

**NATIONAL REFORM PROGRAMME OF LATVIA
FOR THE IMPLEMENTATION OF THE**

EUROPE 2020 STRATEGY

PROGRESS REPORT

Riga
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ABBREVIATIONS, MEASUREMENT UNITS, AND SYMBOLS

| | | | |
|-----------------|--|--------|---|
| ALMP | active labour market policy measures | FTUCL | Free Trade Union Confederation of Latvia |
| RE | renewable energy | ECL | Employers' Confederation of Latvia |
| RES | renewable energy sources | IDAL | Investment and Development Agency of Latvia |
| DFI | Development Finance Institution | LQF | Latvian qualifications framework |
| AIC | Academic Information Centre | MoW | Ministry of Welfare |
| MD | Ministry of Defence | LPR | Latgale planning region |
| UN | United Nations Organisation | LCCI | Latvian Chamber of Commerce and Industry |
| JSC | joint stock company | Mbps | megabit per second |
| MFA | Ministry of Foreign Affairs | CM | Cabinet of Ministers |
| FDI | foreign direct investment | Mt | megaton |
| CERT.LV | IT Security Incident Response Institution | Mtoe | megaton oil equivalent |
| CO ₂ | carbon dioxide | SMM | small and medium-sized merchants |
| CSB | Central Statistical Bureau | SME | small and medium-sized enterprises |
| DI | deinstitutionalisation of long-term social care | MW | megawatt |
| DAC | Demographic Affairs Centre | NEET | youth not in education, employment or training |
| WBL | work-based learning | PMLTF | Prevention of Money Laundering and Terrorism Financing |
| FEAD | Fund for European Aid to the Most Deprived | NRP | National Reform Programme |
| EDS | electronic declaration system | SEA | State Employment Agency |
| EEA | European Economic Area | NHS | National Health Service |
| eID | electronic identification | NGO | non-governmental organisation |
| CEF | Connecting Europe Facility | OECD | Organisation of Economic Cooperation and Development |
| EFMF | European Fisheries and Maritime Fund (2014-2020) | MPC | mandatory procurement component |
| EC | European Commission | R&D | research and development |
| EQF | European qualifications framework | WB | World Bank |
| ETI | Emissions Trading Instrument | VECC | vocational education competence centre |
| EAFRD | European Agricultural Fund for Rural Development | PINTSA | Tripartite Sub-council for Co-operation in Vocational Education and Employment |
| ME | Ministry of Economics | PJ | petajoule |
| EQAR | European Quality Assurance Register for Higher Education | CSCC | Cross-Sectoral Coordination Centre |
| ERDF | European Regional Development Fund | VAT | value added tax |
| EU | European Union | YPLL | years of potential life lost |
| ESF | European Social Fund | SO | specific objective |
| ESSPROS | European system of integrated social protection statistics | GHG | greenhouse gas |
| ETS | Emissions Trading System | LLC | limited liability company |
| EUR | euro, EU single currency | SKDS | market and public opinion research centre |
| FDL | Fiscal Discipline Law | MT | Ministry of Transport |
| FCM | Financial and Capital Market Commission | CDPC | Centre for Disease Prevention and Control |
| MF | Ministry of Finance | STEM | science, technology, engineering and mathematics |
| GWh | gigawatt-hour | TEN-T | trans-European transport network |
| GDE | <i>Guidelines on Development of Education for 2014–2020</i> | MJ | Ministry of Justice |
| PIT | personal income tax | TWh | terawatt hour |
| LPCI | Law On Prevention of Conflict of Interest | MGF | Maintenance Guarantee Fund |
| GDP | gross domestic product | AMGF | Administration of Maintenance Guarantee Fund |
| ICT | information and communication technologies | CIT | corporate income tax |
| GDIS | <i>Guidelines for Development of Information Society for 2014-2020</i> | RE | Register of Enterprises |
| IT | information technologies | USD | US dollar |
| MES | Ministry of Education and Science | MEPRD | Ministry of Environmental Protection and Regional Development |
| YEI | Youth Employment Initiative | SJSC | state joint stock company |
| CF | Cohesion Fund | SEDA | State Development Education Agency |
| km | kilometre | SRS | State Revenue Service |
| MC | Ministry of Culture | SC | State Chancellery |
| KNAB | Corruption Prevention and Combating Bureau | MH | Ministry of Health |
| CCFI | Climate Change Financial Instrument | MTG | Medium-Term Budget Goal |
| ktoe | kiloton oil equivalent | MA | Ministry of Agriculture |
| kWh | kilowatt-hour | GDSTI | <i>Guidelines for Development of Science, Technology and Innovation 2014–2020</i> |
| LB | Bank of Latvia | | |

INTRODUCTION

Latvia has prepared the seventh Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020” Strategy¹ (hereinafter – Progress Report on the Implementation of the NRP of Latvia) which is closely linked to the *Stability Programme of Latvia for 2018-2021*.

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

The Progress Report on the Implementation of the NRP of Latvia was prepared taking into account the *National Development Plan of Latvia for 2014–2020* approved by Saeima on 20 December 2012, *Partnership Agreement for the EU Investment Funds Programming Period 2014–2020*, the *Operational Programme Growth and Employment for the EU Funds Programming Period 2014–2020*, commitments of Latvia under the *Euro Plus Pact*² approved by European Council on 24-25 March 2011, the EU Council’s country-specific recommendations for Latvia for 2017-2018³, the *2018 Annual Growth Survey*⁴ published on 22 November 2017 by the EC, the Commission’s staff working document *Country Report – Latvia 2018*⁵, and the Letter from the EC Secretariat-General to the EU Member States on the European Semester 2018⁶.

The Progress Report on the Implementation of the NRP of Latvia has been prepared on the basis of information received from the Ministry of Defence (MD), the Ministry of Foreign Affairs (MFA), the Ministry of Economics (ME), the Ministry of Finance (MF), the Ministry of Education and Science (MES),

the Ministry of Culture (MC), the Ministry of Welfare (MoW), the Ministry of Transport (MT), the Ministry of Justice (MJ), the Ministry of Environmental Protection and Regional Development (MEPRD), the Ministry of Health (MH), the Ministry of Agriculture (MA), the Cross-Sectoral Coordination Centre (CSCC), the State Chancellery (SC), the Financial and Capital Market Commission (FCMC). The Progress Report has been discussed with social partners – the Employers’ Confederation of Latvia (ECL), the Free Trade Union Confederation of Latvia (FTUCL) and cooperation partners – the Latvian Chamber of Commerce and Industry (LCCI) and the Latvian Association of Local and Regional Governments on 28 March 2018.

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

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 2017. Chapter 3 provides a detailed description of the NRP policy directions, including the progress on the achievement of the quantitative targets of Latvia within the Europe 2020 strategy. Chapter 4 presents information on the use of the EU funds.

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

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

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

³ The EU Council’s country-specific recommendations for Latvia 2017: [http://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32017H0809\(13\)&from=EN](http://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32017H0809(13)&from=EN)

⁴ *2018 Growth Survey*: https://ec.europa.eu/info/sites/info/files/2017-comm-690_en_0.pdf

⁵ *Country Report Latvia 2018*: <https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-latvia-en.pdf>

⁶ Letter from the EC Secretariat-General to the EU Member States on the European Semester 2018, Ref.Ares(2017)5333418-31/10/2017.

1. MEDIUM-TERM MACROECONOMIC SCENARIO

After slowdown of economic growth in 2016 to 2.2%, Latvian economic growth accelerated considerably in 2017 reaching 4.5%, which was the fastest rise since 2011. The acceleration of economic growth in 2017 was secured by growing external demand and recovery of investment activity in Latvia as the flow of EU funds was growing.

In 2017, increase in private consumption (by 5.1%) continued to affect growth positively. Investments made an equally considerable contribution to gross domestic product (GDP), which increased by 16% compared to 2016. Thanks to the favourable situation in external markets, export of goods and services in 2017 increased by 4.4%, but public consumption increased by 4.1%.

The amount of exports at current prices grew by 10% in 2017. An increase was attained in all the major export categories, but agriculture and food promoted general increase in exports the most, in particular an increase in exports of alcoholic beverages by 48%, as well as an increase in exports of iron and steel by 41%. The biggest increase achieved in exports in 2017 by countries was to Russia – by 31%, the United States – by 78%, Germany – by 13% and Estonia – by 6.8%, while the biggest drop was to Algeria, Gibraltar and Cyprus. In the services export, in turn, the biggest contribution was made by an increase in exports of carriage of goods by road, construction, as well as computer services and information services.

In terms of sectors, manufacturing played the biggest role in economic growth in 2017, the value added of which increased by 8%. The growth of the sector was comprehensive, but the strongest contribution was ensured by the increase of output volumes in machinery and metalworking, as well as manufacture of computers, electronic and optical equipment. Stable growth in 2017 was also observed in the two largest manufacturing sub-sectors – the output of wood industry generally increased by 2.1% and manufacture of food – by 4.3%.

As investment activities restored, a very strong growth in 2017 was achieved in the construction sector (increase by 19.4%). The growth in the construction sector was fostered by a more rapid inflow of funding from EU funds, and there was also an increase in those construction sectors, where private investments prevail, including in construction of trade buildings, petrol stations.

In 2017, the transportation and storage industry also made a noticeable contribution to economic growth, which increased by 7.3% in 2017 despite shrinking volumes of cargo transported by railway and through ports. Growth in the industry was driven by growing carriage of goods by road, as well as growing numbers of passengers in airports and sea ports, which compensated the reduction in transit carriage through Latvian ports.

Table 1.1
Medium-term Macroeconomic Scenario

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------|--------|--------|--------|--------|--------|
| GDP, in current prices, million EUR | 24 927 | 26 851 | 28 798 | 30 672 | 32 455 | 34 218 |
| growth in current prices, % | 2.5 | 7.7 | 7.2 | 6.5 | 5.8 | 5.4 |
| growth in constant prices, % | 2.2 | 4.5 | 4.0 | 3.4 | 3.0 | 2.9 |
| GDP deflator (y-o-y), % | 0.3 | 3.0 | 3.1 | 3.0 | 2.7 | 2.5 |
| Consumer price index (y-o-y), % | 0.1 | 2.9 | 2.8 | 2.4 | 2.1 | 2.1 |
| Employment, thousand people | 893 | 895 | 896 | 896 | 896 | 895 |
| Unemployment rate, % (aged 15–74) | 9.6 | 8.7 | 8.0 | 7.7 | 7.2 | 7.0 |
| Exports of goods and services, in current prices, million EUR | 14 966 | 16 172 | 17 536 | 19 004 | 20 565 | 22 254 |
| growth in constant prices, % | 4.1 | 4.4 | 4.0 | 3.9 | 3.8 | 3.8 |
| Import of goods and services, in current prices, million EUR | 14 742 | 16 544 | 18 439 | 20 002 | 21 676 | 23 467 |
| growth in constant prices, % | 4.5 | 9.2 | 7.6 | 4.7 | 4.6 | 4.5 |
| Growth of potential GDP | 2.5 | 3.3 | 3.4 | 3.4 | 3.3 | 3.2 |
| contribution: | | | | | | |
| – employment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| – capital | 1.5 | 2.1 | 2.2 | 2.2 | 2.1 | 2.0 |
| – total manufacturing factor productivity | 1.1 | 1.2 | 1.2 | 1.3 | 1.2 | 1.2 |
| Output gap (% of potential GDP) | -0.7 | 0.5 | 1.1 | 1.0 | 0.7 | 0.3 |

Data source: CSB, Forecasts of the Ministry of Finance

The decrease in volumes in 2017 was observed only in the sector of financial and insurance services due to the reduction in business activity of non-residents.

The monthly average growth in gross wages is becoming more rapid. In 2017, the average gross wage increased by 7.9% and reached 926 EUR. Wages in 2017 grew more rapidly in the private sector – by 8.3%, whereas in the public sector – by 7.4%.

Compared to the pre-crisis level of 2008, the wage has grown by 35.8%. Inter alia in the private sector wages increased by almost 47%, but in the public sector the increase was more moderate – by 18%. The reduction of the shadow economy (increasingly more employed are declaring their income) is one of fundamental factors in the increase of wages in the private sector. In 2017, compared to 2016, the average net wage increased by 7%. Meanwhile, the actual wage grew slower – by 4% affected by the increase in consumer prices.

The average annual inflation increased to 2.9% in 2017. The increase in inflation was mainly driven by the increase in food and fuel prices, as well as individual services, including telecommunication, insurance and financial services, as well as health services becoming more expensive. Overall, prices for goods in 2017 increased by 2.8%, while the service prices – by 3.2%.

Improvements in the labour market are observed along with faster economic growth. Although the number of the employed increases comparatively slowly, generally this is still an induction of a sufficiently dynamic labour market development, taking into account that the working-age population reduces. This is confirmed by a comparatively fast drop in unemployment – the unemployment rate dropped to 8.7% in 2017. The registered unemployment rate reduced even faster and reached 6.8% at the end of 2017 being by 1.6 percentage points lower than at the end of 2016. The number of registered unemployed was reduced by 19.4% during 2017, reaching 63 100 at the end of December. However, large share of long-term unemployed (37.7% of the unemployed), as well as regional differences, increase the risk of structural unemployment.

While labour market trends were mainly driven by supply-side factors in previous years, in 2017, along with the recovery of activities in the construction sector, as well as strong growth in manufacturing, the impact of the demand side was increasingly felt.

Shrinking numbers of working hands was still largely compensated by the increase in the economic activity of the population, which increased to 68.9% or by 0.7 percentage points in 2017 compared to 2016.

The main assumptions under medium-term macroeconomic scenario:

- The macroeconomic development scenario is formed based on the EC winter forecast technical assumptions for 2018 expecting the EUR/USD currency rate to be 1.23 in both 2018 and 2019. Furthermore, oil prices will be 68.3 USD/bbl in 2018 and 64.2 USD/bbl in 2019 on average;
- Most of international organisations estimate faster economic activity in the world in 2018 than it was projected in autumn forecasts. Economic forecasts are improved by US growth outlook and increasing world trading activity. It is expected that global GDP growth, except the EU, will increase to 4.1% in 2018 and 2019;
- The forecast expects faster gradual medium-term increase in growth rates in eurozone and the main Latvian external trade partner countries than it was estimated before, which will increase by 2.3% and 2% in the eurozone and EU in 2018 and 2019, respectively. This will foster the demand for Latvian goods and services;
- In 2018 and 2019, an increase in investment will be fostered by faster acquisition of EU funds and faster recovery of crediting;
- The increase in private consumption will remain strong fostered by the increase in wages and growing purchasing power of population;
- The labour market situation will be determined by decline in the number of working-age population. No significant increase in the number of the employed is expected in 2018 and the coming years;
- The increase in consumer prices will be 2.8% in 2018, which is close to the level of 2017. The price dynamics will be driven by the decline in food prices inflation, while an increase in excise tax on fuel and alcoholic beverages will have an increasing impact on inflation;
- The potential Latvian GDP growth in medium term is estimated to be above 3%, namely 3.4% in 2018 and 2019, followed by a gradual decrease to 3.2%. The growth of potential GDP is negatively affected by the decrease in labour force supply due to the unfavourable demographic trend, and therefore the development of potential GDP in medium term depends on the volume of investments and total increase in productivity.

While preparing the forecasts of macroeconomic indicators, the Ministry of Finance consulted with experts from the Bank of Latvia and the Ministry of Economics, as well as the European Commission and International Monetary Fund. Macroeconomic indicator forecasts have been approved by the Fiscal

Discipline Council upon publishing its opinion on 14 February 2018.⁷

Macroeconomic indicator forecasts have been developed based on conservative assumptions and evaluating internal and external environment risks. At present, the risks to the forecasts are slightly tilted to the upside, and favourable economic development in the world and a faster increase in economic activity caused by internal factors in Latvia, including activation of crediting and companies using their own funds for investments more actively, may secure a faster GDP increase than assumed in baseline forecasts.

On the other hand, economic growth currently faces several serious negative risks, including long-term low level of investment in the national economy, especially in manufacturing may have reduced the Latvian economic growth potential. At the same time, shrinking number of the working-age population strain the labour market and stimulate a further increase in wages, which may have a negative effect on the external competitiveness of Latvia, if exceeds the increase in productivity for a long time. Likewise, geopolitical instability, as well as political uncertainty and high volatility in the world in global financial markets still remain as external negative risks.

2. IMPLEMENTATION OF THE EU COUNCIL RECOMMENDATIONS

2.1. FISCAL POLICY

PURSUE ITS FISCAL POLICY IN LINE WITH THE REQUIREMENTS OF THE PREVENTIVE ARM OF THE STABILITY AND GROWTH PACT, WHICH ENTAILS ACHIEVING ITS MEDIUM-TERM BUDGETARY OBJECTIVE IN 2018, TAKING INTO ACCOUNT THE ALLOWANCES LINKED TO THE IMPLEMENTATION OF THE SYSTEMIC PENSION REFORM AND OF THE STRUCTURAL REFORMS FOR WHICH A TEMPORARY DEVIATION IS GRANTED. REDUCE TAXATION FOR LOW-INCOME EARNERS BY SHIFTING IT TO OTHER SOURCES THAT ARE LESS DETRIMENTAL TO GROWTH AND BY IMPROVING TAX COMPLIANCE.

The overall governmental structural budgetary balance targets in budget for 2018 were defined in accordance with the approach stating that the only permissible deviations from the medium-term budget objectives (MTO) of recent years are the ones related to increased contributions into the pension level 2 (to 6%). In addition to that, while preparing the *Stability Programme of Latvia for 2017-2020*, Latvia announced the health care reform once again, acknowledged by the European Commission as justified, allowing to qualify for additional deviation from MTO in 2018 equal to 0.4% of GDP. Considering the permissible deviations, the *Law on Medium-Term Budget Framework for 2018, 2019 and 2020* sets the overall governmental structural budgetary balance target for 2018 at 1.19% of the GDP.

In July 2017 Saeima approved an extensive tax reform, which entered into force from 1 January 2018 (hereinafter referred to as the Tax Reform). The purpose of the Tax Reform is to ensure a stable and predictable tax policy until at least 2021 focussed on the growth of national economy and increase in welfare of the population, incl. reduction in income inequality, at the same time ensuring sufficient, predictable and qualitative tax income for financing of national and local government functions shifting the

tax wedge away from labour towards consumption, environment and property taxes.

The key measures implemented within the scope of the Tax Reform are oriented towards reducing the tax wedge of the labour force, increasing income of low-earning employees and families with children. This will result in the reduction of the tax wedge of the labour force by 2020. The reduction in the tax wedge is more evident for low-income earners and families with children, because the tax reform focuses on these groups of people. Thus, for instance, the labour tax wedge⁸ for a worker with no dependable persons and receiving 67% of average wage will decrease from 41.8% in 2016 to 39.1% in 2020. Meanwhile, the labour tax wedge for a worker with one dependable persons and receiving 67% of average wage will decrease from 36.2% in 2016 to 33.5% in 2020 (*for more information on changes in the labour tax wedge indicator see Chapter 3.5.1*).

⁷ <http://fdp.gov.lv/jaunumi/fiskala-padome-latvijai-butiski-jakapina-razigums-lai-saglabatu-prognozeto-ekonomikas-izaugsmes-tempu>

⁸ Tax wedge – characterises the difference between the net income of an employee and the cost of this labour force for the employer. It is calculated as a percentage of labour taxes (personal income tax, employee's and employer's mandatory state social insurance contributions) in the wage before all taxes and employer's mandatory state social insurance contributions.

Starting from 2018 the tax reform has introduced considerable changes in labour taxes fostering the reduction in income inequality:

- The minimum monthly wage has been raised from 380 EUR (in 2017) to 430 EUR;
- A progressive personal income tax (hereinafter referred to as PIT) system has been introduced, where the PIT rate for annual income up to 20 004 EUR reduces to 20%, the rate for annual income from 20 004.01 EUR to 55 000 EUR remains the same – 23% as before, but the rate for annual income above 55 000 EUR is 31.4%.
- The differentiated basic allowance has been raised – for income up to 440 EUR per month – the basic allowance in 2018 is 200 EUR per month (it is 230 EUR per month in 2019, 250 EUR – in 2020). Furthermore, for the monthly income from 440 EUR to 1000 EUR (to 1100 EUR per month in 2019, to 1200 EUR in 2020) the basic allowance calculated according to a formula gradually reduces reaching 0 at income above 1000 EUR per month (above 1100 EUR per month in 2019, above 1200 EUR – in 2020) and is no longer applicable. The model of application of the basic allowance changes starting from 2018 envisaging that during the taxation year a basic allowance estimated by SRS is applicable to the payer every month;
- The basic allowance for retired person has been raised from 235 EUR per month in 2017 to 250 EUR per month in 2018, and it will keep growing year after year reaching 270 EUR per month in 2019 and 300 EUR per month in 2020;
- The tax relief for a dependent person has been raised (from 175 EUR in 2017) to 200 EUR in 2018, and it will keep growing year after year reaching 230 EUR in 2019 and 250 EUR in 2020;
- The rate of mandatory state social insurance contributions has been reduced by 1 percentage point (0.5% for the employer and 0.5% for the employee), shifting these funds to financing of the health sector;
- The solidarity tax has been reformed, which starting from 2018 is broken down into payments into a special budget for funding of health (1%), to the tax payer's private pension account (4%), to the funded pension account (6%) and to the special budget income for state pensions (13.59%), and to secure the progressive personal income tax (10.5%). In 2017 the solidarity tax was allocated to the state basic budget only.
- The CIT reform has been carried out providing that CIT is paid when the profit is distributed applying 20% rate (i.e. on costs not invested in the development of the enterprise, incl. dividends, non-economic expenses, representation costs exceeding the specified amount, etc.). In 2017, the CIT rate was 15% and was applicable to taxable income.

Compensatory measures are also implemented in order to ensure the implementation of reform measures, the purpose of which is to increase tax income shifting it from labour taxes to consumption and capital taxes:

- The excise tax for fuel, alcoholic beverages and tobacco products has been raised with a timetable for gradual increase of its rates until 2020;
- The turnover threshold for payers of the microenterprise tax (MET) has been reduced from 100 000 EUR (in 2017) to 40 000 EUR keeping a single rate of 15% of the enterprise turnover, as well as the CIT rate of 20% from the dividends paid by the microenterprise has been defined;
- The regulation regarding justified expenses has been reviewed envisaging that justified expenses for medicine and education should not exceed 50% of the tax year income, and not more than 600 EUR per year per family member, while justified expenses for contributions to private pension funds and payments of endowment-type life insurance premiums cannot exceed 10% of the tax year income, and no more than 4,000 EUR per year;
- Gambling tax rates have increased for roulette, card and dice tables and gaming machines;
- The threshold for registration in the SRS register of value added tax payers has reduced from 50 000 EUR (in 2017) to 40 000 EUR, and the threshold for the transactions to be deciphered in the VAT return has been reduced from 1430 EUR (in 2017) to 150 EUR;
- The application of reverse VAT payment procedure has been extended to include construction services, and this procedure has been introduced for deliveries of construction products, deliveries of electronic household appliances and electrical household appliances, deliveries of metal articles and related services, as well as deliveries of game consoles;
- PIT rates for different income types have been equalised setting them as 20%, 23% and 31.4% similarly to income from paid work:
 - 20% PIT rate for income from capital and capital increase (in 2017 the PIT rate for the income from capital other than capital increase (for example, dividends, interest income) was 10%, but for income from capital increase – 15%). Dividends are an exception (no PIT applied), if those have already been taxed with a 20% PIT rate at profit distribution;
 - 20/23/31.4% PIT rate – for performers of economic activity (the rate was 23% in 2017).
- The procedure for payment of the vehicle operation tax is preserved also in 2019 and later.

A number of tax policy activities were carried out also in the years preceding the implementation of the Tax

Reform, which shifted the tax wedge to the vehicle and environmental taxes that were less detrimental to growth and also improved tax compliance. Thus, starting from 1 January 2017, vehicle operation tax rate has been raised for cars, and a new vehicle operation tax rate calculation principle has been introduced based on CO₂ emission volume to be applied to cars previously not registered in Latvia and whose first date of registration is later than 31 December 2008. From now on, the vehicle operation tax rate will also be applied to persons whose registered domicile is in Latvia using M₁ or N₁ category cars registered abroad.

Starting from 1 January 2017, certain electricity tax breaks were abolished:

- For electricity obtained from renewable energy sources or at hydropower plants or cogeneration stations meeting the efficiency criteria defined in the legislative acts on production of electricity in a cogeneration process;
- For electricity used for production of electricity or heat and for production of electricity in cogeneration.

In order to resolve the matter of low social contributions for employees, it was defined that employees of microenterprises are entitled to join the state social insurance system voluntarily and this information should be specified in the employment contract. There is a number of restrictions in place to reduce tax optimisation and new ones are envisaged as well (for example, a natural person may be an

owner of only one microenterprise, the number of employees no more than 5, the wage limit 720 EUR per month, signs of paid work in the personal income tax, from 2019 employees will be able to work in a microenterprise tax regime only in one microenterprise, and other restrictions).

With regard to transfer of tax wedge to environment taxes, significant amendments to natural resource tax rates entered into force on 1 January 2017. The natural resource tax rate for waste disposal is gradually increasing from 2017 to 2020, but the tax rate for coal, coke and lignite is increasing from 2017 to 2019. Thereby, the nature resource tax has been increased on extraction of natural resources, water extraction, waste disposal, air pollution, environmentally harmful goods (all types of tires), electrical and electronic equipment, goods and packaging, as well as coal, coke, and lignite. At the same time, in 2017, nature resource tax has been increased on vehicles aimed at funding collection and recycling of old cars.

Taking into account that the tax system is not the only mechanism to reduce inequality, incl. the burden on low-income earners, the benefits of the tax reform should be evaluated together with the changes made to the social benefits system (*see Chapters 2.2, 3.5.1 and 3.5.2*).

In addition to the aforementioned, in order to improve tax payment and collection, a number of measures have been implemented aimed at reduction and combating of the shadow economy (*see Chapter 3.2*).

2.2. SOCIAL SAFETY NET, VOCATIONAL EDUCATION, AND HEALTH CARE

IMPROVE THE ADEQUACY OF THE SOCIAL SAFETY NET AND UPSKILL THE LABOUR FORCE BY SPEEDING UP THE CURRICULA REFORM IN VOCATIONAL EDUCATION. INCREASE THE COST-EFFECTIVENESS OF AND ACCESS TO HEALTHCARE, INCLUDING BY REDUCING OUT-OF-POCKET PAYMENTS AND LONG WAITING TIMES.

Work is ongoing on the improvement of the **social safety system** and the improvement of adequacy of social safety nets:

- In 2018, the guaranteed minimum income level was changed from EUR 49.80 to EUR 53 per person per month. It is expected that the number of recipients of the guaranteed minimum income benefit will increase from 27 769 persons in 2016 to 29 553 persons in 2018.
- In 2018, the activities initially envisaged in the draft *Minimum Income Level Introduction Plan for 2018-2020* for the improvement of support for families with children and increasing income of pensioners were included in the state budget (*see Chapters 3.5.1 and 3.5.2*):
 - 1) for old-age pensions with a long insurance

period pension indexation will use a bigger share (instead of the current 50%) of the actual increase percentage on the amount of insurance contribution wages. Number of recipients – 89% of all recipients of old-age pensions. Total funding – 3.2 million EUR in 2018, 16.1 million EUR in 2019 and in the subsequent years;

2) the amount of supplement per year of the insurance period accumulated before 31 December 1995 was increased to 1.5 EUR (instead of the current 1 EUR) for persons, who had reached the age necessary for old-age pension and had been granted old-age or disability pension by the end of 1995. Number of recipients of the increased supplement – 34% of all recipients of old-age and disability pensions. Total funding – 13.9 million EUR in 2018, 26.5 million EUR in 2019 and in the

subsequent years;

3) supplement to the state benefit for families with two or more children. Number of recipients of the supplement – almost 90 000 per month. Total funding – 22.3 million EUR in 2018, 27.1 million EUR in 2019 and in the subsequent years;

4) conditions for receiving state family benefit have been improved. Number of children, who will receive the benefit – 21 500 per month. Total funding – 5.9 million EUR in 2018, 5.4 million EUR in 2019 and in the subsequent years;

- The support system for adoption and out-of-family care to develop family environment (guardianship, foster families) based out-of-family care services and achieve that children live in a more favourable family-like or almost family-like environment. 4.8 million EUR were additionally granted for this purpose in 2017 and 2.9 million EUR in 2018 and every year:

1) The benefit to a foster family for child maintenance up to the age of seven was increased from 95 EUR in 2017 to 215 EUR in 2018, but for a child from seven to 17 years (inclusive) – from 114 EUR in 2017 to 258 EUR in 2018. Number of recipients of the benefit – 1 375 children per month on average;

2) The compensation to a foster family for the fulfilment of duties from 2018 depends on the number of children in care. The amount of compensation for one child in foster care is equal to the childcare benefit for a person caring for a child up to the age of one-and-a-half years, or 171 EUR. If there are two children in foster care, the amount of compensation will be 222.30 EUR, and 273.60 EUR for three or more children. The previous amount of compensation was 113.83 EUR regardless of the number of children in the foster family. Number of recipients of the compensation – 468 persons per month on average;

3) Social protection of adopters and foster families has increased – from 2018 social insurance contributions (for insurance of pensions, for insurance of disability and insurance against unemployment) are made for the persons, who receive compensation for the fulfilment of duties of a foster family and have no social insurance (189 persons per month on average);

4) The compensation for caring for a child to be adopted for persons having social insurance, who care for a child up to the age of 8 years, – the amount of compensation is 70% of average insurance contributions wage defined in the country. Other recipients will receive compensation as before – 171 EUR. If an adopter takes care of several children at once, a supplement of 171 EUR will be granted for the next child. Average number of recipients of the compensation – 33 persons per month.

existing **activation mechanisms and conditions** for a more efficient involvement of **the unemployed** and job seekers in labour market is ongoing:

- In 2017, implementation of several ESF co-funded measures and projects continued:
 - 1) “Support for long-term unemployed”, by 2023, support will be provided to 19 300 persons;
 - 2) “Social entrepreneurship support”, by 2023, support will be provided to 217 unemployed persons in a more unfavourable situation, persons with disability, and persons with mental disorders;
 - 3) “Retention of ability to work and promotion of employment among elderly employed persons”, by 2023, support will be provided to 3 000 persons;
 - 4) “Integration of persons with disability or mental disorders into employment and society”, by 2022, support will be provided to 100 residents in a more unfavourable situation;
 - 5) “Motivational programme in employment seeking and mentoring services for persons with disability”, by 2020, support will be provided to 1 200 persons (*more detailed information on these measures is provided in Chapters 3.3 and 3.5.1*);
 - 6) “Subsidised jobs for the unemployed”, by the end of 2022 it is planned to support the inclusion of 5177 unemployed persons in a more unfavourable situation (persons with disability, long-term unemployed, elderly persons, persons holding refugee or subsidiary protection status) in the society and their permanent employment;
- Amendments to legislative framework have been prepared providing for clarification of criteria for determination of suitable job and more strict conditions for acceptance of a job offer for unemployed persons after six months unemployment period, as well as clarification of conditions for filling-in the job seekers diary connecting them with the registered unemployment level in the respective territory. The aim of these amendments is to activate and motivate the unemployed to return into labour market sooner by setting stricter job seeking duties and reviewing the suitable job criteria. As a result of these amendments, an expense reduction for unemployment benefits is planned in the amount of 3.2 million EUR in 2017, 3.5 million EUR in 2018, and 3.6 million EUR in 2019. In accordance with SEA data, in 2017 the number of the unemployed who have lost the unemployed status due to employment increased. 103 000 unemployed lost the status in 2017, of which 53 900 persons (52.3%) got employed, but 37 500 persons (36.4%) lost the unemployed status due to failure to perform their duties of the unemployed (in 2016, 41% and 47%, respectively).

In accordance with Eurostat data, the coverage of registered unemployed with the active labour market policy measures has been steady in the previous years – approx. 11%. In this indicator the number of

In addition to the existing active employment plans (hereinafter referred to as ALMP), improvement of the

registered unemployed (participants of the support measures) is applicable to 100 persons, who want to work. Meanwhile, the involvement of registered unemployed in different support activities is much higher. 87 335 unique persons acquired the registered unemployed status in 2017. 83 441 registered unemployed (unique persons) or more than half of the total number of the unemployed registered with the SEA participated in different support activities. It must be emphasized that involvement of registered unemployed in the ALMP is carried out in accordance with the profiling results (see Chapter 3.3). 103 000 unemployed lost the status in 2017, of which 53 900 persons (52.3%) got employed, but 37 500 persons (36.4%) lost the unemployed status due to failure to perform their duties of the unemployed.

Training measures for the unemployed have positive short-term and medium-term effects on the abilities to get employed, as well as the level of remuneration and work quality aspects⁹. In accordance with SEA data, the immediate employment indicator for participants of the training measures has significantly improved in recent years. In 2015-2016, 40% of all participants of vocational education programmes on average returned to work within the first six months of end of participation in the measure (34% in 2010/2011, 35.7% in 2012/2013). For non-formal education measures this indicator is 32% in 2015-2016 (25% in 2010/2011, 24.6% in 2012/2013). The results of implementation of subsidised employment measures have been evaluated rather highly – within 75-85% on average (the share of participants of the measures, who remain employed for 6 months after their participation in the measure in the total number of those, who completed the measure in 2014-2016).

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

The vocational education content reform¹⁰ continues with support of EU funds ensuring (1) a transition from subject-based vocational education curriculum to result-based learning, as well as introducing (2) a modular approach in implementation of vocational education programmes.

The ESF-supported project “*Establishment of Sectoral Qualifications System and Enhancement of Efficiency and Quality of Vocational Education*”¹¹ has been

implemented since the end of 2016 aiming to develop vocational education curriculum in line with the changing labour market requirements and ensure compliance of vocational education with European Qualification Framework. The project intends to improve the sectoral qualification system and to prepare descriptions, to develop and improve 160 professional standards and professional qualification requirements (90 by the end of 2018), develop and introduce 184 modular vocational education programmes (10 by the end of 2018) and develop content of professional qualification exams for 210 professional qualifications, as well as develop relevant teaching aids and methodological materials. In order to accelerate the achievement of the project results the project implementation timetable was rescheduled and several activities were started earlier. Total planned funding is 12.9 million EUR, including ESF funding of 11 million EUR and state budget co-funding –1.9 million EUR.

An agreement on the analysis of the structure of sectoral qualifications was concluded in July 2017 in accordance with the European Qualifications Framework. The analysis of the structure of qualifications in 14 planned sectors, and also in the design and creative industry sector is expected to be completed by the end of 2018.

Overall, more than half (129) of planned professional standards and professional qualification requirements have been developed and coordinated¹². The development of 64 profession standards instead of the initially planned 30 profession standards was ensured in 2017. By February 2018 PINTSA has approved 49 professional standards / professional qualification requirements.

The development of modular vocational education programmes in 10 professional qualifications of 184 modular programmes has started and in accordance with planned medium-term results will be completed in 2018. Furthermore, it is planned to develop and licence modular programmes for 17 professional qualifications by the beginning of school year 2018/2019.

In parallel, work has started on the development of vocational qualification exam content for 65 professional qualifications. It is planned to develop vocational qualification exam content for 59 professional qualifications in 2018.

⁹ World Bank 2013, *Latvia: Who is Unemployed, Inactive or Needy? An Assessment of Post-Crisis Policy Options*.

¹⁰ In November 2015, the first stage of the reform ended, which focused on the development of cooperation mechanisms and drafting of methodologies, as well as study of the needs of economic sectors. At this stage, comprehensive studies of 14 sectors of the national economy are conducted, 12 sectoral expert councils have been created, 61 professional standards and 19 qualification requirements (80 in total) have been drafted or improved, 56 modular vocational education programmes and content of professional qualification exams for 32 professional qualifications have been developed.

¹¹ The project is implemented by the National Centre for Education in cooperation with FTUCL, ECL, the Agricultural Organization Cooperation Council and the State Education Quality Service.

¹² Together with the professional standards and professional qualification requirements developed and approved in the programming period of EU funds.

