

**NATIONAL REFORM PROGRAMME OF LATVIA
FOR THE IMPLEMENTATION OF THE
EUROPE 2020 STRATEGY
PROGRESS REPORT**

APRIL 2019

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ABBREVIATIONS, MEASUREMENT UNITS, AND SYMBOLS

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

INTRODUCTION

Latvia has prepared the eighth 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 2019-2022*.

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 the 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 the European Council on 24-25 March 2011, the EU Council’s country-specific recommendations for Latvia for 2018-2019³, the *2019 Annual Growth Survey*⁴ published on 21 November 2018 by the EC, the Commission’s staff working document *Country Report – Latvia 2019*⁵, and the Letter from the EC Secretariat-General to the EU Member States on the 2019 European Semester⁶.

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 on 29 March 2019 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.

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 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 of 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 5 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 2018. 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. Chapter 5 includes information on Latvia’s investment needs in the 2021-2027 programming period.

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 2018: <http://data.consilium.europa.eu/doc/document/ST-9441-2018-INIT/en/pdf>

⁴ *Annual Growth Survey 2019*: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0770&from=EN>

⁵ *Country Report Latvia 2019*: https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-latvia_en.pdf

⁶ Letter from the EC Secretariat-General to the EU Member States on the European Semester 2019, Ref.Ares(2018)5419738-22/10/2018.

1. MEDIUM-TERM MACROECONOMIC SCENARIO

After the deceleration of economic growth rates in 2016 to 2.1%, a serious acceleration of the Latvian GDP growth was observed in the next two years. In 2017, Latvia's economic growth reached 4.6% fostered by growing external demand and restoration of the flow of investments, and a similarly rapid economic growth was also observed in 2018, when GDP increased by 4.8%.

The construction sector contributed to economic growth of 2018 the most having grown by 21.9% fostered by a faster inflow of EU funds and an increase in private investments. The second largest contribution from sectors to economic growth in 2018 was from information and communication services, which reached an increase of 13% during the year. The transport sector developed more successfully than expected in 2018, which was the third largest economic growth driver with an increase by 5.3%. Following an unsuccessful beginning of the year, Russian cargo transit through Latvian ports started to grow considerably from the middle of the year, the Riga airport was working successfully increasing its passenger volumes very rapidly. 2018 was very successful for the forestry sector, which reached an increase of 21%, while agriculture experienced a decline of 12% compared to 2017 due to poor harvest of crops.

Unlike in 2017, last year manufacturing and trade played a more modest role in economic growth. After its growth by 8% in 2017, manufacturing increased merely by 2.7% in 2018. Wood processing, production of metal products, as well as production of computer and electronic equipment saw the largest increase in manufacturing in 2018. At the same time, the second largest manufacturing sector – production of food products had a reduction in volumes. Meanwhile, a 2.1% increase was recorded in trade in 2018. As service of non-residents in the banking sector kept decreasing, the financial and insurance sectors went down by 7.3% in 2018.

From the expenditure side, along with the rapid growth in investments by 16.4%, growth in 2018 was also positively affected by a strong increase in private consumption – by 4.5% compared to 2017. This was promoted by a considerable increase in wages, increase in employment and reduction in unemployment. At the same time, the increase in exports, including also due to the effects of several one-time factors such as low harvest of crops, was

weak in 2018, increasing by only 1.8% compared to 2017. Domestic demand is expected to play a bigger role also in 2019.

Exports of goods at current prices increased by 7.4% in 2018 being lower than in 2017 (11.1%). Exports of wood and wood products ensured the biggest contribution to the total increase in exports in 2018 increasing by 17.7%. In terms of export value, the largest increase in exports of goods in 2018 was registered to Sweden (+200 million EUR), the United States (+153 million EUR) and the United Kingdom (+103 million EUR). On the other hand, the largest decline in the value of exports of goods was to the United Arab Emirates (-65 million EUR), Turkey (-54 million EUR) and Nigeria (-33 million EUR).

Exports of services at current prices increased by 6.4% in 2018, and the biggest contribution to the increase in exports of services was secured by telecommunications (+48.7%), air transport (+16.4), rail transport (+18.6), as well as by the increase in exports of ICT services (+13.7%). Exports of road transport services decreased by 7.9% and exports of financial services dropped by 15.1%.

The average monthly gross wage grew by 8.4% in 2018, reaching 1004 EUR. This was slightly higher increase than in 2017, when the average wage increased by 7.9%. The fastest increase in wages in 2018 was underpinned by strong economic growth, increase of the minimum wage by 50 EUR to 430 EUR, as well as increase of funding for wages for individual categories of employees of public sector in defence and health sectors, as well as in the State Revenue Service. In 2018, there was a similar increase in wages in the public and private sector – by 8.5% and 8.4%, respectively. The average wage in 2018 was 1032 EUR in the public sector and 991 EUR in the private sector. The actual net wage increased by 7.2% in 2018, showing a more rapid increase than in the previous two years, and this was predetermined by the increase in gross wages, lowering of labour taxes and a comparatively moderate inflation.

