



NATIONAL REFORM PROGRAMME OF LATVIA 2022 PROGRESS REPORT

#European semester
#National Reform Programme of Latvia
#Recovery and Resilience Plan of Latvia
#progress
#EU Council recommendations

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ABBREVIATIONS, MEASUREMENT UNITS, AND SYMBOLS

ALMP	active labour market policy	ML/TF/PF	money laundering, terrorism financing and proliferation financing
AS	joint stock company	MoW	Ministry of Welfare
bbl	barrel	MoW	Ministry of Welfare
CDPC	Centre for Disease Prevention and Control	MPC	mandatory procurement component
CIPL	Law On Prevention of Conflict of Interest in Activities of Public Officials	MSSIC	Mandatory State Social Insurance Contributions
CM	Cabinet of Ministers	Mt	megaton
CO ₂	carbon dioxide	Mtoe	megaton oil equivalent
COVID-19	coronavirus	MW	megawatt
CSB	Central Statistical Bureau	NDP2027	National Development Plan 2021-2027
CSCC	Cross-Sectoral Coordination Centre	NEET	youth not in education, employment or training
DESI	Digital Economy and Society Index	NGO	non-governmental organisation
DigiVes	Digital Health	NHS	National Health Service
EC	European Commission	NRP	National Reform Programme
ECL	Employers' Confederation of Latvia	NRRFPL	National Recovery and Resilience Facility Plan for Latvia
EIGE	European Institute for Gender Equality	OECD	Organisation of Economic Cooperation and Development
ERDF	European Regional Development Fund	OECD PISA	OECD Programme for International Student Assessment
ESF/ESF+	European Social Fund (ESF+ in 2021-2027)	OECD WGB	OECD Working Group on Bribery in International Business Transactions
ETS	Emissions Trading System	OPSI	Observatory of Public Sector Innovation
EU	European Union	PIAAC	Programme for the International Assessment of Adult Competencies
FDI	foreign direct investment	PIT	personal income tax
FCCM	Financial and Capital Market Commission	PREMS	Patient Reported Experience Measures
FIU	Financial Intelligence Unit	R&D	research and development
FIUIC	Financial Intelligence Unit Innovation Centre	REACT-EU	Recovery Assistance for Cohesion and the Territories of Europe
GRECO	Group of States against Corruption of the Council of Europe	RES	renewable energy sources
GDP	gross domestic product	RF	Recovery Fund
GHG	greenhouse gas	RRF	Recovery and Resilience Facility
ICT	information and communication technologies	SDG	Sustainable Development Goal
IDAL	Investment and Development Agency of Latvia	SEA	State Employment Agency
ILA	individual learning account	SEIS	State Education Information System
IT	information technologies	SLLC	State Limited Liability Company
JTF	Just Transition Fund	SME	small and medium-sized enterprises
km	kilometre	SMUCSC	State and Municipal Unified Customer Service Centres
KNAB	Corruption Prevention and Combating Bureau	SRE	State Real Estates
kWh	kilowatt-hour	SRS	State Revenue Service
LLC	limited liability company	STEM	science, technology, engineering and mathematics
LQF	Latvian qualifications framework	TAP	Portal of laws and regulations
LVSADA	Trade Union of Health and Social Care Employees of Latvia	TF/PF	terrorism/proliferation financing
ME	Ministry of Economics	UN	United Nations Organisation
MEPRD	Ministry of Environmental Protection and Regional Development	USD	US dollar
MES	Ministry of Education and Science	VAT	value added tax
MF	Ministry of Finance	VAS	state joint stock company
MFA	Ministry of Foreign Affairs	ViVaT	Unified Vaccination Information System
MH	Ministry of Health	WB	work-based
MJ	Ministry of Justice		

INTRODUCTION

Latvia has prepared the eleventh Progress Report on the Implementation of the National Reform Programme of Latvia¹ (hereinafter – Progress Report on the Implementation of the NRP of Latvia) which is closely linked to the *Stability Programme of Latvia for 2022-2025* and the *Recovery and Resilience Facility Plan for Latvia*.

In accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (EU), the *National Reform Programme of Latvia* (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 (within the framework of the European Semester). The European Commission (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 implementation of the NRP of Latvia is ensured through close cooperation among different institutions, including social partners and non-governmental organisations in the process as well. The Ministry of Economics (ME), as a national level institution responsible for coordination of the European Semester, has prepared the Progress Report on the Implementation of the NRP of Latvia in cooperation with the Ministry of Foreign Affairs, the Ministry of Finance (MF), the Ministry of Education and Science (MES), the Ministry of Welfare (MoW), the Ministry of Transport, the Ministry of Justice, the Ministry of Health (MH), the Ministry of Environmental Protection and Regional Development (MEPRD), the Ministry of Agriculture, the State Chancellery, the Cross-Sectoral Coordination Centre (CSCC), the Financial and Capital Market Commission (FCMC), the Corruption Prevention and Combating Bureau (KNAB) and the Financial Intelligence Unit (FIU).

At the stage of its coordination, the draft Progress Report was sent to social partners – the Employers' Confederation of Latvia (ECL), the Free Trade Union Confederation of Latvia and cooperation partners – the Latvian Chamber of Commerce and Industry, the Latvian Association of Local and Regional Governments.

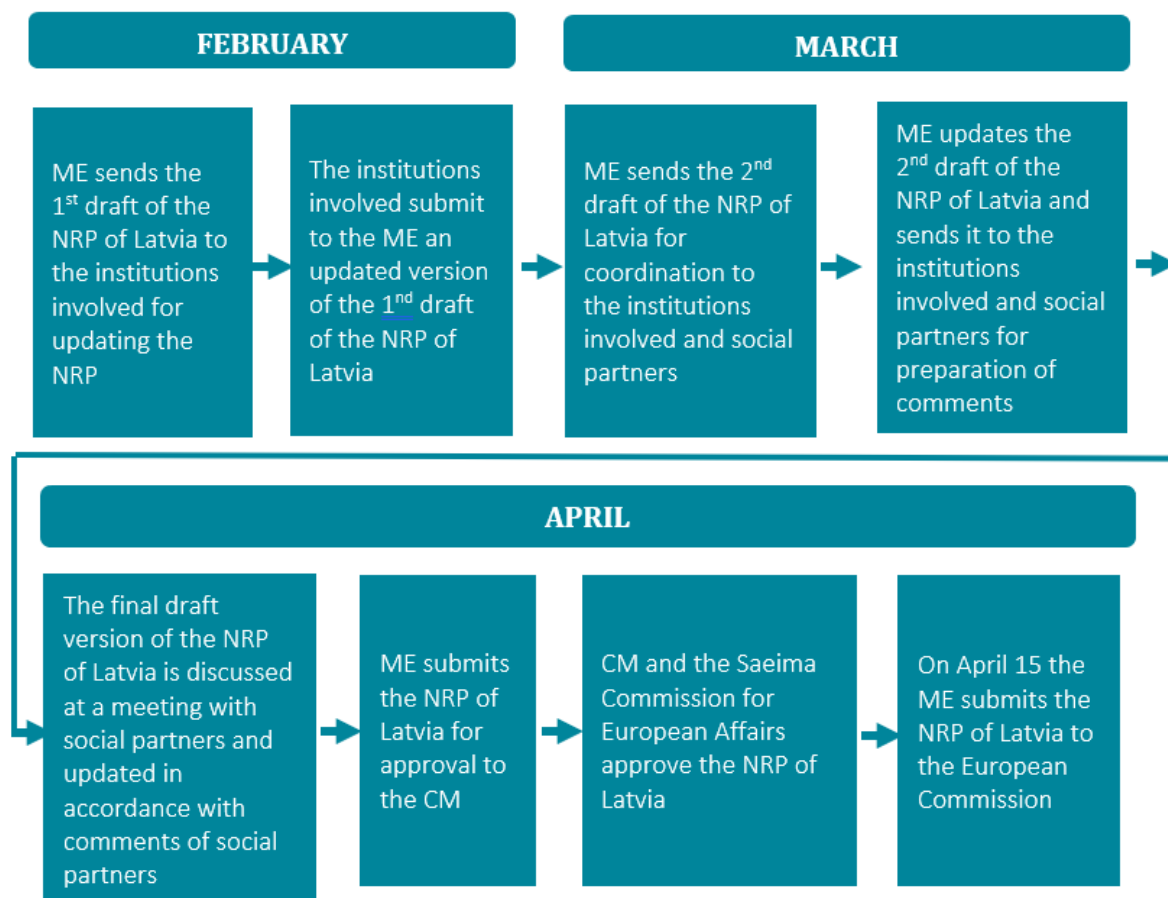
Most of the structural reforms included in the NRP of Latvia are discussed in the National Tripartite Cooperation Council, the National Development Council, the Employment Council and in other formats, for example, the established working groups, etc. The issues related to Latvia's economic development and competitiveness are discussed on a regular basis in sub-councils of the National Tripartite Council, for example, in the Tripartite Cooperation Sub-Council for Competitiveness and Sustainability, the Tripartite Cooperation Sub-Council for Budget and Tax Policy, the Tripartite Cooperation Sub-Council for Employment Affairs, the Tripartite Cooperation Sub-Council for Regional Development, etc. There are regular meetings of the Saeima's commissions, where discussions are not only on draft regulatory enactments, but also on the topics of development of the economy of Latvia, for example, the Budget and Finance (Tax) Commission, the Education, Culture and Science Commission, the Economic, Agricultural, Environmental and Regional Policy Commission, the Sustainable Development Commission, etc.

The annual process of updating the NRP of Latvia and preparation of the Progress Report on the implementation of the NRP of Latvia is shown in the Figure 1.

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.

Figure 1.

Involvement of institutional and social partners for coordination of the implementation of the NRP of Latvia



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 2019-2021. Chapter 3 provides information on the implementation of the Recovery and Resilience Facility Plan for Latvia, and Chapter 4 characterises progress in the achievement of the United Nations (UN) Sustainable Development Goals.

The progress report on the implementation of the NRP of Latvia shows indicative scope of funding in the EU Structural Funds and Cohesion Fund 2021-2027 programming period, indicators to the achieved and supported activities, taking into account that the EC has not yet approved the EU Cohesion Policy Programme 2021-2027.

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

1. MEDIUM-TERM MACROECONOMIC SCENARIO

Following a fall of 3.8% in 2020 due to the Covid-19 crisis, Latvia's economy has recovered rapidly. In 2021, compared to the previous year, gross domestic product (GDP) increased by 4.8% .

In 2020, the economic downturn was not as rapid as estimated at the very beginning of the Covid-19 crisis, as the Latvian manufacturing sector proved to be more resilient to the shock of the pandemic and the services sector recovered more rapidly than expected. Similarly, in 2021, economic growth was more rapid than estimated, driven by the favourable situation in external markets and the massive economic support measures making it possible to keep businesses and jobs in the sectors directly affected by the crisis, as well as by support for socially disadvantaged groups.

In 2020, the amount of state support to mitigate the effects of Covid-19 amounted to EUR 1.3 billion, or 4.3% of GDP. However, in 2021, the support amounted to EUR 2.3 billion or 6.9% of GDP, providing substantial support for both businesses and employees. Due to state support and successful adaptation of businesses to operation in crisis conditions, in Q2 of 2021, Latvia's economy already returned to its pre-crisis level (i.e., Q4 2019).

In 2021, trade, health, and manufacturing sectors contributed the most to economic growth, increasing by 8.9%, 24.8%, and 7.4%, respectively. The downturn was recorded in agriculture and construction– by 6.8% and 6.1%, respectively. Accommodation and food service activities that were hit the hardest by the Covid-19 restrictions fell 5.2%; also, arts, entertainment and recreation declined by 3.3%.

By the expenditure approach, last year economic growth was driven by a 4.8% increase in private consumption, resulting from the gradual reduction of Covid-19 restrictions, as well as state support to businesses and households. Public consumption grew strongly, increasing by 4.4%, compared to 2020, and the gross fixed capital formation increased by 3.0%. With exports (+6.2%) increasing slightly slower than imports (+13.5%), the contribution of net exports to economic growth was negative.

In 2021, due to the favourable situation in foreign markets, exports of Latvian goods continued to grow rapidly, setting new export records month after month. In 2021, total exports of goods at current prices increased by 23.9%. However, in 2020, exports rose by 2.6%. In 2021, the increase in exports of wood and wood products by 44.4% made the largest contribution to the increase in exports of Latvian goods, which was also boosted by price increases on the world market. Exports of metals (+50.5%) and mineral products (+87.5%) also played an important role in the overall increase in exports of Latvian goods.

According to the labour force survey, the unemployment rate, after rising to 8.1% in 2020 due to the Covid-19 crisis, fell to 7.6% in 2021. In 2020 and 2021, the impact of Covid-19 on the Latvian labour market was limited mainly thanks to state support measures, including downtime benefits and wage subsidies. As a result, the rise in unemployment during the pandemic was significantly lower than during the financial crisis of 2008-2009 and also more moderate than estimated at the beginning of the Covid-19 crisis.

According to the labour force survey data, the number of people employed in the economy was 3.2% lower last year than in 2020, reaching 864 thousand. The drop in the number of employees was driven by the restrictions imposed to reduce Covid-19 morbidity, when people became temporarily economically inactive and received downtime benefits. As restrictions eased, in 2021, the number of people employed gradually increased, temporarily returning more economically inactive people to the labour market. However,

in Q4 of 2021, employment was again negatively affected by the outbreak of Covid-19, as well as employment restrictions against people not vaccinated against Covid-19.

Following a very low 0.2% increase in consumer prices in 2020, inflation increased sharply in 2021, mainly due to a sharp increase in energy prices in world markets. In December 2021, annual inflation peaked at 7.9%. It was the steepest price increase since April 2009. In 2021, the consumer price index increased by a total of 3.3%. In particular, commodity prices rose 3.6%, while service prices grew 2.1%. The main impact came from the increase in electricity, gas, and other fuel prices by 6.4%, the increase in car fuel prices by 17.4%, and the increase in food prices by 2.6%.

In 2022, economic development is determined by the military aggression of the Russian Federation against Ukraine, the resulting geopolitical crisis and the suspension of economic cooperation with Russia and its ally Belarus.

Two medium-term macroeconomic development scenarios were developed in the preparation of the Stability Programme for 2022-2025. The first scenario was developed at the beginning of February 2022; however, at the end of February the military aggression launched by the Russian Federation against Ukraine made it obsolete, and a new scenario was developed at the beginning of March considering the impact of the war and the sanctions imposed on Russia on the country's economy.

Both scenarios were developed in consultation with experts from the Bank of Latvia and the Ministry of Economics, including in consultation with the EC and the International Monetary Fund, and the March scenario – with commercial banking experts. Both macroeconomic development scenarios have been approved by the Fiscal Discipline Council, publishing its opinions on 14 February and 9 March 2022, respectively.

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

- According to the scenario updated this March, gross domestic product will grow by 2.1% this year, with economic growth accelerating to 2.5% in 2023 and returning to previously projected growth rates in the medium term. These forecasts for 2022 and 2023 are 1.9 and 1.4 percentage points lower, respectively, than in the macroeconomic development scenario developed at the beginning of February;
- this year and next year economic growth will be affected the most by the external trade channel – all economically developed countries introduced trade sanctions against Russia, many private companies refused to cooperate caring for their reputation. Consequently, a significant drop in the turnover of goods and services is expected in Latvia's important trade direction. The scenario assumes that trade restrictions with Russia and Belarus remain in 2023; however, there is also no sharp further escalation of the situation;
- the scenario provides for smaller export and import volumes, while Latvian companies will shift exports of goods and services from the sanctioned aggressor countries to new outlets. As a result, exports of Latvian goods and services will decline by 3.0% in 2022, which is 8.1 percentage points less than in the original scenario. Next year, export growth will be at the level of the February scenario (-0.1%); nevertheless, it should be noted that the export value will be lower than in the original scenario;
- in addition, the economic situation will also be negatively affected by the rapid rise in prices, the military aggression launched by the Russian Federation, sanctions and disruption of supply chains, the rapid rise in energy prices and food prices, and the drop in business and consumer confidence. In 2022 and 2023, private consumption will grow by 3.7% and by 4.4%, respectively (by 1.8 percentage points slower than in the original scenario). Similarly, investment growth will be hindered by growing

- costs, particularly on the side of private investment, which will only grow by 1.9% this year and by 4.7% in 2023, as the situation stabilises;
- this year lower economic growth in the labour market will result in slower wage growth, less declining employment and rising unemployment. The average gross wage growth rate is expected to fall to 6% in 2022 and to 5.7% in 2023, prior to stabilising close to productivity growth rates;
 - unemployment rates would rise temporarily in the middle of the year, with the loss of jobs in individual companies related to Russian and Belarusian markets; however, in 2022, unemployment would remain at the level of 2021 – 7.6%, and then in 2023, with the negative impact diminishing, it would fall to 6.7% of the economically active population;
 - in 2022, the increase in consumer prices will reach 8.5%, mainly affected by increases in energy and food prices. Consumer price pressures will also be observed in other groups of goods and services. Russia’s military aggression against Ukraine and the possible escalation of the war, as well as imposing sanctions against Russia, especially in the field of energy, could further elevate consumer prices in Europe and Latvia;
 - the macroeconomic development scenario has been updated under extremely high uncertainty and is based on the situation in the first week of this March and on the assumption that there is no further sharp escalation of the situation;
 - the risks of scenario forecasts are currently to the downside, and the negative risks are associated with an even wider cessation of trade and business connections, including the suspension of imports of Russian energy sources, as well as a wider disruption in supplies that can lead to shortages of energy sources and other essential goods and significantly increase their prices;
 - economic growth rates may be significantly lower, with private consumption and private investment declining. In addition, consumer and business confidence can be hampered by further deterioration of the geopolitical situation and the further escalation of the situation, leading to a refusal from investing in the region;
 - the negative risks also include the difficulty of exporting companies to shift business from Russia to western markets, which can lead to a wider wave of bankruptcies and redundancies, raising unemployment rates and creating social tensions.

Table 1.1

Medium-term macroeconomic scenario

	2020	2021	2022f	2023f	2024f	2025f
GDP growth at current prices, %	-4.0	11.8	10.9	6.8	6.1	5.8
GDP growth at constant prices, %	-3.8	4.8	2.1	2.5	3.3	3.4
GDP deflator (y-o-y), %	-0.1	6.7	8.7	4.2	2.7	2.3
Consumer price index (y-o-y), %	0.2	3.3	8.5	3.5	2.5	2.0
Employment changes, %	-1.9	-3.2	1.3	0.4	0.0	0.0
Unemployment rate, % (aged 15–74)	8.1	7.6	7.6	6.7	6.2	5.9

Data source: CSB, f – forecasts of MF of March 2022

2. KEY ECONOMIC DEVELOPMENT CHALLENGES AND POLICY

2.1. FISCAL AND TAX POLICY

EU COUNCIL RECOMMENDATIONS:

- IN 2022, MAINTAIN A SUPPORTIVE FISCAL STANCE, INCLUDING THE IMPULSE PROVIDED BY THE RECOVERY AND RESILIENCE FACILITY, AND PRESERVE NATIONALLY FINANCED INVESTMENT. KEEP THE GROWTH OF NATIONALLY FINANCED CURRENT EXPENDITURE UNDER CONTROL.
- WHEN ECONOMIC CONDITIONS ALLOW, PURSUE A FISCAL POLICY AIMED AT ACHIEVING PRUDENT MEDIUM-TERM FISCAL POSITIONS AND ENSURING FISCAL SUSTAINABILITY IN THE MEDIUM TERM. AT THE SAME TIME, ENHANCE INVESTMENT TO BOOST GROWTH POTENTIAL.
- PAY PARTICULAR ATTENTION TO THE COMPOSITION OF PUBLIC FINANCES, BOTH ON THE REVENUE AND EXPENDITURE SIDES OF THE BUDGET, AND TO THE QUALITY OF BUDGETARY MEASURES, TO ENSURE A SUSTAINABLE AND INCLUSIVE RECOVERY. PRIORITISE SUSTAINABLE AND GROWTH-ENHANCING INVESTMENT, NOTABLY SUPPORTING THE GREEN AND DIGITAL TRANSITION AND STRUCTURAL REFORMS THAT WILL HELP PROVIDE FINANCING FOR PUBLIC POLICY AND CONTRIBUTE TO THE LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES, INCLUDING BY STRENGTHENING THE COVERAGE, ADEQUACY, AND SUSTAINABILITY OF HEALTH AND SOCIAL PROTECTION SYSTEMS.
- REDUCE TAXATION FOR LOW-INCOME EARNERS BY SHIFTING IT TO OTHER SOURCES, PARTICULARLY CAPITAL AND PROPERTY, AND BY IMPROVING TAX COMPLIANCE.

In 2022, the overall goal of the fiscal policy of Latvia remains unchanged – to raise the quality of life of the population in a sustainable way. The following priority development directions of the medium-term budget policy have been set to achieve the overall goal of the fiscal policy of Latvia: reducing income inequalities, strengthening human capital capacity in the public sector, improving health services in oncology, strengthening the innovative potential of the country, promoting the resilience of the post-pandemic economic environment, and increasing the portfolio of public investment projects.

In view of the preservation of the general escape clause of the Stability and Growth Pact in 2022, the objective of the structural balance for 2022 was set on the basis of the size of the nominal balance, taking into account the fiscal forecasts under unchanged policies, the decisions taken by the CM with a fiscal impact in the current budgetary cycle, as well as the forecasts of the Ministry of Finance on cyclical economic development. So, Latvia's structural balance objective for 2022 is -4.7% of GDP. At the same time, the fiscal space available for the implementation of a new government policy is calibrated to take into account both the expected level of general government debt and the principles set out in the EU's fiscal recommendation for the allowable growth of nationally funded primary current expenditure, the preservation of public investment and emergency COVID-19 support.

In the budget for 2022, EUR 264.7 million was earmarked for the implementation of investment projects – municipal investment projects, regional road reconstruction and renewal, improvement of infrastructure in agriculture, forestry and fisheries (including investments in amelioration systems and investments to achieve the Green Deal targets), the purchase of fire-fighting and rescue vehicles, as well as investments in the national military and defence industry. The implementation of projects within the Recovery and Resilience Facility will also be launched in 2022, with a current expenditure of 0.3% of GDP and a capital expenditure of 0.5% of GDP.

The general government budget deficit in 2022 according to the revised (in March) macroeconomic development scenario is forecasted to be 2.4 billion EUR or 6.5% of GDP. Support related to COVID-19 is also planned to be maintained in 2023, albeit to a lesser extent. High-readiness projects, as well as financing for the purchase of vaccines will

continue to be carried out at national and local level. Next year, the impact of the support on the general government budget deficit is estimated at EUR 263 million or 0.8% of GDP.

For several years, one of the government's top priorities in the field of taxes has been the reduction of the labour tax burden, particularly for low-wage earners. In recent years, targeted measures have been taken to implement this priority.

Also, in 2021, to soften the impact of the crisis caused by the COVID-19 pandemic and to improve the competitiveness of businesses, the labour tax burden was reduced for all employees.

In particular, as of 2021, the mandatory state social insurance contribution rate was reduced by one percentage point – the employer's rate by 0.5% and the employee's rate by 0.5%. Similarly, from 2021, the income threshold, to which the differentiated non-taxable minimum is applied when determining the income subject to personal income tax (PIT), was increased from EUR 1200 to EUR 1800 per month. From 2021, the non-taxable minimum for pensioners has increased by EUR 30 per month (from EUR 300 to EUR 330) and the minimum wage in the state has increased by EUR 70 per month (from EUR 430 to EUR 500).

Under the impact of the consequences of the COVID-19 crisis, no changes were made in 2022 to allow the transfer of the labour tax burden to other taxes; nevertheless, a possibility was found to support employees and pensioners by increasing their disposable income. From 1 January 2022, both differentiated minimum not subject to PIT and the non-taxable minimum of the pensioner were raised to EUR 350 per month, and from 1 July 2022 it will be raised to EUR 500 per month, reaching the minimum wage level. This will increase both the income of low and medium-income persons and the income of pensioners.

The reduction of the labour force tax burden should continue not only to reduce the burden, but also to improve the competitiveness of businesses among the Baltic States.

In line with the objective set out in the *Development Plan of the Financial Sector for 2021-2023* – to prepare the legal framework and the necessary infrastructure for issuing "green" or sustainable government debt securities, as well as to ensure issuing in case of the availability of eligible projects, the framework for sustainable bonds in Latvia was developed in 2021. On 6 December 2021, in accordance with the approved framework, the State Treasury issued for the first time national sustainable Eurobonds with a maturity of eight years raising EUR 600 million.

In 2021, the implementation of the EU Structural Reform Support Programme "*EU Taxonomy Implementation and Sustainable Financing Roadmap for Estonia and Latvia*" was prepared. The project will be implemented in cooperation with the European Bank for Reconstruction and Development and the team of experts involved. The objectives of this project are to support Latvian and Estonian institutions in developing a strategic approach to the provisions of sustainable financing, with a special focus on cooperation with small and medium-sized enterprises, and to help implement the EU's sustainable financial taxonomy (classification of economic activities).

2.2. ANTI-MONEY LAUNDERING

EU COUNCIL RECOMMENDATIONS:

- ENSURE EFFECTIVE SUPERVISION AND THE ENFORCEMENT OF THE ANTI-MONEY-LAUNDERING FRAMEWORK.
- CONTINUE PROGRESS ON THE ANTI-MONEY-LAUNDERING FRAMEWORK.