At the same time, the implementation of modular vocational education programmes has started, incl. also within the scope of adult education. If the implementation of 29 of 56 modular vocational education programmes developed on the first stage of reforms started in school year 2016/2017, then starting from school year 2017/2018 the implementation of modular vocational education programmes started in 39 professional qualifications in 24 vocational education institutions. The implementation of all the developed modular programmes has not started, because of the inability to form groups of learners in individual programmes, for example in the livestock farming and food production sectors, due to low interest of students. Modular programmes in logistics, construction, IT, tourism and similar sectors were in demand among the students the most.

At the same time, *Amendments to the Vocational Education Law* were adopted on 22 June 2017 defining modular vocational education programmes and setting types of education, where modular vocational education programmes can be implemented, as well as documents confirming vocational education and professional qualification issued after the completion of modular programmes.

One of priorities in the serious quality reform of the vocational education system in recent year is the implementation of **work-based learning** (hereinafter referred to as WB learning). A proper legal framework and the operation of institutional mechanisms for coordination and implementation of WB learning has been provided. On 15 June 2016, the CM approved the *Procedure for organization and implementation of work-based learning*. It stipulates the conditions for WB learning implementation, rights and duties of involved parties coordinating and facilitating the cooperation of merchants and educational establishments and ensuring that vocational education meets the requirements of labour market. The procedure was improved in 2017 extending the range of implementers of WB learning, including local governments, public derived persons, family companies and self-employed persons, as well as a more flexible scope of the education programme for acquisition of pedagogic knowledge by supervisors of WB learning setting the duration of the programme no less than 32 academic hours. Moreover, the *Guidelines for Organization and Implementation of WB Education* were approved in 2017, which include the core principles and methodical support for organisation and implementation of learning.

In January 2017, the ESF project was launched, increasing the number of qualified students in vocational education institutions after their participation in WB learning and learning practice in an enterprise. It is expected that 3 150 students will

be engaged in WB learning and 11 025 students will be engaged in learning practice in an enterprise by the end of the project in 2023. The project is implemented by ECL in cooperation with vocational educational institutions, merchants, societies and foundations implementing WB learning. Total planned funding is 21.9 million EUR, including ESF funding of 18.6 million EUR and state budget co-funding –3.3 million EUR (*for information on the implementation of the project see Chapter 3.4.3*).

Amendments to the *Law on Personal Income Tax* stipulate that, starting from 1 January 2017, scholarships in the amount of up to 280 EUR paid to the student by the merchant, institution, society, foundation, natural person registered as economic operator, as well as individual enterprise, including farms and fisheries, as well as other economic operators, as a part of the WB learning, are no longer liable to PIT.

In order to improve the quality and accessibility of health care services for Latvian residents, **implementation of health care reform** is launched in the following directions (*for more information see Chapter 3.5.2*):

- Health care funding model, health care basket of services, rates and service accessibility. A *Conceptual Report on the Reform of the Health Care System*¹³ was adopted, which envisages additional funding for the improvement of availability of outpatient and inpatient health services, raising the wages of medical practitioners, increasing tariff elements of medical services, provision of medical education, payment for reimbursable medicines and medicines purchased in a centralised way. The implementation of measures of the health care reform depends on the funding granted in addition, which in the coming years should be viewed in the process of preparation and review of the CM's draft annual state budget and the medium-term budget framework according to financial possibilities of the state budget¹⁴. By 194 million EUR more were allocated for health care in the state budget for 2018, including 79.1 million EUR for reforms with a Commission's derogation of 0.1% for the purposes of budget deficit (a total of 113.4 million EUR in 2018). 55% of these 194 million EUR will be shifted to raising of the wages of medical practitioners. The average wage of physicians and functional specialists in tariff was raised from 859 EUR to 1125 EUR per month (by 31%), for medical and patient care persons and assistants of functional specialists from 537 EUR to 675 EUR per month (by 26%), but for medical and patient care support persons – from 400 EUR to 450 EUR per month (by 13%). Also, 16% of the allocated 194 million EUR were shifted to the provision of reimbursable, including new

¹³ Conceptual Report *On the Reform of the Health Care System* adopted on 25.07.2017 at CM session (prot. No.37, §34).

¹⁴ Paragraphs 280 and 295 of the Conceptual Report *On the Reform of the Health Care System*.

innovative medicines in the areas, where the range of medicines is most limited, for example, in oncology. In addition, 108 700 consultations from specialists, 207 200 outpatient examinations, 35.1 services in a day care hospital, 33 300 examinations in a diabetes mellitus room, 29 500 outpatient rehabilitation services, 981 endoprosthetic surgeries, 7 liver transplantations, 11 diabetic treatment rooms are ensured. The availability of diagnostics and specialists for patients with suspected oncological diseases is also extended, and the availability of a general practitioner is improved. The Saeima has adopted a decision¹⁵ stating that for the persons making contributions in a general regime, the share of mandatory contributions, which corresponds to one percentage point from the rate of mandatory contributions, is intended for financing of health services. Subsequently, the Saeima adopted the *Law on Healthcare Financing*¹⁶, which lays down spending of the funds intended for financing of health care services and the rights of socially insured persons to receive health services;

- Mapping medical institutions, issues of infrastructure, human resource development in health care, and health care system management. The Conceptual Report⁹ defines the breakdown of providers of state-paid inpatient health services by service levels, providers of urgent medical aid services and maps cooperation territories of providers of inpatient health services, as well as defines activities for the attraction of human resources to regions and the matter of wages of medical practitioners. The implementation of projects of EU funds has started¹⁷ envisaging to make investments to tertiary and regional level hospitals, as well as monoprofile institutions, which ensure the provision of rehabilitation, obstetric assistance and traumatology services. In 2017, agreements with medical institutions on allocation of funds were signed, and the acquisition of EU funds commenced. In 2018 under the EU funds programming period 2014-2020, support measures aimed at attracting medical practitioners (doctors and nurses) for work in regions outside Riga will be launched; also, raising qualification and renewal of medical practitioners' certificates will be possible under continuous education support measure, allowing a medical practitioner not practising in his/her speciality to return in labour market;
- E-health system is available to residents, medical institutions, and pharmacies since 12 September

2016. By 11.12.2017 all inpatient medical institutions had signed the agreement with National Health Service on using the health information system, 83% of general practitioners and 99% of pharmacies. A further development of E-health system is planned using funding from EU funds programming period 2014-2020;

- Implementation of EU fund-financed health promotion and disease prevention measures has been launched at national and local government level. In order to foster healthy habits in children and adults, amendments to regulations have been made aimed at improving catering service quality in educational and medical institutions, long-term social care and social rehabilitation institutions, as well as supplementing food products permissible to be distributed in general and vocational education institutions in addition to the set and optional menus. *CM Regulations on Maximum Permissible Content of Trans Fats in Food* have been approved. *Law on Distribution of Energy Drinks* has been adopted laying down the prohibition of selling energy drinks to minor persons and these persons are not allowed to purchase them. *Amendments to the Law on Handling of Tobacco Products, Herbal Smoking Products, Electronic Smoking Devices and Their Fluids*, providing for stricter smoking restrictions in circulation of the said products have been developed. The *Action Plan for Restricting the Distribution of HIV Infections, Sexually Transmitted Infections, Hepatitis B and C for 2018-2020* was approved. Work has also started on a policy planning document for reduction of consumption of alcoholic beverages and restriction of alcoholism for the next period;
- *A Health Care System Quality Improvement and Patient Safety Concept* as well as the action plan to be implemented within it, have been developed and adopted. Implementation of the measures started in 2017, and EU fund programming period 2014-2020 resources have been allocated for this purpose. With the aim of ensuring coordination and support for continuous improvement of medical treatment process quality and patient safety, in February 2017, *amendments to Disease Prevention and Control Centre regulations* were adopted assigning a new function to the said Centre – ensuring methodological support for medical institutions in the matters of medical treatment quality and patient safety.

¹⁵ Amendments to the Law On State Social Insurance of 27.07.2017.

¹⁶ *Law on Healthcare Financing* supported at CM session of 26.09.2017 (prot.No.48, §36) and adopted on 14.12.2017.

¹⁷ Regulations of the Cabinet of Ministers No. 870 of 20.12.2016 "Regulations on the first and second round of selection of project applications for specific objective 9.3.2 "To improve the availability of health care services, especially to population subject to social and territorial exclusion and poverty risk, developing the health care infrastructure" of the operational programme "Growth and Employment".

2.3. EFFICIENCY IN THE PUBLIC SECTOR

INCREASE EFFICIENCY AND ACCOUNTABILITY IN THE PUBLIC SECTOR, IN PARTICULAR BY SIMPLIFYING ADMINISTRATIVE PROCEDURES AND STRENGTHENING THE CONFLICT-OF-INTEREST PREVENTION REGIME, INCLUDING FOR INSOLVENCY ADMINISTRATORS.

In order to increase **efficiency in the public sector**, in particular, simplifying administrative procedures, on 14 November 2017 the CM approved the *Public Administration Reform Plan 2020* envisaging to give an impulse to the development of public administration, labour quality and efficiency improvement in three years for the purposes of creating effective, responsible and flexible public administration. The ten lines of reforms included in the plan are the tools for the establishment of modern public administration.

The plan aims to implement a “zero bureaucracy” principle – to refuse from unnecessary bureaucracy and to move towards the administration model of a small and analytical state. Further public administration regulation policy should be developed in a way to eliminate unnecessary processes and regulations, reduce the internal and external administrative burden and costs.

In December 2017, the Commission’s Structural Reform Support Service approved the “*ExCeL!*” (*Excellent for Centenary of Latvia!*) project submitted by the State Chancellery, where one of lines to be supported is the establishment of an Administrative Simplification Laboratory in order to introduce a targeted approach and methods for constant reduction of the administrative burden.

Also, on 28 November 2017 the CM approved proposals for reduction of the internal administrative burden among institutions envisaging specific tasks for simplification of mutual requests about finances and the state budget, personnel management and statistical data and reduction of the number of information reports. This will free resources for the fulfilment of basic functions of institutions. The “consult first” principle was also introduced (*see Chapter 3.2.1*).

The **interest conflict prevention system** is being developed by improving the provisions of the *Law on Prevention of Conflict of Interest in Activities of Public Officials* (hereinafter referred to as LPCI) on a regular basis:

- At present amendments to LPCI have been submitted to CM for review, which envisage to significantly improve the procedure of accepting donations; to extend the range of persons qualifying as a relative; to set an additional duty to inform the head of the public person’s institution

or KNAB on conflict of interests situations or potential corruption, incl. bribing of foreign officials; to extend the range of persons to be indicated in the public official’s tax return; to determine the procedure of submission of a tax return by the Director of the Constitution Protection Bureau as a public official; to determine terminated commercial activity restrictions for a public official who has fulfilled investigation functions; to update duties and actions of a public official setting additional cases and envisaging specific deadlines for information of the head of the public person’s institution about any potential conflict of interests of a public official and other amendments;

- Since 28 April 2017 the *Saeima* has been reviewing LPCI on restrictions of public official’s decision making and official position related actions in respect of the person, with whom the public official cohabits and has joint (undivided) household; they will also set a restriction on cash savings up to 20 minimum monthly wages, as well as a type of tax return to be submitted in addition, which would contain information about transactions carried out by the public official, for example, received gifts and inheritance, issued or received loans with the value exceeding 20 minimum monthly wages.

In order to reach common understanding on basic requirements to the creation of an internal control system preventing corruption and the risk of conflict of interests, in 2017 work on the development of a single external legislative act for institutions of a public person (incl. local governments and capital companies of the public person) was continued. Regulations of the Cabinet of Minister No. 630 *On the Essential Requirements to an Internal Control System for Preventing Corruption and the Risk of Conflict of Interest in the Institutions of a Public Person* entered into force on 27 October 2017. In fact, this step is a follow up for previous KNAB work with regard to reorientation of the anti-corruption and fraud combatting policy from external control to the internal control of the department and the institution.

On 31 January 2018, the *Guidelines on basic requirements to the creation of an internal control system preventing corruption and the risk of conflict of interests* were approved, the purpose of which is to provide institutions with recommendations, methodical assistance and examples for the creation,

improvement and maintenance of an internal control system for the prevention of corruption risk.

In order to develop the insolvency sector in the long-term, incl. supervision of **insolvency administrators**, reliability of the profession and professionalism, *Guidelines for Insolvency Policy Development for 2016-2020* and their implementation plan are being implemented.

For the purpose of strengthening responsibility of insolvency administrators, it has been determined since 1 January 2016 that insolvency administrators are public officials and they are entitled to submit tax returns of a public official, as well as real estate auctions within the scope of insolvency proceedings are held on the electronic auction website <https://izsoles.ta.gov.lv>.

On 6 January 2017, *Amendments to Insolvency Law* entered into force prescribing transfer of insolvency administrators' examination to the state, introducing disciplinary action for insolvency administrators and legal protection procedure monitoring persons, and the rights of Insolvency Administration to arrive in

the place of practice of insolvency administrators and legal protection procedure monitoring persons, and inspect the documents of proceedings in their records. As of 1 July 2018 these amendments aim to improve the monitoring system introducing an Electronic Insolvency Monitoring System as a state information system and publishing information about insolvency administrators and legal protection procedure monitoring persons, as well as proceedings on the website of the Insolvency Administration.

On 1 January 2018 *Amendments to the Criminal Law* with regard to criminal offences like delaying insolvency proceedings and violation of rules of the legal protection procedure entered into force. The amendments were developed in order to envisage criminal liability for more severe violations of insolvency proceedings, while in other cases persons would be called to administrative liability pursuant to the *Latvian Administrative Violations Code*, thus ensuring more efficient application of liability.

3. POLICY DIRECTIONS

3.1. FINANCIAL STABILITY

3.1.1. Sustainable Budget Development

The overall goal of the fiscal policy is to raise the quality of life of population in a sustainable way. A sustainable increase in the quality of life means that public financial resources are being shifted not only to current measures for improving the quality of life, but also that public resources are being planned and allocated in a manner that provides conditions for the state to be able to raise the quality of life in the long term. It can be achieved, firstly, by refusing to cover the current expenses on the account of the next generations or giving up increasing the public expenditures by means of the budget deficit. And, secondly, by directing the public resources towards establishing a favourable environment for economic development.

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

The *Law on Medium-Term Budget Framework for 2018, 2019 and 2020* (entered into force on 1 January 2018) has set the overall goal of the fiscal policy – raise the quality of life of the population in a sustainable way. Four priority development directions of the medium-term budget policy were set in order to achieve the overall goal (for details see the *Stability Programme of Latvia for 2018–2021*):

- 1) To increase public defence capacity, raising public defence funding to 2% of GDP;
- 2) To promote sustainable and balanced country's economic development, by introducing deferred CIT for enterprise profits which is paid at profit distribution of the enterprise (no CIT is applied to reinvested profit), by primarily ensuring, within the scope of the State budget possibilities, increase of funding for defence, health, demography and road maintenance;
- 3) To reduce the inequality in population's income, by increasing the minimum wage, introducing the progressive non-taxable minimum of the PIT and differentiating the PIT rate;
- 4) To gradually increase the amount of tax revenue to 1/3 of GDP, basically improving efficiency of tax collection.

Starting from 2016, the *Law on Budget and Financial Management* includes a provision obligating the government to ensure a constant and systematic revision of budgetary expenditures allowing for implementation of a more efficient and economical state policy, as well as optimisation of budget expenditures and evaluation of their compliance with the priorities and objectives set in development planning documents. The government makes an annual decision on the next scope of revision of budget expenditures, and, based on that, the Ministry of Finance submits the results of revision of state budget expenditures, as well as suggestions on application of these results when planning the state budget.

The resources obtained for 2017 as a result of revision of expenditure constituted 61.3 million EUR, that, based on the type of application, were distributed as follows: 32.6 million EUR allocated to joint priorities, and 28.7 million EUR diverted as internal resources for own sectoral priority funding. In accordance with MF's evaluation, the results of revision of expenditure of 2017 constitute 81.1 million euro in 2018 and 73.1 million euro in 2019. The results of revision of expenditure reflect the (internal) financial resources potentially available to ministries for financing of actual priorities, incl. resources diverted by ministries for financing of goals other than those they were initially allocated for. These results arise from the topicality of priority activities of previous period, compliance revision of results and goals to be achieved; possibilities to use accumulated cash balances from paid services and other own income to cover the expenditure; improvement of administration functions and financial management processes; re-evaluation of long-term vacancies; updating of pricelists for paid services according to the natural increase in expenditure; revision of administrative expenditure of lower priority.

In 2017, the previously existing procedure used by ministries to determine priority measures for the next budget, as well as how it is ensured that the process of submission and evaluation of priority measures is simpler, more efficient, emphasises the impact of priority measures on economic growth and national economy. In addition, the new approach, within possible limits, fosters reorientation of internal resources of ministries for the development of the state.

The main policy directions and measures:

Strengthening fiscal discipline

/responsible institution – MF/

The *Fiscal Discipline Law* (hereinafter – FDL) was drafted in accordance with the provisions of Stability and Growth Pact, and since FDL entry into force on 6 March 2013, fiscal conditions are included in the state and medium-term budget framework development

process. At the same time, the general management of fiscal risks has been introduced and the Fiscal Council has been established. The Council is responsible for compliance with the fiscal discipline norms during both the budgetary planning stage and the implementation stage.

Ensuring sustainability of the pension system

/responsible institution – MoW/

Since 2014, the special budget has had a positive balance facilitated by a string of measures aimed at both short-term and long-term financial stability: changing the source of financing premiums to the basic budget, gradually raising the retirement age for eligibility to the minimum insurance period increasing the old-age pension level¹⁸. A positive budgetary balance is expected also in the upcoming years.

In 2015, the issue of adequacy of pensions (see Chapter 3.5.1, measures to reduce income inequality and increase the level of income of pensioners) was raised in addition to the aspects of financial

sustainability of pensions system further strengthened by the *amendments to the Law on State Pensions*¹⁹ implemented in 2014.

A number of measures were introduced in 2018 aiming to increase social security of certain groups of persons, motivate to make mandatory state social insurance contributions (hereinafter referred to as MSSIC), as well as improve the adequacy and financial sustainability of the social insurance system in the medium and long term (see Box 3.1).

Box 3.1

Measures to increase social security of certain groups of persons

- a qualification period for receiving a sickness benefit was introduced – the following person is entitled to a sickness benefit – a socially insured person, who has made MSSIC for sickness insurance for at least 3 months in the period of the last 6 months or for at least 6 months in the period of the last 24 months before the month, when the insured event occurred (the first day of incapacity);
- the MSSIC payment procedure for performers of economic activity was changed. Previously, a performer of economic activity was obliged to make mandatory contributions as a self-employed person when his or her income reached the minimum monthly wage determined by the state. From 1 January 2018, the self-employed, whose monthly income does not reach the size of minimum wage, have to pay MSSIC of 5% of their income for pension insurance. If income of a self-employed person does not reach 50 EUR during a calendar year, the payment of 5% MSSIC is not mandatory. Furthermore, the self-employed, whose monthly income reaches and exceeds the minimum wage, should pay MSSIC from a freely chosen amount, which is not smaller than the minimum wage. In 2018, the MSSIC rate for the self-employed in a general case is 32.15%. The difference between income and a freely selected amount is liable to 5% MSSIC (for pension insurance). The self-employed, who receive income from agricultural production and whose monthly income reaches or exceeds the minimum wage, should pay mandatory state social insurance contributions (in 2018 the MSSIC rate for self-employed in a general case is 32.15% and the person is subject to pension insurance, disability insurance, parental insurance, maternity and sickness insurance and health insurance) of a freely chosen amount, which is not smaller than the minimum wage. Furthermore, 5% MSSIC of the difference between income and the freely selected amount should be calculated for the entire calendar year (the difference between whole year income from agricultural production and whole year expenses related to agricultural production) and 5% MSSIC (for pension insurance) for the previous year should be paid by April 15;
- changes were made to the MSSIC for professional athletes – two minimum monthly wages are set as the object of contributions. If the wage of a professional athlete is smaller than two minimum monthly wages, then the employer will be entitled to cover the difference in contributions from own funds;
- the MSSIC payment procedure for payers and recipients of author's fees was changed. From 1 January 2018, the payer of author's fees should pay 5% MSSIC of the author's fee for pension insurance for the recipient of the author's fee from own funds (there is no need to pay 5% MSSIC for the recipient of author's fees having disability of group I or II, old-age pensioner, for the recipient of author's fees, whose permanent place of residence is not the Republic of Latvia and for heirs and other successors in copyright). If the recipient of author's fees is also an employee and his or her wage with one or more employers in total reaches or exceeds the minimum wage, then no MSSIC should be paid from the author's fee as a self-employed (regardless of the received amount of author's fees). It should be noted that this provision about wages is applicable only to the wage, from which MSSIC are made, i.e. it is not applicable to the wage received by a person in a micro-enterprise or the income received by a person from seasonal agricultural works. If the recipient of author's fees is also an employee, but his or her wage with one or more employers in

¹⁸ In 2014, for the first time since 2009, revenues of the social insurance budget exceeded expenditures, and the year was concluded with a positive balance: +100.4 million EUR. The financial balance in 2015 was + 91.1 million EUR, the financial balance in 2016 was + 47.8 million EUR. The financial balance in 2017 was +113.8 million EUR.

¹⁹ Raising the retirement age to 65 years by 2025; raising the minimum length of period of insurance necessary for granting old-age pension from 10 to 15 years, and starting from 2025 – from 15 to 20; funding of supplements to old-age and disability pensions from the state basic budget; renewal of upper limit of social contributions.

In recent years, significant amendments to the *Micro-Enterprise Tax Law* have been made, including amendments adopted by Saeima on 20 December 2016 providing that micro-enterprise tax rate starting from 1 January 2017 will be 12% provided that turnover is below or equal to 7000 EUR, while the rate would be 15%, if turnover is between 7000.01 and

100 000 EUR. In turn, starting from 1 January 2018, the micro-enterprise tax rate for micro-enterprise turnover up to 40 000 EUR is 15%. 70.4% of micro-enterprise tax was diverted towards mandatory state social insurance contributions in 2017, while from 2018 these will be 80%²⁰.

3.1.2. Ensuring Stability of the Banking Sector

During the post-crisis period, Latvian banks have taken significant steps to strengthen the capital. Thus, they have been able to maintain a sufficient capital to cover inherent and potential risks of banking activity. Overall, the banking sector is well capitalised. The capital adequacy ratio of the banking sector remained high in 2017, reaching 21.4% at the end of the year (the minimum capital requirement – 8%), whereas the Common Equity Tier 1 capital ratio was 19%.

Despite the reduction in liquid assets, the overall liquidity ratio of the banking sector remained high reaching 59.5%. The liquidity ratio exceeds the minimum requirement almost twice (30%).

Since the second half of 2010, the quality of loans has been gradually improving along with the improving economic situation. The share of loans that were overdue more than 90 days in the total banking sector

loan portfolio decreased from 4.4% to 4.1% in 2017. The share of loans with payments more than 90 days overdue remained high, 93.2% at the end of 2017.

Increased requirements regarding prevention of money laundering and terrorism financing (hereinafter – PMLTF), as well as weak economic growth in customers' countries of origin determined the reduction in volume and share of foreign deposits in the banking liability structure. During 2017, the volume of foreign deposits reduced by 1.1 billion EUR of 12.0%. Meanwhile deposits of domestic households have grown by 8.2% during the year, and therefore total deposits of domestic customers at the end of the reporting year remained almost unchanged – 12.2 million EUR.

The main policy directions and measures:

Strengthening the capital base of banks and setting stricter liquidity requirements

/responsible institution – FCMC/

In accordance with the Regulation of the European Parliament and of the Council of 26 June 2013²¹, of 1 January 2014, banks are subject to stricter capital adequacy requirements, such as qualitative requirements for capital elements to be included in the relevant equity tier, restrictions on inclusion of certain elements in equity and deductions of equity, and a Common Equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 8% have been introduced in addition to the total capital adequacy ratio of 6%.

The harmonised liquidity coverage ratio was introduced at EU level as of 1 October 2015, and credit institutions should publish the leverage ratio from 1 January 2015 planning to make it binding.

The *Credit Institution Law* prescribes the authorisation to the FCMC to implement measures to

ensure stable operations of credit institutions that comply with the law. According to the *Amendments to the Credit Institutions Law* (entered into force on 28 May 2014) the FCMC is appointed to be the institution responsible for the application of macro-prudential instruments, including the establishment of a counter-cyclical capital buffer to limit excessive credit growth, and it is entitled to define the requirement for a systemic venture capital buffer to reduce structural risks. As a part of macro-prudential measures, on 31 October 2017, the FCMC repeatedly identified six banks as systemically important institutions (C-SNI), and starting from 30 June 2017 the identified institutions shall maintain a C-SNI capital reserve in the amount of 1.5-2% (with 12 months transition period). Starting from 1 February 2016, the FCMC standard counter-cyclical capital buffer of 0% is in force.

²⁰ It must be noted that before 31 December 2016, micro-enterprise tax rate for enterprises with turnover below or equal to 100 000 EUR was 9% and 72.4% of this amount were diverted towards mandatory state social insurance contributions.

²¹ Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 introducing the international bank oversight standard Basel III into the EU legislation.

Reorganisation/sale of state-owned banks

/responsible institutions – MF, ME/

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

- A development financial institution (hereinafter referred to as DFI) was created in 2014-2015. In September 2017, CM regulations providing for DFI programme launch in order to provide a guarantee portfolio for promotion of crediting of micro, small and medium-sized merchants entered into force, with the total planned funding of 7.8 million EUR. In 2017, DFI emitted green bonds amounting to 20 million euro for financing of environment and climate friendly projects. In addition, in 2017 financial intermediaries for three acceleration funds, two seed and start funds and one growth fund were selected;
- From May 2012, the JSC Reverta has been operating as a professional management company of problematic assets, taking into account the

change of the status and the name and giving up the credit institution license as approved by the FCMC. In accordance with the restructuring plan approved by the EC, the JSC Reverta was expected to operate until 2017. On 2 February 2017, Saeima adopted *Law On Control of Aid for Commercial Activity* affecting also conditions for termination of operation of JSC Reverta. On 7 July 2017 the process of liquidation of JSC Reverta was initiated. In 2017, the process of sale of the credit portfolio of JSC Reverta completed, and within the scope of it on 22 June 2017 JSC Reverta concluded a credit portfolio (with the exception of the CIS credit portfolio) sales contract with SIA Gelvora and UAB Gelvora. The assets had been sold to the buyer by the end of 2017. On 1 July 2017 the liquidation of JSC Reverta was initiated, which has not completed by the end of the year. To ensure management of some assets, incl. claim rights, taken over from JSC Reverta after the liquidation of JSC Reverta, LLC REA, a subsidiary of VJSC Privatizācijas aģentūra was established on 17 November 2017. By the end of 2017 LLC REAP had taken over claim rights and undeveloped assets from JSC Reverta.

Strengthening stability of the financial sector

/responsible institution – MF/

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

At the beginning of 2017 MC approved the *Development Plan of the Financial Sector for 2017-2019*, which defines specific directions of action and tasks for four separate branches of the financial sector:

- bank branch (strategic policy direction for activation of lending);
- capital market branch (strategic policy direction – to increase the number of undertakings using capital instruments to attract funds, to develop capital instruments aimed at expanding the possibilities to attract funds and investments, to increase the level of activity of both institutional and private investors in the local capital market);
- insurance and alternative financial service providers' branch (strategic policy direction – adoption of regulation for collective financing platform, development of innovative financial services and risk management);
- insurance and reinsurance branch (expanding the use of insurance services, efficient exchange of information for risk assessment and performance of obligations, expanding the offer in order to better meet the insurance needs).

Three horizontal priorities have been defined as a leitmotiv to set further action directions and tasks reflecting the most significant aspects for the development of financial market in the programming period:

- digitalization and innovation;
- improving the compliance of financial sector PMLTF and state reputation;
- international competitiveness.

To improve the availability and quality of data necessary for the evaluation of creditworthiness in Latvia, the *Law On Credit Bureaus* entered into force on 1 January 2015 and *Amendments to the Law On Taxes and Duties* entered into force on 1 March 2016, which entitled SRS to provide any information available to it about income of a natural person to the credit information bureau.

In order to increase the PMLTF compliance of the financial sector, *Amendments to the Law on the Prevention of Money Laundering and Terrorism Financing* entered into force on 9 November 2017 envisaging the implementation of requirements of 4th

Anti-Money Laundering Directive of the EU²². The amendments to the law extended the definition of a beneficiary according to international standards defining that all beneficiaries of a legal entity should be identified – natural persons exercising property rights or control over it. The amendments to the law also set out sanctions and a range of measures in relation to recurrent or systematic violations of requirements with regard to customer due diligence

measures, storage of information, reporting suspicious transactions and internal control of responsible entities, setting a number of sanctions that allow competent authorities to take account of the differences between obliged entities, in particular between credit institutions and financial institutions and other obliged entities, as regards their size, characteristics and the nature of the business.

Informing the public about financial services and improving the regulation of consumer protection rights in the field of consumer crediting

/responsible institutions – FCMC, ME/

The aim is to provide the potential users of financial services with a general insight into the financial sector and its development trends to provide consumers with access to financial services that meet their needs and abilities, as well as to warn about illegal service

providers and new forms of fraudulent financial transactions, especially in the e-environment. Different measures are carried out to reach the goal, for instance public information measures to improve financial literacy and surveys (see Box 3.2).

Box 3.2

Public information measures in matters of financial services

- The FCMC is regularly updating the educational online vortal *Customer School* (www.klientuskola.lv). The website contains explanatory materials about financial services available in Latvia and associated risks, as well as new services and important matters of e-security. Additionally, the *Customer School ABC* provides more than 70 educational materials on various financial literacy subjects. Vortal gives every user an opportunity to receive e-mail consultations from FCMC experts;
- In 2017, the progress in the implementation of the *National Financial Literacy Strategy for 2014-2020* was evaluated for the third year – the planned advancement of three performance indicators of strategic objectives are observed – the population is more active and more secure in the environment of e-services (digitalisation), total savings exceed liabilities and there are less delayed liabilities, the credit portfolio of households is also gradually growing;
- In 2018, the third survey of Latvian population in financial literacy is planned, in which the actual financial literacy index will be determined. The annual FCMC measuring of the financial sustainability of Latvian households at the end of 2016 evidences that the indicator exceeds the desirable development zone in the positive direction for the first time. This was affected by shrinking unemployment, deposits of households exceeding credits issued by the banking sector. However, the most considerable effect was from the negative interbank interest rate in the euro area, which reduced interest payments of Latvian borrowers as well;
- In March 2017 the fifth Financial Education Week (Journey towards Financial Literacy 2017 – Smarty's audit!) took place. Its purpose was to encourage everybody to look into their finances – habits, plans, budgets to understand what needs to be changed, what needs to be improved or what should further be refused for a more effective housekeeping. The common call of ambassadors of financial literacy: Plan? Audit! Earn., within the framework of which for the second time financial literacy activities included several regions (Cēsis, Kuldīga, Rīga);
- at the beginning of the 5th Financial Education Week in Latvia a new document for promotion of financial literacy of the population *Standard of Basic Competences in Financial Literacy for Adults* was issued on the basis of the approach of developed countries – within the framework of OECD INFE financial literacy competencies. The standard is available to all interested persons on the FCMC website;
- On 28 April 2017 an international discussion *Latest News in Financial Literacy in the Baltics* was held in Rīga.

In November 2011, a *non-bank creditor licensing system* was introduced, thus guaranteeing the existence of financially stable creditors in the market in the long term. In 2013, several proposals for the improvement of the consumer crediting market had been prepared and promoted, particularly focusing on the *payday loans* sector. The *Amendments to Consumer Rights Protection Law* entered into force on 1 January 2016 to foster responsible lending, as well as restricting interest rates. In 2016, amendments have been made to several legislative acts in connection

with transposition of *Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010*. In 2017, the work on the development of guidelines of the Consumer Rights Protection Centre for lenders providing crediting services to consumers for the evaluation of consumer's ability to repay a loan continued.

²² Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 684/2012 of the European Parliament

and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

3.2. PROMOTING COMPETITIVENESS

3.2.1. Business Environment and Modernisation of Public Administration

International studies *Doing Business* and the Global Competitiveness Index are the most popular tools in Latvia to evaluate the impact of reforms made on the improvement of business environment, which include evaluations in different business-related areas. On the basis of the analysis of the above mentioned indexes a list of measures to be taken within the framework of the *Action Plan for Improvement of the Business Environment* is prepared.

According to the research of the World Bank – *Doing Business 2018*, Latvia takes the 19th place among 190

countries in competition and ranks 8th among the EU Member States. In comparison with the previous year, the rating improved in starting a business, paying taxes and enforcing contracts, but it went down in dealing with construction permits, getting electricity and resolving insolvency. Meanwhile, in accordance with Global Competitiveness Index published within the World Economic Forum *Global Competitiveness Report 2017-2018*, Latvia is ranked 54th out of 137 countries.

The main policy directions and measures:

Reducing administrative barriers

/responsible institutions – ME, MJ, MEPRD, SC, CSCC/

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

On 15 March 2017 CM approved the *Action Plan for Improvement of the Business Environment 2017* (hereinafter referred to as the Plan). The goal of the Plan is simple and qualitative services in business: more e-services and it includes 46 measures with different institutions responsible for their fulfilment within the set deadlines (see Box 3.3).

To improve the business environment several measures were implemented in 2017-2018, which improve cooperation between different institutions (“consult first” and “tacit consent” principle), the tax system was improved (for example, by introducing a deferred CIT on enterprise profits, which is paid at profit distribution of the enterprise (reinvested profits are not liable to CIT), a new CIT model was introduced), the SRS EDS system was improved, the process of preparation and submission of annual reports was simplified, several measures for the development of start-ups were implemented and legal regulation was strengthened (see Box 3.3).