The annual average inflation in Latvia was 2.5% in 2018 reducing from 2.9% in the previous year. The biggest contribution was made by the increase in fuel prices by 12.3% followed by an increase in prices of housing-related goods and services, including water supply and solid fuel. Meanwhile, food prices increased merely by 0.7% in 2018 compared to 2017.

Table 1.1
Medium-term Macroeconomic Scenario

	2017	2018*	2019f	2020f	2021f	2022f
GDP growth in current prices, %	8.0	8.8	6.4	5.9	5.5	5.5
GDP growth in constant prices, %	4.6	4.8	3.2	3.0	2.9	2.9
GDP deflator (y-o-y), %	3.2	3.9	3.1	2.8	2.5	2.5
Consumer price index (y-o-y), %	2.9	2.5	2.5	2.2	2.1	2.0
Employment changes, %	0.2	1.6	0.5	0.1	-0.1	-0.1
Unemployment rate, % (aged 15–74)	8.7	7.4	7.0	6.5	6.3	5.6
Growth of potential GDP	3.2	3.5	3.5	3.4	3.2	3.2
contribution:						
– employment	0.1	0.4	0.2	0.1	-0.1	-0.1
– capital	1.2	1.2	1.3	1.3	1.3	1.3
- total factor productivity	1.8	1.9	2.0	2.0	2.0	2.0
Output gap (% of potential GDP)	0.5	1.7	1.4	1.0	0.7	0.4

* - GDP increase in current prices and GDP deflator in 2018 according to the forecasts of the Ministry of Finance made in February 2019
Data source: CSB, Forecasts of the Ministry of Finance of February 2019

Along with the acceleration of economic growth in 2018, the drop in unemployment became more rapid and the number of employed increased faster. As economic activity and labour demand is growing, the number of vacancies is growing as well and shortage of labour has become more pronounced in individual sectors and professions.

According to the labour force survey, the employment rate decreased by 1.3 percentage points to 7.4% in 2018. At the end of December 2018, registered unemployment rate has decreased to 6.4% and was by 0.4 percentage points lower than at the end of December 2017. The total number of registered unemployed decreased by 5.6% in 2018 and was 59 600 at the end of December 2018.

The number of population employed in the economy increased by 1.6% to 909 400 thousands in 2018.

The population of working age keeps shrinking, the increase in the employed along with a lower unemployment rate was also secured by the increase in economic activity of the population, when the share of the employed and job seekers among all the working age population reached its historically highest level – 69.6 per cent in 2018.

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

- The macroeconomic development scenario is formed based on the EC autumn forecast technical assumptions for 2018 expecting the EUR/USD currency rate to be 1.15 in both 2019 and 2020, as well as EC forecasts on economic growth across the EU and in other main trade partner countries of Latvia. It is assumed in the forecasts that oil prices will be 70 USD/bbl in 2019 and 65 USD/bbl in 2020 on average;
- Most of international organisations forecast that global economic activity in 2019 will be slower than in 2018, and these forecasts have reduced in

the last half a year, especially for the euro area. According to the forecasts of the EC announced in the autumn of 2018, growth rates in the euro area reduced from the forecast 2.1% in 2018 to 1.9% in 2019;

- Taking into account rapid economic growth of Latvia in 2018, the forecast of GDP growth for 2019 has been increased by 0.2 percentage points compared to the previous forecasts developed in September 2018 – to 3.2%. Growth rates in 2019 are underpinned by the stabilisation of the inflow of EU funds and weaker demand in external markets;
- As the inflow of EU funds has stabilised at the level of 2018, in 2019 the increase in investments will be more moderate than in 2018 yet still strong (7.7%);
- The increase in private consumption will remain stable at the level of 4.3% fostered by the increase in wages and growing purchasing power of the population;
- The labour market situation will still be determined by growing demand and demographic trends. The number of employed will increase by 0.5% in 2019, but in the next years the increase will be limited by the decrease in the working age population. The unemployment rate will decrease to 7% in 2019, while the average wage increase will remain comparatively rapid – at the level of 6.5%.
- The increase in consumer prices in Latvia in 2019 will remain at the level of the previous year and will be 2.5%. The price dynamics in 2019 will be determined by a higher increase in utilities and food prices than in 2018, as well as an increase in excise duties for tobacco products and alcoholic beverages, while the increase in fuel prices will be slower. The average inflation in 2020 will reduce to 2.2%.

- The potential Latvian GDP growth in medium term is estimated to be above 3%, namely 3.5% in 2019, followed by a gradual decrease to 3.2% in 2022. The growth of potential GDP is negatively affected by the decrease in labour supply due to the unfavourable demographic trends, and therefore the development of potential GDP in the medium term depends on the volume of investments and total increase in productivity.

