planning document will be continued in 2016.

To address the issue of even provision of human resources within health care in the whole territory of Latvia, a new internship admission procedure in the higher education institutions was launched on 2 April 2015. This procedure provides that priority is given to the applicants having an agreement with a state and/or municipal medical institution located outside Riga on employment in this particular institution after completed internship. 42 interns with the so called “regional agreement” have been admitted in academic year 2015/2016. The said procedure has been included in the amendments to the Cabinet of Ministers Regulations No. 685 of 30 August 2011 on Distribution of Interns and Funding of Internships. Additional amendments to regulations prescribe that after a completed internship the person concerned shall work in the relevant field in a state or municipal medical institution or in a general practitioner’s practice for three years. Meanwhile doctors who have entered the regional agreement shall work in the medical institution that is a party to this agreement or in an institution selected by municipality, if the municipality is party to this agreement for three years as well. This procedure shall apply to persons commencing their internship in the academic year 2016/2017.

To improve **cost efficiency and quality of health care system**, Riga Regional Centre of State Emergency Medical Service has abandoned the outsourcing of operative medical vehicles, thus putting a stop to monopoly position of a private provider of services and saving state budget financing in the long term.

A timely repayment of state-guaranteed loans by hospitals was set as a priority, so that provision of high-quality health care services to residents would not be jeopardized. On 27 August 2015, the CM supported allocation of additional financing to the MH for 2016-2018 for repayment of state-guaranteed loans issued to medical institutions.

To ensure a successful operation of the Pauls Stradins Clinical University Hospital, an agreement was reached in 2015 on attracting additional funding in health sector budget of EUR 16 million in 2017 to complete the hospital construction project.

The implementation of a unified electronic information system for health sector (*e-health information system*) is being continued to facilitate the efficiency and quality of medical process, as well as rational management and supervision of the sector. E-health system shall accumulate patients’ health data, electronic prescriptions, and electronic sick-leave forms, and patients will have access to their data stored in the system, possibility to register with a general practitioner and perform other activities. Medical institutions and pharmacies shall enter into agreement on use of health information system with the National Health Service by 1 November 2016. Starting from 1 December 2016, medical institutions will be obligated to use two health information system functionalities – electronic sick-leave form and electronic prescription, while pharmacies will be obligated to submit data on medicinal products prescribed and issued. Starting from 1 July 2017, medical institutions shall be obligated to use the remaining e-health functionalities (for example, e-referral, data on radiological examination performed (description), discharge-epicrisis). Meanwhile, prior to 1 July 2017, general practitioners, in addition to the above mentioned, shall submit the basic health data on their registered patients in e-health system: diseases diagnosed, date of setting a diagnosis, illnesses diagnosed within the last 12 months, medication to be taken regularly, allergies, surgical manipulations performed, etc. Development of e-health system will be carried out by attracting EU fund investments for 2014-2020.

In order to ensure a linkage of hospital funding to performance mechanisms, a diagnosis related group (DRG) payment model will be gradually introduced in the Latvian in-patient health care.

2.4. JUDICIAL SYSTEM AND PUBLIC ADMINISTRATION REFORMS

Improve efficiency of the judicial system, by increasing accountability of all parties (including insolvency administrators), by providing adequate means to fight tax evasion and by strengthening the role of the Judicial Council. Improve the public service legislation to strengthen the conflict of interest regime and link remuneration to responsibilities.

To increase the **efficiency of court proceedings:**

- on 23 April 2015, amendments to Section 32¹ of Civil Procedure Law were adopted allowing civil cases where, in accordance with the law, jurisdiction of a claim is determined by choice of plaintiff and civil cases having an exclusive jurisdiction to be transferred to another court;
- in 2015, a reorganization of Sigulda Court, City of Riga Central District Court, and Jurmala City Court was carried out, while the reorganization of the Latgale Regional Court has been completed on 1 February 2016. Reforming court houses is aimed at preventing uneven work load in courts and reducing length of court proceedings, while ensuring a specialization of judges and distribution of cases by principle of randomness, as well as facilitating uniformity of judicial practice¹³;
- on 1 January 2015, a number of legislative acts entered into force on abolishing the Chamber of Civil Cases in Supreme Court, thus completing transition to clear court instances;
- specialization of courts has been introduced (providing for jurisdiction of cases to one particular court);
- applications for approval of an auction deed have been handed over from regional courts to district (city) court Land Register Offices for reviews;
- the development has been continued concerning the use of video conferences and introduction of e-solutions. A portal “manas.tiesas.lv” has been launched allowing users to access all e-services provided by courts in one place. Expanding possibilities of electronic communication in civil proceedings as well as adding more possibilities for electronic document submission are planned in the future. An electronic caseload calendar for prosecutors has been developed and implemented allowing a prosecutor to inform the court about his/her absence or participation in other court hearings, thereby reducing the number of postponed hearings. It is expected to promote access to courts through the ERDF support by introducing appropriate solutions to reduce the length of proceedings and promote access to judiciary information (e-proceedings, electronic process, an opportunity to obtain information about the case online, automated processing and publishing of judgements, etc.). In 2015, a conceptual project description on *Improvement of Courts' Information System within “e-case” Program* was prepared. It has been supported and included in the ERDF 1st stage project group;
- to strengthen and broaden the role of the Judicial Council, amendments to the Law on Judicial Power were adopted on 28 October 2015, and they envisage the competence of the Judicial Council in the appointment and dismissal from the office of a chair of district

¹³ Assessing the trends of court functioning indicators in, for example, reorganized courts in Riga region, and comparing them with indicators before and after the reform, a more even distribution of average number of cases per judge can be observed. In 2014, the difference in average number of civil cases per judge in courts involved in this reform could even be double (between 12.5 and 24.5 cases per judge), while after the reorganization in 2015, the average number of civil cases per judge was between 13.6 and 18.2 cases. The difference in average number of criminal cases per judge was up to four times in 2014, i.e., between 3 and 11.1 cases. In 2015, the average number of criminal cases per judge was between 2.7 and 4 cases.

(city) courts and regional courts; in the transfer of a judge to a vacant judge position at a court of a higher or lower level; in establishing the procedure of judge selection, apprenticeship, and qualification exam; in the approval of training programmes of judges and court employees;

- a system for evaluation of judges' professional activities on a regular basis has been introduced aimed at ensuring a continuous professional growth of judges throughout their career. In the period from 2013 until 1 January 2016, professional activities of 495 judges from district (city) and regional courts, as well as 45 Supreme Court judges, were evaluated. A repeated evaluation of professional activities of judges shall be carried out every five years;
- in March 2015, the CM approved the *Action Plan on Strengthening Capacity and Developing the Competences of Human Resources of the Judicial Power and Law Enforcement Institutions for 2015-2020*.

Work on reform of profession and supervision of **insolvency administrators** is ongoing:

- the Saeima approved the Amendments to Insolvency Law (hereinafter – draft law) in the 1st reading. The draft law mainly concerns improvement of supervision and education system. It proposes increased administrator's liability, including applying disciplinary liability for violations of regulations on administrators' work. Likewise, it suggests stipulating a wider range of cases in which an administrator can be revoked;
- additional proposals related to the reform of administrators' profession have been submitted to the Saeima, including a requirement of impeccable reputation. On 1 January 2016, the Amendments to Law on Prevention of Conflict of Interest in Activities of Public Officials entered into force thereby applying the general statutory restrictions, prohibitions and duties of public officials to insolvency administrators as well. The Saeima has stated that, starting from 1 September 2016, the duty to submit initial declaration will apply to the administrators serving simultaneously as attorneys. The Amendments to Law on Prevention of Conflict of Interest in Activities of Public Officials must be adopted by the indicated deadline;
- in accordance with the Latvian Administrative Violations Code, starting from 1 January 2015, considering an administrative violation of regulations for insolvency proceedings committed by a person involved in insolvency proceedings is within the scope of the Insolvency Administration. In 2015, 113 cases of administrative violations have been initiated in the Insolvency Administration;
- currently there is an ongoing work on transferring cases related to failure to submit an insolvency application in a timely manner prescribed in the Latvian Administrative Violations Code to the Insolvency Administration as well;
- real estate auctions arranged as a part of insolvency proceedings are organized through the website of electronic auctions <https://izsoles.ta.gov.lv>. Starting from 1 July 2015, auctions arranged by sworn bailiffs, and from 1 January 2016 also auctions arranged by insolvency administrators, are all available on this site.

Efficiency of judicial system is related to **accessibility of alternative conflict resolution options** in the country. Following activities have been performed and following results achieved:

- on 1 January 2015, the regulation on court-recommended mediation and the related Amendments to Civil Proceedings Law following the Mediation Law entered into force providing that it is the duty of a judge to offer the parties a conflict resolution via mediation. In 2015, certified mediators had given 398 consultations on mediation, and 115 mediation proceedings had been initiated (41 of them ended in a full agreement or reconciliation, 12 in a partial agreement, and 36 without reaching an agreement);
- on 29 December 2015, the Amendments to Law on Bailiffs and Notariate Law entered into force allowing sworn bailiffs and sworn notaries to manage the mediation process, however, only in the capacity of sworn mediators;

- on 1 January 2015, the Law on Arbitration Courts entered into force, which aims to restore the public trust in the institute of arbitration court and to ensure the rule of law of the arbitration courts' activities. Thus, stricter requirements to the founders of permanent arbitration courts have been stipulated. As of now, 83 permanent arbitration courts have been entered into the arbitration courts register. There is an ongoing work in supervision of arbitration courts, strengthening the duty of permanent arbitration courts to be accessible in their location, strengthening control exercised by the Register of Enterprises of compliance of a permanent arbitration court with requirements stipulated in the Arbitration Law (for example, purpose of the permanent court of arbitration; topicality of the list of arbitrators and number of arbitrators included therein; maintenance of website and information included therein), as well as by improving the functionality of the arbitration courts register.

To improve efficiency of **public administration**:

- changes in the human resources development policy of the public administration are being implemented, by developing professional and politically unbiased public service, including the introduction of a functioning mobility system and single selection principles in public administration on the whole, in accordance with the Draft Public Service Law approved by the CM in September 2014. In December 2014, it was reviewed in the 1st reading of the Saeima;
- since 1 September 2015, a centralized selection of heads (officials) of public administration institutions is carried out applying the single selection principles and professional recruitment methods. The selection is performed by the State Chancellery. Selection of candidates is carried out in accordance with the Cabinet Regulations on Procedure for Selection of Heads of Direct Public Administration Institutions. A commission appointed by the minister assesses the suitability of candidates for the vacancy of head of an institution. Additionally, representatives from the non-governmental sector are invited to observe the assessment process, and external experts are involved in evaluation of candidates' foreign language skills and their managerial expertise;
- in the Latvian School of Public Administration, a gradual transition to organising systematic and purposeful training is ongoing. The ESF projects – *Professional development of public administration for development of better legal regulation in the fields of support to small and medium-sized enterprises* and *Professional development of public administration for development of better legal regulation in the fields of anticorruption and mitigation of the shadow economy* – launched in January 2016 and aimed at ensuring professional development of public administration staff, improving business environment, and mitigating shadow economy and corruption, have proven to be a considerable support in targeted implementation of training. Already now, learning at the Latvian School of Public Administration is organised in modules for various groups of the employed, including the development of general and special expertise. In the upcoming years, development of new learning modules is planned where the courses offered will be divided into categories (basic, specialized, advanced) and targeted at different levels of professional hierarchy (for example, policy planners, policy implementers, providers of support function (lawyers, human resource management experts, procurement experts, etc.), lower and mid-level management);
- in 2016, implementation of the ESF project *Senior Management Development Programme* has been launched. The programme is aimed at development of expertise of existing and new senior level managers in accordance with the future needs, strengthening the development of managers-leaders, facilitating cooperation, interdepartmental efficiency, and innovations and excellence in public administration;
- in the first half of 2016, an evaluation of the implementation of the Concept for Public Administration Human Resources (approved by the CM in February 2013) and Guidelines for Public Administration Policy Development for 2014-2020 (approved by the CM in December 2014) will be carried out and proposals for public administration policy, including policy for human resources in the upcoming years, will be drafted;

- in February 2016, an assessment of public administration remuneration system was submitted to the CM. In September 2016, an information report with fiscally neutral and feasible within the existing budget solutions will be prepared to ensure a competitive remuneration level for highly skilled experts and senior management level within direct public administration institutions (after having received and evaluated the Comparative Study on Remuneration).

In the areas of strengthening competition and management of shares owned by a public person:

- on 12 May 2015, the CM approved the Amendments to Competition Law that were further adopted in the 2nd reading in the Saeima on 29 October 2015. The draft law contains improvements that prevent the identified shortcomings, as well as takes into account the conclusions of the Court of Justice of the European Union and the practice of the EU Member States. In order to strengthen the financial independence of the Competition Council, the government has agreed that the stamp duty prescribed in the draft law for evaluating a merger should be allocated to the Competition Council, thus strengthening the administrative capacity of the institution;
- on 1 January 2016, the Amendments to State Administration Structure Law entered into force, and provisions therein will allow the Competition Council to address the distortions to competition implemented by public persons more efficiently;
- on 1 January 2015, the *Public Person Enterprises and Capital Shares Governance Law* (hereinafter – the *Governance Law*) entered into force. In order to implement the provisions stipulated in the Governance Law, the CM has set that Cross-Sectoral Coordination Centre (hereinafter – the Coordination Institution) would be the public administration institution performing the tasks under the said law in relation to the governance of state enterprises and state capital shares;
- in accordance with the Transitional Provisions of the Governance Law, the CM has approved a number of regulations in 2015, namely, on the procedure of nominating candidates for positions of the management board and supervisory board (council) members in enterprises; on the procedure of assessing the operational results and financial indicators of an enterprise; on the procedure of forecasting a profit share to be paid out in dividends in state enterprises and public-private enterprises where the state is a shareholder (stockholder); on standard articles of association of a public person enterprise; on the procedure of stipulating the descriptive indicators to define the necessary number of the management board and supervisory board (council) members in an enterprise;
- in accordance with the Transitional Provisions of the Governance Law, the statutory guidelines for establishing the general strategic objectives of the state participation, information publishing guidelines, guidelines for the development of a medium-term operation strategy, as well as the procedure of submission of information necessary to prepare annual public report about state-owned enterprises and capital shares, were approved on 30 March 2016;
- the first centralised public report on the state-owned enterprises and capital shares for 2014 was submitted to the CM and Saeima on 24 February 2016. Ministries are currently preparing proposals that would allow the CM as the highest decision-making authority to decide on direct participation of the state in enterprises and, in case of a positive decision, to set the general strategic goal of participation of a public person.

In 2015, in order to combat tax-evasion:

- personal liability of board members is prescribed for debts of a legal person arisen during board member's term in office;
- information on taxpayer's tax payments is made public on a yearly basis;
- tax authorities receive information on loan and lease payments from financial market participants, except for credit institutions.

Whereas in 2016:

- tax authorities have the right to set reduced tax- and duty applicable object on basis of calculations, if an interference with cash register system is detected;
- suspension of economic activity without a prior warning, if an interference with the programme of device or equipment, evasion of taxes or duties or payout of income undeclared in accounting reports, is detected repeatedly within one year;
- along with issuance of a warning on suspension of economic activity, rights to set a prohibition for taxpayer to perform certain activities aimed at tax evasion (for example, alienation of fixed assets) and to bar the reorganization, liquidation of a taxpayer, or replacing the officials;
- the duty of credit institutions and payment service providers to report to the SRS in the event of a suspicious transaction;
- rights to impose a collateral – prohibition to replace merchant’s officials, reorganization, liquidation before or upon commencement of administrative proceedings (tax review (audit)), if there is a risk that merchant might suspend its activity or try to avoid responsibility;
- drafting of legislative acts is planned ensuring an automated exchange of reviews with every country (*Country-by-Country-Reporting*) – hereinafter CBCR. CBCR is a document that will be prepared by a group of international enterprises and will include information on income, profit (loss), number of employees, tangible assets, etc., of this group in relation to each jurisdiction under which the said group of international enterprises operates. Tax authorities will use this information to assess whether there is a risk of this group of enterprises violating the regulatory framework on transfer prices. Information included in the CBCR would serve as a basis for initiation of transfer price audit;
- drafting legislative acts providing for automated or spontaneous information exchange on tax rulings is planned. Considering the risk of tax audit, information exchange on tax rulings will detain both tax authorities and taxpayers from requesting/issuing tax rulings containing terms considerably more favourable to one enterprise compared to the terms under which other enterprises operate;
- revision of legislative acts (in 2016 and 2017) concerning transfer prices, taking into account amendments to the OECD Transfer Pricing Guidelines made within the OECD base erosion and profit shifting (BEPS) project, including chapter on transfer pricing documentation.

Planned for 2017:

- introduction of a secure and convenient data exchange system helping credit institutions and payment service providers to accept and enforce orders from the SRS and sworn bailiffs electronically by using the shared portion of the State information system, Data Distribution Network, managed by the State Regional Development Agency;
- extending the duty to report suspicious transactions to the SRS to remaining subjects of the Law on Prevention of Money Laundering and Terrorism Financing.

Prevention of risks of corruption and conflicts of interest:

- on 16 July 2015, the CM approved *Guidelines for Prevention and Combating Corruption for 2015-2020* aimed at ensuring an efficient counteraction to corruption;
- on 10 March 2016, the Saeima adopted in the final reading the Amendments to Law on Corruption Prevention and Combating Bureau to ensure an efficient and independent functioning of the Corruption Prevention and Combating Bureau (hereinafter – KNAB) and strengthen its independence;
- in 2015, two Amendments to Law on Prevention of Conflict of Interests in Activities of Public Officials (hereinafter – LPCI) had been adopted and three amendments had entered into force, supplementing, for example, restrictions related to commercial activities of

- public officials, and ensuring a more efficient and lawful management of property and funds of the institution of public person, etc.;
- prohibitions and restrictions imposed on public officials will be reviewed and the necessary amendments made to simplify possibility of combining offices by reducing the share of strict statutory prohibitions and increasing the share of cases where combining offices is permissible upon receiving a written permission from the head of institution (of a higher rank) whose responsibility is to assess whether it would not lead to a conflict of interests, interfere with the immediate duties of the official or contradict the principles of ethics in particular sector;
 - on 29 February 2016, the KNAB submitted proposals to the Presidium of the Saeima laying down a procedure for members of the parliament to report their personal interest in relation to adoption of a legislative act or a political decision;
 - the KNAB shall elaborate on the content of restrictions and prohibitions imposed on public officials related to advertising and use of information before 31 December 2016. In accordance with the LPCI, it is prohibited for public officials to engage in any form of advertising or give personal evaluation of a merchant or a product receiving remuneration for that. Nevertheless, there are cases when public officials engage in advertising or give their personal evaluation without receiving remuneration;
 - by 31 December 2016, the KNAB shall also prepare and submit to the CM an information report on assessment of application of the LPCI in terms of expanding authority of heads of state and municipal institutions in connection with prevention of conflict of interests, including rights of the head of institution to hold the officials employed in this particular institution accountable for breach of statutory restrictions on combining offices and gaining income or procedure of implementation for combining of offices;
 - by 31 December 2016, the KNAB shall prepare draft amendments to the LPCI in order to clarify that accepting donations is permissible not only for needs of state or municipal institution, but also for implementation of goals of social significance. This clarification is needed due to existing deviations in interpretation of provisions regulation acceptance of donations for public needs (for example, children's playground equipment in municipal territory, free entry for the needy to concerts and events co-financed by municipality or events without municipal co-funding when event organizers are known to apply for permission to arrange other events in municipal territory subsequently, etc.);
 - an in-depth study on application of the LPCI shall be carried out by 31 December 2017, since the law has become more complex; in certain cases change of regulation has been postponed and there is a lack of systemic character. The study will allow performing a more detailed analysis of application in practice. It will also allow preparing comments and drafting a revised version of the law by 2020 taking into account the identified shortcomings.

3. POLICY DIRECTIONS

3.1. FINANCIAL STABILITY

3.1.1. Sustainable Budget Development

The overall goal of the fiscal policy is to raise the quality of life of the population in a sustainable way. Raising the quality of life in a sustainable way means that public financial resources are directed not only for measures of improvement of current quality of life. These resources are planned and allocated in a way that allows the state to raise the quality of life in the long term. It can be achieved, firstly, by refusing to cover the current expenses on the account of the next generations or giving up increasing the public expenditures by means of the budget deficit, and, secondly, by directing the public resources towards establishing a favourable environment for economic development.

The base expenditures of the state budget ensure the performance of public functions at a constant level, and, provided that no negative external circumstances lowering the quality of life appear, it can be said that it remains stable. Therefore, in order to reduce the impact of negative external circumstances on the average quality of life of the population or in order to raise it, additional public financial resources are necessary. Meanwhile, in order to reduce the inequality in the quality of life, a reallocation of public financial resources is required.

For several years now, one of the government's specific objectives within the fiscal policy has been the gradual increase of tax income up to 1/3 of GDP, mainly by means of improving the collection of taxes and reducing the share of the shadow economy. The new government has defined tax volume increase and a balanced and predictable tax policy as a tool for fostering achievement of strategic objectives of growth, i.e. economic growth, improvement of demography, and reduction of inequality. While Latvia traditionally has been a country with a relatively low tax burden (one of the lowest in the EU), it must be noted that government decisions on tax policy ensure a movement towards realisation of tax policy strategy set by the government declaration which includes raising the tax income share in relation to GDP growth.

In relation to the budgetary expenditures, increased financing is planned in the areas defined as priority by the government (within the budget of 2016 and medium-term budgetary framework, these include internal and external security, health care, and education), as well as ensuring an efficient planning of existing budgetary resources. Starting from 2016, the *Law on Budget and Financial Management* includes a provision obligating the government to ensure a constant and systematic revision of budgetary expenditures allowing for implementation of a more efficient and economical state policy, as well as optimisation of budget expenditures and evaluation of their compliance with the priorities and objectives set in development planning documents. From now on, the government will make an annual decision on the next scope of revision of budget expenditures, and, based on that, the Ministry of Finance will submit the results of revision of state budget expenditures, as well as suggestions on application of these results when planning the state budget.

The key policy directions and measures:

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

The *Fiscal Discipline Law* (hereinafter – FDL) was drafted in accordance with the provisions of the *Stability and Growth Pact*, and since the FDL entered into force on 6 March 2013, fiscal conditions are included in the state and medium-term budget framework development process. At the same time, the general management of fiscal risks has been introduced and the Fiscal Council has been established. The Council is responsible for compliance with the fiscal discipline norms during both the budgetary planning stage and the implementation stage.

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

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

In 2015, the issue of adequacy of pensions was raised in addition to the aspects of financial sustainability of pensions system further strengthened by the amendments to the *Law on State Pensions* implemented in 2014¹⁴.