Box 3.3

Implementation of business environment improvement measures in 2017-2018

- The “Consult first” principle was introduced in the work of national regulatory authorities, which ensures effective and positive communication with public authorities;
- The “tacit consent” principle was introduced, which significantly facilitates different processes, for example, in certification services;
- A deferred CIT for enterprise profits was introduced which is paid at profit distribution of the enterprise (no CIT is applied to reinvested profit);
- Starting from 1 January 2018, a new CIT model has entered into force, which does not envisage advance CIT payments and CIT should be paid only for the month, when expenses were not diverted to enterprise development. To reduce administrative burden, most types of expenses should be included only in the CIT tax return for the last months of a year;
- Monitoring of data in Land Register divisions on immovable properties belonging to a legal entity was introduced, sending electronic notifications about any corroborations made;
- A series of SRS EDS development measures were also carried out, for example, a report on closed and annulled sick-leave certificates, the possibility was introduced to submit several documents in EDS at the same time, etc.
- The Electronic Insolvency Monitoring System was introduced enabling the monitoring of insolvency proceedings and obtaining necessary indicators to look at the effectiveness and improvement of the system;
- A cooperation memorandum with the Startup Association Startin.lv was signed, an *Action Plan for the Development of Start-Up Ecosystem* was developed for the development of start-ups. In 2017, *Amendments to the Immigration Law* entered into force allowing start-ups to attract highly qualified specialists from third countries envisaging a special temporary residence permit for founders of start-ups. *Amendments to the Law on Aid for the Activities of Start-up Companies* were also developed, which will significantly broaden the scope of the law allowing a wider range of start-ups to qualify for available aid in the form of tax discounts and attraction of highly qualified employees. The legal regulation has been improved, which supports the creation of innovative companies in Latvia in areas like ridesharing and crowdfunding. Work in ongoing on the possibilities to improve existing support instruments in existing state aid programmes. In 2018, start-ups in Latvia will have access to venture capital funding in 2 start and 2 growth risk capital funds with public co-financing of 60 million EUR, and 3 acceleration funds with public co-financing of 15 million EUR;

- The process of preparation of annual reports was improved, for example, the number of companies, which should prepare or can prepare an annual report and/or a consolidated annual report according to International Accounting Standards (IAS) was broadened. Simplified requirements to the preparation of financial statements in the form of structured tables were set for all microenterprises, small enterprises, and medium-sized enterprises. All the enterprises regardless of their size still can submit notes to SRS EDS financial statement as a scanned copy also for the reporting year 2017;
- Several EDS improvements were implemented, for example, information is provided on the estimated monthly non-taxable minimum, a machine translation service was integrated allowing to display EDS interface in English and Russian, a solution was introduced, which gives customs customers direct access to European information systems;
- The improvement of the Electronic Customs Data Processing System (ECDPS) continued, for example, a link to the EC central Customs Decisions System was ensured allowing to apply for and receive electronically all the customs authorisations and certificates envisaged in the Union Customs Code, electronic submission of corrections and annulment requests for export declarations was introduced, etc.
- On 1 January 2017 *Amendments to the Civil Law* and other laws entered into force, which introduce the building right and exclude the possibility to construct buildings as permanent objects of property on the basis of a rental contract. The building rights regulation defines, when buildings can be built on someone else's land, what the relationship between the land owner and the person entitled to build are, etc. In 2018, work is continued on the draft law to terminate complicated forced shared property relationship between owners of privatised apartments in multiapartment buildings and land owners;
- On 1 July 2017 *Amendments to the Civil Procedure Law* entered into force, which oblige representatives, whose place of residence or indicated address is abroad, to specify their e-mail for communication with a court or inform about registration of their participation in an online system (the purpose of the amendment is to continue simplification and effectivization of circulation of documents, communication). On 24 January 2018 *Amendments to the Criminal Procedure Law* were submitted to Saeima, which envisage the introduction of electronic notification, using e-mail, priority principle in criminal proceedings, thus the driver of proceedings will be liable to use an e-mail solution as a priority, if the litigant has informed the driver of proceedings that he or she wants to communicate using e-mail;
- The EU funds project *Justice for Development* is being implemented for the purposes of improving the competence of the staff of courts and law enforcement authorities to promote improvement of business environment. An assessment of the Latvian judicial system is implemented within the framework of the project, which will serve as a basis for preparation of long-term policy planning documents and possible amendments to legislative acts. Inter alia, extensive training programmes are implemented within the framework of the project, which will result in training of more than 11 000 persons making a valuable contribution to further improvement of court work, incl. promoting confidence of the society in judicial power. In cooperation with the Academy of European Law, there are plans to train 2300 judges, court staff, investigators, prosecutors and officials on different legal matters. The funding acquired within the scope of the project in 2016 and 2017 was 2.5 million EUR, and its implementation is planned until 2022;
- A new portal of e-services <https://manas.tiesas.lv/eTiesas/> was launched allowing users access all e-services provided by courts in one place in a convenient and transparent way. The work on the improvement of monitoring of designated court sittings continues;
- On 28 November 2017 the CM approved proposals for reduction of the internal administrative burden among institutions envisaging specific tasks for simplification of mutual requests about finances and the state budget, personnel management and statistical data and reduction of the number of information reports. This will free resources for the fulfilment of basic functions of institutions;
- In order to facilitate and improve raising capital for Latvian economics, in 2017, work on revision of the legislative framework of joint stock companies completed aimed at easier capital raising for the company, as well as strengthening the protection of investors' (bondholders) rights. Also the procedure how shares are issued to company employees is revised, expanding companies' rights to decide on incentives for their employees.

Modernising public administration

/responsible institutions – MF, MEPRD, ME, SC/

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

- **Developing e-government and e-services, the one-stop-shop principle.** The measures aim to improve the effectiveness of public administration processes by providing better access to public services for citizens and companies. The work on the creation of single customer service centres continues. 78 centres have been created from 2015 to 2017. The work is expected to end by 2020. Pursuant to the *Amendments to State Administration Structure Law* aimed at creation

and provision of state and municipal services corresponding to the needs of residents and entrepreneurs, on 4 July 2017 CM adopted four interrelated regulations regulating government services, including e-services and the use of the one-stop-shop principle²³.

Latvia has ensured the availability of basic services necessary to residents and entrepreneurs electronically. Requesting or receiving of virtually all services relating to *Directive 2006/123/EC of the European Parliament and of the Council on services in the internal market* (hereinafter — the Services Directive) is ensured electronically (in the single electronic contact point – www.latvija.lv).

²³ CM Regulations No. 399 *Procedure of Registration, Quality Control and Provision of Government Services*, CM Regulations No. 400 *Regulation of the Portal of Government Services*, CM Regulations No. 401 *Regulations on Types of Single Customer Service Centres of Public Administration, the Scope of Provided Services and the Procedure of Provision of Services* and CM Regulations No. 402 *Regulations on E-Services of Public Administration*.

- The information included in the portal www.latvija.lv is reviewed and updated on a regular basis, for example, there is a portal use and administration procedure, duties and responsibilities of the administration and public government authorities, information exchange and updating procedure, etc. Work is ongoing on the development of a portal development concept. On 1 March 2018 the Law on the Official Electronic Address entered into force enabling to organise official communication between public administration and its customers only in electronic form and in one place. In its turn, the Law on the Official Address sets certain deadlines, when e-mail will be available to the population and entrepreneurs in a voluntary use regime, as well as sets deadlines for mandatory use of e-mail for communication with state entrepreneurs.
- The **tacit consent principle** is one of the tools promoting modernisation of public administration to reduce delays in decision-making by authorities, and costs and unfavourable consequences to small and medium-sized enterprises. In 2017, the “tacit consent” principle was implemented in 7 public services. It is expected that the “tacit consent” principle will be introduced for 8 more public services by the end of 2018.
 - **Promoting Efficiency and Productivity.** In 2017, the *Methodology for Efficiency Analysis of Investments Made in Industries* was drafted, which will help industry policy makers and taxpayers improve their understanding of invested state budget resources and resulting benefits for the public, as well as about the achievement of preferable results by spending the allocated funding as rationally as possible. In 2017, an efficiency evaluation of support functions (wages in accounting, human resources management, procurements) was conducted, and a plan of measures for centralisation of support functions in departments was drafted and target indicators to be achieved were set. The State Chancellery, the Treasury and the Procurement Monitoring Bureau have commenced standardisation of processes. In 2018, work is ongoing on the efficiency evaluation of the car fleet of direct public administration. In 2017, the State Audit Office conducted an Evaluation of Operations of Very Small and Small Direct Public Administration Institutions and the *Public Administration Reform Plan 2020* envisages to review operations of very small and small institutions. The evaluation will start in 2018.
 - **Availability of information on the budget.** Starting from 2017 and further on the MF website will present the state budget in an interactive way, thus providing information on the state budget as a policy implementation tool.
 - **Evidence-based decision-making.** On 1 January 2018 *Amendments to the procedure of ex-ante evaluation of draft legislative acts* entered into force. They aim to improve the scope and content of information to be included in *ex-ante* evaluations, including to analyse impact on competition, SME, micro-enterprises and start-ups, health, NGOs and environment, impact on existing services or creation of new ones and information systems, as well as the need to calculate compliance costs. In December 2017 training measures were implemented, and in early 2018 the methodology of *ex-ante* evaluation is being improved.
 - **Promotion of fair dealing in public administration.** On 7 March 2017, CM approved the *Draft law on whistle-blower protection*. On 9 October 2017, the State Chancellery together with Saeima organised an international conference on whistle-blowing and protection of whistle-blowers. The Saeima Commission on Public Administration and Municipality Issues adopted a decision to create a workgroup to improve the draft law, and in 2018 the State Chancellery has prepared proposals for the improvement of the draft law. The work on elaboration of the *Code of Conduct of Public Administration Employees* continues. In December 2017 the Structural Reform Support Service of the European Commission approved the project “*ExCeL!*” (*Excellent for Centenary of Latvia!*) submitted by the State Chancellery, one of supported lines of action of which is a Public Administration Image and Reputation Laboratory for the purposes of supporting preparation of a code of conduct implementation plan and implementation of measures included in it. In 2018, there are plans to review the code in CM and start its implementation measures.
 - **Development of human resources in public administration.** In 2017 an agreement on financing of development of the ICT tool Human Resources Management Platform and its implementation until 2020 was signed to ensure a successful human resources management process in public administration (wage management and analysis, evaluation management, talent management, including selection and development of senior managers, vacancy management/mobility, cooperation and communication, registration of working hours). To improve the *Law On Remuneration of Officials and Employees of State and Self-government Authorities*, amendments to the legislative act were drafted in order to retain and attract competencies in public administration, where differences in wages are higher compared to the private sector. The implementation of the *Senior Management Development Programme* continued, where the aim is to develop competencies of senior management

in public administration in a targeted and complex way.

- **Simplification of cooperation between institutions** – this policy direction aims to reduce internal administrative burden among institutions (see Chapter 2.3).
- **Introduction of the “Consult first” principle in public administration.** The main goal is to achieve mutual understanding between entrepreneurs and supervisory authorities promoting fulfilment of the set requirements rather than punishment. In order to ensure common understanding of the “Consult first” principle, guidelines on the application of the

principle in the work of public authorities were drafted, which summarised recommendations and good practice examples for the application of the principle. On 15 June 2017 23 Latvian institutions, the Prime Minister, the Minister of Economics, and four largest associations of entrepreneurs signed a cooperation memorandum assuming a commitment to introduce the “Consult first” principle in the work of Latvian supervisory authorities. In 2017 “Consult first” trainings were prepared for employees of supervisory authorities. In 2018 the first evaluations of results are expected, which will show success of institutions in the application of the “Consult first” principle and will provide recommendations for the improvement of results in the future.

Improving the regulatory basis and its application in employment legal relations and labour protection

/responsible institution – MoW/

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

- Work on the improvement of employment legal regulation included in the *Labour Law* continued. On 16 August 2017 *Amendments to the Labour Law* entered into force, which transposed some requirements of *Directive (EU) 2015/1794 of European Parliament and of the Council of 6 October 2015*²⁴. At the same time, the legal regulation for employment relations was improved taking into consideration proposals from social partners and case law and judicial doctrine. The *Amendments to the Labour Law* improved the regulation on collective agreement, updated provisions related to competition restriction and performance of additional work, as well as work and leisure time;
- The implementation of ESF co-funded specific support objective *To improve labour safety,*

especially in enterprises of hazardous industries continued²⁵. Total planned funding of the project is 12.64 million EUR, including ESF co-funding 10.75 million EUR, and state budget funding – 1.89 million EUR. Within this project, a total of 4700 enterprises of hazardous industries will receive support until 31 December 2022 providing an advisory support for adjustment of labour safety environment, assessment of labour environment risks, as well as performance of the laboratory measurements;

- Work on drafting of *Amendments to Labour Law, Amendments to Labour Protection Law, Amendments to Strike Law, and Amendments to Law on Informing and Consulting Employees of European Community-scale Undertakings and European Community-scale Groups of Undertakings* continued aimed at making implementation of sectoral administrative penalty system (de-codification). All the four draft laws are currently viewed in the responsible Saeima commission.

Combating shadow economy

/responsible institution – MF/

In the *Action Plan of the National Authorities in Combating Shadow Economy for 2016– 2020* (hereinafter referred to as the Shadow Economy Restriction Plan) main tasks are aimed at the reduction of shadow economy in certain national

economy sectors (for example, construction, transport, trade and other services).

The attention is also focused on strengthening capacity of relevant institutions, information exchange among institutions, for example, in case of suspicious

²⁴ *Directive (EU) 2015/1794 of the European Parliament and of the Council of 6 October 2015 amending Directives 2008/94/EC, 2009/38/EC and 2012/14/EC of the European Parliament and of the Council, and Council Directives 98/59/EC and 2001/23/EC, as regards seafarers, Directive 2014/54/EU of the European Parliament and of the Council of 16 April 2014 on measures facilitating the exercise of rights conferred on workers in the context of freedom of movement for workers, Directive (EU) 2016/801 of the European Parliament and*

of the Council of 11 May 2016 on the conditions of entry and residence of third-country nationals for the purposes of research, studies, training, voluntary service, pupil exchange schemes or educational projects and au pairing.

²⁵ CM Regulations No. 127 of 1 March 2016 Regulations for Implementation of the Specific Support Objective 7.3.1 To improve labour safety, especially in enterprises of hazardous industries within the Operational Programme Growth and Employment.

transactions, registration of new companies, promotion of fair competition, cash turnover control, application of penalties, introduction of e-waybills, mitigation of VAT fraud risks, prevention of money laundering, simplification of the regulation, communication and education (see Box 3.4).

In 2017, FTUCL and ECL started the implementation of the ECF co-funded project *Social Dialogue Development in the Development of Better Legal*

Regulation in the Area of Business Support, which aims to ensure the development of bilateral social dialogue between sectors in five sectors as a priority – timber industry, chemical industry and related industries, transport and logistics, telecommunications and communications. As a result of the project general agreements will be concluded in each of these sectors providing a legal regulation in matters of importance for the industry.

Shadow economy combating measures

SRS cooperation with other institutions by efficiently using the data exchange possibility for the purposes of ensuring preventive actions in respect of mitigation of the tax evasion risk and promoting identification of criminal offences was strengthened as a part of implementation of *Shadow Economy Restriction Plan*.

Amendments to the Law on Taxes and Duties were made providing that as of 1 January 2017 all entities provide information to SRS on suspicious transactions in the area of taxes. The information provided by entities on suspicious transactions of customers is evaluated jointly with the information available to SRS analysing data of taxpayers and planning control measures to discover and eliminate violations of the law. The analysis of data of taxpayers will evaluate the compliance of the volume of transactions carried out by natural persons and legal persons with the amount of income, transactions of taxpayers having no evident legitimate purpose or liability related to the specified economic activity, as well as unclear origin of funds used in transactions, fictitious business partners and beneficiaries, which cannot be determined. Attention is focused on the information included in reports, where the total value of transactions is higher than 50 minimum monthly wage, as well as persons receiving wage transfers (mainly rather small) and in addition making cash deposits to their private accounts on a regular basis, which allowed to identify several cases of "envelope" salaries.

In order to diminish the attraction of fictitious enterprises, employing unidentified employees and improve the situation with regard to tax payment for employees in the field of construction, voluntary electronic registration of working time on construction sites has been introduced since 1 October 2017.

To limit the possibility for persons to legalize funds obtained by engagement in shadow economy, as well as to reduce the possibilities for persons to evade taxes, additional conditions for cash transactions between natural persons and verification of unregistered movable property (including cash) in the process of inheritance were introduced.

To strengthen control of cash turnover, it is also planned to organise a *Cheque Game*, which aims to promote voluntary fulfilment of tax liabilities reducing the shadow economy and encouraging the population to request a document confirming a transaction from performers of economic activity and merchants.

It is also planned to create a traffic control system ensuring introduction of e-waybills to reduce traffic of potentially unrepresented goods. In the transport sector, there are plans to improve licencing conditions for taxis and other carriers to ensure unified monitoring of the amount of work performed and payment of taxes in passenger carriage using cars, taking into account that the provision of taxi services is exposed to shadow economy the most and there is a high risk of tax evasion in this sector.

In order to reduce VAT fraud cases in transactions with vehicles, starting from 1 January 2017 it is defined that for a legal person owning or possessing a vehicle with manufacture year in this or five previous years and having a category M1 (including M1G) or N1 (including N1G) and which was purchased in other EU Member State and is registered in Latvia for the first time, or which within a year of its first registration in Latvia is purchased repeatedly in other EU Member State and then registered in Latvia again, along with registration of the vehicle RTSD shall register an alienation ban for 15 days, during which SRS pursuant to legislative acts on taxes and duties carries out tax administration activities with regard to this vehicle.

SRS receives information from foreign tax authorities on accounts opened by Latvian residents in the relevant foreign financial institutions. The first information exchange about financial accounts of non-residents was conducted in 2017²⁶. As a result, data on financial accounts of Latvian residents were received from 27 EU Member States and 14 third countries. The data warehouse system currently includes data received from Latvian financial institutions. Work is ongoing on changes to SRS IS to be able to use the data received in SRS work.

In 2016 all tax gaps still tended to narrow. The VAT gap at the stage of declaration reduced by 0.5 percentage points, the PIT gap at the stage of declaration – by 2.5 percentage points, the MSSIC gap at the stage of declaration reduced by 2.4 percentage points. In 2018, tax gaps for 2017 will be calculated. Tax gaps are estimated to continue to narrow by 0.7-0.9 percentage points.

In order to reduce the risks of VAT fraud, in 2018 the so-called reverse VAT charge system that has been temporarily introduced in sectors where a high risk of VAT fraud is detected is still in place.

To promote fair competition in business and promote economic development, the threshold for VAT liable transactions subject to registration in the SRS VAT taxpayer register was reduced from 50 000 EUR to 40 000 EUR. The threshold for transactions between domestic VAT payers to be deciphered in annexes to VAT returns reduced from 1 430 EUR to 150 EUR. This will contribute to narrowing of the VAT gap and therefore combatting of VAT fraud, as well as prevention of evasion of VAT payments to the state budget.

From 1 January 2018 to 31 December 2020 there will be a reduced VAT rate of 5% for deliveries of specific fresh fruit, berries and vegetables, envisaging that this will have a positive effect on national economy and reduce the share of shadow economy.

On 1 August 2017 a number of draft laws²⁷ entered into force, which were drafted for the improvement of legal regulation on confiscation of criminally acquired property to ensure more successful combatting of money laundering, as well as improve the reputation of the financial sector and the state at international level.

Taking into account recommendations of the Report on 4th Assessment Visit of the Anti-Money Laundering and Combating the Financing of Terrorism (MONEYVAL) of the European Council to Latvia of 5 July 2012, on 1 February 2018 Saeima supported in the 2nd reading a proposal for *Amendments to the Criminal Procedure Law*, which aims to clarify the threshold of proof in predicative criminal offences to effectivise anti-money laundering.

A new tax control regulation will be developed in 2018. At present, the *Law on Taxes and Duties* envisages several types of tax control measures, which have different definitions and different procedural conditions, which not only complicate administration of taxes, but also mislead taxpayers. The new tax control regulation aims to make the tax control process more efficient in terms of results and consumed resources, as well as more understandable to taxpayers.

In addition to the aforementioned, public campaigns on compliance with tax payment discipline and improving the awareness of the population of the importance of fair payment of taxes for the development of state in the long term continue.

²⁶ In accordance with CM Regulations No. 20 of 5 January 2016 *Procedures by which a Financial Institution Implements the Due Diligence Procedures for Financial Accounts and Provides Financial Accounts Information to the State Revenue Service*

²⁷ *Amendments to the Law on the Prevention of Money Laundering and Terrorism Financing, Law on Execution of Confiscation of Criminally Acquired Property, Amendments to the Criminal Procedure Law, Amendments to the Criminal Law.*

3.2.2. Promoting Productive Investments and Exports

In order to promote structural economic changes in favour of production of goods and services with a higher value added, the *Guidelines on the National Industrial Policy for 2014–2020*, the *Guidelines for Promotion of Export of Latvian Goods and Services and Attraction of Foreign Investment for 2013 – 2019* and the *Action Plan* were approved by the CM in 2013. The

mentioned documents aim to promote competitiveness of the economy of Latvia in the open product (goods and services) and capital markets fostering the increase in high and medium-high technology branch products in Latvian export, and focusing on foreign demand-oriented sectors when attracting FDI.

The main policy directions and measures:

Promotion of access to finance

/responsible institution – ME, MF, MA/

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

In order to improve access to finance (considering the conclusions of the SME Access to Finance ex ante Assessment for Latvia), different state support programs for enterprises are provided (see Box 3.5).

Box 3.5.

Different types of aid available to merchants within the scope of financial instruments

- **Export loan guarantees** protecting the exporter against foreign buyer's insolvency or lengthy non-payment by selling goods or providing services against deferred payment. In December 2016, the new CM regulations were adopted on issuing short-term export loan guarantees in accordance with which more favourable conditions for performers of economic activity receiving export guarantee are ensured by increasing the volume of transaction.
Since 2010 export to third countries with state aid of over 140 million EUR is guaranteed and this aid has been received by 62 merchants for ~250 transactions – 24 million EUR per year on average.
From 30 May 2017, merchants also have access to medium-term and long-term export loan guarantees, which cover up to 95% of manufacturing period risk or export loan risk losses, and up to 100% of export loan risk or manufacturing period risk losses;
- **Portfolio guarantees.** A new programme named portfolio guarantees was developed in 2017, which aims to promote merchants' access to finance. Within the scope of the programme, in 2018 selected credit institutions will offer merchant financial services with a reduced loan interest rate. Small and medium-sized merchants, who were earlier unable to receive loans due to insufficient guarantee, but credit institutions did not grant individual guarantees for a small amount of transactions due to disproportionate time consumption, will benefit from the programme the most;
- **Acceleration funds.** This is a new financial instrument in Latvia aimed at promoting development and competitiveness of economic activity performers by providing acceleration (free help attracting mentoring, sectoral experts, partners, and future investors) services and funding (up to 250 000 EUR) for business projects including technological or industrial failure risks. Acceleration funds are intended for development of a business idea at its early development stage. In total in the programming period 2014-2020, there are 13 million EUR (ERDF) allocated for implementation of acceleration funds and 2 million EUR of repaid public funding, making 5 million EUR for each fund. Implementation of the financial instrument shall occur via financial intermediaries. The funds started to operate in 2018;
- **Seed capital, start capital, and growth capital funds** – the goal of financial instruments is promoting development of economic activity performers. 60 million EUR (32.2 million EUR of ERDF funding and 27.8 million EUR of repaid public funding) are available for the implementation of seed capital, start capital and growth capital funds in 2014-2020 programming period of EU funds. Seed and start capital funds have started to operate, and growth funds are expected to start operations in the 2nd half of 2018;
- **Micro-loans** – the aim is to promote involvement of residents in business activity and increase the possibilities for merchants to receive the financial support for commencing and developing business. Support in the form of micro-loans and start-up loans is provided to new merchants, micro-, small and medium-sized merchants. Within this new programme, loans for the total amount of 6.6 million EUR have been granted by the end of 2017;
- **Latvian and Swiss Micro-Lending Programme.** Financial aid (up to 14 000 EUR) is intended for investments and liquid assets. Total planned financing amount for the lending fund is 7.1 million EUR, where 6.5 million EUR were intended for loans (80% Swiss co-funding) and 0.6 million EUR for grants. By the end of 2015, 1 309 loan agreements had been signed for 10.8 million EUR, while further financing is ensured from repayments, and 106 agreements with final beneficiaries have been concluded for 839 000 EUR by the end of 2017. The support will continue until 30 June 2019;
- **Loan guarantee programmes** – the aim is to provide economic activity performers with credit resources for implementation of own business, if the existing security is insufficient to obtain bank financing. By the end of 2017, within the programme, 239 loan guarantees had been granted in the total amount of 38.8 million EUR. In February 2017, amendments to state aid programme were made providing economic activity performers access to loan guarantees in the amount up to 3 million EUR, instead of current 1.5 million EUR. At present, amendments are made to increase the total ERDF funding to 44.8 million EUR instead of the previous 15 million EUR.
- **Parallel loans** – the aim of the programme is to promote the development and competitiveness of economic activity performers, by granting funding as a mezzanine loans (i.e., together with a funding from a Latvian registered credit institution or its subsidiary) for implementation of viable business projects. 9 parallel loans for the total amount of 3.3 million EUR have been granted by 31 December 2017;
 - **Support for agricultural, rural and fisheries development.** Producers of agricultural products can apply for support for a purchase of liquid assets (the amount of the credit facility is 25.6 million EUR). In 2017, 138 loans in the amount of 5.2 million EUR were granted. Since 2012, financing for the purchase of agricultural land is available as well (the total amount of available financing – 70 million EUR). By the end of 2017, in

Promoting investments, incl. attraction of foreign direct investments

/responsible institution – ME/

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

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

In 2017, activities aimed at attracting FDI in order to improve the business environment and foreign investment attraction process, as well as strengthen

cooperation among public authorities continue. They are included in the *Plan for Tasks and Activities Provided for the Implementation of Guidelines for Promoting Latvian Exports of Goods and Services and Attracting Foreign Investments for 2016–2019* (approved on 14 March 2017). IDAL activities in attracting the foreign investment will prioritize three directions: reactive servicing of incoming investments, post-servicing, as well as proactive action attracting investments.

Attracting investors will be improved by the EU fund measure *Support for Investments into Creation or Reconstruction of Production Facilities and Infrastructure*. 39 project applications were supported within the first round of the measure, of which 10 were projects of developers of industrial territories. Project implementation agreements were concluded for 55.3 million EUR, incl. ERDF funding of 23 million EUR and private co-funding of 1.35 million EUR. Of 39 supported projects, one project has already been implemented for the total amount of 1 million EUR, incl. ERDF funding of 454 400 EUR, and private co-funding of 555 400 EUR. The concept of the second selection round has been harmonised with the EC and its regulations were announced by MoSS on 15 March 2018.

Supporting access to foreign markets

/responsible institutions – ME, MFA/

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

- **Coordinating foreign economic policy** and organisation of the network of the Latvian Foreign Economic Representative Offices abroad. In 2018, there were 47 diplomatic and consular missions of Latvia. The network of embassies and honorary consulates is expanded thereby keeping up with the interests of Latvian entrepreneurs. The biggest emphasis is laid on transport and logistics, ICT, pharmacy, timber industry, tourism and higher education export sectors. Geographically – on the traditional markets in the Baltic Sea region, as well as rapidly growing export markets in North America, China, Gulf States, South East Asia, and Far East;
- **In order to deal with economic issues** and provide support to Latvian entrepreneurs, 20 permanent foreign representative offices (in Belarus, Denmark, France, Russia, China (Beijing and Shanghai), Japan, United Kingdom, Lithuania, the Netherlands, Norway, Poland, Germany,

Sweden, Finland, Italy, Singapore, United Arab Emirates, Kazakhstan, United States) were operating in 2017;

- **In order to expand and deepen transborder cooperation of Latvian entrepreneurs** visits of top officials of the state together with entrepreneurs were organised in 2017 and at the beginning of 2018 to European Countries – the Netherlands, Lithuania, Sweden, Finland, as well as markets of third countries – United States, Japan, Israel, United Arab Emirates, China, Korea, Belarus, Kuwait, Uzbekistan, Moldova, Russian regions, etc.;
- **In order to improve the economic contractual base with third countries.** an intergovernmental treaty on economic cooperation was signed in 2017 with Kuwait, and an intergovernmental memorandum of understanding on directions of economic cooperation was signed in early 2018 with Belarus;
- **In order to protect Latvian economic interests,** including at the level of government and entrepreneurs implementing bilateral economic cooperation projects of importance for both parties, Intergovernmental Commissions or United

Committees were organised in 2017 and within the scope of them there have been bilateral meetings of officials with representatives from Belarus, China, Georgia, Moldova, Azerbaijan, Russia, Uzbekistan, and Armenia;

- **supporting enterprises in taking external marketing measures**, by encouraging Latvian enterprises to participate in international exhibitions using national stands. 26 national stands were organised in 2017 with participation of 200 enterprises (stands were organised in Germany, France, UAE, Japan, United Kingdom, Italy, China, United States, Sweden and Norway). In view of big interests of enterprises to participation in national stands on different markets, in 2017, in addition to large stands with a special design solution, small national stands were also organised, where standard stand structures are used. 93 enterprises participated in these stands (in Poland, Belarus, United Kingdom, Finland, China, Denmark, Ukraine and India);
- **direct export support services for enterprises** provided by IDAL. These services include general

consultations, information seminars on external markets and organization of external trade matters, as well as on sectoral market review, research, and information report preparation. Business forums, trade missions and individual business visits with potential cooperation partners abroad are being organized;

- **short-term export loan guarantees** are available to merchants in order to promote export (*see Box 3.5 above*);
- The aim of promoting international competitiveness is to build the sectoral competitiveness on the international level by supporting businesses and conquering foreign markets, ensuring operation of Latvian Foreign Economic Representative Offices, and developing Latvia's international competitiveness in the priority sectors of tourism. By 31 December 2017, 1617 agreements on receiving aid have been concluded and 2516 payment requests for the total aid amount (grants) of 10.9 million EUR have been paid.

Strengthening the capacity of municipalities in attracting companies and investments

/responsible institution – MEPRD, MT, ME/

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

- The municipal financial system has been improved and rights of municipalities to handle their property have been expanded. On 2 July 2015, the *Law on Municipal Financial Equalisation* entered into force, which enables calculations using a simple formula, therefore municipalities are evaluated in the same way, the assessed income of municipalities is distributed more equally. Amendments have been made to CM Regulations providing more opportunities to local governments to be flexible in setting the rent for built-up land plots in case of renting the land for construction of industrial object or performing economic activities, by setting specific criteria (conditions) in the binding regulations;
- **access to and quality of services provided by local governments** has been improved by introducing the one-stop-shop principle (*see Chapter 3.2.1*), by reducing the administrative burden on entrepreneurs and residents when using local government services;
- **access to free fast wireless electronic communications in public places** (libraries, research centres, railway stations, ports, airports, public administration and local governmental building, etc.) has been ensured using funding of the Connecting Europe Facility (CEF);
- **transport and environmental infrastructure in local governments** has been improved and developed (*see Chapter 3.2.5*);
- **public business infrastructure of local governments** has been improved. In 2017, the selection of project applications for EU funds (2014-2020) acquisition in the regional development area continued. A support for municipalities will be provided aimed at increasing the private investments, making investments in business development in accordance with specialization of the territory and support in revitalization of degraded territories, as well as aid for increasing the energy efficiency of municipal buildings. Total EU fund financing available for this objective is 350.9 million EUR (ERDF).
- The following results are expected with the help of these investments: at least 4 985 new work places created in private sector and investments attracted in the amount of at least 303.9 million EUR, and at least 202 merchants in private sector supported, at least 563 hectares degraded territory renewed. With support of EU funds 75 municipalities are planning to implement public infrastructure development projects for business support. By 1 February 2018, these municipalities have submitted for evaluation 130 projects with the ERDF financing of 174.6 million EUR, which amounts to 57% of total planned ERDF funding (agreements on implementation of 65 projects have been concluded with the ERDF financing of 76.8 million EUR). By 1 February 2018 the investment projects created 544 new work places and attracted 34.6 million EUR in private non-financial investments. Meanwhile, in energy efficiency area, the primary energy annual consumption reduction in municipal buildings of

- 20.54 GWh/per year and reduction of greenhouse gas emissions of at least equivalent to 5 180 CO₂ annually will be achieved (*also see Chapter 3.6.2*);
- Measures have been taken for the development of **business and innovation system in the Latgale Region**. Using the support provided by Norway a pilot project for establishment of the business and innovation system in the Latgale planning region (hereinafter – LPR) had been implemented by

April 2017. Functioning of a Latgale business centre had been ensured in LPR within the framework of the activity. With the help of the Norwegian partner, *Ministry of Municipalities and Modernization of Norway*, the *Report on the Norwegian best practice on development of measures for remote and sparsely populated areas* has been prepared in 2017.

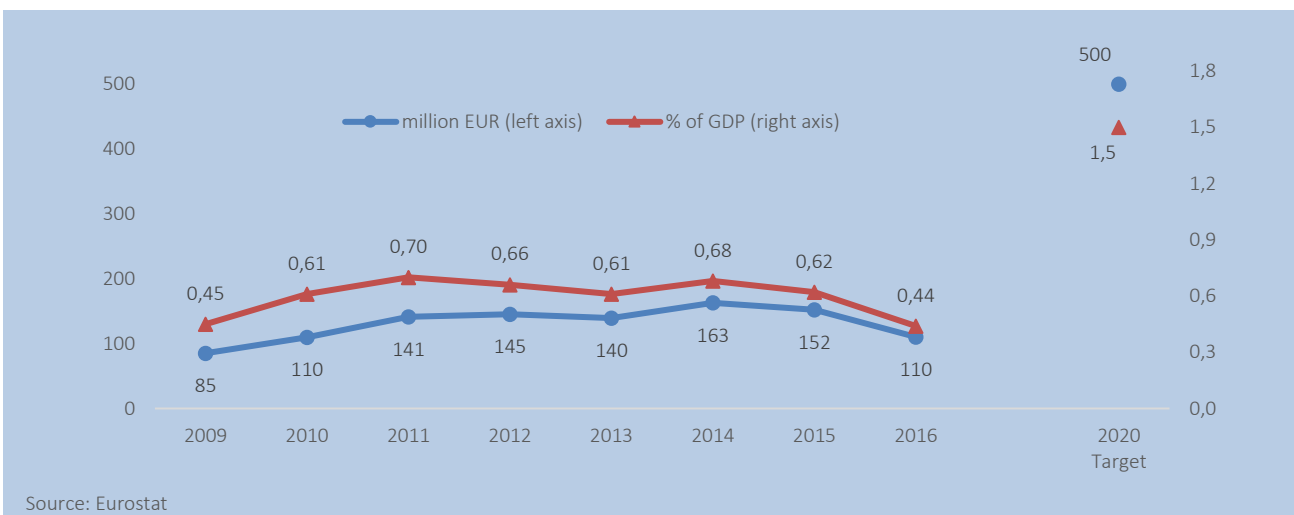
3.2.3. Innovation, Research and Development

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

The *European Innovation Scoreboard 2017* assessment places Latvia by one position up in comparison with the previous year, i.e., 24th among 28 EU Member

States included in the research, allowing it to keep its position in the *moderate investors* group, where performance in the area of innovations is 50-90% of EU average level. However, the achievement of the target for investments in R&D is still considered a big challenge.

Figure 3.1
Target for investments in R&D
Total funding to R&D



Total expenses of Latvia on R&D in 2016 amounted to 110.5 million EUR or 0.44% of GDP. This amount is not only lower than planned in 2016 (1.1%), but also lower than in the previous years on average. The biggest fall (by 55%) is observed in the total foreign R&D funding, mainly – foreign funding in business sector. This was largely due to a *transition period* between two EU fund programming periods when science support activities of programming period 2007-2013 had been completed, while implementation of support measures for science, R&D and innovations under the new programming period (2014-2020) had not been commenced yet. The structure and dynamics of R&D funding evidences that the volume of R&D investments in Latvia seriously depends on investments from EU funds, while

investments of entrepreneurs in R&D have been low for a long time.

The volume of investments in R&D is insufficient and it is still lower than NRP target. Thus, for instance, in order for Latvian R&D expenditure to constitute 1.5% of GDP, in 2020, it should be equal to 462.6 million EUR, where 50% should be public funding. Institutional funding in Latvian science – science base funding – is not being paid out in 100% of the amount calculated in accordance with the legislative framework²⁸. In 2017, only 52% of the calculated science base funding is paid with at least 21.4 million EUR missing. Moreover, it should be taken into account that the number of persons employed in R&D has significantly reduced as a result of deficit in R&D

²⁸ CM Regulations No. 1316 of 12 November 2013, *Procedure for Calculation and Allocation of Base Funding for Scientific Institutions*.

funding. In 2016, it reduced by 8.8% compared to 2015.

Latvia has fallen to the last place among EU countries in R&D funding to GDP. Low investments in R&D will have a negative effect on Latvian growth in the long term, limiting possibilities of developing knowledge-intensive industries and reaching higher productivity.

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

- The business structure of Latvia is mostly made up of micro-enterprises, small and medium-sized enterprises with no capacity to invest in R&D and a small share of high technology enterprises;
- Insufficient long-term state financing of science;
- A small number of employed in science and research, technology development and innovation and insufficient replacement of personnel engaged in these areas;
- Lack of balance between financial investments in infrastructure and investments in maintenance and development of human resources;
- Insufficient cooperation and coordination between the science, technology development and innovation institutions, higher education, public administration, and manufacturing sectors;
- Underdeveloped international cooperation;
- Weak potential of commercialisation of inventions produced as a result of R&D process.

The *Guidelines on Research, Technology Development, and Innovation for 2014–2020* (hereinafter – the GRTDI)²⁹ set the following **main GRTDI sectoral policy directions**:

- Raising the sectoral competitiveness;
- Connecting the sector with societal and economical needs;
- Efficient management of the sector;
- Raising awareness in the society and promoting science and innovation.

At the same time, the *Smart Specialisation Strategy* (hereinafter – *RIS3 strategy*), a part of the GRTDI, is being implemented – a national economy development strategy defining the economy transformation directions, growth priorities, and smart specialisation fields, and prescribing a well-

determined focus on research and innovation resources in the fields of knowledge where the state has a relative advantage or a basis to create such advantage. The key direction is economic transformation to knowledge- and technology-driven growth and catching up towards the development of knowledge-based skills. **The *RIS3 strategy* also identifies the following specialisation areas:**

- Knowledge-based bio-economy;
- Biomedicine, medical appliances, bio-pharmacy and bio-technology;
- Smart materials, technology and engineering systems;
- Smart energy;
- ICT.