When working on forecasts of macroeconomic indicators, the MF consulted with experts from the BL and the ME as well as the EC and IMF. Macroeconomic indicator forecasts have been approved by the Fiscal Discipline Council upon publishing its opinion on 15 February 2019.⁷

Macroeconomic forecasts have been developed based on conservative assumptions and evaluating internal and external environment risks. Forecast risks are currently more of a downward nature and are mainly related to a potentially more rapid slowing of growth in external markets, including due to growing protectionism trends in the world, uncertainty about the Brexit process in the UK, a considerable slowdown of German economy and the increase in financial risks in Italy. Among internal risks, Latvian economic growth may be negatively affected by the decrease in working age population and the increase in labour costs outpacing productivity rates, as well as insufficient investments in manufacturing sectors, potentially weakening economic growth rates.

2. IMPLEMENTATION OF THE EU COUNCIL RECOMMENDATIONS

2.1. FISCAL POLICY

ACHIEVE THE MEDIUM-TERM BUDGETARY OBJECTIVE IN 2019, TAKING INTO ACCOUNT THE ALLOWANCES LINKED TO THE IMPLEMENTATION OF THE STRUCTURAL REFORMS FOR WHICH A TEMPORARY DEVIATION IS GRANTED. REDUCE TAXATION FOR LOW-INCOME EARNERS BY SHIFTING IT TO OTHER SOURCES, PARTICULARLY CAPITAL AND PROPERTY, AND BY IMPROVING TAX COMPLIANCE.

From 2013 to 2018, deviations from the MTO were granted to Latvia in relation to the implementation of the pension reform, which anticipated a gradual increase of contributions into the 2nd pension level. Furthermore, from 2017 to 2019, deviations from the MTO were granted to Latvia due to the implementation of a structural reform in healthcare. Deviations of the pension reform were no longer applied when setting structural balance objectives for 2019 and the following years, while deviations of the healthcare reform are no longer applied when setting structural balance objectives for 2020 and the following years. Therefore, the maximum permissible structural balance corresponds to the MTO. In the *Stability Programme 2016 – 2019* Latvia declared a reform of the healthcare system as a significant structural reform with a long-term positive effect on the sustainability of public finances, with a view to use in this reform the possibility of deviation from the MTO provided in the EC Communication⁸. The EC examined Latvia's application and supported the allocation of deficit deviations to the reform of the healthcare system. In order to observe the structural

deficit safety margin with regard to the reference value of 3% of GDP as set in the Treaty on the Functioning of the European Union⁹, the deficit deviation granted to Latvia was 0.13% of GDP in 2017, 0.40% of GDP in 2018 and 0.50% of GDP in 2019, and the deviation is over in 2020.

On 1 January 2018, the tax reform entered into force. 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 revenues 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 on labour, increasing income of employees with low wages and families with children. This will result in the reduction of the tax wedge on labour by 2020. For instance, the labour tax wedge¹⁰ for a

⁷ <http://fdp.gov.lv/jaunumi/fiskalas-disciplinas-padome-ekonomikas-attistiba-saglabajas-strauja-bet-radusies-jauni-butiski-riski-negativam-izmainam>

⁸ The 13 January 2015 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic and Social Committee, the Committee of the Regions and the European Investment Bank regarding Making the Best Use of the Flexibility Within the Existing Rules of the Stability and Growth Pact.

⁹ This indicator for Latvia was 1.7% of GDP in 2017.

¹⁰ 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.

worker with no dependent persons and receiving 67% of average wage will decrease from 41.8% in 2016 to 39.5% in 2020. Thus, for instance, the labour tax wedge for a worker with one dependent person and receiving 67% of average wage will decrease from 36.2% in 2016 to 34.1% in 2020.

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 – 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 (62 800 EUR in 2019), but the rate for annual income above 55 000 EUR is 31.4% (62 800 EUR in 2019);
- 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 the State Revenue Service (hereinafter – 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 it to financing of the healthcare sector;
- The solidarity tax has been reformed, which starting from 2018 has broken down into payments into a state budget for healthcare financing (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 PIT (10.5%). The solidarity tax has been changed starting from 2019 setting a rate of 25.5%, which is broken down into: state budget for healthcare

financing (1%), special budget income for state pensions (14%), and to secure the PIT (10.50%);

- The corporate income tax (hereinafter – 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 (hereinafter – 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 taxpayer’s annual 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 taxpayer’s annual 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 (hereinafter – VAT) 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 1 430 EUR (in 2017) to 150 EUR;
- The application of reverse VAT payment procedure has been extended to include construction services and 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 carbon dioxide (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. Meanwhile, starting from 1 January 2019, vehicle operation tax rate calculation principle based on CO₂ emission volume is applied also to cars previously registered in Latvia, whose first date of registration is later than 31 December 2008.

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 PIT, 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 natural 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.

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 abovementioned, 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*).

It is important to note that new measures will be evaluated with regard to the introduced tax reform, and the need for the directions of tax changes will be determined based on the results of analysis. An informative report to be submitted to the CM by 1 May 2019 is being prepared.