Taking into account the high risks of poverty and social exclusion for persons of retirement age, amendments to the *Law on State Pensions* were made in 2015 (entered into force on 1 July 2015). These amendments stipulate that following pensions will be revised: old-age, service, and survivor's pensions received or recalculated between 1 January 2010 and 31 December 2015, and where negative pension capital index has been taken into consideration in the calculation. The pensions to be reviewed and regulations on their revision in the relevant year will be stipulated in the annual law on state budget taking into account the budgetary possibilities. The *Law on State Budget for 2016* and the *Law on Medium-Term Budget Framework for 2016, 2017, and 2018* stipulate that:

- starting from 1 January 2016, pensions received or recalculated in 2010 are revised;
- starting from 1 January 2017 – pensions received or recalculated in 2011;
- while starting from 1 January 2018 – pensions received or recalculated in 2012, 2013, 2014, and 2015.

Alongside, the amendments provide for prevention of a situation when the allocated state pension amount is significantly affected during an economic downturn. The law also includes a mechanism to prevent a too rapid increase of pension capital during years of economic growth.

In order to foster the growth of income among retired and conformity of pension growth with the pace of wage increase, amendments to regulatory framework were proposed several times (adopted in the Saeima on 10 March 2016) providing for application of consumer price index and 50% of average insurance contribution salary increase in the general indexation starting from 2017. At the same time work on differentiation of indexation depending on insurance period will be assessed and continued.

To improve the social security of population both in the short and long term, starting from 2017, every employer who is a micro-enterprise tax payer or with whom the salary tax book has been registered or having the relevant remark in the SRS EDS on payment of the minimum mandatory social insurance contribution will be obligated to make the social insurance contributions at least in the amount of the minimum monthly wage set by the CM (during the transitional period in 2017 – 3/4 of the said amount).

In 2014, for the first time since 2009, revenues of the social insurance budget exceeded expenditures, and the year was concluded with a positive balance: + EUR 100.4 million. The financial balance in 2015 was + EUR 91.1 million. Positive financial balance is expected also in the upcoming years. One of the most significant reasons for having a positive balance is transferral of funding for supplements to old-age and disability pensions from social insurance budget to state basic budget.

3.1.2. Ensuring Stability of the Banking Sector

During the post-crisis period, Latvian banks have taken significant steps to strengthen the capital in the amount of approximately 2.5 billion EUR. Thus, they have been able to maintain a sufficient capital to cover inherent and potential risks of banking activity. Overall, the banking sector is well capitalised. The capital adequacy ratio of the banking sector remained high in 2015, reaching 22.3% at the end of the year (the minimum capital requirement – 8%), whereas the Common Equity Tier 1 capital ratio was 19.3%. The majority of banks have taken the opportunity to strengthen the capital base, by including the audited profit of the financial year (i.e. a half-year or nine months), while as the amount of loan depreciation exceeds the amount of issued loans, the amount of risk-weighted assets continue shrinking.

¹⁴ Raising the retirement age to 65 years by 2025; raising the minimum length of period of insurance necessary for granting old-age pension from 10 to 15 years, and starting from 2015 – from 15 to 20; funding of supplements to old-age and disability pensions from the state basic budget; renewal of upper limit of social contributions.

The liquidity ratio of the banking sector remained high and was 66.7% at the end of December 2015, thus exceeding the minimum requirement more than twice. The remaining low lending and increasing balance of deposits resulted in a rather extensive increase of liquid assets accumulated by banks.

Since the second half of 2010, the quality of loans has been gradually improving along with the improving economic situation. The share of loans that were past due more than 90 days in the total banking sector loan portfolio decreased from 6.9% to 6% in 2015. The share of loans with payments more than 90 days overdue remained high, 77.8% at the end of 2015.

As the financing of foreign banks, mainly parent banks, is gradually decreasing, the role of client deposits in the financing structure of the banks is increasing. Since the end of 2008, liabilities towards monetary financial institutions have decreased by approximately 80% or EUR 10.9 billion, while the total amount of deposits has increased by 67% or EUR 9.4 billion).

The key policy directions and measures:

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

According to the Regulation of the European Parliament and of the Council of 26 June 2013¹⁵, from 1 January 2014, banks are subject to stricter capital adequacy requirements (the procedure for estimating capital requirements; qualitative requirements for capital elements to be included in the relevant equity tier, restrictions on inclusion of certain elements in equity and deductions of equity) and a Common Equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6% have been introduced in addition to the total capital adequacy ratio of 8%.

The harmonised liquidity coverage ratio was introduced at the EU level as of 1 October 2015 and the leverage ratio is to be introduced on 1 January 2018, while the requirement for credit institutions to publish the leverage ratio was introduced on 1 January 2015.

The Credit Institutions Law prescribes the authorisation to the FCMC to implement measures to ensure stable operations of credit institutions that comply with the law. According to the amendments to the *Credit Institutions Law* which entered into force on 28 May 2014, the FCMC is appointed to be the responsible institution of application of macro-prudential instruments, including the establishment of a counter-cyclical capital buffer to limit excessive credit growth, and it is entitled to define the requirement for a systemic venture capital buffer to reduce structural risks. As a part of macro-prudential measures, on 16 December 2015, the FCMC identified six banks as systemically important institutions, and since 1 February 2016, the FCMC standard counter-cyclical capital buffer of 0% is in force.

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

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

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

¹⁵ Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 introducing the international bank oversight standard Basel III into the EU legislation.

Agency, and the SJSC *Rural Development Fund* in the equity of the DFI with a subsequent integration of the capital companies. A reorganisation agreement of the four capital companies was concluded in September 2014. The *Law on Development Financial Institution* was proclaimed in November 2014 and entered into force in March 2015, stipulating activities of a completely integrated DFI, as well as the delegation of the DFI's activities, by implementing state support and development programmes through a full or partial implementation of financial instruments. In December 2015, the CM approved regulations on establishment of the DFI advisory board stipulating its agenda, actions to be taken to ensure programme development and implementation monitoring, as well as institutions represented in the advisory board;

- regarding the JSC *Citadele banka* and the JSC *Reverta* (former JSC *Parex banka*). In October 2014, the CM approved the conclusion of purchase transaction concerning the shares of the JSC *Citadele banka*, and in November 2014, the purchase agreement of the shares of the JSC *Citadele banka* was signed by the SJSC *Privatizācijas aģentūra*, an international group of twelve investors, and *Ripplewood Advisors L.L.C.* The process of attracting the investors to the JSC *Citadele banka* (the purchase transaction of the shares of the JSC *Citadele banka*) was finished in April 2015.

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

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

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

In March 2014, the CM approved the *Development Plan of the Financial Sector for 2014-2016* aimed at promoting the stability of the financial sector. At the end of 2015, the CM *Information Report on Implementation of Financial Sector Development Plan and Further Suggestions for Accomplishing the Tasks* therein was submitted. In 2016, work on development plan for the next programming period 2017-2019 will be initiated.

The plan prescribes the tasks, the responsible institutions, the terms and the supervision procedure of the plan execution, as well as gives an opportunity to adjust the plan in this format depending on the future economic situation and challenges. All the necessary measures are structured by themes in seven action directions:

- in the sector of credit institutions – improvement of the regulatory environment of credit institutions, creation of a single supervision mechanism and a single adjustment mechanism, strengthening of the macro-prudential supervision, facilitation of diversification of the credit institutions' financing sources, reduction of the risk of money laundering;
- in the capital market – transparent alienation of state capital shares, promotion of development of the domestic securities market, promotion of corporate debt securities;
- in the judicial system – raising qualification and promoting specialisation of judges, fighting debt accruals of homeowners, creation of a mechanism to settle financial disputes, simplification of the procedure to apply relief prescribed in tax conventions;
- in state support programmes – adjustment of support programmes to solve market deficiencies, centralisation of management of support programmes;

- in alternative financing types – development of the venture capital sector, introduction of medium and long-term export credit guarantee instruments, development of savings and loan associations and improvement of their regulation, strengthening and optimisation of the institutional capacity of supervision;
- regarding financial literacy – development of the financial literacy direction, organisation of information and educational campaigns to reduce the consumers' credit burden and inform about financial services, support to management of venture capital;
- in the insurance sector – broadening the range of professions with mandatory third party insurance and with mandatory additional insurance for accidents, raising the limits in certain types of the mandatory third party insurance, coordination of the system of mandatory insurance types, effective management.

On 1 January 2015, the *Law on Credit Bureaus* entered into force aimed at improving accessibility and quality of data necessary to perform a creditworthiness assessment, thereby reducing the credit risk and increasing availability of credit resources while limiting the risk of excessive borrowing. In order to achieve the objectives set in the *Law on Credit Bureaus*, the *Amendments to the Law on Taxes and Fees* have been adopted and they entered into force on 1 March 2016. Provisions of these amendments permit the SRS to provide the information at its disposal on a natural person's income to a credit bureau for further transferral (without changing the content) to the user of credit information – a capital company (or its branch) that has rights to carry out lending or has obtained a special permission (license) to provide consumer lending services – for assessment of creditworthiness of this natural person as a current or prospective client of the user of credit information or for own credit risk management.

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

The aim is to provide the potential users of financial services with a general insight into the financial sector and its development trends to provide customer with access to financial services that meet their needs and abilities. In order to achieve the aim, various measures are being implemented, including:

- the FCMC is regularly updating the educational online vortal *Customer School* (www.klientuskola.lv). The website contains information materials about popular financial services and associated risks, as well as new services. The *Customer School* gives every user an opportunity to receive e-mail consultations;
- in 2015, for the first time an assessment of implementation of the *National Financial Literacy Strategy for 2014-2020* was carried out. It was concluded that the planned process towards performance indicators of virtually all objectives could be observed;
- in 2015, in cooperation with the research centre SKDS, the FCMC performed the 2nd *National Financial Literacy Survey* applying the OECD/INFE methodology. Financial Literacy Index is a part of this survey. It demonstrated that the level of knowledge in population on financial matters had increased in 2015;
- in March 2016, already the fourth *Financial Education Week* took place, and its motto was: “*Journey towards financial literacy 2016*”.

From November 2011, a *non-bank creditor licensing system* was introduced, thereby guaranteeing the existence of financially stable creditors in the market in the long term. In 2013, several proposals for the improvement of the consumer crediting market had been prepared and promoted, particularly focusing on the *payday loans* sector. The amendments to the *Consumer Rights Protection Law* were adopted in 2015 and entered into force on 1 January 2016. They are aimed at fostering responsible lending, as well as limiting the interest rates. The work on the improvement of legislative regulation within mortgage lending is ongoing.

3.2. PROMOTING COMPETITIVENESS

3.2.1. Business Environment and Modernisation of Public Administration

Latvia has been ranked 22nd among 189 countries on the ease of doing business in the WB's *Doing Business 2016* report. It must be noted that in comparison with the previous year, Latvia has improved its position significantly in the fields of starting business, registration of real estate, as well as enforcement of contractual obligations. Latvia is ranked 10th among the EU Member States. Meanwhile, in accordance with the Global Competitiveness Index published by the World Economic Forum *Global Competitiveness Report 2015-2016*, Latvia is ranked 44th among 140 countries which is below Estonia (30th) and Lithuania (36th).

The key policy directions and measures:

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

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

The progress in improvement of the business environment is fostered by the implementation of the annual *Action Plan for Improvement of Business Environment*, of which the main activities in 2015 were as follows:

- *in starting a business* – starting from 1 June 2015, a joint registration of micro-enterprise taxpayers in the RE and registration of employees in the SRS EDS has been introduced. Starting from 1 January 2016, the CM regulations do not provide for issuance of the taxpayer registration or taxpayer structural unit registration certificate in a paper form, while simultaneously prescribing publishing of information in the Public Information Database;
- *in the tax and accountancy field* – the new *Law on Annual Account and Consolidated Annual Accounts* entered into force on 1 January 2016, transposing the *Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings*. As a result, the administrative burden of preparation of annual accounts has been reduced for small enterprises according to the EU requirements.
- *in the field of turnover of excisable goods* – the administrative burden has been reduced for enterprises engaged in the turnover of excisable goods to be labelled, by reducing the circle of persons obligated to submit the excise duty label turnover review;
- *in the construction process* – a simplified procedure to receive a construction permit. By 1 July 2015, the CM regulations and construction standards secondary to the new *Construction Law* (entered into force on 1 October 2014) had been drafted and adopted. A transition to the Eurocode standards in designing of building structures has been ensured from 1 June 2015, and a plan for improvement of Eurocode standards has been developed. Development of construction information system (BIS) was completed in 2015;
- *in the sector of real estate* – electronic registration of real estate property, as well as the one-stop-shop principle in the real estate property registration process has been introduced;
- *enforcing contracts* – on 1 January 2015, the new legal framework for arbitration courts entered into force prescribing the procedure for the establishment of arbitration courts and defining the fundamental principles of their activity to ensure efficient and fair resolution of civil disputes at the arbitration court. A single electronic auction model for enforcement of judgements (from 1 July 2015) and insolvency procedure (from 1 January 2016) has been introduced;
- *closing a business* – in March 2015, amendments to the *Insolvency Law* entered into force prescribing improvements in the regulatory framework of insolvency of legal persons, as

well as well-balanced changes to insolvency provisions of natural persons. A significant emphasis has been placed on prevention of the potential acting in bad faith by the parties to insolvency process and the possibility of abuse of the regulation, as well as strengthening of rights of both the creditor and debtor.

The following tasks have been prioritised within the *Action Plan for Improvement of Business Environment for 2016*:

- *in starting a business* – to simplify the requirements for registering a company at the Commercial Register, to convert the documents of companies stored in the archive of the RE to a digital format, and revoke the geographical jurisdiction of the company matters;
- *in the construction field* – drafting of a long-term planning document within the construction sector, revise the particularly old construction standards, ensure a complete implementation of the *Construction Information System*;
- *in tax and accountancy field* – to draft a law for support of business start-ups as well as small businesses, to continue work on the introduction of tax payments according to the FIFO method and the introduction of a single account for all tax payers (taking into account the necessary changes to the SRS system, as well as amendments to the regulatory framework, it is planned to be implemented by 2021). Likewise, it is planned to launch the online issuance of documents and invoices related to the movement of goods, replace the paper certificates issued by the SRS with electronic ones using the online system to ensure accounting of oil product limits, etc.;
- *enforcing contracts* – to organise the regulatory framework necessary for the introduction of electronic document circulation in the judiciary, to ensure supplementing portal www.tiesas.lv with a solution for electronic submission of documents and the possibility to make a payment site online directly in the portal, as well as urgently improve the principle of specialization of judges and the procedure for determination of their case load.

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

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

- simplifying administrative procedures for entrepreneurs and citizens. In 2015, work on studying ways of reducing the administrative burden and elaboration of proposals continued in the following fields: preparation of reports, solving problems of long-term unemployment, administrative planning and implementing of cultural policy; assessment of changes in the administrative burden for enterprises and NGOs in 2007-2015 was carried out. Within this assessment, the current administrative costs of founding an enterprise were assessed, as well as in the areas of value added tax, employment relationships and public procurement. The amendments to legislative acts affecting the administrative burden in the said fields were analysed, and costs in the fields in which assessment was performed in 2007 were compared. An electronic solution shall be found in 2016-2017 in how to accumulate the overall administrative costs generated by legislative acts in a single portal for drafting and harmonisation of legislative acts; the work on this portal has already been initiated.
- developing e-government and e-services, the one-stop-shop principle. The measure is aimed at streamlining public administration processes, by ensuring access to public services for citizens and entrepreneurs.

In accordance with the *Concept on Improvement of Public Services System* approved in 2013, work on establishment of a single customer service centre is being continued. By 2016, 56 centres had been established. It is expected to complete the work by 2020 in accordance with the state budget grant.

On 26 January 2016, an inter-institutional work group was established with the main goal to ensure review and update of the information in the portal www.latvija.lv. Update of the

information will be gradually carried out within 2016, as well as in 2017 after launching of the new home page. As a result, the entrepreneurs will be provided with a comprehensive, clearly structured, up-to-date and easily accessible information covering the complete life cycle of business, thus ensuring establishment of a single point of contact in compliance with *Directive 2006/123/EC of the European Parliament and of the Council on services in the internal market*.

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

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

- *amendments to the Labour Law* have been drafted (reviewed in the CM on 29 February 2016), as well as CM recommendations, in order to comply with the requirements of *Directive 2014/67/EU of the European Parliament and of the Council (on posting of workers in the framework of the provision of services)* and the *Directive 2014/66/EU of the European Parliament and of the Council (on the conditions of entry and residence of third-country nationals in the framework of an intra-corporate transfer)*. The aim of these amendments and recommendations is to lay out the course of action to be taken by public authorities when posting of workers in the framework of the provision of services internationally and to ensure uniform action, as well as foster cooperation between public administration institutions on implementation of the legislative regulation within posting of workers;
- on 19 January 2016, the government approved the *Labour Protection Policy Guidelines for 2015–2020*. The main directions set within the Guidelines are the following: an efficient introduction of labour protection requirements, facilitation of monitoring, supervision, and control of the labour protection field, promotion of health protection of the employed. Likewise, attention will be paid to securing a safe work environment in non-standard employment and raising awareness of the society, etc.;
- in 2016, the implementation of ESF co-funded specific support objective *To improve labour safety, especially in enterprises of hazardous industries* will be launched¹⁶. The total financing of the project is EUR 12.64 million including the ESF financing of EUR 10.75 million and financing from the state budget in the amount – EUR 1.89 million. Within this project, a total of 470 enterprises of hazardous industries will receive support until 31 December 2022 providing an advisory support for adjustment of labour safety environment, assessment of labour environment risks, as well as performance of the laboratory measurements. Implementation of improvement and supervision measures for implementation of the regulatory framework within employment relations and labour protection fields is planned, and development of various ancillary materials to help identify and assess the work environment risks, as well as educational measures for raising the culture of prevention, etc., are planned;
- work on drafting the *Amendments to the Labour Law* will continue in 2016 aimed at implementing several new requirements of EU directives, as well as to make changes to the reform of administrative penalty system (de-codification).

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

In 2015, the *Action Plan of the National Authorities in Combating Shadow Economy for 2016–2020* was developed. The main objectives of this plan are aimed at reducing the shadow economy in certain sectors (such as construction, transport, trade, and other services). Attention is

¹⁶ CM Regulations No. 127 of 1 March 2016 *Regulations for Implementation of the Specific Support Objective 7.3.1. To improve labour safety, especially in enterprises of hazardous industries* within the Operational Programme *Growth and Employment*.

paid to strengthening the capacity of relevant authorities, registration of enterprises, application of penalties, communication, and education.

On 1 January 2016, the *Amendments to the Law on Taxes and Fees* entered into force adding several provisions aimed at reducing shadow economy, including the following:

- from 1 January 2016, the tax authorities will have rights to set a reduced tax and duty applicable object on the basis of calculation, and to charge a penalty in the amount of 100% for cash register fraud. If a repeated interference with the equipment or device software will be detected, it will be considered as an additional factor when deciding on suspension of taxpayer's economic activity without a prior warning. In order to prevent occurrence of situations when a taxpayer uses the time he has been allocated for correction of breach for alienation of assets, reorganisation, change of officials or performing other activities aimed at escaping liability instead, the *Law on Taxes and Fees* entitles the SRS to set a prohibition to perform certain activities aimed at tax evasion, and to apply a ban on taxpayer's reorganisation, liquidations, and change of officials;
- starting from 1 April 2016, in accordance with the *Law on Taxes and Fees*, the *Credit Institutions Law*, and the *Law on Payment Services and Electronic Money*, all credit institutions and payment service providers, upon encountering a transaction considered suspicious in the meaning of the *Law on the Prevention of Money Laundering and Terrorism Financing*, are obligated to report to the SRS transactions of residents of the Republic of Latvia complying with the signs of suspiciousness in the tax area. Reports to the SRS will be used to disclose and prevent offences resulting in reduced amount of taxes payable to the state budget or increased amount of taxes refundable from the state budget, offences defined in either this law or laws on the particular taxes, as well as offences related to evasion of taxes and payments of equal status, and fraud.

As a result of the measures implemented, it is planned to reduce the tax gap from 1 to 2 percentage points by 2016. The measures implemented in 2014 and 2015 have given similar enhancements.

To improve tax collection for a faster recovery of the established tax losses, implementation of tax administration approach initiated in 2014 was continued in 2015. As a result of implementation of sectoral approach, 2135 taxpayers have renewed their registration.

On April 1 2015, for the first time, the SRS posted on its website information on the total amount of SRS administered taxes paid by the taxpayers (merchants) in the previous year, as well as the average number of persons employed. This was aimed at promoting tax compliance.

On 30 April 2015, 2394 taxpayers whose tax contributions exceeded EUR 100 000 in 2014 all received letters from the SRS stating that these enterprises will not be subject to tax control measures during the next year (until 1 May 2016) and expressing gratitude for their tax compliance and their considerable contribution to the state budget.

On 1 January 2016, the vehicle operation tax for trucks with gross mass up to 3.5 t (category N₁) was increased in order to equate the rate to cars belonging to category M₁ where vehicle operation tax amount is calculated based on the gross mass only. This allowed to prevent the deliberate rebuilding of cars (category M₁) into trucks (category N₁) aimed at application of a lower vehicle operation tax rate and avoiding to pay the corporate car vehicle tax on such rebuilt vehicles owned or held by the entrepreneurs.

On 1 January 2016, the exemption of taxi cars from payment of corporate car tax was revoked in order to ensure adequate budget income, considering that taxi cars are used not only for conducting the job duties, but also for personal needs.

Starting from 1 January 2016, the OECD global standard on Automatic Exchange of Information on Financial Accounts was introduced. In line with this standard, financial institutions (including credit institutions) will submit information to the SRS on accounts opened with them by the non-residents allowing the SRS to send the data (without the annual request) to the relevant non-resident tax authorities to allow for performance of administration functions. The SRS will receive information from foreign tax authorities on accounts opened by Latvian residents in the relevant

foreign financial institutions. The first exchange of information will take place in 2017 when tax authorities will exchange information on financial accounts (as of 2016). The said information will be used for implementation of tax control measures.

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

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

Latvia has fully ensured electronic delivery of 20 basic services as defined by the EU. Requesting or receiving of virtually all services relating to the Services Directive is ensured electronically (in the single electronic point of contact – www.latvija.lv). In 2016, the possibilities provided by the portal will be improved ensuring access to complete information for entrepreneurs and electronic access to specific state services provided online.

One of the tools of fostering modernisation of public administration aimed at reducing delays in decision making by the authorities, costs and unfavourable consequences incurred by SMEs is the *silence means consent* principle. By the end of 2016, introduction of *silence means consent* principle is expected in additional 17 public services.

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

In 2015, a methodological support has been ensured to the authorities engaged in management of the EU funds, i.e. guidelines and methodology have been updated taking into account the shortcomings identified during audits, inspections of functions delegated by the managing authorities, site inspections and procedure assessments, as well as amendments in the legislative acts. Methodological material is available on the web page of the EU funds www.esfondi.lv.