In 2021, Latvia continued to work purposefully to maintain the status of the Latvia's financial system as meeting the generally accepted international standards. In 2021, a number of measures were taken to prevent money laundering, terrorism, and proliferation financing (ML/TF/PF), ensuring continuity of system improvements and gradual progress in different directions related to the field.

Box 2.1

SUSPICIOUS TRANSACTIONS AND FROZEN FUNDS

The operational analysis figures for 2021 show a positive trend, namely 5715 reports on suspicious transactions, where the FIU conducted in-depth investigation in 5314 or 93% of cases. Compared to previous years (63% of all reported suspicious transactions were investigated in depth in 2019 and 84.9% in 2020), it is concluded that FIU's capacity in investigating suspicious transactions continues to grow. In 2021, the FIU issued 363 freezing orders, freezing historically the largest amount of potentially laundered money amounting to EUR 209.63 million. In the criminal proceedings started by KNAB in 2021, financial resources recognised by court rulings as laundered money amounting to almost EUR 5.6 million were seized and transferred to the state budget. At the same time, financial resources of EUR 8.81 million have been seized in the criminal proceedings of KNAB, as well as the criminal proceedings investigated and prosecuted have prevented the possibility of causing material damage to institutions of a public person or transferring bribes to public officials for a total amount of EUR 3.04 million.

On 12 January 2021, the FCMC Regulations "*Regulations for the establishment of customer due diligence, enhanced customer due diligence and quantitative risk assessment and information technology requirements*" were adopted, providing that institutions apply the risk factors defined in the European Banking Authority's Guidelines on Risk Factors and FIU typologies, as well as risk factors defined in risk assessments. The regulation provides the possibility to apply customer due diligence based on risks. Training on new customer due diligence regulations is provided for market participants and audit companies.

Amendments to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing drafted in line with the *Moneyval* assessment of Latvia's progress in the implementation of technical recommendations entered into force on 12 July 2021. The amendments to the regulation aim to strengthen the risk assessment-based approach by applying requirements for prevention of ML/FT/PT. Among other things, the law provided for the introduction of a new system for the receipt and analysis of FIU data (goAML)², ensuring the security and confidentiality of the submitted data, as well as improving their analysis processes. To do customer due diligence and transaction monitoring in good quality, the introduction of common customer due diligence tools for the verification of the veracity of the data provided by the customer, as well as the scope of subjects of law who should update information on beneficial owners at the same time as they make changes in the composition of the management body is extended.

In December 2021, the draft amendments to the FCMC Recommendations "*Recommendations for the creation of an internal control system for anti-money laundering, countering terrorist financing and proliferation financing and risk management of the risk of sanctions and customer due diligence*" were approved, which include recommendations for the prevention of ML/TF/PF and the management of sanctions risks, CTF/CPF issues, in line with a risk-based approach, including practical and up-to-date examples of risk-based measures of market participants.

² This process was successfully implemented and on 1 October 2021 the goAML launched its operation to replace the main FIU system and the e-reporting system, thereby contributing significantly to the effectiveness of one of the cornerstones of the anti-money laundering, countering terrorist financing and proliferation financing – reporting on suspicious transactions.

One important pillar of the FIU operation is strategic analysis. More than 10 strategic analysis products were developed or updated in 2021, such as the risk assessment “*Assessment of risks of money laundering, terrorism and proliferation financing of virtual currencies*”³, material “*Indicators and case study of corrupt criminal offences*”⁴, the guidelines “*Reporting suspicious transactions and withholding from transactions*”⁵.

Investigation of money laundering is also set as a priority instructing respective officials to perform a range of measures for more effective investigation of money laundering within the scope of existing resources.

Box 2.2

MONITORING AND RESULTS

In 2021, the meetings of the 10 meetings of the Platform for Cooperation and Coordination of Monitoring and Control Authorities were organised, at which supervisory and control authorities shared experiences and best practices in monitoring and control activities.

The on-site inspections carried out in 2021 identified various shortcomings in the field of credit risk management, collective savings creation processes, ML/TF/PF prevention and sanctions, internal management and risk management. The FCMC has ordered financial institutions to take the necessary measures to correct the identified deficiencies within a specified time limit and to supervise their implementation. The results of the inspections show that in general the risk level in major segments – credit institutions and payment institutions – in the field of the ML/TF/PF prevention in the Latvian financial sector continued to reduce, banks have taken important steps to improve internal control systems. In 2021, sanctions – warning or penalty – were imposed on four market participants.

In 2021, a total of five full on-site ML/TF/PF inspections were completed by credit institutions, including four inspections evaluated the internal control system of sanctions, three on-site targeted inspections were on possible sanctions circumvention, four on-site targeted inspections were on the identification of the beneficial owner and 11 were off-site targeted inspections. Four administrative cases were initiated, two administrative contracts were concluded and three decisions were taken, including one for an official.

Two inspections were completed in the non-banking segment, two administrative contracts were concluded, in one case a fine was imposed on a natural person.

TRAINING, COOPERATION, AND DISCUSSIONS

In 2021, eleven trainings and discussions were provided to subjects of supervision, entrepreneurs and the non-governmental sector on the topics of ML/TF/PF prevention, sanctions and internal control.

In view of the extension of the scope of EU sanctions against Belarus, two discussions were organised on the latest news on Belarus sanctions within a public-private partnership, which was a new initiative and a way to ensure better exchange of information with market participants on specific persons and sanctions risks.

The mechanism of the Cooperation Coordination Group successfully continued its activities. It should be particularly emphasised that in 2021 specialised working groups were set up within the Cooperation Coordination Group, which implemented inter-institutional cooperation projects, for example, in the field of prevention and combating of corruption⁶.

The creation of a virtual training platform started at the end of 2021, which intends to provide pre-recorded video lectures on a variety of field-related topics for law enforcement authorities and the prosecutor’s office. The training platform began operating in February 2022.

In October 2021, a training cycle was launched for subjects of the Prevention Law. Seminars were organised in cooperation with the supervisory and control authority responsible for the sector, involving foreign experts to provide an international vision on issues of concern to the sector. A total of 9 such seminars were completed, the records of which are available to the subjects of the Prevention Law in the newly created FIU training platform.

The third international level conference on sanctions matters was held on 25-26 November 2021. Name and scope of the last year’s conference – “EU Sanctions Against Belarus: Overcoming Implementation Challenges”.

On 8 December 2021, the FIU organised an on-site training for 20 prosecutors in the field of money laundering.

In the context of international cooperation, it is important to mention the Egmont Group plenary in Riga scheduled for summer 2022, which will bring together nearly 500 members, including representatives from 166 foreign financial intelligence units, as well as representatives from various international organisations. The organisation of such an international and prestigious event contributes, inter alia, to the enhancement of Latvia’s reputation and visibility, as well as makes it possible to demonstrate the significant achievements of Latvia in recent years in combatting money laundering, the financing of terrorism, and proliferation.

In 2021, work to set up the FIU Innovation Centre (FIUIC) started. The Centre was launched on 30 March 2022 with the opening discussion “Cooperation and Innovation –

³ Assessment of risks of money laundering, terrorism and proliferation financing of virtual currencies. Available at: https://www.fid.gov.lv/uploads/files/2021/virtu%C4%81%C4%81s%20val%C5%ABtas/FID_VV%20risku%20nov%C4%93rt%C4%93jums.pdf

⁴ Indicators and case study of corrupt criminal offences. Available at: <https://www.fid.gov.lv/uploads/files/2021/korupcijas%20materi%C4%81s/Korupt%C4%ABvu%20noziedz%C4%ABgu%20nodar%C4%ABjumu%20indikatoru%20un%20gad%C4%ABjumu%20anal%C4%ABze.pdf>

⁵ Reporting suspicious transactions and withholding from transactions. Available at: https://www.fid.gov.lv/uploads/files/2021/FID_Zi%C5%86o%C5%A1anas%20vad%C4%ABnijas_30092021.pdf

⁶ Explanation of the concept of the Cooperation Coordination Group. Available at: <https://fid.gov.lv/lv/darbibas-jomas/sadarbibas-koordinacija>

Next Step for National and Global Security”. FIUIC will create new channels for international cooperation and intelligence data exchange between financial intelligence units, law enforcement authorities, and other public-private sector partners to strengthen the proactive capacity to combat economic crime by coordinating research of new innovative technological, collaborative, and methodical solutions. FIUIC will be supported by the Recovery and Resilience Facility⁷. It is planned to be spent over several years, starting the absorption and use of the funds in 2022. The funding of the Recovery and Resilience Facility is allocated to different FIUIC activities; however, its support for the acquisition of new data analytics technology and the development of skills is particularly important.

In 2021, the FCMC continued working to promote a common understanding of the application of ML/TF/PF prevention requirements among market participants. Dialogue with market participants is ensured, various events are organised and explanations are developed, and regulatory frameworks are improved. To strengthen the quality of supervision a change in the approach of inspections is introduced and the methodology is improved. Skills and knowledge of employees continue to improve, and IT tools are used more efficiently. The process of regular off-site supervision for banks was improved, ensuring an assessment of the dynamics of ML/TF/PF risk exposure and the appropriateness of their changes once a quarter, as well as the potential impact of any exceedances on overall risk appetite.

Similarly, the FCMC continues to develop the *Baltics & Nordic* monitoring platform and to engage actively in exchange of experience with supervisors from other countries.

Plans in 2022:

- to complete the development of amendments that started in 2021, including a review of the criteria for the application of penalties, recommendations (guidelines) for the imposing of sanctions and legal obligations for violations of regulatory enactments in the field of money laundering and terrorism financing on financial and capital market participants and on natural persons responsible for the violation, strengthening the approach based on the set of stated risks and violations of the financial institution in decision-making on the application of a penalty;
- strengthening internal governance (development of internal control systems and risk management processes) and promoting sustainable finance at EU level will be the focus of supervision. The use of the internet environment increases much more rapidly under the influence of the pandemic contributing to the development of a variety of new criminal offences (such as fraud and cybercrime), which will inevitably also be the focus of the financial sector;
- 12 inspections are planned in the field of prevention of ML/TF/PF and sanctions.

⁷ Support for FIUIC operations will be provided within investment 6.2.1.1.i. “Establishment of an AML innovation centre for improving the identification of money laundering” of the *Recovery and Resilience Facility Plan*.

2.3. GUARANTEED MINIMUM INCOME AND SOCIAL SAFETY NET

EU COUNCIL RECOMMENDATIONS:

- ADDRESS SOCIAL EXCLUSION NOTABLY BY IMPROVING THE ADEQUACY OF MINIMUM INCOME BENEFITS, MINIMUM OLD-AGE PENSIONS AND INCOME SUPPORT FOR PEOPLE WITH DISABILITIES.
- PROVIDE ADEQUATE INCOME SUPPORT TO THE GROUPS MOST AFFECTED BY THE CRISIS AND STRENGTHEN THE SOCIAL SAFETY NET.

The medium-term policy aims to promote social inclusion of the population by reducing income inequalities and poverty, by providing sustainable, stable and adequate material support that ensures sufficient economic independence⁸. The development of state and local government material support is planned in such a way that social transfers are adequate, financially sustainable and do not undermine the motivation to enter the labour market. Plans until 2027:

- to ensure that the average level of restitution of newly granted pensions is not less than 40% of the average insurance contributions wage;
- the material support provided by the state reduces the risk of poverty for the population by at least 20%, including at least 35% for people of retirement age, by at least 20% for children;
- the share of people with incomes below the income threshold of a poor household reduces to 11%.

The main **challenges** faced in the field of social protection in Latvia are the low funding of the social protection system, the high risk of poverty (especially for people of retirement age and the unemployed), the low impact of social transfers on poverty reduction.

The number of people at risk of poverty in Latvia increased in 2020 and income inequality remained high. In 2020, 23.4% or 439 thousand people were at risk of poverty (EU27 – 17.1%). In 2020, the income of the wealthiest part of population was 6.6 times higher than income of the poorest part of population. The high risk of poverty and low adequacy of income of elderly people have been recognised as one of the main challenges of the Latvian social policy. For people over 50 years of age, the risk of poverty reached 24% in 2020, increasing by 2 percentage points compared to 2019. Meanwhile, among people aged 65 and more, the risk of poverty increased by 3.7 percentage points, and in 2020 the share of those at risk of poverty in this age group reached 44.6%. In addition, the amount of the pension granted to 39% of the beneficiary of the old-age pension did not exceed EUR 350 per month in October 2021. Seniors who live alone, households with one adult and children, families with many children and other households with children are concentrated in the lower-income quintiles. The total level of restitution of old-age pensions in Latvia has been fluctuating around 45% in the period since 2014, which is one of the lowest rates in the EU. Although the theoretically calculated level of restitution (for a person with a service record of 40 years, who retired at the retirement age defined by the state) in Latvia is higher – 46.7% gross (59.7% net), it also tends to decrease in the long term.

Despite a gradual increase in social protection expenditures in Latvia, the share of expenditures in GDP (15% in 2018) remains the third lowest among EU Member States. Low social protection costs have a negative impact on the effectiveness of the system, which is demonstrated by the impact of social transfers on the reduction of the risk of

⁸ Social Protection and Labour Market Policy Guidelines 2021-2027, approved by CM Order No. 616 of 1 September 2021 – <https://likumi.lv/ta/id/325828-par-socialas-aizsardzibas-un-darba-tirgus-politikas-pamatnostadnem-2021-2027-gadam>

poverty. In 2020, the support from social transfers reduced the share of people at risk of poverty by 17.1 percentage points.

To address the above challenges, a regular review of minimum support thresholds for benefits, pensions and compensations is planned in line with changes in socio-economic indicators. The mechanism for the indexation of pensions and compensations will also be improved, as well as the amount and the criteria of state social benefits will be reviewed to increase their adequacy and impact on the reduction of the risk of poverty. Along with the increasing material support provided by the state and local government authorities, measures will be taken to increase the range of people covered by the national social security system and their protection in the event of both short-term and long-term social risks.

Significant changes have been made to the **minimum income** thresholds for state and local government benefits and pensions. Increasing the minimum income thresholds from 1 January 2021 was the most ambitious change in the minimum income thresholds over the last ten years, which in general (on the state and local government side) had a positive impact on over 100,000 low- and very low-income residents. Thus, in 2021:

- the guaranteed minimum income threshold was increased to EUR 109 for the first or only person in a household and to EUR 76 for other persons in the household;
- the income threshold for a poor household was increased to EUR 272 for the first or only person in the household and to EUR 190 for other persons in the household;
- each local government is entitled to set the income threshold for a low-income household not higher than EUR 436 for the first or only person in a household and to EUR 305 for other persons in the household, but not lower than the income threshold for a poor household;
- a single legal framework for the provision of housing benefit has been provided, setting out specific housing-related expenditure items and their minimum rates which will be used to calculate the amount of housing benefit;
- the minimum amount of the old-age pension was increased setting it for each year of the insurance period. The increase of the minimum amount of old-age pensions will increase the amount of funeral benefits and benefits for the surviving spouse;
- the minimum disability pension was increased;
- support for children in the event of loss of a breadwinner was increased both for the beneficiaries of the minimum survivor's pension and for the beneficiaries of the state social security benefit;
- the amount of the state social security benefit for seniors and people with disabilities was increased.

The approved *“Plan for the Improvement of the Minimum Income Support System 2022-2024”* provides for a state co-funding of 30% to local governments from 2022 for the provision of basic social assistance benefits – the guaranteed minimum income benefit and housing benefit, but starting from 1 January 2023 the minimum income thresholds are expected to be increased annually instead of once in three years and a methodology of calculation of minimum income thresholds is planned to be determined in regulatory enactments. The matter regarding the allocation of additional state budget funds necessary for the implementation of the measures should be viewed in the process of preparation and review of the CM's draft annual state budget and the draft medium-term budgetary framework together with the applications for priority measures submitted by all ministries and central state institutions, in accordance with the financial possibilities of the state budget.

In order to provide the necessary **support for orphans and children left without parental care**, when they start living independently, and to promote social inclusion and acquisition of education, the one-off benefit for the commencement of an independent life, the benefit for monthly expenses and the benefit for the purchase of household goods and soft inventory was increased.

As a result of the **reform of the state family benefit** implemented in 2021, the amount of the benefit and the conditions for granting it have changed significantly from 1 January 2022. In future, the amount of the family state benefit for a dependent child aged from one year to 20 years will depend on the number of children in the family: the family will receive EUR 25 per month for one child, EUR 100 for two children (EUR 50 per child), EUR 225 for three children (EUR 75 per child) and the benefit will be EUR 100 per month per child for four and more children.

To reduce the negative impact of the COVID-19 pandemic, in addition to existing policy measures and standard support instruments, both one-off and short-term **support measures were introduced for different population groups at risk of poverty or social exclusion**:

- In 2021, between 1 November 2021 and 31 March 2022, a benefit of EUR 20 per month was paid to each person living in Latvia who had reached the age of 60 by the end of 2021 and completed a full vaccination course against COVID-19. Although the benefit is aimed at promoting vaccination among people aged 60 and more, it is a known support at the time when there is a general increase in prices in the country, including increase in energy prices;
- a one-off benefit of EUR 500 per child was granted;
- a single benefit of EUR 200 was granted to seniors and persons with disabilities;
- the person entitled to the child care benefit for a child below one year of age, the state family benefit or entitled to a maternity benefit due to the birth of a child if the child was born until 30 April 2022, will be paid a benefit of EUR 50 per month for the period from January to April 2022.

In order to reduce cost increases and immediate negative impacts of **growing electricity and heat prices** on lower-income residents and people more at risk of poverty, as well as to reduce energy poverty, the following support measures were set from 1 January to 30 April 2022:

- payments for the mandatory procurement component (MPC) for electricity are 100% covered from the state budget;
- the costs of electricity system services forming about one-third of the final bill are 100% covered from the state budget;
- for district heating customers experiencing an extreme increase in prices, the difference from the tariff approved by the Public Utilities Commission are 100% covered from the state budget;
- for households using natural gas for heating, the state budget covers the price difference between EUR 0.0340/kWh and the actual price of natural gas, but not more than EUR 0.03045/kWh excluding VAT;
- benefit of EUR 20 per month is paid to certain groups of beneficiaries of pensions and benefits, refugees and persons granted subsidiary protection of retirement age or with certain disabilities;
- the range of beneficiaries of housing benefits was extended and the amount of support provided (applying coefficients) to a separately residing person of retirement age or a separately residing person with disabilities, a household with only retirement age persons or persons with disabilities was increased.

From 1 November 2021 to 31 December 2022, for all protected user groups (families with many children, persons with first group disability, families with children with disabilities and low-income or poor households), monthly support for electricity settlements was increased by EUR 10, and vulnerable households received a reduction of EUR 15 or 20, depending on the group (previously EUR 5 or 10, depending on the group). Overall, the estimated number of support beneficiaries in Latvia is approximately 170,000 people.

From 1 January 2022 to 31 December 2022, expenditure of local governments on housing benefits will be 50% co-funded from the state budget. This will make it possible to provide the housing benefit to more people, prevent a decline in population solvency, and reduce the consequences of the spread of the COVID-19 pandemics and the increase in electricity prices.

As from 1 January 2022, the **non-taxable minimum for a pensioner** has increased – from 1 January to 30 June, the non-taxable minimum for the pensioner was increased to EUR 350 per month, while from 1 July it will be increased to EUR 500 per month (in 2021, the non-taxable minimum for the pensioner was EUR 330 per month).

To improve the standard of living and the material situation of seniors, proposals for determining the base pension are intended to be prepared.

2.4. EDUCATION AND EMPLOYMENT

EU COUNCIL RECOMMENDATIONS:

- INCREASE THE QUALITY AND EFFICIENCY OF EDUCATION AND TRAINING IN PARTICULAR OF LOW-SKILLED WORKERS AND JOBSEEKERS, INCLUDING BY STRENGTHENING THE PARTICIPATION IN VOCATIONAL EDUCATION AND TRAINING AND ADULT LEARNING.
- MITIGATE THE EMPLOYMENT IMPACT OF THE CRISIS, INCLUDING THROUGH FLEXIBLE WORKING ARRANGEMENTS, ACTIVE LABOUR MARKET MEASURES AND SKILLS.

Education Development Policy

On 21 June 2021, the CM approved the *Education Development Guidelines 2021-2027 “Future Skills for the Future Society”*, which cover all the types and levels of education. From 2021 to 2027, in all areas of education attention will focus on the implementation of the initiated reforms and the development and provision of necessary support systems (human resources, cooperation networks, governance, quality), thus strengthening the sustainability of changes (see Box 2.3).

Box 2.3

EDUCATION DEVELOPMENT GUIDELINES 2021-2027

The overarching **objective** of the guidelines is to provide quality education opportunities for all Latvian inhabitants to promote the development and implementation of their potential throughout their life, and to build their ability to change and manage permanent changes in society and in the economy. Four related education development objectives or key priorities have been set for the implementation of the overarching objective:

- 1) highly qualified, competent and excellence-oriented teachers and academic staff;
- 2) modern, high-quality education supply focused on the development of skills highly appreciated in the labour market;
- 3) support for everyone’s growth;
- 4) sustainable and effective management of education systems and resources.

The guidelines set out three horizontal priorities: (1) to ensure education quality management and monitoring, (2) to create a digital education ecosystem and (3) to implement strategic and effective management of educational institutions.

Major changes in four areas of education:

- general education – to introduce and strengthen the competence approach with a view to improving teaching, learning and performance of students, attracting new teachers by ensuring renewal of teaching workforce and providing a targeted support system to strengthen inclusive education;
- vocational education – to strengthen vocational education institutions as centres of sectoral excellence and innovation, to develop flexible and sustainable education supply and to strengthen coordinated and strategic cooperation with representatives of industry organisations and employers;
- higher education – to strengthen the quality of academic staff and to ensure sustainable academic careers, to promote excellence in higher education and to strengthen the governance of higher education institutions;
- adult education – increasing participation of adults in education – particularly for population groups less engaged in training, increasing the quality of adult education and creating a sustainable and socially responsible funding system for adult education.

Major challenges to be addressed – insufficient attractiveness and competitiveness of the teacher’s profession; weak renewal of teaching workforce and academic staff; the supply of education that is not sufficiently relevant to today’s needs; insufficiently inclusive and emotionally secure environment in educational institutions; unequal education opportunities in cities and in rural areas; low learning motivation and the involvement of all parties in adult education; lack of skills required in the labour market; insufficient digital skills in society; incomplete data management and quality management of education at educational institutions and national level, as well as an inadequate network of educational institutions in general and higher education for the provision of high quality education.

In order to achieve the objectives set out in the guidelines, the MES has developed a draft *Action Plan for 2021-2023*, which is planned to be approved by CM in spring 2022. In the three years of implementation of the plan a variety of activities are planned - related to the evaluation of existing systems, processes and approaches; the development of new and improved solutions, tools and methods (conceptual vision); the improvement of a regulatory base or the preparation of a new regulatory framework; the development of guidelines, criteria and methodologies; various types of informational, consultative and methodical support for a broad range of stakeholders (staff, students, managers, partners), development and strengthening of current skills (incl. digital) for different target groups (teachers, academic staff, students) and partnership building, exchange of experience and knowledge transfer, improvement of the learning environment and infrastructure, management of data and information (systems), as well as management of institutional and human resources.

In order to improve the quality and effectiveness of education, Latvia took a series of measures in the field of education in 2021, as well as plans to continue the ongoing reforms in general, vocational, higher and adult education in 2022.

General Education

Adjustment of the Network of General Education Institutions

The adjustment of the network of educational institutions in Latvia has been ongoing since 2016. Demographic, migration and employment trends in Latvia have also had a

significant impact on the education sector. In seeking the most appropriate solutions to ensure the efficiency of the high-quality education and school network, changes have been made to the network of local government general education institutions, with local governments deciding on the reorganisation or liquidation of the educational institutions they established.

The adjustment of the network of general education institutions is an essential prerequisite for:

- promoting the availability of high-quality education developing student's skills for each student;
- ensuring rational and efficient use of educational resources, thereby promoting the possibility of modernising the learning environment in educational institutions, providing the necessary equipment for learning the content of studies, as well as creating a competitive remuneration for teachers in educational institutions;
- increasing the availability of support personnel and services according to the needs of students;
- developing methodological work in the educational institution and local government.

Further adjustment of the network of educational institutions will be facilitated by the **new model of financing the remuneration of teachers of general education institutions** "Pupil in a Local Government"⁹. From 1 September 2022, the state funding for the payment for teachers' wages is planned to be calculated and transferred to local governments (according to the number of students in the local government), which will further distribute it to their educational institutions, providing a quality education service appropriate to the needs of the population. This is envisaged by the draft CM Regulations prepared by the MES and in March 2022 submitted for inter-institutional co-ordination regarding the procedures for calculating and distributing the state budget targeted grants for teachers' salaries in local government general education institutions and general secondary education institutions founded by state higher education institutions.

Since the beginning of 2022, the MES has been working with inter-institutional working group whose a mandate to draw up until the end of 2022 proposals for increasing teachers' salaries and balancing workloads for the period from 1 September 2023 to 1 September 2027.

The optimisation of the network of schools will also be facilitated by amendments approved by the Government on 15 June 2021 on the procedure of participation of the state in the financing of salaries of teachers in general education institutions at the secondary education level. Criteria for the **quality and minimum number of students at the secondary education level** in local government, state higher education and private general secondary education institutions have been defined. When calculating teachers' salaries at the level of secondary education, the quality of each educational institution – the results of accreditation and the calculated index of the mandatory centralised examinations – will be taken into account from academic year 2021/2022.