The EC *Horizon 2020 Policy Support Facility evaluation* of Latvian research funding started in 2017. Main recommendations:

- R&D funding should increase, especially from the state budget;
- Higher education governance should be further modernised (for this purpose investments in within the scope of measure *To ensure better governance in higher education institutions* were made, also see *Chapter 3.4.4*);
- Investment should be increased also in the business sector, including in state capital enterprises (MES proposes state research programmes of sectoral ministries, in 2018 a ME state research programme in the energy field will start);
- Competitively-won research R&D funding should increase, in order to meet national needs (it will be implemented starting from 2018 with new conditions for funding of fundamental and applies research projects, as well as state research programmes);
- The structure and governance of state organisations should be streamlined to meet national needs (for instance, considering the possibility to create a one-stop-shop agency for administration of research projects, which is evaluated within the scope of the *Public Administration Reform Plan*).

The main policy directions and measures:

Raising the competitiveness of GRTDI sector

/responsible institution – MES/

The main tasks of this policy are the following:

- 1) To create a national post-doctoral research support system;
- 2) To support practical research for solving the sectoral or societal problems;
- 3) To support implementation of individual post-doctoral R&D projects, including supporting post-doctoral work places in undertakings;

²⁹ Adopted at the end of 2013.

- 4) To ensure granting the science base funding in the amount of 100% and gradually increasing;
- 5) To implement the unity of pedagogical and research work;
- 6) To introduce research excellence-oriented criteria in allocation of base funding and project funding;
- 7) To support participation of Latvian scientific institutions in EU and other international scientific cooperation organizations, etc.

Ability to Attract External Funding by Investing in Human Resources and Infrastructure will be used for implementation of policy tasks No. 1, 2, 3, and 7. A new approach in assessment of scientific projects is introduced, including the adopted EU research and innovation programme *Horizon 2020* assessment approach and criteria for evaluation of the scientific quality of projects, including invitation of external experts registered in an internationally recognized data base of science experts for evaluation of the scientific excellence of scientific projects.

Funding from the EU funds (2014-2020) specific objective *To Increase the Research and Innovative Capacity of Latvian Scientific Institutions and the*

Measures to raise the competitiveness of GRTDI sector are reflected in Box 3.6.

Box 3.6.

Measures to raise the competitiveness of GRTDI sector

In 2017, work on implementation of the following EU fund (2014-2020) measures continued:

- **Support for post-doctoral research.** The evaluation of applications submitted for the 1st round of selection of post-doctoral research applications was ensured, and 124 contracts for the total eligible funding of 16.5 million EUR, including ERDF funding of 14.01 million EUR, were concluded. On 5 February 2018 the 2nd selection competition of post-doctoral research applications was announced for the total eligible funding of 15.22 million EUR. In total approximately 450 post-doctoral students shall receive aid within this programme, and competition shall be arranged annually (the planned total funding is 64 million EUR, including ERDF funding 54.4 million EUR);
- **Support for research aimed at practical application.** The project applications tender will be organised in several rounds. Within the scope of the first round in 2017, 74 project implementation contracts for the total eligible funding of 44.22 million EUR, including ERDF funding of 36.78 million EUR, were concluded. The second round will be announced in the 2nd quarter of 2018 for the total eligible funding of 25 million EUR, including ERDF funding of 19.23 million EUR. Both research staff employed in institutions and students and persons qualifying for a scientific degree will be involved in implementation of research aimed at practical application, in order to promote involvement of young researchers in the field of research (planned total funding is 76.5 million EUR, incl. ERDF funding of 65 million EUR).

A new *Procedure for evaluation and administration of funding of fundamental and applied research projects* was developed, setting scientific excellence as the main project evaluation criterion. The purpose of the programme is to create new knowledge in all science sectors and development of human capital in fields of science. Scientific expertise of all projects will be ensured by foreign experts.

In 2017, implementation of 11 research projects started in 2015 under European Economic Area financial instrument and Norwegian financial instrument 2009-2014 period activity *Research* was completed. Its goal was to promote a development of research-based knowledge in Latvia through Latvian and Norwegian cooperation in the areas of fundamental and applied research. More than 150 scientists from 35 research institutions in both Latvia and Norway cooperate under this activity. In total 41 internationally reviewed scientific publications were published, as well as 13 publications were prepared jointly. 56 doctoral students were involved in course of project implementation.

New implementing Regulations for the implementation of state research programmes will be prepared in 2018. The criterion of scientific quality will have more weight in project evaluation and an independent international examination will be introduced instead of local experts, attracting foreign experts from the EU expert database, taking over the best practices in evaluation of *Horizon 2020* projects.

In order to foster Latvia's participation in implementation of projects and strategic forum infrastructure of the European research space and European research infrastructure, thereby promoting the **international cooperation in the areas of research and technology**:

- On 6 June 2017 implementing regulations for the EU funds measure *Support to International Cooperation Projects in Research and Technologies* were approved. The total project funding is 32.6 million EUR, incl. ERDF funding of 27.7 million EUR. The implementation of complementary measures of national and institutional level is planned within the measure for the development of international cooperation. In August-September 2017 the selection of project applications was announced, but in the 1st quarter of 2018 project applications are evaluated and project implementation contracts/agreements are concluded;
- Development strategies of scientific institutions were evaluated and harmonised within the scope of the measure *Development of R&D Infrastructure in Smart Specialisation Fields and Strengthening the Institutional Capacity of Scientific Institutions* in 2017, which was a precondition for investments from EU funds. From September 2017 to January 2018, 14 project implementation contracts were concluded with scientific institutions for the total eligible funding of 129.12 million EUR, including public funding of 120.25 million EUR (including ERDF funding of EUR 102.96 million EUR and state budget funding of 17.29 million EUR). The implementation of the projects is planned until December 2021;
- On 14 December 2017 cooperation memorandums on Norway and European Economic Area financial instruments for 2014-2021 were signed. A subprogramme *Baltic Research Programmes* is envisaged in the *Research and Education* programme, which aims to promote the Baltic and Nordic research space. Scientific institutions from at least two Baltic countries and donor countries are expected to participate in the projects. It is planned that in 2018 a programme concept document and a relevant regulation will be developed to enable the announcement of the project contest in Latvia in 2019 (in Estonia the contest will be announced in autumn 2018, where Latvian scientific institutions will be able to participate as well).

Implementing regulations for EU funds measure *Innovation Grants for Students* were developed in 2017 in order to foster the development of leadership, innovation and business skills in students, develop innovative ideas, as well as promote cooperation between higher education institutions and merchants. The total indicative funding for the implementation of the measure is 38.5 million EUR, incl. ERDF funding of 28.9 million EUR. Project implementation contracts will be concluded in the 4th quarter of 2018.

Connecting the GRTDI sector with societal and economical needs

/responsible institutions – ME, MES/

The main tasks of this policy are the following:

- 1) To prioritize the doctoral and post-doctoral research related to solving scientific or technological issues identified by the industry;
- 2) To continue implementation of the National Research Programme;
- 3) To continue development of competence centres as a long-term cooperation platform for research institutions and merchants;
- 4) To continue development of Technology Transfer Contact Points established with the higher education institutions for transfer of technologies and support for innovations; to introduce a Single Technology Transfer Platform;

- 5) To promote cooperation of higher education institutions with enterprises and cooperation of enterprises with enterprises from other countries in creation and commercialisation of different innovative products.

Funding from the EU fund specific objectives (2014-2020) *To Increase the Research and Innovative Capacity of Latvian Scientific Institutions and the Ability to Attract External Funding by Investing in Human Resources and Infrastructure* and *To Increase the Private Sector Investments in R&D* will be used for implementation of tasks No. 1, 3, 4 and 5.

The measures for connecting the GRTDI sector with societal and economical needs are reflected in Box 3.7.

Box 3.7.

Measures for connecting the GRTDI sector with societal and economical needs

As a result of implementation of EU funds (2014-2020) specific objective *To Increase the Research and Innovative Capacity of Latvian Scientific Institutions and the Ability to Attract External Funding by Investing in Human Resources and Infrastructure*, by 2023, there will be 16 million EUR attracted in private investments, and 450 merchants will cooperate with research institutions.

In order to facilitate a long-term cooperation between undertakings and scientists, a measure *Support for Development of New Products and Technologies within the Competence Centres* is being implemented. The aim of this measure is raising the competitiveness of merchants by stimulating cooperation between research and industry sectors when implementing industrial research or new product and technology development projects. Total EU fund financing available in this programme by the end of 2021 is 64.3 million EUR. By the end of 2023 the programme is expected to support 100 merchants, who receive grants for the development and marketing of new products and technologies, including private sector funding into R&D of at least 12.8 million EUR. As at 31 December 2017, implementation of 146 projects has started in eight competence centres. By 31 December 2017, 39 studies have completed and the products created as a result of them are manufactured or are expected to be manufactured in the nearest future. 132 enterprises received support to introduce new products and technologies.

Practical *implementation of the technology transfer programme* started in 2017. The following support is available within this programme:

- **for facilitation and coordination of technology transfer** (establishment of a single technology transfer centre, as well as support for commercialization and patenting of research results achieved by research organizations). Thereby, the programme will constitute a logical supplement to those EU fund programmes providing support for conducting research, ensuring support and providing consultations for commercialization of research results achieved by research organizations;
- **for innovation vouchers** (support to merchants in attraction of external services for new or substantially improved product of technology development by means of technology transfer);
- **to attract highly qualified employees** (for conducting specific research activities, solving technological problems, or developing new or significantly improved products or technologies);
- **support measures for start-ups** (support to participation of start-ups in international exhibitions, contact stocks, investor attraction activities, as well as opening of representation offices of start-up in the United States, in the Silicon Valley).

Total EU funds funding available in the *Technology transfer programme* is 40.6 million EUR. 40 scientific idea commercialisation projects for the development of a feasibility study and a commercialisation strategy and applications of 10 merchants for granting of innovation voucher support had been approved by the end of 2017 within the *Technology transfer programme*. 85 commercialisable project ideas were presented at pitch sessions within the programme.

Efficient management of GRTDI sector

/responsible institution – MES/

The main tasks of this policy are the following:

- 1) To increase efficiency of R&D investments;
- 2) To ensure increase in state-budget funding to sectors of science, technology, and innovations, and allocate science base funding in line with these settings;

- 3) To introduce policy implementation monitoring and impact assessment system.

The first *RIS3 strategy monitoring report* was prepared in 2017, where it was concluded that significant work on the improvement of RIS3 ecosystem was carried out from 2014 to 2017. Structural reforms have been implemented – scientific institutes

have been consolidated from 40 to 22, science base funding allocation conditions have been changed funding only internationally competitive scientific institutions and introducing a funding formula, which stimulates research quality and attraction of external funding, implementing regulations for investments of EU funds and state budget in science and innovations

have been developed. At the same time, it was concluded that the main indicator characterising knowledge and technology intensity – investments in R&D – has not grown, including the volume of state budget investments was not provided according to the plan.

Supporting the development of innovative enterprises

/responsible institutions – ME, MF/

Funding from EU funds (2014-2020) specific objective *To Increase Private Sector Investments in R&D and To Promote Introduction of Innovations in Merchants* measures will be used for implementation of policy direction task.

The following measures are being implemented in the EU funds period 2014-2020 in order to boost development of innovative merchants:

- *Support in introduction of new products* – the goal is raising the productivity and competitiveness of merchants by development of new products and technologies, and putting them into production, as well as increasing the private sector investment into R&D and innovation. Aid shall be granted for production or acquisition of experimental technologies, their installation and testing in the actual industry environment. The total available funding is 60 million EUR. 17 projects for the ERDF funding of 25.80 million EUR were approved in the first round of selection of project applications. From 21 November 2017 to 12 April 2018 the second round of selection of project applications was announced for the total funding of 34.2 million EUR;
- *Innovation Motivation Programme* – the goal is to inform and encourage (including giving awards) as large part of society as possible to start business and introduce innovations. The total funding available in the programme is 5.7 million EUR. A number of measures for motivation of starters of innovative business and existing innovative companies were implemented within the programme in 2017, and programmes focusing on development of business and innovations were implemented;
- Additionally, in order to facilitate the development of innovative merchants, support measures for training of employees have been developed (*see Chapter 3.4.5*);
- Implementation of the Norwegian financial instrument programme, *Green Industry Innovation* completed in 2017. Overall, by the end of 2017, within the *Green Technologies Incubator* established under this programme, 153 teams received pre-incubation services for testing the viability of environmental-friendly and innovative business ideas. At the same time, the *Green Technologies Incubator* ensured support for commercialization of innovative products and

technologies within the scope of a small-scale grant scheme, where 24 project teams were supported. 13 project implementers putting into production new and environmentally-friendly equipment received support in an open competition within the said activity. In 2017 activities were started in planning the new EEA/Norwegian financial instruments period. On 14 December 2017 a Memorandum of Understanding was signed between Latvia and Norway envisaging that 12.5 million EUR would be available for innovative, environmentally friendly business activities within the scope of the programme *Business Development, Innovation and SMEs*, which amounts to 14.7 million EUR together with state budget co-funding;

- Development of **start-ups** in Latvia –the goal is to foster development of innovative commercial activity and research in private sector, as well as commercialization of research. On 1 January 2017, the *Law On Aid for the Activities of Start-up Companies* entered into force. This law is intended for start-up – capital companies possessing a high growth potential and whose main economic activity is related to design, production of development of scalable business models and innovative products. This law provides for aid programme for making the fixed payment with an additional opportunity to receive PIT and CIT relief, as well as for aid programme allowing to attract highly-qualified employees with additional opportunity to apply the CIT relief. To extend the scope of the law increasing the range of beneficiaries of state aid and adapting the law to industry practices, on 29 March 2017 Saeima approve amendments to the law in the final reading. At the same time, start-ups have access to venture capital funding of 15 million EUR in acceleration funds and 60 million EUR in seed and growth risk capital funds.

In 2017, within the programme *Support for Improvement of the Technology Transfer System*, start-ups were provided with the possibility to raise funding for the attraction of highly-qualified employees with maximum support intensity of 45%. In 2018, the range of beneficiaries will broaden to include small and medium-sized enterprises, which will have the possibility to raise funding for the attraction of such qualified labour force, which contributes to the development of new products or technologies.

Raising awareness in the society and promoting science and innovation

/responsible institution – MES/

The goal is popularization of science and innovation, as well as sectoral achievements that might have a

positive effect on making science and technology development attractive for talented youths.

Starting from 2017, agreements with scientific institutions, including higher education institutions, include a duty to create a demand for science and innovation using science base funding.

In 2017, preparations from the *World Congress of Latvian Scientists* started, which will be held on 18-21 June 2018. The purpose of the congress is to bring together scientists from Latvia and scientists of Latvian origin and their friends to discuss the

development of Latvia in the next one or two hundred years. 350-500 world Latvian scientists and their cooperation partners are expected to participate in it.

From 2018 to 2023 it is planned to implement an integrated campaign to popularise science, which will foster the awareness of the society about the importance of science in promotion of welfare and fostering competitiveness of national economy.

3.2.4. Information and Communication Technologies

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

In 2017, 78.5% of Latvian population used internet on a regular basis (at least once a week). There were 77% of households with broadband access in Latvia in 2017, which is two percentage points higher than in 2016. Whereas, 57% of the population use mobile internet, which is by 9 percentage points more than in 2016. Communications of 69% of the population with public and municipal authorities in 2017 were electronic (46% in the EU) and 39% of the population completed online forms (30% in the EU).

According to the EC Digital Economy and Society Index data for 2017 about Latvia, 93% of Latvian households have access to fixed broadband coverage, and 61% of households use fixed broadband connections. The number of high-speed broadband subscribers considerably exceeds the EU average. These are 62% of all connections in Latvia, and only

37% on average in the EU. The number of mobile broadband users per 100 inhabitants increased.

The *Guidelines for Development of Information Society for 2014–2020*³⁰ (hereinafter — the GDIS) define the priorities of the ICT area for the programming period 2014–2020. The GDIS are based on the objectives set in the flagship initiative *Digital Agenda for Europe* of the *Europe 2020* strategy. A *GDIS interim evaluation report* was prepared in 2017.

The *Policy Plan for the Electronic Communications Sector for 2018-2020* was approved in 2018 setting main tasks to be performed in two action lines: 1) to foster provision of qualitative and end user oriented services and to ensure a stable investment environment; 2) to create conditions for the use of innovative technologies. The tasks defined meets EU priorities in the area of electronic communications, which are defined in the EC *Communication Connectivity for a Competitive Digital Single Market - Towards a European Gigabit Society* of 14 September 2016. The measures included in the plan, for example, development of a roadmap for the Latvian 5G mobile communications network, will make a contribution to the fulfilment of tasks, which should be performed by EU Member States by 2025.

The main policy directions and measures:

Infrastructure development

/responsible institution – MT/

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

The broadband network is being developed based on the EU recommendations and in those geographical areas where there is no efficient competition and where no next generation networks would be established in the nearest future without the public support. By the end of 2020, in the second stage of the state support programme *Next Generation Networks in Rural Territories* the total length of optical cable lines built will increase by approximately 2200 km and the

number of optical network access points will increase by at least 220 points. The created optical access points offer the possibility to at least five electronic communication merchants to create “last mile” connections to provide broadband internet access services to end users on equal, non-discriminating conditions. In 2017, procurements were organised for the implementation of the project and they continue in 2018. Optical network infrastructure construction works are planned to be started in spring 2018.

³⁰ Adopted by CM in October 2013.

Ensuring access to digital content and e-services

/responsible institution – MEPRD, MC, MH/

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

Within the EU funds programming period 2014-2020, the total EU funds financing for implementation of ICT projects is 128.8 million EUR. The said EU fund financing shall be diverted to measures improving and developing the public administration data exchange, data publishing, and maintenance infrastructure, data accessibility and possibilities to use them, as well as improving public administration processes (including measures reducing the administrative burden and increasing the efficiency of public administration organization process). Within the project digitalization of cultural heritage and adjustment of services for cooperation in the European Single Market will be supported.

In 2017, within EU funds programming period 2014-2020, descriptions of 40 public administration ICT development projects were prepared and coordinated, including them in the single ICT architecture (of which 39 project descriptions were approved by CM in 2017). Implementation of 14 ICT development projects was launched in 2017 for the total amount of 47.4 million EUR, the implementation of other 26 projects is planned for 2018-2019.

In 2017, a CM decision on the implementation of 15 second round ICT projects was adopted, within the scope of which investments from EU funds will be diverted to the modernisation of the Cadastral Information System, creation of technological solution for multichannel delivery of public services to provide services of the State Social Insurance Agency and the creation of an external trade statistical data processing system, as well as further development of the Construction Information System, Tax Information Systems, etc, is planned. The process of coordination of these projects is planned for 2018.

In 2017, CM approved *Regulations for Public Administration E-Services*, which lay down the procedure of electronicisation of public government services and ensuring the availability of e-services, and CM Regulations *Procedure of Registration, Quality Control and Provision of Government Services*. In order to introduce a proactive approach for provision of services in ensuring public administration services, the development of a high-level long-term development concept for portal *Latvija.lv* was launched in 2017.

In 2017, the Latvian language integration project in the digital environment continued involving the aspects of machine-translation tools, translation memory development and storage technologies, as well as practical application. Automated translation of

public administration and local government e-service descriptions, home pages, and other internet resources, into another language, using technology tools, clearly expands the range of service recipients, as well as contributes to elimination of linguistic barriers in the single digital market. In 2017, the implementation of the ERDF project *Machine Translations* was launched, as a result of which the quality of translation will be improved and adapted to two additional sectors – culture and law. Recognition and speech synthesis for Latvian will be introduced within the project Hugo.lv. Public access functionality will be provided by the end of 2018. In the middle of 2018 there are also plans to launch *Machine Translation Round 2*, as a result of which a platform of virtual assistants of public administration will be created, which provides information services in the form of an innovative natural language dialogue, ensuring users friendly use in online communication environments.

In 2017, the National Library of Latvia in cooperation with the Culture Information Systems Centre, the National Archives of Latvia and the State Inspection of Protection of Culture Monuments started the implementation of ERDF project *Digitalisation of Cultural Heritage Content (Round 1)*. It is planned to develop single open information system platform stage one and its components, to create cultural heritage digitalisation competence centres, etc. The matters of copyright, long-term preservation of digital cultural heritage and creation and reused of open data in the cultural sectors are resolved within the scope of the project.

In 2017, *www.eveseliba.gov.lv* started to operate on full scale. Using the EU funds programming period 2014-2020 financing, the development of e-health system and modernization of sectoral information systems (registers) continues by integrating them into a single e-health environment, while simultaneously optimizing them (*see also Section 3.5.2*).

In 2017, the number of those project with participation of Latvian partners continued, the development of which is ensured with support of Connecting Europe Facility (hereinafter referred to as CEF). Among them projects for introduction of digital invoices, improvement of machine translation tools, ensuring functioning and implementation of activities of the Latvian Safer Internet Centre, projects in the area of welfare, culture and law and other areas are implemented.

In 2017, the *Data-Based Society Initiative Action Plan* was approved at the meeting of the Information Society Council, which includes specific activities for democratisation of data, involvement of the society in decision-making and support to the ICT sector

focusing on innovative intersectoral products and services.

Promotion of ICT security

/responsible institutions – MD, MEPRD/

The *Latvian Strategy for Cyber Security for 2014-2018* distinguishes **five priority action lines**:

- Cyber security management and resources;
- Legality in cyber space and reduction of cyber crimes;
- Public awareness, education and research;
- Readiness and capacity to act in crisis situations;
- International cooperation.

A Plan of Action for the implementation of the priority directions has been approved by the CM.

In 2017, penetration tests were carried out in state ICT solutions and infrastructure, and early warning system network was expanded, as well as both technical and leadership level cyber-security training was carried out, measures for education of the society in the area of cyber security were taken. The amendments to the *Law on Information Technology Security* from 19 July 2017 enable information technology security incidents prevention institutions to request the host of an .lv domain to disable .lv domain name in case of information technology security incidents, if the security incident cannot be eliminated in other way. Also, in 2017 CM regulations were drafted and approved which set safety requirements to qualified and qualified increased security electronic identification services.

In order to promote wider use of a eID card, CM supported the idea to determine eID as a mandatory and primary means of personal identification starting from 2023 envisaging a transition period from 2019 to 2022.

Developing e-skills

/responsible institutions – MEPRD, MES/

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

The e-skills development policy should be seen in the light of the GDIS, where ICT education and e-skills have been identified as one of seven action directions in the GDIS. Activities in the e-skills area should

In 2017, the application of provisions of *Regulation (EU) No.910/2014 of the European Parliament and the Council*³¹ (hereinafter referred to as eIDAS Regulation) started evaluating the compliance of qualified trust service providers and the services provide by them with the requirements of the Regulation.

With support of the CEF co-funded project *eIDAS CEF Project Latvia*, e-services will be adapted to the requirements of the eIDAS Regulation, using the unified login solution provided by the State Regional Development Agency and the national eIDAS node, ensuring the availability of these services to the persons, who use electronic identification solutions notified by other EU Member States. With CEF support, the *Latvian Safer Internet Centre* implements project Safer Internet educating and informing the society about safety on children on the internet and ensuring the possibility to report discovered violations on the internet.

During the 2018, the priority will be continuation and implementation of initiatives launched during the previous year, while in parallel, work will be connected to the development of the *Latvian Cyber Security Strategy*, as well as the work started in 2017 on transposition of *Regulation (EU) No.2016/1148 of the European Parliament and the Council*³² (NIS Directive) in Latvian legislative acts and its implementation.

encourage both employees of small and medium-sized enterprises and citizens to learn e-skills.

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

³¹ Regulation (EU) No 910/2014 of the European Parliament and of the Council on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC

³² Regulation (EU) No.2016/1148 of the European Parliament and the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union.

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

Promotion of the ICT education and e-skills learning will result in improvements of e-commerce, thus enterprise turnover from internet sales will reach 15% in 2020 and the public administration efficiency (GRICS indicator³³) will increase to 85 % in 2020.

From 2017 to 2019, a study *Integrated Public Service Provision and Monitoring of End-User Needs* will be carried out with the purpose to establish a single, integrated Latvian e-administration efficiency research.

In September-October 2017, during the campaign *Day without Queues*, more than 3400 client customer service points in both state and municipal authorities all over Latvia were consulting residents and entrepreneurs on the use of e-services. During the campaign 8500 consultations on e-services were provided.

Since 2010, the annual information campaign *European e-skills week* is being held in Latvia. Overall, during the e-skills week of 2017 the population and entrepreneurs were able to participate in 638 on-site activities organised by 150 partners and involving over 22 000 of the Latvian population.

Since 2013, MEPRD has been participating in the international ICT exhibition *Riga COMM*, which was

attended by 4567 persons in 2017. At the stand of public administration institutions *E-Possibilities of the State* one can familiarise with offered e-services and more convenient usage possibilities.

In order to increase the share of the population and entrepreneurs, who use e-services, e-address, e-documents and e-tools for cooperation with state and local government institutions and submit forms electronically, from March 2018 to 30 June 2020 a large-scale *Campaign for promotion of use of ICT usage possibilities by the Society* is being implemented. There are plans to teach 6000 “digital agents”, who will be able to provide the public with consultations on the use of the digital environment.

The *computer science programme* content for forms 1-9 will be implemented in all the general education schools on the state scale starting from the academic year 2019/2020.

The GDIS envisages the following measures for the promotion of e-skills of teachers in general education schools and heads of education institutions:

- Raising the professional qualification of the teachers, including entrepreneurial and leadership skills, creativity, ICT and language skills, allocating for this purpose an indicative financing of 1.8 million EUR;
- Improvement of practical skills of teachers involved in vocational education and practice supervisors (incl. ICT skills, allocating for this purpose 5 million EUR).

3.2.5. Transport and Environmental Infrastructure

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

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

An assessment of both state and municipal roads and streets shows that the overall technical condition of roads is insufficient and does not correspond to the needs of economic, safe, convenient, and environmentally friendly traffic. Approximately 43% of the roads with asphalt surface are in a bad or very bad condition. Approximately 42% of gravel roads are in a bad condition.

The condition of **railway infrastructure** is good. There are issues of a technical nature in several railway hubs and there is an increased focus on solving these. During the past 15 years, considerable investments have been made in the development of infrastructure. SJSK Latvijas dzelzceļš, with co-financing of the CF, has implemented and is implementing several infrastructure development projects, incl. projects for modernisation of railways, as well as train running administration information system implementation project. The project for electrification of several railways is an essential factor in achieving considerable energy efficiency and reducing a significant amount of harmful emissions; this is also the most significant challenge in technical development of the current transit corridor.

The development of *Rail Baltica*, a European standard gauge railway, will be of utmost importance in the upcoming decade. In 2017, the Intergovernmental agreement on the creation of the *Rail Baltica* railway connection was signed and ratified, an international designing and construction tender *Development of a*

³³ Governance Research Indicator Country Snapshot.

construction project and construction works for complex build at Rail Baltica Riga railway bridge, embankment design and Riga Central Passenger Terminal, an application for the third call for applications of the Innovation and Networks Executive Agency was prepared and submitted, as well as study and research of cultural and historical values in the right of way of the Latvian section of Rail Baltica track was launched.

Development of **aviation sector** is successful providing a crucial precondition for economic growth. Infrastructure improvements from previous years allowed the Riga Airport to successfully serve growing numbers of customers in 2017 – 6.1 million passengers, which is by 12.9% more than in 2016, thus strengthening positions of Riga as the regional traffic centre.

The activities performed by Liepāja Airport allows it to receive a certificate of aerodrome and aerodrome operator envisaging operation of the aerodrome during the entire year. This allowed to continue financially successful regular flights on route Liepāja – Riga – Liepāja, which were started by JSC Air Baltic

The main policy directions and measures:

Ensuring a high quality and competitive infrastructure of logistics and transit services

/responsible institution – MT/

The measure aims to increase the competitiveness of logistics services and ensure carrying capacity of EU's external borders in accordance with potential freight and passenger traffic flow.

In order to ensure sustainable transport infrastructure and transport and logistics services of good quality, CF and ERDF support measures are combined in the EU funds 2014-2020 programming period promoting sustainability and achievement of effective results. CF and ERDF support for the transport sector is planned in the way to foster ensuring of qualitative transport infrastructure (incl. roads, railway, TEN-T link to cities, Riga Airport, large ports).

Within EU fund programming period 2014-2020, funding from EU funds is available for the improvement of transport infrastructure within the scope of 13 specific objectives (SO) and measures. Funding of these SOs/measures amounts to 1.275 billion EUR (29% of the total EU funds support available to Latvia). Areas of support:

- Sustainable transportation system (main motorways, ports, railway (incl. electrification), Riga International Airport, TEN-T infrastructure of Riga and centres of national importance, regional roads); CF co-funding of 924.2 million EUR; ERDF co-funding 235.4 million EUR;

Corporation in summer 2017 on commercial basis also in the winter season, thus improving the accessibility of the region and making a contribution to economic development of the region.

The development aim of the **environmental protection infrastructure** is to ensure quality water management services for the Latvian population by improving and developing water management, to prevent the risk of threats caused by floods and erosion in the cities, to reduce the risk of flood in rural territories, thus preventing flooding of strategically important infrastructure objects and reducing the number of flooded territories, to ensure the reuse and regeneration of waste, as well as to continue separate waste collection and sorting. It is also crucial to promote the preservation of biological diversity by creating an anthropogenic load reducing infrastructure in *Nature 2000* territories, to ensure completion of rehabilitation of areas historically contaminated with oil products, as well as improve environmental monitoring infrastructure and societal participation in environment management.

- Promotion of low carbon emissions in transport (network of electrical chargers for cars; tram infrastructure in Riga, Liepāja and Daugavpils; passenger buses in other development centres of national importance); ERDF co-funding of 7 million EUR; CF co-funding of 108.5 million EUR.

By the end of 2017 selections of projects applications have started/completed in all 13 SOs/measures. In 2017, the implementation of approved projects was started/continued in the following areas: main motorways, ports, railway, Riga International Airport, TEN-T infrastructure of Riga and centres of national importance, regional roads, network of electrical chargers for cars; tram infrastructure in Riga, Liepāja and Daugavpils; passenger buses in other development centres of national importance.

In 2017, national level coordination of selection of projects financed by the Connecting Europe Facility (hereinafter referred to as CEF) was ensured. In 2017, the European Commission approved 3 projects in the transport sector: in the single European sky priority, in the railway area (continuation of the *Rail Baltica* project) and project *MEGA-E: Metropolitan Greater Areas – Electric*, within the framework of which installation of high-power charging stations within the TEN-T network is envisaged in 13 countries, including Latvia.

In 2017, EU funds programming period 2014-2020 project *Development of a Safe and Environmentally-Friendly Infrastructure in the International Airport Riga* was started.

Improving state regional roads

/responsible institution – MT/

State regional roads are improved with the ERDF co-financing. The total public financing for regional roads in 2015-2017 was 138.2 million EUR, including ES fund resources – 117.5 million EUR, including 2017 – 59.7 million EUR, incl. ES fund financing of 50.7 million EUR.

The length of regional roads reconstructed within the projects financed by the EU funds amounted to 57.8 km in 2017. In 2017, the reconstruction of regional roads connecting international, national and regional level development hubs with TEN-T road network

Improving the environmental infrastructure

/responsible institutions – MEPRD, MA/

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

During the programming period 2014-2020, EU fund investments in environmental protection were continued in the amount of 270.9 million EUR (including 36.8 million EUR for the reduction of flood risks in rural territories). The said funds shall be diverted to development of environmental infrastructure and environment protection, mainly – expanding the sewage network (118.7 million EUR), separate waste collection, processing and regeneration infrastructure development (41.3 million EUR), reducing flood risks in cities (28.9 million EUR), and rural territories (total funding – 36.8 million EUR and state budget funding of 6.5 million EUR), building and reconstruction of infrastructure reducing anthropogenic load in *Natura 2000* territories (3.4 million EUR), biological diversity measures (8.1 million EUR), environment monitoring, improvement of environment control and environment information centre infrastructure (14.1 million EUR), as well as rehabilitation of historically contaminated areas (11.6 million EUR).

In order to develop water management system, in 2016 a project selection for expansion of sewage network was launched. The intention is that after project implementation, the number of actual users will increase by 42 000 residents extending to 48 agglomerations.

In 2018, monitoring of specific support objectives within EU funds programming period 2014-2020, as well as coordination of CEF-financed project selection will be continued.

was continued as a part of EU funds programming period 2014-2020.

During 2018, construction works will be completed in another 58.8 km of state regional roads within the EU fund finances projects. Since the beginning of the period and until the end of 2018, in total 165.2 km of state regional roads will be improved. In 2018, construction works will be commenced in additional 7 road sections with the total length of 69.6 km.

In order to protect 200 000 persons from the risk of flooding, in 2017 an additional project application selection completed for implementation of preventive measures against flood risk threats and coastal erosion in several flooding cities.

In 2017, projects on construction of infrastructure in municipalities in accordance with *Nature 2000* territories nature protection plans will be launched.

A habitat mapping project started in 2017, which identified EU especially protected habitat distribution and quality (mapping of habitats) all over Latvia, and ensured the development of protection plans for nature and species in special areas of conservation. Mapping results will provide with more precise information on condition and quality of nature in Latvia, and will allow to use these data for decision making and the required measures for sustainable management. In 2017, almost one third of the land territory of Latvia was inspected. In 2018 nature protection plans will be developed for 8 protected nature territories³⁴.

At the end of 2017 two projects for the improvement of environmental monitoring, environmental control system and infrastructure of environmental information centres.

In 2017 a selection of projects applications started in administration system development measures. Thus, the separated waste collection system will improve, waste recycling, incl. domestic and biologically degradable waste, as well as waste regeneration with energy recovery units will be created. The

³⁴ 1) nature parks Ragakāpa, Dvietes paliene, Vidzemes akmeņainā jūrmala, Vecumu meži, Aiviekstes paliene and Silene, 2) protected landscape area Nīcgales meži and 3) nature reserve Dūņezers.

investments will result in the increase in waste processing capacity by 172 000 t/per year, waste regeneration with energy recovery capacity increase

by 11 000 t/per year, while volumes of sorted waste will grow.

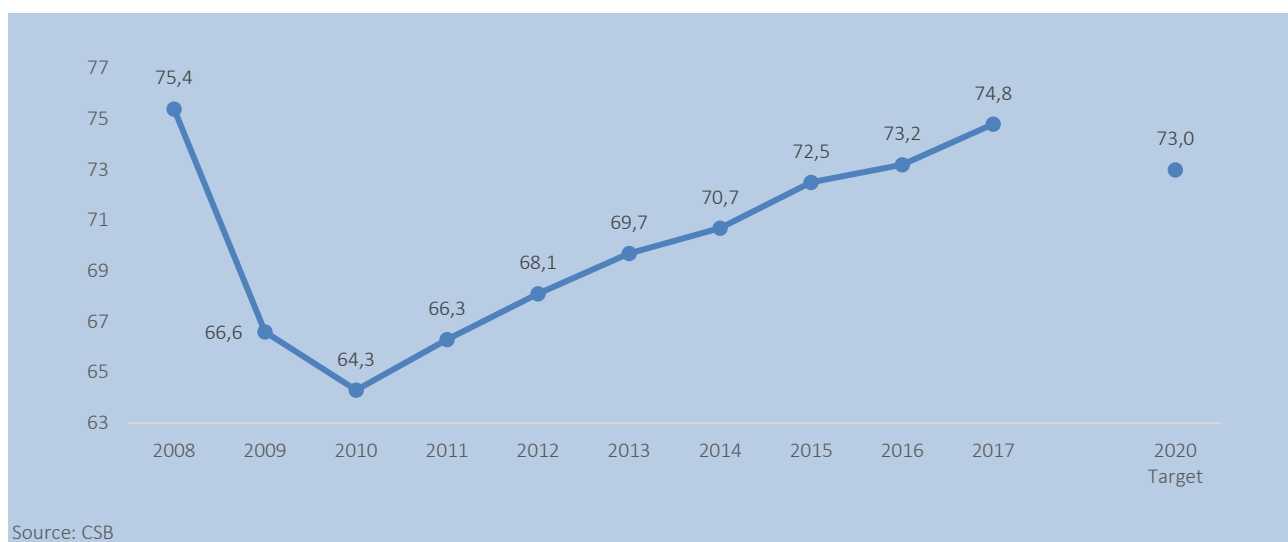
3.3. EMPLOYMENT

A target to reach a 73% employment rate (population aged 20–64) by 2020 has been set in the NRP of Latvia.