It is expected to continue what was started within the scope of fiscal opportunities to ensure that the income of the population with low wage level increases, as well as to continue the transfer of the tax wedge from labour to property, consumption and environmental taxes.

2.2. SOCIAL SAFETY NET, VOCATIONAL EDUCATION AND HEALTH CARE

IMPROVE THE ADEQUACY OF MINIMUM INCOME BENEFITS, MINIMUM OLD-AGE PENSIONS AND INCOME SUPPORT FOR PEOPLE WITH DISABILITIES. INCREASE THE LABOUR MARKET RELEVANCE OF VOCATIONAL EDUCATION AND TRAINING, AND FOSTER UPSKILLING OF LOW-SKILLED WORKERS AND JOBSEEKERS. INCREASE THE ACCESSIBILITY, QUALITY AND COST-EFFECTIVENESS OF THE HEALTHCARE SYSTEM.

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

- In 2018, the draft *Minimum Income Level Introduction Plan for 2018-2020* was resubmitted to the CM, however, its approval and implementation was postponed due to limited state budget resources;
- To raise the level of income of the pensioners, in 2019: (1) for old-age pensions calculated for 45 or more years with a long insurance period pension indexation will use the actual consumer price index and 80% (instead of the current 70%) of the real increment rates of insurance contributions wage. Number of recipients – 21% of all recipients of old-age pensions. Total financing – 1 million EUR in 2019, 4.2 million EUR in 2020 and 5.7

million EUR in 2021; (2) the amount of supplement per year of the insurance period accumulated before 31 December 1995 will be reviewed in October, taking into account the actual consumer price index and 50% of the real increment rates of insurance contributions wage. Number of recipients of the supplement – 78% of all recipients of old-age pensions and 45% of all recipients of disability pensions. Total financing – 2.5 million EUR in 2019, 10.9 million EUR in 2020 and 17 million EUR in 2021; (3) in case of death of the pension recipient the survivor shall receive a benefit of 50% of the pension granted to the deceased spouse for 12 months; (4) the insurance period includes service in the Soviet army for the period until 1996;

- Starting from 2020 it will be possible to leave the 2nd level or state funded pension capital as a heritage or add to the pension capital of the specified person, if the person dies before reaching the pension age. The possibility to inherit the capital accrued by the insured persons for the 2nd pension level is provided for by amendments to the *Law on State-Funded Pensions*¹¹;
- 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;
- The draft budget for 2019 provide for a new type of support for persons, who have adopted a child, until the child reaches the age of 18 – a monthly benefit in the amount of minimum maintenance (107.50 EUR per month for a child up to 6 years (inclusive) and 129 EUR per month for a child from 7 to 18 years). It is planned to grant the benefit from 1 July 2019. Additional planned state budget funding: 0.9 million EUR in 2019, 1.9 million EUR in 2020 and each year thereafter;
- In order to increase benefits for persons with disability, the draft budget for 2019 provides the increase of the special care benefit from 1 July 2019 by 100 EUR per month (from 213.43 EUR per month to 313.43 EUR per month): 1) for children with disability, who have specific indications for special care and 2) for persons with disability group I, who have indications requiring special care and whose cause of disability is “disease from childhood”. Additional planned state budget funding: 2.7 million EUR in 2019, 5.5 million EUR in 2020 and each year thereafter.

In addition to the existing active labour market policy measures (hereinafter – ALMP), improvement of the existing **activation mechanisms and conditions for**

a more efficient involvement of **the unemployed** and job seekers in labour market is ongoing:

- In 2018, 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 5 177 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;
- In order to improve the support provided to the population within the scope of active employment policy, amendments to the *Support for Unemployed Persons and Persons Seeking Employment Law* were prepared and submitted to the CM on 27 February 2019, which, among other things more accurately define the range of the persons subject to the risk of unemployment, who may participate in preventive unemployment reduction measures. These amendments may be used as a substantiation for attraction of funding for introduction of new support mechanisms for persons subject to the risk of unemployment.

According to the Eurostat data, the coverage of registered unemployed with the ALMP has been steady in the previous years – approx. 11%¹². Meanwhile, the involvement of registered unemployed in different support activities is much higher. 87 000 unique persons acquired the registered unemployed status in 2018. 91 800 persons (unique persons) were engaged in the measures organised by the State Employment Agency (hereinafter – SEA) in 2018, who participated in 250 600 activities, while in the 2017 – 105 900 persons (unique persons) participated in 281 500 activities. 63 600 unemployed found a job in 2018, of which 22 500 (35.4%) have

¹¹ <https://likumi.lv/ta/id/302451-grozijumi-valsts-fondeto-pensiju-likuma>

¹² In this indicator the number of registered unemployed (participants of the support measures) is applicable to 100 persons, who want to work.

found a job after completing ALMP. 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). 91 000 unemployed lost the status in 2018, of which 51 000 persons (56%) got employed, but 30 200 persons (33.2%) lost the unemployed status due to failure to perform their duties of the unemployed.