To facilitate further development of the network of general education institutions, a support measure within the framework of the National Recovery and Resilience Facility Plan for Latvia (NRRFPL) (EUR 36 million) is scheduled to be launched in 2022 by strengthening 20 primary schools sustainable in terms of number of students outside administrative centres of local governments, created as a result of a comprehensive adjustment of the network of municipal education institutions. The learning environment

⁹ It was supported at the CM meeting of 21 December 2021 by the conceptual report "On Proposals for Improving the Teacher Wage Financing Model".

of primary schools will be modernized to be suitable for the acquisition of the improved general education content. The measure will complement projects of EU funds 2014-2020 programming period implemented until the end of 2023, which envisage the modernisation of the infrastructure and equipment of general education institutions in the state-cities and administrative centres of some local governments.

Transition to Competence-Based Curriculum

The **reform in the general education** continues by introducing a competency approach in the educational curriculum, strengthening the teacher support system and the improvement of the learning process at all levels of general education. The improved curriculum of general education contributes to the compliance of education with changing labour market requirements. The new approach focuses on the development of transversal competencies such as critical thinking and problem solving, creativity and entrepreneurship, self-guided learning, cooperation, civic participation and digital skills. The mastering of secondary education curriculum is intended not only at the optimal level, but also in optional subjects and courses – in-depth at a higher level thus promoting a more targeted path for young people to higher education. The approbation and gradual introduction of the improved curriculum in general education is ensured within the ESF project “*Competence-based approach in educational curriculum*” (or “School 2030”), which will be implemented until 2023. The total funding available for the project is EUR 31.7 million, including ESF co-funding of EUR 27 million and state budget funding of EUR 4.8 million. The introduction of the improved curriculum started at pre-school level on 1 September 2019. In 2020, the gradual introduction of the improved basic and secondary education curriculum was started according to specific timetable: from 1 September 2020 – in grades 1, 4, 7, 10, from 1 September 2021 – in grades 2, 5, 8, 11, from 1 September 2022 – in grades 3, 6, 9, 12, envisaging that at the end of the academic year 2022/2023, state examinations in basic and general secondary education will be taken according to the requirements of the new standard of general education. The project continues with the preparation and adaptation of teaching aids, including digital teaching aids and methodological materials, the development and implementation of professional competence improvement programs for teachers, etc. activities for the introduction of the improved general education curriculum.

The diversity of Latvian education services is fostered with ESF support, thus improving **individual competences and learning achievements of students**. The ESF project “*Support for the development of individual competences of students*” is aimed at introduction of new learning forms in general education institutions for the development of individual approach to the acquisition of educational curriculum and as extra-curricular activities. The project offers diverse support to students with special needs and learning difficulties, as well as to students with high achievements. Particular attention is paid to the supply of STEM interest-related education programmes. 321 general education institutions are involved in the project in academic year 2021/2022. As a result of the project, 272 general education institutions are expected to introduce an individual approach to development of students’ competences by 2023. The total funding available for the project is EUR 34.1 million, including ESF funding of EUR 29 million and state budget funding of EUR 5.1 million. Additional state budget funds of EUR 0.4 million were granted for the project at the end of 2021 for the implementation of support measures to reduce the consequences of COVID-19 in general education institutions – to provide learning groups and teaching assistants.

On the other hand, the objective of the ESF project “*Implementation of national and international events for the development of talents of students*” is to provide support for the implementation of national and international measures for the development of talents of

students. The project ensures the organisation of olympiads and scientific contests in learning subjects at national and international level and provides support for the development of talented students and for the professional development of teachers for teaching gifted and talented students. As a result of the project, 200 general education institutions are expected to introduce an individual approach to development of students' competences by 2023. The total funding available for the project is EUR 4.1 million, including ESF funding of EUR 3.5 million and state budget funding of EUR 0.6 million. To ensure remote implementation of the activities planned in the project, state budget funding of EUR 50 thousand was granted to the project at the end of 2021.

Support for Reducing Early School Leaving

Preventive and intervention measures, including the creation of a supportive learning environment in Latvian general and vocational education institutions, are being implemented to reduce the number of early school leavers among children and young people. The ESF project "*Support for reducing early school leaving*" provides a diverse set of activities, including economic (compensation for public transport, official accommodation facilities, catering expenses, acquisition of personal learning aids, etc.) and individual advisory support (involvement of psychologists, speech therapists, etc.) for students at risk of early school leaving. The project is implemented in cooperation with local governments. 665 educational institutions are expected to have implemented and will provide systemic support to reduce the risk of early school leaving by 31 December 2023. By the end of 2021, a total of 584 educational institutions had been involved in the project and more than 73,100 individual support plans had been prepared. A total of 249 youth initiative projects have been implemented (including 122 projects in 2021). The involvement of students at risk of early school leaving in youth initiative projects promotes their motivation to continue education. The project also provides different types of activities for teams of education specialists, local governments and schools to promote the recognition of the risk of early school leaving and to provide support in working with students at risk of early school leaving. The creation of an interactive tool has started to help educational institutions assess and manage the risks of early school leaving. The total eligible funding available for the specific support is EUR 36.2 million, including ESF funding of EUR 30.7 million and state budget funding of EUR 5.4 million. Additional state budget funds of EUR 1.2 million were granted for the project at the end of 2021 ensuring a bigger scope of support for individual consultations in general and vocational education institutions.

The ESF project "*Career support in general and vocational education institutions*" is implemented with a view to improving access to **career support** to students in general and vocational education institutions, thus reducing dropouts from education programmes. 295 educational institutions participate in the project in academic year 2021/2022, including 15 vocational education institutions, which have been granted the status of a vocational education competence centre attracting 195 teachers as career advisers. Their task is to provide students with a conscious choice of vocational (or general) education programmes and professional careers, offering diverse information, consultations on career development opportunities and targeted career education activities. As a result of this project, 328 general and vocational education institutions are expected to improve approach to career development support for students by 2023. The total funding available for the project is EUR 23.6 million, including ESF funding of EUR 20.1 million and state budget funding of EUR 3.5 million.

The ESF project "*KNOW and DO!*" is being implemented in cooperation with local governments, within which young people who are not involved in employment, education or training (NEET) can receive mentor support by implementing an individual support

programme or support for social inclusion, facilitating the return of young people to education or employment. By the end of 2021, 3945 youths have been involved in the project and 2585 of them have successfully completed the individual programme of activities provided to them under the project. The funding planned for the project is EUR 9.96 million, including ESF funding of EUR 8.5 million and state budget funding of EUR 1.5 million. The project is expected to be implementation until 31 December 2023. EUR 1.5 million (including ESF funding of EUR 1.3 million, state budget funding of EUR 225,001) were granted to the project at the end of 2021 within REACT-EU to provide support to NEET youths under conditions of the COVID-19 pandemic.

Reducing the Digital Gap

The Memorandum of Cooperation *“Computer for every child”* signed by senior officials of the state and Latvian Association of Local and Regional Governments on 14 May 2021 envisages providing a computer suitable for the learning process for each student and teacher by 2025, as well as the establishing a computer library in schools. The support measure *“Digitisation of educational institutions”*, with the available funding of EUR 11.2 million under REACT-EU, is the first step towards achieving the objectives of cooperation. With funding available from REACT-EU, around 26,000 portable computers are planned to be purchased in 2022. They are primarily intended for students of grades 7-9. Portable computer equipment will be purchased for the most socially vulnerable students under NRRFPL. Computer equipment for other groups of students will be purchased within the framework of the specific objective of the EU funds 2021-2027 programming period *“Supplying educational institutions for the quality introduction of improved educational curriculum”*.

Vocational Education

There have been significant changes in the Latvian vocational education system in recent years – the network of vocational education institutions has been adjusted, significant investments have been made to modernise infrastructure, to improve the material and technical base, new forms of cooperation with social partners and the private sector have been created, the Sectoral Qualifications Framework, profession standards and professional qualifications requirements have been developed.

Implementation of Curriculum Reform in Vocational Education

Vocational education affected by significant changes related to the transition to the vocational education process based on learning outcomes, as well as introducing a modular approach in the implementation of vocational education programmes. The purpose of the vocational education curriculum reform is to establish an independent, qualitative vocational education system meeting the needs of continuous development of economic sectors, which is able to respond quickly to labour market demand by evaluating and updating education curriculum in accordance with the sector qualifications structure.

The restructuring of vocational education programmes is implemented within the framework of the ESF project *“Improving the sectoral qualification system for the development and quality assurance of vocational education”* which started in 2016. The project is expected to end at the end of 2022. Within the project, the sector qualifications system is improved and descriptions are prepared, 202 profession standards and professional qualification requirements have been developed, including 40 standards for professions on level 5 of the Latvian Qualifications Framework, 185 modular vocational education programmes have been developed and introduced, content for professional qualification examinations for 206 professional qualification examinations have been developed. 23 of 31 digital learning materials have been developed, as well as 130

simulation devices have been purchased and transferred to vocational education institutions. Total planned project funding is EUR 12.57 million, including ESF funding of EUR 10.68 million.

Box 2.4

AMENDMENTS TO THE VOCATIONAL EDUCATION LAW

On 15 March 2022, amendments to the *Vocational Education Law* entered into force, which continues to reform the content of vocational education, including:

- the scope of the law has been extended to cover all levels of the Latvian Qualifications Framework, including professional higher education;
- the typology of vocational education institutions has been clarified defining which education programmes according to the LQF level are implemented by each of them (four statuses of vocational education institutions have been set – technical school, arts education competence centre, vocational secondary school and vocational continuing education centre);
- the regulation for modular vocational education programmes, principles and procedures for the collection, transfer and recognition of learning outcomes, as well as documents certifying the mastering of a professional qualification part has been improved;
- the functions and rights of the Sectoral Expert Council have been clarified, as well as it has been stated that the coordination of the activities of the Sectoral Expert Council will be financed from the state budget;
- there are intentions to introduce the processing of data of the monitoring of graduates of vocational education programmes;
- insurance of students against accidents during studies is intended;
- the rules have been clarified and the possibilities have been extended for the mastering of vocational continuing education training and professional improvement education programmes;
- a transition from the accreditation of programmes to the accreditation of an educational institutions has been defined.

Within the ESF project *“Efficient management of vocational education establishments and raising the staff competence”*, samples of vocational education programmes have been developed aiming to facilitate and ensure the process of development of education programmes for vocational education institutions, to ensure effective management and supervision of the quality of education, to reduce the administrative burden by simplifying processes of drafting and circulation of documents for licencing of education programmes. Total funding available for the project is EUR 6.49 million, incl. ESF funding of EUR 5.52 million.

Implementation of Work-Based Learning

A new form of getting education is introduced in the vocational education system in Latvia – work-based learning (WB learning), which uses an approach to the organisation of the training process (part of internship) that is fundamentally different from traditional education programmes with a small number of students in study groups, a different place of training, the duration of studies, which makes it necessary to develop a new approach for determining costs. Since 2017, the ECL, in cooperation with vocational education institutions and companies, have been implementing the ESF project *“Participation of students of vocational education institutions in work-based learning and internships in enterprises”*, which aims to promote the introduction of WB learning. The implementation of the project strengthens the quality and popularity of vocational training as well as the preparation of qualified professionals for businesses in the economic sectors with the highest shortage of professionals. More than 4,000 students of vocational education institutions are expected to be involved WB learning, and more than 15 thousand students of vocational education institutions are expected to be involved in internships in enterprises by the end of 2023. By March 2022, 2721 students have been involved in WB learning and 8909 students have been involved in internship in an enterprise. 37 vocational education institutions and 2853 enterprises have been involved in the project. Total funding available for the project is EUR 15.60 million, incl. ESF funding of EUR 13.26 million.

Tertiary Education

Latvia has launched several initiatives to promote matching demand and supply of skills, as well as to assess the quality of studies by evaluating employment outcomes and competitiveness of graduates of higher education institutions. MES has introduced **monitoring of graduates** of higher education institutions based on administrative data

and has started publishing data on the Latvian Open Data Portal¹⁰. A Graduate Monitoring Data Visualization Tool was created in 2021 and is available on the SEIS portal.¹¹ Graduate monitoring data is one of the components for monitoring the quality of education. To strengthen the graduate monitoring system, in 2022-2023 there are plans to participate in the second pilot survey EUROGRADUATE 2022 organised by the EC. The main objective of the survey is to obtain internationally comparative data on the employment of graduates and the conditions affecting it, to develop a methodology for organising graduate surveys at national level and to improve the possibilities of data analysis by combining administrative data with data from surveys.

A regulation for **WB learning in higher education** is intended to be developed in 2022 to bring closer the education process and the real-life working environment in order to strengthen the supply of skills needed in the economy.

Introduction of a New Model of Doctoral Studies

On 16 June 2020, CM approved the conceptual report “*On the Introduction of a New Model of Doctoral Studies in Latvia*”. The new model envisages a significant improvement in the quality of doctoral studies and the introduction of a new funding procedure, ensuring competitive remuneration for doctoral students during studies, as well as an establishment of a unified promotion procedure, thus contributing to the renewal of human resources in higher education and research. The gradual introduction of the new model of doctoral studies will take place until 2026, in line with the solution included in the conceptual report.

Since 2021, the MES has been developing the necessary amendments to the *Law on Higher Education Institutions* and the *Law on Scientific Activity* for the introduction of the new model of doctoral studies. The draft laws prepared in accordance with the solution included in the conceptual report “*On the Introduction of a New Model of Doctoral Studies in Latvia*” will determine: employment of doctoral students, post-doctoral phase and post-doctoral student’s status, the duration of the academic leave within one doctoral study programme, the action if it is revealed that the diploma, degree or professional qualification awarded by the higher education institution has been obtained as a result of a dishonest act, including plagiarism, a common understanding of a doctoral student’s theoretical research and an artistic creation work, the implementation of doctoral studies within the framework of the doctoral school, including the functions and tasks of the doctoral school, internal quality assurance and external quality assessment of the doctoral school, a common understanding of the doctoral thesis and the public funding of doctoral studies. The legal norms on the functions performed by higher education institutions in their internal quality assurance systems will be also amended accordingly. These amendments will affect the creation of internal procedures at the higher education institutions for the observation of the academic integrity and investigation of academic misconducts, including plagiarism, as well as for the decision-making, admission to the doctoral study programmes, requirements for individuals participating in the implementation of an academic doctoral study programme, the licensing of a doctoral study programme and revocation of the licence, the duration of full-time studies in a doctoral study programme, the awarding of the doctoral degree and a Vocational Ph. D. in Arts for the doctoral degree conferral council of higher education institutions and the defence of a doctoral thesis. The draft amendments to the *Law on Higher Education*

¹⁰ Graduates of Latvian higher education institutions in 2017 and 2018; in the taxation/monitoring years 2018 and 2019. Available at <https://data.gov.lv/dati/lv/dataset/latvijas-augstakas-izglitiba-iestazu-2017-un-2018-gada-absolventi>

¹¹ Tool for monitoring of graduates of higher education programmes. State Education Information System. Available at: <https://www.viis.gov.lv/monitoringa-riki>

Institutions and the *Law on Scientific Activity* also provide other necessary updates, including the improvement and harmonisation of terminology to ensure unambiguous understanding and clarity of the legal norms. It is planned to submit the above mentioned and other draft amendments to the related laws to the CM by June 2022. By the end of 2022, the MES will draft amendments to regulatory enactments, as well as develop new CM regulations on the basis of the delegations set in the draft amendments to the *Law on Higher Education Institutions*, the *Law on Scientific Activity* and other related laws.

A gradual transition to the new funding model of doctoral studies (instead of current scholarships granting the remuneration of at least EUR 1000 per month for the doctoral student) takes place through the implementation of the third project application round of the ESF specific objective *“To strengthen academic staff of higher education institutions in strategic specialisation areas”*. Since Q2 2021, the institutions involved in the implementation of this project application round – higher education institutions, together with their partners, have introduced a new model of doctoral studies at institutional level. The implementation takes place in accordance with a drafted development plan for doctoral studies coordinated with the MES for the next 6 to 7 years and until the end of 2023 provides an opportunity for doctoral students and candidates for the degree to obtain a grant for doctoral studies covering the costs of doctoral student’s remuneration (EUR 1000 per month) planned in the new mode of doctoral studies, as well as research and mobility costs (EUR 400 per month). The support from EU funds is intended for a total of 341 doctoral students, of which 121 should continue cooperation with the higher education institution for 6 months after obtaining a doctoral degree. The support is also intended for the recruitment of 30 foreign academic staff members.

It is planned that, starting from 2024, all newly admitted doctoral students, who will have obtained a state budget funded study place in a competition, will be awarded a doctoral student’s remuneration. A doctoral student (or in case of a doctoral grant, a candidate for a doctoral degree) will receive a doctoral grant (from 2021) and a doctoral student’s remuneration (from 2024) for a period of 12 months per year for a workload of 0.5. The second part of the workload (or at least part of the second workload) will be covered by the implementer of the doctoral study programme by involving and employing a doctoral student (or in case of a doctoral grant, a candidate for a doctoral degree) in research or study work. The doctoral student’s remuneration (from 2024) will be provided throughout the period of doctoral studies (three to four years of studies), taking into account the fact that, according to Paragraph 7 of CM Order No.345 of 25 June 2020 *“On the Conceptual Report “On the Introduction of a New Model of Doctoral Studies in Latvia”*”, the matter on the allocation of funds from the state budget in 2024 and subsequent years necessary for the introduction of a new model of doctoral studies is planned to be reviewed by CM in the process of preparation and review of the draft law on the state budget for the current year and for the medium term, together with applications for priority measures submitted by all ministries and central state institutions in accordance with the financial possibilities of the state budget.

Implementation of the Academic Career Reform

One of the priorities in the field of higher education and science is the development and introduction of a new academic career framework. In line with European and international best practices, the academic career framework covers the process of recruiting and selecting academic staff and researchers for academic positions, employment, including performance motivation and remuneration, and criteria for evaluation and promotion. It also addresses matters related to the retirement, demotion or dismissal of academic staff.

In February 2022, experts of the World Bank presented the final report of the project “Latvia: Academic Career Model”¹² implemented within the EC Structural Reform Support Programme, which includes conclusions and recommendations for solutions of the new academic career model at national and institutional level. On the basis of the recommendations from the World Bank experts and proposals from representatives of higher education and research institutions, the conceptual report has been developed by the MES “On the introduction of a New Academic Career Framework in Latvia”, which is scheduled to be submitted to CM in June 2022.

In the second half of 2022, the MES intends to start working on amendments to the regulatory framework for the introduction of a new academic career framework in Latvia, in accordance with the solution contained in the conceptual report and the indicative action plan. The introduction of a new academic career model will take place gradually by the end of 2026. EU Structural Funds and RRF funding are planned for the implementation of the reform.

Changing the Governance Model of Higher Education Institutions

On 4 March 2020, the CM supported the conceptual report “On Changing the Internal Governance Model of Higher Education Institutions”¹³ prepared by the MES, which offers solutions to the shortcomings in the existing governance model of higher education institutions. The conceptual report provides comprehensive structural solutions for international competitiveness of the higher education and science focusing on governance, funding and human resources. The conceptual report contains solutions which envisage a new typology of higher education institutions and to change the internal governance system. On 16 August 2021, amendments to the *Law on Higher Education Institutions* entered into force, which include two major changes:

- determine the types of higher education institutions: universities of science, universities of arts and culture, universities of applied sciences and higher education institutions of applied sciences. The type of a higher education institution is intended to be determined by its founder;
- introduce a new internal governance institution – a council of the higher education institution – in higher education institutions established by the state. It is defined that the council is a collegial decision-making body of a state higher education institution responsible for the sustainable development, strategic and financial supervision of the state higher education institution, as well as ensuring the functioning of the state higher education institution in accordance with the objectives set out in its development strategy.

In order to ensure a change in the internal governance model of higher education institutions and to establish councils of higher education institutions, in September 2021 the CM adopted Regulations “Procedures for the Selection, Nomination and Recalling of Members of the Council of a State Higher Education Institution Proposed by the Cabinet of Ministers”, as well as approved the types of higher education institutions for 16 state higher education institutions. The selection of candidates for members of councils of higher education institutions took place between September 2021 and February 2022. On 15 February 2022, the CM approved councils of seven Latvian higher education institutions. The establishment of councils of other higher education institutions is scheduled to close by mid-April 2022.

¹² The information on the progress of implementation of the project, latest developments and project materials is available on the MES website: <https://www.izm.gov.lv/lv/jauns-akademiskas-karjeras-ietvars-latvijai>

¹³ CM Order No.94 of 4 March 2020 “On the Conceptual Report “On Changing the Internal Governance Model of Higher Education Institutions””.

In September 2021, the CM also supported a strategic direction towards the establishment of a stronger institutional system of higher education. It is planned to reorganise Liepaja University by adding it to one of the universities of science and create an ecosystem of a university of science in Liepaja. By reorganising Daugavpils University and Rezekne Academy of Technology a new state higher education institution will be established in Latgale, which will lead to a higher international competitiveness, as well as a greater contribution to the region's economic development. The reorganisation solutions should be submitted to the CM by 1 September 2022.

In order to ensure structural changes in the higher education sector, the MES intends to draw up an information report on the plan of institutional development and consolidation of state higher education institutions and to submit it for review to the CM by 31 March 2022. The MES is planning to forward for approval to the CM reorganisation orders on the transfer of the Latvian Maritime Academy to Riga Technical University and Liepaja Marine College to Riga Technical University as an agency, thus concentrating the implementation of maritime education in a unified and mutually integrated system.

To change the internal governance model of higher education institutions by setting up councils in state higher education institutions and providing support to strengthen them ESF support is planned within the second round of applications of the specific support objective *"To ensure better governance in higher education institutions"* (the total funding of the specific objective is EUR 18.9 million, including ESF funding of EUR 16 million, state budget funding of EUR 2.9 million). The project is scheduled to be implemented by the end of 2023.

Additionally, within the NRRFPL economic transformation and productivity reform component, the reform of excellence and governance of higher education and science is planned, providing support for research, development and consolidation grants starting from 2023 (the funding available is EUR 82.5 million). Under conditions of limited funding in the higher education sector it is necessary to continue to implement structural changes with a view to increasing quality, international competitiveness and resource efficiency. Firstly, the strategic specialisation of higher education institutions will be reinforced, ensuring adequate regional or sectoral impact, concentrated education supply and making more efficient use of resources, including academic staff and infrastructure. Secondly, the capacity of human resources will be increased through the development and renewal of R&D staff oriented to the needs of industry and society development. In 2022, it is planned to develop the regulations for the implementation of the programme. Projects are scheduled to be implemented until 2026.

Modernising the Material-Technical Base of Higher Education Institutions

The MES introduces a number of measures with support of EU Funds to increase the quality of higher education, ensure closer link between higher education and the economy and research institutions, including in STEM areas:

- within specific objective *"To increase the number of modernised STEM, including medical and creative industry, study programmes"* (total funding of EUR 44.7 million, incl. ERDF funding of EUR 38 million, state budget funding of EUR 6.7 million) infrastructure of higher education institutions will be improved, equipment will be purchased, the study environment will be modernised. By the end of 2021, 10 of 15 ERDF projects have been completed, while the implementation of 5 projects still continues. The most significant objects completed within the projects are the construction of the House of Science of the Academic Centre of the University of Latvia, as well as the reconstruction of the study building of Riga Technical University at Ķipsalas iela 6B, adapting it for the needs of the Faculty of Mechanical Engineering, Transport and Aeronautics;

- within specific objective *“To improve the learning environment of STEM, including medical and creative industry, studies of the first level professional higher education in colleges”* (total funding of EUR 14.1 million, incl. ERDF funding of EUR 12 million, state budget funding of EUR 2.1 million) the learning environment in colleges is improved. 8 of 9 ERDF projects have been completed, while 1 project will be completed by the end of April 2022;
- Within activity 1.1.1.3 *“Innovation grants for students”* of specific objective *“To increase the research and innovation capacity of Latvian research institutions and the ability to attract external funding by investing in human resources and infrastructure”* Latvian higher education institutions implement Student innovation programmes by developing the innovation capability and entrepreneurial spirit of students, resolving problems important for society or its part, strengthening the cooperation of higher education institutions and students with undertakings and raising private funding for the implementation of the Student innovation programme. 4 projects are implemented within the first round, and 5 projects will be implemented within the second round until 2023 (total funding under concluded agreements – EUR 17.56 million, including ERDF funding of EUR 13.57 million, private funding of EUR 3.99 million);
- within specific objective *“To strengthen academic staff of higher education institutions in strategic specialisation areas”* skills of academic staff are improved – traineeship with an undertaking, learning of professional English and specialised training, which develop leadership, cooperation competence with the industry and modern understanding of challenges of the digital age in academic staff. By March 2022, 1594 academic staff representatives have improved their professional skills (total funding of EUR 34.3 million¹⁴, incl. ESF funding of EUR 29.2 million, stated budget funding of EUR 5.1 million).

Development of Digital Skills

Promoting the development of digital skills, including high level skills, in higher education will ensure governance efficiency, performance of academic staff, improvement of quality of studies, international competitiveness and the development of higher education institutions as centres of digital excellence.

With the support of EU Funds, academic and scientific staff of Latvian higher education institutions and scientific institutions master high-level digital skills (latest trends and methods in the preparation and teaching of the content of technology courses) at the University at Buffalo, State University of New York, USA. The aim of these studies is to secure the transfer of knowledge in Latvian higher education institutions. From 2019, 14 lecturers of Latvian higher education institutions have mastered high-level digital skills (state budget). In August 2021, another 22 professionals of the academic sector started studies, as well as 22 persons started studies in January 2022 (EU Structural Funds). The total funding of EU Structural Funds is EUR 2.5 million (including ERDF funding of EUR 2.12 million and state budget funding of EUR 0.38 million).