Likewise, financial interests of the EU funds were strengthened in 2015 by improving the awareness of parties involved of anti-fraud and anti-corruption measures, on the procedure of potential fraud investigation and possibilities for reporting on fraud within the EU funds.

The CM Decision of 30 June 2015 accredited the authority for management, cooperation and certification of the EU funds and its compliance with the EC requirements has been confirmed. In 2014, the *Law on Management of the EU Structural Funds and Cohesion Fund for the Programming Period 2014–2020* and a number of CM Regulations (in 2014 and 2015) entered into force, and the *Risk Management Strategy of Institutions Involved in Management of the EU Funds for the Programming Period 2014–2020* was approved. Thus, work continued on simplifying the system of the EU, reducing the administrative burden on funding beneficiaries, enhancing inter-institutional cooperation, avoiding overlapping functions, development of an efficient monitoring and control system, a more complete introduction of e-governance and others.

3.2.2. Promoting Productive Investments and Exports

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

The *Guidelines for Promoting Latvian Exports of Goods and Services and Attracting Foreign Investments for 2014–2019* and the Action Plan for their implementation were approved by the CM in 2013 in close connection with the *National Industrial Policy*. The guidelines are aimed to

promote competitiveness of the economy of Latvia in the open product (goods and services) and capital markets.

The key policy directions and measures:

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

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

On 1 March 2015, the *Law on Development Financial Institution* entered into force, stipulating activities of a completely integrated DFI, as well as the delegation of the DFI's activities, by implementing state support and development programmes through a full or partial implementation of financial instruments.

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

- the mezzanine loan programme (introduced in 2011) aimed to provide access to finance for the development of those enterprises, which cannot obtain necessary funding for the implementation of business project from commercial banks due to insufficient collateral or high debt ratio. The total amount of the mezzanine loan fund constitutes EUR 25.8 million. By the end of 2015, 23 mezzanine loan agreements had been signed for the total amount of EUR 12 million. Since June 2014, loan guarantees and short-term export credit guarantees are financed from the mezzanine loan fund funding. By the end of 2015, within mezzanine loan fund a total of 54 short-term export credit guarantees had been financed with the total funding of EUR 3.8 million and 187 loan guarantee deals with the total funding of EUR 37.4 million;
- early stage and later stage venture capital investments to start up and develop a business. Within state-introduced 6 venture capital funds, unsecured loans and venture capital investments for companies in all their development stages are provided. The total amount of public funding available for venture capital investments and unsecured loans is EUR 73.5 million. The amount of the private co-financing is EUR 14.5 million. By the end of 2015, 151 venture capital investment deals had been signed for the total financing (including co-financing from financial intermediaries) of EUR 51.1 million, including 68 seed capital investments with a total financing of EUR 6.4 million, 9 start-up capital investments with a total financing of EUR 4.5 million, 15 risk capital investments with a total financing of EUR 18.3 million, and 59 growth capital investments with a total financing of EUR 22 million.
- large scale (up to EUR 15 million) venture capital investments within the Baltic Innovation Fund (hereinafter – the BIF) to facilitate growth of enterprises are provided. The available public financing within the BIF is EUR 130 million, with at least the equivalent amount of private co-financing to be attracted (Altum share – EUR 26 million). All the funds (*BaltCap Private Equity Fund II*, *Livonia Partners Fund*, *BPM Capital un Karma Ventures*) have launched the investment period, and by the end of February 2016 a total number of 7 investments had been made.
- loans for the improvement of business competitiveness (available since 2009). The aim of the programme is to ensure availability of funding for those enterprises, who have economically viable business plans but have no access to the commercial banks funding due to increased business risks. Within the programme, micro-loans, loans to operating enterprises to facilitate their further growth, and loans to start-ups are provided. The available public financing is EUR 63.68 million, and additional private co-financing has been attracted in the amount of EUR 21.4 million. By the end of 2015, 475 loan agreements had been signed for the total amount of EUR 85.7 million. The programme was

completed at the end of 2015, while it is being continued in the first half of 2016 by using a different financing of EUR 4.3 million;

- SME Growth Programme. The programme provides two types of loans – for investments and for working capital, including credit lines and loans for the production of agricultural products. The funds of the European Investment Bank in the amount of EUR 100 million are used for the implementation of the programme. By the end of 2015, 1381 loan agreements had been signed for the total financing of EUR 83.1 million;
- Latvian and Swiss Micro-Lending Programme. Within the Programme, enterprises can receive financial support for the implementation of their business projects (micro-loans in the amount of up to EUR 14000). Until August 2014, grants were provided as well. Loans for investments and working capital are provided within the programme. The total financing of the loan fund is EUR 7.1 million, where EUR 6.5 million were allocated for loans (Swiss co-financing of 80%) and EUR 0.6 million – for grants. By the end of 2015, 1162 loan agreements had been signed for the total financing of EUR 9.6 million. The financing had been fully absorbed already by August 2013, therefore new loans are financed from the additionally available financing made from the repaid loans. The support will continue until 30 June 2019;
- micro-loan support programme (the programme is available since July 2014). The aim of the programme is to provide access to micro-loans in the amount of up to EUR 25000 for start-ups and operating enterprises willing to develop. The available public financing within the programme is EUR 1.1 million. The financial intermediaries also provide private co-financing of up to 50% of the loan amount. By the end of 2015, 99 micro-loan agreements had been signed for the total financing of EUR 1.2 million;
- support for agricultural, rural and fisheries development. Producers of agricultural products can apply for support for a purchase of liquid assets (the amount of the credit line is EUR 25.6 million). In 2015, 168 loans were given in the amount of EUR 7 million. Since 2012, financing for the purchase of agricultural land is available as well (the total amount of available financing – EUR 40 million). By the end of 2015, 781 loans had been granted for the total amount of EUR 39.6 million.

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

The aim is to attract foreign direct investments (hereinafter – the FDI) to sectors focusing on the external demand.

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

The activities for the attraction of FDI focused on the priority countries by preparing/developing offers for certain sectors and fields and intense wide investor post-service will be continued in 2015 and 2016.

In 2015, the programme *Support for Investments for Establishment of Reorganisation of Production Facilities* within the EU structural funds programming period 2007-2013 was completed, and all the approved projects (eight) were implemented. The total costs of the project are

EUR 24.2 million, including ERDF co-financing of EUR 10.1 million. As a result of implementation of these projects, premises with the total combined area of 77361 m² were reconstructed or built; by 31 December 2015, premises in total area of 22856 m² were leased to SMEs. By the end of 2015, 142 places of employment for full-time employees were created in the leased premises.

In 2016, programmes for attraction of investors within the programming period 2014-2020 will be approved by the government, including conditions for implementation of the support programme *Support for Investments for Establishment of Reorganisation of Production Facilities*.

The CIT allowances will be applied to new production technology equipment, and the CIT allowances on large investment projects above EUR 10 million will be maintained until 2020. By 1 March 2016, in total 26 large investment projects had been supported with the total amount of EUR 300.4 million.

- ***Supporting access to foreign markets*** (responsible institutions – the ME, the 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 organisation of the network of the Latvian Foreign Economic Representative Offices abroad. In 2015, there were 44 diplomatic and consular missions of Latvia: 37 embassies, 6 permanent representations, 1 consulate-general, and 2 consulates. The Ministry of Foreign Affairs continues to expand its network of embassies and honorary consulates thereby keeping up with the interests of Latvian entrepreneurs. In 2015, the first Latvian diplomat was posted for opening of the embassy in Seoul, Republic of Korea. In 2016, the Ministry of Foreign Affairs intends to support strengthening positions of the Latvian entrepreneurs in existing markets within the EU, as well as encourage looking for new export opportunities in the North America, Far East, Gulf States, and Latin America. Appointment of honorary consuls' experience with facilitating the economic ties is expected.
- in order to deal with economic issues and provide support to Latvian entrepreneurs, there were 14 Latvian Foreign Economic Representative Offices (located alongside the embassies) operating in 2015. Latvia is interested in adapting to global changes occurring in the world's economy, finding new cooperation partners, fostering access to new markets, attracting investments to the economy, and diversifying export markets. In 2015, work on expanding the network of Latvian Foreign Economic Representative Offices was continued. Alongside the existing permanent representative offices in Belarus, Denmark, France, Russia, China, Japan, the United Kingdom, Lithuania, the Netherlands, Norway, Poland, Ukraine, Germany, and Sweden, 7 interim representative offices launched their operation – located in Finland, Italy, Azerbaijan, Kazakhstan, China (Shanghai), Singapore, and the United Arab Emirates (UAE). Starting from 1 January 2016, these interim representative offices operate as permanent representative offices;
- direct export support services for enterprises – in 2015, the IDAL has given in total 1530 general consultations, arranged 19 information seminars on external markets and issues of external trade; 116 sectoral market reviews, studies and information reports have been prepared. Moreover, 30 trade missions (the number of entrepreneurs – 223) and 89 individual business visits to potential cooperation partners abroad had been organised. Provision of the aforementioned services are expected to be continued in 2016 within the available resources;
- supporting enterprises in taking external marketing measures, by fostering integration of enterprises into international supply chains, encouraging Latvian enterprises to participate in international exhibitions and trade missions. 9 trade missions to new markets were arranged in 2015. 237 merchants received support in order to participate in national stands at 29 international exhibitions.
- support for merchants' participation in international exhibitions by arranging Latvian national stands representing agricultural and food production sectors in the international

exhibitions. In 2015, five joint stands for agricultural and food production sectors were arranged in the international agricultural, food production and gardening exhibitions, and co-financing was allocated to participants in these joint stands; participation of 63 enterprises in joint stands was ensured in the following exhibitions – *Prodexpo 2015* in Moscow, *Gulfood 2015* in Dubai, *Anuga 2015* in Cologne, as well as *Riga Food 2015*, whereas in the *Green Week 2015* in Berlin – more than 100 Latvian enterprises, organisations, and farms participated.

In December 2015, the implementation of the EU funds measure *Building the International Competitiveness* was launched. The aim of this measure is to build the sectoral competitiveness on the international level by supporting businesses and conquering foreign markets, ensuring operation of Latvian Foreign Economic Representative Offices, and developing Latvia's international competitiveness in the priority sectors of tourism.

The Foreign Economic Policy Coordination Council, chaired by the Minister of Foreign Affairs, operates in Latvia and is composed of employees from public institutions, as well as representatives from the IDAL, the ECL, and the LCCI. During 2015, the Council made decisions on such vital issues as Latvia's participation in *Expo Astana 2017*, and measures to mitigate the negative impact of Russian counter-sanctions on the Latvian economy.

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

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

- preparing proposals for the improvement of the municipal financial system (including consideration of all the possible changes in the taxation policy) and expansion of rights of municipalities to handle their property. On 2 July 2015, the *Law on Municipal Financial Equalisation* entered into force. Provisions of this law were applied in equalisation of municipal finances for 2016. Drafting the new *Law on Municipal Financial Equalisation* was necessary, since the previous regulation could not ensure a regionally balanced and sustainable distribution of funding among the municipalities. In accordance with the new *Law on Municipal Financial Equalisation*, a simple formula is used in the calculation, and all the indicators are publicly available. All the municipalities are evaluated in the same way. No calculations of financial necessities are made, and hence the previous economically unjustifiable division in municipality groups based on this calculated is also revoked. The assessed income of municipalities is distributed more equally providing that municipality with lower assessed income per equalising unit will not be ahead of another municipality with a higher assessed income per equalising unit. Amendments have been made to the CM Regulations providing more opportunities to local governments to be flexible in setting the rent for built-up land plots in case of renting the land for construction of industrial object or performing economic activities, by setting specific criteria (conditions) in the binding regulations;
- improving the access to and quality of services provided by local governments, by introducing the one-stop-shop principle (*see Chapter 3.2.1*), by reducing the administrative burden on entrepreneurs and residents when using local government services;
- improving and developing transport and environmental infrastructure in local governments (*see Chapter 3.2.5*);
- improving the public business infrastructure of the state and local governments. By the end of 2015, 113 urban infrastructure projects had been implemented with the support of the EU structural funds of programming period 2007-2013. In 2016, selection of project applications within the EU funds programming period 2014-2020 will be launched;
- in compliance with the Operational Programme *Growth and Employment*, in the EU funds programming period 2014-2020, the local governments will have access to support for increasing the amount of private investment in local governments by investing in business

development in accordance with the territorial specialisation set in development programmes of the local governments and based on the needs of local entrepreneurs, support to revitalise the territories by regeneration of degraded territories, as well as support for improving energy performance of municipal buildings, and the total financing of the EU funds prescribed for this objective reaches EUR 326.9 million (ERDF). Investments will be made in municipal public infrastructure provided there is a demand on the merchants' side, while investments in the property of private merchants will receive no support. Merchants will have the possibility to participate in the municipal project as cooperation partners;

- providing support in the amount of EUR 6.6 million (100% ESF financing) for the attraction of specialists to planning regions, cities, towns, and counties, as well as for building the capacity of planning regions and local government development planning. By the end of 2015, 239 specialists had been attracted, and 133 development planning documents for planning regions and municipalities;
- in order to promote the development of business and innovation systems in the regions, using financing of the Norwegian Financial Mechanism (2009–2014) in the amount of EUR 1.1 million within the project *Implementation of Regional Policy Activities in Latvia and Development of Regional Development Measures*, a pilot project for establishment of the business and innovation system in the Latgale planning region (hereinafter – LPR) was implemented. Since the LPR is the most underdeveloped planning region in Latvia, characterised by long-term negative economic, social, and demographic trends, within this activity, the operation of a Latgale business centre has been established – an investment catalogue of the LPR has been developed, the new website, www.invest.latgale.lv, has been developed and launched, etc. In 2016, Latgale business centre will continue its operation in the Latgale planning region and development of 7 investment attraction materials for Latgale municipalities is planned;
- in order to expand the capacities of local governments and instruments in promoting entrepreneurship and attracting private investments, support will be provided to large local governments for external marketing measures (offering them to prepare marketing materials in English, providing opportunities to participate in international exhibitions and prepare materials for investment attraction), as well as training of local governments' specialists and involved parties will be organised; for example, by the end of 2016, investment attraction material will be prepared for 30 municipalities – market research, technical documentation, etc.
- development of support measures for the attraction of qualified labour and entrepreneurs to remote and underdeveloped regions. Within the activity, learning from the Norwegian experience and adopting the best practices for the development and implementation of support measures are carried out;
- with support from the Norwegian Financial Instrument (2009-2014) in the amount of EUR 1.2 million within the project *Increasing the Territorial Planning Capacity of the Latvian Planning Regions and Local Municipalities and Drafting of Development Project Documents*. The implementation period of the project is set from November 2013 until 30 November 2016. The main activities within the project are related to strengthening the development planning capacity of the planning regions and municipalities indirectly affecting the strengthening of municipal capacity in business sector, as it constitutes an essential component of development planning.

3.2.3. Innovation, Research and Development

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

Table 2

Trajectory of achievement of the R&D target

	2008	2009	2010	2011	2012	2013	2014	2020
Total financing for R&D (million EUR)	141.6	85.2	109.6	141.4	145.4	139.5	162.8	500.0
% of GDP	0.62	0.46	0.60	0.70	0.66	0.60	0.69	1.5

Source: Eurostat

The total volume of investments in R&D in Latvia in 2014 increased by 16.7% and constituted 0.69% of GDP (in 2013 – 0.6% of GDP). It was mainly determined by increase in business investment which constituted 0.19% of GDP in 2014 (in 2013 – 0.13% of GDP). In 2014, state and higher education institution's financing for R&D activities increased as well constituting 0.19% of GDP (compared to 0.16% in 2013).

However, it should be noted that increase in R&D investments in the recent years is insufficient and is still significantly below the set target of the NRP. The weak progress of investments in R&D in the recent years can be explained with a low share of private sector investments that has reduced compared to the pre-crisis period, and, as the growth resumed, it has practically not increased, and also with the fact that there is an insufficient amount of public financing to R&D and the fact that more than a half of the total investments in R&D is foreign financing, incl. the financing of the EU structural funds. Additionally, there is a small, yet in the recent years rapidly growing, share of high technology sectors, which is demonstrated by the share of high-tech goods in the total exports that constituted 9.2% in 2014 compared to 8% in 2013.

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

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

In 2016, additional government budget financing in the amount of EUR 1.6 million has been allocated for the base of scientific institutions, and changes to provisions of allocating the base financing to science have been made ensuring funding for the scientific activity of academic personnel.

At the end of 2013, the CM approved the *Guidelines on Research, Technology Development, and Innovation for 2014–2020* (hereinafter – the GRTDI) setting an objective to develop the Latvian science, technology and innovation sector into a sector capable of competing at the global level and satisfying the development needs of the economy and the society. The GRTDI define the trajectory to achieve investments in R&D in the amount of 1.5% of GDP by 2020, as well as the required measures and indicators to achieve the target.

Currently, the *Smart Specialisation Strategy* (hereinafter – RIS3 strategy), a part of the GRTDI, is being implemented – a national economy development strategy defining the economy transformation directions, growth priorities, and smart specialisation fields, and prescribing a well-determined focus on research and innovation resources in the fields of knowledge where the state has a relative advantage or a basis to create such advantage. The key direction is economic

transformation to knowledge- and technology-driven growth and catching up towards the development of knowledge-based skills. The RIS3 strategy also identifies the following specialisation areas: (1) knowledge-based bio-economy, (2) biomedicine, medical appliances, biopharmacy and bio-technology, (3) advanced materials, technologies and engineering systems, (4) smart energy, and (5) the ICT.

In 2015, the MES prepared descriptions for the ecosystem of smart specialisation fields to help policy makers, implementers, enforcers, and society in general understand the essence of specialisation fields, their tasks, needs and impact on the economy. Each smart specialisation field ecosystem consists of participants – state, enterprises, representatives from the sector of education and science who either create the knowledge within smart specialisation field or utilize it. In the context of ecosystem, the following influencing factors are being viewed: market situation, funding, scale of knowledge field, state support instruments, as well as the legislative regulation.

On 15 September 2015, the government reviewed information report on RIS3 system of monitoring. The estimated investment volume within RIS3 will constitute approximately 1.3% of average annual investment volume in the economy over the past 3 years. Implementation of a RIS3 monitoring system will secure public investment in science, technological development, innovation monitoring, and impact analysis. At the same time, implementation of a RIS3 monitoring system is one of the preconditions to receive support in the EU funds programming period 2014-2020.

In 2016, the measures for development of RIS3 monitoring system will be continued including implementation of results management in scientific institutions. In order to implement results management in scientific institutions, each institution shall set its own achievable scores within the common score framework in accordance with the specialisation of this institution within science and research.

The key policy directions and measures:

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

The consolidation of scientific institutions initiated in 2014 is being continued. It is expected that as a result of the consolidation, 20 competitive scientific institutions will operate in 2020. In compliance with the recommendations of the international assessment, consolidation is carried out by focusing the resources in the best state scientific institutes and universities, as well as research centres.

To facilitate the consolidation, ERDF funding of EUR 10.9 million has been redirected towards development of scientific excellence and strengthening of institutional capacity of scientific institutions.

To facilitate the consolidation and concentrate the resources in competitive institutions, changes to provisions for allocating the base financing to science were introduced in 2014, stipulating that additional financing would be granted to the scientific institutions that have received an evaluation of “4” and “5” in the international assessment of science, while those that have been evaluated with “1” and “2” and do not participate in the consolidation processes of scientific institutions would not receive base financing starting from 2016. Taking into account that the next assessment of science is planned in 2017, the scientific institutions that received a low mark are asked to search for opportunities to integrate with stronger institutions, thus fostering the resource concentration and formation of the critical mass in these institutions.

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

- in August 2015, a public debate round on further development possibilities of national-level research centres (hereinafter – NLRC) was launched. Results of this debate will be used in planning of financial instruments within the EU funds programming period 2014-2020 and drafting the relevant legislative acts in the CM;
- within the activity of the EU funds programming period 2007-2013, *Attraction of Human Resources to Science*, implementation of 48 projects was completed in 2015. The total eligible financing to implement the 2nd stage was EUR 22.5 million;

- in order to foster integration of research and manufacturing, and implementation of research results in line with the national priority research directions, within the activity of the EU structural funds, *Support to Science and Research*, implementation of the 2nd and 3rd stage projects was completed in 2015 with total ERDF funding of EUR 15.5 million;
- implementation of 11 research projects within the European Economic Area and Norwegian financial instruments' (2009-2014) activity *Research and Scholarships* was initiated in 2015 and will be continued in 2016. The overall goal of the activity is to promote the development of research-based knowledge in Latvia with the help of Norwegian-Latvian cooperation in the field of fundamental and applied research. This research activity is directed towards strengthening of bilateral cooperation between Norwegian and Latvian research institutions, thus promoting a long-term cooperation, as well as development of their capacity and competences. There are two thematic fields within which the projects are implemented – social sciences and humanities, and health. More than 20 Latvian and Norwegian scientific institutions are participating within this activity, and more than 40 internationally reviewed scientific publications are planned upon completion;
- in order to facilitate the participation of scientific institutions in the EU framework programmes for research and innovation and to promote the international cooperation in the fields of research and technologies, 16 second-stage projects within the EU fund programming period 2007-2013 activity *Support to International Cooperation Projects in Research and Technologies* were implemented in 2015 with the total eligible funding of EUR 1.2 million. Furthermore, the programme *Baltic Bonus* was launched in 2014, within which financial assistance was granted for development of projects that were further submitted to competitions of the programme *Horizon 2020* and received a good expert evaluation. A total of EUR 139000 were allocated to the implementation of *Baltic Bonus* in 2014, thus supporting development of 44 research projects, and EUR 96190 were allocated in 2015 thereby supporting the development of 50 research projects;
- in 2016, in order to boost the scientific activity potential, as well as career possibilities of young scientists, a post-doctoral research support was launched using EU funds (planned estimated funding of EUR 64,03 million, including ERDF funding of EUR 54.4 million).

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

In 2015, scientists and businesses continued implementation of joint industrial research, as well as development of new products and technologies within the 6 established centres of competence. The EU structural funds programme *Competence Centres* had been implemented by the end of 2015 with the total public financing in the amount of EUR 53.2 million. In these established competence centres, a total of 231 industrial research and development projects of new products and technologies were implemented, of which 78 projects were completed by 1 March 2016. Centres of competence involved in total 164 companies and 24 scientific institutions, and 445 R&D jobs have been created, during the implementation of projects. It is estimated that additional private co-financing of at least EUR 18.4 million could be attracted for R&D activities as a result of operation of all competence centres.

At the beginning of 2016, the necessary legislative framework was adopted in order to initiate implementation of Competence Centre Programme within the next EU structural fund period. The total EU funds financing available within the programme until the end of 2021 is EUR 72.3 million. It is intended to provide support to 8 competence centres by placing them in each of the Latvian Smart Specialisation fields or subfields.