In accordance with the SEA data, the immediate employment indicator for participants of the training measures has improved in recent years. In 2016-2017, 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 (35.7% in 2012/2013, 40% in 2015/2016). For non-formal education measures this indicator was 34% in 2017-2018 (24.6% in 2012/2013, 32% in 2015/2016). The results of implementation of subsidised employment measures – within 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 2017-2018).

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 reform¹³ 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*¹⁴ has been implemented since the end of 2016. The project improves the sectoral qualification system and prepares descriptions, develops and improves 162 professional standards and professional qualification requirements, develops and introduces 185 modular vocational education programmes and develops content of professional qualification exams for 206 professional qualifications, as well as develops relevant teaching aids and methodological materials. The total planned project financing is 12.9 million EUR, including ESF financing 11 million EUR, and state budget co-financing 1.9 million EUR.

15 sectoral qualification structures, as well as 158 of 162 professional standards and professional

qualification requirements planned within the project have been drafted by February 2019¹⁵.

In parallel, work is ongoing on the development of vocational qualification exam content for 66 professional qualifications. Work on the development of vocational qualification exam content for 11 professional qualifications has been completed.

The implementation of modular vocational education programmes has started. The approbation and implementation of 6 new modular education programmes started in academic year 2018/2019: in numerically controlled metalworking, telecommunications, animal production technician, industrial business areas. 27 vocational education institutions have involved in the implementation of modular vocational education programmes. Modular programmes in logistics, construction, IT, tourism, engineering and similar sectors were in demand among the students the most.

On 9 October 2018 the CM approved *Regulations on the List of Mandatory Professional Standards and Professional Qualification Requirements and the Procedure of Publishing of Professional Standards and Professional Qualification Requirements Included in Them*, which were created taking into account the sectoral qualification structures.

One of priorities in the serious quality reform of the vocational education system in recent year is the implementation of **work-based learning** (hereinafter – WBL). A proper legal framework and the operation of institutional mechanisms for coordination and implementation of WBL has been provided.

The ESF project launched in 2017 continues, increasing the number of qualified students in vocational education institutions after their participation in WBL and learning practice in an enterprise. It is expected that 3 150 students will be engaged in WBL and 11 025 students will be engaged in learning placement in an enterprise by the end of the project in 2023. The project is implemented by the Employers' Confederation of Latvia in cooperation with vocational educational institutions, merchants, societies and foundations implementing WBL. The total planned financing of the programme is 21.9 million EUR, including ESF financing – 18.6 million EUR, and state budget financing – 6 million EUR (for information about the implementation of the project see Chapter 3.4.3).

¹³ In November 2015, the first stage of the reform completed, 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.

¹⁴ 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.

¹⁵ Together with the professional standards and professional qualification requirements developed and approved in the programming period of EU funds.

The opportunities in the vocational education offered by the EU's *Erasmus+* programme foster the quality and the innovative approach of vocational education. In 2018, the State Education Development Agency (SEDA) administered 80 training mobility and 20 strategic partnership projects. In 2018, 29 training mobility projects were approved in the vocational education sector for a total amount of 3.8 million EUR, which in total provide 227 staff representatives and 870 students of vocational education institutions with an opportunity to go to other European country to obtain new knowledge and experience. Furthermore, 7 projects with the total co-financing of 1.2 million EUR have been approved within the scope of strategic partnerships (see also Chapter 3.4.3).

Since 2017, **the employed, including those having low level of education**, have the possibility to increase their professional competence and competitiveness by applying to studies within the EU funds project *Improving the professional competence of employees*. The project covers vocational further education, professional improvement and non-formal education programmes, as well as the evaluation of professional competence obtained outside the formal education system of the employed aged starting from 25, including those having low level of education¹⁶, with education in a speciality, where lack of labour force is observed, or with education in a speciality, where the supply of human resources exceeds the demand. As a priority, support is provided to employed persons from social risk groups. It is planned to involve 36 000 persons in the project by the end of its implementation – 31 December 2022.

3 590 persons with low level of education have started training in rounds 1, 2 and 3 of implementation of the project, of which 511 persons have started education in vocational further education programmes, 204 persons – in professional improvement programmes and 2 875 – in non-formal education programmes. Overall, 2 861 men and 729 women with low level of education have engaged in project activities.

In order to promote the involvement of the target group active cooperation with local governments – adult education coordinators involved by local governments – is ongoing within the scope of the project.

In order to promote the involvement of the employed subject to the risk of social exclusion in the project, additional support is available during training – a sign language interpreter and an assistant for persons with disability. Support for regional mobility is also

provided to the employed having the status of a low income or a poor person.

Within the scope of support in evaluation of the EU funds, the MES has prepared a technical specification *Evaluation of more effective involvement of the employed adults with low qualification into training*. The purpose of the evaluation is to draft a characteristics of the employed adults with low qualification and to identify their education needs and a more effective strategy for their involvement into training. The evaluation is expected to take place in 2019 (for details about adult education see Chapter 3.4.5).