In addition, within the RRF digital transformation component, investments are planned for mastering high-level digital skills (total funding of EUR 17 million). The aim is to significantly increase the number of specialists with high-level digital skills (*DigiComp* level 7-8) in the next six years, who are capable of using high technologies for the

¹⁴ The total funding of rounds 1, 2 and 3 of specific objective 8.2.2 *“To strengthen academic staff of higher education institutions in strategic specialisation areas”* is specified. Within these rounds support is intended for the following activities:

- 1) involvement of doctoral students in academic work in a higher education institution;
- 2) employment of foreign academic staff as teaching staff in a higher education institution in Latvia;
- 3) improvement of the competence of academic staff.

development of knowledge- and technology-intensive new products and services in different sectors, thus contributing to the implementation of Latvia's smart specialisation strategy and industrial transition, including economic growth in the post-crisis situation, as well as contributing to the strengthening of Latvia's role in the preparation of high-level ICT specialists in the region. The target audience are specialists of the private and public sector, academic and research staff, and students. Investments in training and related R&D activities are planned in three areas – quantum technologies, high-performance computing and language technologies. The development of the conditions for the implementation of the programme started in 2021. Projects are scheduled to be launched in 2022, and implemented by 2026.

Within the framework of the EU Recovery Assistance programme REACT-EU¹⁵, investments (total funding of EUR 7.8 million) are planned for the development of students' digital skills by improving the content of studies, training methodology and implementing appropriate digital technological solutions. The support of the programme is designed to mitigate the conditions created by the COVID-19 crisis, where education and training can only be provided by digital technologies, the use of which depends directly on digital skills. In addition to mitigating the effects of COVID-19, the support will contribute to achieving the objectives of the digital transformation policy needed for future economic growth and well-being of the state and its people. The support will contribute to the development ICT education by enabling all students to substantially improve their digital skills in line with the needs of today's labour market. Support is also intended for lecturers for the introduction of new digital content, training methodology and digital technological solutions. In 2021 the regulations for the implementation of the programme were approved, while in 2022 it is planned to start the implementation of higher education institution projects, completing them by the end of 2023. Support programmes for the development of digital skills will also be continued together with other support measures in the new EU Funds 2021-2027 programming period, where digital transformation is one of the EU's priorities.

Adult Education

The *Strategy for Latvia for Mitigation of the Consequences of the Crisis Caused by COVID-19* provides for the use of the opportunities created by the crisis for the transformation of the Latvian economy in favour of the development of knowledge-intensive exports of goods and services. Society and the economy need the right skills to reorient. The strategy provides for the creation of a functional adult education system for reducing the share of low qualified persons, continuous development of skills, abilities and competences and changing the socio-economic paradigm – the introduction of the future concept of lifelong learning. The goal is to involve 165 thousand people in adult education by 2023. Public investment in human capital development is expected to focus on sectors with high export potential (STEM sectors), with a special focus on developing the digital skills of the population and businesses. The measures imposed to limit the spread of the COVID-19 infection and related challenges have already contributed to the automation and digitalisation of many processes. Strengthening human capital and lifelong learning are among Latvia's development priorities in the *National Industrial Policy Guidelines for 2021-2027*.

The measures included in the *Education Development Guidelines 2021-2027* in the field of adult education focus on strengthening the work of vocational secondary and higher

¹⁵ Activity 14.1.1.1 "Digitalisation initiatives for improving the quality of studies" of specific objective 14.1.1 "Recovery measures in the education sector (ESF)" of the priority axis "Measures to mitigate the effects of the Covid-19 pandemic (ESF)" of the operational programme "Growth and Employment"

education institutions with adults, promoting quality non-formal adult education supply, implementing the customised adult education supply, including support for the reduction of barriers to participation, the improvement of the system for skills recognition, strengthening the governance of adult education, the creation of a socially responsible and sustainable system for funding adult education, as well as public awareness, thereby strengthening the culture of lifelong learning in society.

Supporting Improvement of Employee Qualifications

Since 2017, employed adults have the possibility to increase their professional competence and competitiveness by applying for training within the ESF project *Improving the professional competence of employees*. As a priority, the support is provided to employed persons from social risk groups. Since the launch of the project, training has been carried out in six application rounds, as well as in one remote training round, which was announced in addition in summer 2020 to mitigate the negative effects of the COVID-19 crisis. The 7th application round during which more than 36 thousand applications were received closed in February 2022. The beginning of the training in this round is planned in the second half of March. Since the beginning of the project 59,143 employed have involved in the training, of whom 10,739 persons were with low level of education. The total funding granted for the implementation of the project is EUR 45.5 million (including ESF funding of EUR 38.7 million, state budget funding of EUR 6.8 million), which will make it possible to involve more than 87 thousand employed in the training until the end of 2023 (including more than 19 thousand employed with low level of education).

To reduce participation barriers and to extend training opportunities, the possibility for one person to learn twice within the project was introduced, the person's co-payment was reduced to 5% (previously 10%) of the tuition fee, as well as support for travel expenses to and from the place of training of EUR 30 per month is available within the project. The employed, who have been granted the status of a person in need or low-income person, receive support for regional mobility, as well as training for them is free of charge. Targeted implementation of activities, including media campaigns, are ensured to reach different adult audiences, particularly those with low level of education, and to inform them about adult education.

Two support measures are being implemented for the training and skills development of employees of companies:

- Within the *“Support for employee training”*, the ME, in cooperation with sectoral associations (ICT, manufacturing sub-sectors, accommodation and food service activities, sector of international business centres), support is provided to entrepreneurs to improve skills of their employees in order to provide undertakings with appropriately skilled labour force, which would promote the increase of labour productivity and development and introduction into production of new or improved products and technologies. In 2020, the range of supported training was extended by including in-depth training to promote digital transformation of companies, to improve entrepreneurial and digital skills. The ERDF funding of EUR 14.7 million is available for the support measure. By the beginning of 2022, the support has been provided to 18,281 persons employed by 1000 companies;
- *“Support for ICT and non-technology learning, as well as learning aimed at attracting investors”*. The measure has been developed with the aim to promote the productivity and work efficiency of SMEs and large enterprises, by raising the employees' qualifications and skills in ICT areas, to provide companies with employees holding the relevant qualification, promoting introduction of nontechnological innovations (products, processes, marketing or organisation) in companies, as well as to provide

support for learning thereby attracting investments in the country. The ERDF funding of EUR 6.9 million is available for the support measure. By the beginning of 2022, the support has been provided to 6,976 persons employed by 566 undertakings. In 2022, the IDAL is planning to start several new support activities within the measure targeted to the organisation of high-level training. The IDAL will provide companies Mini MBA trainings in innovation management and digital transformation, as well as will offer to master Agile, Scrum and Prince project management methods.

In response to the crisis caused by COVID-19, at the end of 2020 the CM decided on the allocation of additional funds for support to businesses. Additional React-EU funding of EUR 14.7 million is available until the end of 2023 within both support programmes.

For the development of adult education in Latvia, significant investments are planned in the EU Funds 2021-2027 programming periods within specific objective *“To promote lifelong learning, in particular by offering flexible skills improvement and reskilling opportunities for all, taking into account business and digital skills, better anticipating change and the need for new skills based on labour market needs, facilitating career change and promoting professional mobility”* with the total planned funding of EUR 56.17 million, incl. ESF+ co-funding of EUR 47.74 million (planned to be started in 2024):

- within activity *“Support for sectoral needs based adult education”* support for training of employees of companies is planned for the purposes of developing and promoting economic growth in general. The support is also planned for the development of public-private partnership instruments or the creation of the *Skills Funds* and piloting in individual sectors, including for the identification of training needs and the matching training supply. The funding planned for the measure is EUR 21.54 million;
- within activity *“Support for individual needs based adult education”* support is planned for mastering of the knowledge and skills needed by employed adults, including for determining individual training needs and overcoming training barriers. The funding planned for the measure is EUR 34.62 million.

For the programming period 2021-2027, the ME has developed an investment plan for the improvement of digital skills of employees of companies. The total planned amount of investment is EUR 30 million, including RRF funding of EUR 20 million and ERDF funding of EUR 10 million. At least 3000 companies are expected to be supported by RRF funding by the middle of 2026, while at least 1273 companies are expected to be supported by ERDF funding by 2029. The investment is expected to be divided into three parts:

- the Massive Open Online Courses, which will offer non-formal education, regardless of geographical location. Online training courses are planned on topics such as UX/UI fundamentals, e-commerce, data analysis and visualization, database development and maintenance, programming, development of business intelligence systems;
- The European Digital Innovation Centres will offer improvement of high-level digital skills by organising specialised training on topics such as cyber security, artificial intelligence and high-performance computing;
- The ME will continue its cooperation with sectoral associations to support the development of the digital skills of employees in key areas for companies. Support will primarily be provided in training areas such as storage of information on the internet, usage of websites/social portals, software configuration, online sales, image, video and audio processing, preparation of presentations, basic programming skills, etc.

The ME, in cooperation with the Investment and Development Agency of Latvia (IDAL), as well as with the involvement of the international technology company Google, plans to carry out free training throughout Latvia in 2022 to provide representatives of small and medium-sized enterprises with opportunities to improve digital skills (*“Grow with Google”* programme). Within the framework of the tripartite Memorandum of

Understanding, cooperation will be launched in the digital panel of the Three Seas Forum (cybersecurity topics) and in relation to the development of Latvian smart specialisation ecosystems.

Establishing a Sustainable and Socially Responsible Support System for Adult Education

On 1 April 2022, amendments to the *Vocational Education Law* entered into force, which provide for the use of modular vocational education programmes in adult education, and defines the educational documents issued for the mastering of the programme module. The introduction of a modular approach is restructuring of content of vocational education programmes, enabling people to manage change effectively and adapt more quickly to new development trends in the sector. The modular approach makes it possible to master parts of a professional qualification, to recognise separate learning outcomes from previous experience, to accumulate, to reskill, to learn a separate module, a set of modules to obtain a full professional qualification, to learn throughout life. Modular education programmes are designed to achieve the accumulation and recognition of learning outcomes. The content of a modular vocational education programme is flexible. The modules can be learned in different places and times.

According to the DESI Index (2020), only 43% of the population have basic digital skills in Latvia (an average of 68% in the EU), and 24% of the population (an average of 33% in the EU) have higher skills. Major challenges for Latvia are related to the insufficient digital skills of the population at all levels, as well as the relatively low level of digitisation of businesses. Therefore, in addition to Cohesion Policy investments within the RRF Plan, it is planned to improve and strengthen the skills management approach.

Within the framework of the RRF reform and investment direction “*Digital Skills*”, until 2026 it is planned to develop and approbate the concept of **individual learning accounts** (ILA) corresponding to the Latvian context in order to stimulate participation of adults in education, particularly in the mastering of digital skills, as well as to make the world’s best digital learning aids available to the Latvian educational system by using specialised high quality machine translation and other artificial intelligence technology solutions, involving education experts in the validation and adaptation of localised content. The total planned funding is EUR 14.31 million. The approbation of the ILA approach is originally planned for mastering of digital skills, covering both basic skills and stimulating the mastering of high-level digital skills, as well as developing the digital capacity of companies, investing in improving the digital skills of employees. A major focus will be on expanding the supply of massive online training courses and self-learning materials in digital format, creating a technological environment appropriate for this purpose and implementing such training popularisation measures in conjunction with the development of a common skills governance and management approach for the population. As a supplement to Cohesion Policy investments, within the RRF plan investments the ME is planning to improve and strengthen the skills management approach by coordinating the identification of training needs, creation and implementation of supply, collection and analysis of learning outcomes, and to develop a wider use of self-learning supply, including the availability of international educational resources.

In the context of new support instruments, the common **skills governance system** is also intended to be improved. The improvement of cooperation between the institutions involved in the planning and implementation of adult education will continue until 2027.

In 2020, 6.6% of adults participated in adult education¹⁶. The set of reform measures should ensure that the achievement of the target set out in the Education Development Guidelines 2021-2027 – participation of at least 12% of adult population in adult education.

In addition to the promotion and development of vocational and adult education, investments are planned in the JTF *“Development of the supply of skills development, improvement and reskilling for transition to climate neutrality in particularly affected areas”*, with a planned funding of EUR 19.33 million, including *NextGenerationEU* co-funding of EUR 10.86 million and EU Multiannual Financial Framework co-funding of EUR 8.46 million. Within the framework of the JTF, support is planned for the professional skills improvement of employees in line with the development needs of the regions and for the acquiring qualification in continuing education programmes, as well as for the participation of young people (students) in one-year, one-and-a-half-year and 2-year initial vocational education programmes, including in the form of WB learning. The planned investment launch time is 2023.

In July 2021, the EC Directorate-General for Structural Reform Support, in cooperation with the OECD, started the implementation of the Technical Support Instrument project *“Support employers in promoting skills development in Latvia”* applied by the MES. The objective of the project is to support Latvia in the **development of a new regulatory framework that will support and stimulate employers** (especially small and medium-sized enterprises) **to improve the skills of their employees or to promote reskilling**. Strengthening the rights and obligations of employees and employers within the regulatory framework will provide the basis for a sustainable and socially responsible adult education support system. In addition, the establishment of a support system for employers is envisaged by the delegation to the CM included in the *Education Law* *“to define support measures for employers for additional training of employees, including the criteria for receiving such support and the procedures for implementing support measures”*. CM Regulations should enter into force by 31 December 2022 at the latest.

Improvement of the Quality of Adult Education

In order to introduce the principles of the European Quality Assurance Reference Framework for Vocational Education and Training (EQAVET) in non-formal adult education, draft amendments to the *Education Law* to introduce **quality criteria for non-formal adult education** and draft CM Regulations *“Procedures for Licensing and Withdrawing Licences of Adult Non-Formal Education Programmes”* have been developed. Draft amendments to the *Education Law* as a proposal have been submitted to the Saeima for the 2nd reading. Further advancement of the draft CM Regulations will be ensured following the entry into force of the amendments to the *Education Law*.

In order to provide support for quality adult education by defining individual needs and combining the supply of training with support to overcome learning barriers, within the EU *Erasmus+* programme a methodological material *“Roadmap for Local Governments in Adult Education Management”* and a job description of adult education coordinator have been developed, a network of adult education coordinators has been established and strengthened, a competence improvement training programme for adult education coordinators has been developed and the piloting of the programme (training) is underway preparing **local government adult education coordinators for work with adults**. In cooperation with Latvian universities, the Latvian Association of Higher

¹⁶ Share of adults (25-64 years) enrolled in adult education in the last four weeks preceding the survey (Labour Force Survey (Eurostat))

Education Institutions for Lifelong Learning (LAKMA) has developed a framework of competence for an adult educator and in accordance with this, education programmes for the improvement of the professional competence of teaching staff “*Pedagogy for work with adults*”. The piloting of the programmes in Latvian higher education institutions has started. It is planned to continue developing, piloting, approbating and implementing skills development programmes for teachers for work with adults, and organisers of adult education. The total *Erasmus+* project funding is EUR 182.7 thousand, including EC funding of EUR 137 thousand and state budget funding of EUR 45.7 thousand.

Vocational education institutions shall carry out the assessment and recognition of the skills acquired outside formal education for the acquisition of a professional qualification. The MES is developing a regulation for the introduction of **Upskilling Pathways** (includes assessment of skills, flexible supply for continuing education at later stages, approval and recognition of skills). In cooperation with the National Centre for Education and the State Education Quality Service, draft CM Regulations “*Conditions and Procedures for Ensuring the Continuation of Education in Vocational Education, Vocational Secondary Education or Vocational Continuing Training Programmes for a Student or Drop-out at Later Stages, as well as the Criteria and Procedures for the Recognition and Assessment of the Unit or the Set of Units of Previously Mastered Learning Outcomes*”.

Latvia has started to participate in the OECD’s Programme for the International Assessment of Adult Competencies (PIAAC), which allows to evaluate literacy, numeracy and problem-solving skills of 16-65 years old population and their usage in daily life and at work. In January 2022, the University of Latvia, which is the National Research Centre of PIAAC in Latvia, signed a contract with the Research Centre SKDS on the performance of field work. A simulated survey trial is conducted in Latvia in February-March 2022, while the main PIAAC study in Latvia is scheduled to be carried out between August 2022 and March 2023. The first results of the OECD’s PIAAC study will be published in 2024. The data obtained will allow to analyse mismatches between the supply and demand of skills in the labour market and the impact of the respective skills on the amount of remuneration, as well as to compare the quality of Latvian human resources internationally.

Improving and Developing Active Labour Market Policy Measures

The medium-term objective of the active labour market policy (ALMP) is to establish an inclusive labour market for everybody and to take care of the quality of existing jobs, thus supporting long-term participation in the labour market. Plans until 2027:

- to achieve 80% employment rate of the population in age group between 20 and 64;
- to achieve 50% employment rate among persons with disabilities in age group between 20 and 64;
- to reduce the share of long-term registered unemployed to 15%.¹⁷

The improvement and development of existing ALMP measures is planned in such a way that it would help all working-age population get included in the labour market, with special support for disadvantaged groups of population and population at higher risk of unemployment (people with low level of education, long-term unemployed, people with disabilities, elderly people, etc.). The development of an inclusive labour market involves the provision of timely and tailor-made support to improve employment or self-employment prospects, support for the transition from economic inactivity to employment and between different professions and sectors, the development of high-

¹⁷ *Social Protection and Labour Market Policy Guidelines 2021-2027* (approved by CM Order No. 616 of 1 September 2021) <https://likumi.lv/ta/id/325828-par-socialas-aizsardzibas-un-darba-tirgus-politikas-pamatnostadnem-2021-2027-gadam>

quality and secure workplaces, the prevention of the risk of poverty of the employed, the creation of opportunities for reskilling and education throughout the working life.

Currently there are a number of challenges in the labour market. There is a direct correlation between the employment rate and the level of education– the higher the level of education, the higher the employment rate and shorter duration of unemployment, and better outcomes of the labour market in terms of wages and employment sustainability. In Q3 2021, the difference between the employment rate of people with higher education and people with low level of education (general secondary education or lower education) reached 51.6 percentage points¹⁸ (85.1% versus 33.5%). At the same time, at the beginning of 2022, on average 44.6% of all registered unemployed were people with general secondary or lower level of education¹⁹. Also pronounced regional differences are still present in the labour market – at the beginning of 2022, difference between the regions of Latvia with the highest and the lowest employment rates was 9.8 percentage points (4.8% in the Riga region and 14.6% in the Latgale region). Although long-term unemployment rate has been gradually improving in recent years, at the beginning of 2022 the share of long-term unemployed in the total number of registered unemployed was 23.9% (State Employment Agency’s (SEA) data). In recent years, the share of persons with disabilities registered at the SEA has been growing steadily –at the beginning of 2022 it was 13.8%, compared to 4.1% in 2009.

In order to improve the range of ALMP measures and to provide more effective support in job search for the unemployed and to ensure more targeted support, a number of measures are being implemented and planned in the period between 2021 and 2023:

- in order to encourage the return of unemployed people to the labour market and to facilitate the preparation of specialists demanded by employers practical training at the employer on site according to the specifics of the company is organised - from 2021 financial support for the organisation of practical training at the employer depends on the level of professional qualification to be acquired by the unemployed (the higher the level of qualification, the higher the amount of the grant to the employer);
- In February 2021, vocational training measures provided by the SEA were supplemented with additional ICT professional development programmes, as well as ICT modules of vocational continuing education programmes and ICT study courses/ modules offered by universities. The new training offer for the unemployed to improve their digital skills is suitable in both face-to-face and online learning. In August 2021, the pilot project “Future Skills Initiative” was launched. Within the pilot project, the unemployed, job seekers and employed persons who want to improve their skills and improve their competitiveness in the labour market have the possibility of receiving training support of up to EUR 500 for participating in open online courses and acquiring digital and other skills in demand on the labour market (the person may enrol up to six learning courses). 1624 applications have been received by February 2022. The courses have been started by 627 participants, of which 295 persons have completed the training. The total funding for the implementation of the measure in 2021 amounted to EUR 15.5 thousand, planned for 2022 - EUR 117.4 thousand (state budget funding);
- in order to intensify support for the start-up of new business activity for the registered unemployed, thus also contributing to the increase in the total number of entrepreneurs in the country, in November 2021 the grant for the extension of the

¹⁸ Eurostat database, data table “Employment rates by sex, age and educational attainment level (%)”, code [LFSQ_ERGAED]

¹⁹ Monthly data of the State Employment Agency on the unemployment situation in the country

newly established business was increased to EUR 5000 (if after the first year of operation there is a conclusion that the business is successful), as well as the amount of the monthly grant paid during the first months of the implementation of the business plan – from EUR 500 to EUR 750. An additional grant (up to EUR 1000) for the adaptation of the workplace will also be granted in the future, in accordance with an ergotherapist's opinion, if a person with disabilities starts a new business activity;

- In September 2021, the development of a platform for the presentation of labour market forecasts was completed²⁰. The forecast platform provides an opportunity for everyone interested – entrepreneurs, educational institutions, young people who are thinking about choosing a profession, and others to get acquainted in an interactive way with the expected development of situation in the labour market (development of economic sectors, professions demanded in the future, educational needs, etc.);
- At the end of 2021, the target group for training measures implemented by the SEA was extended – in future, individuals at risk of unemployment will also be able to participate in them – elderly employed persons, employed persons with disabilities, employed persons with a low level of education. Also the target group for subsidised employment measures was expanded with the registered unemployed under the age of 29 who have graduated from a special (inclusive) education programme;
- in order to prepare the unemployed and job seekers for work in the ICT, engineering and manufacturing industries, at the end of 2021, cooperation with associations of those industries was extended within the measure *“Training at the Employer”*. In future the associations will be able to receive a grant for coordination, management of training activities, recruitment of relevant teachers and other activities – EUR 200 per unemployed person involved in the measure;
- in order to minimise the negative effects of the COVID-19 pandemic on the mental health of individuals and society, at the end of 2021 the target group for receiving psychologist counselling services at the SEA was extended – not only the long-term unemployed, but also the unemployed who have previously been long-employed and have lost their jobs, including under the influence of COVID-19, will be able to receive counselling of a psychologist;
- In February 2022, amendments to the implementing rules of the specific objective *“To raise the qualification of the unemployed and improve their skills according to the demand of labour market”*²¹, entered into force, which envisage granting additional REACT-EU funding from the specific objective 14.1.2 “Recovery measures in the field of welfare” for the implementation of SEA training activities in 2022 and 2023. This will contribute to the continuous improvement of the knowledge and skills of the unemployed, job seekers and those at risk of unemployment during the COVID-19 pandemic and after the pandemic. The total REACT-EU funding for the implementation of training measures amounts to EUR 16.1 million, including ESF funding of EUR 13.7 million, state budget funding of EUR 2.06 million and private co-funding of not less than EUR 352.6 thousand. The planned number of participants in training measures – 11,592 persons;
- in order to intensify support for persons with disabilities and to improve cooperation with entrepreneurs creating new jobs for this target group, the SEA plans to set up an advisory support centre in 2022, where counselling and individual support for the unemployed and the employed will be available according to the type of functional

²⁰ SEA short-term labour market forecasts – <https://prognozēs.nva.gov.lv>; ME medium-term and long-term labour market forecasts – <https://prognozēs.em.gov.lv>

²¹<https://likumi.lv/ta/id/271412-darbibas-programmas-izaugsmē-un-nodarbinātība-7-1-1-specifiska-atbalsta-merka-paaugstinat-bezdarbnieku-kvalifikaciju-un>

disorders – on workplace adjustments, on communication barriers and reduction of stereotypes in the work team, on resolution of conflicts and problem situations, etc. Persons with disabilities will be provided with all necessary information on the opportunities to receive support in job search and the improvement of their work skills, providing motivation and mentoring services, as well as providing support person services and other individual services as needed;

- the MoW, in cooperation with the SEA, has applied for support from the EC Directorate-General for Structural Reform from the Technical Support Instrument (TSI), within which, in cooperation with the OECD, it is planned to implement the project *“Modernizing digital systems of the Latvian Public Employment Service”*, exploring the possibilities of developing adaptable, innovative and human-oriented digital management services at the SEA. The planned project funding in 2022-2023 will indicatively amount to EUR 700 thousand;
- in 2021 and early 2022, a number of changes have been made to the conditions of support for social enterprises (activity *“Support for social entrepreneurship”* of the specific objective *“To facilitate inclusion of disadvantaged unemployed people in the labour market”*). A new form of support (a single wage grant) has been introduced for social enterprises employing persons with disabilities or mental disorders who have had the unemployed status before starting employment. The objective of the support is to motivate social enterprises to recruit the employees from this group of unemployed during the COVID-19 crisis and post-crisis period. In addition, in order to improve the situation of the particular target groups in the labour market, it is planned to compensate State social insurance mandatory contributions made by the social enterprises for their employees – persons with mental or other disabilities
- The ecosystem, in which these social enterprises operate, is very important for the successful operation and development of these enterprises – the exchange of information with the state, business and social partners, cooperation with local governments, the opportunity to develop the skills and competences needed for social entrepreneurship, the involvement of Latvian diaspora in the social entrepreneurship of Latvia or in supporting it, and the creation of regional and sectoral partnerships and other important activities for social enterprises. In view of the above-mentioned, at the beginning of 2022 a new supported activity was introduced– measures to strengthen and develop the ecosystem of social enterprises. It is planned to involve Latvian non-governmental organisations, which already have experience in promoting social entrepreneurship, in the strengthening and development of the social entrepreneurship ecosystem. In addition, the implementation of the *“Support for social entrepreneurship”* project, which provides support to social enterprises, including financial grants, was extended for six months. The planned funding for the above-mentioned measures in 2022-2023 amounts to EUR 5.96 million, including ESF funding of EUR 5.1 million and state budget funding of EUR 0.89 thousand;
- in 2023, EU RRF funding of EUR 28.7 million will also be attracted for the implementation of SEA training measures, which will improve skills of 20,450 unemployed, job seekers and people at risk of unemployment in 2024-2025. As part of this project, emphasis will be placed on acquisition of digital skills in accordance with the digital transformation component of the RRF plan.