The employment target for was reached in 2016. Economic growth is expected to further boost the employment increase, however, the growth rate might

slow down as the growth will be mainly determined by the increase in productivity. The increase in employment rate will be partially affected by the expected decline in the number of working-age population (*see Chapter 3.5.2* for information on demographic challenges).

Figure 3.2
Employment (residents aged 20–64) target
Employment level, %



The main elements of the Latvian employment policy:

- Supporting the labour demand – stimulation of economic activities and entrepreneurship, including reduction of the labour taxes, the fight against undeclared employment, indirect and direct support measures for businesses ensured by the government, measures to reduce administrative barriers, business incubators, etc. (see Chapter 3.2);
- Strengthening the labour supply – increasing the competitiveness of the unemployed and people at risk of unemployment in the labour market, including skills development according to the labour market needs (vocational continuous education, non-formal education for the unemployed, consultations and professional mobility), lifelong learning measures, advice for starting a business, etc. (see below Chapter 3.3);
- Facilitating the process of adjustment of the labour supply and demand³⁵, including the improvement of the education system, involvement of employers' organizations in the improvement of the quality of education, forecasting the compliance of the labour market supply with the labour market demand, educating the labour market participants, including pupils and students, on labour market and career issues (see Chapter 3.4 on education reform).

In order to foster changes in the labour market providing specialists required for economics and, thus, contributing to growing economy, in 2016, an

Employment Board was established consisting of three ministers – ministers of economy, education and science, and welfare. The goal of the Employment Board is to coordinate inter-sectoral cooperation required for planning, development, implementation, and monitoring of labour market reform or re-arrangement, thereby reducing the disproportion in the Latvian labour market.

In 2017, work on and improvement of various ALMP was continued aimed at improvement of skills and qualification of labour force, measures were taken to improve engagement and activation of the unemployed, for example:

- Providing a more targeted support to certain groups more exposed to unemployment risk, paying special attention to support for long-term unemployed and persons with mental disorders;
- Supporting activation of long-term unemployed in the labour market;
- Promoting youth employment and reducing unemployment as inactivity;
- Supporting elderly employed persons in retention of ability to work and extension of working life.

In 2017, 112 600 registered unemployed participated in ALMP (one person may have participated in several activities). In 2017, 39.7 million EUR, incl. ESF co-funding of 27.3 million EUR, were diverted to ALMP measures. Approximately 34% of the said amount was used to raise and improve the qualifications of unemployed, slightly more than 14% to arrange paid interim community work, approximately 14% to support employment, approximately 22% to implementation of *Youth Guarantee*, 10% to activate

³⁵ ME is preparing an *Informational Report on Labour Market Medium and Long Term Forecasts*, and it will be taken into consideration when adjusting the MES and SEA proposal.

long-term unemployed. In 2017, in total 67 000 unemployed found job, and 21 000 or 30.9% of them were unemployed persons who found work after completing one of the active measures (except for information day for the competitiveness raising measure).

In order to facilitate employment and support labour mobility, in 2014-2020 programming period it is envisaged:

- To improve qualifications and skills of the unemployed according to the demand of labour market;
- To increase the involvement of NEET youths in employment and acquisition of education with the *Youth Guarantee*;

- To extend retention of ability to work and employment of employed elderly people;
- To increase the inclusion of disadvantaged unemployed in the labour market;
- To improve the involvement of long-term unemployed in the labour market;
- To improve integration of the population subject to risks of discrimination in the society and labour market.

In order to ensure the availability to highly qualified specialists according to the needs of employers, several measures to facilitate invitation of guest employees to work in Latvia were taken in 2017 (*see Box 3.3 in Chapter 3.2.1*).

The main policy directions and measures:

Improving training measures for the unemployed

/responsible institution – MoW/

The aim is to improve the quality and efficiency of the process of training the unemployed, to involve employers in the improvement of quality of training of the unemployed (determining the continuing education supply according to the needs of sectors; more funding for higher quality of training), thus improving the training measures in educational institutions and with an employer, as well as by improving access to these measures. In order to achieve the aim, the following measures are being implemented:

- The SEA online survey tool *Training Monitoring* is improved for training monitoring efficiency measurements, where customers will provide their feedback about the quality of trainings. Information about employment within six months of completion of the training is used for training efficiency measurements;
- The field of studies offered within the scope of ALMP training measures is determined, taking into account labour market needs (there is are Training

Commission in the MoW, which uses labour market forecasts, takes into account opinions of Sectoral expert councils, incl. social partners, in its work);

- Since the 3rd quarter of 2013, the profiling system of the unemployed has been implemented allowing for a more efficient and faster filling of vacancies and offering the most suitable ALMP measures to unemployed persons through an individual approach. Out of the unemployed persons registered at the end of 2017, in total 96.9% unemployed had been profiled.

In 2017, in total 42 500 persons were involved in skill-improvement training measures. 13.6 million EUR in total were used for skill measures in 2017, incl. funding of EU funds of 11.6 million EUR, and state special budget funding of 2.0 million EUR. In 2018, the planned funding is 12.6 million EUR (EU fund financing – 10.7 million EUR) and the planned number of participants is 39 400.

Implementing support measures to reduce youth unemployment

/responsible institutions – the MoW, the MES/

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

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

- Since January 2014, within the scope of the *Youth Guarantee* project of measure 7.2.1.1

Implementation of active labour market policy measures to promote employment of young unemployed, youths at the SEA in cooperation with a career consultant and other specialists can find out their strengths, receive information on available vacancies in Latvia, obtain new skills and their first work experience, as well as receive support for entrepreneurship. There are in total 10 measures available to youths, and participation in those is determined by profiling results, including taking into account their prior experience in the

labour market, the education obtained, as well as the level of skills and competences;

- Implementation of the SEDA project *Implementation of initial vocational education programmes as a part of Youth Guarantee* initiated in 2014 is continued, and in 2017, within this project, in cooperation with 31 vocational education institutions and colleges implementation of vocational education programmes took place allowing youth aged 17 to 29 years (inclusive) to obtain a professional qualification within a year or year and a half in one of 83 professions;
- The ESF project *KNOW and DO!* of the Agency for International Programs for Youth, launched in 2014, continues. The goal of the project is to develop the skills of youths at a risk of social exclusion and to facilitate their engagement in education, including vocational training with master craftsman, activities of *Youth Guarantee*, active employment or preventive unemployment reduction measures implemented by SEA, as well as activities of non-governmental organisations

and youth centres. Before 2018, cooperation agreements on project implementation had been signed with 76 municipalities (youths from 10 municipalities having no cooperation agreements concluded yet were also involved in the project). Overall, 24 online trainings were organised and 27 on-site non-formal education activities were implemented for 409 mentors delegated by the municipalities, as well as 10 four-day training modules were organised for 185 programme leaders delegated by the municipalities. 873 youths have engaged in the project by the end of 2017. By that time 495 youths have completed their participation in the project, of whom 79% have done this successfully³⁶.

From 2014 to 2017, in total 135 000 youths aged 15-29 obtained the registered unemployed status with the SEA and all of them automatically received support as a part of the *Youth Guarantee* programme, while 8 500 unemployed youth were involved in the programmes implemented by SEDA³⁷. During the same period, 81 000 youths found employment (60% of all the unemployed youths registered with the SEA).

Box 3.8.

Youth Guarantee performance results

Between 2014 and 2017, in total 116 000 youths were engaged in the job-seeking support measures within the *Youth Guarantee* programme, 38 500 youths were involved in competitiveness-raising measures, and 148 600 career consultations were provided to youths. Meanwhile, the so-called long-term or “quality” support³⁸ was provided to 25 600 youths (to 17 114 registered unemployed; 8 010 unemployed youths, and 505 imprisoned youths). Number of participants amounts almost to 90% of youths to be engaged in *Youth Guarantee* programme (in total 28 700 NEET youths are to be engaged in this programme during 2014-2018). 67% of all the youths receiving support were unemployed, including 10% long-term unemployed, while 33% of participants were NEET youths.

Between 2014 and 2017, out of all the participants to the *Youth Guarantee* programme aged 15-24 (in total 74 224 persons: SEA project – 64 836, SEDA – 8 515, AIPY – 873) 25% or 18 392 persons found a job within the first four months from the date they received unemployed status or submitted application to *Youth Guarantee*, 31% or 22 839 received at least one job offer (information on vacancy), 21% or 15 621 persons started training, gaining first job experience, and participated in other SEA and SEDA long-term support measures, 57% or 41 875 received support of a career consultant.

Within the first four months of receiving unemployed status or submitting application to *Youth Guarantee*, on average 46% youths enter into support programme or return to labour market, while on average 20% of all youths lose their unemployed status due to failure to perform their duties. Meanwhile, 56% of youths enter into support programme or return to labour market within six months of receiving unemployed status or submitting application to Youth Guarantee.

Between 2014 and 2017, 57.69 million EUR were diverted for implementation of the *Youth Guarantee* programme (82% of the *Youth Guarantee* general budget), including YEI funding in the amount of 23.4 million EUR, ESF co-funding of 26.7 million EUR, state budget funding of 3.5 million EUR, and private co-funding of 4.1 million EUR.

The total *Youth Guarantee* programme funding for 2014-2019 constitutes 70.2 million EUR, including YEI funding of 29 million EUR, ESF co-funding of 35 million EUR, state budget funding of 4.7 million EUR, and private co-funding³⁹ in the amount no less than 1.5 million EUR.

³⁶ In accordance with the operative information provided by AIPY, 391 youths have completed the programme successfully, of which 38% have engaged in the labour market, 28% – have engaged in *Youth Guarantee* project activities or active employment or preventive unemployment reduction measures implemented by SEA, 22% – have engaged in education, incl. vocational training with master craftsman, 12% – have engaged in activities of non-governmental organisations and youth centres.

³⁷ Youths who may or may not be registered with the SEA as unemployed or job seekers and who simultaneously do not participate in SEA-implemented support measure (except for youths involved in job-seeking support measures, competitiveness-raising measures and career consultations) are eligible for engagement in SEDA programmes.

³⁸ A quality offer is a measure helping youths to acquire a professional qualification (vocational education programmes, non-formal education programmes for youths who need to acquire certain skills in order to find a job – for example, language skills, IT skills, etc., youth workshops allowing to choose learning type and start employment immediately after participation), gain professional experience (subsidised workplaces, first job experience for youth, development of skills necessary for work in non-governmental sector), start as self-employed or engage in business. Auxiliary measures are support measures in job seeking, career consultations, and measures to raise competitiveness.

³⁹ Private co-financing consists of employers’ contribution to youths’ salary when engaging in one of the following – *Gaining First Work Experience for Youths* or *Subsidised Employment Measures (measures for certain groups of persons)*.

Youth Guarantee programme will continue until the end of 2018, and after that YEI funding for provision of support to youths in Latvia will no longer be available, and it is planned to support youths within the scope of other active labour market policy measures.

Along with the above measures:

- The Latvian and Swiss cooperation programme *Support for the development of youth initiatives in peripheral or disadvantaged regions* ended in 2017. Overall, from 1 June 2011 to 31 March 2017, 26 multifunctional youth initiative centres were created in different Latvian municipalities, and 109 training measures for youths and 74 measures for youth employees were implemented. Forums and conferences on topical matters in the youth area

were organised at regional and national level on a regular basis, and 15 methodical materials have been developed;

- 471.2 EUR of state budget funding were available for the implementation of projects within the scope of *MES Youth Policy State Programme 2017*. Support was provided for the implementation of youth policy at local level (24 projects), for provision local consultations in a structured dialogue (25 projects), for initiatives of youth organisations for strengthening partnership between local governments and youth organisations (6 projects), for operation and participation of youth organisations in state and international youth policy (4 projects)⁴⁰ and for organisation of student business project contests *We create for our municipality*.

Efficient return of the long-term unemployed and social assistance clients to the labour market and supporting regional mobility

/responsible institution – MoW/

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

- In 2017, demand for mobility support continued to increase within the active employment measures (training measures). In 2017, 243 employed were involved in the regional mobility measure, while support for regional mobility was provided to 1 249 youths and 2 011 persons received support for regional mobility within employment measures. In 2017, in total 79 600 EUR were used for regional mobility promotion of employed

persons;

- In 2017, the availability of several new services for the long-term unemployed were provided within the ESF co-funded support programme for long-term unemployed, including targeted measures for long-term unemployed with dependencies, long-term unemployed with disabilities. The programme provided support to 27.5 long-term unemployed, the used funding is 3.9 million EUR, including ESF funding of 3.3 million EUR and state budget funding of 0.6 million EUR. Total funding of the programme is 40 million EUR, including ESF funding – 34 million EUR, and state budget funding – 6 million EUR.

Retaining the working ability and fostering employment among the elderly residents

/responsible institution – MoW/

The aim is to provide support to elderly employed in order to foster a longer participation in the labour market and of a higher quality. Labour market measures for residents aged 50 and above, especially before reaching the retirement age, shall be provided to address the obstacles for their involvement or staying in the labour market. The following major measures are planned:

- Implementation of informational measures aimed at fostering awareness among employers and society in general on societal and labour force ageing trends and possible solutions for a longer and better working life;

- Assessment of working environment and human resources potential when determining the suitability of working environment and organization to benefit from potential of elderly employees and while assessing the knowledge, skills, and health condition of elderly employees, and recommendations for improvement of situation will be provided as a result;
- Support measures for maintaining of working ability and employment among the elderly employed by providing training and lifelong learning opportunities, adjusting work places and

⁴⁰ For example, support was provided for ensuring the activity of the Latvian Scout and Guide Central Organization and implementation of the Patriotic Education Programme of Latvian 4H.

introducing flexible employment forms, as well as fostering the inter-generational transfer of skills.

Cooperation agreements with ECL and FTUCL for the implementation of measures were concluded at the beginning of 2017. The implementation of an

information campaign aiming to inform the society and employers about the provision of support to elderly persons started within the project. The campaign continued in 2018 providing labour environment and human resources assessment in Latvian enterprises.

Improving the efficiency of work of the State Employment Agency

/responsible institution – MoW/

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

- In 2017, an ESF project continued introducing the system of anticipating changes in labour market. The system of anticipating changes in the labour market will ensure conveniently and readily available information about the demand for skills and professions in the short term, in the medium term and in the long term, as well as information about education possibilities simplifying the choice of future or further profession. The improvement of the *Short-Term Labour Market Forecasting Methodology* by SEA started within the framework of the project, including short-term forecasts on skills were prepared, annual surveys of employers to update short-term labour market forecasts are conducted, and 328 SEA employees were trained on labour market forecasts, researches and data analysis;
- The SEA continues to develop its *Call Centre* to ensure more operative and qualitative customer service and customer flow monitoring. The *Call Centre* provides customers with informative and consultative support serving 150 customer per day on average;
- Information and education on the use of e-services continues, which resulted in the increase of uses of SEA e-service in 2017 when applying for a status, registering for participation in measures, updating CV and registering as a new employer. The SEA has created a self-service portal, where SEA e-services are available to customers and cooperation partners, for example, search for job offers and employees, an automated alignment function for CVs and vacancies, application for SEA measures and services.

Promoting self-employment and entrepreneurship

/responsible institution – ME, MA, MoW/

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

In order to promote the establishment and development of new micro-enterprises, a regulatory framework for promoting support activities for micro-enterprises was implemented in 2010. In recent years, the *Micro-Enterprise Tax Law* was amended. In 2017 the micro-enterprise tax rate for turnover below 7 000 EUR was 12%, while the micro-enterprise tax rate for turnover from 7 000 EUR to 100 000 EUR was 15%. From 1 January 2018, there is a single micro-enterprise tax rate of 15% and the maximum turnover of a micro-enterprise in EUR – 40 000.

In order to facilitate establishment and development of new viable and competitive merchants in the Latvian regions, in 2016 a new *Business Incubator Programme* was launched forming 15 business

incubator units (8 national level development centres in municipalities, 6 regional level development centres in municipalities, and 1 creative industry business incubator in Riga). In 2017, 756 applications were received with 189 agreements concluded on provisions of incubation support and 373 agreements on provision of pre-incubation support. 62 merchants have been created within the scope of the Business Incubation Programme. 56 merchants develop eco-innovative products and 47 merchants develop a product meeting RIS3 criteria. On a regular basis, business incubators organise measures ensuring the attraction of new merchants, promote the improvement of knowledge of support receivers in business matters (incl. organise master classes, lectures, seminars, etc.), attraction of mentors is ensured for merchants, and targets to be reached during the support period are set individually for each merchant. The total planned funding during the programme implementation stage lasting until 31 December 2023 is 32.8 million EUR (25.8 million EUR to regional business incubators; 7.1 million EUR to creative industry incubator), including ERDF funding – 27.9 million EUR, and state budget funding – 5 million EUR. Close cooperation with planning regions

and local governments has established while implementing the Business Incubator Programme. There are plans to evaluate the network of business incubators until 2018 to foster efficient and effective implementation of the programme.

Unemployed persons expressing a wish to start a commercial activity or be self-employed may receive both consultations and financial aid for implementation of their business plan. In 2017, in total 211 persons received aid for start-up of self-employment or business within the ALMP measures (state budget funding consists of 0.4 million EUR, the measures is funded from the special state employment budget). Support measures for start-up of business activity or self-employment of the unemployed are aimed at establishment of small

enterprises and starting self-employment taking into consideration the target group and the small volume of financial aid allocated for implementation of business plans.

The course of implementing micro-crediting and start-up aid programme (*start-up programme*) is further described in *Chapter 3.2.2*.

In May 2012, the CM approved the *Regulations on the Lending Programme for the Purchase of Agricultural Land*. Within this programme, each borrower will have access to loans of up to 430 000 EUR for purchase of agricultural land to be used for production of agricultural products. By the end of 2017, within the programme, 1373 loans had been granted in the total amount of 67.4 million EUR.

3.4. EDUCATION

3.4.1. Preschool Education

The target set for the preschool education sector is to ensure that at least 95% children (aged 3 up to mandatory school age) are involved in preschool education by 2020. In 2016, the rate in Latvia was 95.5%.

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

The main policy directions and measures:

Ensuring access to and quality of preschool education

/responsible institutions – MES, MEPRD/

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

Municipalities are obligated to cover the costs of a private preschool education institution, if a child who has reached the age of one and a half years and whose declared place of residence is in the administrative territory of the respective municipality, is not provided a place in a municipal kindergarten. Since 2016, a single method and procedure for assessment of costs is in force in order to ensure a transparent and similar approach in calculations of municipalities. In 2017, the average amount of municipality support

for 1.5-4 years old children was 212.61 EUR per month, while for the children undergoing mandatory preparation for basic education it was 155.26 EUR on average.

In 2017, 20 municipalities, within their budget possibilities, also determined the amount of support for children, who use child supervision services (babysitters). In 2017, the average municipality support level per child was 134.80 EUR per month.

As of 1 January 2018, evaluations of heads of preschool education institutions have started in order to promote development-oriented professional activity of their heads, form the sense of responsibility in heads of preschool education institutions about the quality of education at the education institution and to provide recommendations for their improvement at national level, which would improve competence and professionalism of heads of education institutions in the long term.

3.4.2. General Education

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

A drop in the share of early school leavers is observed when analysing data. In 2017, there were 8.6% of early school leavers among youths aged 18-24 (10% in 2016). At the same time, differences in terms of

gender still remain – the share of early school leavers among girls constituted 5% in 2017 (6.2% in 2016), while the share among boys was 12% (13.7% in 2016). Lack of motivation and difficulties in mastering disciplines are the main causes of school leaving, while unjustified absences have been recognised as the most serious risk of early school leaving, which education institutions would have to attend to in a timely manner, including by providing absentees with necessary support⁴¹.

Figure 3.3

Share of early school leavers among youths

Youth having basic or lower education level and who are no longer learning



The main policy directions and measures:

Ensuring access to and quality of basic and secondary education

/responsible institution – MES/

In order to provide each pupil with a quality education, work is ongoing on the arrangement of the **network of general education institutions**. A study *Creation of an optimal model of the network of general education institutions*⁴² ended in November 2017, within the scope of which a geospatial planning platform of the network of general education institutions *School map*⁴³ was created and an optimum model of the network of general education institutions appropriate for current conditions was developed. On

the basis of recommendations of the study, talks with municipalities and other institutions involved on the best solutions for the development of an efficient and sustainable network of general education institutions were started.

In November 2017, the Saeima approved *Amendments to the Education Law*, which include a delegation to the CM starting from 1 September 2018 to determine the minimum permissible number of pupils and criteria for maximum permissible number of pupils in

⁴¹ Report of the State Education Quality Service *Long-term unjustified absences of pupils and students of general education and vocational education institutions and action to prevent them in school year 2016/2017*.

⁴² The final report of the study is available here: http://izm.gov.lv/images/izglitiba_visp/download/Optimala-visparejas-izglitibas-iestazu-tikla-modela-izveide-Latvija.pdf

⁴³ Geospatial planning platform of the network of general education institutions *School map*: <https://izm.kartes.lv/>

a class and in a groups of classes in state higher education and private general education institutions at the stage of secondary education.

At the same time, the **modernisation of infrastructure of general education institutions** continues. By attracting ERDF funds to general education institutions, it is planned to create a modern, ergonomic learning environment meeting sanitary requirements. Projects will be implemented in municipalities of national and regional development centres. The construction of new buildings of education institutions is intended in the municipalities, where the number of pupils increases and the existing infrastructure is insufficient. It is expected that at least 100 general education establishments will be fully modernized by 2023, and 20-25% of students will have access to a fully modernized general education learning environment. Selections of project applications started in February 2017. The total indicative funding planned is 168.2 million EUR, incl. ERDF co-funding of 142.9 million EUR (where 4.1 million EUR are state budget over-commitment funding).

The **teacher wage payment model** introduced in 2016 was improved, arranging and clarifying requirements to rates of teacher wages and workload, reducing the inequality of payment for work among teachers doing the same job. A stricter financial discipline has been set for municipalities in relation to spending of state earmarked subsidies.

In 2017, the Government approved the *Teacher wage increase schedule* for the next five years. From 1 September 2018 to 1 September 2022 the lowest monthly wage rate of teachers might indicatively gradually grow from 710 EUR to 900 EUR.

The state has established a single procedure stipulating how **children who are not registered with any educational institution are registered**. The number of unregistered children in the academic year 2017/2018 is 17 800 children (of which 16 000 children are between ages 7 and 18). Most or 13 800 children who are not registered with any educational institution have left the country. Municipalities have no information on 1200 children aged 5 to 18 in total⁴⁴.

An ESF project *Support to reduce early school leaving* started in March 2017 to reduce the number of children, who leave school and do not complete their education. There are intentions to create a sustainable

and effective prevention system, which would involve the local government, the school, teachers and parents to identify in a timely manner the children and youths at risk of school leaving and provide them with customised support. By the end of 2017, 74 cooperation agreements have been concluded, involving 224 education institutions, within the framework of which 2514 individual support plans for pupils were reviewed. The total indicatively planned financing is 37.5 million EUR, including ESF funding of 31.8 million EUR.

Support for career development also contributes to diminishing the early school leaving. In order to increase career support accessibility, the ESF project *Improving access to career support for students in general and vocational education institutions* has been implemented since 2016. As a result of this project, 328 general and vocational education institutions will provide career support for students by 2020. In academic year 2017/2018, 74 local governments and associations thereof and 15 VECC are involved in the project and 371 teachers-career consultants have been employed. 139 600 pupils in 410 general and vocational education institutions have received support for career development in academic year 2017/2018 within the framework of the project. The total planned financing is 23 million EUR, including ESF funding of 19.6 million EUR.

Similarly to previous years, different career guidance and information activities (conferences, seminars and other) were organised also in 2017.

12 special education development centres⁴⁵ are operating in Latvia ensuring homogeneous distribution of special education institutions-development centres in all territories of Latvian planning regions. Thus, children with special needs, who are integrated in general education institutions, as well as their parents are provided with equal opportunities to receive consultations and methodical support in the implementation of qualitative inclusive education.

In 2017, the University of Latvia conducted a study developing a theoretically justified classification of types of special needs and a supply of the model of education, healthcare and social service to be provided to children with special needs, which is optimal for the Latvian situation. Taking into account the results of the study, in 2018 work on development of expense model for services to be provided to children with special needs continued.

⁴⁴ Pursuant to the *Law on Local Governments*, provision of education is one of the functions for local governments, therefore, duty of the local governments is to update on a regular basis the information on reasons why children whose residence is registered with the respective municipality are not registered with the educational institution, and to take the necessary action allowing these children to continue their education.

⁴⁵ Data as at 1 September 2017.

The target of Latvia is to reduce by 2020 the share of pupils with weak learning results in reading skills, maths, and natural sciences from 17%, 20%, and 12.3% respectively (in 2012) to 13%, 15%, and 10% (in 2020), as well as to increase the share of pupils with high achievements from 4.2%, 8%, and 4.3% (in 2012) to 7%, 8%, and 8% (in 2020). In order to improve the learning achievements of Latvian pupils, in addition to provision of education accessibility, a gradual transition to competence based-approach education content is implemented, as well as establishment and implementation of support system for development of pupils' individual abilities.

On 1 February 2018, public consultation on the new *competence-based general education curriculum and approach description project* completed. Received proposals were used for the improvement of the curriculum. Work is ongoing on the development of a regulation to start the implementation of a new curriculum on 1 September 2018. In academic year 2017/2018 the approbation of the new curriculum with competence-based approach started in 100 general education institutions at preschool education and basic education levels. In 2018, it is planned to start approbation of the new curriculum at the secondary school level. The development of new methodical teaching aids started in relation to the approbation and planned implementation of the new curriculum. The total amount of planned funding for the measure is 13.9 million EUR, including ESF funding – 11.8 million EUR. In addition, it is proposed to reallocate funding of 4.5 million EUR for the development of curriculum for general secondary education and professional competence improvement measures for teachers.

During the academic year 2016/2017, approbation of computer science education curriculum was carried out in 153 general education institutions with participation of 9084 pupils. Freely available materials have been prepared for each lesson for two years, which are successfully used not only in the education institutions involved in approbation of the *Computer science programme*, but also in other schools.

Implementation of two ESF-co-funded measures has been launched in 2016 providing support for development of pupils' individual competences in general education institutions. Measure *Support for*

implementation of national and international level measures for development of students' talents is aimed at the development of students talents contributing to higher level of students' achievements in the country in general, including providing for elaboration of methodology for teachers allowing to detect and foster the potential of high-achieving students. Within the framework of the project, in 2017 the availability of olympiads in 14 disciplines, research activities in cooperation with Latvian higher education institutions were offered and 5 000 Latvian pupils in total got involved in the implemented activities. In 2018, it is planned to offer even wider availability of measures, incl. to provide professional competence improvement measures for teachers for early identification and development of talents. Meanwhile, project *Support for development of students' individual competences* is aimed at introduction of new learning forms in education establishments developing an individual approach to acquisition of education content and as extracurricular activities. The project offers diverse support to pupils with special needs and learning difficulties, as well as support to students with high achievements. Particular attention is paid to the supply of STEM interest-related education programmes.

As a result of both aforementioned projects, till 2021 272 general education establishments will introduce an individual approach to development of students' competences. At present, 338 education institutions have started and implement their activity in projects. Total amount of planned funding is 37.6 million EUR, incl. ESF funding of 31.9 million EUR.

The participation of Latvia in different international education studies, incl. OECD, continues. Total funding is 6.2 million EUR, incl. ESF funding of 5.3 million EUR. New studies are also envisaged – *OECD Programme for the International Assessment of Adult Competencies* (PIAAC) un *Trends in International Mathematics and Science Study* at the level of form 4 pupils (IEA TIMSS).

In August 2017, the CM approved *Regulations on the Development of Education Quality Monitoring System*. By 2023, the development and implementation of the education quality assessment and monitoring system and analysis tools is planned with support of ESF funding. Total amount of planned funding is 4.8 million EUR, incl. ESF funding of 4.1 million EUR.

3.4.3. Secondary Vocational Education

By 2020, the share of students in vocational secondary education and general secondary education is planned to be changed in favour of vocational education reaching the proportion of 50/50. The proportion of

number of students in vocational secondary education versus general secondary education was 38.6/61.4 in academic year 2016/2017.

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

To ensure preparation of specialists according to the requirements of the labour market, as a result of the reform of vocational education curriculum, regular

cooperation mechanisms with social partners and sectoral organisations were created. The extent of enrolment in specific vocational education programmes is determined based on the medium- and long-term labour market forecasts made by the ME, opinion and recommendations of industry expert councils and convents to involve and keep the youth in the professions needed for the sectors and coordinated with the Tripartite Cooperation Sub-Council of Vocational Education and Employment.

The Employment Board plays an important role in the coordinated implementation and promotion of competitiveness of education and employment policies⁴⁶.

The main policy directions and measures:

Implementing structural reforms in vocational education

/responsible institutions – MES, MC/

The aim is to improve the quality of vocational education, thus ensuring its conformity to the labour market needs, as well as to foster efficient use of available resources by streamlining and differentiating the number and regional locations of vocational education institutions.

The number of secondary vocational education institutions under the MES decreased from 60 institutions in 2010 to 21 in 2017, but the number secondary vocational education institutions under MC reduced from 14 institutions in 2014 to 10 institutions by the beginning of academic year 2016/2017.

In order to modernise the infrastructure of vocational education institutions and priority education programmes and their locations in regions, obtaining the status of a Vocational Education Competence Centre (VECC) is encouraged. In the end of 2017, it total 23 vocational education institutions had been granted VECC status, where 4 vocational secondary cultural education competence centres were established in vocational education institutions under MC and one – in a municipal secondary vocational cultural education institution.

The implementation of 21 *modernisation projects of vocational education institutions* started in 2017 continuing the modernisation of learning equipment and improvement of the infrastructure of vocational education institutions for the implementation of vocational education programmes that was started in the previous programming period of EU funds. Overall, it is planned to provide support to 25 vocational education institutions, in particular VECC,

by 2023. Total amount of planned eligible funding is 104.2 million EUR, including ERDF funding of 88.6 million EUR, and state budget funding 15.6 million EUR.

On 27 January 2017, ESF project *Increasing the Number of Qualified Students in Vocational Education Institutions after their Participation on Work-Based Learning and Teaching Practice in an Enterprise* was launched by ELC. The purpose of the project is to promote the introduction of WB learning. Within the framework of the project, as at 2 February 2018 319 students were involved in WB learning and 1 508 students were involved in apprenticeship in 614 enterprises. By the end of 2023, within this project, support will be provided for engaging 3 150 students in WB learning and 11 025 students in apprenticeship in an enterprise. Total planned funding is 21.9 million EUR, including ESF funding – 18.6 million EUR, and state budget funding – 3.3 million EUR.

In January 2017, the Erasmus+ programme project *National Authorities for Apprenticeships: Implementing Work Based Learning in Latvia, Lithuania and Estonia (WBL-Balt)* aiming to popularise WB learning in cooperation with Estonian and Lithuanian partners, which resulted in the development of conceptual approach for WB learning in Latvia, closed with an international conference and a Baltic seminar. At present, the system of WB learning is being arranged, and one of essential elements of the system is the preparation of appropriate tutors. A new project *Testing New Approaches to Training VET and Workplace Tutors for Work Based Learning (TTT4WBL)* was started aiming to support the implementation of WB learning in Baltic countries

⁴⁶ The Employment Board consisting of three ministers – ministers of economy, education and science, and welfare – was established in 2016. The goal of this Board is to coordinate inter-sectoral cooperation required for planning, development, implementation,

and monitoring of labour market reform or re-arrangement, thereby reducing the disproportion in the Latvian labour market.

exchanging experience and testing new approaches (for example, tandem training) in preparation of tutors. 70 tutors, 6 trainers have been involved in the project from Latvia and a 16-hour professional improvement programme for tutors from schools and enterprises has been developed by the end of 2017. Overall, it is expected to involve 300 tutors in Latvia by 2020. It is planned to develop WB learning and a training programme for tutors as a result of the project.

The implementation of an Erasmus+ programme funded project started in 2017, within the framework

of which it is intended to summarise and analyse information about the inclusion of vocational education students and graduates in the labour market, and to develop a system for the evaluation of the quality of WB learning.

In 2017, a due diligence study on financing of vocational secondary education in Latvia was conducted, and on the basis of it a financing model for vocational education programme will be improved in 2018.

Implementation of vocational education content reform

/responsible institution – MES/

In order to improve the quality and efficiency of vocational education in line with the economic development needs in Latvia, a sectoral qualification system is being created, and vocational education contents are restructured as a part of it. Upon examination of sectors of economics, sectoral qualification structures are created within sectoral

qualification system, developing or improving professional standards, and qualification requirements for related professions or specializations, creating vocational education programmes based on attainable results, improving examination system, as well as assessing the knowledge, skills and competences acquired outside the formal education (*see also Chapter 2.2*).

Strengthening the cooperation with sectoral social partners to improve and develop vocational education

/responsible institution – MES/

Starting from the beginning of 2016, a collegial advisory institution – convent, is active in all of the vocational education institutions under MES. The convent includes the head of vocational education institution, representatives of the ministry, local government, as well as employers and associations thereof, and may also include also a representative of the respective planning region. The aim of this convent is to facilitate development of vocational education institutions setting the strategic direction of their operation in accordance with market demands.

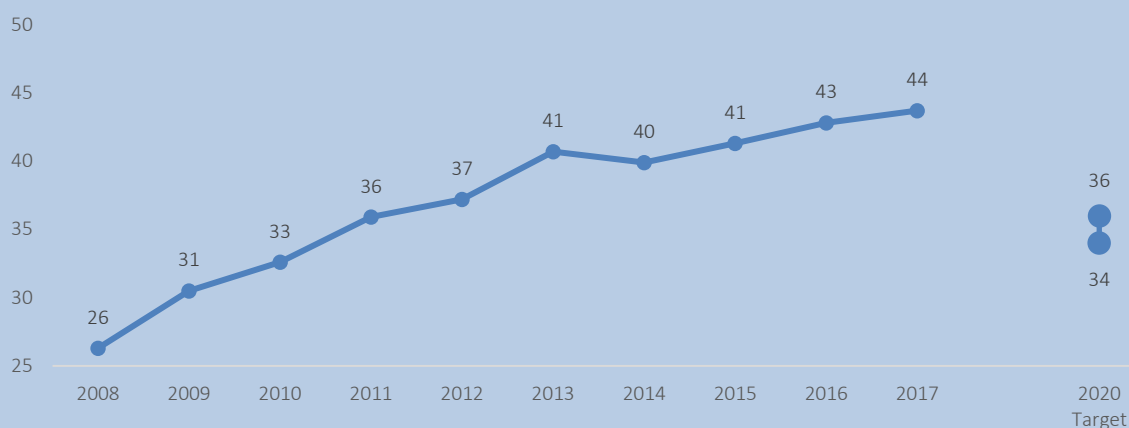
The implementation of ESF project *Efficient management of vocational education establishments and raising the staff competence* that started in 2016 continues, and support is provided to the improvement of qualifications of staff of vocational education institutions in the context of organisation of studies, methodical matters, development of technologies, including improving and promoting cooperation with employers. 1205 persons have participated in trainings within the framework of the project. Total planned funding is 6.49 million EUR, including ESF funding of 5.52 million EUR and state budget co-funding – 0.97 million EUR.

3.4.4. Higher Education

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

The goal set in the NRP for 2020 in relation to the share of population with higher education was reached already in 2012. In 2017, the indicator reached 43.7%.