In 2018, Latvia started a cooperation project with the OECD co-financed by the *Erasmus+* programme, which aims to develop the *Latvian National Skills Strategy*. The project is implemented in two stages: (1) At the diagnostic stage (September 2018 – Q4 2019), management, financing and compliance with the labour market of the Latvian skills systems is evaluated on the basis of internationally comparable data and good practices of the OECD countries; (2) At the action state (Q1 2020 – Q4 2020) it is expected to identify the political context and challenges for the next policy planning period, as well as to draft the concept of *Education and Skills Guidelines 2021-2027*.

In order to improve the quality, accessibility and feasibility of costs of health care services, **implementation of health care reform** is ongoing 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*¹⁷ 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 addition¹⁸. In accordance with the *Law on Healthcare Financing*, starting from 2020 the healthcare general government sector¹⁹ funding amounts to at least 4% of GDP. In 2018, the total budget of the healthcare sector was 1014.5 million EUR (3.45% of GDP). By 194 million EUR more than in the previous year were allocated for healthcare in the state budget in 2018, incl. 113.4 million EUR for the reforms, which received a deviation of 0.4% from the EC for the purpose of

¹⁶ Completed or uncompleted basic education or general secondary education.

¹⁷ *Conceptual Report on the Reform of the Health Care System* adopted on 25.07.2017 at CM meeting (Minutes No.37, §34).

¹⁸ Paragraphs 280 and 295 of the *Conceptual Report on the Reform of the Health Care System*.

¹⁹ *Within the meaning of Paragraph 2.113 of Annex A to Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (Text with EEA relevance)*

budget deficit. In 2018, as a result of additional granting of funding, the availability of services has improved in comparison with the situation before the reforms were started – the waiting time for specialist consultations has reduced by 28%, for outpatient examinations – by 10%, for day hospital services – by 64%, for outpatient rehabilitation – by 31%, for endoprosthetic surgeries – by 22%. Also, within the scope of the reforms, since 2018: (1) the availability of reimbursable medicines to patients with oncological, cardiovascular diseases, Crohn’s disease, psoriasis and ulcerative colitis, as well as to patients with hepatitis C and HIV has improved (from 1 October 2018 any restrictions for starting HIV treatment have been cancelled); (2) the capacity money payment for family doctors has increased by 28%; (3) a coronary risk evaluation method for persons aged 40, 45, 50, 55, 60, 65 has been introduced; (4) modern diagnostic and treatment equipment has been purchased and other measures have been taken²⁰.

In 2019, the total budget of the healthcare sector is 1 170.8 million EUR (3.85% of GDP). By 156.2 million EUR more than in 2018 were allocated for healthcare in the state budget in 2019, incl. 154.2 million EUR for the implementation of reforms, which received a deviation of 0.5% from the EC for the purpose of budget deficit. A significant portion of the funding allocated in addition in 2019 was diverted: (1) to increase wages of medical and medical support persons; (2) to improve availability of and to reduce queues to healthcare services (incl. by continuing the reduction of queues to specialists, diagnostic examinations, day hospital) that started in 2017 and 2018); (3) to improve the availability of diagnostics and treatment of oncological diseases (incl. by continuing and extending the activities that were started in 2017 and 2018); (4) to reduce distribution of infectious diseases (incl. by continuing the reforms that were started in 2017 and 2018 to provide reimbursable medicines to patients with hepatitis C and HIV); (5) to improve the quality and availability of the primary healthcare system; (6) to reduce indicate of cardiovascular diseases and to improve the efficiency of treatment of diseases; (7) to reform levels of medical institutions; (8) for a strategic procurement of rehabilitation services; (9) to improve mental healthcare; (10) to improve the environment and effectiveness infrastructure of medical institutions.

In 2019, the average wage of physicians and functional specialists in tariff was raised to 1350 EUR per month (by 20% compared to 2018), for medical and patient care persons and assistants of functional specialists to 810 EUR per month (by 20% compared to 2018), but for medical and patient care support persons – to 540 EUR per month (by 20% compared to 2018).

On 23 January 2019, amendments to the *Law on Healthcare Financing* entered into force, which extended the deadline (until 30 June 2019) by which the Latvian population irrespective of making health insurance contributions may receive healthcare services within the scope of state mandatory health insurance. The tasks included in the *Declaration of the Intended Activities of the Cabinet of Ministers Led by Krišjānis Kariņš* provide: (1) to create a sustainable healthcare financing model, which provides for mandatory inclusion of all Latvian residents and (2) to define an evidence-based uniform basket of state-paid services, which are provided to all Latvian residents. Thus, the new government has committed to review the principle of two “baskets” of healthcare services in the *Law on Healthcare Financing*, which was adopted at the end of 2017;

- Levels and mapping of 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. At the end of 2017, agreements were concluded, and the implementation of investment projects of EU funds has started²¹ envisaging to make investments to 10 tertiary and regional level hospitals, as well as 3 monopofile institutions, which ensure the provision of rehabilitation, obstetric assistance and traumatology services. In 2018, the implementation of investment projects of EU funds started in hospital of level 1, 2 and 3 (local) and in 4 institutions providing urgent medical assistance. In 2019, it is planned to start the implementation of EU fund projects to improve the quality and availability of primary care.