2.5. HEALTHCARE

EU COUNCIL RECOMMENDATIONS:

- INCREASE THE ACCESSIBILITY, QUALITY AND COST-EFFECTIVENESS OF THE HEALTHCARE SYSTEM.
- STRENGTHEN THE RESILIENCE AND ACCESSIBILITY OF THE HEALTH SYSTEM INCLUDING BY PROVIDING ADDITIONAL HUMAN AND FINANCIAL RESOURCES.

The healthcare system in 2020-2021 was significantly affected by the COVID-19 pandemic, creating a high load on both the inpatient and the primary healthcare sectors. Due to the high number of hospitalised COVID-19 patients, certain medical institutions temporarily limited the provision of elective healthcare services. The COVID-19 pandemic has increased the need to provide psycho-emotional support to the population and is expected to have adversely affected the diagnostic and treatment capabilities of other chronic diseases, thus deteriorating the health of the population.

Healthcare has been a constant government priority in recent years and the amount of state funding for health measures has increased significantly, reaching EUR 1,532.3 million in 2022 (including EUR 26.8 million in the funding item). The Ministry of Health has been granted additional funding of EUR 128.2 million for 2022, EUR 102.4 million for 2023 and EUR 103.4 million for 2024. The increase in the amount of funding in 2022 compared to 2017 is EUR 660 million or 76%.

In general, the **main challenges** still exist – accessibility of services and medicinal products and provision of medical practitioners in the state-paid services sector. Additional channelling of state budget funds to healthcare, in recent years has helped to avoid a sharp deterioration of the situation but overcoming of these challenges in the future will still depend heavily on additional possibilities of raising the state budget. EU funding will be channelled for the implementation of sectoral structural reforms in the field of human resources, for improving the quality and efficiency of services, including for health promotion and disease prevention, data digitisation and the development of e-services.

Attracting Human Resources and Increasing Wages

In order to improve access to healthcare services, one of the most significant challenges is to ensure the presence of qualified medical practitioners for the provision of services financed by the state. The increase in the remuneration of medical practitioners continues to motivate them to work in the public sector. An additional EUR 35 million were allocated for that in the healthcare budget in 2022. In 2022, the lowest monthly wage of doctors (including residents) and functional specialists will increase by 4.4% – from EUR 1489 to EUR 1555 per workload, while the lowest monthly salary of nurses and certified assistant doctors will increase by 4.74% – from EUR 985 to EUR 1032. Due to the additional funding granted for 2022, the average wage of medical practitioners integrated in tariffs of health services has been increased. From 1 January 2022, the average wage in the tariff for doctors and functional specialists increased to EUR 1963 (EUR 1862 in 2021), while for medical and patient care practitioners and assistants of functional specialists up to EUR 1183 (EUR 1117 in 2021).

In 2019, the MH, together with the State Chancellery, began and in 2020 completed work on the development of a new model of remuneration for medical practitioners, where the creation of an innovation think tank with the widest possible involvement of industry experts was chosen as the most appropriate method. During the think-tank process using the analytical intellectual job evaluation point ranking method that is internationally

recognised and which the State Chancellery has the right to use for the maintenance of the remuneration system for employees in the public sector, experts assessed the various positions and determined the target wage of each group of medical practitioners. It takes into account factors such as the necessary education, responsibility, the necessary professional experience and the complexity of work. On the basis of the above-mentioned method, the target wage in 2020 was EUR 3,086 for doctors, EUR 1 820 for treatment and patient care persons, and EUR 883 for junior medical staff, taking into account the required level of education and qualification. It can be seen that the proportion previously maintained for junior medical staff – 40% of doctor’s wage, is inappropriate in today’s economic and market conditions and position values evaluated in accordance with the labour market (29% ratio) will continue to be supported in the future.

Therefore, when raising the wage for 2022, it was taken into account that the amount of remuneration for medical practitioners included in the tariffs of state-paid healthcare services was 60% of the target wage for doctors (EUR 1,862 (2021 tariffs)/EUR 3,086), 61% for medical and patient care persons (EUR 1,117/1,820), and 84% for junior medical staff (EUR 745/EUR 883). In view of the fact that only EUR 35 million was allocated to raise the wages, it was decided to raise wages for those groups of medical practitioners, which had the lowest wage as a percentage of the target wage to be achieved. Also, by increasing wages for doctors in 2022, the ratio for junior medical staff remains at 38% of doctor’s wage, which is still much higher than the estimated target wages for each group of medical practitioners. In view of the above, neither the lowest monthly wage nor the average wage has increased for the lowest remunerated medical practitioners (assistant nurses) in 2022.

In 2022, EUR 4.3 million will be channelled to the development of the nurse's profession, raising the category of qualification of the nurse’s position and increasing their remuneration accordingly.

A New Procedure for Payment for Work of Medical Practitioners has been developed, which is scheduled to be submitted for review at the CM meeting in the middle of 2022. The new model is based on a fair, competitive, transparent and flexible remuneration system that motivates medical staff to choose to work in the state-paid healthcare services sector. The new model of payment for work of medical practitioners was developed by the MH in cooperation with the State Chancellery by creating an innovation think tank with extensive involvement of experts (34 experts), involving doctors and nurses from various medical institutions, employers from the healthcare sector, university lecturers and healthcare policy makers, as well as representatives of NHS and MF. The Free Trade Union Confederation of Latvia, the Trade Union of Health and Social Care Workers of Latvia (LVSADA) and the Latvian Hospital Association (representing employers of the state and local government sector in the health sector) oppose the new model, because they believe that it has significant deficiencies that will deter medical practitioners from working in the public sector. The new remuneration model for medical practitioners was reviewed at the meeting of the National Tripartite Cooperation Council of 18 December 2020 and at the meeting of the Healthcare Sector Sub-Council on 4 January 2021. An agreement was reached with LVSADA. The informative report *“On the Development of a New Procedure of Payment for Work of Medical Practitioners”* was supplemented with the joint opinion of the Free Trade Union Confederation of Latvia, LVSADA and Latvian Hospital Association, as well as support for the introduction of the new remuneration model for medical practitioners was provided by other health sector societies and associations (Latvian Medical Association, Latvian Nurse Association, Latvian Large Hospitals Association, Association of Healthcare Employers).

On 1 January 2022, a reform of nurses was implemented, within the framework of which the profession of a general care nurse was introduced, thus ensuring that a person, after obtaining the qualification of a nurse (general care nurse), is entitled to work independently in the care of therapeutic, surgical and outpatient patients in a medical institution. In accordance with the amendments to the *Medical Treatment Law*, the certification process no longer applied to nurses, within it nurse specialties and supplementary specialties have been replaced with specialisation in certain areas of care.

In order to improve the process of residency, for the purpose to use existing state budget resources allocated to residents in more rational way, in the state budget of 2022, extra EUR 5.6 million were allocated for payment of wage for residents, as well as more than EUR 266 thousand (this funding will continue to grow in 2023 and 2024) for 30 additional study places funded from the state budget for training of residents. The organisation and financing of residency will respect the fundamental principle of increasing residency places financed from the state budget, while reducing the number of paid residency places. The planning criteria for the number of paid residency places and the conditions for admission to the paid residency in academic year 2022/2023 were developed and the CM Regulations are scheduled to be submitted for review to the CM meeting in second quarter of 2022.

Within the framework of the ESF project "*Improving the availability of medical and medical support persons outside Riga*", medical practitioners for work outside Riga were found and 1125 compensation contracts had been signed on 31 December 2021 for a total amount of EUR 9.28 million. 128 doctors, 203 doctor's assistants, 8 ergotherapists, 24 physiotherapists, 482 nurse's assistants, 218 medical nurses, 13 midwives, 2 dental hygienists, 3 dentist's assistants have been attracted, and 23 family doctor practices have been handed over and accepted by 21 family doctors within the project.

In February 2022, a technically supported project *Structural Reform Support Programme* was launched for the development of a strategy of human resources in healthcare in Latvia. The framework of the strategy to be developed within the project aims to develop solutions in the following directions: mapping of human resources of the health sector; the development of a sustainable medical education system (including a continuing education model); integration of the simulation-based medical education approach at all levels and stages of education; improvement of the human resources database (modernisation of the existing register of medical practitioners, including supplementing it with information on residents, on continuing education activities, etc.). Investments from the RRF plan (EUR 3.5 million excluding VAT) and ESF + for 2021-2027 are intended for the implementation of the strategy.

Improving the Availability of Healthcare Services and Medicines

A number of measures have been performed to address accessibility of health care services. The number of persons exempt from patient co-payments has been extended from 2022. Furthermore, residents with group 2 disabilities are exempt from patient co-payment when receiving state-paid healthcare services (visiting a family doctor or specialty doctors, having examinations, surgeries, etc.). Patient co-payments are no longer required if a patient who has group 2 disability has been prescribed examination after a cancer screening or preventive examination available to the population at certain ages.

From 1 January 2022, the range of persons entitled to state-paid family doctor's home visits has been extended. As a result, state-paid family doctor's home visits can also be received by persons who are in a long-term social care and social rehabilitation institution.

At the end of 2021, planning for a set of primary healthcare strengthening measures was started. In order to address the problems currently faced by family medicine, it is not enough to review and restructure the funding model, it is also necessary to define concepts of the standard of primary healthcare and the organisation of work of a family doctor's practice. This set of problems is to be resolved in the long-term and requires a huge contribution from both the service provider and the service introducer. Therefore, at the beginning of 2022, the first part of the primary healthcare strengthening measures, i.e. think tanks, was launched to develop a new ("alternative") model of family doctors' practices in patient care and work organisation matters, taking into account existing personnel resources in primary healthcare.

The *Epidemiological Safety Law* was amended providing for the possibility to carry out vaccination in a pharmacy, initially against COVID-19 infection, but prospectively also providing vaccination against seasonal influenza and tick-borne encephalitis. At the same time, theoretical and practical training of pharmacists on vaccination was organised from state budget funds.

In order to improve the availability of medicines, a *Concept on the Financial Availability of Medicines* is being developed and a network of pharmacies will be reviewed to improve the availability of pharmacy services in less populated areas.

From 2022, the funds intended for treatment of rare diseases are included in the medicines reimbursement system. Such procedures for the provision of reimbursable medicinal products will contribute to transparency of the process, as an opinion on the cost effectiveness from the State Agency of Medicines will be required for all medicinal products intended for the treatment of rare diseases in order to start payment from state budget funds. Manufacturers and patients will have clear rules for the inclusion of medicinal products, as well as thorough negotiations with the manufacturer country it will be possible to achieve the lowest possible price, as well as include new medicines in the list and extend the range of patients for the medicines already on the list. Such a procedure will also improve planning and make the financial flow more flexible, while promoting rational and flexible use of state budget funds, as well as will improve and facilitate access of patients to medicines – patients will be able to receive medicines closer to their place of residence in a pharmacy.

In the field of oncology, a "yellow corridor" has been established for patients with relapses of malignant tumours or a recurrence of the disease after or during recovery. Within the "yellow corridor", medical consultation, diagnostic tests, and other state-paid healthcare services related to the relapse are provided outside the general patient waiting list, within 10 days. Services shall be provided in an expedited manner with a family doctor's or specialist's referral.

The *Plan for Improvement of Healthcare Services in the Field of Oncology 2022-2024* has been drafted. The overarching objective of the plan is to promote the availability of people-oriented and integrated healthcare services in oncology while preventing premature mortality from oncological diseases. The plan provides: 1) to promote healthy lifestyle habits in society by improving the knowledge and understanding of the population regarding risk factors for oncological diseases and their effects, as well as the timely diagnosis of oncological diseases; 2) to improve the existing screening coverage and quality, to improve the situation in primary diagnosis and treatment in the most frequent localisation of malignant tumours, including to improve access to medical and psychosocial rehabilitation, as well as to improve the quality of diagnosis, treatment and life of children with malignant tumours; 3) to ensure continuity of healthcare by

strengthening governance and promoting efficient use of healthcare resources in the field of oncology. The draft plan is currently in the phase of harmonisation.

With the financial support of RRF, it is planned to provide methodological management in the field of oncology by establishing a Latvian cancer centre and adopting guidelines for cancer care infrastructure (EUR 500 thousand excluding VAT).

From 2022, priority services such as ultrasonography, endoscopy (including in a day care hospital), magnetic resonance, rehabilitation (including in a day care hospital), dermatology, traumatology, haematology, orthopaedics, hand and reconstructive microsurgery and plastic surgery will be provided to patients with malignancy diagnoses in a day care hospital outside the general patient waiting lines. Medical treatment institutions will be paid above the “quota” for these services, so the time to receive the necessary service will reduce significantly.

From 2022, women are paid for the implantation of breast implants with breast reconstruction after a malignant tumour surgery. This service is available to both women who have been found a malignant tumour and patients whose treatment has completed and who need implants to be implanted.

In response to the growing demand for psycho-emotional support during the COVID-19 pandemic starting from 1 February 2021, specially trained crisis consultants were recruited for the 24-hour toll-free support phone 67222922 in the crisis and consultation centre “Skalbes”. Until 30 June 2022, a state-paid advisory phone is provided for the receipt of psycho-emotional support by adolescents, within the framework of which clinical and health psychologists provide advice to children and adolescents as well as their parents.

Since 1 July 2021, three new branches of the Adolescent Resources Centre of SLLC “Bērnu klīniskā universitātes slimnīca” (Children's Clinical University Hospital) started working in Valmiera, Ventspils and Daugavpils, where any adolescent can obtain timely assistance with mental health problems. Meanwhile, in Riga and Liepāja centres, adolescents' opportunities for assistance have been extended.

Work on developing proposals to improve mental health of adolescents is underway in 2022.

In the first half of 2021, the state-funded psycho-emotional staff support rooms of the inpatient medical treatment institutions started to work. Accordingly, in 2021, a complex approach was implemented for psycho-emotional support for medical staff, providing the necessary support to 32 out of a total of 39 hospitals.

Since the spring of 2021, every person has the possibility of receiving state-paid psychotherapeutic and psychological support to a certain extent through the referral of a family doctor – consultations of a clinical and health psychologist, psychotherapy specialist or psychotherapist.

From 2022, the age for carrying out a state-paid medical fertilisation procedure has been increased. The service is now available to women under the age of 40 (previously – under the age of 37).

Considering that children have until now been paid for surgical implantation of a cochlear implant for hearing improvement, replacement of the external part of implanted implants after 18 years of age is also paid for starting from 2022. After reaching the age of majority the replacement of the external part of the implant will be carried out every eight years.

Additional funding has been provided to ensure the introduction of state-paid diagnostic services for children with autism spectrum disorders. The range of cases where state-paid epidural anaesthetics can be received for parturition pain has been extended.

In order to minimise the risks to the health and life of the population, as well as the workload of hospitals, the number of persons entitled to receive state-paid vaccination against influenza was extended during the pandemic. During this flu season, all inhabitants may receive state-paid influenza vaccination according to the available amount of vaccines.

From 2022, state-paid vaccination against the human papillomavirus is also provided for boys. The State Immunisation Council has decided that it is necessary, taking into account that human papillomavirus can cause an oncological disease, such as head, neck, bowel cancer. State-paid vaccination for pregnant women and adolescents against pertussis is also provided from 2022.

Within RRF financial support is provided for public health research in order to improve the planning and implementation of public health policy in the field of antimicrobial resistance, vaccination and infectious diseases (EUR 715 thousand excluding VAT).

In 2022, it is planned to reach an agreement on the mandatory state health insurance model and to develop relevant amendments to the regulatory framework.

Improving the Quality and Efficiency of Healthcare

For the purposes of improving the quality of healthcare, training for medical and medical support persons is provided within the ESF project *“Improving the qualification of medical and medical support staff”*, ensuring the improvement of professional knowledge and skills and future re-certification opportunities, as well as creating opportunities for a non-practising medical person to return to the labour market. Within the framework of continuing education support measures, by 31 December 2021, a total 25,517 participants have been trained, 94 methodological materials have been developed and published on www.talakizglitiba.lv.

A technically supported project *“Support to the Development of Patient Reported Experience Measures for Health System Performance Assessment in Latvia”*²² of the EC Structural Reform Support Programme for 2017-2020 was implemented, within which a patient-reported experience system (PREMS platform) was created, an action plan to implement the patient-reported experience system has been drafted so that in the future Latvia is able maintain the patient-reported experience system without external support. The cooperation agreement with the CDPC on the use of the PREMS data platform was concluded with 9 inpatient medical institutions, 6 of which are already collecting PREMS data. The involvement of other inpatient medical institutions in the collection, analysis and improvement of PREMS data is ongoing.

5 working groups were set up in 2021, which developed proposals for mandatory service profiles for each hospital level; the required number of human resources (workloads) per profile the amount of services, examination to be provided for each profile; quality criteria for the profile of the therapy, surgery, paediatrics, childbirth care service. An *Informative Report on Compliance of Hospitals with the Defined Level* has been drafted and is scheduled to be submitted for review to the CM meeting in the first half of 2022.

²² No. SRSS/S2019/035 “Support to the Development of Patient Reported Experience Measures for Health System Performance Assessment in Latvia”

A hospital cooperation network has been developed to facilitate coordination of transfer of human resources between hospitals, transfer of patients, as well as consultations for treatment of COVID-19 patients. Amendments to the CM Regulations have been adopted which, within the framework of the cooperation network, give the head of a medical treatment institution more flexibility in transferring his or her employees to fulfil their duties in another medical treatment institution within the cooperation territory. In cases where it is necessary to post an employee outside the cooperation territory, written consent of the employee will be required. Similarly, hospitals that ensure the medical treatment of COVID-19 patients may also attract volunteers and organise voluntary work in accordance with the procedures specified in the *Volunteer Service Law*.

To improve the quality and accessibility of healthcare, in cooperation with medical treatment institutions and professional associations, a review of service tariffs is underway to ensure: 1) indexation of energy sources and other costs, 2) review of tariffs in priority areas – oncology, rare diseases, psychiatry, narcology and infections. The reduction of the effects of COVID-19 (testing, vaccination and treatment) remains one of the groups of care services to be reviewed as a priority, and the COVID-19 pandemic has also highlighted the need to review the tariffs associated with intensive therapy.

To improve the efficiency of the use of the funding granted to healthcare and to improve the quality of services, criteria will be developed for the selection of providers in mammography and home healthcare within the framework of a strategic procurement (payment for the service is linked to quality criteria for the service).

With RRF funding support:

- a coordination mechanism will be established to assess, develop and implement new models of the provision of healthcare services, by sequentially integrating them within state-funded healthcare services (EUR 15.5 million excluding VAT);
- it is planned to carry out a study on the quality and accessibility of secondary outpatient healthcare for assessing and improving the health system and to use the results for improving healthcare policy (EUR 650 thousand excluding VAT);
- there are intentions to develop a human-centred, comprehensive, integrated healthcare provision model by developing an investment strategy and drawing up recommendations for the development of integrated and epidemiologically safe healthcare (EUR 700 thousand without VAT);
- investments are intended to strengthen healthcare infrastructure of universities and regional hospitals (EUR 149.5 million excluding VAT) and investments to strengthen healthcare infrastructure of secondary outpatient service providers (EUR 8.5 million excluding VAT);
- the genome reference of the Latvian population will be established (participation of Latvia in the *Genome for Europe* project (*GoLatvia* project) (EUR 1.96 million excluding VAT).

Developing Digital Healthcare Solutions

The *Digital Health Strategy Project 2022-2027* is being drafted and the development of digital solutions for the health sector will continue in order to: 1) ensure the stability of functioning of the eHealth system, 2) develop a model for the management of digital solutions in the health sector and the creation of an ICT competence centre of the health sector, 3) develop a Digital Health (DigiVes) ecosystem architecture (principles and standards), 4) introduce an Oncology register as a pilot project of the new model system, 5) start the creation of a hospital information system within the common DigiVes framework. Support from the ERDF funds aims to improve the availability and interoperability of health data for both primary and secondary use of data.

Implementation of Measures for Overcoming the COVID-19 Crisis

A vaccination project has been set up, vaccination against COVID-19 has been initiated and successfully introduced. On 2 June 2021, the vaccination of 12-15-year-olds was initiated. Since October 2021, all family doctor practices have been involved in vaccination (part of them provide vaccination in their contractual organisations). However, from 16 December 2021, every child from the age of five years can receive the vaccine against COVID-19. There have been more than 2.86 million vaccination episodes by 15 March 2022, with more than 1.30 million inhabitants completing vaccination, representing 68.73% of the total population or 78.52% of those aged above 12 years. More than 509,000 inhabitants have received the booster vaccine, including 54.9% of those aged 60 and above, for whom specific time has passed since the completed vaccination.

More than EUR 67 million was granted for vaccines against COVID-19 in 2021 and more than EUR 131 million was reserved in 2022.

A single vaccination information system (ViVaT) for the management of the vaccination process has been established. It ensures: 1) a portal for the population on www.manavakcina.lv, where people can apply for vaccination; 2) a vaccination line module for the management of priority groups and information of the population regarding invitations to vaccination; 3) capacity management of vaccination points and vaccination process in vaccination points; 4) centralised vaccination lines and calendar synchronisation with the most frequently used information systems of medical institutions and family doctors' practices; 5) management of the supply of vaccines to vaccination points in accordance with workload forecasts; 6) full monitoring of the process in the form of open data, informing both decision-makers and the public. In 2021, more than EUR 1.4 million were allocated from emergency funds to ensure the functioning of the ViVaT vaccination process.

The use of the EU digital COVID-19 certificate in Latvia started on 1 June 2021, providing the population with the possibility to present a confirmation of vaccination against COVID-19, the results of their COVID-19 laboratory test, or the fact of previously having COVID-19.

In 2021, five promotional campaigns were implemented, including video advertising, audio advertising, social media video advertising and outdoor advertising, with a focus on addressing different target groups of the population about vaccination against COVID-19, the distribution of campaign's video advertising on television, radio, the internet and outdoors, the campaigns were implemented through ESF funding.

A constant analysis of the vaccination and epidemiological situation, and an analysis of the pressure of the health system were ensured, as well as proposals for the epidemiological safety regulation were developed in accordance with it, inter-institutional coordination and coordination with private sector partners was ensured within the Operational Management Group, including by analysing developments in the wider community and balancing epidemiological risks with economic, educational, cultural and well-being, other needs of society.

On 9 February 2021, the CM supported the *Action Plan for Strengthening Capacity of Hospitals* by allocating more than EUR 66.6 million for that. New intensive care beds were purchased and existing ones were properly equipped to ensure that COVID-19 patients with severe progress of the disease receive adequate healthcare. A greater availability of observation beds for placement of patients, monitoring of health status and assistance until COVID-19 test results are received and further advancement of the patient in the

hospital were ensured. In addition, in order to substantially reinforce epidemiological safety requirements and to avoid risks of contagion in hospitals, patient flows were separated. In order to ensure readiness for the deployment of additional beds for the treatment of COVID-19 patients in hospitals, the availability of adequate materials and technical supplies, diagnostic devices and oxygen, in autumn 2021 additional funding of EUR 15.7 million was allocated for 2021, including EUR 9.93 million financial contribution to increase the share capital of hospitals of MH capital companies and EUR 6.7 million for 2022.

EUR 57.09 million were allocated from emergency funds to cover the costs incurred by medical institutions and laboratories for the prevention of outbreaks and effects of COVID-19 in 2021 – for personal protective equipment and disinfectants necessary for ensuring epidemiologically safe healthcare services in the outpatient and inpatient sector, including for laboratory services, remote counselling, patient transportation costs.

In order to ensure the continued availability of Veclury (with the active substance remdesivir), Regn-CoV2 and Tocilizumab for the future treatment of Covid-19 patients, additional EUR 12 million were allocated from emergency funds in 2021.

In order to motivate medical practitioners to work with COVID-19 patients and to attract additional medical staff, fringe benefits and a provision for vacation reserves for the medical practitioners and other employees involved in treatment and containment of COVID-19 were provided. From 1 January to 30 October 2021, the following amount from emergency funds has been used for this purpose – EUR 148.4 million, funding for the fringe benefits paid in November and December 2021 was earmarked in the budget for 2022 – EUR 31.34 million. From 1 January to 31 March 2022, funds amounting to EUR 49.52 million were allocated from emergency funds.

To pay for overtime work for medical practitioners and other staff in 2021 (January-November) related to tackling with COVID-19 matters and preventing its effects, EUR 15.8 million was allocated from emergency funds. In 2022, funding from emergency funds will be requested in the amount actually needed.

Until autumn 2021, additional funding of more than EUR 50 million had been available to family doctors' practices, including for COVID-19 fringe benefits and related services. In the final quarter of the year, 100% fringe benefits were provided to family doctors. Since 1 October 2021, the support has increased – a fringe benefit of EUR 11.87 per administered vaccine dose. EUR 24.47 is currently paid for the administration of a single vaccine to an elderly person, when administered in the practice, and EUR 34.69, if administered at home.