At the beginning of 2016, work on development of the technology transfer system concept was completed, and implementation of the new technology transfer system programmes will be launched in the 2nd half of 2016 with support from EU funds. At the same time, strengthening of IDAL capacity in the fields of technology and transfer of knowledge, as well as providing services to science institutions and merchants (innovation voucher) is planned within the new technology

transfer system. The total available funding from the EU structural funds within the programme is EUR 31.5 million.

At the end of 2015, implementation of 16 projects within the EU funds programming period 2007-2013 activity *Development of Research Infrastructure* was completed (total public funding – EUR 104.7 million). Within this activity, research and development infrastructure of 27 state scientific institutions was modernized and commercial infrastructure was improved.

On 9 April 2015, during the meeting of state secretaries, the informational report project *On Territorial Mapping of Research and Innovation Infrastructure and Research Activity Concentration*, which includes information on the previous EU funds programming period investment in R&D infrastructure improvement and assessment of strengthening the institutional capacity of scientific institutions, was announced, as well as implementation conditions and funding calculation method for the measure *Development of R&D Infrastructure in Smart Specialisation Fields and Strengthening the Institutional Capacity of Scientific Institutions*.¹⁷ The clarified informational report will be submitted for repeated coordination in the 1st half of 2016.

In 2015, in order to facilitate development and assessment of quality project applications an agreement with JASPERS (Joint Assistance to Support Projects in European Regions) was reached involving expert support from this institution for development of implementation conditions for the aforementioned project (*R&D in Assessment of Infrastructure Projects and in Performing the Socio-Economic Analysis*).

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

In 2015 and 2016, implementation of business projects previously developed within state support programmes was continued. These projects concerned development and implementation of new products and technologies, including development of technologies with reduced environmental impact. In addition to that, work on development of new support activities for EU structural funds programming period 2014-2020 was carried out.

In 2015, implementation of 112 projects within the programme *Development of New Products and Technologies* was completed with the total funding of EUR 34.9 million.

In the state support programme, co-financed by the EU structural funds *High Value-Added Investments*, in 2015 and 2016, implementation of 189 supported projects was continued with the total funding of EUR 174.3 million. As of 1 March 2016, 149 projects had been completed for the total financing of EUR 136.8 million. Simultaneously, implementation of 22 supported projects with the funding of EUR 0.23 million was completed in 2015. These projects received support from EU structural funds co-financed activity *New Product and Technology Development Programme in SMEs*.

With the help of the Norwegian financial instrument programme *Green Industry Innovation* pre-incubation and incubation services were provided in 2015, along with secured financial support for development of business activities or development and manufacturing of significantly improved environmental product technologies, as well as putting them into production. At the end of 2015, provision of pre-incubation services for previously selected 81 business ideas within the newly created *Green Technologies Incubator* was completed. In 2016, additional calls for provision of pre-incubation services will be arranged supporting up to 70 business ideas. In addition to that, provision of incubation services within *Green Technologies Incubator* was launched in 2015 supporting 24 project implementers with the total amount of co-financing of EUR 2.47 million. Likewise, implementation of 15 projects supported within the Open Competition of this programme is being continued in 2015 and 2016 with the total amount of co-financing of EUR 6.9 million.

In 2015 and 2016, work on development of new innovation support activities was continued in order to ensure the absorption of EU structural funds period 2014-2020. In 2016, as a part of programme *Introducing New Products in Manufacturing*, support will be provided to enterprises for

¹⁷ The Specific Objective 1.1.1 *To Increase the Research and Innovative Capacity of Latvian Scientific Institutions and the Ability to Attract External Funding by Investing in Human Resources and Infrastructure* within the EU funds programming period 2014-2020 Operational Programme *Growth and Development*.

development of full-scale production manufacturing facility prototypes and their testing in the actual manufacturing environment within Smart Specialisation fields. In total, EUR 60 million from the EU structural funds will be directed to this programme.

At the same time, the work on support activity *Innovation Motivation Programme* has been carried out. The aim of this programme is to promote understanding about innovation and business, as well as to practically involve different society groups in business activities, and development and further implementation of innovative ideas and solutions. The total estimated financing from the EU structural funds is EUR 4.8 million.

3.2.4. Information and Communication Technologies

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

In 2015, 75% of the Latvian population used internet on a regular basis (at least once a week). In mid-2015, the number of broadband¹⁸ internet access lines in Latvia reached 25% (24.8% in mid-2014). At the same time, there were 65.2 mobile broadband internet connections per 100 persons in Latvia, while 4G (LTE) mobile internet was available to 89% of households.¹⁹

In mid-2015, in 75.4% of cases, the internet connection in Latvia using fixed lines ensured a data transfer speed of ≥ 10 Mbps (Mbit/sec), in 56% of cases, the data transfer speed was 30 Mbps and more, and in 42% of cases, the data transfer speed was above 100 Mbps (on average in the EU, in mid-2015, 76% of fixed lines had data transfer was above 10 Mbps, 30% – 30 Mbps and more, and 10.8% – above 100 Mbps²⁰).

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

The key policy directions and measures:

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

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

Within the State Support Programme for Optical Network, the 1st stage of the project *Development of Next Generation Electronic Communications Network in the Rural Areas* was implemented in 2015, installing optical cable of the total length 1813 km and building 177 access points. In 2016, in order to improve the accessibility of electronic communications infrastructure in rural territories, implementation of the project will be launched with the goal to increase the length of laid optical cables by another 2800 km and the number of access points by at least 220.

The broadband network will be developed based on the EU recommendations and in those geographical areas where there is no efficient competition and where no next generation networks would be established in the nearest future without the public support. Project realisation will be carried out in such intensity that does not jeopardize competition, and would not give a competitive advantage to any electronic communications merchant.

¹⁸ In Latvia, access is considered to be a broadband connection if it is constantly in an online mode and the data transmission speed is at least 144 Kbit/s, basic broadband speed is 2 Mbit/s, high-speed broadband speed is 30 Mbit/s and very high-speed broadband speed is 100 Mbit/s.

¹⁹ Data from the *Digital Agenda Europe* (European Commission).

²⁰ Data from the Public Utilities Commission.

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

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

The concept of *ICT Organisational Management Model of Public Administration* approved in February 2013 envisages major reforms in the public ICT management by developing centralised ICT platforms. After the approval of the concept, most ministries have centralised the ICT management and user support, as well as have created centralised software solutions for efficient management of its IT infrastructure. There are 125 e-services available on the single state and municipal services portal *latvija.lv*. The main results of implementation of the new – partially centralised ICT management model are the following:

- 1) the conceptual architecture of public administration information system was developed and agreed on by the government; it is well harmonised with the European Interoperability Framework (EIF);
- 2) a new legislative framework and methodology materials have been developed for the management and monitoring of EU co-funded ICT development projects in the new programming period aimed at development of single public administration ICT target architecture;
- 3) on the national level, the sectoral ICT leader forum continued to operate successfully and efficiently as an ICT development coordinating, advisory, and exchange of experience facilitating body. In order to transfer this positive experience on the EU Member State level, during its EU Presidency, Latvia initiated informal meetings of Member State public administration ICT leaders (May 2015) that were well received; this tradition was continued by Luxembourg (November 2015) and the Netherlands (June 2016).

In 2015, several ERDF co-funded cultural content digitalisation and e-service development projects were completed aimed at improvement of library, museum, and archive infrastructure and content availability in the digital environment.

In 2015, implementation of the 2nd stage of e-health project was continued. It is intended to extend the implementation period until the end of 2016. After the completion of the project, the public will have access to the e-health portal ensuring an opportunity to patients to access all data stored in the health information system, to register with a family physician, to submit an application for the European health insurance card, as well as access to e-prescription and sick leave application services will be ensured. Meanwhile, modernisation of health sector information systems (registers) is expected by using the EU funds programming period 2014-2020 funding; it involves integration of these registers in the single e-health environment, simultaneously performing its optimisation.

A further e-health project development is planned within the EU funds programming period 2014-2020 (*see Chapter 2.3*).

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

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

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

In 2014, the CM approved the guidelines on the *Cyber Security Strategy of Latvia for 2014–2018*, describing the cyber security situation in Latvia and defining the fundamental principles, aims and strategic priorities of cyber policy making in the following five priority directions of action: cyber security management and resources, rule of law in the cyberspace and reducing cybercrime, public awareness, education, and research, readiness and ability to respond to crisis situations, international cooperation. A Plan of Action for the implementation of the priority directions has been approved by the CM.

In 2015, penetration tests were performed in public ICT solutions and infrastructure, and an early warning system was established. Both technical and management level training was arranged. The IT legislative regulation was reviewed and new demands implemented aimed at strengthening security of the state and municipal information and communication technologies. In 2015, work on implementation of the *Responsible Disclosure Policy* was launched stipulating that subject to the set procedure and relevant conditions, any security researcher (ethical hacker) may report the detected vulnerabilities or security shortcomings in the information systems or electronic communication networks to CERT.LV. Debates were initiated on necessity to foster the utilisation of nationally certified and secure authentication tools, such as eID and e-signature.

The priority in 2016 will be continuation and putting into practice of the initiatives launched in the previous year, while there will be also a focus on implementation of the requirements prescribed by the *Network and Information Security Directive (NIS Directive)*.

According to the Regulation of the European Parliament and of the Council *on Electronic Identification and Trust Services for Electronic Transactions in the Internal Market*, each Member State is expected to establish a national qualified supervisory body of trust service providers to promote trust in cross-border cooperation and cross-border processing and recognition of electronically signed documents in the EU. Establishing the relevant competent authority in Latvia is expected.

In order to comply with the requirements of the *Regulation of the European Parliament and of the Council on electronic identification and trust services for electronic transactions in the internal market (eIDAS)*, the procedure for monitoring the trust service providers is undergoing changes, and a procedure for monitoring the electronic identification services. A new supervisory body will be established in 2016 taking over the monitoring of trust service providers from the Data State Inspectorate, and performing monitoring of the electronic identification service providers. This new supervisory body will be responsible for applications for recognition of Latvian electronic identification solutions abroad. On the national legislation level, the fulfilment of eIDAS requirements will be ensured by the *Law on Electronic Identification of Natural Persons* (adopted in 2015) and its secondary legislative acts (to be adopted in 2016), as well as amendments to the *Electronic Documents Law* (expected to be made by mid-2017).

- **Developing e-skills** (responsible institution – the MEPRD)

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

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

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

Since 2010, the annual information campaign *European e-Skills Week* is being held in Latvia. More than 23000 people, mainly youth, participated in this campaign in 2015.

In order to introduce the new competence-based education standard, in the academic year 2015/2016, a pilot project of 5 computer science learning curricula was offered to schools for approbation, and 157 schools participated in the implementation of curricula. It is expected to introduce the computer science learning curriculum in all the schools starting from the academic year 2018/2019.

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

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

In 2015, measures aimed at exchange of experience and raising qualification of teachers were arranged in eight ICT enterprises. In total, 99 teachers from educational institutions from 49 Latvian municipalities participated in the training.

In 2015, the Latvian Information and Communications Technology Association (LIKTA) in cooperation with experts from the MES and National Centre for Education developed recommendations for development and assessment of digital teaching aid and resources.

The implementation of the GDIS is expected to improve the medium level ICT skills of the population, reaching 40% in 2020 and reducing the share of people that have never used internet from 18% in 2015 to 9% in 2020.

Promotion of ICT education and e-skills learning will result in improvements of e-commerce, thus enterprise turnover from internet sales will reach 15% in 2020 and the public administration efficiency (GRICS indicator²¹) will increase to 85% in 2020.

The second survey for determination of *E-Index of Latvia* was carried out in 2015, assessing the quality of state and municipal services provided in e-environment and their accessibility for citizens and merchants. In 2015, the *E-Index of Latvia* received the European Public Sector Award as *The Best European, National or Regional Level Project*.

In 2015, an integrated e-governance informative campaign was implemented with an aim to encourage the public to try using e-services and their opportunities so that as many residents as possible would use the e-governance opportunities and to explain the positive benefits thus reducing concerns, fostering trust, achieving a shift in the attitude, motivating the switch to the electronic channel as the primary channel of service provision and receipt. There were 30 public bodies engaged in the campaign providing consultations to 12000 interested persons.

3.2.5. Transport and Environmental Infrastructure

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

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

An assessment of both state and municipal roads and streets shows that the overall technical condition of roads is insufficient and does not correspond to the needs of economic, safe, convenient, and environmentally-friendly traffic. Approximately a half of the roads with asphalt surface are in a bad or very bad condition. Approximately 40% of gravel roads are in a bad condition.

The condition of railway infrastructure is good. There are issues of a technical nature in several railway hubs and there will be an increased focus on solving these in the future. During the

²¹ Governance Research Indicator Country Snapshot.

past 15 years, considerable investments have been made in the development of infrastructure. The SJSC *Latvijas dzelzceļš*, with co-financing of the CF, is currently implementing several infrastructure development projects, incl. projects of modernisation of railways, communications, and the alarm system. The intention to electrify several railways is an essential factor in achieving considerable energy efficiency and reducing a significant amount of harmful emissions. This is also the most significant challenge in technical development of the current transit corridor.

The development of *Rail Baltica*, a European standard gauge railway, will be of utmost importance in the upcoming decade. Baltic cooperation will play an important role in the development of this project.

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

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

The key policy directions and measures:

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

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

The main directions are the reconstruction and improvement of railway, road, port, and air transport infrastructure, as well as the development of the International Freight Logistics and Port Information System (IFLPIS). The total public financing for 2013-2015 was EUR 771.5 million, including EUR 280.9 million in 2015, and EUR 77.1 million planned for 2016.

In 2015, the implementation of the largest launched CF projects continued – reconstruction and construction of state main roads. The length of roads reconstructed within the projects financed by the EU funds amounted to 147 km in 2015.

In 2015, within the EU funds programming period 2014–2020, reconstruction of the state main road surface was continued in order to raise the carrying capacity, and, as a result, the reconstructed roads will allow providing the missing connection section with the TEN-T network development and reducing their maintenance costs.

In 2015, implementation of projects within the EU funds programming period 2007-2013 was completed, except for a few projects to be completed in 2016; national level coordination of selection of projects financed by the Connecting Europe Facility (CEF) was ensured.

In 2015, work on the 1st stage of round 5 of Riga Airport terminal was completed allowing to increase the capacity of the terminal. In 2016, construction works within the 2nd stage of round 5 of Riga Airport terminal will be completed. Both stages are financed by the airport.

In 2016, launching/monitoring of specific support objectives within the EU funds programming period 2014-2020 will be continued, as well as coordination of CEF-financed project selection.

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

State regional roads are being improved with the ERDF co-financing. The total public financing for regional roads for 2013-2015 was EUR 104.5 million, including EU funds financing of EUR 88.8 (incl. financing in 2015 – EUR 31.2 million (incl. financing in the amount of EUR 26.5 million from the EU funds)).

The length of regional roads reconstructed within the projects financed by the EU funds amounted to 82.1 km in 2015. In 2015, the reconstruction of regional roads connecting international, national and regional level development hubs with TEN-T road network was continued as a part of the EU funds programming period 2014-2020.

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

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

By the end of 2015, water management systems have been modernised, thus increasing the number of people having access to centralized water management services. In total by the end of 2015, operation of 295 modernised water management was ensured. Thus, 70.3% of the population will be receiving quality drinking water supply services and 69.8% of the population will be receiving safe waste water management services.

At the same time, the waste management infrastructure has been improved by constructing waste landfills in accordance with the legislative requirements, developing separate waste collection and sorting and performing dump-site re-cultivation. By December 31 2015, 1086 separate waste collection points, 29 waste sorting sites, 11 composting sites and 18 sorting and reloading centres had been set up. As a result of the aforementioned activities, the average share of separate waste collection points has reached 856 people per one point. In 2014-2015, overall, the infrastructure of 9 landfill sites had been improved with the CF support, as well as development of a separate waste collection system had been promoted by providing support to 20 enterprises; re-cultivation of several dump sites was achieved – in 2015, 14 household dump sites all over Latvia were re-cultivated. In total, 83 dump sites had been re-cultivated by the end of the EU funds programming period 2007-2013.

To reduce the anthropogenic load, the environmental protection infrastructure is being developed also in *Natura 2000* territories. Within the programming period 2007-2013, implementation of projects establishing/improving 35 *Natura 2000* territories was planned. Until the end of 2015, 45 territories were established/improved, and additional improvements were made in 10 of *Natura 2000* territories. Thus, the target set for the programming period 2007-2013 was exceeded.

During the programming period 2014-2020, support in the fields of water management, waste management, as well as environmental protection will be continued. Development of legislative regulation for this investment support direction is planned for 2016, and the first selections of project applications will be launched. Likewise, also during the programming period 2014-2020, the financing will be redirected towards reducing the risks of flood and strengthening capacity of environmental monitoring and control institutions.

In 2015, the total financing from the EU funds allocated for infrastructure development within the activities under the MEPRD amounted to EUR 76.02 million, and the majority of it – EUR 38.5 million – were invested in water management development.

3.3. EMPLOYMENT

A target to reach a 73% employment rate (population aged 20–64) by 2020 has been set in the NRP of Latvia. The economic growth of the recent years has contributed to increase in employment rate. From 2011 to 2015 the number of employed has increased by 25800. In 2015, the employment rate for the given age group increased to 72.5%.

Table 3

Trajectory of achievement for the employment rate (persons aged 20–64) target

	2008	2009	2010	2011	2012	2013	2014	2015	2020
Employment rate, %	75.4	66.6	64.3	66.3	68.1	69.7	70.7	72.5	73.0

Data source: CSB

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

The key elements of the employment policy of Latvia:

- fostering labour demand – promoting economic activities and entrepreneurship, including reduction of labour taxes, combating unregistered employment, indirect and direct state support measures for entrepreneurs, measures to reduce administrative barriers, business incubators, etc. (*see Chapter 3.2*);
- strengthening labour supply – improving competitiveness of unemployed and persons at the risk of unemployment in the labour market, including the improvement of skills to match the labour market demand (continuing vocational education, non-formal education for the unemployed, consultations, and professional mobility), lifelong learning measures, consultations on business start-ups, etc.;
- promoting matching of labour supply and demand²², including improvement of the education system, involvement of employers' organizations in the improvement of education quality, forecasting consistency of labour demand and supply, educating labour market participants, including pupils and students, about the labour market and career issues (*see Chapter 3.4* on education reforms).

In 2015, Latvia continued implementing and improving the active labour market policies (hereinafter – the ALMP) measures to improve labour skills and qualifications, measures to improve involvement and activation of the unemployed, for example:

- improvement of job search system and support measures, including accessibility of services in e-environment and implementation of possibility for better aligning of vacancies and job seekers in the CV and vacancy portal of the State Employment Agency;
- a more targeted support to groups that are at a greater risk of unemployment, support to long-term unemployed in particular;
- introducing the unemployed profiling system;
- expanding the mobility support;
- promotion of youth employment and reduction of unemployment and inactivity.

In 2015, 103000 people participated in the ALMP. In 2015, EUR 26 million have been used for the ALMP, EUR 17 million of which were ESF co-funding. Approximately 47% of the funding was used for measures aimed at raising and improvement of qualification of the unemployed; slightly over 15% – for arrangement of paid temporary public works; approximately 13% for supported employment; approximately 23% for the implementation of the *Youth Guarantee*, and 2% for other measures. A total of 69000 unemployed have found a job in 2015, and 20000 or 29.6% of them have found a job after completing an active measure (except information days of the measure to increase competitiveness).

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

²² The ME prepares an annual *Informative Report on Medium-Term and Long-Term Labour Market Forecasts* based on which the MES and the SEA adjust the supply.

The government approved the *Inclusive Employment Guidelines for 2015-2020* in May 2015 in order to facilitate creation of an inclusive labour market using the full potential of human resources of the Latvian residents, including reducing social consequences of unemployment, supporting the return of unemployed to the labour market and maximizing the duration of staying in the labour market of people representing groups at the risk of social exclusion, as well as improving the quality of workplaces. These guidelines are aimed at securing the long-term unemployment rate under 15% of the total number of unemployed and 2.5% of all economically active persons by 2020 and in the long run.

Key policy directions and measures:

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

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

- In 2015, the conditions for eligibility of status as unemployed or a job seeker, as well as conditions for engaging in certain active employment and preventive unemployment reduction measures have been further elaborated²³. From now on, state and municipal institutions (including private capital companies where state or municipality-owned share of equity capital exceeds 50%, either separately or in total) will be obligated to register their open competitions for vacancies in the SEA portal for vacancies. In accordance with the changes to the regulatory framework, compliance with the duty to register one's place of residence will be a mandatory requirement to be eligible for the status of unemployed. The said amendments stipulate that measures promoting regional mobility shall be open to residents irrespective of whether they have been employed in public or private sector;
- In September 2015, the implementation of the 2nd stage of the pilot project *Implementation of Programmes for Continuing Vocational Education for Unemployed in State or Municipal Educational Institutions* was initiated. Within this project, a greater involvement of those educational institutions that have been granted the status of vocational education competence centre in retraining of unemployed in the sought-after professions has been implemented. 200 unemployed subject to a greater risk of social exclusion were engaged in the 2nd stage of the project. The lessons learned during this pilot project shall be used for improvement of training voucher system;
- Since the 3rd quarter of 2013, the profiling system of the unemployed has been implemented allowing for a more efficient and faster filling of vacancies and offering the most suitable ALMP measure to an unemployed person through an individual approach. As of 31 December 2015, 75385 or 92% out of total 81780 registered unemployed persons had undergone profiling.

In 2015, in total more than 49000 persons were engaged in training measures aimed at skill improvement. In 2015, EUR 12.2 million were used for skill improvement measures, including funding in the amount of EUR 10 million from the EU Funds²⁴, and funding in the amount of EUR 2 million from the state special budget. The funding for 2016 is estimated to amount to EUR 14.5 million (financing from the EU funds) and estimated number of participants – 27300.

²³ *Amendments to Support for Unemployed Persons and Persons Seeking Employment Law*, adopted in the Saeima on 03.12.2015, entered into force on 01.01.2016.

²⁴ Including financing for short-term programmes to improve competitiveness (career consultations and measures to improve competitiveness).

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

The aim is to develop practical skills of the youth aged 15–29 (including) and to foster the possibility for them to find a job successfully by developing and implementing new measures aimed at youth who are neither in education, employment nor training (i.e., the youth belonging to the NEET group).