Figure 3.4
Share of the population with higher education
In age group 30-34, %



Source: Eurostat, CSB and MES

In Latvia, the declining number of students has been observed for the 10th year already. At the beginning of the academic year 2017/2018, a total of 81 600 students were studying in higher education institutions of Latvia, which was by 1.6% lower than in the previous academic year. However, if compared to the academic year 2005/2006, when the number of students in Latvia reached the maximum high level, the number of students has decreased by 38%. In the academic year 2017/2018, there were 34 000 students or 42% of the total number of students studying in state-funded study positions. While the total number of students is decreasing, the share of students in state-funded study positions is increasing every year. In 2018, based on the medium and long-term labour market forecasts, about 60% of the state-funded study positions represent national priority areas: natural sciences, engineering, health care, as well as master and doctoral studies that are important for the preparation of both new teaching staff and scientists. 41% of state-funded study positions are provided in STEM programmes.

The area of higher education is still facing the following challenges:

- The low funding of higher education area compared to general education (funding per student in Latvia is among the lowest in EU limiting the opportunities to ensure quality and international competitiveness);
- A targeted funding has not been allocated to the increased number of graduates in the STEM areas envisaged in the policy planning documents, hence, a gradual and limited relocation from state-funded study positions from other study areas is possible;
- Competition with Nordic countries most of which offer free higher education to all EU citizens and, in contradiction to the demographic trends, provide own labour markets with qualified labour force. For example, Estonia has switched entirely to a state-funded higher education, while 42% of students in Latvia in 2017 were studying in state-funded positions, while 58% of students were paying tuition fee.

The main policy directions and measures:

Modernisation of higher education

/responsible institution – MES/

Policy direction is aimed at ensuring higher education offer and adjusting it to the needs of development of Latvian economics and labour market, as well as research-based, quality higher education content and result management in higher education institutions.

Within the scope of the *New Financing Model of Higher Education*⁴⁷ in 2017 14 higher education institutions and colleges, which involved students and young scientists in research and creative work most

successfully, and implemented international research projects and cooperated with merchants received performance funding of 6.5 million EUR.

Latest news in the education sector set conceptually different requirements in relation to the reform of the general education curriculum in preparation of new teachers, and a transition to a conceptually new *teacher preparation system* started in higher education institutions. In 2017, proposals for the provision of teacher education meeting the requirements of a

⁴⁷ The implementation of a new financing model of higher education started in 2015 for the purposes of arranging the financing system of higher education institutions

conceptually new competence-based education in Latvia, including for the development of conditions for the implementation of EU fund programmes, were prepared, in total diverting 10 million EUR to the development of teacher education. Furthermore, in continuing the improvement of the procedure of granting study places, it is envisaged to reduce the number of state-funded study positions for preparation of new teachers in 2018 and 2019. However, at the same time in 2018, the higher education institutions, which prepare teachers, will get additional funding depending on the number of graduates, who started working in education institutions. The purpose is to stimulate higher education institutions to carefully evaluate motivation of potential students and their fitness for work in higher education institutions.

The *Register of students and graduates* has been introduced. The register contains data at personal level on students in higher education institution

programmes, as well as depersonified data on employment of graduates. Initial data about persons currently studying were entered in the register in December 2017. Later, basic information will be updated on a monthly basis. The obtained data will be used to ensure targeted funding of higher education and to promote conscious, actual labour market situation based choice of a study programme.

In 2017, planning of development financing from EU funds continued. Support is ensured for post-doctoral research and practical research (*see Chapter 3.2.3*). In 2017, implementing regulations for 4 programmes of EU funds were developed, where investments in the improvement of internal management of higher education institutions, development of personnel capacity and competence, reduction of fragmentation of study programmes and sharing of resources and innovation grants for students were provided. Implementation of projects in these programmes is planned for the second half of 2018.

Ensuring equal access to higher education

/responsible institution – MES/

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

In 2017, the crediting of student and study loans from assets of credit institutions with a state warranty was ensured according to demand. In total, 230 agreements on granting student loans were signed in 2017 for the total amount of 1.35 million EUR, as well as 1247 agreements on granting study loans for the total amount of 6.7 million EUR. Study and student loans were granted also to those studying abroad, thereby ensuring Latvian students accessibility of education also abroad.

Amendments to *CM Regulations on Scholarships* have been made envisaging to increase the maximum amount of study and student loans. The procedure of application for repayment of the loan from state budget funds was also updated. At the same time, a protection mechanism was introduced to eliminate the misuse of leaves during studies, setting restrictions on leave during studies. The state will further cover loan interest for two academic years. In its turn, in order to reduce risks and increase responsibility of students and guarantors, during the entire credit repayment period the credit institution will follow up that the credit is secured by a valid guarantee of a private person.

Establishment of a national institution for quality assurance

/responsible institution – MES/

The policy direction is oriented towards the improvement of the quality assurance system of higher education and creation of provisions for the establishment of a national quality assessment agency and its registration at the *European Quality Assurance Register for Higher Education* or EQAR register. In August 2017 the existing Accrediting Agency (the Academic Information Centre (AIC)) submitted to EQAR an application for international evaluation according to Standards and Guidelines for Quality Assurance in the European Higher Education Area

(ESG⁴⁸). The evaluation is expected to end at the end of 2018. If the assessment is positive, the European Association for Quality Assurance in Higher Education (ENQA) will grant AIC the status of a fully-fledged ENQA member, as well as will welcome AIC at EQAR.

The AIC keeps working on the project *Support for Fulfilment of Requirements to the Agency Set by ERAQ* started in 2016. It is expected that when the project closes the Latvian higher education quality assurance system will function according to ESG requirements, and AIC will be a member of EQAR, which will

⁴⁸ *European Standards and Guidelines for Quality Assurance*

increase confidence in Latvian higher education and obtained diplomas. Project is implemented in cooperation with the Council of Higher Education, Lithuanian Higher Education Quality Assurance Centre (EQAR registered), as well as 12 higher education institutions. In 2016 and 2017, 12 pilot accreditation of study directions in higher education institutions involved in the project and 12 regular accreditations of study directions were implemented, informative seminars for higher education institutions on progress of pilot accreditation and external and internal quality assurances matters were organised. The *Accreditation Agency Development Strategy* and all necessary internal regulatory enactments have been

developed, and proposals for amendments to Latvian legislative acts in the area of quality assessment of higher education were prepared. A *Higher education quality monitoring system concept* was prepared, and the creation of an e-platform to ensure the process of accreditation and licencing was started within the framework of the project in 2017. The total project funding is 1.5 million EUR, incl. ESF funding of 1.27 million EUR.

Within the framework of new accreditation conditions it is necessary to ensure the involvement of employers in the quality assessment of higher education – in the process of licencing and accreditation.

Modernising the material-technical base of higher education institutions and raising the efficiency of resource use

/responsible institution – MES/

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

To ensure a modern study environment and research environment for the implementation of the STEM study programmes, incl. the medicine and creative industries, and at the same time to ensure a territorially focused creation of study premises and foster the matching of higher education with the needs of economic development and the labour market, it is planned to support the development of a territorially focused infrastructure of the studies and

scientific work within the EU funds programming period 2014–2020 (the total indicative financing is 44.6 million EUR, incl. ERDF funding of 37.9 million EUR). At the same time, a support from EU funds is intended for the first level vocational higher education STEM study programmes, including medicine and creative industries, and improvement of learning environment in colleges (total indicative financing 14.2 million EUR, incl. ERDF funding of 12 million EUR). In 2017, development strategies of higher education institutions were evaluated and harmonised and project applications were evaluated, the implementation of projects started. The implementation of the projects is planned until December 2022.

Reducing fragmentation of study programmes, joint use of resources

/responsible institution – MES/

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

In 2017-2018, the second stage of the research is being carried out in cooperation with the World Bank on the improvement of higher education governance and human resources policy for modernization of higher education. On the basis of expert recommendations received during the first stage of the research (implemented in 2016-2017), a programme of EU structural funds was developed for strengthening of governance of higher education institutions, the implementation of which is planned for the end of 2018. In 2018, the second stage of the research will result in expert recommendations on the improvement of academic staff career development and employment conditions. The first conclusions and recommendations of the second stage of the research are already taken into account, when developing

programmes of EU structural funds to reduce fragmentation of study programmes and strengthen academic staff, the beginning of implementation of which is planned for the second half of 2018. The following regulations were developed and approved at the beginning of 2018:

- *CM Regulations on reduction of fragmentation of study programmes of strengthening of shared use of resources* to invest ESF funding in the development of new, string and internationally competitive study programmes in the next five years. Both state and private higher education institutions, including colleges, will be able to get involved in the project. The total indicative funding is 10.8 million EUR, incl. ESF funding of 9.2 million EUR. The extended initial assessment ended in June

2017⁴⁹ and will be used in elaboration of implementation regulations;

- CM Regulations, which in the next 4 years envisage to invest funding of EU Funds *in strengthening of academic staff of higher education institutions* in strategic specialisation areas, including in 6 higher education institutions in strengthening capacity of academic staff for the implementation of pedagogic study programmes. Thus, higher education institutions will have access to funding for targeted improvement of competences and skills of teachers, as well as attraction of new teachers (doctoral students) and foreign teachers. The total indicative funding is 34.3 million EUR, incl. ESF funding of 29.2 million EUR;
- CM Regulations *on the improvement of governance and organisational processes of higher education institutions*. Investments from EU funds are intended for strengthening of cooperation of higher education institutions with the industry for the improvement and alignment of study programme curriculum with industry development needs, as well as improvement of competencies of management personnel and introduction of e-solutions. The total indicative

funding is 20 million EUR, incl. ESF funding of 17 million EUR.

In order to ensure preparation of talented and excellent teachers for work in Latvian schools, complementarity and succession of education sciences study programmes, as well as shared use of resources in the implementation of pedagogic study programmes, on 28 March 2017 the CM took the decision on consolidation of state higher education institutions. It was decided to include the Riga Teacher Training and Education Management Academy (RPIVA) in the University of Latvia, and to concentrate preparation of music and dance teachers in the Jāzeps Vītols Latvian Academy of Music. Continuity of the study process and constant study financing conditions during the entire study process was provided to all students of RPIVA.

To ensure compliance of the supply of higher education with the demand of the Latvian economy and labour market, it is necessary to continue to involve employers in effective use of resources in higher education, including in consolidation of higher education institutions and colleges, allocation of state budget-funded study positions.

Internationalization of the higher education

/responsible institution – MES/

In order to foster competitiveness of Latvian higher education and raise the level of quality, the policy direction is aimed at short-term mobility of foreign and Latvian students, attracting full-time foreign students to study in Latvia, as well as other international cooperation measures and development and implementation of joint programmes.

In academic year 2016/2017, there were 8806 foreign students in higher education institutions of Latvia which constituted 11% of the total number of students (7563 of them studied to obtain a degree, others were from short-term exchange programmes). Most of the foreign students were from India (16.3% of the total number of foreign students), Uzbekistan (14.8%), and Germany (13.8%).

To increase responsibility of higher education institutions in attraction of foreign students and to foster that only positive information is spread about the Latvian higher education system and studies in Latvia, 15 higher education institutions have signed an Agreement on good practices in attraction of foreign students and ensuring of studies.

14 accredited joint study programmes were implemented in 2017 in Latvian higher education institutions in cooperation with foreign higher education institutions (including higher education

institutions in Lithuania, Estonia, Spain, Austria and the Netherlands) in the areas of international business and export management, management of technologies and innovations, innovative engineering of roads and bridges, strategic border management, etc.

During the academic year of 2016/2017, there were 244 foreign guest professors, assistant professors and lecturers working in the Latvian higher education institutions, constituting 4% of the total number of academic staff. The goal in Latvia is to increase the share of foreign teaching staff to 7% in 2020. Measures for support of higher education institutions were developed in 2017 to promote the attraction of foreign teaching staff and internationalization of higher education. Higher education institutions are currently drafting applications for a contest of ESF projects on the development of study programmes in EU languages and joint doctoral programmes. ESF projects will enable the improvement of professional knowledge of academic staff and attraction of foreign teachers. The beginning of implementation of the projects is planned for the end of 2018.

The activities within the programme *Erasmus+*, the implementation of *International Student and Staff Mobility* started in 2015 within the external instruments continued. In order to ensure equal access and conditions among the mobility activities in

⁴⁹ Assessment report is available here: <http://www.esfondi.lv/izvertejumi-1>

higher education, state budget co-financing is provided for the international student and staff mobility in the amount of 20% of the total activity funding. State budget co-financing in 2016 amounted to 361 200 EUR, while in 2017 – 329 260 EUR. In *EC work programme 2017*, the EU budget allocation for higher education available to Latvia within the framework of the *Erasmus+* student and staff mobility is 6.94 million EUR, while student and staff mobility between the programme and partner countries has 1.48 million EUR.

In December 2017 cooperation memorandums on Norway and European Economic Area financial instruments for 2014-2021 were signed concentrating resources for the creation of a single research and higher education space of Baltic and Nordic countries. In subprogramme project competitions, students, teachers, administrative staff will be able to apply for

academic and non-academic mobility of a scientific institutions. It is planned that in 2018 a programme concept document and a relevant regulation will be developed to enable the announcement of the project contest in Latvia in 2019 (in Estonia the contest will be announced in autumn 2018, where Latvian scientific institutions will be able to participate as well).

In 2017, measures for promoting exportability and recognition of higher education continued, incl. maintenance of the website www.studyinlatvia.eu and www.studyinlatvia.lv, to inform potential foreign students about the study programmes, the Latvian culture and education system. The website is linked to social networks, where students can ask questions of their interest and receive information about education opportunities in Latvia.

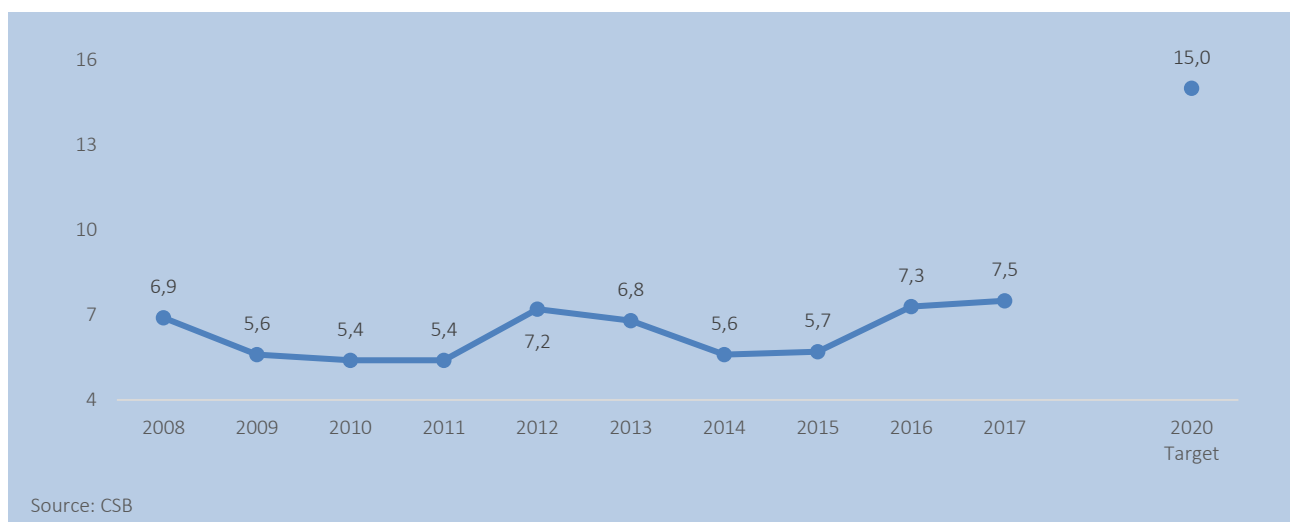
3.4.5. Lifelong Learning

The aim is to ensure that 15% of the population (aged 25–64) would be continuously involved in the learning process by 2020 (7.5% in 2017). In 2017, the share of population participating in adult education increased by 0.2 percentage points compared to 2016.

The measures of the *Education Development Guidelines for 2014-2020* are focused on the

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

Figure 3.5
Participation of people aged 25–64 in the education process
Share, %



The main policy directions and measures:

Promoting cooperation and ensuring coordination among the partners involved in adult education

/responsible institution – MES/

The aim is to provide a single and well-coordinated adult education system management.

The implementation of the *Adult Education Management Model Implementation Plan for 2016-2020*⁵⁰, which was approved in 2016, continues. The goal of the plan is to ensure accessibility of education and quality for residents irrespective of their age, sex, previous education, place of residence, income level, ethnic origin, functional disorders, and other factors.

An inter-sectoral consultative institution – *Adult Education Management Council*, has been established

and is functioning to carry out coordination of the plan and monitor the implementation. It consists of representatives from ministries involved in adult education and other organizations, as well as representatives from social and cooperation partners.

The *Guidelines for the Implementation of Policy for Adult Non-Formal Education Quality Assurance* were developed in 2017. To motivate vocational education institutions, employers and the population to involve in adult education more actively, proposals for measures to be taken and changes to be introduced to regulations have been prepared.

Supporting improvement of employee qualifications

/responsible institution – ME, MoW, MES/

The aim is to provide the employed with an opportunity to improve their professional competence by mastering professional improvement, continuing education or non-formal education programmes.

In 2017, implementation of ESF project *Improving the Professional Competence of Employed* was started. Within this project, persons (at least 17 years old) upon their request receive support for improvement of their professional qualifications and competences, including provision of career consultant services. In cooperation with the municipalities, a basis for joint and sustainable adult education support system will be created. The project will extend to more than

38 000 persons, primarily providing support to employed persons from social risk groups.

The first enrolment round closed in November 2017, where employed persons could apply for studies according to the needs of 4 priority sectors of national

⁵⁰ CM Regulation No. 287 of 5 May 2016 *On Adult Education Management Model Implementation Plan 2016–2020*.

economy⁵¹. 5565 persons have applied for the studies. In the 1st quarter of 2018 the first cycle of studies for the employed started involving 3695 persons in mastering of 193 education programmes. The creation of the study supply for the second enrolment round in 12 sectors started in 2017⁵². Studies in the second study cycle are planned in summer 2018. In 2018, there are plans to organise the third enrolment round offering employed persons to master general skills. The development of the supply of studies for the improvement of general skills started. The total funding available for the project is 27 million EUR, including ESF funding of 23 million EUR, and state budget funding of 4 million EUR.

Measures have been developed to support learning for employees requested by the employer:

- *Support for employed learning (technology learning)*. Support is provided for learning provided to persons employed with a merchant. The aim of this measure is to provide the merchants with labour force holding the relevant qualification, thus contributing to increase in productivity and development and putting into production of new or improved products and technologies. Two project selection rounds are planned. The total ERDF funding available within the programme is 18 million EUR. In spring 2016, 10 projects of the first round implemented by the largest sectoral associations were approved. These associations represent manufacturing subsectors,

the ICT sector or accommodation and food service activities sector. Agreements for 16.7 million EUR were concluded, including ERDF funding of EUR 8.99 million EUR. By the end of 2017, 5303 persons employed with 384 merchants have been trained. According to the plan, 280 merchants will receive support within the first round by the end of 2018 (training of 5620 persons);

- *Support for ICT and non-technology learning, as well as learning aimed at attracting investors (non-technology learning)*. The measure is developed with the aim to increase the productivity and work efficiency of self-employed persons, as well as micro, small, medium, and large merchants, by raising the employees' qualifications and skills in information and communication technology areas, to provide merchants with employees holding the relevant qualification, promoting introduction of non-technological innovations in merchants, as well as to provide support for learning thereby attracting investments in the country. In a limited project application selection conducted in 2016, LCCI, LICTA, and IDAL were selected to ensure a successful implementation of the programme. Agreements for 15.1 million EUR were concluded, including ERDF funding of EUR 6.9 million EUR. 908 persons employed by 294 merchants have received support since the beginning of training in 2017. According to the plan, 422 merchants will receive support by the end of 2018 (training of 5540 persons).

Ensuring assessment of knowledge, skills and professional competences obtained outside formal education

/responsible institution – MES/

The aim is, in compliance with the legislative framework, to ensure possibilities and accessibility for residents to carry out assessment of professional competences obtained outside formal education, and receiving a professional qualification document attesting to it.

In 2017, 21 education institutions were delegated to evaluate professional competence obtained outside the formal education system. From 2011 until the end of 2017, more than 5 000 professional qualification certificates (including 1 157 certificates in 2017) were issued as a result of evaluation of professional competence that had been obtained outside the formal education system.

Developing national qualifications framework and adjusting its level to the European qualifications framework

/responsible institution – MES/

The aim is to introduce the National qualifications framework of Latvia (LQF), thus fostering a transition to an education based on learning outcomes, as well

as to link it to the European qualifications framework (hereinafter — the EQF) by reflecting the

⁵¹ Priority sectors, as well as learning needs in these sectors are approved by the Adult Education Management Council. The first call for studies was in construction, metalworking, machinery and mechanical engineering, timber industry, manufacture of electronic and optical equipment, information and communication technologies.

⁵² Manufacture of textile, clothes, leather and leather articles, food industry and agriculture, catering services and tourism, printing and media technologies, transportation and logistics, energy, chemical industry, culture, construction, timer industry, manufacture of electronic and optical equipment, information and communication technologies, metalworking, machinery and mechanical engineering.

corresponding EQF level in the certificates on formal education of Latvia.

The relevant amendments in legislative acts were made in previous years. In 2017, various events were

arranged, and CEDEFOP, etc. publication translations were distributed electronically in order to inform the involved parties on LQF and EQF. In 2017, work on a new self-assessment report was launched with the aim to submit it to EC in 2018.

3.5. FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION

3.5.1. Reducing the Poverty Level

The target of the NRP is to reduce the number of persons at risk of poverty and/or of those living in

households with low work intensity by 121 000 or 21% until 2020.

Box 3.9.

Declining trend in the share of persons at-risk-of-poverty and/or persons living in households with low work intensity

If until 2013, there was a steady development towards the target set in the NRP, i.e., to reduce the number of persons subject to risk of poverty and/or living in low work intensity households, a slight deviation in share indicators has been observed starting from 2013. However, the set target has been reached in absolute terms. In 2016, the number of people subject to risk of poverty was 425 000 or 22.1% of population – decrease by 0.3 percentage points compared to 2015.

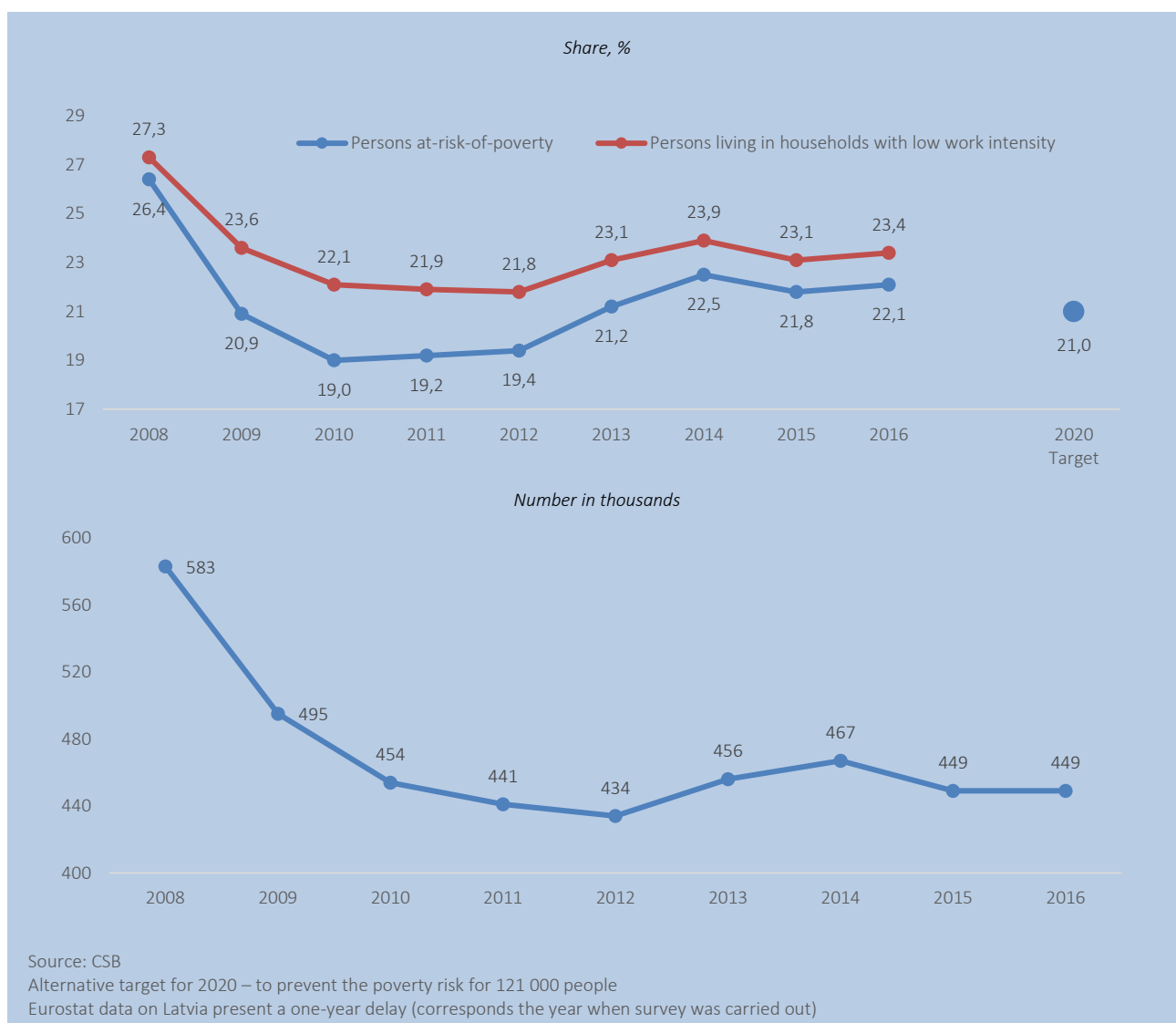
Since 2011, a steady raise in income can be observed in all households. However, household income increase rates continued to slow down compared to previous years (increase by 10.7% in 2013, by 9.3 % in 2014, by 7.6 % in 2015, by 4.9% in 2016). In 2016, compared to 2015, the lowest increase in income was observed in the poorest households (by 2.8% in quintile 1 group households). In wealthier quintile 5 group households income had increased by 5.1% during the year. The increase in income was the highest in quintile 4 group households (by 6.4%).

The share of population exposed to a deep material insecurity has decreased – from 16.4% in 2015 to 12.8% in 2016; moreover, this trend is observed in all income quintile groups. The situation has been gradually improving since 2011 and the poverty risk has been reduced for households with the main income from paid work, as well as for families with children. The share of children exposed to the risk of poverty continued to reduce reaching 18.4 per cent in 2016. Furthermore, in the households with fixed income as the main source of income (pensions and benefits) which increase much slower than wages, the risk of poverty continues to grow, especially among persons of retirement age. In 2016, the share of the population exposed to the risk of poverty in the age group above 65 increased (from 38.1% in 2015 to 39.9% in 2016). Lonely elderly people are exposed to a very high risk of poverty – if a person aged above 65 years resides alone, this indicator is 72.8%.

Compared with other EU countries, Latvia has a high income inequality – in 2016 the Gini coefficient in Latvia was the fourth highest reaching 34.5%, while this indicator does not exceed 31% in the EU on average. After the significant improvement in income inequality indicators in 2015, they remained unchanged in 2016. Furthermore, the income of the 20% of the wealthiest part of population was 6.3 times higher than that of 20% of the poorest part of population (in 2014 – 6.5 times, in 2015 – 6.2 times).

In six years, the share of social transfers in disposable income of households has diminished by 7.7 percentage points – from 32.4% in 2010 to 24.7% in 2016. Meanwhile, share of income from paid work has increased from 63.7% in 2010 to 71.2% in 2016. In 2016, household income from paid work per household member increased by 6.1% – from 293 EUR per month in 2015 to 311 EUR per month in 2016.

Figure 3.6
Poverty reduction target



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

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

The main directions of measures implemented in 2017 remained the same and were aimed at reduction of labour tax burden, increase of income for employed persons with low income and families with children, improvement of material support for persons of retirement age and improvement of services for population groups exposed to poverty and social exclusion, improvement of support for persons with disability and working ability assessment system.

In July 2017 the Saeima approved an extensive tax reform, including in labour taxes, where one of priorities was to reduce income inequality of the population (see Chapter 2.1).

The implementation of the project *Professional Social Work Development in Municipalities* continued in 2017. The total planned financing for the project is 5 million EUR, including the ESF financing of 7.2 million EUR. Within this project 2 000 social work specialists will improve their professional competence, social work methodology for working with different

customer target groups will be developed, cooperation between institutions and professionals will be improved and social work in the community will be developed. According to the data collected before 28 February 2018, the number of social work specialists involved from the beginning of the project until the end of 2017 has reached 1267 persons in 102 municipalities. Overall, 116 700 EUR were used for compensations to municipalities in 2016 and 2017, including 95 000 EUR for supervisions and 21 700 EUR for training. 99.2 million EUR of the total amount used are ESF funding, and 17.5 million EUR – state budget funding.

With ESF support deinstitutionalisation (DI) projects are implemented in all the regions of Latvia with participation of 115 municipalities promoting the increase in the number of foster families, guardians and adopters. Within DI projects, 4876 persons of the target groups have been assessed and developed support plans (children in extra-familial care and children with functional disorders who have been diagnosed disability and who are living in families, and for adults with mental disorders). All planning regions are developing regional DI plans and plans for reorganisation of child care institutions and branches of social care centres supported for closure, there were public consultations for plans of three regions in 2017.

Likewise, with the ESF support, until 2021 a social services support system will be improved where a community-based social services funding and support person services implementation mechanisms will be developed and tested. Testing of funding mechanisms for provision of community-based services to children with functional disorders and adults with mental disorders is planned as a part of this project involving

200 adults with mental disorders and 100 children with functional disorders in the practical testing. 330 adults with mental disorders are involved in the support person service pilot project providing them with support in mastering of legal, financial, daily life skills and in the area of development, health and social care, and in the formation of a support circle.

A crucial support for reducing poverty and social exclusion in 2014–2020 will be provided through measures co-financed by the EU funds. 225 million EUR or 35% of ESF funding is intended to promote the social inclusion and to fight poverty and any type of discrimination. Additionally, 193 million EUR or 8% of ERDF funding will be diverted to this objective.

It is planned to use 48.2 million EUR in 2014-2020 programming period in Latvia for the support of the most deprived persons, including 41 million EUR from *Fund for European Aid to the Most Deprived* (hereinafter referred to as FEAD) funding. With the FEAD support, in 2017 in total 60 500 needy persons received food product sets, 18 300 families with children received hygiene and household goods, 12 200 pupils from needy families received school supplies kits, while 4 500 needy persons were provided prepared meals. In 2017, FEAD allowed to ensure 1217 additional measures for reduction of social exclusion and solving a person's social problems independently. 7 900 persons participated in them. In 2017, distribution of additional food and hygiene product sets for families with infants and small children below the age of 2 was launched. 900 families received food product sets for families with children below the age of 2 and 1 400 families received hygiene product sets.

The main policy directions and measures:

Reducing income inequality

/responsible institutions – MF, MoW/

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

Taking into account the high risks of poverty and social exclusion for persons of retirement age, amendments to the *Law on State Pensions* were made in 2015 stipulating that following pensions will be revised in 2016-2018: old-age, service, and survivor's pensions received or recalculated between 1 January 2010 and 31 December 2015, and where negative pension capital indexes are taken into consideration in the calculation.

Alongside, the above-mentioned amendments provide for prevention of a situation when the allocated state

pension amount is significantly affected during an economic downturn. Law includes a mechanism to prevent a too rapid increase of pension capital during years of economic growth.

To raise the level of income of the pensioners, in 2018 for old-age pensions with a long insurance period pension indexation will use a bigger share of the actual increase percentage on the amount of insurance contribution wages. This will be applicable to pensioners with at least 30 years long insurance period and pensioners, who were employed in harmful and heavy, or very harmful and heavy work conditions. This indexation will result in the increase of the amount of pensions for 89% of recipients of old-age pensions.

In 2018, the amount of supplement per year of the insurance period accumulated before 31 December

1995 who had reached the age necessary for old-age pension and had been granted old-age or disability pension by the end of 1995 was increased. The planned number of recipients of the increased supplement – 34% of all recipients of old-age and disability pensions.

Since 2017, the state social security benefit can be received by a person having no right to state pension, who is not employed and has not reached the age necessary for old-age pension. Earlier, this benefit was

granted, if the person had exceeded the age necessary for this pension by 5 years.

In July 2017 the Saeima approved an extensive tax reform, including in labour taxes, where one of priorities was to reduce income inequality of the population. Some of measures are for instance introduction of a progressive PIT, introduction of a differentiated basic allowance, increase of the basic allowance for retired person, increase of the allowance for a dependent person (*see Chapter 2.1*).

Encouraging people at risk of poverty and social exclusion to participate in the labour market

/responsible institution – MoW/

To foster the return or inclusion of the persons at the risk of poverty or social exclusion to the labour market, ALMP measures were implemented for these groups of population ensuring jobs co-financed by the state. 1 144 subsidised jobs in total were created in 2017 (including the *Youth Guarantee* project), including 413 jobs for unemployed persons with disability. 8.2 million EUR, incl. ESF co-funding of 7 million EUR, were spent in 2017 on the creation of subsidised jobs. Overall, 2074 subsidies job were created from February 2015 to the end of 2017 within the project *Subsidised Jobs for the Unemployed*, of which 960 jobs were in the Latgale region. During this period, benefits were received by 2434 unemployed, including 645 unemployed with disability.

In 2017, the subsidised employment measures were supplemented with a new type of service for unemployed persons with mental disorders – a support person at work assisting with the integration in workplace. Namely, to take part in negotiations with the employer, assist in learning and completing the tasks given by the employer, establish communication with the employer, supervisor and colleagues, as well as provide psychological and motivational support.

5 new professional rehabilitation continuing education programmes for persons with severe disability and 35 non-formal education skill training programmes for persons with mental disabilities were licenced within the framework of ESF co-financed activity *Professional Rehabilitation* in 2017. A number of support measures were carried out during the training to master the requirements defined in the education programmes. In parallel, work is ongoing

on the improvement of the professional suitability determination system according to the needs of the target group. The total funding planned is 1.25 million EUR, incl. ESF co-funding of 1.06 million EUR, of which total funding in 2017 was 0.32 million EUR, including ESF co-financing of 0.27 EUR.

In order to improve the accessibility of services provided by SEA to persons with a disability, a service of a sign language interpreter during ALMP.

SEA career consultants consulted imprisoned persons on career in 6 detention places: Overall, 750 imprisoned persons received career consultations.

Starting from 4th quarter of 2016 and until the end of 2022, within ESF co-funded project *Social Entrepreneurship Support*, support is provided for actors within social entrepreneurship, including those taking work inclusion measures, facilitating employment of certain target groups (long-term unemployed, elderly unemployed (over the age of 54), unemployed with dependents, unemployed with disability or mental disorders) in the social enterprises. Within the said time frame, social enterprise support system, including providing financial support to social enterprises, shall be developed and implemented as a part of this project. 58 actors within social entrepreneurship applied for participation in the project in 2017. Total funding for implementation of the measure is 14.9 million EUR, incl. ESF co-funding of 12.7 million EUR. As registration of actors within social entrepreneurship started in July 2017 and known time is necessary for preparation and evaluation of business plans and conclusion of agreements, the issue of grants will start in 2018.

Eliminating discrimination threats and stereotypes, as well as fostering participation of the civic society

/responsible institution – MC/

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

With the support from EC, the project *Platform I for Latvian Roma People: Dialogue, Cooperation, and Involvement* is implemented in 2017 to promote a cooperation and dialogue between Roma civic society, representatives from state and municipal authorities, and social partners, and to ensure a more extensive and efficient engagement of involved persons and a better coordination and implementation of Roma integration policy package. The total project funding is 30 600 EUR, incl. EC funding of 29 000 EUR. Overall, more than 400 participants were involved in project activities.

In 2018, activities of the Platform for Latvian Roma People continue within the project *Platform II for Latvian Roma People: Dialogue, Participation and Peer Learning* with the total funding of 63 100 EUR, including EC funding of 60 000 EUR.