Family doctors also receive fringe benefits for the achieved vaccination rates – EUR 2 per patient aged 60 and above and for patients with specific chronic diseases, if the vaccination coverage is up to 60%; EUR 4 if the vaccination coverage is between 60% and 80% and EUR 6 if the vaccination coverage is between 80% and 100%. The amount of the fringe benefit is determined depending on whether the family doctor's practice ensures the vaccination against COVID-19 or not, and vaccination coverage in the given group of patients of the family doctor.

In order to encourage a more active primary vaccination against COVID-19 of the population aged 60 and above, in the first half of 2022, a resource fringe benefit (including funding for recruitment of an additional employee), as well as fringe benefits for vaccination against COVID-19 for a population aged 60 year and above are provided for family doctors' practices. Fringe benefits are also intended for other medical treatment

institutions which provide vaccination against COVID-19. EUR 8.4 million were earmarked by CM from emergency budget funds on 25 January 2022 for these purposes.

In addition to family doctors' practices, a financial incentive was also provided for medical treatment institutions for the prioritisation of primary vaccination against COVID-19 for elderly people from 1 December 2021 to 15 January 2022.

For each practice, which provides vaccination against COVID-19, compensation is provided for measures for the health promotion and rehabilitation of persons employed by the family doctor for the family doctors' practices, which provide vaccination against COVID-19 in their practice (received between 01.10.2021 and 31.08.2022.), earmarking for this purpose indicative funding of EUR 0.4 million from emergency funds in 2022.

At the same time, from 1 October to 31 December 2021, a premium payment tariff of EUR 11.87 has been determined for the family doctors' practices, which concluded an agreement with the National Health Service regarding vaccination, for a person who has received at least one vaccine from 01.10.2021 to 31.12.2021. For this purpose, indicative funding of EUR 3.1 million has been earmarked for the year 2022 from emergency funds.

EU Solidarity Fund support for Latvia of EUR 1.18 million for mitigation of the effects of COVID-19 has been received. The support is intended for the purchase of medical equipment and devices for medical treatment institutions and for the development of a single digital epidemiological safety tool for NHS.

EUR 1.19 million has been allocated to ensure rehabilitation for those who have severe to medium-severe cases of COVID-19 in 2021. Funding of EUR 2.83 million for sub-acute medical rehabilitation has been earmarked for patients after the COVID-19 infection for the first half of 2022.

2.6. EFFICIENCY OF THE PUBLIC SECTOR

EU COUNCIL RECOMMENDATION:

- STRENGTHEN THE ACCOUNTABILITY AND EFFICIENCY OF THE PUBLIC SECTOR, IN PARTICULAR WITH REGARD TO LOCAL AUTHORITIES AND STATE-OWNED AND MUNICIPAL ENTERPRISES AND THE CONFLICT OF INTEREST REGIME.

Efficiency of Public Administration

The *Public Administration Reform Plan for 2020* was implemented between 2017 and 2020 (see Box 2.5). Currently work is ongoing on the development of the *Public Administration Modernisation Plan for 2027*, and a series of measures are being implemented to improve the efficiency of public administration by improving the remuneration system, integrating the principles of the innovation culture in public administration, improving information and technology solutions and improving the training system for employees in public administration.

Box 2.5

PUBLIC ADMINISTRATION REFORM PLAN FOR 2020

The purpose of the plan was economy, efficiency, effectiveness. The plan was applicable to thirteen ministries and institutions subordinate to them, as well as the State Chancellery, the Latvian School of Public Administration and the CSCC. As part of this plan, a number of major reforms and measures were implemented and launched. They include a reduction in the number of employees in public administration, which was identified as a prerequisite for increasing remuneration, which would make it possible to keep and attract qualified staff to the public administration. In December 2020, a total reduction of 7.64% was achieved, representing employee workload of 3224.05. When evaluating the achievement of the objective of reducing the number of employees to the EU average, it can be concluded that the objective pursued has been achieved: In 2020, it was 7.1% in Latvia, while 7.2% was the EU average.

Work on the new public administration development planning document – ***Public Administration Modernisation Plan for 2027*** – started in 2021. Objective of the plan – open, smart, efficient public administration. The following six lines of activities are currently set:

- integrity, responsibility and values;
- development of services and innovation;
- human resources (learning and development);
- policy quality;
- working environment;
- centralisation.

Different community groups will be involved in the development of the *Public Administration Modernisation Plan for 2027*²³, and other current policy planning documents that have an impact on the development of public administration, will be taken into account. According to the NRRFPL, the development of the modernisation plan should be completed by the end of 2022.

In 2021, foundations were laid for the **remuneration reform** by adopting amendments to the *Law on Remuneration of Officials and Employees of State and Local Government Authorities*, which will take effect from 1 July 2022²⁴. The new regulation provides for the further setting of the wage scale with a coefficient linked to the reference wage. The aim is to promote the effectiveness and quality of the performance of officials and employees of state and local government institutions by improving the competitiveness of remuneration – by setting the target level of monthly wages in the public administration at the level of 80% (on average) of the level of wages paid in the private sector, as well as

²³ An expert discussion on the modernisation plan took place on 11 February 2022. The discussion on the modernisation plan was also held at the Meeting of the State Secretaries on 7 April 2022.

²⁴ Amendments to the Law on Remuneration of Officials and Employees of State and Local Government Authorities (16.11.2021), <https://likumi.lv/ta/id/328115-grozijumi-valsts-un-pasvaldibu-instituciju-amatpersonu-un-darbinieku-atlidzibas-likuma>

by changing the proportion between the constant and variable part of payment and introducing others of modern work payment solutions. Such a regulation has been chosen to be able to follow up more operatively with the economic development processes in the country, i.e. if the economy grows and the base monthly wage increases, the monthly wage scale increases as well and the institution may raise monthly wages if there is such a possibility (it has access to financial resources) and the remuneration fund is sufficient. At the same time, the *Catalogue of Positions at State and Local Government Institutions* is also being improved, creating it in line with labour market trends, simplifying descriptions, adapting to the labour market, including new (required by the labour market) positions, job names, job function names. Such an approach will ensure in the future that equivalent remuneration is provided for equivalent work.

Work on systematic **determination of work performance indicators** has also started. Within the framework of the *Senior Management Development Programme*²⁵, a pilot project was implemented to define performance indicators for state secretaries. On 1 February 2022, the CM approved the instruction “*Procedures for Drawing up and Updating the Operational Strategy of an Institution and Assessing its Implementation*”. The State Chancellery has published guidelines for the development of strategies²⁶, which will include recommendations for work performance indicators.

Capable and professional managers are a prerequisite for effective and responsible public administration. The State Chancellery ensures a **centralised selection of managers** by ensuring the selection process based on the assessment of professional competences and management capabilities, enhancing its credibility. For example, in 2021, 10 selection competitions were provided, but in 2022, competitions for the positions of head of such important institutions like the KNAB and the FIU will be centralised. A *Manual for an Effective Manager*²⁷ has been developed. A number of webinars and trainings have taken place within the framework of the *Senior Management Development Programme*. In total, in 2021, senior managers were able to participate in 18 different project events, devoting 156 hours to their education.

In September 2021, a reform of standardisation and centralisation of support functions (accounting, personnel records and human resources management) started with the help of the EC DG REFORM technical instrument. Standardisation and centralisation of support functions are planned as part of the *Public Administration Modernisation Plan for 2027*. According to the Recovery and Resilience Facility Plan, the result indicator of 2026 is 15% of the total number of employees in direct public administration receive centralised accounting and human resources management services from a single solution service provider. The *Draft Informative Report on the Centralisation of the Functions of Accounting and Personnel Records in Public Administration* is currently being harmonised.

Planned for the following years:

- by Q4 2022 it is planned to develop and submit to the CM the *Concept of the Single Service Centre*;
- from 2023 to 2026, it is planned to ensure the introduction of the *Concept of the Single Service Centre* and to ensure that the departments switch to that centre;
- by 2030, it is planned to ensure that all ministries and subordinate authorities switch to the Single Service Centre if the analysis revealed no major reasons why they cannot switch to it.

²⁵ Implemented within the ESF project No. 3.4.2.0/15/I/003 “*Senior Management Development Programme*”.

²⁶ <https://www.mk.gov.lv/lv/media/12837/download>

²⁷ <https://www.mk.gov.lv/lv/media/5408/download>

The **integration of an innovation culture in public administration** has started. Active work is ongoing on raising the public sector innovation capacity and developing the innovation ecosystem. The OECD Observatory of Public Sector Innovation (OPSI) has conducted a study “*Public Sector Innovation System in Latvia*”. The study analyses the achievements and challenges in the field of innovation so far, as well as the proposals for further development. In 2021, *Experimentation Guidelines for the Latvian Public Sector* were published, which are an important step towards a uniform use of the experimentation method in the Latvian public sector. The guidelines were developed by one of the world’s leading public administration innovation think tanks, [Demos Helsinki](#), in cooperation with the OECD OPSI.

The EC supports the third State Chancellery’s project for the development of public sector innovation system of Latvia. Purpose of the project – to introduce the recommendations of that OECD OPSI study so that innovation becomes a structured and targeted public administration process and gradually shifts to own funding. Work in ongoing on the development of regulations for the conditions for planning and implementation investment 6.3.1.3.i “*Development of the Public Administration Innovation Eco-System*” of reform and investment direction 6.3 “*Modernisation of Public Administration*” of the EU *Recovery and Resilience Facility Plan*.

Following the OECD OPSI recommendations, the ME, in cooperation with the Latvian Chamber of Commerce and Industry, the Employers’ Confederation of Latvia, the Latvian Association of Local and Regional Governments, the Business Union of Latvia (LBS) and *Junior Achievement Latvia*, implements the initiative “An official shadows an entrepreneur”. In 2022, there are plans to extend the tradition that dates back to 2019 to implement the improvements and the solutions to problems proposed by entrepreneurs using modern governance and customer management principles within a period of 6 months from the date of shadowing.

In 2021, the network of public administration innovation experts representing innovation experts from all ministries continued working. A network of innovation experts conducted design thinking and sprint facilitation training, led by the Design Research Centre *PDR (Cardiff Metropolitan University)*²⁸. A manual “*How to plan, implement and close the innovation sprint*”, a methodological basis for the implementation of a single innovation sprint, has been developed²⁹.

The Innovation Laboratory, in cooperation with the VAS “*Valsts nekustamie īpašumi*” (State Real Estates – SRE) and state, local government and private partners, continues to work on the development of the ***Future Office Concept***, a vision for the development of a modern, cooperation-based public administration workplace that can stimulate the pooling of functions and the creation of joint jobs for work also outside Riga. A manual was created for the public administration authorities on how to develop a future working environment that is modern, comfortable and motivating, making public administration more accessible both in the regions of Latvia and for people with disabilities. At the State Chancellery in cooperation with the SRE work continues on the development of the *Informative Report on the Possibilities for Optimising the Office Premises of Direct Public Administration Institutions in Riga*.

During the implementation of the *Public Administration Reform Plan for 2020*, two important **information technology solutions** were completed for the development of more effective public administration, greater transparency and responsibility:

²⁸ More information at: <https://inovacija.mk.gov.lv/lv/>

²⁹ More information at: <https://inovacija.mk.gov.lv/lv/>

- on 9 September 2021, the Single Portal for Drafting and Coordination of Draft Legislation or the TAP portal³⁰ was launched ensuring a significant modernisation of the process of drafting draft legislation and the decision-making process – further the process of drafting and coordinating legislation and development planning documents is taking place in a digital environment, providing opportunities for public participation. A new regulation for ensuring the operation of the CM was developed to start the functioning of the TAP portal. In 2022, it is planned to further modernise the decision-making processes of the CM, extending the functionality of the TAP portal;
- the development of a single platform for websites of state and local government institutions³¹ continues, providing for the migration of websites of public administration institutions to the new platform, which allows for the creation, on a uniform basis, of new websites of public administration institutions designed based on uniform functionality and of similar design in order to provide a user-friendly environment, which is easy to navigate and find the information people are looking for. 90 new websites of state and local government institutions have been created so far and are accessible to everyone.

In order to promote the **quality of policies and regulation**, *Guidelines for Assessing Initial Impact and Drawing up an Assessment Report on the TAP Portal* have been developed and published in the Legislation Development Guide tai.mk.gov.lv. Work on the *Guidelines for Ensuring Public Participation in Public Administration* will be completed soon. In 2022, work will be started on training activities on public participation at the Latvian School of Public Administration.

On 13 August 2021, the CM approved the ***Learning and Development Plan for Public Administration Employees 2021-2027***. The basic idea of the plan is to introduce in public administration the principles of an organisation that is learning and to make learning a daily habit in the future public administration, and to create and horizontally integrate a unified and systematic knowledge management. Such a change of habits is a first step towards making public administration an open, flexible, co-creation oriented and productive organisation in the long term. The plan aims to ensure the development of the competences of public administration employees in line with future competences, thereby promoting the professionalism and efficiency of public administration and the implementation of the principle of lifelong learning, while stimulating the competitiveness of employees in the labour market and improving the quality of public administration activities and services.

During the reporting period, various events were organised for local governments to build up their capacity, including by raising awareness of opportunities to promote business development, motivating economic development in local governments, as well as the principles of good governance.

In accordance with the *Regional Policy Guidelines 2021-2027* (approved by the CM in 2019), support is planned to increase the capacity of specialists of local governments and planning regions in performing their functions more effectively and to improve the quality of public services provided, as well as the planning and implementation of sustainable development in accordance with the principles of good governance.

³⁰ Public environment of the TAP portal – <https://tapportals.mk.gov.lv/>, more on <https://www.mk.gov.lv/lv/tap-portals>

³¹ More information – <https://www.mk.gov.lv/lv/projekta-dalibnieki-valsts-un-pasvaldibu-iestades>

On 10 February 2022, the CM approved the ***Fifth National Open Governance Action Plan 2022-2025 of Latvia***³². The purpose of the plan is to promote meaningful and effective public participation in the development of weighed and qualitative decisions and openness and transparency in the work of public institutions in the interests of society. A co-creation platform <https://atvertalatvija.manabalss.lv> was created in March 2021 for the development of the plan, where 107 residents' ideas for open governance activities were received. A supervision council is established for the implementation of the plan, which includes delegated representatives from all ministries, NGOs and other stakeholders.

It is important to integrate a **value-based culture in public administration** and to improve public confidence in public administration. The LSPA is developing e-courses on ethics and values that will be available to employees in the public administration in 2022. Latvia also participates in the *OECD Trust Survey*, and first results will be discussed in the OECD in April 2022. The OECD plans to publish a survey in June 2022. Its results will help to better target reforms that boost confidence in public administration. In March 2022, the work of the Confidence Group led by the CSCC of the NGO and the CM Cooperation Memorandum Implementation Council³³ started.

The *Digital Transformation Guidelines 2021-2027* approved by the CM on 7 July 2021 include the development of a unified and effectively functioning service provision system. Services should be easily accessible, in line with the one-stop-shop principle as in the digital and in the analogue environment, requiring as little as possible the involvement and effort of the service recipient. On-site services must be provided in a geographically accessible single and professional network. It should be possible to request public services and to communicate with state and local government authorities through audio and video communication opportunities, for example, in the form of video application. During the second half of 2021, the MEPRD in cooperation with the State Social Insurance Agency, the SRS launched a pilot project for organising remote and personalised consultations, testing in practice the provision of services using digital technologies. The MEPRD also continues to work on service provision reform in 2022. At the end of 2021, residents were able to apply for public administration services at 122 state and municipal uniform customer service centres (SMUCSC). It is planned to establish up to 592 SMUCSC by 2023, extending the SMUCSC network territorial and extending the SMUCSC available basket of services by 2027.

Governance of State and Local Government Enterprises

Since Latvia became a full member of the OECD on 1 July 2016, a lot of attention has been paid to improving the legal framework for the governance of state-owned enterprises. The *OECD Guidelines on Corporate Governance of State-Owned Enterprises* are binding for Latvia in the governance of state-owned and also local government-owned institutions (see Box 2.6).

The biggest challenges in the governance of public capital companies are:

- a relatively large number of capital companies. Also cultural and medical, as well as various agency-type organisations that are not registered as capital companies in other countries have the status of a capital company in Latvia. However, the number of state-owned capital companies that can be considered to be commercially oriented is not too large – around 20 capital companies;

³² <https://likumi.lv/ta/id/329905-par-latvijas-piekto-nacionalo-atvertas-parvaldibas-ricibas-planu-2022-2025-gadam>

³³ More information: <https://www.mk.gov.lv/lv/nevalstisko-organizaciju-un-ministru-kabineta-sadarbibas-memoranda-istenosanas-padome>

- the fragmented function of a holder of capital shares. In total, the holding of capital shares of state-owned capital companies (a total of 70 state-owned capital companies with decisive state influence) has been transferred to 11 ministries and other institutions. For individual capital companies, even several ministries provide the functions of the holder of capital companies at the same time. The CSCC as a coordinating body does not have the possibility to influence the decision-making of holders of capital shares. The CSCC has developed a number of guidelines for the management of state capital companies, but the CSCC does not have the function to ensure the application and supervision of these guidelines;
- the role of the council is still insufficient;
- insufficient raising of private sector capital; several studies carried out by the CSCC have pointed to insufficient raising of private capital in the financing of development projects of state capital companies. In general, it was observed that Latvian state capital companies tend to be more cautious in setting their financial objectives than similar companies in other countries.

The CSCC and other stakeholders constantly encourage a variety of improvements in the disclosure of information by state-owned capital companies, so that its scope is equivalent to listed companies. Starting in 2020, the CSCC shall carry out a comprehensive assessment of the information published on the website of state and local government owned holders of capital shares and state-owned capital companies and large local government capital companies, as well as prepare summaries of the results of the information disclosure audit.

In 2022, major changes are related to the requirements for public capital companies to prepare and publish a non-financial statement and a corporate governance statement. The non-financial statement should include information on environmental impact, social and employee-related aspects of the commercial activity, respect for human rights and anti-corruption and anti-bribery measures of a capital company.

Box 2.6

IMPROVING THE LEGAL REGULATION

In line with the OECD recommendations, a single legal regulation was established and the *Law On Governance of Capital Shares of a Public Person and Capital Companies* entered into force in 2015, which lays down both how public persons obtain and terminate their participation in capital companies, what the organisation of the governance of public capital companies is, how members of the executive board and supervisory board are appointed, and many other issues, including the law also defines supervisory board independence criteria and that the presence of political party officials in the positions of the members of executive boards or supervisory board of public capital companies is prohibited. The law also lays down the requirements for the disclosure of information, both in relation to persons under their management, in relation to financial data of capital companies and in relation to other information.

Management persons of public capital companies have the status of a state official and have to comply with the restrictions specified in the *Law on Prevention of Conflict of Interest in Activities of Public Officials*. A public person capital company should publish on its website the main policies of a capital company, which define the principles of the operation of the capital company with regard to risk management, prevention of conflict of interest and corruption, corporate governance and other matters.

In 2015, a coordinating body for state-owned capital companies was introduced, the functions of which are exercised by the CSCC.

Since 2016, (renewed) supervisory boards have been established in large and individual medium-sized state and local government capital companies. Since 2020, the CSCC has organised the selection of supervisory board members in state-owned capital companies, and such a more centralised process helps to form more professional supervisory boards, but the influence of ministries and other holders of capital shares in the nomination processes remains high, affecting the results of the selection of candidates. It is also necessary to clarify the disclosure of the grounds for the appointment of the existing supervisory board, as well as executive board members for the next term, and the timely replacement of the members of the supervisory board and executive board.

A new *Corporate Governance Code* was developed at the end of 2020. From 2022, large public persons' capital companies will be required to publish a corporate governance notice for 2021 in accordance with the new code, which will also include an assessment of internal control systems and prevention of conflict of interest.

In 2022, the CSCC prepared and submitted to the public consultation a *Conceptual Report on the Necessary Changes to the Governance Policy for Capital Companies and Capital Shares of Public Companies*. The most significant changes proposed are the harmonisation of governance policy with the government's political cycle, strengthening the role of the state as an active and informed owner by developing expectation letters of shareholders,

promoting private capital raising opportunities by issuing bonds or listing stocks on the stock exchange, supporting the development of innovative products and services, creating the possibility of establishing subsidiaries or promoting cooperation with start-ups, as well as further progress towards a gradual centralisation of the governance functions of state-owned capital companies.

Combating Corruption and Preventing Conflict of Interest

In 2021, Latvia improved its position in the Corruption Perception Index³⁴ by moving from the 42nd place to the 36th place among 180 countries. Progress in reducing corruption and preventing conflict of interest has also been demonstrated by reports from the Group of States against Corruption of the Council of Europe (GRECO) and the OECD Working Group on Bribery in International Business Transactions (OECD WGB) (see Box 2.7).

Box 2.7

ACKNOWLEDGEMENTS OF INTERNATIONAL ORGANISATIONS ON PROGRESS IN LATVIA

On 11 January 2021, GRECO published reports on the conclusion of the *Fourth Evaluation Round Corruption Prevention in Respect of Members of Parliament, Judges and Prosecutors*, which confirmed that Latvia fulfilled 11 of 14 recommendations, and the *Fifth Evaluation Round Compliance Report*, which acknowledged that Latvia fulfilled 14 of the 17 recommendations made during the Fifth Evaluation Round in full or in part on the prevention of corruption in higher executive functions and law enforcement authorities.

The OECD WGB has acknowledged significant progress in the implementation of the Phase 3 evaluation recommendations, achieving and demonstrating obvious results in the successful investigation and further advancement of bribery criminal cases of foreign officials. Latvia has fully or partly fulfilled with 35 of the 44 recommendations made by the OECD WGB. The OECD WGB appreciated the fact that for the first time in its history the KNAB successfully investigated and proposed to initiate criminal proceedings in two criminal cases regarding possible bribery of foreign officials, thereby demonstrating the ability of the KNAB to successfully investigate not only national but also cross-border bribery cases. The working group also appreciated the cooperation of the KNAB in investigating bribery of foreign officials and related crimes with other institutions, including the FIU and the Prosecution Office of the Republic of Latvia.

At the same time, the OECD WGB issued a positive evaluation of the KNAB's proactive approach to the detection of bribery cases of foreign officials, attracting additional human resources, including analysts, whose basic task is to detect and provide support in investigating corruptive criminal offences, as well as by organising and participating in training focused on corruption and money laundering investigation.

Work is ongoing in a number of ways to **strengthen the legal framework**, which led to the adoption and entry into force of a number of amendments to the various legislative acts, including the recommendations of international organisations such as the OECD WGB:

- On 1 January 2021, amendments to the Section 121 of the *Criminal Procedure Law* entered into force, providing for the procedures for requesting from the certified auditors in pre-trial proceedings the information at their disposal regarding the facts which have become known to them, while providing professional services, which were prohibited until now within the meaning of the Section 25 of the *Law on Audit Services*. This amendment is expected to facilitate cooperation with certified auditors in pre-trial proceedings;
- Amendments to Sections 317, 318 and 319 of the *Criminal Law* entered into force on 5 August 2021, stipulating that the criteria of “material damage to state power or serious damage to administrative order” will be applied in accordance with the definition of the *Law on the Procedure of Entry into Force and Application of the Criminal Law*³⁵, thereby eliminating a different understanding and confusion among the persons directing proceedings in the application of the *Criminal Law*;
- *Amendments to the Criminal Law* are directed at the Saeima for the 3rd reading, with a view to excluding the Section 322 “Intermediation in Bribery” from the *Criminal Law*, as it has lost its importance over the years because, according to international recommendations, a briber and an intermediary are involved in one criminal offence and the harm they cause is considered equivalent;

³⁴ <https://www.transparency.org/en/cpi/2021/index/lva>

³⁵ <https://likumi.lv/ta/id/50539-par-kriminallikuma-speka-stanas-un-piemerosanas-kartibu>

- *Amendments to the Law on the Procedure of Entry into Force and Application of the Criminal Law* are directed at the Saeima for the 3rd reading, providing for supplementing this Law with a new Section 19.3, which explains one of the types of bribery through mediation.

The **system of conflict of interest prevention** is improved by regularly improving the provisions of the *Law on Prevention of Conflict of Interest in Activities of Public Officials* (CIPL). A number of *Amendments to the CIPL* were adopted or entered into force in 2021:

- including members of the Public Electronic Mass Media Council³⁶ in the definition of public officials, applying to them the restrictions, prohibitions and duties defined in the CIPL;
- clarifying the definition of relatives of a public official, granting the right to perform the work of a veterinarian without obtaining a special permit, determining the conceptually new procedure for accepting a donation, as well as the obligation to clarify the declaration of a public official within one month after the entry into force of a decision in administrative violation proceedings or criminal proceedings, by which the person has been punished for providing false information in a public official's declaration. The amendments in addition oblige the Director of the Constitution Protection Bureau to further submit a state official's declaration, extend the scope of the information to be provided in the declaration (information regarding half-brothers and half-sisters), impose restrictions on commercial activities for a wider range of persons, temporarily barring public officials from representing the interests of a public person's institution against a former private sector employer, determine the duty of a public official inform about potential cases of corruption, which have become known to when performing job duties, provide the information necessary, when performing internal control measures to prevent the risk of corruption and conflict of interest in the institution, grant the right to the FIU to familiarise with part of the information of the part from a public official's declaration which is not publicly available;
- in determining the obligation for political officials to receive a written permit for the combining of positions from the public official, who appointed them, or the authorised person of such an official, who appointed them. This obligation applies to the adviser to the State President, the head of the office, an adviser, a consultant and an assistant of the Prime Minister, the Deputy Prime Minister, a minister, special assignment minister, who already has the status of an official and who is subject to the restrictions on combination of positions, thereby introducing a recommendation from the GRECO Fifth Evaluation Round to ensure that all political officials (excluding members of the CM and parliamentary secretaries) need to receive a written permit to combine positions.