²⁰ Informative report on the Results of Implementation of Health Reform Measures in Healthcare in Q1 2018.

²¹ CM Regulations 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””. CM Regulations No. 56 of 23.01.2018 “Regulations on the third 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””.

CM Regulations No. 585 of 11.09.2018 “Regulations on the fourth 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””.

In 2018 under the EU funds programming period 2014-2020, support measures aimed at attracting medical practitioners (doctors and nurses, as well as assisting doctors, assisting nurses, midwives, physiotherapists and ergo therapists) for work in regions outside Riga were launched; as well as measures were started under continuous education support measures enabling to raise qualification and renewal of medical practitioners' certificates, allowing a medical practitioner not practising in his/her speciality to return in labour market.

In the period until March 2019, 236 medical practitioners received total financial support of 1.6 million EUR for work outside Riga. Beneficiaries included doctors of different specialisations, assisting doctors, nurses, assisting nurses, midwives, physiotherapists (*see also Chapter 3.5.2*).

Under the continuing education support measures, which were funded within the EU funds programming period 2014-2020, agreements on the implementation of 80 trainings and drafting of methodological aids for medical practitioners and medical support practitioners and those working in the pharmacy area were concluded in 2018 when implementing public procurements. The training process started at the end of 2018 and will continue through 2019. The trainings are intended in all the priority areas highlighted in the project – in the area of cardiovascular, oncology, paediatric, starting from the perinatal and neonatal period, and mental health. It is planned to train 6 500 persons per year on average. In 2019, it is planned to have repeated procurements for the implementation of trainings in all the 80 programmes. Additional procurements were also announced for the training topics important for the sector and intended for professional upskilling.

E-health system is available to residents, medical institutions, and pharmacies since 12 September 2016, however, from 1 January 2018 it must be used, when a medical institution issues prescriptions for medicines reimbursable from state budget funds and sick leave certificates on temporary disability, which since 2018 should be issued only electronically in the E-health system. 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 continues at national and local government level. In order to promote healthy habits in children and adults, regulatory enactments were amended by reviewing nutritional norms and the minimum amount of food on a weekly menu, as well as providing for the possibility to offer vegetarian food. An informative report on the state grant to local governments for catering of students in their general education institutions implementing basic education programmes has been drafted to ensure qualitative food rich in nutrients to children in education institutions. Discussions about the amendments to the Law on Handling of Tobacco Products, Herbal Smoking Products, Electronic Smoking Devices and Their Fluids providing for stricter smoking restrictions that were submitted to the Saeima were held in 2018 and continue in 2019. Also, work is ongoing on a policy planning document for reduction of consumption of alcoholic beverages and restriction of alcoholism for the next period;
- The implementation of the *Health Care System Quality Improvement and Patient Safety Concept* and the plan for its implementation continue with support of EU funds.

2.3. EFFICIENCY IN THE PUBLIC SECTOR

STRENGTHEN THE EFFICIENCY OF THE PUBLIC SECTOR, IN PARTICULAR WITH REGARD TO LOCAL AUTHORITIES AND STATE-OWNED ENTERPRISES. STRENGTHEN THE ACCOUNTABILITY OF PUBLIC ADMINISTRATION BY PROTECTING WHISTLE-BLOWERS, PREVENTING CONFLICTS OF INTEREST AND FOLLOWING-UP ON THE RESULTS OF THE ONGOING ASSESSMENT OF PAST INSOLVENCY PROCEEDINGS.

In order to increase the **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.

In 2018, the State Chancellery, the Ministry of Environmental Protection and Regional Development, the Ministry of Finance, with involvement of responsible ministries, have carried out evaluations in the main thematic lines of reforms, work has started on specific solutions – reducing the administrative burden, centralising support functions, evaluating the financial impact, drafting the methodology of

evaluation of state government services. At the same time, work has started on training of public administration employees to promote changes in thinking and organisation culture. The number of the employed, vacancies, as well as wages are monitored on a regular basis. The course of implementation and measures of the reform are discussed at the meetings of the state secretaries.

In 2018, 3 innovation labs started to work within the scope of the State Chancellery's project "*ExCeL!*" (*Excellent for Centenary of Latvia!*), which are working on innovative solutions for reducing administrative burden, strategic development of human resources and improving the image of the public administration.