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

- Since January 2014, youth at the SEA in cooperation with a career consultant and other specialists can find out their strengths, receive information on available vacancies in Latvia, obtain new skills and their first work experience, as well as receive support for entrepreneurship. There are in total 10 measures available to youth, and participation in those is determined by profiling results, including taking into account their prior experience in the labour market, the education obtained, as well as the level of skills and competences;
- Since June 2014, the implementation of the project has been initiated and, in September 2014, in cooperation with 35 vocational education institutions and colleges the implementation of vocational education programmes was launched allowing youth²⁵ in a year or year and a half to obtain a professional qualification in one of 72 professions;
- Work on the project “KNOW and DO!” of the Agency for International Programs for Youth was launched in 2014 and continued in 2015. The goal is to develop the skills of youth at a risk of social exclusion and to facilitate their engagement in education, including vocational training with master craftsman, events of *Youth Guarantee*, as well as activities of non-governmental organisations and youth centres. Every youth will have an individual programme of measures developed and mentors assigned. There are agreements concluded with 61 municipalities on training of 195 programme leaders and 74 mentors. Total estimated amount of funding for the implementation of the project is EUR 9 million, including the ESF funding of EUR 7.65 million;
- In 2015, work on project providing the imprisoned youth aged 15 to 29 with the knowledge and skills necessary in the labour market and increasing their competitiveness in the labour market was launched. In total 550 imprisoned youths aged 15 to 29 in 10 places of detention received career and diagnostics consultations identifying their most suitable professions. There were 311 imprisoned youths engaged in vocational improvement education programmes, and 267 of them completed these successfully.

During 2014 and 2015, in total 10967 youths (out of which 6452 were registered unemployed, 4202 unengaged youths, and 311 – imprisoned youths) received the so-called “quality” support²⁶ as a part of the *Youth Guarantee* programme. The number of participants amounts to 38% of the total number of youths to be engaged in the *Youth Guarantee* programme (in total 28700 youths are to be engaged in this programme during 2014-2018). 57% of the participants are females and 43% – males.

In 2014 and 2015, out of all the participants to the *Youth Guarantee* programme aged 15-24 (in total 45498 persons) 26% or 10804 persons found employment within the first four months, 26% received at least one job offer (information on vacancy), 19% or 8839 persons started training, gaining first job experience, and participated in other SEA long-term support measures, 0.1% or 51 persons resumed their education outside *Youth Guarantee* programme, while 47% received support

²⁵ The target group as identified by the SEDA to be engaged in vocational education programmes is youth aged 17 to 29 (including) who do not study, are not employed and do not possess any prior vocational qualification or possess a vocational qualification obtained at least 12 months prior to admission to the education programmes implemented.

²⁶ In accordance with the SO 7.2.1 set in Council Recommendation of 22 April 2013 on establishment of the Youth Guarantee, the so-called ‘quality offers’ and ‘auxiliary offers’ are defined. A ‘quality offer’ is a measure helping youth to acquire a professional qualification (vocational education programmes, non-formal education programmes, youth workshops), gain professional experience (subsidised workplaces, first job experience for youth, development of skills necessary for work in non-governmental sector), start as self-employed or engage in business. Auxiliary measures are support measures in job seeking, career consultations, and measures to raise competitiveness.

from career consultant. Meanwhile, 46% of youths entered a support measure or returned to the labour market within six months from obtaining status as unemployed or submitting application to the *Youth Guarantee*.

In 2014 and 2015, payments to the recipients of funding from the state budget amounted to EUR 18.8 million (27% of the general budget of *Youth Guarantee*), including YEI funding of EUR 8.2 million, ESF funding of EUR 8.2 million, co-financing from the state budget – EUR 1.5 million, and private co-financing of EUR 0.9 million.

The total funding for the *Youth Guarantee* programme for 2014-2018 amounts to EUR 70.1 million, including YEI funding of EUR 29 million, ESF funding of EUR 35 million, co-financing from the state budget – EUR 5 million, and private co-financing²⁷ of EUR 1.1 million.

Along with the above measures:

- Within the Latvian and Swiss cooperation programme *Support for the Development of Youth Initiatives in Peripheral or Disadvantaged Regions*, 21 training measures for the youth (3–4 individuals in each programming region) with the total number of participants reaching 345 have been implemented in 2015. The implementation will continue until the completion of the Latvian-Swiss cooperation programme, i.e., until 31 March 2017;
- Annual state budget support is provided to youth centres and youth organisations for the implementation of non-formal education programmes for the youth. Support for youth policy implementation in 2015 amounted to EUR 275600, of which EUR 196900 were channelled for support of youth centres and youth organisations, and EUR 78700 – for support measures to facilitate social inclusion of youth. Starting from 2017, youth organisations and associations or foundations working with youth will receive ESF support in the amount of EUR 3.3 million until 2022.

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

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

- In 2015, 129 employed completed their participation in regional mobility measure, while 52 employed continued their employment. In 2015, EUR 54900 were used for the implementation of the measure. In 2016, the intention is to engage 260 employed persons with the state budget financing of EUR 93300. In 2015, the terms of implementation of the measure *Facilitating Regional Mobility of Persons Employed by Merchants* were improved, expanding the circle of eligible recipients, as well as simplifying the compliance requirements²⁸. In the future, the unemployed engaged in the subsidised employment (measures for certain groups of persons), vocational training, retraining, raising of qualification or non-formal education programmes will be eligible for regional mobility support. At the same time, the amendments require the person concerned to be registered in the indicated place of residence for at least 6 months (prior to the amendments – 1 year) in order to be eligible for participation in a measure. Compliance requirements have been simplified in the regional context;
- In the 3rd quarter of 2015, a new support programme for the long-term unemployed was initiated with the help of the ESF co-funding²⁹. Until 2021, measures will be implemented

²⁷ Private co-financing consists of employers' contribution to youths' salary when engaging in one of the following – *Gaining First Work Experience for Youths* or *Subsidised Employment Measures*.

²⁸ Cabinet of Ministers Regulations No. 264 of 26.05.2015 *Amendments to the Cabinet of Ministers Regulations No. 75 of 25 January 2011, Regulations Regarding the Procedures for Organising and Financing of Active Employment Measures and Preventative Measures for Unemployment Reduction and Principles for Selection of Implementers of Measures*.

²⁹ Cabinet of Ministers Regulations No. 468 of 11.08.2015 on the *Implementation of Measure "Activation Measures for Long-Term Unemployed" under SO 9.1.1 "To Facilitate Inclusion of Disadvantaged Unemployed People in the Labour Market" within the Operational Programme "Growth and Employment"*.

within this programme with the main goal to facilitate inclusion of the long-term unemployed into society and suitable work or training thereby reducing the risk of their social exclusion. As a part of the programme, long-term unemployed will be provided with individual and group specialist consultations (including those of a career consultant, psychologist, and psychotherapist), health checks to determine their suitability for the position offered and active employment measures that are a part of individual employment seeking plan, determining their professional suitability, incentive programmes in employment seeking, and support measures for unemployed with addiction issues. The total funding for the said activities amounts to EUR 40 million, including ESF funding of EUR 34 million, and funding from the state budget in the amount of EUR 6 million. In total, 20000 long-term unemployed are expected to be engaged in the support programme.

- ***Improving the efficiency of the work of the State Employment Agency*** (responsible institution – the MoW)

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

- As a part of the structural funds project, 7 new e-services have been developed to improve the accessibility of the SEA services³⁰. Since the end of 2015, a new SEA self-service portal is available, and clients receive consultations on the available e-services;
- In accordance with the amendments in legislative acts³¹, starting from 16 June 2015, the SEA does not apply public procurement procedures to selection of training measure suppliers. The said changes are aimed at ensuring more flexibility and timeliness in receiving services. The agreement will be concluded between the unemployed and educational institution, while the SEA will cover the costs of training of the unemployed. From 14 October 2015, educational institutions apply for training measure implementation in accordance with the new procedure;
- In 2016, a new ESF project will be launched to introduce the pre-emptive redeployment measures in labour market. Within this project, improvement of short-term labour market forecast method is intended in order to expand access to information on labour market for society and policy makers, as well as to create a simple and user-friendly e-environment tool showing the outlook on labour market demand and supply.

- ***Promoting self-employment and entrepreneurship*** (responsible institutions – the ME, the MA, the MoW)

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

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

In recent years, significant amendments to the *Micro-Enterprise Tax Law* have been made, including three amendments in 2015 alone along with measures to prevent the tax optimisation

³⁰ “Notification of clients on the decisions and events of the Agency” and “Applying for status of unemployed or job seeker”; “My job openings”; “Register for training with voucher method”; “Electronic appointment making”; “Career consultation”; “Short-term labour market forecast”; “Applications by implementers of active employment measures”.

³¹ Cabinet of Ministers Regulations No. 264 of 26.05.2015 *Amendments to Cabinet of Ministers Regulations No. 75 of 25 January 2011, Regulations Regarding the Procedures for Organising and Financing of Active Employment Measures and Preventative Measures for Unemployment Reduction and Principles for Selection of Implementers of Measures.*

schemes. To give an example – starting from 2017, the minimum mandatory state social insurance contribution object for micro-enterprise employees will be introduced.

In continuing work on regulated micro-enterprise regime, the ME in cooperation with the MF and employers' organisations shall review the existing tax regime for business start-ups and small enterprises, and draft a new regulation to be applied from 1 January 2017.

In order to facilitate the development of new enterprises by supporting them at their early stage and providing infrastructure and consultation services, the implementation of the ERDF co-financed programme *Business Incubators* was continued in 2015. Business incubation services were available in all regions of Latvia, in more than 20 towns and cities of Latvia. As a result, 9 business incubators in the regions of Latvia and a creative business incubator in Riga provided support for 1248 enterprises in 2015. Incubated enterprises have created (and maintained) 1364 work positions and 864 new products. From 2009 until 2015, in total EUR 17.3 million have been used to ensure support services provided by business incubators within this programme.

In order to boost economic activity of the working-age population, including the unemployed who had expressed a wish to start a business or self-employment, as well as to promote the development of new enterprises, within the start programme, economic operators were provided both loans and consultations. The total available funding for this programme is EUR 27.1 million. By the end of 2015, 1358 micro-loan agreements were signed for the total funding amount of EUR 25.9 million. To ensure availability of such support to merchants by the end of 2015, starting from January 2015, loans to business start-ups have been issued within the business competitiveness section of the loan programme. In 2016, adjustment funding in the amount of EUR 4.3 million was found to ensure the availability of micro-loans and start-up loans before launching the measure *Micro-Loans and Start-Up Loans* within the EU funds programming period 2014–2020.

In May 2012, the CM approved the *Regulations on the Lending Programme for the Purchase of Agricultural Land*. Within this programme, each borrower will have access to loans of up to EUR 430000 for purchase of agricultural land to be used for production of agricultural products. The total budget of the programme is EUR 40 million. By the end of 2015, within the programme, 781 loans had been granted in the total amount of EUR 39.6 million. Taking into account the increasing activity of farmers, the financing for loans in 2016 will be further increased by EUR 15 million.

3.4. EDUCATION

3.4.1. Preschool Education

The target set for the preschool education sector is to ensure that at least 95% children (aged 4 up to mandatory school age) are involved in preschool education by 2020. In 2014 the rate was 93.4% in Latvia which is broadly in line with the EU average rate of 93.9%.

An autonomous function of each local government is to ensure an opportunity for the children living in their administrative territory to obtain preschool education in an educational institution that is the nearest to their place of residence. In practice, however, the place in municipal preschool educational institution is not guaranteed in many places.

The key policy directions and measures:

- ***Ensuring access to preschool education*** (responsible institution – the MES, the MEPRD)

The issue of queues most often is being solved by searching options to create additional groups, renovating preschool educational institutions and building their extensions, optimising the number of children in educational institutions that have the needed space per child and that can ensure the observation of relevant hygiene norms. At the same time, possibilities to form groups under elementary schools, elementary boarding schools, secondary schools, and children and youth centres are considered.

Although queuing time in preschool educational institutions has decreased (from 11200 children in September 2014 to 9700 in November 2015), certain municipalities are still unable to ensure the schooling opportunity for all children of preschool age in municipal preschool educational institutions.

In 2013, the financial state support to private preschool educational institutions (the PPEI) and private providers of child supervision services (the PCSS) was launched on condition that municipalities would find a solution to solve the preschool accessibility issue in the period from September 2013 until December 2015. Upon expiration of the given time, certain municipalities had not yet been able to find a solution. Therefore, the state budget support period was extended until 31 May 2016 to ensure continuity and give the municipalities additional time to restructure.

Meanwhile, the municipal support to private preschool educational institutions is being calculated using a new method starting from 2016. According to the information gathered, the amount of support to children attending private preschool educational institutions will generally increase in all municipalities. In 2016, the average municipality support level will reach approximately EUR 190 per month. In 2015, the average municipality support level was EUR 154.84 per month.

3.4.2. General Education

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

Table 4

Trajectory for decreasing the share of early school leavers

	2008	2009	2010	2011	2012	2013	2014	2015	2020
The youth having elementary or lower education level and of those who are no longer at school	15.5	14.3	12.9	11.6	10.6	9.8	8.5	9.9	13.4 (10.0)

Data source: CSB

Regional differences can be observed when analysing data on early school leavers: in 2015, there were 13.1% early school leavers aged 18-24 in rural areas (11.7% in 2014) and 8% – in cities and towns (6.6% in 2014). Differences in terms of gender still remain – the share of early school leavers among girls constituted about 6.2% in 2015 (5.1% in 2014), while the share among boys was 13.4% (11.7% in 2014).

In order to identify the measure for reducing the early school leaving and to plan for ESF support, several studies have been carried out in 2014-2015:

- opinion of youth aged 18-24 – early school leavers who have chosen to return to educational system – on reasons for early school leaving and on issues related to returning in educational system³²;
- educational institution employees' survey on reasons for and risks of early school leaving among youths aged 13-18³³;
- survey of early school leavers aged 15-20 on reasons for early school leaving and on factors influencing school leaving decision, as well as interviews with experts in the field on proposals for alternative solutions in the Latvian policy on early school leaving³⁴.

³² *Supporting the engagement and reintegration of 18-24 year old early school-leavers in lifelong learning: evidences for targeted compensatory and preventive strategy in education* (Education Science Institute of the Faculty of Education, Psychology and Art, University of Latvia, 2014); <http://www.lu.lv/par/projekti/es/2007-2013/esf/atbalsts-petijumiem/atbalsts-izglitiba-petijumiem/izaicinajumi/2/2014-2015/publikacijas/2015/>

³³ *Research on Reasons for and Risks of Early School Leaving among Youth Aged 13-18* (Baltic Institute of Social Sciences, 2014); <http://www.izm.gov.lv/images/statistika/petijumi/41.pdf>

³⁴ *Research on Creation of Alternative Policies in Solving Early School Leaving Issue* (SIA „Aptauju Centrs” and SIA „Excolo Latvia”, 2015).

Based on the aforementioned studies, a conceptual report *On Creation of Alternative Policies in Solving Early School Leaving Issue* was drawn up as a precondition for the preparation of the EU funds support programme. The coordination of conceptual report project was initiated in November 2015. The said support is planned from 2017 (indicative planned financing is EUR 39.8 million, including ESF financing of EUR 33.8 million).

The key policy directions and measures:

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

The state has established a single procedure stipulating how an educational institution should inform parents, the local government or public authorities if a pupil is absent from the educational institution without a justified reason, and improvements have been made to the record-keeping of children at the mandatory education age who are not registered with any educational institution. The number of unregistered children has increased from 12.5 thousand in 2011 to 15.9 thousand in 2015. Children who according to municipal data have left the country form the majority of them.

With the support of the ESF, development and implementation of a coordinated approach to prevention of and intervention to early school leaving is planned, thus diminishing early school leaving, including ensuring identification of youth at risk of early school leaving, providing the necessary support, creation of a supporting school environment, coordinated involvement of municipal institutions, as well as improvement of information and data exchange among the institutions concerned. The State Education Quality Service (SSEQ) shall be entrusted with the implementation of the ESF project in cooperation with the Latvian municipalities and state vocational education institutions. The project shall be launched in the 1st quarter of 2017. However, preparatory works are carried out already in 2016.

In 2014, preparatory works for development of competence approach-based general education content. In the academic year 2016/2017, a selective and gradual approbation of this content will be launched in 80 general education institutions. With the support from the EU funds, the competence approach-based education content will be gradually implemented in the 1st to 12th grades, aimed at among others towards raising the youths' level of knowledge and interest in science-related subjects.

In 2015, the quality evaluation methodology of activity of educational institutions and examination centres, as well as implementation of educational programmes had been improved updating the question about the career education in the accreditation process of general education and vocational education. In 2016, this methodology will be updated by developing a content of quality assessment criteria for the assessment of special education programmes. The national regulatory framework sets the minimum number of pupils for the 10th grade in the secondary school aimed at fostering acquisition of education in sufficiently large secondary schools in numerical terms providing for better conditions of quality general secondary education.

The number of teachers – career consultants in the general and vocational education institutions increased from 54 (academic year 2012/2013) to 93 (the beginning of academic year 2015/2016). The majority of them work part-time.

On 30 December 2015, the CM approved the *Career Education Implementation Plan for State and Municipal General and Vocational Education Institutions for 2015-2020*. Basic principles, objectives and course of action of career education development policy have been laid out in this plan. The plan envisages to develop and approbate models of career development support implementation in state and municipal general and vocational education institutions, to ensure professional competence improvement opportunities for teachers – career consultants and the experts involved, to develop contemporary methodological and information material resources, providing also for access to career development support services in general and vocational education institutions. Meanwhile, in order to make vocational education more attractive, annual new professionals' craftsmanship competitions for students and graduates (below the age of 25) of vocational education institutions are planned. At the same time, in cooperation with the sectoral

professional associations and employers, demonstrations, workshops and information seminars introducing with different professions will be arranged for competition visitors.

Similarly as during the previous period, career development support and information events were arranged in 2015 (for example, the annual national-level event *Career Week* when approximately 120 thousand children and youngsters took part in more than 4 thousand events). In the reporting period, data contained in the national education opportunities database NIID.LV was updated, and the amount of information on website *Profesiju pasaule (World of Professions)* was supplemented. Local government, private and other initiatives are being implemented in order to raise the youth awareness of the labour market, for example, the youth career portal www.prakse.lv, in cooperation with the ECL, implemented a project *Virtual Apprenticeship*.

Measures for improvement of career support accessibility for students in both general and vocational education institutions will be implemented using financing from the EU funds programming period 2014-2020 (indicative planned financing of EUR 23.1 million, including the ESF financing of EUR 19.6 million).

In 2015, work on a new teacher's wage calculation model and wage raising schedule continued. The model prescribes a raise in teachers' wages, while fostering increase in teachers' work quality, and ensuring an efficient use of financial resources. It will be introduced from 1 September 2016, and EUR 9 million have been set aside in the state budget for the remaining four months of 2016.

In the context of fostering inclusive education, the main focus in 2015 was on the improvement of consulting and methodological support system. At the same time, in 2015, teachers were invited to participate in state-funded professional competence improvement programmes, thus providing a methodological support.

Demand for assistant services continued to grow in 2015 – services helping students with disability to move around the educational institution, providing support in interaction and communication with other students, teachers and other persons, as well as self-care support.

In 2016, adjustment of the legislative framework regulating support for general education institutions when integrating a child with special needs is planned, including defining the set of necessities and costs related to it, in the context of adjustment of special education funding system.

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

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

In 2015, the financing for purchase of modern teaching aids remained at the level of 2014.

In 2014–2020, the following modernisation of the study process is expected to be supported by the EU funds:

- approbation and implementation of competence based-approach education content; gradual approbation will be launched in the academic year 2016/2017 providing for a consecutive implementation (starting from the 1st, 4th, and 7th grade) to be launched in academic year 2018/2019; development of both educational and methodological materials is planned, including for students with special needs and learning disabilities, as well as improvement of teachers' professional competence in the context of implementation of the new content;
- establishing an education quality monitoring system. It is expected to provide support to educational research, including participation in international educational quality research, development of monitoring instruments, implementation of monitoring, result analysis and preparation of proposals, as well as to the development of scientifically justified instruments and indicators for the assessment of learning environment quality.

In order to ensure the integration of asylum seekers in educational institution, asylum seeker adaptation programmes and study material have been developed. In 2015, Latvian language acquisition and integration programmes have been developed – both for pupils of different school grades, youth, as well as adults.

120 hours long language training courses will be arranged as a part of Asylum, Migration and Integration Fund project *Initial Language Training for Asylum Seekers*, in order to ensure access to services and their subsequent participation in the community life. In 2016 and 2017, participation of 531 persons is estimated.

ESF support is planned for the students in order to develop their talents, improve their performance in the country in general, as well as inclusive education, including providing the necessary support to students with learning disabilities and special needs to facilitate their integration in general education institutions. The total expected financing is EUR 37.6 million, including ESF financing of EUR 31.9 million.

The total indicative ESF co-funded specific support objectives' financing in the programming period 2014-2020 is EUR 138.8 million, including ESF co-financing of EUR 118 million.

At the same time, a complex support for development of general education institution infrastructure is planned within the EU funds programming period 2014-2020, aimed at facilitating a gradual implementation of the aforementioned competence based-approach general education content. The support is also intended for adjustment of general education institution network on a regional level, based on municipality and municipality associations' development strategies providing for support in the following areas: establishing an ergonomic learning environment, natural science equipment, implementation of primary education programme, purchasing the necessary teaching aid and technical equipment; modernization of accommodation facilities; implementation of innovative ICT solutions in the learning process, and development of methodological centres, including areas of STEM and ICT; improvement of sports infrastructure in educational institutions. The total expected financing is EUR 167.6 million, including ESF co-financing of EUR 142.5 million (EUR 4.1 million of which are state budget over-commitment financing).

3.4.3. Secondary Vocational Education

By 2020, the share of the number of students in vocational education and secondary education is planned to be changed in favour of vocational education reaching the proportion of 50/50. The methodology for assessing the share of the number of students was clarified in 2015³⁵. In accordance with this methodology, a proportion of 36/64 (share of the number of students in vocational education against students in general education) was reached in the academic year of 2014/2015.

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

To ensure preparation of specialists according to the requirements of the labour market, as a result of the reform of vocational education curriculum, it is expected to create regular cooperation mechanisms with social partners and sectoral organisations. The extent of enrolment in specific vocational education programmes is determined based on the medium- and long-term labour market forecasts made by the ME, opinion and recommendations of industry expert councils to involve and

³⁵ The indicator in previous years included data on all students starting in the 10th grade at school or their 1st year at a vocational education institution, whereas after the review, applying the methodology of proportion, the indicator is calculated based on the data solely on students admitted to the 10th grade or the 1st year straight after a completed 9th grade. The data for academic years 2012/2013 (35.9/64.1) and 2013/2014 (35.3/64.7) were clarified by applying the new methodology.

keep the youth in the professions needed for the sectors and coordinated with the Tripartite Cooperation Sub-Council of Vocational Education and Employment.