In the field of corruption prevention, the KNAB in 2021 applied and in 2022 received approval for the project application "*Reinforcing the corruption prevention framework in Latvia*" within the EC Technical Support Instrument programme. The project consists of three components:

- evaluation of the *Law on Prevention of Conflict of Interest in Activities of Public Officials* and development of improvement recommendations;
- evaluation of the regulatory framework for internal control systems and development of methodologies for assessing the quality of internal control systems;
- developing a methodology for evaluating national corruption risks, which would also evaluate the latency of corruption criminal offences.

³⁶ Adopted on 19 November 2020 and entered into force on 1 January 2021, the Law on Public Electronic Mass Media and Administration Thereof, establishing a new public authority, the Public Electronic Mass Media Council.

In 2021, the KNAB developed a draft plan "*Plan of Prevention and Combating Corruption Measures 2021-2024*" (hereinafter – the Plan), which takes over the "*Plan of Prevention and Combating Corruption Measures 2015-2020*", and is its consecutive continuation. The Plan maintains the previously defined corruption prevention and combatting course (objectives and action lines), but at the same time includes a new set of tasks to achieve the overarching objectives of the corruption prevention and combatting policy: to observe the principle of good governance and effective management of human resources, to ensure the reliable functioning of any institution or organisation. The measures of the plan are organised to reach five sub-objectives:

1. to provide a human resources management policy that excludes the motivation for corrupt behaviour;
2. to improve the anti-corruption internal control system;
3. to reduce tolerance to corruption;
4. to ensure the inescapability of punishment for violations of the law;
5. to limit the power of money in politics.

The plan was announced at the Meeting of the State Secretaries on 1 July 2021. In 2022, work will continue on the coordination of the Plan and submitting it for approval to the CM.

In October 2020, within the programme co-financed by the European Economic Area (EEA) grant "*International police cooperation and fight against crime*" the KNAB received support for the implementation of the project "*Support for the creation of a whistleblowing system in Latvia*". The project aims to promote public involvement by reporting corruption and other latent crimes, while providing the population with a secure and convenient reporting channel, as well as improving the competence of the KNAB in discovering and investigating corruptive crimes. Within the framework of the project, three significant activities are scheduled to be carried out by 31 December 2022: creating an online reporting platform for reporting on the matters of the KNAB's competence, organising two major social campaigns to raise public awareness of the types of manifestation of corruption and the need to report the violations observed, as well as implementing measures to strengthen the KNAB's investigation and analytical capacity.

3. RECOVERY AND RESILIENCE FACILITY PLAN FOR LATVIA

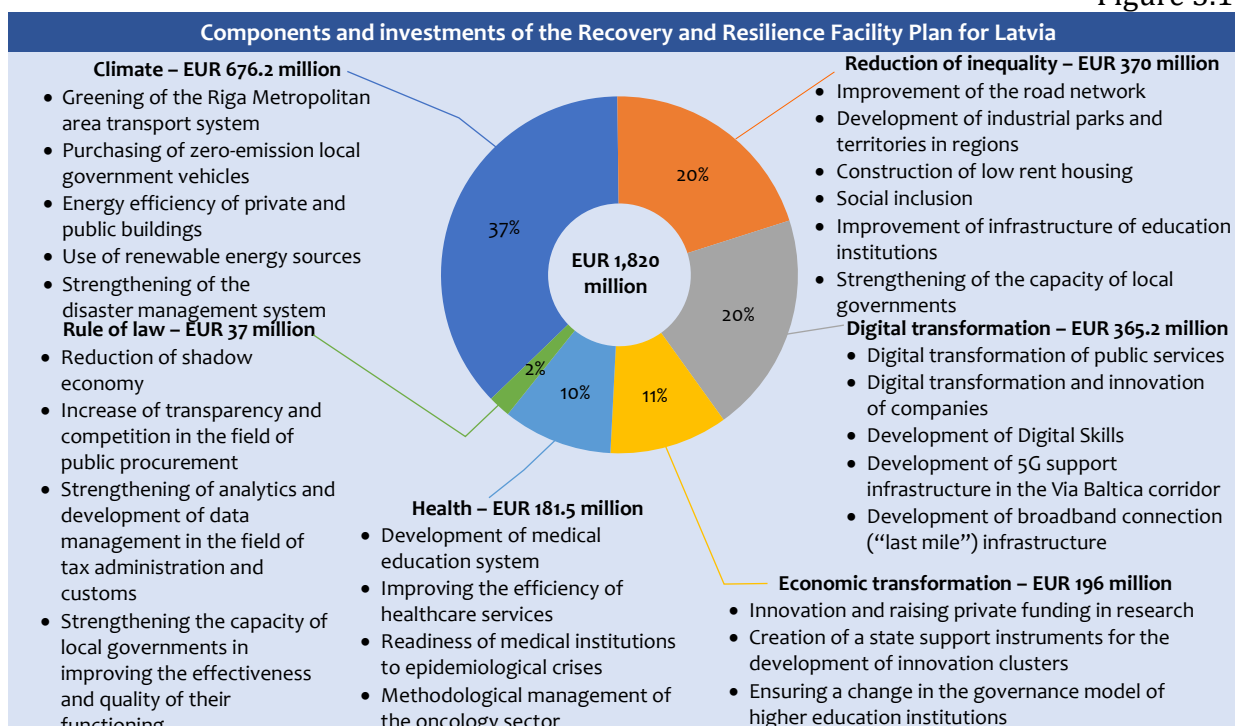
EU COUNCIL RECOMMENDATIONS:

- FOCUS INVESTMENT-RELATED ECONOMIC POLICY ON INNOVATION, THE PROVISION OF AFFORDABLE HOUSING, TRANSPORT, IN PARTICULAR ON ITS SUSTAINABILITY, RESOURCE EFFICIENCY AND ENERGY EFFICIENCY, ENERGY INTERCONNECTIONS AND DIGITAL INFRASTRUCTURE, TAKING INTO ACCOUNT REGIONAL DISPARITIES (2019)
- ENSURE ACCESS TO LIQUIDITY SUPPORT BY FIRMS AND IN PARTICULAR SMALL AND MEDIUM-SIZED ENTERPRISES. FRONT-LOAD MATURE PUBLIC INVESTMENT PROJECTS AND PROMOTE PRIVATE INVESTMENT TO FOSTER THE ECONOMIC RECOVERY. FOCUS INVESTMENT ON THE GREEN AND DIGITAL TRANSITION, IN PARTICULAR ON RESEARCH AND INNOVATION, CLEAN AND EFFICIENT PRODUCTION AND USE OF ENERGY, SUSTAINABLE TRANSPORT AND DIGITAL INFRASTRUCTURES.

The NRRFPL or the *Recovery and Resilience Facility Plan for Latvia* (RRF Plan) is an important instrument for the absorption of EU funding in Latvia in the context of the *European Recovery and Resilience Facility*, and it reflects reforms and measures in the policy areas addressed by the EU Council country-specific recommendations, as well as takes into account the requirements of the Regulation 2021/241 of the European Parliament and of the Council establishing the Recovery and Resilience Facility to focus 37% of funding on climate change mitigation proposals, while 20% of funding – on digital transformation purposes. The NRRFPL includes investment projects and reforms aimed at contributing to a faster economic recovery from the current COVID-19 crisis. The NRRFPL is based on 6 components (see Figure 3.1).

On 30 April 2021, the RRF Plan was officially submitted to the EC. On 22 June 2021, the EC issued a positive assessment of the RRF plan. On 13 July 2021, the RRF Plan was approved by the implementing act of the EU Council at the EU Economic and Financial Affairs Council.

Figure 3.1

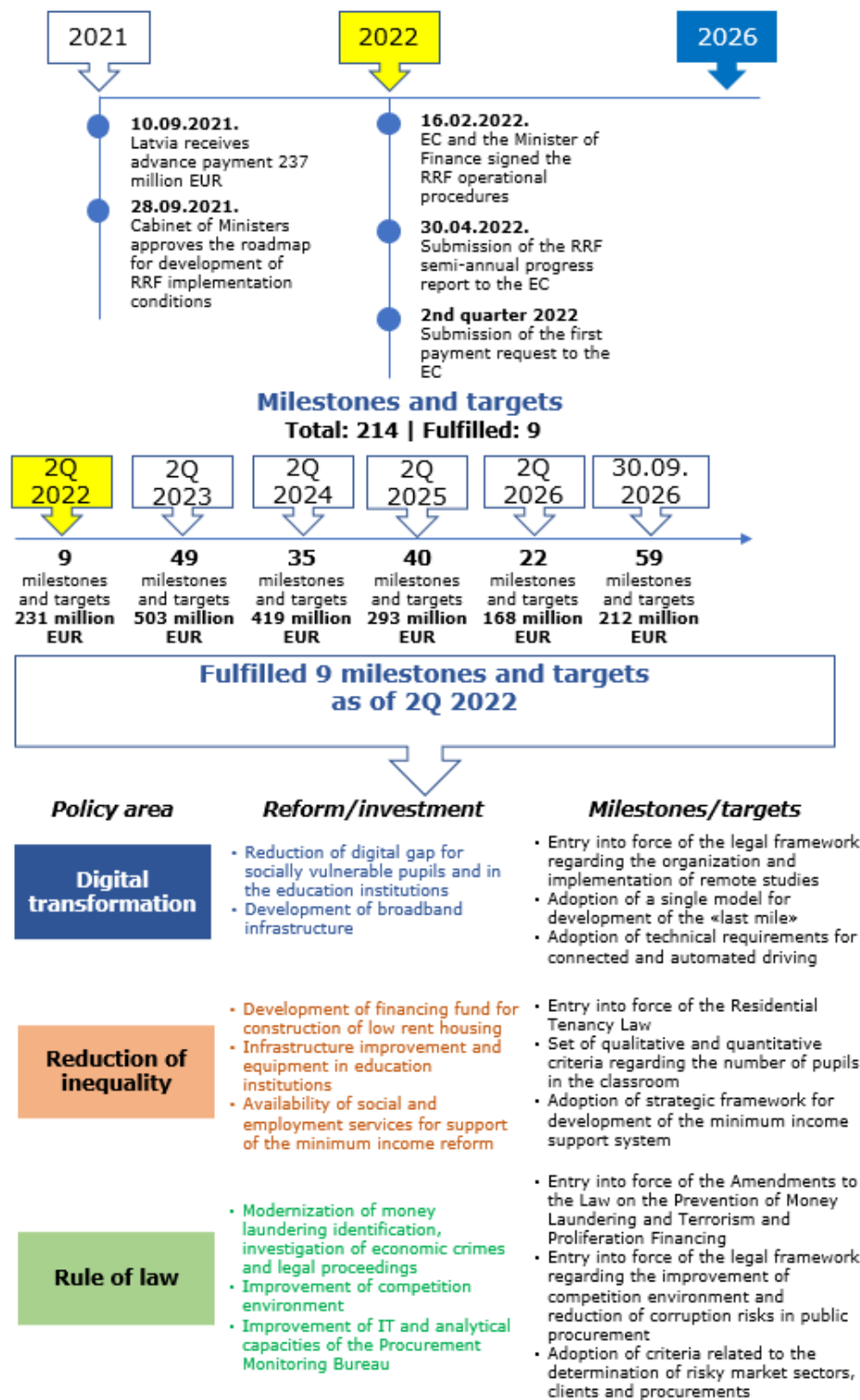


Projects for the RRF Plan can be submitted by entrepreneurs, local governments and state organisations, associations and foundations. The RRF Plan funding will be available until 31 August 2026.

The current situation with the implementation of the RRF Plan as of March 31 is shown in Figure 3.2³⁷.

Figure 3.2

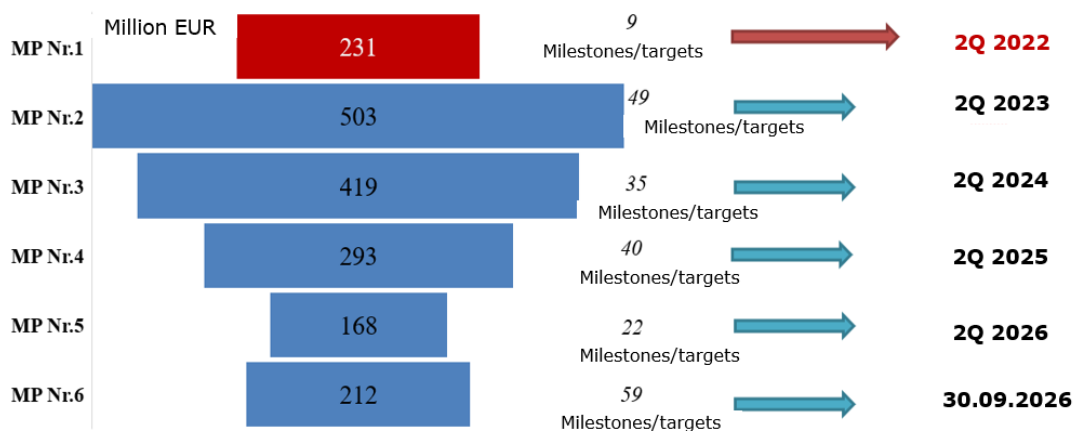
Information on the planned and fulfilled targets and milestones in 2021
(to be included in the payment request to the EC in 2022)



³⁷ Extensive information on the RRF funding available to Latvia and other EU Member States and its use is available on the EC website https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html?lang=en.

Figure 3.3

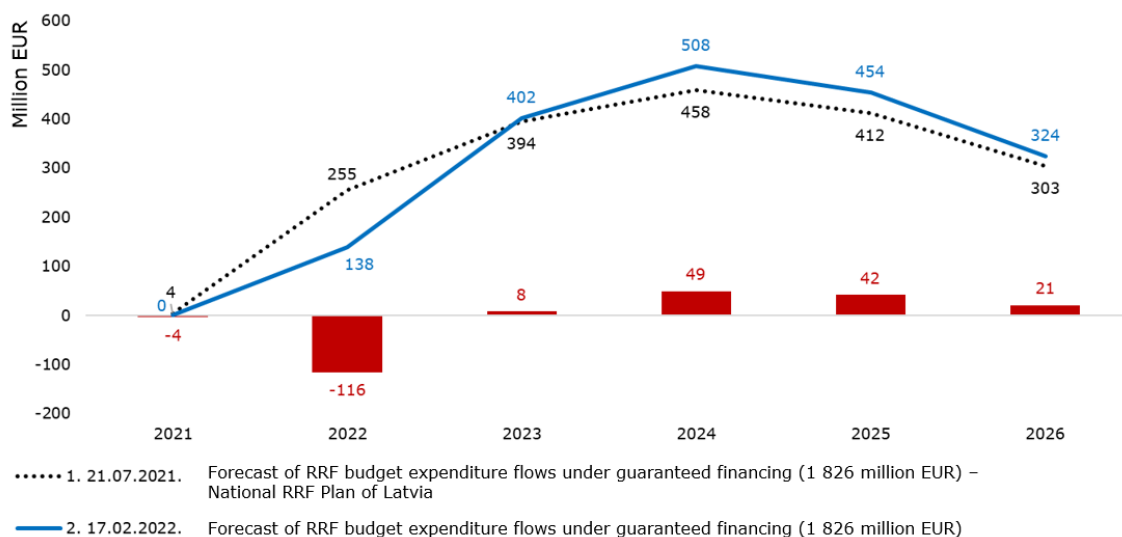
Schedule of investment payment requests of the RRF Plan and potential state budget revenues



In accordance with the EU requirements³⁸, Latvia should submit to the EC within the set deadlines a semester report on progress in the implementation of the RRF Plan and a payment request for receiving a refund from the EC, attaching several accompanying documents (documents certifying the achievement of milestones and targets, a summary of audits, including specific shortcomings, as well as a governance declaration on proper governance of the system).

Figure 3.4

Indicative forecast for the RRF Plan budget expenditures (million EUR)



The timetable set out in the Council *Implementing Decision*³⁹ provides that Latvia has to submit a payment request once a year within the deadlines set by the EC (see Figure 3.3).

³⁸ Articles 27, 24, 22 of Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility. <https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=CELEX:32021R0241&from=EN>; Council decision of 6 July 2021 on the approval of the assessment of the recovery and resilience plan of Latvia; Recovery and Resilience Facility Financing Agreement between the Commission and the Republic of Latvia <https://www.esfondi.lv/normativie-akti-1>

³⁹ Council decision of 6 July 2021 on the approval of the assessment of the recovery and resilience plan of Latvia, <https://www.esfondi.lv/normativie-akti-1>

The EC payments are divided into six parts and are potential annual state budget revenues if the milestones and targets set out in the RRF Plan are met⁴⁰.

The first payment request of EUR 231 million for the nine milestones provided in the RRF Plan in 2021 (rule of law, reduction of inequalities and digital transformation components) should be submitted to the EC in the Q2 of 2022. All milestones have been met by 31 March 2022.

The RRF plan budget expenditure forecast is shown in Figure 3.4.

⁴⁰ The total funding of the RRF plan is EUR 1.826 billion, for which 214 indicators (milestones and targets to be achieved) should be met within specified deadlines.

4. PROGRESS TOWARDS THE UN SUSTAINABLE DEVELOPMENT GOALS

Latvia's progress towards the UN Sustainable Development Goals (SDGs) is reflected in the context of the call of the UN Secretary-General of September 2019 to accelerate the mobilisation of resources for the achievement of SDGs over the next decade, as well as the opinion of the High-Level Political Forum 2020 that when liquidating the consequences of the COVID-19 crisis the focus should be on economic recovery that accelerates the implementation of the SDGs.

At the extraordinary meeting of 2 July 2020, the Saeima of the Republic of Latvia approved the *National Development Plan for 2021-2027* (NDP2027), which sets strategic objectives, priorities and targets for Latvia's sustainable and balanced development over the next seven-year programming period and on the basis of which state budget, EU funds and other investments are made in Latvia's development. Considering that NDP2027 was developed and submitted to the Saeima prior to the substantial spread of the COVID-19 in Latvia, the Saeima approved an additional statement stating that the objectives set out in the NDP2027 are topical but accelerated action in the field of health care and public safety (recruitment of human resources, availability of services, development of remote services, etc.); in the field of social protection and equal opportunities (ensuring a minimum level of income as well as availability of social, psychological and material support) and in the field of economy (availability of turnover capital and capital and accelerated digital transformation, strengthening opportunities for people to enter the labour market, adapting businesses to the transformation of economic structures, promoting more efficient use of resources, etc.).

The report below provides information on the measures implemented in 2020 and 2021 and the measures planned in the context of each UN SDG.

1. No poverty

The minimum old age pension and the minimum disability pension have been increased, a higher income threshold for a poor household has been set, the level of GMI has been increased from 2021, as well as the minimum monthly wage was increased. In order to mitigate the effects of the COVID-19 crisis, an unemployment assistance benefit has been introduced, other incentives have been provided for the unemployed to facilitate the return to the labour market, such as wage subsidies, incentives for improving education. In 2020, a one-off benefit of EUR 150 was paid to stabilise the income situation for children with disabilities in order to reduce the impact of COVID-19 and to promote the day-to-day care of a disabled child. To mitigate the effects of the COVID-19 crisis, a one-off benefit of EUR 200 was paid in 2021 to persons who are recipients of old age, disability, survivor's pension as well as to persons who have specific care indications.

For the reduction of child poverty, from 2022 state family benefit was increased for all children, also introducing progressivity depending on the number of children cared for. Under the conditions of COVID-19, the state co-finances local governments crisis benefits for families, and local governments increase the amount of the monthly benefit to be paid to the family for each child up to the age of 18.

According to preliminary CSB data, 26.2% or 490,000 inhabitants are at risk of poverty or social exclusion, ranking Latvia the fifth from the bottom among EU Member States. Deep poverty has decreased (5.1 in 2020 – EU average 6.6%), the number of low work intensity households is also smaller than the EU average. The risk of poverty after social transfers is 23.4%, the second highest in the EU, social transfers reduce the risk of poverty by 17.1%. The risk of poverty increases most rapidly among elderly people. As of 2021,

guaranteed minimum income level benefits have almost doubled and minimum age and disability pensions have substantially increased.

In order to improve the minimum income support system, in 2022, state co-funding of 50% is granted to local governments to provide housing benefits, while in January and July 2022 the non-taxable minimum of the pensioner will be raised. In the second half of 2021, almost EUR 10 million in addition was allocated to assistant services and thus total funding for this service amounted to EUR 28 million in 2021 and already EUR 40 million in 2022.

Under the conditions of the COVID-19 pandemic a one-off benefit was provided to several target groups. Families received a benefit of EUR 500 for each child. The benefit of EUR 200 was received by those who were beneficiaries of the old age, disability or survivor's pension between 1 March 2021 and the end of the emergency on 7 April 2021. Also those were entitled to this benefit, who, during that period, received a compensation for the loss of capacity to work, a survivor's compensation, or the state social security benefit, as well as persons granted subsidiary protection. In addition, EUR 200 was received by those entitled to the disabled child care benefit and the benefit for disabled persons (see also Chapter 2.3).

2. Improved nutrition, sustainable agriculture

Fresh and ecologically clean food has been in demand in Latvian society, and its local origin and processing method are an important part of rural tourism. Markets of domestic producers and direct marketing are both common and appreciated in urban environments, which contribute to closer interaction between urban and rural economies, and also foster the recognition of regional identity (through brands). The number of organic farmers and the area they manage in Latvia is increasing. However, the development of the processing of organic products and the increase in their consumption are hampered by the low purchasing power of the population and by the lack of information on organic farming methods and organic products. Similarly, the obesity prevalence level in Latvian society is much higher than the EU average – among children nearly one quarter of 7-year-old first graders have excessive weight and obesity. A deeper knowledge of healthy nutrition and focus on maintaining good health is a direction to be strengthened among the population.

3. Good-health and well-being

Life expectancy in Latvia continues growing, and in order to maintain this trend in the future, in response to the ageing population, it is intended to improve the availability of healthcare services, especially to seniors and children, improve the quality of health care, as well as develop integrated health and social care services for people with chronic diseases.

Until 2020, positive changes had been observed in the index, which reflected the number of years people might have lived up to the age of 64 if they hadn't died prematurely. Positive changes in the indicator are mainly determined by the reduction in premature mortality caused by external causes of death (accidents, road accidents, suicide, murder, etc.). A positive trend is also observed in the group of cardiovascular diseases, but the main causes of premature mortality are still cardiovascular diseases, external causes of death and oncological diseases.

The achievement of health targets was significantly affected by the COVID-19 pandemic, due to which healthcare services to treat non-COVID-19 diseases were used less. For these reasons, the success of the eradication of infectious diseases such as AIDS, tuberculosis or hepatitis cannot be objectively assessed.

On the other hand, the changes in the daily lives due to the pandemic and the limitation of social contacts have led to deterioration of mental and emotional health of the

population, which also has a long-term impact on physical health and well-being. This is confirmed by the fact that Latvia is still among the EU countries with the highest suicide rates. Similarly, the registered absolute alcohol consumption in litres per one 15-year old and older inhabitant, not including the absolute alcohol consumption by tourists, continues growing. Research has shown that under the conditions of the COVID-19 pandemic, alcohol consumption habits of risky alcohol users have deteriorated to a greater extent than of those not classified as risky alcohol users. The success of tackling these effects depends both on the duration of the COVID-19 pandemic and on the strategies implemented to limit it.

4. Quality education

The average reading achievements of Latvian young people in the last OECD PISA 2018 survey are slightly lower than the average in the OECD countries, ranking it 28th-35th. The highest literacy proficiency levels of young people are growing very moderately.

Improved education content is introduced, which contributes to the development of the competences of learners at all levels of general education, from one and a half years of age in preschool to the 12th grade. New competence-based content has been introduced in vocational education, a new assessment procedure and a modular approach have been introduced.

The share of early school leavers among 18-24 year olds is declining, and was 7.2% in 2020, which is below the EU-27 average – 9.9%.

A conceptually new model of internal governance of higher education institutions and a new model for the implementation and financing of a doctoral study programme have been approved.

Proposals have been prepared on the conditions for granting scholarships to social exclusion risk groups through the introduction of the Social Scholarship Fund “Studēt gods”, which will provide support in obtaining higher education for students from large families starting studies in the academic year 2021/2022 and later.

5. Gender equality

The *Plan for the Promotion of Equal Rights and Opportunities for Women and Men 2021-2023* was approved on 17 August 2021, which provides for the integration of this principle into sectoral policies. According to the EU EIGE Gender Equality Index (data of 2019), Latvia is ranked 16th among EU Member States. Although there is a high level of female participation in the labour market in Latvia, the pay gap between men and women exceeds 20%, although it is smaller than the EU average. Women more often than men choose to work part-time because they need to take care of children or other family members. In order to reduce labour market segregation, measures have been taken, mainly in the field of education, by introducing in practice education and education content based on the competence approach. Educational work has been carried out to improve the awareness of family violence among the specialists involved and to strengthen interinstitutional cooperation to address violence effectively.

Amendments to the Civil Procedure Law entered into force on 20 April 2021, supplementing the scope of temporary protection against violence defined in 2014 with a new means of temporary protection against violence – an obligation on the defendant to have a social rehabilitation course for the reduction of violent behaviour. The obligation to take the course to reduce violent behaviour is a preventive measure for the protection against violence. Imposing that obligation on a violent person is not only a response to violent behaviour but also means of preventing reoccurrence of violence. Since 1 July 2021, the court has been applying it in cases on temporary protection against violence in order to prevent existing and minimise further risks of violence, with a view to protecting the rights of vulnerable persons. A court may impose an obligation on a

violent person to take a course to reduce violent behaviour, both at the request of the victim and on his or her own initiative, if it is stated that this is necessary.