To foster integration and participation of the civic society in the implementation of the policy, support from the national budget within the open project

tender is provided on a regular basis for the development of an intercultural dialogue, and to the NGO projects for ethnic minorities, including Roma people, thereby building their capacity and facilitating mutual cooperation, as well as cooperation with the local governments. NGOs can receive total support of 400 000 EUR per year for the implementation of their capacity and projects – 66 NGO projects were implemented in 2016 and 42 projects – in 2017.

In 2017, the implementation of the ESF co-financed project *Promoting Diversity (Preventing Discrimination)* continued. An Information Centre for Incomers has been functioning with financial support of the Asylum, Migration and Integration Fund since 2016 in order to provide unified and targeted integration support to third country nationals and to promote their successful inclusion in the Latvian cultural environment. Within the diversity promoting project, a research and profiling of needs of persons exposed to risks of social exclusion and discrimination takes place in order to determine the most targeted support for a more successful integration in the community, involvement in employment, education of acquisition of a qualification. Total funding for implementation of the activities is 6.8 million EUR, incl. ESF co-funding of 5.8 million EUR. 594 000 EUR, incl. ESF funding of 504 900 EUR, and state budget co-funding of 89 100 EUR, were spent from the beginning of the project to the end of 2017. The total funding spent is 448 600 EUR, incl. EC funding of 381 300 EUR.

3.5.2. Demographic Challenges and Health Protection

Negative **demographic** changes are observed in Latvia — the decrease and ageing of the population, a relatively high death rate, negative natural growth and negative migration. At the beginning of 2018, the number of Latvian population was 1.93 million. The rapid ageing of the population is a particularly critical problem – the number and proportion of children is decreasing and the number and proportion of elderly people is increasing. At the same time, it should be noted that the international long-term emigration is decreasing and immigration is increasing along with the gradual economic growth. Nevertheless, migration is still negative.

Tackling demographic issues has been one of the urgent issues on the political agenda over the recent years. An assessment of social protection expenses, especially broken down by functions, carried out in compliance with ESSPROS methodology confirms the positive impact of policy measures for support of families with children implemented in the recent years. In accordance with the preliminary data

provided by CSB, the biggest increase in expenses in 2016 was support for families with children – an increase of 6% compared to 2015, while total expenditure for social protection in 2016 increased by 4.2% in comparison with 2015.

Positive and sustainable change of demographic situation in Latvia has been placed among the government priorities. Hence, in order to develop and submit proposals for improvement of support measures for popular reproduction, an inter-institutional cooperation platform “Centre for Demographic Matters” (CDM) was established. The most important initiatives for 2017 put forward by CDM and supported by the government and the Saeima are related to diminishing the poverty of incomplete families, increasing the size of the minimum state support for children who have lost the breadwinner and closing it in on minimum maintenance amount, creating economically more beneficial conditions for families with many children, increasing state family allowance for the fourth and

next children and introducing discounts on tickets in intercity public transport to large families, improving care for children left without parental care in a family environment, continuing the housing programme (state guarantee for mortgages to purchase or construct of housing property for families with children), etc.

Furthermore, the main activities proposed by CDM for 2018 focus on a third child policy by improving the system of state family allowances and introducing supplements to state family allowances, organising activities as a part of for centennial anniversary for strengthening of family values in the community, preventive support for the improvement of protection of children's rights, promotion of re-emigration, improvement of extra-familial care system, continuation of the housing programme, etc.

Taking into account the role of local governmental in demographic matters, a *Family-Friendly Municipality* programme stated in 2017, which envisages:

- Organisation of a competition to evaluate Latvian municipalities and identify those municipalities, which provide most support, more diverse and accessible services to families with children. 55 municipalities participated in the competition in 2017. Winners received financial support (51 000 EUR in total) for contributions related to services or infrastructure for families with children, including for the creation of new playgrounds for children. As part of voting in the competition municipalities also received specific proposals from residents for the improvement of services for families with children;
- Creation of a long-functioning, comprehensive and highly readable summary of information on support provided by the municipality to families (www.vietagimenei.lv), which provides full information to parents about their possibilities to receive support in their municipality, thus improving the availability of services to the population.

The main policy directions and measures:

Improving the birth rate and social protection measures focusing on families with children

/responsible institutions – MoW, MEPRD, MJ, ME/

The aim is to ensure and improve the state and local government support to families with children, as well

as to encourage parent integration in the labour market. Measures to reach the aim are reflected in Box 3.10.

Box 3.10.

Support to families with children and encouraging parent integration in the labour market

- From 1 January 2018 the benefit is paid until the child reaches the age of 20 (earlier – 19), while he or she continues studies in a general or vocational education institution, and the benefit is paid for a child who studies in a vocational education institution and receives a scholarship. Number of children, who will receive the benefit – 21 500;
- From 1 March 2018 a supplement to the state family support for rearing of two or more children from the age of one to 20 is introduced. The amount of supplement for two children is 10 EUR per month, for three children – 66 EUR per month, but the supplement for each next child is by 50 EUR per month higher than for the supplement for the previous total number of children in the family. Number of recipients of the supplement – almost 90 000;
- State material support for adoptive parents, foster families and guardians is increased in 2018 by allocating additional 2.9 million EUR for development of alternative family care forms. The benefit to a foster family for child maintenance up to the age of seven increased from 95 EUR in 2017 to 215 EUR in 2018, but for a child from seven to 17 years (inclusive) – from 114 EUR in 2017 to 258 EUR in 2018. The compensation to a foster family for the fulfilment of duties from 2018 depends on the number of children in care. The amount of compensation for one child in foster care is equal to the childcare benefit for a person caring for a child up to the age of one-and-a-half years, or 171 EUR. If there are two children in foster care, the amount of compensation is 222.30 EUR, and 273.60 EUR for three or more children. The previous amount of compensation was 113.83 EUR regardless of the number of children in the foster family;
- From 2018, the compensation for caring for a child to be adopted for persons having social insurance, who care for a child up to the age of 8 years, – the amount of compensation is 70% of average insurance contributions wage defined in the country. Other recipients will receive compensation as before – 171 EUR. If an adopter takes care of several children at once, a supplement of 171 EUR will be granted for the next child;
- Social protection of adopters and foster families has increased – from 2018 social insurance contributions (for insurance of pensions, for insurance of disability and insurance against unemployment) are made for the persons, who receive compensation for the fulfilment of duties of a foster family and have no social insurance;
- Starting from 1 January 2017, PIT reduction for a dependent person will be extended to an unemployed spouse taking care of a minor who in accordance with the legislative acts is recognized as a person with disability, provided that the unemployed spouse does not receive taxable income or state pension. Meanwhile, from 1 July 2018 a benefit will be paid for an unemployed spouse, who takes care of a child up to the age of 3 years or, who takes care of three or more children up to the age of 18 or up to the age of 24, of which at least one is younger than seven years, until the child continues studies in a general, vocational, higher or special education institution or who take care of 5 children up to the age of 18 years or up to the age of 24 years, while the child continues studies in a general, vocational, higher or special education institution;

- Starting from 2018 the state budget earmarked subsidy for the work of social workers with families and children as a supplement to the month wage is restored. The main preconditions for professional and effective social work with families and children are qualification and knowledge of social workers, as well as sufficient number of such workers. At present, municipalities face shortage of professional social workers and, in particular, those social workers, who have obtained necessary knowledge for work with families and children, which considerably affects the quality and efficiency of social support. The restoration of the earmarked subsidy is important for motivation of social workers to take this job and to improve their qualification on a regular basis to obtain necessary knowledge for work with families and children, because wages of workers in social area are lower than average compared to other areas. The allocation of the state earmarked subsidy to municipalities of 898 000 EUR is envisaged in the *Law on the State Budget for 2018*;
- Since 2015, the state provides support for families with children in buying their first home in the form of a guarantee that is issued and managed by the SJS Latvian Development Financial Institution Altum. The total sum of guarantees issued is 54 million EUR. More than 7807 families have received support for buying a home since the beginning of functioning of the programme, thus providing more than 11 000 children with a home.

The new *Law on Maintenance Guarantee Fund* (in force from 1 February 2017) provides for extended circle of state guaranteed maintenance allowance recipients and simplified procedure for receiving the maintenance allowance. It prescribes the following significant changes:

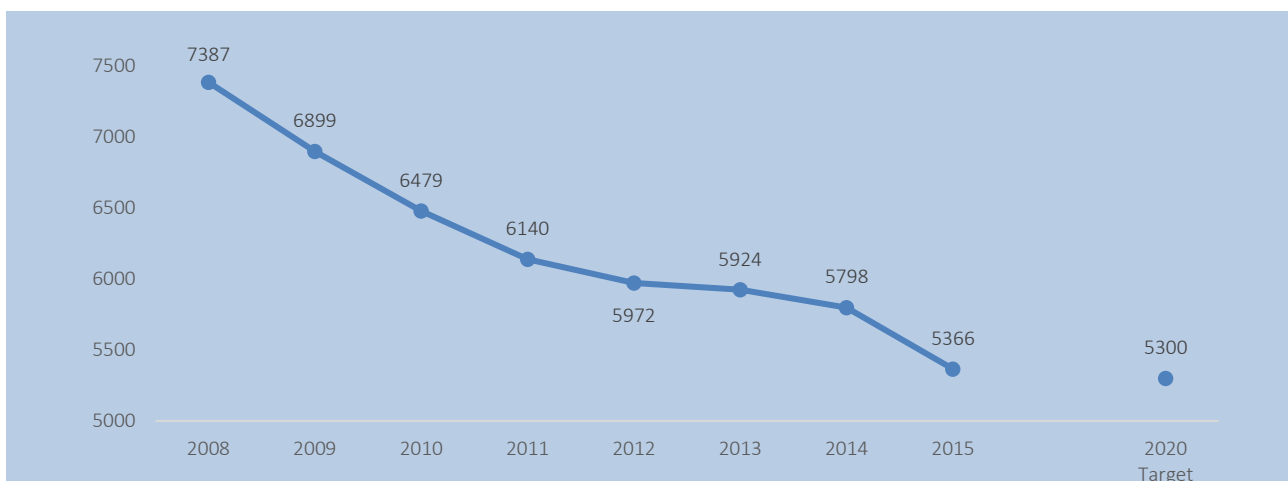
- Payment of maintenance allowance until the person reaches the age of 21, if he/she continues basic, secondary, vocational or special education in Latvia;
- Launching maintenance allowance payments from Maintenance Guarantee Fund (MGF) – within 3 months as opposed to the current term of 9 months. If no dispute exists between parents, the CM-determined minimum maintenance allowance will be granted in administrative proceedings by turning straight to the Administration of Maintenance Guarantee Fund (AMGF);
- Possibility for maintenance allowance debtors to make the maintenance payments at least within their means. Should the maintenance allowance be paid in administrative proceedings and debtor fails to provide the minimum maintenance allowance in full amount, the debtor shall have the possibility to enter an agreement with AMGF on making the payments;
- To apply a prohibition of using vehicle driving or vessel steering license to maintenance allowance

debtors, if state pays the state guaranteed minimum allowance instead of debtor and he/she has failed to enter an agreement on repayment of debt or fails to comply with the agreement for three consecutive months. At the same time, AMGF shall consider the proportionality of licence prohibition in each individual case.

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

A steady trend of reduced infant mortality indicators is observed. In 2001, infant mortality rate was 11.1 per 1000 born alive, while in 2016 the number had reduced to 3.7. The average life expectancy at birth in Latvia has increased over the past ten years, however, it is still amongst the lowest in EU (in 2015 it was 74.8 years in Latvia and 80.6 years in the EU). The decreasing death rate and the increasing average life expectancy at birth fosters a gradual rise in the healthy life years indicator which has increased by 0.9 years for women, reaching 54.1, and by 1 year for men, reaching 51.8 years, in 2015 compared to 2005. The main causes of the years of potential life lost (hereinafter — YPLL) are external causes (mostly suicides and traffic accidents), diseases of the cardiovascular system and malignant tumours.

Figure 3.7
Lost years of potential life reduction target
per 100 inhabitants* aged before 64 years, inclusive



Pursuant to the mid-term (2014-2016) assessment of implementation of the *Public Health Guidelines 2014-2020* of the target – to reduce the YPLL (up to 64 years) indicator by 11% (to reach 5300 per 100 000 inhabitants in 2020), it is concluded that we are progressing towards the target quite rapidly and in

2016 the YPLL value planned for 2020 had been reached by 98.8% (5366 per 100 000 inhabitants).

In order to create a sustainable health care system and improve the quality and accessibility of health care services for Latvian residents, implementation of health care reform continues.

The main policy directions and measures:

Health care funding model, health care basket of services, rates and service accessibility

/responsible institution – MH/

The aim of the health care reform is to increase the number of healthy life years among the population and to ensure the required human resources in health care system by improving the quality and accessibility of health care services funded from state budget, as well as raising the wages of medical practitioners.

In 2017, the CM adopted *Conceptual Report on the Reform of the Health Care System*, which envisages additional funding for the improvement of availability of outpatient and inpatient health services, raising the wages of medical practitioners, increasing tariff elements of medical services, provision of medical education, payment for reimbursable medicines and medicines purchased in a centralised way.

At the end of 2017, the CM adopted an *Informative Report on the Implementation of Health Reform Activities in 2018*, which includes measures for the improvement of availability of health services amounting to 113.4 million EUR for the following health care activities: For accessibility of health services (46.1 million EUR);

-
- For treatment of oncological diseases (29.9 million EUR);
- Total reduction of infectious diseases (16.7 million EUR), incl. for treatment of hepatitis C and HIV infection;
- For improvement of quality and accessibility of primary health care system (9.7 million EUR);
- For reduction of cardiovascular diseases and improvement of disease treatment efficiency (11 million EUR).

Starting from 1 January 2018, the state paid health services include liver transplantation and transcatheter implantation of an aortic valve, as well as diabetes training room services. Also, from 1 July 2018 positron-emission tomography examinations will be provided to persons suspected to have a malignant tumour for certain localisations.

The additional funding from the budget deficit derogation granted by the EC, in the 1st half of 2017 medications of the latest generation were provided and proper therapy was performed for 140 patients with viral hepatitis C in stage F3-F4, 7 976 oncological patients received consultations from specialists, 8 126 examinations were conducted for the introduction of primary diagnostics algorithms for oncological diseases, 7 267 oncological patients received secondary diagnostics and examinations, 1 363 oncological patients received radiation therapy and chemotherapy, 3 117 oncological patients received reimbursable medicines. In the 1st half of 2017, the length of queues to specialist services on average reduced by 24.3%, the length of queues to examinations and therapy on average reduced by 12.4%, the length of queues to services of a day care hospital on average reduced by 39.4% and the length of queues to outpatient rehabilitation on average reduced by 6%. 2017 was the first year after the crisis, when quota for state-paid health services were not exhausted.

In 2016, when the CM adopted the *Conceptual Report On Changing the Latvian Health Care Funding Model*, the state universal mandatory health insurance funded by state budget was supported. In the middle of 2017, the Saeima adopted *amendments to the Law on State Social Insurance* stating that the share of mandatory contributions, which corresponds to one percentage point from the rate of mandatory contributions, is intended for financing of health services. Subsequently, in 2017, the Saeima adopted the *Law on Healthcare Financing*, which prescribed further division of health services into two baskets – the basket of basic services and the basket of full services. The new regulation envisages a minimum of state paid medical aid, which will be received by all the population regardless of contributions to health insurance. It will include emergency medical assistance, obstetric assistance, services provided by general practitioners, medical devices, as well treatment of such diseases, which seriously affect public health or/and danger to public health, for

example, mental diseases, tuberculosis and infectious diseases, as well as medicines for treatment of these diseases. Furthermore, to be able to receive other state paid services, the population will have to participate in mandatory state health insurance. Socially insured persons and those, who made health insurance contributions voluntarily, will be entitled to the services included in the insurance basket. There are also population groups having the right to receive a full basket of services, including children, pensioners, registered unemployed and other categories defined in the law.

The functioning of the “green corridor” introduced on 1 October 2016 continued and is developing to ensure an efficient and timely examination and start of treatment in the event of several oncology diseases. The procedure established on 1 January 2017 for secondary diagnostics of malignant tumours for certain localisations stating that diagnostic examinations should be organised and provided and treatment of specific oncological patients should be started at the same time envisaging that the council of physicians should take decisions on patient treatment tactics not later than within a month of the first specialist’s consultation.

Mapping medical institutions, issues of infrastructure, human resource development in health care, and health care system management

/responsible institution – MH/

In December 2016 CM approved the *Informational report on mapping and development reform of systemically important medical institutions*. At the end of 2016, provisions for implementation of EU programming period 2014-2020 investments in highest level hospitals (university, regional and monoprofile hospitals (rehabilitation, obstetrics, and traumatology)) were approved. The *Conceptual Report on the Reform of the Health Care System* defines the breakdown of providers of state-paid inpatient health services by service levels, providers of urgent medical aid services and maps cooperation territories of providers of inpatient health services, as well as defines activities for the attraction of human resources to regions and the matter of wages of medical practitioners. The implementation of projects of 1st and 2nd round for the improvement of accessibility of qualitative health services has started envisaging to make investments to tertiary and regional level hospitals, as well as monoprofile institutions, which ensure the provision of rehabilitation, obstetric assistance and traumatology services. In 2017, agreements with medical institutions on allocation of funds were signed, and the acquisition of EU funds commenced.

In 2018, CM approved implementation conditions for investments of EU funds in local level hospitals and there are plans to develop them and start the implementation of projects also for the development of practices of a general practitioner.

The matter of wages in being resolved to ensure the availability of human resources in health care. The *Conceptual Report on the Reform of the Health Care System* includes a calculation of funding necessary to increase funding for wages of medical practitioners⁵³. At the same time, the Saeima adopted *Amendments to the Medical Treatment Law*, with which Section 53.1

on extended normal working hours loses force from 1 January 2020. The Amendment prescribed a gradual refusal from extended normal working hours reducing the duration of extended normal working hours in 2018 and 2019. At the same time, in order to ensure that medical practitioners keep at least their current wages, it is envisaged that in case of extended normal working hours the wage for the working hours exceeding the normal working hours defined in the *Labour Law* is determined in proportion to the increase in working hours (no less than 1.20 hourly wage rate in 2018, no less than 1.35 hourly wage rate in 2019). The CM has supported funding of 85.3 million EUR for the increase of wages of medical practitioners (for details see *Chapter 2.2 on the implementation of the health reform*). Furthermore, in inpatient institutions, due to mandatory supplements for 24-hour working regime and gradual cancellation of extended normal working hours, physicians and functional specialists will have an even bigger increase in wages. In 2018, the wage of medical practitioners was raised by 44% on average, for medical and patient care persons and assistants of functional specialists – by 38%, but for medical and patient care support persons – by 24%.

In academic year 2017/2018, the number of state-funded study places in residency increased by 20 places (250 state-funded residency study places), in comparison with academic year 2016/2017.

In order to promote the entry of young general practitioners in state paid primary health care service provision, as well as allow the doctors in retirement age to retire, amendments to legislative framework were made providing that in case general practitioner’s practice terminates contractual relationships with the National Health Service (hereinafter referred to as NHS) due to retirement of a general practitioner, the NHS shall support the GP’s

⁵³ Table 12 of the Conceptual report “Health sector budget growth 2018-2023 to increase wages of medical practitioners”, p.57.

practice in settlement of financial obligations required by legislation in the event of enterprise liquidation. Practice may be eligible for compensatory payments only when another general practitioner takes over the patient care in the respective area of general practitioner's activity.

In 2018 under the EU funds programming period 2014-2020, support measures aimed at attracting medical practitioners (doctors and nurses) for work in regions outside Riga will be launched in order to address the lack of medical specialists in these regions; also, raising qualification and renewal of medical practitioners' certificates will be possible under continuous education support measure, allowing a medical practitioner not practising in his/her speciality to return in labour market. Selection of project applications and conclusion of contracts within the framework of these projects ended in 2017, while the implementation of support measures will start in 2018. As one of support activities the project envisages provision of support in the replacement of generations of general practitioners in territories outside Riga, incl.: 1) monthly compensations of accommodation costs for physicians, including general practitioners, who start work in a general practitioner's practice outside Riga, 60-200 EUR per medical practitioner once a month,

E-health system

/responsible institution – MH/

E-health is an instrument allowing to ensure a more efficient operation, monitoring and analysis of health care system. E-health system is available to residents, medical institutions, and pharmacies since 12 September 2016. In the e-health portal www.eveseliba.gov.lv, residents may access their electronic health card, and medical practitioners may write medical documents, such as e-prescriptions or e-sick-leaves.

By the middle of December 2017 all inpatient medical institutions had signed the agreement with NHS on using the health information system, 83% of general practitioners and 99% of pharmacies. 90 259 electronic sick-leaves were opened, 368 224 e-prescriptions were issued, 252 371 were used in

Health promotion and disease prevention

/responsible institution – MH/

Implementation of EU fund-financed health promotion and disease prevention measures has been launched. National level measures are implemented by MoH in cooperation with its delegated institutions, while 95 municipalities have started implementation of measures for local level health promotion and disease prevention in the local community. EU fund-financed health promotion and disease prevention

which can be received for a period of 24 months; 2) a single compensation for taking over a general practitioner's practice for the transfer of specific knowledge, information and experience to the general practitioner, who transfers a general practitioner's practice, and to the general practitioner, who takes over a general practitioner's practice, outside Riga.

Changes to functions and tasks of the Ministry of Health and subordinated institutions were made within the scope of the reform of the health care system as planned in the *Conceptual Report on the Reform of the Health Care System*. Main changes are planned on the basis of organisation of a strategic procurement, consolidation and strengthening of data analysis capacity, as well as improvement of the supervision function according to interests of patients and for qualitative organisation of the health care process.

A selection of strategic service providers was implemented by NHS in 2017 – outpatient mammography, medical fertilisation and elective oncological treatment in an inpatient medical institution, and in December conclusion of respective contracts with medical institutions on the provision of state paid health care services in 2018 started.

pharmacies and 202 e-referrals were created in the e-health system by 2 January 2018. In order to ensure safety of patient data in the e-health system, *Amendments to CM Regulations Regarding Unified Electronic Information System of the Health Sector* were made in 2017. A number of informative activities were carried out in 2017 on the operation of e-health.

By using the EU fund programming period 2014-2020 resources, the development of E-health system is planned aimed at reduction of administrative burden, raising the quality of health care services, efficiency of public services, as well as health care management and monitoring.

measures in other 24 municipalities are implemented by CDPC.

In order to foster healthy habits in children and adults, amendments to regulations have been made aimed at improving catering service quality in educational and medical institutions, long-term social care and social rehabilitation institutions, as well as supplementing food products permissible to be

distributed in general and vocational education institutions in addition to the set and optional menus. A rate increase schedule for tobacco products has been elaborated into the *Law on Excise Duties*, in accordance with which the excise tax for cigarettes will increase every year until 2019, while for cigars, cigarillos, smoking and heated tobacco and tobacco leaves – until 2020, but for alcoholic beverages the tax increases every year from 2015 to 2020.

In 2017, amendments to the *Law on Handling of Tobacco Products, Herbal Smoking Products, Electronic Smoking Devices and Their Fluids*, were drafted setting stricter restrictions, including a ban on production and marketing of sweets, snacks, toys and other objects appealing to minors, which visually remind cigarettes or other tobacco products, or electronic smoking devices and can focus the attention of minors on smoking, or advertise specific tobacco products or their manufacturers. The draft amendments also set a ban on the inclusion of Latvian national symbols, animated characters and depiction of natural persons, with the exception of natural persons depicted on combined warnings, on packaging units and any external packaging of tobacco products, herbal smoking products, electronic smoking devices and their refill containers. The draft law also envisaged to apply the provisions currently applicable to electronic cigarettes (with liquid containing nicotine) to all electronic smoking devices, therefore also to liquids not containing nicotine in areas like advertising, circulation of electronic smoking devices, indication of information on packages, etc. (on 12 October 2017 the draft laws was adopted in Saeima in the first reading).

On 30 June 2017 *Amendments to the Handling of Alcoholic Beverages Law* entered into force restricting trading of alcoholic beverages in large packages. Starting from 1 April 2018, beer, fermented beverages, intermediate products and other alcoholic beverages cannot be sold in a packaging unit with the volume exceeding 0.5 litres if the absolute alcohol content in these alcoholic beverages exceeds 5.8 volume percent, and 1 litre if the absolute alcohol content in these alcoholic beverages does not exceed 5.8 volume percent. At the same time, this provision is not applicable, if the packaging unit is made of glass, ceramic, wood, metal or complex package, which consists of a polymer or laminate bag packed into a carton box, as well as if beer, fermented beverages, intermediate products and other alcoholic beverages are marketed in the place of their production or in a manufacturer's structural unit.

Work on drafting of the *Action plan for reduction of consumption of alcoholic beverages and restriction of alcoholism 2019-2021* started in 2017, which aims to take alcohol consumption prevention measures for the general population and risk groups, as well as to limit the availability and marketing of alcoholic beverages at the same time improving alcohol addiction treatment and rehabilitation services.

Taking into consideration that circulation and use of new psychoactive substances is an issue both in Latvia and worldwide, in order to address this issue, a generic system has been introduced in Latvia to be used to include controlled substances in the list on a regular bases, and the so-called interim prohibition system has been established where any new substance can be rapidly subject to interim control for a period up to 1 year. Both aforementioned systems have allowed for reduction of circulation of the new substances.

Amendments to the Sports Law were prepared in 2017 (adopted in Saeima in the first reading on 8 February 2018), which provide that the Latvian National Anti-Doping Organisation is created as a Latvian Anti-Doping Bureau, also a Therapeutic Use Exceptions Committee, a Disciplinary Anti-Doping Committee and a Latvian National Anti-Doping Council are created. The *Action Plan for Restricting the Distribution of HIV Infections, Sexually Transmitted Infections, Hepatitis B and C for 2018-2020* was approved, which includes measures focusing on prevention of these infectious diseases, improvement of accessibility of diagnostics and treatment services, as well as measures aimed at prevention and timely diagnostics of these diseases in persons exposed to high risk of infection. In 2017, amendments were adopted to CM Regulations regulating the procedure of registration of infectious diseases ensuring faster diagnostics of hepatitis C and reducing the burden on laboratories.

Information campaigns were implemented in 2017 in order to:

- Reduce injuries among children below the age of 5 (information materials were distributed containing practical advises to parents on safety of children at home, nurses and assisting physicians employed in general practitioner's practices are trained to promote their skills to inform parents on safety of children and prevention of injuries, etc.);
- Attract attention to high incidence of diphtheria (deaths are registered every year). Information materials have been developed, education activities were conducted in educational institutions, companies and social care centres, as well as other activities to inform the community have been conducted. General practitioners are advised that vaccination against diphtheria is important. As a result of the campaign vaccination against diphtheria in 2017 grew by more than 20%;
- To encourage the community, in particular representatives of risk groups to vaccinate against influenza (influenza contributes to death from cardiovascular and other chronic, non-infectious diseases). As a result of the campaign vaccination of the population against influenza grew by about 30%, according to provisional data.

Improvement of health care quality and patient safety

/responsible institution – MH/

A *Health Care System Quality Improvement and Patient Safety Concept* as well as the action plan to be implemented within it, were adopted in January 2017. Implementation of the measures has been launched, and EU fund programming period 2014-2020 resources have been allocated for this purpose. The concept includes measures such as capacity building of health care in the areas of quality and patient safety issue coordination and supervision, setting and monitoring of health care quality and patient safety indicators, improvement of procedure for monitoring of medical institutions, assessment of clinical guidelines registered in the database of guidelines and approved medical technologies, improvement of

medical institutions registration process, educating on health care quality and patient safety issues.

In the second half of 2017, training of patients in the area of patient safety and quality management were started (more than 2000 persons will be trained by the end of 2018).

On 1 October 2017, *Amendments to CM Regulations Regarding Mandatory Requirements for Medical Treatment Institutions and Their Structural Units* were adopted, which extend requirements to health care quality and ensuring patient safety. In addition, the regulation for obstetric assistance services (during pregnancy, delivery and in the postpartum period) was improved setting requirements for ensuring the quality of the service.

3.6. ENERGY AND CLIMATE CHANGE

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

- Increasing security of energy supply providing for accessible and stable energy supply for its users reducing the geopolitical risks, diversifying the energy resource supply sources and means, developing interconnections and the domestic energy supply infrastructure by introducing the smart technologies in energy supply networks, building up reserves of energy resources and engaging in improvement of legislative regulation;

- Sustainable energy ensuring the sustainability of energy from the economic, societal and environmental point of view. It is planned to achieve these goals by improving energy efficiency, introducing the smart technologies and fostering highly-efficient production technologies and renewable energy sources (hereinafter referred to as RES) utilisation technologies.

On 9 December 2016, the prime ministers of the Baltic States signed an agreement on development of a single gas market. The Baltic States and Finland have already launched active negotiations on establishment of a regional gas market, analysing the natural gas market principles and conditions of every country in detail with the aim to achieve an agreement in the future on joint and unified market operation agreements.

3.6.1. Energy Market and Infrastructure

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

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

Granting permissions on introducing new electricity production equipment is still ongoing, while rights to sell the produced electricity as a part of mandatory procurement are no longer granted.

In continuing the improvement of operation of Latvian electricity market and strengthening the connections with European networks the transmission capacity is increased both in Latvia and in Baltic region. This is demonstrated also by the objective set within EU envisaging increasing interconnection capacity in the region up to 10% before 2020 in relation to the installed generating capacity. At the end of 2015, work on the 1st stage of

LitPol Link was completed establishing a connection between Lithuania and Poland (transmission capacity 500 MW) and Lithuanian-Swedish interconnection *NordBalt* (transmission capacity 700 MW) was completed. These transmission lines allow for reduction of electricity prices for Latvian consumers, as well as levelling of price in the region. As a result of operation of both electricity transmission connections, in 2016 and 2017 the wholesale price differences between Latvia and Scandinavian countries have reduced significantly. In 2016, the average electricity price in Latvian wholesale exchange *NordPoolSpot* was reduced by 13% in comparison with the previous year, and in 2017 – by 3.9%. At the same time, in 2016 the average electricity in Latvian wholesale exchange *NordPoolSpot* was 22% higher than, for example, in Swedish Southern Region trade area SE4, but in 2017 it was by 7.7% higher. At the same time, it should be noted that regardless of the average wholesale price reduction, wholesale prices in 2016 and 2017 and climatic conditions in general were sufficiently favourable to promote an increase in the electricity produced by Latvia, and in 2017 it generally produced by 1% more electricity than it was consumed in this period.

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

In addition, the integration of Baltic electricity grids in the EU electricity system is set as one of strategic priorities of EU energy policy to promote the creation of a safe and reliable electricity system. Thus, active work is ongoing among the Baltic countries to ensure synchronisation of Baltic countries with the Polish electricity system. By the middle of 2018, a decision is to be adopted on the best scenario for synchronisation with Poland and further steps to be taken.

3.6.2. Promoting Energy Efficiency

The aim of the *Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency* (hereinafter – Directive 2012/27/EU) is to promote energy efficiency and ensure the achievement of the headline energy efficiency target of 20% and lay the foundation for further improvement of energy efficiency. In accordance with the requirements of Directive 2012/27/EU, Latvia has prepared and in May 2017

From 3 April 2017, the **natural gas market** is open for free competition, and in total several dozens of natural gas traders have started operations on the Latvian market and the structure of natural gas supplies has changed, and in 2017 Latvian consumers started to receive natural gas from the Lithuanian liquefied natural gas terminal in Klaipėda.

As the natural gas market reform continues, the earlier monopolist JCS Latvijas Gāze was reorganised by separating from the company the operator of the transmission system JSC Conexus Baltic Grid and the operator of the distribution system AS Gaso, and in order to foster independence of the transmission system operator JSC Conexus Baltic Grid from the merchants involved in natural gas and electricity production and trade and to promote the establishment of a regional gas market, in 2017 the electricity transmission system operator JSC Augstsprieguma tīkls purchased 34.36% of shares of JSC Conexus Baltic Grid.

At the same time, security of natural gas market supply is ensured in free market conditions, because as at the beginning of the heating season of 2017, merchants had pumped into the Inčukalns underground storage facility 15.04 TWh of natural gas which equivalent to 62% of the maximum capacity of the storage facility and is sufficient to secure Latvian demand for natural gas during the heating season, when natural gas supply restrictions for deliveries by pipelines are possible. In 2017, regulatory framework has been approved providing that natural gas safety reserves shall be maintained in Latvia in the amount required to ensure a continuous supply of natural gas to users to be secured (including households, schools, preschool education institutions, hospitals, state and municipal long-term social care and pre-school rehabilitation institutions, crisis centres and other socially significant and national security related institutions) for as long as it takes to avert the circumstances causing possible natural gas supply disruptions.

At present, responsible institutions and the transmission system operator JSC Conexus Baltic Grid are actively continuing work on the establishment of a liquid and effective regional natural gas market.

submitted the *Informative Report on progress towards the Indicative National Energy Efficiency Target for 2017-2019* to the EC summarising the planned energy efficiency measures until 2019. The report summarises and assesses the energy savings achieved in the period from 2014 to 2016.

The **national energy efficiency targets** correspond to the following amounts of energy savings expressed in figures:

- The total indicative national energy efficiency target⁵⁴ — primary energy savings in 2020 – 0.670 Mtoe (28 PJ);
- The annual saving target of 1.5% for energy supplied to end consumers⁵⁵ – final energy savings in 2020 — 0.213 Mtoe (8.9 PJ);
- The annual renovation target of 3% of the state-owned building area (maximum estimates –

678.5 thousand m²) together with the renovation of municipal buildings – energy saving during the entire period of 2014–2020 – 0.016 Mtoe (0.67 PJ or 186 GWh).

The assessment of energy savings and calculation of the targets were based on the GDP forecasts until 2020 envisaging changes in energy demand, and the current energy policy, including in the area of energy efficiency and renewable energy (hereinafter referred to as RE) policy.

Table 3.1

Trajectory of achievement of the energy efficiency improvement target

Mtoe

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2020 |
|-----------------------------|------|------|------|------|------|------|------|------|------|--------------------------------------|
| Primary energy consumption* | 4.57 | 4.43 | 4.56 | 4.30 | 4.45 | 4.36 | 4.35 | 4.27 | 4.32 | Primary energy saving 0.67 Mtoe** |

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

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

At present, the gross domestic energy consumption had decreased from 4.57 Mtoe in 2008 to 4.32 Mtoe in 2016 (decrease by 0.25 Mtoe), and the implementation of energy efficiency measures has an important role in this progress. Primary energy consumption trends correspond to the achievement of

the target (0.670 Mtoe savings) set for 2020. The primary energy savings as at 2015 were 0.514 Mtoe, including 0.506 Mtoe for end consumer of energy and 8 ktce – in electricity transmission and distribution. Thus, Latvia is in line with the estimated trajectory of the primary energy saving target (see Table 3.2).

Table 3.2

Primary energy saving forecast

Mtoe

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------|-------|-------|-------|-------|-------|-------|------|
| Primary energy saving forecast | 0.224 | 0.295 | 0.390 | 0.466 | 0.534 | 0.602 | 0.67 |

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

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

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

⁵⁴ Savings are determined as the difference between the base scenario and the scenario with measures. These savings do not refer to the absolute reduction of national energy consumption. They refer to the limit of the increase achieved by those measures. The methodological requirements for notifying about the target have been laid down in Annex V to the Directive 2012/27/EU.

⁵⁵ The annual final energy savings correspond to the national mandatory accrued final energy savings 0.850 Mtoe.

The main policy directions and measures:

Improving energy efficiency in households and industrial production

/responsible institutions – MEPRD, ME/

The measures to improve heat insulation of multi-apartment buildings are aimed at increasing energy efficiency of multi-apartment residential buildings, thus ensuring sustainable housing and efficient use of energy resources. For the purpose of promoting the activity, an extensive information campaign *Warmer Living* has been carried out thus encouraging apartment owners to get involved in the management of the common property and improvement of the energy efficiency of buildings.