The key policy directions and measures:

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

The aim is to improve the quality of vocational education, thus ensuring its conformity with the labour market needs, as well as to foster an efficient use of available resources by streamlining and differentiating the number and regional locations of vocational education institutions. The adjustment of network of vocational education institutions has been finalised. In 2015, 9 vocational education institutions with a small number of students (300 or less), under the MES, were reorganized by joining them with educational institutions possessing the status of a vocational education competence centre (hereinafter – the VECC). Thus, the number of secondary vocational education institutions under the MES decreased from 60 institutions in 2010 to 24 by the end of 2015.

In order to optimise the number and locations of vocational education institutions in the regions, obtaining the status of a VECC was encouraged. Out of the remaining 24 secondary vocational education institutions, 16 vocational education institutions under the MES obtained the VECC status.

Between 2010 and 31 December 2015, when adjustment of network of vocational education institutions under the MES was finalised, 5 vocational education institutions were transferred to municipalities. That has allowed the municipalities to adjust the network of educational institutions in their administrative territories merging the general and vocational education institutions and establishing integrated education institutions implementing a variety of programmes and rationally using all kinds of resources.

Improvement of infrastructure and modernisation of learning equipment took place in 27 vocational education institutions under the EU funds programming period 2007-2013 activity 3.1.1.1 *Modernisation of Learning Equipment and Improvement of Infrastructure for Improvement of Vocational Education Programmes* supplement to operational programme *Infrastructure and Services*.

During this project, in total 280 vocational education priority programmes were implemented by the aforementioned 27 vocational education institutions. Out of these programmes, 88 vocational education priority programmes were fully modernised within the activity 3.1.1.1, and this includes seven VECC. 54 vocational education priority programmes were partially modernised, including those in four VECC and two vocational education institutions where the number of students was over 500. 138 vocational education priority programmes were not modernised, including those in seven VECC and two vocational education institutions where the number of students was over 300.

On 4 March 2015, the *Concept of Development of Vocational Secondary Education Institutions* under the MC was adopted, and reform of vocational secondary education institutions under the MC shall be implemented in accordance with it.

Within the EU funds programming period 2014-2020, a complex support to vocational education institutions will be provided, for modernisation of VECC infrastructure in particular. The total eligible funding is EUR 104.8 million (including the ESF funding of EUR 89.06 million, and national public co-financing – EUR 15.7 million).

- ***Implementation of vocational education content reform*** (responsible institution – the MES)

The implementation of vocational education content reform was initiated in December 2010 within the ESF project *Establishment of Sectoral Qualifications System and Enhancement of Efficiency and Quality of Vocational Education*. A sectoral qualifications system is being established as a part of this reform, and Latvia has opted to carry out a simultaneous, continuous and complete content reform by introducing the common EU instruments necessary to implement

the content reform (EQF, ECVET, EQAVET, EUROPASS). The vocational education paradigm is altered ensuring a targeted involvement of employers in the implementation of vocational education.

From the 2nd half of 2014 to November 2015, 22 modular programmes have been developed in vocational education, 34 continuing vocational education programmes, and improvement of examination – simultaneous improvement of development of professional qualification exam content for 32 professional qualifications in all sectors was carried out, including development of alternative learning results assessment forms for all professional qualifications. The total financing of project was EUR 3.4 million (100% financing from the EU funds), and EUR 0.95 million were used in 2015.

The vocational education content reform will be continued in the programming period 2014-2020 of the EU funds. During the second stage of reforms, research and preparation of description in another 2 sectors (public health and design) will be carried out, as well as development and improvement of 160 professional standards and basic requirements for professional qualification, development of additional 184 modular programmes, and development of relevant learning and methodological materials. This process is simultaneously ongoing in all the branches, while the implementation of activities may be successive; results are implemented successively across branches/sectors starting from the academic year 2016/2017 (indicative financing planned – EUR 12.9 million, including the ESF financing of EUR 11 million).

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

In 2015, the Saeima adopted amendments to *Vocational Education Law* strengthening establishment of sectoral expert councils (SEC). Therefore, a mechanism for permanent cooperation with social partners was created. Development of SEC agenda has been initiated and will be finalised in 2016.

The amendments to *Vocational Education Law* stipulate that state and municipal vocational education institutions implementing programmes for vocational primary education, vocational training, and secondary education shall establish a collegiate advisory body – a convent. The aim of this convent is to facilitate development of vocational education institutions setting the strategic direction of their operation in accordance with market demand.

In order to enhance an efficient management of vocational education institutions and to improve the professional expertise of staff, professional skills of vocational education institution teachers, practice supervisors, master craftsmen, representatives of sector, directors, their deputies and other administrative staff will be raised during the EU funds programming period 2014-2020, taking into account the changing demands in the labour market, the development of technologies, and the renewed content of vocational education (indicative financing planned – EUR 6.5 million, including the ESF financing – EUR 5.5 million).

In order to ensure improvement of vocational education quality, the methodological recommendations for self-evaluation of educational institutions were developed, as well as a practice guide for experts on vocational education accreditation; improvement of vocational education quality evaluation methodology in the initial vocational education and continuing vocational education is made in cooperation with social partners, and the relevant amendments to legislative acts will be drafted by 1 August 2016.

3.4.4. Higher Education

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

Table 5

Trajectory of achievement of the tertiary education target

	2008	2009	2010	2011	2012	2013	2014	2015*	2020
Number of population having acquired tertiary education, aged 30–34, thousands	38.7	43.7	45.0	47.8	48.5	53.2	53.2	55.5	61.1
Number of population aged 30–34, thousands	147.1	143.4	138.2	133.2	130.4	130.6	133.4	134.6	178.0
Share, %	26.3	30.5	32.6	35.9	37.2	40.7	39.9	41.2	34–36

Data source: Eurostat

* Data source: CSB

The goal set in the NRP for 2020 in relation to the share of population with higher education was reached already in 2012. In 2014, there was a slight decline compared to 2013, and the share comprised 39.9%.

In Latvia, the trend of reducing number of students has been observed for the 10th year already. At the beginning of the academic year 2015/2016, a total of 84300 students were studying in higher education institutions of Latvia, which was by 2% lower than in the previous academic year. However, if compared to the academic year 2005/2006, when the number of students in Latvia reached the maximum level, the number of students has decreased by 35.6%. In the academic year 2015/2016, there were 34900 students or 41% of the total number of students studying in state-funded study positions (in the academic year 2014/2015 – 40%). Although the total number of students has decreased, the share of students in state-funded study positions is increasing every year. In 2016, based on the medium and long-term labour market forecasts, about 70% of the state-funded study positions represent national priority areas: natural sciences, engineering, health care, as well as master and doctoral studies that are important for the preparation of both new teaching staff and scientists.

The key policy directions and measures:

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

On 29 June 2015, the CM approved the conceptual report *Implementation of New Financing Model of Higher Education in Latvia* which gives an overview of the progress and outcome of the research carried out by the WB and gives suggestions on implementation of the financing model of higher education, and describes alternative solutions depending on the available financing and its expected effect on competitiveness and availability of the Latvian higher education. At the same time, the CM endorsed the proposal for change of higher education financing model. A three-pillar financing model has been proposed as the most suitable solution for the socio-economic situation of Latvia with the following central elements: 1) key financing (institutional financing to ensure the study process and research); 2) achievement-based financing (the financing that is allocated for reaching the study and research results), and innovation financing (future development-oriented financing that promotes specialisation of institutions and profile development) (*see Chapter 2.2*).

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

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

In 2015, the crediting of student and study loans from assets of credit institutions with a state warranty was ensured according to demand. In total, 323 agreements on granting student loans were signed in 2015 for the total amount of EUR 1.6 million, as well as 1495 agreements on granting study loans for the total amount of EUR 7.8 million.

In 2015, work on facilitation of higher education accessibility, including by means of more efficient management of available resources, was continued. In January 2016, the CM adopted amendments to *Regulations Regarding Scholarships* providing for, among other things, granting of the one-time scholarships to meet the social needs of students. It is planned to improve the student support system specifying the credit discharge provisions to certain professions and increasing in proportion the amount of budgetary assets in 2016 and 2017. To ensure a quality and operative system of issuing student loans and study loans by reducing the administrative burden of debtors, work continues on the improvement of system regulation of crediting student loans and study loans from assets of credit institutions with a state warranty.

With the support from the ESF, scholarships aimed at increasing the share of highly qualified specialists in the labour market in priority areas (natural sciences, mathematics, IT, engineering, health care, environmental science, creative industries, etc.) were granted. From 2007 until the end of 2015, the ESF scholarships were granted to 2129 master's students and 1973 doctoral students, including: 94 master's and 24 doctoral students as repeated recipients of ESF scholarships in 2015. However, compared to 2013 when 315 new doctors of science obtained their degrees in higher education institutions of Latvia, the number has decreased significantly in 2014 and 2015 – 264 and 255 doctoral degree recipients respectively.

It is intended to provide support to students (of all study levels) engaging in implementation of projects of research and innovation aimed at development of new products, technologies and innovative solutions, or addressing social issues (total indicative financing – EUR 34 million, including ERDF financing of EUR 28.9 million). Recipients of the financing – higher education institutions. The implementation of this project will be initiated in the 4th quarter of 2017.

Further support is expected to be provided to master's and doctoral students by engaging them in projects of practical nature and scientific researches, especially in the study fields of sciences (technology, engineering, and mathematics). In 2016, implementation of the 1st stage of support for research of practical nature will be launched (total indicative financing for research of practical nature – EUR 766.5 million, including the ERDF financing of EUR 65 million). Recipients of the financing – scientific institutions and merchants.

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

The policy direction is oriented towards the improvement of a quality assessment system of higher education and creation of provisions for the establishment of a national quality assessment agency and its registration at the *European Quality Assurance Register for Higher Education* (EQAR register).

Starting from 1 July 2015, the Academic Information Centre (AIC) has taken over the accreditation of higher education institutions, colleges, and study fields, as well as granting licences to the study programmes. In December 2015, an independent Licensing Commission for Accreditation of Studies and Study Programmes was established, and it is already working on reviewing of AIC submissions.

In the EU funds programming period 2014-2020, a support will be provided for accreditation agency's initial operation quality support measures, including implementation of pilot accreditation of study courses in the higher education institutions, as well as expert training (total financing of EUR 1.5 million, including ESF financing of EUR 1.27 million)³⁶.

³⁶ On 18 August 2015, the CM adopted *Regulations No. 479 Rules of Implementation of Specific Objective 8.2.4 "To Secure Support for Fulfilment of Requirements to the Agency set by ERAQ" within the Operational Programme "Growth and Employment"*.

On 18 February 2016, the AIC project *Support for Fulfilment of Requirements to the Agency Set by ERAQ* was adopted, and the implementation was initiated on 8 March 2016. The duration of project implementation will be 3.5 years, and the Council of Higher Education, Lithuanian Higher Education Quality Assurance Centre (EQAR registered), as well as 12 higher education institutions are engaged in the capacity of cooperation partners. The intention is to submit the application for admission of accreditation agency to EQAR by 31 October 2018. The next comprehensive accreditation stage is planned for 2019.

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

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

In 2015, the infrastructure modernisation was completed in 5 higher education institutions (in total 31 higher education institutions have been modernised from 2010 to 2015). In 2015, the total public financing for these measures was EUR 11.5 million, including the ERDF financing of EUR 10.6 million (total amount of public financing within the activity from 2010 until 2015 was EUR 130.3 million, including the ERDF financing of EUR 120.1 million).

To ensure a modern study environment suitable for research conditions for the implementation of the STEM study programmes, incl. the medicine and creative industries, and at the same time to ensure a territorially focused creation of study spaces and foster the matching of higher education with the needs of economic development and the labour market, it is planned to support the development of a territorially focused infrastructure of the studies and scientific work within the EU funds programming period 2014–2020 (the total indicative financing is EUR 44.6 million, including the ERDF financing of EUR 37.9 million). At the same time, a support from EU funds is intended for the first level vocational higher education STEM study programmes, including medicine and creative industries, and improvement of learning environment in colleges (total indicative financing EUR 14.2 million, including the ERDF financing of EUR 12 million). The implementation of this project will be initiated in the 1st quarter of 2017.

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

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

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

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

In 2016–2017, a research will be carried out in cooperation with the WB on higher education management improvement for development of content and implementation regulations of the EU funds. In order to prevent fragmentation of study programmes, including that of doctoral study programmes, and to promote the preparation of qualified top-level specialists to match the labour

market demand, it is planned to provide support within the EU funds programming period 2014–2020 for the development of joint doctoral study programmes and the study programmes in the official languages of the EU, incl. cover of the costs of accreditation at the international professional organisations and international publicity of the developed and accredited study programmes (the total indicative financing is EUR 10.8 million, including the ESF financing of EUR 9.2 million). Implementation of higher education institution projects will be initiated in the 4th quarter of 2017.

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

At the beginning of the academic year 2015/2016, there were 6465 foreign students from 95 countries studying in higher education institutions of Latvia constituting 8% of the total number of students. This is by 23% or 1210 students more than in the previous academic year. Most of the foreign students are from Germany (15% of the total number of foreign students), Uzbekistan (14%) and Russia (9%).

Nine accredited joint study programmes were implemented in 2015 in Latvian higher education institutions in cooperation with foreign higher education institutions (including higher education institutions in Lithuania, Estonia, Spain, Austria and the Netherlands) in the areas of international business and export management, management of technologies and innovations, innovative engineering of roads and bridges, strategic border management, etc.

The goal in Latvia is to increase the share of foreign teaching staff from 0.5% in 2012 to 7% in 2020. During the academic year of 2015/2016, there were 256 foreign guest professors, assistant professors and lecturers working in the Latvian higher education institutions, constituting 4% of the total number of academic staff. In order to attract foreign teaching staff, a range of support measures for higher education institutions, including support for development of programmes in the official EU languages, support of post-doctoral studies and the abovementioned thematic doctoral study centres, are being planned.

Starting from 2015, a new activity is available within the programme Erasmus+, *The International Student and Staff Mobility*, allowing European higher education institutions to cooperate with institutions outside Europe and to provide support to foreign higher education students and staff. Latvian higher education institutions participate in this measure by forming partnership with various institutions outside Europe and attracting more foreign students.

In 2015, measures for promoting higher education exportability and recognition of Latvian higher education were implemented, incl. maintenance of the website www.studyinlatvia.eu and www.studyinlatvia.lv, to inform potential foreign students about the study programmes, Latvian culture and education system. The website is linked to social networks, where students can ask questions of their interest and receive information about education opportunities in Latvia.

3.4.5. Lifelong Learning

The aim is to ensure that 15% of the population (aged 25–64) would be continuously involved in the learning process by 2020 (5.5% in 2015). In 2015, the share of population participating in adult education did not change compared to 2014.

Table 6

Participation of people aged 25–64 in the education process

	2008	2009	2010	2011	2012	2013	2014	2015	2020
Share, %	6.6	5.4	5.1	5.1	6.9	6.5	5.5	5.5	15.0

Data source: CSB

The measures of the *Education Development Guidelines for 2014-2020* are focused on the introduction of the lifelong learning principle, while one of the policy action directions envisages expanding education opportunities for adults (for example, expanding the second chance education opportunities, support for employers in educating employees, as well as support of raising the qualification of the employed based on employers' requirements, etc.).

The key policy directions and measures:

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

Coordination of adult education system requires a new and efficient management model focused on transparent and harmonised system operation in order to prevent the fragmentation of adult education, lack of harmonised action in separate institutions, as well as lack of information that is necessary for assessment of overall situation, and to establish an efficient adult education system. In 2016, an *Adult Education Management Model Implementation Plan for 2016-2020* will be developed.

Support for building capacity of vocational education institutions in adult education is expected to be provided in the EU funds programming period 2014–2020, envisaging promotion of cooperation with employers, improvement of competences of administrative and teaching staff within the context of study organisation, methodological matters and technology development, as well as implementation of assessment of competences obtained outside formal education within the context of labour migration processes, informative measures by involving industry expert organisations (the total indicative financing is EUR 6.5 million, including the ESF financing – EUR 5.5 million).

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

The aim is to introduce the National Qualifications Framework of Latvia, thus fostering a transition to an education based on learning outcomes, as well as to link it to the European Qualifications Framework (hereinafter – the EQF) by reflecting the corresponding EQF level in the certificates on formal education of Latvia. The relevant amendments in legislative acts were made in 2014-2015.

In 2016, a study on the previous development of National Qualifications Framework (NQF) will be carried out. The results of this study will be used in preparation of alignment report in 2017. In 2016, several events are intended to be held to inform the involved parties on the NQF and the EQF.

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

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

In 2015, 47 education institutions were delegated to evaluate professional competence obtained outside the formal education system, by signing the relevant delegation agreement. From 2011 until the end of 2015, 2849 professional qualification certificates (including 939 certificates in 2015 alone) were issued as a result of evaluation of professional competence that had been obtained outside the formal education system.

To ensure a uniform understanding of implementation of professional competence evaluation process, in 2015, the methodological recommendations for education institutions and examination centres, as well as information material for applicants, were developed.

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

The aim is to provide the employed (aged 25 years and older) an opportunity to improve their professional competence by acquiring programmes for professional improvement, continuing education or informal education programmes.

The ESF support programme *Support to Employee Training for Improving Competitiveness of Enterprises – Support to Training in Partnerships* was completed in 2015, the total available public financing – EUR 31.7 million. The aim of this programme was to promote direct participation of enterprises in raising the qualification of the labour force (financing in 2015 – EUR 5 million).

The work on *Draft Regulations Regarding Support Measures for Employers in Additional Education of Employees, the Procedure for Implementation of Support Measures and the Criteria for Granting the Support* has been launched, envisaging financial support for employers in providing education to employees.

In 2016, and ESF support project *Improvement of the Professional Competences of the Employed* will be launched. Within this project, a support will be provided for improvement of people’s professional qualifications and competences, including career consulting services and support mechanisms for engagement of persons subject to risk of social exclusion into adult education measures (total indicative financing – EUR 27 million, including the ESF financing of EUR 23 million).

During the EU funds programming period 2014-2020, the sectoral ministry – the MES, will be responsible for the implementation of adult education system’s development and activities.

3.5. FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION

3.5.1. Reducing the Poverty Level

The target of the NRP is to reduce the number of persons at the risk of poverty and/or of those living in households with low work intensity by 121000 or 21% by 2020. Taking into account the medium-term macroeconomic development scenario, the expected increase in employment and decrease in unemployment, as well as the fact that the increase in employment and income from wages for households has a direct impact on the reduction of the poverty risk, the poverty target for 2020 is most likely to be achieved.

Table 7

The trajectory of achievement of the poverty reduction target

	2008	2009	2010	2011	2012	2013	2014	2020
Share of people at-risk-of-poverty (%)	26.4	20.9	19.0	19.2	19.4	21.2	22.5	21.0 (or preventing the poverty risk for 121000 people)
Share of persons at-risk-of-poverty and/or persons living in households with low work intensity (%)	27.3	23.6	22.1	21.9	21.8	23.1	23.9	
The number of persons at-risk-of-poverty and/or persons living in households with low work intensity (thousand)	583	495	454	441	434	456	467	

Note: Eurostat data on Latvia present a one-year delay (corresponds to the year when survey was carried out)

Data source: CSB

Up until 2013, there was a steady development towards the target set in the NRP, i.e., to reduce the number of persons subject to risk of poverty and/or living in low work intensity households. However, a slight deviation and worsening of indicators was observed in 2014, despite the positive trends in other indicators on poverty and social exclusion. There was an even increase in income for all households in 2014 compared to 2013. In 2014, 30.9% of the Latvian population were subject to risk of poverty or social exclusion, i.e., by 1.8 percentage points fewer than in 2013. The share of inhabitants subject to deep material deprivation has reduced – from 19.2% in 2014 to 16.4% in 2015. The situation has been gradually improving since 2011, and the poverty risk has been reduced for households with the main income from paid work, as well as for families with children. Similar to the pre-crisis period, the poverty risk tends to grow for certain population

groups, such as persons with fixed income (for example, retired persons), single parent households, and low-income earners. In 2014, the share of people subject to risk of poverty aged 65 and over increased significantly (from 27.6% in 2013 to 34.6% in 2014).

Although the common trend of development of poverty and social exclusion indicators points to a gradual improvement of the situation, the main risks for reaching the target of poverty reduction are the following:

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

Compared with other EU countries, Latvia has a high income inequality, and there has been virtually no change to this trend in the recent years. The Gini index (35.4%) of Latvia in 2014 was the second highest compared to other EU member states. Furthermore, the quintile share ratio index (S80/S20) – 6.5 was one of the highest in the EU. In four years, the share of social transfers in disposable income of households diminished from 32.4% in 2010 to 24.8% in 2014. Meanwhile, the share of income from paid work has increased from 63.7% in 2010 to 70.2% in 2014. The pre-crisis level of 2008 has not yet been reached – income from paid work constituted 75.5% of all disposable income at that time, while income from social transfers was only 20%.

The key directions of the reforms and measures implemented in 2015 and 2016 are oriented towards reducing the tax burden on labour, increasing income of low-earning employees and of families with children, improvement of the material support to persons of retirement age and of the services to persons with disabilities, as well as of the groups of population at the risk of poverty and social exclusion. Social service, social work, and social security system reforms in relation to use of the minimum income scheme were continued in 2015.

One of the budget priorities of the *Law on the Medium-Term Budget Framework for 2015, 2016 and 2017* determined by the Latvian government is reducing the income inequality by means of raising the minimum monthly wage and introducing the non-taxable income of the progressive PIT. In 2015, the minimum monthly wage was raised from EUR 360 to 370. Within the budget priorities, the CM supported the necessity to review pensions assigned during years of crisis and to increase the number of services available to persons with disabilities (technical aid).

In 2015, the project *Professional Social Work Development in Municipalities* was launched with the help of ESF co-funding³⁷. The total planned financing for the project is EUR 8.5 million, including the ESF financing of EUR 7.2 million. Within this project 2000 social work specialists will improve their professional competence, a social work methodology for working with different customer target groups will be developed, cooperation between institutions and professionals will be improved and social work in the community will be developed. In 2015, one of the project activities – providing training and supervision to municipal social work specialists – will be launched. Municipalities will be reimbursed for 50% of training and supervision costs. In the 4th quarter of 2015, approximately 40 municipalities had launched their participation in supervision, and the indicative number of social work specialists involved reached approximately 550 persons. Meanwhile, social work specialists from 7 municipalities had started their training during this quarter.

³⁷ The CM Regulations No. 193 of 14.11.2015 on *Rules of Implementation of the Measure 9.2.1.1 “Professional Social Work Development in Municipalities” within the SO 9.2.1 “Improvement of Efficiency of Social Services and Professionalism of Staff Working with Persons in Risk Situations” of Operational Programme “Growth and Employment”*.

In 2015, a regulatory framework has been drafted aimed at development of society-based services and implementation of deinstitutionalization with the support from the ESF, encouraging an increase in the number of foster families, guardians and adoptive parents. In 2015, the programming regions signed letters of intention with 92% of municipalities in Latvia on engagement in implementation of deinstitutionalization. Each programming region intends to implement one project. Meanwhile, in the second half of 2016, information measures will be implemented aimed at changing the public attitude towards deinstitutionalization.