Similarly, since 20 April 2021, in all civil proceedings, persons have the possibility of obtaining the necessary temporary settlement of the dispute – temporary protection – until final judicial proceedings. Thus, the protection of individuals in any life situation is ensured, while the civil dispute is only on its way to final settlement in the court.

6. Clean water and sanitation

Latvia is rich in natural water resources, but the ecological quality of surface water and sea is not perfect. In Latvia, approximately 185 million m³ of water is extracted from both surface and groundwater during a year, of which more than 45% is used to provide utilities (drinking water supply), ~ 25% is used in agriculture, ~ 20% – in industry, and ~ 7% – in other sectors. Water protection is one of the priorities of Latvia's environmental policy.

The quality and availability of surface and groundwater is sufficient for the different uses of water. By the beginning of 2022, with the support of EU funds, another 14,818 inhabitants have been provided with a wastewater collection service meeting environmental requirements, thus providing it to 89% of the population in densely populated areas. However, the ecological quality of many surface waters is not good, it is negatively affected by coast and bed transformations (e.g. amelioration, dams and other barriers, bank protection), pollution from dispersed sources (e.g. agricultural and forestry land, streets and roads) and spot sources (e.g. wastewater treatment plants).

In order to improve the status of inland water bodies and the marine environment, Latvia is seeking to minimise the impact of the economy, including agriculture, on water quality. In the coming years, it is planned to develop wastewater sludge management and to improve wastewater treatment plants. River basin management plans also provide for other measures for different sectors. Investment projects increase the share of centralised sewerage users and improve access to drinking water supplied in a centralised way.

International cooperation in the protection and management of water resources is also important for Latvia, as 56% of the total river runoff is outside Latvia – in neighbouring countries Lithuania, Estonia, Belarus and Russia.

Access to clean drinking water is mostly provided to all the population. The centralised water supply is available to approximately 84% of the inhabitants of the territory of Latvia. Water monitoring is carried out at regular intervals, allowing information on the ecological and chemical quality of surface and groundwater waters, the quality of marine waters and the impact of agricultural pollution to be obtained. The development of the water monitoring system is essential for the investments of the EU funds for 2014-2020 and 2021-2027, extending and improving the monitoring network, as well as monitoring in small water supply systems.

In order to ensure the availability of EU funds for the water management sector during the EU funds programming period 2021-2027, the “*Wastewater Management Investment Plan 2021-2027*” has been approved and a strategy for the management of sewage sludge is being developed. It is planned to improve the efficiency of water management services by providing adequate infrastructure capacity, improving operational efficiency and energy efficiency, and by reducing pollution discharged into the environment. In order to facilitate the transition to the principles of circular economy in sludge management, investments will be made in the development of appropriate sludge treatment (including storage and dewatering) infrastructure in accordance with the abovementioned strategy.

7. Affordable and clean energy

Latvia has fulfilled the objective of promoting the use of RES – to reach 40% of the share of energy generated from RES in gross energy final consumption by 2020, with a view to

achieving a complete transition of energy generation to RES in all sectors where it is technologically feasible by 2050. Full integration of energy markets and modernisation of infrastructure are planned. The use of RES technologies in electricity generation, heat supply and industry is expected to be increased. Support (including the EU funds) for households will be provided to ensure electricity and heat generation from RES technologies for own use and to promote the construction of energy-efficient buildings and the renovation of existing buildings. Transport is one of the sectors consuming most of fossil energy sources, and it is therefore recommended that the population uses public transport as much as possible, zero-emission and low-emission vehicles, including those using AER as well as bicycles.

In Latvia, three main reform directions have been set to achieve climate neutrality policy objectives: Reduction of GHG emissions in the transport sector; increasing energy efficiency and measures to adapt to climate change. The most significant financial investments are planned in sustainable transport infrastructure in Riga and Pieriga region, the use of RES in transport, the promotion of energy efficiency in the public and private sector, the strengthening of crisis response capacity, and adaptation and emission sequestration measures.

Latvia is a leader and still ambitious in achieving the RES targets, so a targeted policy development and implementation is taking place to increase the share of RES in electricity by at least 50% in the period until 2030, thereby promoting both energy independence and the gradual refusal from fossil energy sources.

8. Decent work and economic growth

According to the flash estimate of GDP by the CSB, Latvia's economy grew by 4.8% in 2021. This was largely due to increased exports of goods and services, increased production volumes in manufacturing, private and public consumption, as well as investments. At the end of February 2022, the registered unemployment rate amounted to 6.8%.

To ensure decent work, the minimum monthly wage of EUR 500 has been set as of 2021, and a minimum object of mandatory state social insurance contributions (MSSIC) for the self-employed has been introduced from 1 July 2021. As of 2021, the MSSIC rate had also been reduced by 1 percentage point. With a view to further reducing the labour force tax burden for low income earners, from 1 January 2022 the differentiated minimum not subject to PIT, as well as the non-taxable minimum for pensioners is increased to EUR 350 per month and from 1 July 2022 to EUR 500 per month.

In order to provide support to the economic sectors affected by the COVID-19 crisis and to ensure their sustainability, in 2021 state support instruments to mitigate the impact of COVID-19 continued, including in key instruments such as the payment of grants to shopping and sports centres and culture, amusement and recreational sites affected by the spread of COVID-19, the financing of an alternative investment fund, unemployment assistance benefit, downtime support, support for wage subsidy and provision of the flow of working capital for companies affected by the COVID-19 crisis.

Substantial work has been also done to boost investment volumes by performing preliminary work for the start of investments of the RRF and the EU funds programming period. A new *Law of the Bank of Latvia* was adopted when the financial sector supervision reform was completed. It will enter into force on 1 January 2023. The Law will regulate the activities of the state central bank following its merger with the FCMC, and it is part of a set of measures necessary to ensure the implementation of the reform of the financial sector supervision system, as well as to modernise and develop the activities of the Bank of Latvia in the interests of society and the financial sector.

9. Industry, innovation and infrastructure

Investments in research and development (R&D) are growing. Compared to 2017, investments increased by 33.7% in 2020 and amounted to EUR 208.1 million. At the same time, it is necessary to increase these investments in order to achieve the national target of 1.5% of GDP. R&D investments in the Latvian government budget are maintaining steady growth; compared to 2016, R&D investments increased by 33.5% in 2020 amounting to EUR 79.30 million. In order to promote R&D and innovation, it is planned to increase the necessary R&D human capital and infrastructure, business and institutional environment capacity for transition to higher value added activities in global value chains, and to develop more active cooperation of the public, private and academic sector in the implementation of the RIS3 strategy.

Science funding has been increased by EUR 12.2 million in 2022, the largest amount of additional funding granted in over 10 years. The number of scientific staff as a percentage of the total labour force is increasing moderately compared to the EU-27 average – it was 0.7% in 2020, but as in case of investments efforts to move towards the EU-27 average (1.43%) should continue. The number of scientific staff (scientists, professionals and project managers; working full and part-time) does not decrease, in 2020 the number of scientific staff in Latvia approached 8 thousand (7,721).

A single administrative body for science has been created, combining existing institutional resources – the Latvian Council of Science, thereby increasing capacity and making the implementation of the Latvian science policy more efficient, as well as eliminating its fragmentation. An Innovation and Research Management Council will be set up to ensure better implementation of the *Smart Specialisation Strategy*, cooperation between science and business sectors.

Within the framework of the *“Innovation motivation programme”* implemented from the EU structural funds, the IDAL informs and encourages the general public to start business and engage in innovation activities (in the priorities or areas of specialisation identified in the *Latvia’s Smart Specialisation Strategy*). The *“CUP OF IDEAS”* contest of innovative business ideas, a variety of master classes to promote technological and artistic creation interests, *“Mini MBA”* management innovation training courses for undertaking, networking activities, conferences are implemented, and the implementation of the *“Pupil training companies”* programme is supported within the programme.

The IDAL Technology Business Centre was opened on 7 October 2021 within the programme *Business development, innovation and small and medium-sized enterprises* of 2014-2020 programming period of the Norwegian financial instrument, and it is a part of the programme. The project is implemented in cooperation with partners of the Technology Business Centre – University of Latvia, Riga Technical University and Rīga Stradiņš University, and it aims to promote the development of business ideas aimed at creating technologically intensive products. As part of the Technology Business Centre, the IDAL Innovation Academy is being implemented, which enables business developer teams to engage in a specific training course, as well as receive 100% financial support for prototyping to validate the viability and potential of their business ideas and technological hypotheses.

10. Reduced inequalities

Income inequality in Latvia as a whole does not reduce and is one of the highest among EU Member States (Gini coefficient of 35.7% in 2020, rising from 34.5% in 2019). It is higher among working-age people, but in 2020 inequality also increased among retirement-age people. A tenth of the society believes that they have experienced discrimination, while a fifth of the employees have experienced discriminatory treatment at their workplace. The most common forms of discrimination are age, health or disability. COVID-19 restrictions and changing habits have a negative impact on the mental and emotional health of a certain part of society, and limited access to health services can have

an impact on employment, income, the health of people with chronic diseases, and on the overall reduction of inequalities. As of 2021, guaranteed minimum income level benefits have almost doubled and minimum age and disability pensions have substantially increased. During the COVID-19, the *Youth Guarantee* project “*Know and Do*”, which provides mentors and individual work with young people who do not learn or work, and active labour market policy measures continued and were extended. Latvia’s NDP2027 focuses mainly on reducing income inequalities.

By 2023, the minimum income level is expected to be determined as a share of the median income, and revised every year. Thanks to decisions to raise the minimum income level (see SDG1) the role of social transfers in poverty reduction will increase from 2021, however, COVID-19 reinforces the probability of increase in inequality. Dismissal had more impact on low-wage earners, reduced prospects of the unemployed for finding a job, and active employment measures address this only partially.

11. Sustainable cities and communities

It is important for Latvia to contribute significantly to better density of population not only in big cities, but also in small towns and rural areas. In 2021, within the administrative-territorial reform, the administrative-territorial framework was improved reducing the number of local governments – 36 municipal and 7 state city local governments were created (until 2021, there were 110 municipalities and 9 republican cities). The purpose of the reform was to create economically stronger and more developed local governments that are able to raise investment by providing more balanced development and providing high-quality services to their population. The concentration of resources is expected to have a positive impact on raising investments in regions. In the future, it is essential to provide support to local governments for the achievement of the objectives of administrative-territorial reform.

Significant support from the EU funds has already been used by local governments for the development of business infrastructure in the regions to boost economic activity, including for creation of jobs and non-financial attraction in the regions – EUR 478 million (including the ERDF of EUR 295.5 million)⁴¹. The following cumulative outcome indicators had been reached by the end of 2021 – 2,087 new private sector jobs had been created; private-sector non-financial investments of EUR 205.8 million had been raised; degraded areas of 214.7 ha had been restored and adapted to new economic operators or to the extension of existing economic operators.

In 2019, *Regional Policy Guidelines 2021-2027* were approved by the CM, planning support for the sustainable development of cities and their functional areas, including the development of the business environment, improving the quality and accessibility of services (including mobility), public outdoor space development, promoting planning and implementation capacity of specialists in local governments and planning regions. Active work is currently ongoing on the development of the conditions for introducing the support planned within EU investments and funds. There are intentions to increase the instruments for public and community involvement in development planning and implementation, including by introducing a participation budget in local governments.

On 1 May 2021, the *Residential Tenancy Law* entered into force, which promotes the creation of quality and more affordable rental apartments, provides more extensive protection for tenants, offers a new solution to the judicial proceedings, which until now

⁴¹ SO 3.3.1 “To increase the volume of private investments in regions, making investments for business development according to the economic specialisation of the territories specified in local government development programmes and based on the needs of local businessmen”; SO 5.6.2 “Revitalisation of territories, regenerating degraded territories according to integrated development programmes of municipalities”.

have been long, as well as promotes investment in the sector of rental houses and labour mobility to cities and municipalities where well-paid jobs are created. Lack of affordable and qualitative housing is one of the reasons behind the mobility of the population, the development of territories and the reduction of regional disparities. Active work is being carried out on a support programme for the construction of low-rent housing with a view to promoting the availability of low-rent housing meeting construction standards and energy efficiency requirements for households unable to afford housing on market conditions. New support programmes have been launched for the energy efficiency of private houses and for the repair of multi-apartment houses.

The *Transport Development Guidelines 2021-2027* have been approved, which aim at an integrated transport system ensuring safe, efficient, available, accessible, smart and sustainable mobility, promoting the country's economic growth, regional development and making progress towards a climate neutral economy.

For the successful implementation of the administrative territorial reform and regional development, it is essential to raise funding for the construction of national regional and local roads by facilitating access to services and jobs in the administrative centres of new municipalities. In total, EUR 300 million is needed to construct almost 900 km of roads for the purposes of the administrative-territorial reform. In 2021, nearly EUR 92 million was allocated, resulting in construction works carried on 402.68 km of national regional and local roads.

From 1 October 2021, 60 free runs on 15 routes of regional importance have been introduced to support mobility.

With the support of EU funds in the 2021-2027 period, air pollution in Latvia's densely populated cities will reduce, both in the household sector and through solutions to improve local government infrastructure.

12. Responsible consumption and production (circular economy)

Latvia has joined the UN initiative, including the EU countries' commitment to reduce negative human impacts on the environment by mitigating the effects of climate change, preventing natural disasters, related migration and health problems. Latvia is gradually developing a new, climate neutral economy in which land resources are used as sparingly and rationally as possible.

New technological solutions are required in the waste management system. Businesses are focused on the need to become more transparent in terms of environmental aspects and the implementation of sustainability, and the state will continue to develop and implement green public procurement. As demand largely determines supply, there is a tendency that society is starting to choose more sustainable solutions, so companies will be forced to make significant changes to their business practices in the coming years.

In 2020, the Latvian government approved an *Action Plan for the Transition to the Circular Economy for 2020-2027* to gradually and reasonably advance the economy towards more efficient use of resources, as well as more sustainable production and consumption (which includes changing public habits) by integrating the principles of circular economy into all sectoral policies, while also contributing to the implementation of the European Green Deal.

In the 21st century, waste is a resource for the circular economy in Latvia. Quality sorting and reintegration of waste into the economy is a responsible action to ensure the sustainable environment for life. EU funds investments in 2021-2027 are also planned to promote this action, while Latvia has new ambitions for the reduction of waste generated and for further recycling. For the development of the waste management system, by the beginning of 2022, the EU funds investments for 2014-2020 are expected to increase waste recycling capacity by 184,343 tonnes/year after the completion of the projects. The

functioning of the beverage deposit packaging system has been launched in 2022. As of 2023, a separate collection system for biodegradable waste will be introduced throughout Latvia. It should be noted that this was already done in Riga from 2021, and will reduce the amount of waste released into the environment and reduce the impact on the environment.

In accordance with the *National Waste Management Plan for 2021-2028*, a transition from ten to five waste management regions, the conversion of landfills into regional waste management centres were expected in 2021. In accordance with the abovementioned plans, the EU funds investments for 2021-2027 will support waste management hierarchy based waste management and circular economy implementation activities, with a view to promoting the development of the secondary raw materials market, the reduction of waste generated, the development of reuse and recycling, and the performance of disposal reduction targets.

13. Climate action

Climate change will have a significant impact on Latvia, with air temperatures increasing by an average of 3.5°C - 5.5°C by the end of the century⁴². Changes in air temperature and related climate change will contribute to a series of changes that will result in losses in health and welfare, civil defence, agriculture and forestry, tourism and landscape planning, construction and infrastructure planning, and biological and ecosystem service diversity. The long-term economic costs of these losses cannot be estimated and are not comparable to the investments needed today in order to avoid such a future scenario.

Sectoral ministries in Latvia, in cooperation with social partners and NGOs, are looking for the best solutions for economic transformation and for the integration of innovative solutions for the development of environment and climate-friendly manufacturing, as a rapid reduction in GHG emissions will have to be achieved over the next decade. Moreover, public education and engagement in the implementation of the circular economy are prerequisites for creating new forms of entrepreneurship and for developing a high-quality and smart living environment.

In 2020, the *Latvian Strategy for Reaching Climate Neutrality by 2050* was adopted, which is a long-term vision document, a framework document for policy planners to ensure a unified national progress towards achieving climate neutrality in 2050, compensating for the non-reducible anthropogenic greenhouse gas emissions by their sequestration in the land use, land use change and forestry sector.

The measures necessary to achieve climate neutrality policy objectives are incorporated into national, regional and local government development planning documents. The drafting of the *Latvian Climate Law* started in 2021 in order to determine all the conditions related to Latvia's climate policy in a separate legislative act.

At the same time, it should be noted that the advancement towards climate neutrality and adaptation to climate change poses both financial and socio-economic challenges. At the same time, it should be stressed that achieving climate neutrality will improve the quality of life of the population and strengthen the competitiveness of the Latvian economy. When forecasting climate indicators with current trends, it can be concluded that Latvia risks not achieving the targets for 2030 and 2050, which means that there should be additional tasks, actions and funding to achieve them. Such a scenario cannot be accepted, and it is necessary to promote and strengthen energy efficiency improvements, the use of local renewable energy sources, the principles of circulation and bioeconomy, sustainable agriculture, waste recycling, transition to zero-emission vehicles, and the development and production of climate technology innovation in Latvia. Greening the tax system and

⁴² Latvian Environmental, Geological and Meteorological Centre. Report: "Climate Change Scenarios for Latvia" (2017). Available online: <http://www2.meteo.lv/klimatariks/zinojums.pdf>

changing lifestyles will be also part of these changes. These changes are needed not only to reduce and adapt to climate change, but also to ensure that external economic factors such as rising fossil fuel prices and the cessation of their extraction, the limited availability of different raw materials (food, raw materials, mineral resources) on the global market due to the impact of climate change on their production and extraction. Latvia faces significant challenges in improving the energy efficiency of buildings. In making progress towards climate neutrality and adaptation to climate change, the principle of “*No-one is left behind*” should be applied in all actions and special attention should be paid to the disadvantaged part of society. The *Green Deal* opposing both inequalities and emissions can help to create fairer, healthier and more resilient European societies after the COVID-19 crisis. EU funds support programmes are also intended to contribute to the achievement of climate target, including in 2021 the work continued on the draft *Territorial Just Transition Plan*, which provides for the refusal of peat use in energy.

14. Life below water

The Baltic Sea is one of the most intensively used seas on the planet. Up to 97% of the Baltic Sea suffer from eutrophication. Human activities (overfishing, pollution, increasing consequences of climate change, etc.) change the ecological balance of the Baltic Sea, reduce available marine biological resources beyond their natural restoration capability. The Baltic Sea is particularly sensitive to environmental load because it is closed and with relatively small biodiversity, and the long winter season limits its productivity and brackish water creates difficult conditions for both saltwater and freshwater organisms. For example, these impacts have resulted in a significant decrease in the Baltic cod population.

In October 2021, the updated *Baltic Sea Action Plan* was approved at the ministerial meeting of the parties to the Helsinki Convention. In order to achieve the objectives, the plan sets out specific measures and actions to be implemented at national or jointly at regional or international level. Concrete deadlines are foreseen for the implementation of the measures, which do not go beyond 2030.

At the same time, it has been scientifically proved that a good state of the marine environment could not be achieved by 2020, as the marine ecosystem is only able to recover over several decades, and the effects of the planned measures appear after a longer period of time. Moreover, manifestations of climate change, such as rising water and air temperatures, may hinder the recovery of the sea.

The Nature Conservation Agency together with its partners implements the EU LIFE programme project “*Exploring marine protected habitats and establishing the necessary conservation status in the exclusive economic zone of Latvia*” (2020-2025). It plans to address the creation of a comprehensive marine resources protection system by improving the monitoring methodology for evaluating protected marine habitats and species. It is also planned to make proposals for the establishment and inclusion of new protected marine areas in the *Natura 2000* network and to develop a science-based coastal fisheries management plan with proposals to reduce by-catches of marine birds and mammals. The project also provides for the development of a single management plan for all existing and newly established protected marine areas, including through an assessment of the capabilities of marine habitat ecosystem services.

15. Life on land

Latvia’s diverse ecosystems include forests, which cover about half of its territory, meadows, sea coast and bogs. Latvia has exceeded the 2020 Aichi Biodiversity Targets for protected territories, as more than 16% of its marine waters and more than 18% of its inland territories are covered by one of the types of protection. 10% of EU protected habitats and 41% of species are in a good condition (report of 2019 to the EC).

Degradation of natural habitats and the loss of biodiversity have consequences for anthropogenic load and an intensive economy that has an impact on the environment. The Latvian economy is also significantly linked to the availability and use of natural resources for economic activity, and therefore there is a need for innovation and new technological solutions, as well as targeted public education to change everyday habits and reduce the impact of the economy on the quality of the environment, including various support measures, including from the EU funds. Local governments and local action groups are looking for a variety of site-specific solutions to increase climate resilience against future climate crises and their potential impacts on biodiversity, while the nature conservation plans for specially protected nature areas are taken into account in the planning of development of the areas. Innovative green and blue infrastructure solutions are the beginning of climate-resilient and at the same time environmentally friendly development. Field surveys of habitats of EU importance within the Nature Census project has completed. The inventory of natural values will make it possible to find out what habitats are found in Latvia, their size and quality.

The Nature Conservation Agency together with its partners implements the EU *LIFE programme* project “*Optimising the administration and management of Natura 2000 protected areas*” (2020-2028). During the project, it is planned to develop innovative approaches to address topical nature conservation issues and to implement the priority action framework for *Natura 2000* areas, thereby ensuring a favourable conservation status for habitats and species of EU importance in Latvia.

Measures were implemented during the EU funds for 2014-2020 period and new measures are planned in the EU funds for 2021-2027 period to reduce environmental pollution, anthropogenic load and improve the favourable conservation status of habitats and species of EU importance in order to ensure that natural values are not degraded, natural heritage is preserved and environmental requirements are respected.

With the support of EU funds, the implementation of an ambitious habitat recovery project was launched in 2021 across Latvia, with the aim of creating appropriate conditions for the sustainable existence of 20 EU habitats and at least eight species habitats, as well as contributing to the responsible management of 13 protected lanes.

Pollution mitigation measures to promote biodiversity and reduce climate risks are needed in order to reduce the deterioration of the environmental situation. In 2021, major historical pollution remediation and recultivation works for Inčukalns sulphuric acid tar ponds were completed.

With the support of the EU funds for 2014-2020, by the beginning of 2022, floods and erosion risks from climate change have already been reduced for 81,149 residents. New adaptation measures for different climate risks, in particular through green and blue infrastructure solutions, are intended with investments from the EU funds for the period 2021-2027.

16. Peace, justice and strong institutions

The administrative-territorial reform approved in 2020 is implemented in the field of good governance. At the same time, the central government has reduced the number of employees, reduced bureaucratic burden, strengthened horizontal strategic communication, introduced an innovation approach in public administration. In 2021, a single draft law development and coordination portal was introduced.

On 1 December 2021, the first phase of the e-case was introduced to strengthen the rule of law, by creating single electronic judicial proceedings and ensuring the exchange of information between courts, the prosecution office and the enforcement authorities, the participants of the proceedings and other information systems related to the judicial authorities, the recording of procedural activities has been modernised. A reform of the institute of forensic examination has also been launched, with a view to making the

processes more effective. On 31 March 2021, the Economic Court started to work ensuring qualitative and, at the same time, quick adjudication of commercial disputes and criminal offences involving economic and financial crimes, as well as the corruption cases. The Economic Court had already completed 197 cases in the first nine months of its functioning, of which 37 were civil cases, 36 were criminal cases, and 124 were proceedings on criminal property. The registration of beneficial owners in the Register of Enterprises has improved. The capacity of the KNAB has been increased by adding additional analytical capacity, including to ensure that parallel financial investigations can be carried out. The national NGO fund's allocations to NGO grant tenders are increasing, public media has left the advertising market and support of the National Media Support Fund for media in the development of public interest content increased, VAT on books, press and news portals reduced. In 2020, compared to the previous year, confidence of entrepreneurs (13%) and population (11%) in the justice system (EU Justice Scoreboard) increased significantly, as well as in 2021 Latvia's figures in the Corruption Perception's Index improved.

17. Partnerships

Latvia is cooperating at the EU level as a country of the world with high development rates and in a bilateral partnership with other countries to progress towards the UN SDGs. In the new *Development Cooperation Policy Guidelines 2021-2027*, thematic priorities stem from the UN SDGs: good governance (SDG 16), gender equality (SDG 5), quality education (SDG 4), good work and economic growth (SDG 8), climate action (SDG 13), cooperation to achieve objectives (SDG 17). In the implementation of the thematic priorities, Latvia is paying increased attention to digitisation as development driver and supports innovative and verified digital solutions that can contribute to the efficiency of public administration, public participation in decision-making and the creation of new economic opportunities. The EU Eastern Partnership countries (notably Georgia, Moldova, Ukraine and Belarus) and Central Asian countries (particularly Kyrgyzstan, Tajikistan and Uzbekistan) are geographical priorities. At the same time, for the first time in 2022 Latvia has prioritised the provision of support to other regions (particularly African countries), promoted inter-sectoral cooperation, when civil society organisations, public administration and the private sector are involved in activities in various formations. The percentage of Official Development Assistance for Latvia is steadily increasing in absolute terms, staying at the level of 0.12% of GDP in 2021. In 2022, the bilateral development cooperation budget managed by the Ministry of Foreign Affairs has also tripled.



#European semester
#National Reform Programme of Latvia
#Recovery and Resilience Plan of Latvia
#progress
#EU Council recommendations