Within the EU funds programming period 2014-2020, measures to increase energy efficiency in public and residential buildings will be supported: renovation of buildings, energy certification of buildings and construction works to improve energy efficiency, as well as installation of such energy generation sources in buildings, which use RES for energy generation for achieving particularly high energy efficiency and causing no negative impact on centralised heat supply. The support is provided in the form of grants, loans or guarantees. The ERDF financing available for increasing energy efficiency of residential buildings constitutes 150 million EUR, while financing for increasing energy performance of public buildings is 97.9 million EUR. By 1 March 2018, 299 project applications for the total indicative ERDF funding of 44.8 million EUR have been submitted within the support programme to increase energy efficiency of residential buildings. The implementation of 6 projects has completed within the scope of the support programme.

Efficient use of energy resources and reduction of energy consumption in manufacturing are also planned to be supported within the EU funds programming period 2014-2020: measures to improve energy efficiency of industrial buildings, energy certification and construction works to increase energy efficiency, and purchase and installation of new RES-based manufacturing equipment for generation of heat. The total CF funding of 25.7 million EUR to be issued to merchants as a grant is available within the scope of the support programme for improving energy efficiency in the manufacturing sector. 26 project applications for the total CF co-funding of 7.5 million EUR were approved within the first round of selection of project applications of the support programme.

The purpose of energy efficiency measures for public buildings is to provide financial support to public building energy efficiency projects to reduce the primary energy consumption, to reduce greenhouse gas emissions (hereinafter referred to as GHG) and reduce municipal costs of heat supply.

52 project applications for the total CF co-funding of 36.4 million EUR were approved within the first round of selection of project applications of the support programme for increasing energy efficiency of public buildings by 1 March 2018, of which the implementation of 2 projects has completed.

Within the EU funds programming period 2014-2020, it is planned to rebuild and reconstruct municipal buildings, perform energy certification and construction works to improve energy efficiency, as well as foster the use of RES in buildings. The most significant support criterion is a positive financial return on investments compared to the invested ERDF funding. The intended ERDF funding is 47 million EUR. As a result of these investments, the primary energy annual consumption reduction in public buildings shall be achieved – 20.54 GWh/per year and reduction of greenhouse gas emissions – at least equivalent to 5 180 CO₂ annually. In 2017, the selections of project applications in local governments of development centres of national importance and municipalities, which were announced in 2016, continued. In total, 48 projects have been launched using ERDF funding of 12.6 million EUR.

After closing of Climate Change financial instrument (CCFI), the MEPRD has started implementation of a new support programme – EQTI. In the reporting period, projects were implemented within 2 project competitions as a part of EQTI. Under competition *Reduction of Greenhouse Gas Emissions in Architectural Monuments of State Significance*, 9 agreements were signed with the total EQTI aid amount of 8.86 million EUR, while under competition *Reduction of Greenhouse Gas Emissions – in Low-Energy Consumption Buildings*, 7 agreements were signed with the total EQTI aid amount of 23 million EUR. The total expected carbon dioxide emission reduction in both competitions will be 1 005 tons.

and distribution systems and to promote replacement of fossil fuels with renewable fuels.

Improving energy efficiency in heat production

/responsible institution – ME/

The aim of increasing the efficiency of district heating systems is to reduce energy losses in transmission

In the EU fund programming period 2014-2020, support to increasing energy efficiency of district heating systems and increasing the share of renewable energy sources, including reconstruction and construction of heat transmission and distribution systems, replacement of existing heat generation units, construction of heat accumulation units and connection of new consumers to the existing district heating system is granted in the form of grants. The total CF co-funding of 60 million EUR is available in the support programme. 80 project applications for the total CF co-funding of 40 million EUR were submitted within the first selection round. Within the scope of these project applications, 230 MW heat generation capacity is to be installed, including by reconstructing existing heat generation

sources operating on renewable energy sources, and making a transition from fossil energy sources to renewable energy sources. 48 km of heat transmission and distribution networks are also to be reconstructed within the scope of the projects. It is important to note that the reduction in greenhouse gas emissions, which will be achieved through the above mentioned actions is higher than 100 000 tons per year. Furthermore, 40 project applications submitted within the 2nd project application selection round for the total CF co-funding of 13.4 million EUR envisage both reconstruction of existing heat transmission and distribution networks and heat generation sources and installation of new heat accumulation units, as well as extension of the district heating system in several Latvian cities.

Support to energy-intensive merchants

/responsible institution – ME/

Regulations of the Cabinet of Ministers No.395 of 14 July 2015 *Procedure for Energy-Intensive Manufacturing Companies to Get the Right to Reduce their Participation in the Mandatory Procurement Component Payment*, entered into force on 13 June 2017 after their coordination with the EC, which set qualification criteria for energy-intensive

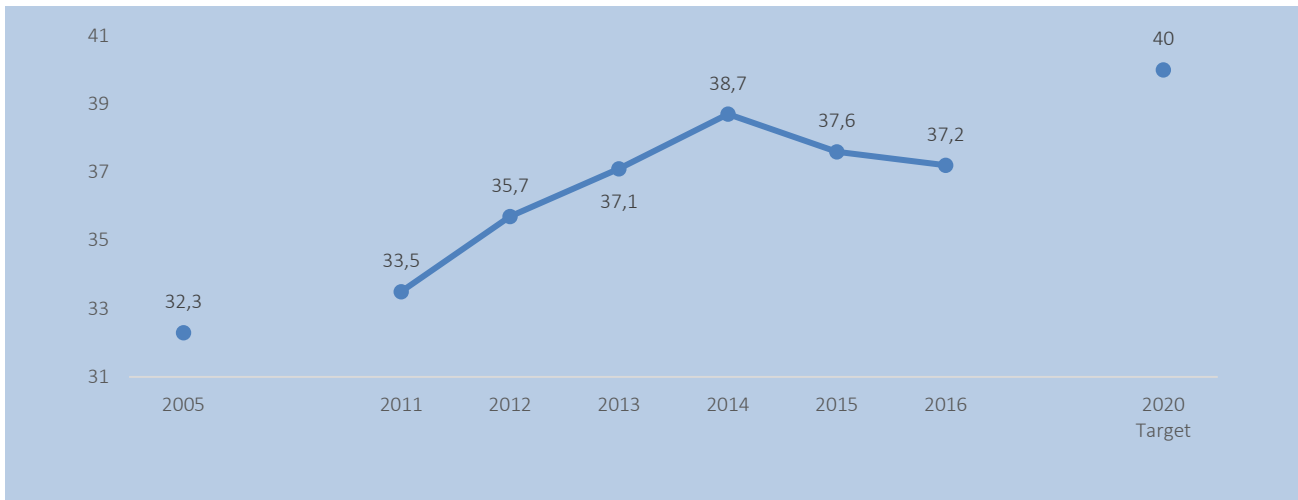
manufacturing enterprises and the procedure for the enterprise to obtain the right to reduced participation in compensation of its expenses to the public trader. Therefore, in 2017, the energy-intensive manufacturing industry enterprises operating within supported sectors used the possibility to qualify for reduced participatory payment of mandatory procurement component.

3.6.3. Increasing the Share of Renewable Energy

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

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

Figure 3.8
Renewable energy increase target
Renewable energy share, %



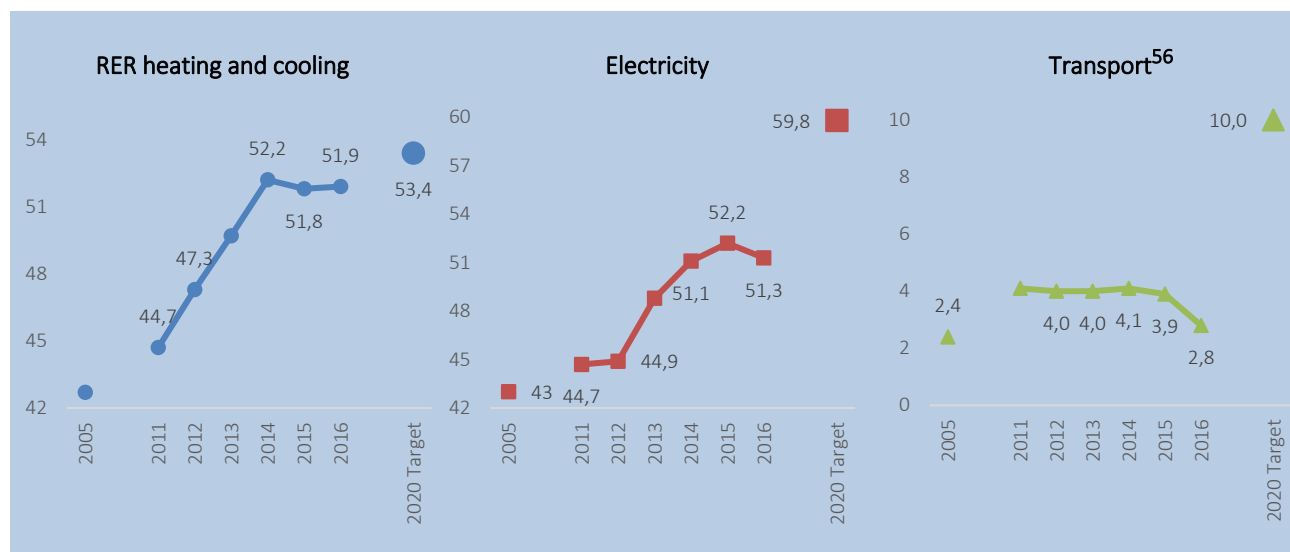
The requirements of Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources (hereinafter — Directive 2009/28/EC) are binding on Latvia, including legally

binding targets for 2020 in respect of final energy consumption.

Figure 3.9

Renewable energy share in the final consumption of sectoral energy

% of final energy consumption of each sector



The measures to be implemented and the expected outcomes of a broader use of RE are closely related to the progress of promoting energy efficiency, particularly, the energy efficiency target for 2020, which is defined in Directive 2012/27/EU (see Chapter 3.6.2). Latvia still has a high energy saving potential in all final energy consumption sectors, while it is not proportionally equivalent in all the sectors.

Following the technology development trends and global challenges, Latvia is revising its support mechanisms for the production of renewable energy by reinforcing control of the merchants receiving support aiming to make them more economically justified. The support measures implemented by now have encouraged producers to start project planning and invest in electricity production using the RES. At the same time, it must be noted that the large number

of supported projects has led to a significant increase in MPC. In order to stop its growth and maintain it on the level of a mean value of 26.79 EUR/MWh (25.79 EUR/MWh in 2018), state budget financing is allocated⁵⁷ to prevent from imposing an additional burden on end users of electricity, including burden on development and competitiveness of energy-intensive sectors. However, in order to maintain competitiveness of the economy, current support mechanisms for the RE have been revised, including careful assessment of total costs and aid intensity. When launching additional harmonisation with the EC, it is ensured that the granted support, incl. in correlation with investment support, for mandatory procurement of energy produced by plants or the guaranteed fee for the installed electric power is compatible with the internal market of the EU, and whether the support sum does not exceed the necessary minimum.

The main policy directions and measures:

Adjusting the legal basis

/responsible institution – ME/

The aim is to promote a broader use of the RES in energy production and consumption, including in the

transport sector, as well as the use of sustainable biofuel and bioliquids.

⁵⁶ The calculation methodology in transport sector has been changed with the Directive (EU) 2015/1513 of the European Parliament and of the Council amending Directive 98/70/EC relating to the quality of petrol and diesel fuels and amending Directive 2009/28/EC on the promotion of the use of energy from renewable sources (ILUC Directive), by applying multipliers to the electricity consumed in railway and road transport.

⁵⁷ The CM Order No. 572 of 4 October 2016 *On the Conceptual Report Complex Measures for Development of Electricity Energy Market*: <https://likumi.lv/ta/id/285195-par-konceptualo-zinojumu-kompleksi-pasakumi-elektroenerijas-tirgus-attistibai>. CM Order No. 530 of 22 September 2017 *On the Conceptual Report Complex Measures for Development of Electricity Energy Market*: <https://likumi.lv/ta/id/293753-par-konceptualo-zinojumu-kompleksi-pasakumi-elektroenerijas-tirgus-attistibai>.

The energy net payment system has been introduced in Latvia since 1 January 2014. Within the system, household users who generate electricity for their own needs (final consumption) and who, according to the calculated consumed and produced energy volume, have delivered a greater volume of energy to an operator of the distribution system network than consumed, the relevant volume of energy will be accounted for in the next electricity payment period within the calendar year starting on 1 April and ending on 31 March.

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

In July 2016, amendments to the existing regulations were adopted providing for a procedure on payments for the electricity acquired under mandatory procurement or electric capacity installed in the plant, introducing an overcompensation prevention mechanism and prescribing that the total capital investment internal profit norm in the plant during the entire support period may not exceed 9%. After coordination of the state support for energy producers with the EC on 24 April 2017, as of July 2017 the total capital investment internal profit norm in the planed is restricted to 9% during the entire support period.

At the same time, in 2017 state support was reduced for cogeneration power plants with installed electrical capacity above 100 MW, thus considerably reducing the burden of the mandatory procurement of electricity on the society.

Ensuring the availability of financial resources for the production of renewable energy

/responsible institution – ME, MEPRD, MA/

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

Within the *Latvian Rural Development Programme for 2014-2020* support was provided for acquisition of equipment for production of energy sources (except

for equipment intended for production of energy from biomass of agricultural or forestry origins) in order to sustain own economic activity without the aim to gain profit from the produced energy). In 2017, in total 2 projects were supported to achieve the aforementioned aim with the total public funding of 32 800 EUR, where total eligible costs reached 103 400 EUR.

Measures for achievement of 10% RES within the transport sector

/responsible institutions – ME, MT/

The aim is fostering utilisation of sustainable biofuel, electrification of transport sector, such as development of network of trams and trolleybuses, electrification of trains or creation of a charging network for electric vehicles, thus supporting utilisation of environmentally friendly and supply-secure RES.

In order to facilitate utilisation of electricity, fossil fuel and biofuel admixtures with increased share of biofuel (above 10%) or pure biofuel in public, state and municipal transport, *Amendments to the Law on the Procurement of Public Service Providers* and *Amendments to the Law on Public Transport Services* were adopted in 2016. These amendments allow the ordering party make a choice (consider) regarding the ability of a vehicle to utilise electricity, fossil fuel or biofuel admixtures with increased content of biofuel (above 10%) or pure biofuel in relation to procurement of a new road transport or public road transport.

Funding from EU funds is available in the EU funds programming period 2014-2020 for the achievement of the target within several specific objectives (SO) and measures for areas like a charging network for cars, tram infrastructure in Riga, Liepāja and Daugavpils; passenger buses in development centres of national importance, and for electrification of the railway network.

In 2017, the *Alternative Fuel Infrastructure Development Plan for 2017-2020* was developed and approved. It applies to road, air and sea transport and aims at reduction of GHG emissions in these sectors. The main emphasis is on alternative fuel types which in accordance with *Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 on the deployment of alternative fuels infrastructure* shall be introduced or necessity for introduction thereof shall be assessed in certain transport sectors by Member States as a mandatory measure. According to the measure defined in the plan

work has started on a comprehensive study on alternative fuel introduction scenarios for vehicles in order to reduce greenhouse gas emissions and their impact on the Latvian economy.

In 2017, a *Conceptual Report on the Use of Renewable Energy Sources in the Transport Sector* was approved, which analyses solutions for achieving 10% RES target and adjusting the regulatory framework. The 10% RES target should be achieved by obliging fuel suppliers to ensure that the sold products contain a certain energy part produced from RES.

Amendments to the Transport Energy Law are being developed aiming to establish an umbrella regulation for the transport energy sector. This draft law will replace the outdated *Biofuel Law* and will include

several delegations to the CM to issue regulations, such as fuel quality and biofuel sustainability criteria, requirements to alternative fuel filling and charging equipment, etc.

In January 2018, *Amendments to CM Regulations on Requirements for Conformity Assessment of Petrol and Diesel Fuel* were adopted to ensure that from 1 April 2018 arctic diesel fuel without admixture of biofuel can be traded only in winter.

Furthermore, *Amendments to the Law On Pollution*, which entered into force on 6 March 2017, reinforce the mechanism for restriction of GHG emissions created by fuel used in vehicles obliging fuel suppliers to reduce lifecycle GHG emissions.

3.6.4. Reducing Greenhouse Gas Emissions

Latvia's political goals in terms of climate are connected with the EU climate policy goals, as well as the international climate policy – the *UN Framework Convention on Climate Change* (hereinafter referred to as Convention) and its *Kyoto Protocol*. The target of Latvia is to limit or stabilise the total national GHG emissions so that by 2020 they would not exceed 12.16⁵⁸ Mt CO₂ equivalent. This target has been divided into activities included in EU Emissions Trading System (hereinafter referred to as EU ETS) and other activities (hereinafter referred to as non-ETS activities). In the period prior to 2020, the objective for GHG emission reduction does not include the sectors of land use, land use change and forestry activities (hereinafter referred to as LULUCF), while a separate forest management reference level has been set for certain sectors of LULUCF (forestry activities) in Latvia – 16 302 kt CO₂ per year.

According to the results of GHG inventory made in 2017 for the period 1990-2015⁵⁹ (hereinafter referred to as GHG inventory of 2017) as well as approximate GHG inventory for 2016⁶⁰, the total amount of Latvia's GHG emissions in 2015 were increased by 0.06%, but by 2016 total amount of Latvia's GHG emissions was reduced by 2.2% compared to 2005 (see Table 3.1).

The amount of GHG emissions created by Latvian EU ETS operators was 2 312.538 kt CO₂ equivalent in 2015, and 2 196.998 kt CO₂ equivalent in 2016, or

20.43% or 19.85% of the total amount of Latvian GHG emissions, respectively. Latvian EU ETS operators had reduced their GHG emissions by 18.98% before 2015 and by 23.03% before 2016, in comparison with 2005, thus fulfilling the GHG emissions reduction target for 2020 – 21% reduction in 2020⁶¹.

The GHG emissions dynamics of non-ETS activities currently evidences of an increase in emissions – 6.49% increase in 2005-2015. However, in the period from 2005 to 2016 a small drop is observed in GHG emissions of non-ETS activities, thus constituting a total increase by 4.87%. Thus, in 2013-2016 Latvia was within the targets set for non-ETS activities of Latvia.

The biggest sources of non-ETS GHG emissions were transport accounting for 34.77% of non-ETS activities in 2015, agriculture – 30.42%, as well as fixed combustion plants – 17.15%.

GHG emissions projections prepared in the *Report on GHG projections, policies and measures*⁶² (submitted to the EC in 2017) for the scenario of measures until 2030 evidences that the total GHG emission volume may reach 11 565.08 kt CO₂ equivalent in Latvia in 2020, thereby securing by 4.9% lower Latvian GHG emission volume than the set national GHG emission reduction target 12.16 Mt CO₂ equivalent.

⁵⁸ *Environmental Policy Guidelines for 2014-2020* (CM 26.03.2014 <http://polsis.mk.gov.lv/documents/4711>).

⁵⁹ http://cdr.eionet.europa.eu/lv/eu/mmr/art07_inventory/ghg_inventory/envv2e22q/.
http://cdr.eionet.europa.eu/lv/eu/mmr/art07_inventory/ghg_inventory/envwo8hw/

⁶⁰ http://cdr.eionet.europa.eu/lv/eu/mmr/art08_proxy/envv5gkq/
http://cdr.eionet.europa.eu/lv/eu/mmr/art08_proxy/envvw_uig/

⁶¹ *Environmental Policy Guidelines for 2014-2020* (CM 26.03.2014 <http://polsis.mk.gov.lv/documents/4711>).

⁶² http://cdr.eionet.europa.eu/lv/eu/mmr/art04-13-14_lcds_pams_projections/projections/envws0bea/

Table 3.3

Trajectory of achievement of the greenhouse gas emissions target

Mt CO₂ equivalent

| | 2005 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|------|------|------|------|------|------|------|------|------|
| Total emissions ⁶³ | 11.3 | 11.3 | 11.2 | 11.4 | 11.1 | 11.5 | 11.5 | 11.6 | 11.6 |
| Latvian national total GHG emission target ⁶⁴ | | | 12.0 | 12.0 | 12.1 | 12.1 | 12.1 | 12.2 | 12.2 |
| EU ETS emissions ⁶⁵ | 2.9 | 2.7 | 2.4 | 2.3 | 2.2 | 2.4 | 2.4 | 2.4 | 2.4 |
| Latvian national EU ETS GHG emission target ⁶⁶ | | - | - | - | - | - | - | - | 2.3 |
| Non-ETS emissions ⁶⁷ | 8.5 | 8.6 | 8.9 | 9.0 | 8.9 | 9.1 | 9.1 | 9.2 | 9.2 |
| Latvian non-TS GHG emission target ⁶⁸ | | 9.3 | 9.4 | 9.4 | 9.5 | 9.7 | 9.8 | 9.9 | 10.0 |

Total GHG emissions from non-ETS activities will increase by about 8.86% in 2005-2020 and may reach 9 207.6 kt CO₂ equivalent in 2020. Thus, Latvia will also be able to fulfil its non-ETS target in 2020 – no more than 17% increase in GHG emissions from non-ETS activities in 2005-2020. Therefore, it can be concluded that Latvia will achieve the EU set non-ETS

activity GHG emission reduction target for 2020 even within the existing scenario of measures. Meanwhile, the EU ETS GHG emission volume, provided the current scenario of measures applies, may reach 2 357.48 kt CO₂ equivalent which is approximately 4.24% more than the set target for 2020.

The main policy directions and measures:

Limiting non-ETS emissions

/responsible institutions – MEPRD, ME, MA, MT/

The following activities have been included in the non-ETS activity GHG emission reduction target: any burning of firewood or fuel for purposes of heating, electricity, as well as industrial production processes, in fixed combustion plants (including those in households); activities related to use of fuel in vehicle – road transport, railway, local aviation or navigation, agriculture – livestock farming, crop and fruit growing, waste and sewage management, as well as use of industrial raw material and various chemical substances.

Reduction of GHG emission in the **area of energy** could be achieved by ensuring replacement of fixed combustion equipment technologies or improving their energy efficiency, replacing the currently used firewood or fuel with renewable sources, as well as by reducing the amount of heating or electricity consumed.

The reduction of GHG generated as a result of activity in the **transport sector** is mainly possible by reducing the fuel consumption (more economical engines with lower volume), introducing more sustainable cargo and passenger (both public and

private) transportation, renewing the used car park, electrifying the vehicles used for transportation of passengers (public and private) and cargo, replacing use of fossil fuel with renewable energy resources or electricity, as well as other alternative types of fuel. Indirect positive impact on the reduction of GHG emissions can be achieved with a number of EU instruments: requirements of CO₂ emissions for new vehicles, application of vehicle operation tax to new vehicles based on CO₂ emissions generated, a more extensive use of alternative fuel in vehicles (electric transport, natural gas, hydrogen, and biofuel, etc.), renewal of road infrastructure, further electrification of railway infrastructure, etc. In the coming years, further improvement of the transport infrastructure is planned, namely, improvement in regional road networks, development of specialised transport corridors positively affecting organisation of the transport flow.

In the **agricultural sector**, the biggest volume of emissions is generated by tillage (mainly organic soil, use of mineral fertilizers, organic fertilizers, liming, etc.) and intestinal fermentation of cattle constituting more than 90% of the total amount of emissions in

⁶³ GHG inventory of 2017 and approximate GHG inventory for 2016, *Report on GHG projections, policies, and measures* (2017).

⁶⁴ *Environmental Policy Guidelines for 2014-2020* (CM 26.03.2014 <http://polsis.mk.gov.lv/documents/4711>).

⁶⁵ Emission reports submitted by the Latvian EU ETS operators, *Report on GHG projections, policies, and measures* (2017).

⁶⁶ *Environmental Policy Guidelines for 2014-2020* (CM 26.03.2014 <http://polsis.mk.gov.lv/documents/4711>).

⁶⁷ GHG inventory of 2017 and approximate GHG inventory for 2016, *Report on GHG projections, policies, and measures* (2017).

⁶⁸ The non-ETS GHG emission reduction targets in accordance with the *Commission Decision No. 2013/162/EU of 26 March 2013 on determining Member States' annual emission allocations for the period from 2013 to 2020 pursuant to Decision No 406/2009/EC of the European Parliament and of the Council; Commission Implementing Decision No. 2013/634/EU of 31 October 2013 on the adjustments to Member States' annual emission allocations for the period from 2013 to 2020 pursuant to Decision No 406/2009/EC of the European Parliament and of the Council; Commission Decision (EU) 2017/1471 of 10 August 2017 amending Decision 2013/162/EU to revise Member States' annual emission allocations for the period from 2017 to 2020*.

this sector. The potential for emission reduction is limited here. The current use of mineral fertilizers on 1 ha of cultivated agricultural land is one of the lowest in the EU, and the utilisation of mineral fertilizers will increase with the development of agricultural production. Replacing the use of mineral fertilizers with the organic fertilizers is hindered significantly by the fact that organic fertilizers in Latvia are not sufficiently available in relation to a low density of

Research, innovations, raising public awareness

/responsible institution – MEPRD/

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

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

Within the National Research Programme for 2014–2017, a research programme *The value and dynamic of Latvia's ecosystems under changing climate* (EVIDenT) was implemented. The goal of this programme is to carry out a study on environmental and natural resources in order to achieve their rational and sustainable utilisation and raise the global competitiveness of products manufactured from local natural resources, as well as perform a study on biological diversity and changes in ecosystems, and prepare the forecasts. The most important tasks of EVIDenT in connection with GHG emission reduction are the following:

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

In 2017, the project Raising Capacity for Implementation of LIFE Programme in Latvia continued where funding provides for implementation of innovative and sustainable

livestock. In order to reduce GHG emissions, in 2017 within the *Latvian Rural Development Programme for 2014-2020* support for creation facilities for manure storage was granted to 10 projects – public funding of 326 500 EUR with total amount of eligible costs 638 400 EUR, as well as for purchasing of accurate technologies was granted to 40 projects with total eligible costs of 2 346 800 EUR, including public funding of 919 100 EUR.

environmental quality and climate change projects within *LIFE programme* until 2020.

The following projects were completed in 2017 among the EEA Financial Mechanism 2009–2014 Programme *National Climate Policy* pre-determined projects – *Adjustment of the National System to Greenhouse Gas Inventory and Reporting on Policies, Measures, and Projections* (hereinafter referred to as INVENT project), and *Elaboration of Proposals for National Climate Change Adaptation Strategy Identifying Scientific Data and Measures to Ensure Adaptation to Climate Changes, as well as Impact and Cost Assessment* (hereinafter referred to as ADAPT projects). A proposal for the *National Climate Change Adaptation Strategy* was developed, several thematic researches were conducted to assess risks and vulnerabilities and to identify adjustment measures within the framework of the ADAPT project in 2017. Furthermore, within the framework of the INVENT project there was an assessment of the composition of domestic, hazardous and production waste in waste management regions, management of individual types of waste and possibilities to reduce the amount of waste to be buried at landfills, and the statistics for Latvian primary energy resources was broken down into activities included and not included into EU ETS, integration of data in the MARKAL model, development of guidelines for the assessment of the climate change reduction policy and measures and analysis of costs and benefits by sectors.

An international conference *Baltic Pathway Towards Low Carbon and Climate Resilient Development* was organised in October 2017 within the framework of the bilateral cooperation fund of the EEA Financial Mechanism Programme *National Climate Policy*, which was the most prominent event devoted to climate in Latvia so far. The purpose of the conference was to focus attention of public groups on the topicality of climate changes and to discuss the need for low-carbon development (LCD) and climate resilient development and their possibilities in Baltic countries, as well as to identify specific tasks for the achievement of such development, to intensify materialisation of changes.

4. INVESTMENTS FROM EU FUNDS

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

For the implementation of EU structural and investment funds (ESF, ERDF, CF, EAFRD, and EFMF), within the programming period 2014-2020 in total 5350.1 million EUR are available. In accordance with the thematic objectives laid down in the *Regulation (EU) No. 1303/2013*⁶⁹ of the European Parliament and the Council and ensuring a connection between Cohesion policy and strategy *Europe 2020*, the

*Partnership Agreement for ESI fund programming period 2014-2020*⁷⁰ contains an indicative distribution of EU structural and investment fund financing and indicates connection with the national objectives in the context of *Europe 2020* strategy (see previous Progress Reports on the Implementation of the NRP of Latvia).

Table 4.1
Latvian national targets in the context of Europe 2020 strategy and total funding*

| | Initial value | 2020 | million EUR |
|---|----------------------------|-----------------------------|---|
| 1. Employment rate (aged 20–64), % | 67.1 (2009) | 73 | 946.2 |
| 2. Investment in research and development (% of the GDP) | 0.46 (2009) | 1.5 | 544.4 |
| 3. Higher education (percentage of the population aged 30 to 34 with higher education), % | 30.1 (2009) | 34.0-36.0 | 43.2 |
| 4. Share of early school leavers among residents (aged 18-24), % | 13.9 (2009) | 13.4 | 174.8 |
| 5. Share of people at-risk-of-poverty, % | 26 (2009) | 21.0 | 430.4 |
| 6. Energy efficiency (gross domestic energy consumption), Mtoe | 4.6 (2009) | to get a reduction of 0.668 | 182.9 |
| 7. Share of renewable energy in the final consumption of gross energy, % | 29.9 (2009) | up to 40% | 182.9 |
| 8. Greenhouse gas (GHG) emissions (% compared to 1990 level) | | | 1,339.2 |
| | GHG in sectors outside ETS | 44.4% (2008) | not to exceed 17% in comparison with 2005 |
| | Total GHG in Latvia | 11.9 Mt (2008) | not to exceed 12.19 Mt CO2 equivalent |

* EU funds (ERDF, ESF, CF) and total national funding

Source: Operational Programme Growth and Employment of the 2014-2020 programming period of the European Union structural funds and Cohesion Fund

Detailed information about the thematic objectives, chosen priority axes, and investment priorities, as well as information about the planned supported activities and link of thematic objectives with the national targets in the context of *Europe 2020* is available in the *Partnership Agreement for the EU Investment funds programming period 2014–2020*, as well as in the *Operational Programme Growth and Employment*⁷¹ of the EU funds programming period 2014–2020, *Rural Development Programme of Latvia for 2014–2020* and *Action Programme for Fishery Development for 2014–2020*.

Before this, the link of investments from EU funds to strategic objectives of *Europe 2020* was analysed only at the level of priority axes. To be able to identify the contribution of the operational programme to the achievement of strategic objectives approved in *Europe 2020*, the investments should be analysed at the level of specific objectives and their measures.

When analysing the defined strategic objectives of *Europe 2020*, it would be necessary to state that several of them, in essence, characterise the entire Latvian socioeconomic situation and are affected not only by contributions from EU funds, but on a larger

⁶⁹ Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

⁷⁰ Approved by CM Order No. 313 of 19 June 2014 On Partnership Agreement for European Union Investment Fund Programming Period 2014-2020 and EC Decision C(2014)4237 of 20 June 2014 on Approval of Partnership Agreement.

⁷¹ Approved by CM Order No.62 of 4 February 2015 On EU Structural Funds and Cohesion Fund Programming Period 2014-2020 Activity Program Growth and Employment and EC Decision C(2014)8508 of 11 November 2014 on Approval of Activity Programme Growth and Employment.

scale also state budget funding and general socioeconomic factors of the internal and external environment.

SO and supported activities under the measures included in them (defined in the Action Programme and CM regulations for respective measures) were analysed in order to define the impact of contribution of SO and measures included in them on strategic objectives. The breakdown provided below of the potential impact of investments from EU funds on the achievement of strategic objectives of *Europe 2020* should be evaluated with caution, because it is based on the assumption that supported activities directly or

indirectly foster the achievement of strategic objectives of *Europe 2020*. To confirm this assumption, an evidence base is required, which can be obtained only when the phase of investments from EU funds in the programming period 2014-2020 is over.

All investments at the level of measures are analysed determining their direct or indirect effect. The analysis takes into account that the measures may potentially foster several strategic objectives simultaneously. Table 4.2 summarises the results of the analysis.

Table 4.2
Latvian national Europe 2020 strategic targets and available funding from EU funds*
million EUR

| | ERDF | ESF | CF | Total million EUR | Total % |
|---|----------------|--------------|--------------|-------------------|------------|
| 1. Employment rate | 479.8 | 268.7 | 20.7 | 769.2 | 24.75 |
| 2. Investment in research and development | 452.7 | 0.0 | 0.0 | 452.7 | 14.56 |
| 3. Share of graduates | 6.0 | 30.7 | 0.0 | 36.7 | 1.18 |
| 4. Share of early school leavers among residents | 88.4 | 59.9 | 0.0 | 148.3 | 4.77 |
| 5. Share of people at-risk-of-poverty | 193.4 | 159.9 | 0.0 | 353.3 | 11.37 |
| 6. Energy efficiency | 93.1 | 0.0 | 28.6 | 121.7 | 3.91 |
| 7. Share of renewable energy in the final consumption of gross energy | 93.1 | 0.0 | 28.6 | 121.7 | 3.91 |
| 8, 9 Reducing greenhouse gas emissions | 217.9 | 0.0 | 886.6 | 1,104.5 | 35.54 |
| Total | 1,624.4 | 519.2 | 964.4 | 3,108.0 | 100 |

* without national co-funding

Source: Operational Programme *Growth and Employment* of the 2014-2020 programming period of the European Union structural funds and Cohesion Fund

The total funding for the *Youth Guarantee* programme for 2014-2019⁷² amounts to 70.2 million EUR⁷³, including *Youth Employment Initiative* funding of 29 million EUR, ESF funding of 35 million EUR, co-financing from the state budget – 4.7 million EUR, and private co-financing⁷⁴ of at least 1.5 million EUR.

The total funding available from EFMF in the period 2014-2020 amounts to 139.8 million EUR. The implementation of the *Operational Programme for Development of Fisheries 2014–2020* will help to achieve the strategic objectives of *Europe 2020*, which are set in three flagship initiatives: *Innovation Union*; *Resource efficient Europe*; *Agenda for New Skills and Jobs*.

The EAFRD funding available for 2014-2020 is 1 075.6 million EUR and it helps to implement the Europe2020 strategy fostering sustainable rural

development, promoting such development of agricultural sectors and rural territories, which is more balanced in terms of territory and environment, more favourable to the climate, more stable, competitive and innovative. The national level objectives, the achievement of which will benefit from targeted investments from the programme are employment rate, investments in R&D, promoting energy efficiency and greenhouse gas emissions reduction.

Direct effect means such effect, where contributions from SO or measure are thematically related to the achievement of a *Europe 2020* strategic objective. Direct effect or primary effect are the consequences, which are caused by investments from EU funds, and which is stated immediately after the investments or during investment. Indirect effect comes from such SO and included measures, which plan investments with

⁷² The implementation of the activities is planned to be completed in 2019.

⁷³ <https://likumi.lv/ta/id/274081-darbibas-programmas-izausgume-un-nodarbinatiba-7-2-1-specifiska-atbalsta-merka-palielinat-nodarbinatiba-izglitiba-vai>

⁷⁴ Private co-financing consists of employers' contribution to youths' salary when engaging in one of the following – Gaining First Work Experience for Youths or Subsidised Jobs for Unemployed Youths (measures for certain groups of persons).

indirect positive effect on the achievement of *Europe 2020* strategic objectives and/or the target group, for example, the training provided to in the work environment indirectly fosters employment.

Indirect effect or secondary effect are the consequences, which are caused by investments from EU funds, and which is stated after a longer period of time and frequently also indirectly. It should be taken into account that the Action Programme includes such support measures, which, in essence, have a cumulative or joint effect. Such effect is the effect, which combines effects from one or more projects funded from EU funds and together cause significant changes or cumulative effect (for example, individual

projects, which are implemented in sequence; several projects implemented at the same time, etc.).

Investments from EU funds together make a considerable contribution to the achievement of *Europe 2020* strategic objectives also in cases, when there is no direct/indirect thematic link of investments from SO or measures to Latvian national *Europe 2020* strategic objectives. The impact of EU funds on the achievement of the targets set in *Europe 2020* strategy will be evaluated in detail after the 2014-2020 programming period closes, using thematic effect assessments and observing the requirements of the EC regulation.