A crucial support for reducing poverty and social exclusion in 2014–2020 will be provided through measures co-financed by the EU funds. EUR 225 million or 35% of the ESF financing is intended for facilitation of social inclusion and prevention of poverty and all forms of discrimination. Allocation of additional EUR 193 million is planned for this goal or 8% of the ERDF financing.

In March 2014, the Regulation of the European Parliament and of the Council on the Fund for European Aid to the Most Deprived (hereinafter – the Fund) entered into force. In 2014-2020 programming period, financing of EUR 41 million from the Fund will be used to provide a non-financial support to the most deprived persons in Latvia in a form of material assistance. In addition to the EU financing, the state budget co-financing in the amount of 15% is also planned for the implementation of the Operational Programme. According to the Operational Programme, the Funds financing will be allocated for food aid and material assistance to children. In 2015 with support from the Fund, 70000 needy persons received support for food, hygiene and household goods.

The key policy directions and measures:

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

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

Taking into account the high risks of poverty and social exclusion for persons of retirement age, amendments to the *Law on State Pensions* have been made in 2015. These amendments stipulate that following pensions will be revised: old age, service, and survivor's pensions received or recalculated between 1 January 2010 and 31 December 2015, and where negative pension capital index has been taken into consideration in the calculation. The pensions to be reviewed and regulations on their revision in the relevant year will be stipulated in the yearly law on state budget taking into account the budgetary possibilities.

Furthermore, amendments provide for prevention of a situation when the allocated state pension amount is significantly negatively affected during an economic downturn. The law includes a mechanism to prevent a too rapid increase of pension capital during years of economic growth as well (*see Chapter 3.1.1*).

To raise the level of income of the pensioners, amendments to the regulatory framework have been made providing for application of consumer price index and 50% of average insurance contribution wage increase starting from 2017. At the same time work on differentiation of indexation depending on insurance period will be assessed and continued.

From 1 January 2016, the rate of monthly PIT allowance for dependent persons has been increased from EUR 165 to EUR 175; meanwhile, persons of a legal age and able-bodied persons have been removed from the list of persons eligible to receive allowance for dependent persons (except children under age of 24 engaged in studies (general, vocational, higher or special education) and disabled persons).

From 1 January 2016 until 2020, a differentiated non-taxable minimum will be gradually introduced and will be applied depending on the total income. During the transitional period for introduction of non-taxable minimum from 2016-2019, two types of non-taxable minimum will be applied simultaneously – monthly and yearly. Starting from 2020, the monthly non-taxable minimum will no longer be applied, while yearly non-taxable minimum will be reimbursed based on income declarations submitted in 2021.

By introducing the differentiated non-taxable minimum, the tax wedge indicator for a worker with no dependable persons and receiving 67% of average wage will decrease from 41.7% in 2015 to 39.6% in 2021.

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

To foster the return or inclusion of the persons at the risk of poverty or social exclusion to the labour market, ALMP measures were implemented for these groups of population providing jobs co-financed by the state. In 2015, the total public financing for these measures was EUR 3.5 million, including financing in the amount of EUR 1.3 million from the EU funds.

From 2015 until the end of 2019, within the ESF co-financed measure *Professional Rehabilitation*³⁸ following steps shall be developed and implemented: a) professional rehabilitation programmes (including improved assessment of professional suitability of persons with a disability of Group I or II by setting new criteria, methods and instruments for evaluation of a person's health condition, motivation, work capacity, skills and abilities necessary in labour market); b) skill certification system, including skill descriptions and skill training programmes, improvement of system for professional suitability assessment for person with mental disorders by setting criteria, methods and instruments for evaluation of a person's motivation, work capacity, health condition, skills and abilities necessary in labour market. The total funding for implementation of the programme is EUR 1.25 million, including ESF co-financing of EUR 1.06 million. By the end of 2019, it is intended to ensure provision of professional rehabilitation services to 100 disadvantaged persons.

A new service for the unemployed with mental disorders will be introduced as a part of subsidised employment measures (Measures for certain groups of persons) – *a support person at work* assisting with the integration in workplace. Namely, take part in negotiations with the employer, assist in learning and completing the tasks given by the employer, establish communication with the employer, supervisor and colleagues, as well as provide psychological and motivational support.

Starting from the 4th quarter of 2016 and until the end of 2022, within the ESF co-financed project *Social Entrepreneurship Support*³⁹, it is intended to provide a support for actors within the social entrepreneurship, including those taking work inclusion measures, facilitating employment of certain target groups (long-term unemployed, elderly unemployed (over the age of 54), unemployed with depending persons, unemployed with disability or mental disorders) in the social enterprises. Within the said period, the social enterprise support system, including providing financial support to social enterprises, shall be developed and implemented as a part of this project. The total financing for implementation of the programme is EUR 19.9 million, including the ESF co-financing of EUR 16.9 million.

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

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

Basic activities of a set of Roma integration measures are envisaged in the implementation plan until 2016 of the *National Identity, Civic Society and Integration Policy Guidelines for*

³⁸ The CM Regulations No. 352 of 30.06.2015 on *Implementation of the Measure "Professional Rehabilitation" under Specific Object 9.1.4 "To Facilitate Inclusion of People Subject to Risks of Discrimination in the Society and Labour Market" within the Operational Programme "Growth and Employment"*.

³⁹ The CM Regulations No. 467 of 11.08.2015 on *Implementation of the Measure "Activation Measures for Long-Term Unemployed" under Specific Objective 9.1.1 "To Facilitate Inclusion of Disadvantaged Unemployed People in the Labour Market" within the Operational Programme "Growth and Employment"*.

2012–2018. The Advisory Council for the Implementation of the Roma Integration Policy has been working since 2012 with the aim to promote participation of Roma people.

To foster integration and participation of the civic society in the implementation of the policy, support from the national budget within the open project tender is provided on a regular basis to the NGO projects for ethnic minorities, including Roma people.

In 2016, the project *Promoting Diversity (Preventing Discrimination)*⁴⁰ was launched. Measures aimed at preventing discrimination and promoting social inclusion will be provided to the groups of persons subject to risks of social exclusion and discrimination. Likewise, it is intended to provide measures for raising awareness and tolerance among employers and their employees, services of social worker and social mentor for the asylum seekers and persons holding refugee or alternative status, as well as measures for raising awareness in the society on issues of promoting social inclusion and prevention of discrimination. The total financing for implementation of the programme is EUR 6.8 million, including the ESF co-financing of EUR 5.8 million.

3.5.2. Demographic Challenges and Health Protection

Negative **demographic** changes are observed in Latvia – the decrease and ageing of the population and a relatively high death rate. At the beginning of 2016, the number of Latvian population was 1.97 million. Since 2000, the number of population has decreased by 400 000 or 17%. The rapid ageing of the population is a particularly crucial problem – the number and proportion of children is decreasing and the number and proportion of elderly people is increasing. At the same time, it should be noted that the international long-term emigration is decreasing and immigration increases along with the gradual economic growth. The negative migration balance has significantly shrunk since 2009.

Tackling demographic issues has been one of the urgent issues on the political agenda over the recent years. In February 2016, the CM approved the *Action Plan for 2016-2017 for Implementation of State Family Policy Guidelines for 2011-2017*, aimed at improvement of support system for families in order to foster the establishing families and increase the birth rate.

In order to facilitate the link to the Latvian diaspora abroad and encourage the return of Latvian people back to Latvia, the *Return Migration Support Measure Plan for 2013–2016* was approved in 2013. The Plan contains 8 directions of action aimed at supporting and helping those Latvian nationals and their relatives living abroad who have decided or plan to return to Latvia by providing information on various situations of life. The work on compiling information and creating the section “Return to Latvia” on the state and local government website www.latvija.lv was continued in 2015, by linking the compiled information to local government services, including e-services.

The key policy directions and measures:

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

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

- measures that ensure a position at a preschool education institution for children over the age of 1.5 years (*see Chapter 3.4.1*);
- starting from 2016, taxpayers expenses on interest-related education for their children can be listed as eligible expenditure for the PIT reimbursement;
- from 1 January 2016, vehicle operation tax has been reduced for large families – person who has, alone or jointly with the spouse, three or more minors as dependents shall pay the vehicle

⁴⁰ The CM Regulations No. 102 of 09.02.2016 on *Implementation of the Measure “Promoting Diversity (Preventing Discrimination)” under Specific Objective 9.1.4 “To Facilitate Inclusion of People Subject to Risks of Discrimination in the Society and Labour Market” within the Operational Programme “Growth and Employment”*.

- operation tax for the relevant calendar year in the amount of 50% (80% prior to amendments) for one of the vehicles registered in the ownership, holding or possession thereof;
- the *Labour Law* provides supplementary leave of 1 working day for an employee who has fewer than 3 children below the age of 14 (in addition to previously stipulated supplementary leave of 3 working days for an employee who has three or more children under 16 years of age or a disabled child up to 18 years of age);
 - from 1 January 2016, the rate of monthly PIT allowance for dependent persons (including minors) has been increased from EUR 165 to EUR 175;
 - as a result of increase of national minimum wage in 2016, minimum national maintenance allowance has been increased setting it to EUR 92.5 per child aged 0-7 and EUR 111 per child aged 7-18;
 - starting from 2016, large families will be able to enjoy the discount offered by the honorary family card. Additionally, the definition of a large family has been expanded – a person of a legal age and under the age of 24 engaged in general, vocational or higher education is also considered a part of large families;
 - families with children with disabilities (previously applied to large families only) will be able to receive support for electricity payments (lower rate on the first 100 kWh used monthly);
 - since 2015, the state provides support for families with children buying their first home in the form of guarantee that is issued and managed by the SJSC Latvian Development Financial Institution Altum. From the beginning of 2015 until the mid-March 2016, 1826 such guarantees had been issued to families with the total number of 2653 children. The total sum of guarantees issued is EUR 11.4 million. In 2016, it is expected to provide support to approximately 1200 families with children.

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

The average life expectancy at birth in Latvia has increased over the past 10 years. However, it is still among the lowest in the EU – in 2014, the average life expectancy at birth in Latvia was 74.5 years (average expectancy in the EU – 80.9). The decreasing death rate and the increasing average life expectancy at birth fosters a gradual rise in the healthy life years indicator which has increased by 5 years, reaching 59.1 years in 2012 compared to 2007⁴¹. The main causes of the years of potential life lost (hereinafter – YPLL) are external causes (mostly suicides and traffic accidents), diseases of the cardiovascular system and malignant tumours. The target indicators of Latvia for improving public health are reflected in the Table 8.

Table 8

Trajectory of achievement of the years of potential life lost target

	2008	2009	2010	2011	2012	2013	2014	2020
YPLL per 100 thousand people (aged up to 64 years)	7386	6897	6477	6140	5967	5911	5789*	5300

Data source: CSB

* Data source: Centre for Disease Prevention and Control

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

The key policy directions and measures:

In 2016, within the available health care sector financing, several significant measures will be implemented aimed at building the health care system and reducing the public health risk factors. At the same time, taking into account that the state funding for health care sector has been insufficient

⁴¹ Eurostat data: *Healthy Life Years (from 2004 onwards)*.

over a longer time period, a significant positive impact on public health and health care indicators cannot be expected as a result of the said measures implemented. The information on health care system improvement and public health risk factor reduction measures already initiated and continued is provided in the *Chapter 2.3*.

In order to change the public attitude towards health and improve public health indicators, thereby also reducing public health expenditures by means of timely prevention, the plan *Healthy 2015-2065* has been developed and EUR 54 million have been allocated from the ESF for its implementation. To restrict distribution of harmful products and habits, in 2015, changes to regulations on restrictions of amount of trans fatty acids in food products were proposed, amendments to legislative acts were made ensuring availability of healthy food in educational institutions, hospitals and nursing homes. A law restricting children's access to energy drinks was passed, and the *Law on Excise Duties* was supplemented with a schedule providing increase in excise duty rate on alcoholic beverages from 1 August 2015. At this time, a new law on handling of tobacco products, herbal smoking products, electronic smoking devices and their fluids (providing for stricter smoking restrictions) is being reviewed by the Saeima.

Activities in the health sector during the EU funds programming period 2014-2020 aim at supporting the development and implementation of health network development guidelines in the priority disease areas (cardiovascular, oncologic, perinatal and neonatal period care, and mental health) and the quality assurance system, particularly in order to improve the health of people at the risk of social exclusion and poverty. In total, EUR 4.4 million have been allocated for activities within the EU funds programming period 2014-2020.

3.6. ENERGY AND CLIMATE CHANGE

In 2016, the CM approved the *Energy Development Guidelines for 2016–2020*. The main goal of the Latvian energy policy is increasing the economic competitiveness in cooperation with other sectoral policies by means of enhancing security of supplies, energy and energy resource pricing determined by the free market and competition, sustainable production and consumption of energy, with two energy policy sub-targets:

- increasing security of energy supply providing accessible and stable energy supply for its users, thus reducing the geopolitical risks, diversifying the energy resource supply sources and means, developing interconnections and the domestic energy supply infrastructure by introducing the smart technologies in energy supply networks, building up reserves of energy resources and engaging in improvement of legislation;
- sustainable energy ensuring the sustainability of energy from the economic, societal and environmental point of view. It is planned to achieve these goals by improving energy efficiency, introducing smart technologies and fostering highly-efficient production technologies and renewable energy resources (hereinafter – RER) utilisation technologies.

3.6.1. Energy Market and Infrastructure

The full liberalisation of **electricity** market was completed on 1 January 2015 meaning that households, as well as legal entities are free to choose the seller by mutually agreeing on the electricity price.

Starting from 1 January 2015, a support mechanism for vulnerable consumers (poor or low-income households, large families, etc., using electricity for their own consumption) has been introduced allowing them to purchase a certain amount of electricity (100 kWh or 300 kWh) at a lower rate. The aim of this mechanism is to mitigate the negative impact of increased costs of electricity on socially vulnerable groups after the removal of regulated tariffs.

In continuing the improvement of operation of the Latvian electricity market, strengthening of transmission capacity is necessary both in Latvia and in the Baltic region in order to strengthen the connections with European networks. This is demonstrated also by the objective set within the EU envisaging increasing interconnection capacity in the region up to 10% before 2020 in relation to

the installed generating capacity. At the end of 2015, work on the 1st stage of the *LitPol Link* was completed establishing a connection between Lithuania and Poland (transmission capacity 500 MW), and Lithuanian-Swedish interconnection *NordBalt* (transmission capacity 700 MW) was completed. These transmission lines allow for reduction of electricity prices for Latvian consumers, as well as levelling of price in the region.

Work on the 3rd stage of Kurzeme Circle was continued within the *NordBalt* project aimed at preventing the missing possibility of increased capacity connection, ensuring development of wind parks, and increasing the security of electricity supply in Kurzeme region. Work on the 3rd Latvian-Estonian interconnection is being continued – it will significantly increase the security of electricity supply between Estonia and Latvia, as well as within power systems of both countries, ensuring an efficient capacity transmission corridor between the Baltic and Nordic electricity systems.

On 8 March 2016, the *Amendments to Energy Law* entered into force envisaging a complete liberalisation of **natural gas** market from April 2017. The aim of these amendments is to ensure a separation of natural gas transmission system operator and storage system operator from activities related to distribution or trading of natural gas in order to eliminate the potential risks when accessibility of natural gas transmission and storage systems of strategic national importance can be used as a political instrument by the third countries, as well as to set requirements and obligations to market participants of open natural gas market where users are free to choose a natural gas trader and purchase natural gas at a price mutually agreed on by the market participants. The amendments stipulate that after 3 April 2017, households will be free to choose whether to purchase natural gas at the regulated prices or to participate in the market.

On 10 September 2015, the Public Utilities Commission approved the natural gas infrastructure utilisation regulations making allocation of free capacity and access of third parties to the natural gas system and the underground gas storage more transparent and open. Ensuring access to the European and global natural gas markets was vital to enhance the energy security of the Baltic States. Launching the Klaipeda LNG terminal at the beginning of 2015 played an important role in it.

In order to strengthen the natural gas transmission possibilities between the Baltic States, improvement of Lithuanian domestic gas infrastructure connection, section Klaipeda-Kimenai, was essential. Since completion of this project in October 2015, the transmission capacity has been increased to 2 billion m³ natural gas per year, thus significantly improving the possibilities of gas supply to both Latvia and Estonia.

3.6.2. Promoting Energy Efficiency

The aim of the Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (hereinafter – Directive 2012/27/EU) is to promote energy efficiency and ensure the achievement of the headline energy efficiency target of 20% and lay the foundation for further improvement of energy efficiency. In accordance with the requirements of Directive 2012/27/EU, Latvia has submitted the *Informative Progress Report of the Indicative National Energy Performance Target for 2014–2016* to the EC summarising the planned energy performance measures by 2016.

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

- the total indicative national energy efficiency target⁴² – the primary energy savings in 2020 – 0.670 Mtoe (28 PJ);
- the annual energy savings target of 1.5% supplied to end consumers⁴³ – the final energy savings in 2020 – 0.213 Mtoe (8.9 PJ);

⁴² Savings are determined as the difference between the base scenario and the scenario with measures. These savings do not refer to the absolute reduction of national energy consumption. They refer to the limit of the increase achieved by those measures. The methodological requirements for notification on the target have been laid down in the Annex V to the Directive 2012/27/EU.

⁴³ The annual final energy savings correspond to the national mandatory accrued final energy savings 0.850 Mtoe.

- the annual renovation target of 3% of the state-owned building area (maximum estimates – 678.5 thousand m²) together with the renovation of municipal buildings – energy saving during the entire period of 2014–2020 – 0.016 Mtoe (0.67 PJ or 186 GWh).

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

Table 9

Trajectory of achievement of the energy efficiency target

	2008	2009	2010	2011	2012	2013	2014	2020
Primary energy consumption* (Mtoe)	4.47	4.25	4.33	4.14	4.41	4.31	4.35	Primary energy savings 0.67 Mtoe**

* Gross domestic energy consumption – non-energy consumption: in accordance with the requirements of the Directive 2012/27/EU

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

Table 10

Primary energy savings forecast

	2014	2015	2016	2017	2018	2019	2020
Primary energy savings (Mtoe)	0.224	0.295	0.390	0.466	0.534	0.602	0.67

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

Latvia is moving towards the set target to achieve energy savings in the amount of 0.67 Mtoe in 2020 (the total energy savings in both the final consumption and the transformation sector). The gross domestic energy consumption has decreased from 4.47 Mtoe in 2008 to 4.35 Mtoe in 2014 (decrease by 0.12 Mtoe), and the implementation of energy efficiency measures has an important role in this progress.

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

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

The key policy directions and measures:

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

Two activities were implemented in the EU funds programming period 2007–2013: *Measures to Improve Heat Insulation of Multi-Apartment Buildings* and *Measures to Improve Heat Insulation of Social Residential Buildings*.

The measures to improve heat insulation of multi-apartment buildings are aimed at increasing energy performance of multi-apartment residential buildings, thus ensuring sustainable housing and efficient use of energy resources. As of March 2016, 710 projects had been completed for the total ERDF financing of EUR 59.92 million. In March, additional 36 projects will be completed for the total ERDF financing of EUR 3.9 million. For the purpose of promoting the activity, an extensive information campaign *Warmer Living* has been carried out thus encouraging apartment owners to get involved in the management of the common property and improvement of the energy performance of buildings.

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

In order to ensure the heat insulation measures of social residential buildings, a total of 55 projects have been implemented for the total amount of EUR 5.16 million.

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

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

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

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

In 2015, within the Climate Change Financial Instrument (CCFI) tender *Complex Solutions for Reducing Greenhouse Gas Emissions* 134 projects were implemented amounting total for EUR 18.7 million making investments in technological industrial equipment and improvement of energy performance, as well as fostering the use of renewable energy sources.

Within the EU funds programming period 2014–2020, it is planned to rebuild and reconstruct municipal buildings, perform energy certification and construction works to improve energy efficiency, as well as foster the use of RER in buildings (if high energy performance indicators are especially high and installation of RER equipment along with the energy performance measures is economically justified). A significant support criterion is a positive financial return from investments and reduced energy costs to end consumers. The estimated ERDF financing is EUR 31.4 million.

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

Four stages were implemented within the CCFI tender *Reducing Greenhouse Gas Emissions in Lighting Infrastructure in Public Territories of Municipalities* to provide financial support to municipalities in introducing a lighting infrastructure to reduce the current electricity consumption, thus reducing GHG emissions. 86 projects were implemented from 2012 until 2015 for the total financing of the CCFI of EUR 10.5 million, including 30 projects that were implemented in 2015 for the total financing of the CCFI of EUR 3.9 million.

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

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

Within the EU funds programming period 2007–2013, 98 projects were completed by March 2016 with CF financing of EUR 58.68 million. During 2016, additional 33 projects will be completed for the total CF financing of EUR 15.17 million. The project implementation is expected to result in installation of heat capacity of 323 MW and reconstruction of 168 km of heating pipes.

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

- **Support for energy-intensive merchants** (responsible institution – the ME)

In accordance with the CM regulations of July 2015, after coordination of support measures with the EC, the energy-intensive manufacturing industry enterprises operating within supported sectors as defined in the regulations will be eligible for reduced participatory payment of mandatory procurement component if, in addition to it, they meet the following qualification criteria:

- the electricity costs intensity for the previous calendar year or the average electricity costs intensity for the previous three calendar years has been 20% or higher;
- the total annual electricity consumption for the needs of merchant in a single place has been above 0.5 GWh;
- an energy management system complying with the standard LVS EN ISO 50001:2012 *Energy Management Systems. Requirements with Guidance for Use* (ISO 50001:2011) has been introduced;
- the merchant’s turnover from economic activity within supported sector constitutes at least 30% of merchant’s total turnover in the previous calendar year.

3.6.3. 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 final energy consumption to 40% by 2020, while the share of RE in the transport sector must reach at least 10% of the gross final energy consumption in transport.

Table 11

Trajectory of achievement of the renewable energy target

	2005	2011	2012	2013	2014	2020
Share of renewable energy (%)	32.3	33.5	35.8	37.1	38.7	40.0

Considering the impact of the current and expected energy efficiency measures on the total gross final energy consumption, as well as other support measures to foster RE consumption (including electricity produced from RER, the mandatory procurement mechanism, and support activities in the heat sector), the proposed target of the RE share in 2020 will be reached.

Table 12

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

	2005	2011	2012	2013	2014	2020
Heating and cooling	42.7	44.8	47.4	49.7	52.2	53.4
Electricity	43.0	44.7	44.9	48.8	51.1	59.8
Transport	1.4	3.2	3.1	3.1	3.2	10.0

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

The measures to be implemented and the expected outcomes of a broader use of RE are closely related to the progress of promoting energy efficiency, particularly, the energy efficiency target for 2020, which is defined in the Directive 2012/27/EU (*see Chapter 3.6.2*). Latvia still has a high energy saving potential in all final energy consumption sectors, while it is not proportionally equivalent in all the sectors. Following the technology development trends and global challenges, Latvia is revising its support mechanisms for the production of RE by making them more flexible and economically justified. The support measures implemented by now have encouraged producers to start project planning and invest in electricity production using RER. At the same time, it must be noted that the large number of supported projects has led to a significant increase in mandatory procurement component. In order to stop its growth and maintain it on the level of 26.79 EUR/MWh, state budget financing is allocated for the period until 31 March 2019⁴⁴ to prevent imposing of an additional burden on the end-users of electricity, including burden on development and competitiveness of energy-intensive sectors. However, in order to maintain competitiveness of the economy, current support mechanisms for RE are being revised at the moment, including careful assessment of total costs and support intensity. When launching additional coordination with the EC, it is evaluated whether the granted support, incl. in correlation with investment support, for mandatory procurement of energy produced by plants or the guaranteed fee for the installed electric power is compatible with the EU internal market, and whether the support sum does not exceed the necessary minimum.

The key policy directions and measures:

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

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

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

In 2015, amendments to legislative acts were made in order to prevent the risk of further electricity price increase for all end-users of electricity, stipulating that within the existing support mechanism prior to 2020 no tenders will be arranged, and electricity producers will not be eligible for new rights to sell electricity within the mandatory procurement or receive a guaranteed payment for the electrical capacity installed.

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

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

Within the EU funds programming period 2007–2013, 10 projects were completed with the CF financing of EUR 29.6 million. Within the implementation of projects, the installed capacity is 36 MW(el) and heat capacity 105 MW.

As a part of the CCFI, from 2010 to 2015, a support in the amount of more than EUR 27 million was provided to projects planning on implementing the renewable energy resource technologies.

⁴⁴ The CM Order No. 567 of 17 September 2015 *On the Conceptual Report “Complex Measures for Development of Electricity Energy Market”*: <http://likumi.lv/ta/id/276625-par-konceptualo-zinojumu-kompleksi-pasakumi-elektroenerijas-tirgus-attistibai>.

Within the *Latvian Rural Development Programme for 2007–2013* a support was provided for production of energy using biomass of agricultural or forestry origin provided that utilisation of the energy produced was mainly intended outside the farm. Taking into consideration the information available as of March 2015, support was provided to 40 projects with the total public financing of EUR 46 million where total eligible costs reached EUR 115.9 million. The total actual electricity production capacity of these projects was 37.1 MW.

- **Measures for achievement of 10% RER within the transport sector** (responsible institutions – the ME, the MT)

The aim is fostering utilisation of sustainable biofuel, electrification of transport sector, such as development of network of trams and trolleybuses, electrification of trains or electro-mobility, thus supporting utilisation of environmentally friendly and supply-secure RER.

In 2016, it is planned to retain the mandatory biofuel admixture, to launch a debate on updating the existing applicable standards on fuel quality and thereafter on increasing the share of mandatory biofuel admixture and extend it to the whole year or a particular season, to continue applying a reduced excise duty rate on pure biodiesel (B100) at the current level, to amend the law *On Excise Duties* by revoking the reduced excise duty rate on fossil fuel and biofuel admixtures with increased share of biofuel (E85).

In order to facilitate utilisation of electricity, fossil fuel and biofuel admixtures with increased share of biofuel (above 10%) or pure biofuel in public, state and municipal transport, the following draft laws have been prepared: *Amendments to the Law on the Procurement of Public Service Providers* and *Amendments to the Law on Public Transport Services*. These draft laws allow the ordering party make a choice (consider) regarding the ability of a vehicle to utilise electricity, fossil fuel or biofuel admixtures with increased content of biofuel (above 10%) or pure biofuel in relation to procurement of a new road transport or public road transport.

In accordance with the *Electromobility Development Plan for 2014–2016*, a network of electric vehicle charging stations on a national level has been launched and will provide for an opportunity to use the electric vehicles throughout the country eliminating the travelling distance limitations. Thereby also the dependence on oil within the Latvian transport system will be reduced, the efficiency will be improved, mobility enhanced, and creation and utilisation of innovative technologies in the transport sector will be facilitated. The total financing for the said project amounts to EUR 7.8 million, including the ERDF financing of EUR 6.7 million. Installation of 218 electric vehicle charging stations will be completed by December 2020.

In 2016, the *Alternative Fuel Infrastructure Development Plan* will be developed in 2016 to achieve the targets and objectives set in the *Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 on the deployment of alternative fuels infrastructure*.

3.6.4. Reducing Greenhouse Gas Emissions

The target of Latvia is to limit the total national GHG emissions so that by 2020 they would not exceed 12.19⁴⁵ Mt CO₂ equivalent. This target includes the fulfilment of other international commitments. The objective for GHG emissions does not include emissions and sinks generated in land use, land use change and forestry activities, forestry field or sequestration thereof. The GHG forecast submitted to the EC⁴⁶ in 2015 indicates that, unless additional measures are implemented, the 2020 target for GHG emission reduction will not be achieved, since total GHG emissions in 2020 are estimated to be at 12586.82 kt CO₂ equivalent.

The GHG forecast of 2015 submitted to the EC demonstrated that total estimated GHG emission with the current measures is 12.6 Mt CO₂ equivalent, out of which 9.1 Mt are from non-

⁴⁵ The GHG emission target for 2020 has been specified – 12.16 Mt CO₂ equivalent according to the EC Decision of 26 March 2013 *On Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC*.

⁴⁶ Report of 2015 on policies, measures and projections for EC; http://cdr.eionet.europa.eu/lv/eu/mmr/art04-13-14_lcds_pams_projections/envvwh1yq/.

ETS sector, while 3.5 Mt – from ETS sector. Taking into account that target for 2020 set in the *Guidelines for Environmental Policy* is 12.2 Mt for total GHG emissions, it is obvious that the objective cannot be achieved without the implementation of additional measures. According to the estimates, non-ETS target is being achieved (9.9 Mt).

According to the results of initial GHG inventory of 2014,⁴⁷ the total amount of Latvia's GHG emissions in 2014 were 11.18 Mt CO₂ equivalent. Most of emissions were generated in the energy (35.8%), transport (26.64%), and agriculture (24.2%) sectors.

Table 13

Trajectory of achievement of the greenhouse gas emissions target

	2005	2008	2009	2010	2011	2012	2013	2014	2020
The total GHG emissions, Mt CO ₂ equivalent	11.26	11.81	11.05	12.19	11.41	11.28	11.24	11.18	12.2
EU ETS emissions ⁴⁸ , Mt CO ₂ equivalent	2.85	2.74	2.49	3.24	2.92	3.05	2.65	2.35	2.3 ⁴⁹
Non-ETS emissions, Mt CO ₂ equivalent	8.41	9.07	8.56	8.95	8.49	8.23	8.59	8.82	9.1 ⁴⁵
The annual non-ETS emission distribution volumes ⁵⁰							9.3	9.4	9.9

Overall, in 2013 and 2014, the total emissions corresponded to the estimated GHG emission's limitation target achievement trajectory. According to the initial information, the total amount of Latvia's GHG emissions in 2014 was 11.18 Mt CO₂ equivalent. It indicates a small decrease compared to 2013. Decrease of emissions is mainly observed in the energy sector.

Non-ETS emissions in Latvia constitute more than 79% of the total GHG emissions. Within the non-ETS, key sectors of emissions are the energy sector – 59% of the total non-ETS emissions in Latvia in 2014 (33.6% in the transport sector, 25.4% – in the non-ETS stationary energy). Furthermore, agricultural activity generates a great amount of GHG emissions, namely, 33.2% of the total non-ETS GHG emissions in Latvia in 2013.

The key policy directions and measures:

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

In the transport sector, indirect positive impact on the reduction of GHG emissions can be achieved with a number of EU instruments: requirements of CO₂ emissions for new vehicles and of sulphur content in fleet fuel, a more extensive use of alternative fuel in vehicles (electric transport, natural gas, hydrogen, and biofuel), further electrification of railway infrastructure, etc. In the coming years, further improvement of the transport infrastructure is planned, namely, improvement in regional road networks, development of specialised transport corridors positively affecting organisation of the transport flow. Yet, overall, the possibilities to reduce GHG emissions in the transport sector are limited. In order to promote the reduction of GHG emissions, the tender *Reducing Greenhouse Gas Emissions in the Transport Sector – Support to the Introduction of Electric Vehicles and their Charging Infrastructure* was completed in 2015 within the CCFI which supports the introduction of new manufactured vehicles which by construction uses energy from the electricity stored in the vehicle and GHG emissions of 0 g/km (electric cars) and of new public

⁴⁷ UN Framework Convention on Climate Change: http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/8108.php

⁴⁸ EU ETS mainly includes Latvian heat and electricity producers, as well as the largest industrial production units, namely, cement, tile, brick, glass fibre, and iron and steel material production units.

⁴⁹ In compliance with the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC with an aim to improve and expand the quota trading system of GHG emissions of the Community.

⁵⁰ Sectors outside the EU ETS, like transport, small-sized industry and energy, agriculture. The specific non-ETS targets for sectors have been defined by the EC Decision of 26 March 2013 On Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC.

charging points in Latvia. Within the tender, implementation of 102 projects was completed with the total CCFI financing of EUR 3 million, including completion of additional 78 projects in 2015 for the total CCFI financing of EUR 1.6 million.

In the agricultural sector, the biggest volume of emissions is generated by tillage (mainly organic soil, use of mineral fertilizers) and intestinal fermentation of cattle. They constitute more than 90% of the total emissions in this sector. The potential for emissions reduction is limited here. The current use of mineral fertilizers on 1 ha of cultivated agricultural land is one of the lowest in the EU, and the utilisation of mineral fertilizers will increase with the development of agricultural production. Replacing the use of mineral fertilizers with organic fertilizers is hindered significantly by the fact that organic fertilizers in Latvia are not sufficiently available in relation to a low density of livestock. The manure management emissions constitute 7.5% of the total emissions in the sector of agriculture, and support from the *Rural Development Programme of Latvia for 2014–2020* (for production of biogas and installation of facilities for manure storage) is available to help reduce them.

So far, the measures to reduce the non-ETS sector emissions were mainly supported by the CCFI launched in 2010. Improvement of energy performance of commercial and public buildings, as well as improvement of efficiency of production equipment and facilitation of use of RER was implemented within the CCFI projects (*see Chapter 3.6.2*).

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

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

Several studies have been conducted in Latvia in the area of emission reduction and RER. Studies have been financed not only by the CCFI – financing from the National Research Programme, the Administration of Latvian Environmental Protection Fund, and financing within the programme *Horizon 2020* has also been available.

Within the *National Research Programme for 2014–2017*, approved by the CM, work on the programme *Energy Efficient and Low-Carbon Solutions for a Secure, Sustainable and Climate Variability Reducing Energy Supply (LATENERGI)* was continued. The main objective thereof is to develop scientific and methodology justification of the instruments for the implementation of the Latvian climate and energy policy long-term framework until 2030 and methods for evaluating the expected impact and to use them to reduce GHG emissions and assess indicative costs of reaching the RER objectives, including to perform cost assessment in the sectors of economy and to separately evaluate the sectors that are and are not involved in emission trading.

Likewise, within the *National Research Programme for 2014–2017*, the research programme *The Value of Latvian Ecosystem and the Impact of Climate on its Dynamics (EVIDEnT)* is being implemented. The goal of this programme is to carry out a study on environmental and natural resources in order to achieve their rational and sustainable utilisation and raise the global competitiveness of products manufactured from local natural resources, as well as perform a research on biological diversity and changes in ecosystems, and prepare the forecasts. The most important tasks of the *EVIDEnT* in connection with GHG emission reduction are the following:

- develop and put into practice up-to-date scientific research methods, approaches and models fostering a sustainable Latvian economic climate change mitigation policy in line with EU 2030/2050 climate policy by disclosing and estimating interaction between different development parameters and emissions generated within different sectors of the economy;
- to identify the potential for reduction of GHG emissions in the agricultural sector;
- to analyse the potential impact of forestry activities on CO₂ sequestration increase;
- assessment of GHG emission reduction and CO₂ sequestration potential as a result of forest management, afforestation, and deforestation.

The Administration of the Latvian Environmental Protection Fund funded several projects concerning the reduction of GHG emissions in 2015. One of the most important projects to be noted in connection with GHG emission reduction is a project implemented by the Institute of Physical Energetics – *Determination of Set of GHG Emission Reduction Measures and Assessment of the Optimal Strategy for Latvian Non-ETS Sector*. The goal of this project is to secure support for forecasts of Latvian national non-ETS sector GHG emissions in accordance with the guidelines and requirements on emission forecasts from the EU and international organisations, and support for development of emission reduction strategy for 2030 that is optimal for Latvia in the context of fulfilment of EU climate policy objectives by gathering, processing, analysing and assessing the information required for assessment of emission reduction measures.

In 2015, implementation of 18 projects under the open tender *Raising Capacity to Researches and Measures to Increase Knowledge of the Society about Climate Changes and Their Consequences*, of small amount grant scheme project applications under the EEA Financial Mechanism 2009–2014 Programme *National Climate Policy* was launched with total funding of EUR 1.97 million. The main project activities are related to educating various target groups of society in the matters of climate change (implementation of informative campaigns and seminars, elaboration and implementation of training programmes, development of education and study modules, and of scientific researches). The projects will be implemented by April 2017.

4. USE OF STRUCTURAL FUNDS

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

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

To achieve the target set in the *Europe 2020 strategy*, within the Operational Programmes, *Entrepreneurship and Innovations* and *Infrastructure and Services*, of the programming period 2007–2013, the public financing in the amount of EUR 1.37 billion was allocated, including the ERDF and the CF financing EUR 1.29 billion. The above financing promotes the achievement of targets of the *Europe 2020 strategy*:

- employment: public financing in the amount of EUR 358.47 million, including the ERDF and the CF financing of EUR 326.75 million.
- investments in R&D: public financing in the amount of EUR 463.79 million, including the ERDF financing of EUR 451.88 million;
- education: public financing in the amount of EUR 315.29 million, including the ERDF financing of EUR 280.94 million;
- social inclusion: public financing in the amount of EUR 239.62 million, including the ERDF financing of EUR 218.64 million;
- climate change and energy: public financing in the amount of EUR 201.16 million, including the ERDF and the CF financing of EUR 198.86 million.

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

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

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

For the achievement of the targets of the *Europe 2020 strategy* the public financing in the amount of EUR 541.93 million has been redirected for measures corresponding with the following *Europe 2020 strategy* targets:

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

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

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

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

For continued successful introduction of the EU Investment funds (ESF, ERDF, CF, EAFRD, and EFMF), a total of EUR 5350.1 million is available. According to the thematic objectives defined in the *Regulation (EU) No 1303/2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006* that link the Cohesion Policy with the *Europe 2020 strategy*, the *Partnership Agreement for the EU Investment funds programming period 2014–2020*⁵¹ provides an indicative allocation of the EU Investment funds financing and link with the national *Europe 2020 strategy* targets (see Table 14).

Taking into account the development level and the economic needs of Latvia, investments are expected in all thematic objectives. Detailed information about the thematic objectives, chosen priority axes, and investment priorities, as well as information about the planned supported activities and link of thematic objectives with the national targets in the context of the *Europe 2020 strategy* is available in the *Partnership Agreement for the EU Investment funds programming period 2014–2020*, as well as in the *Operational Programme Growth and Employment*⁵² of the EU funds programming period 2014–2020, *Rural Development Programme of Latvia for 2014–2020*⁵³ and *Action Programme for Fishery Development for 2014–2020*⁵⁴.

Table 14

Allocation of the EU Investment funds financing and its link to the national *Europe 2020 strategy* targets in 2015

Thematic objective	ERDF	ESF	CF	EAFRD	EEF	YEI	Total	Link with national targets within the <i>Europe 2020 strategy</i>
1. Strengthening research, technology development, and innovation	467,519,706	0	0	13,370,863	0	0	480,890,569	Target of the NRP: investments in R&D – 1.5 % of GDP. NRP challenges: a small number of the employed in science and research, underdeveloped infrastructure of science and research, insufficient number of advanced laboratories for the implementation of technology projects, weak commercialisation potential of research results, weak cooperation between the sectors of science and industry, the structure of Latvian business is mainly comprised of small and medium-sized enterprises which have no R&D investment capacity and a small high technology sector, insufficient financing of the public budget and private sector, non-compliance of knowledge and skills of the employed with the labour market needs.

⁵¹ Approved by the CM Decree No. 313 of 19 June 2014 *On the Partnership Agreement for the EU Investment funds programming period 2014–2020* and EC Decision No. C(2014) 4237 of 20 June 2014 *On Approval of Partnership Agreement*. Available at: <http://www.esfondi.lv/page.php?id=1149>.

⁵² Approved by the CM Decree No. 62 of 4 February 2015 *On Operational Programme “Growth and Employment” of the EU Structural Funds and Cohesion Fund Programming Period 2014–2020* and EC Decision No. C(2014) 8508 of 11 November 2014, *On Approval of the Operational Programme Growth and Employment*. Available at: <http://www.esfondi.lv/page.php?id=1149>.

⁵³ Available at: <https://www.zm.gov.lv/lauku-attistiba/statiskas-lapas/lauku-attistibas-programma-2014-2020/latvijas-lauku-attistibas-programma-2014-2020-gadam?nid=1046#jump>

⁵⁴ Available at: <https://www.zm.gov.lv/zivsaimnieciba/statiskas-lapas/ricibas-programma-zivsaimniecibas-attistibai-2014-2020-gadam?id=3515#jump>

Thematic objective	ERDF	ESF	CF	EAFRD	EEF	YEI	Total	Link with national targets within the Europe 2020 strategy
2. Enhancing access to and use, and quality of ICT	172,783,829	0	0	0	0	0	172,783,829	According to the target of the flagship initiative Digital Agenda for Europe of the Europe 2020 strategy for 2020, every person in the EU should have an opportunity to subscribe to an internet service with the download speed \geq 30 Mbit/s and at least 50 % of the EU households subscribe to an internet service with the download speed \geq 100 Mbit/s. It is also emphasised that the EU Member States should facilitate distribution and use of completely cooperative e-government services. NRP challenges: provision of well-balanced economic development increasing the contribution of ICT to the growth and innovation of all sectors of the economy.
3. Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EFMF)	296,191,300	0	0	371,207,757	95,185,869	0	762,584,926	NRP challenges: improvement of the business environment, provision of merchant access to finances with an aim to support productive investments, small share of the SMEs in the export structure, sophisticated implementation of marketing activities abroad, non-compliance of knowledge and skills of those employed in SMEs with the labour market needs.
4. Supporting the shift towards a low-carbon economy in all sectors	286,344,229	0	194,266,292	51,053,411	0	0	531,663,932	Targets of the NRP: 40% of RE share in the gross energy final consumption; savings of primary energy 0.67 Mtoe; Limitation of GHG emissions in the sectors outside the ETS so that the increase would not exceed 17% if compared to 2005.
5. Promoting climate change adaptation and risk prevention and management	65,819,321	0	0	201,823,430	0	0	267,642,751	Flagship initiative Resource-efficient Europe of the Europe 2020 strategy prescribes the necessity of measures to reduce and prevent the flood risk.
6. Protecting the environment and promoting resource efficiency	367,097,718	0	190,138,398	201,823,430	24,397,873	0	783,457,419	NRP challenges: improvement of business environment by developing the waste management infrastructure water management infrastructure and ensuring availability and achievement of public services. Within the flagship initiative Resource-efficient Europe of the Europe 2020 strategy , the priority of water resources policy is water saving and effective use, ensuring its availability in sufficient amounts and quality, as well as returning it to the environment in an acceptable quality. It also envisages that the demand for primary raw materials will reduce as the processing level is increased, as well as valuable materials will be reused.
7. Promoting sustainable transport and removing bottlenecks in key network infrastructure	235,477,563	0	924,294,295	0	0	0	1,159,771,858	The objective of the flagship initiative Resource-efficient Europe of the Europe 2020 strategy – separation of economic growth and use of resources, support to transition to a low-carbon economy, increase the use of renewable energy resources, modernise the field of transport, and foster energy performance by development of a sustainable transport infrastructure.

Thematic objective	ERDF	ESF	CF	EAFRD	EEF	YEI	Total	Link with national targets within the Europe 2020 strategy
8. Promoting stable, quality employment and supporting labour mobility	0	135,410,788	0	20,761,487	12,750,000	29,010,639	197,932,914	Targets of the NRP: 73% of people aged 20–64 should be employed. Reduction of the share of people at the risk of poverty to 21% or prevention of risk of poverty and exclusion of 121,000 people.
9. Promoting social inclusion and combating poverty and any kind of discrimination	193,377,447	225,160,750	0	156,340,791	0	0	574,878,988	Targets of the NRP: 73% of people aged 20–64 should be employed. Reduction of the share of people at the risk of poverty to 21% or prevention of risk of poverty and exclusion of 121,000 people.
10. Investing in education, training, and vocational education for skills and lifelong learning	277,460,786	238,500,493	0	16,198,463	0	0	532,159,742	Targets of the NRP: The share of early school leavers (aged 18–24, %) is 13.4%. The share of people aged 30–34 having acquired higher education is 34–36%.
11. Enhancing institutional capacity of public institutions and stakeholders and efficient public administration	0	18,063,357	0	0	0	0	18,063,357	NRP challenges: to reduce the administrative burden on enterprises, improve the quality of business legislation, and foster creation of a business-friendly environment.
Total	2,362,071,899	617,135,388	1,308,698,985	1,032,579,632	132,333,742	29,010,639	5,481,830,285	

In 2014, Latvia, in cooperation with other EU member states and neighbouring countries, participated in the development of programmes for the target *European Territorial Cooperation for 2014–2020* of the European structural and investment funds ensuring that they are handed over for approval to the EC in order to promote entrepreneurship and development of territorial balance, employment raise, environmental protection, and preservation of cultural and historical heritage, prevention of social inequality, as well as raising administrative capacity of public institutions and NGOs after implementing cross-border initiatives in cooperation with foreign partners in the new period.

An in-depth assessment of EU funds investment impact on the targets set in the *Europe 2020 strategy* will be performed by May 2016. Taking into account that completion of the programming period 2007-2013 coincides with the preparation of this report, Ministry of Finance is still gathering information on all the indicators obtained. In relation to the programming period 2014-2020, it must be noted that information on indicators of the launched specific support objectives and the achieved specific support objectives will be included in the aforementioned assessment.

Financing allocated to Latvia by the ERDF for ETS target in the programming period 2014–2020 is EUR 93.6 million, while the total benefit for Latvia will depend on the ability of the Latvian partners to establish a competitive partnership and prepare high quality project applications able to compete with partners from other programme member states.