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

The Saeima has adopted in the 1st reading *Amendments to the LPCI*, which envisage (1) to significantly improve the procedure of accepting donations; (2) to set a new terminated restriction for a public official to get income from persons, with regard to which they represented public person's institutions in a court; (3) to set a duty of the Saeima deputies to inform (reject the office) and the procedure for the Saeima deputies to inform about personal or material interest in fulfilment of official duties; (4) to set an additional duty to inform the head of the public person's institution or the KNAB on conflict of interest situations or potential corruption; (5) to extend the range of persons to be indicated in the public official's tax return; (6) to determine the duty and the procedure of submission of a tax return by the Director of the Constitution Protection Bureau as a public official; (7) to update the procedure of submission of tax returns by public official of employed by security and other law enforcement agencies and submission of lists of these public officials; (8) to determine terminated commercial activity restrictions for a public official who has fulfilled investigation functions; (9) 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.

Amendments to the LPCI entered into force in 2018, which:

- clearly state that officials, public official of institutions of the Ministry of the Interior and the Prison Administration with special service ranks and other public officials listed in Section 7(7) of the LPCI are free to concurrently serve as a public official and as an official in a trade union without

requesting a permission from the head of the public person's institution;

- provide that furthermore additional duties of a public official, where they participate in commissions, different advisory councils and workgroups created by other institutions, will not be considered a position of a public official under the law. Thus, public officials should specify less positions in their tax returns and no longer need to get a permission for concurrent service;
- provide that soldiers and border guards serving in the National Armed Forces will be able to accept gifts specifically intended for them due to their position;
- provides that the KNAB shall verify tax returns of public officials to review within the scope of its competence cases regarding violations of the LPCI and other laws, while the SRS shall compare the information specified in the tax returns with the information at the SRS disposal, thus clarifying the mechanism of verification of the conflicts of interest and income declarations for public officials, as well as on the division of competencies among the institutions involved;
- provides that a decision to hold a position of public official concurrently with another position may be prepared in the form of a resolution. This will reduce administrative burden and simplify circulation of documents in public person's institutions, thus improving the efficiency of the public sector. It has also been enshrined that a decision refusing to permit to hold concurrent positions shall be adopted and prepared in accordance with the procedure provided for by the *Administrative Procedure Law*.

The *Guidelines 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* were approved on 31 January 2018. The purpose of these guidelines is to provide recommendations, methodical help and examples for prevention of corruption risks by introducing the basic requirements defined by the CM²². The drafted document provides information and practical advices on how to share the internal anti-corruption control environment, how to identify, analyse, evaluate corruption risks and determine measures for the results of the corruption risks.

In order to develop the insolvency procedures 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.

²² CM Regulations No.630 *Guidelines 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 of 17 October 2017.

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>, which has been extended since 1 July 2018 to include the possibility to auction movable property.

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 employees of the Insolvency Control Service²³ 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.

Related *Amendments to the Insolvency Law* and *Amendments to the Civil Procedure Law* entered into force on 1 July 2018. They mainly provide that the civil procedural disputes stated in insolvency

proceedings of a legal person shall be integrated into insolvency proceedings of the legal person, thus effectivising resolution of the dispute in a court. These amendments have improved the Electronic Insolvency Monitoring System supplementing it with the *Electronic Insolvency Registration System*²⁴. On 1 July 2018 it became the environment to be used by the Insolvency Control Service, which ensures publishing of information on the website of the Insolvency Control Service²⁵. On 1 January 2019, the Electronic Insolvency Registration System became the working environment for insolvency administrators and legal protection procedure monitoring persons, which from 15 April 2019 it is expected that other persons involved in the insolvency proceedings will be able to use this system to exercise their rights.

Latvia will further work on the improvement of such processes, which provide the second opportunity for legal and natural persons. Work has already started to develop such type of insolvency proceedings of a natural person, which would be available to persons with low income.

²³ With the *Amendments to the Insolvency Law*, which entered into force on 1 July 2018 the name of the Insolvency Administration was changed to the Insolvency Control Service (its functions or tasks do not change).

²⁴ The Electronic Insolvency Registration System has been developed within the "Justice for development!" project co-financed by ESF.

²⁵ In accordance with provisions of Article 12.² of the Insolvency Law

3. POLICY DIRECTIONS

3.1. FINANCIAL STABILITY

3.1.1. Sustainable Budget Development

The overall goal of the fiscal policy is to raise the quality of life of the population in a sustainable way. 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.

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.

In 2018 the review of the state budget expenditures continued. Discussions with sectoral ministries were organised. The most important achievement of these discussions was evaluation by sectoral ministries of

what has been done, preparation of new proposals creating financial resources for financing of urgent measures in own sector. The scope of review of expenditures for 2018 included two main directions – changes in the state budget policy area envisaging considerable amendments to regulatory enactments, reducing the burden of technical work of ministries and strengthening analytical work, and changes in the industry financing policy are focusing on effective use of state immovable properties and optimisation of the ICT area, as well as review of the funding that was allocated before, analysing its appropriateness and the result achieved. The ministries made their proposals for effectivisation of expenditures in individual areas.

The total expenditure review results of 2019 are 51.3 million EUR obtained from: review of priorities and other measures of previous periods; analysing and making proposals for the improvement of processes and carrying out a horizontal review of budget expenditures; effectivising state immovable properties and their management expenses (the considerable work started in this area may result in material benefits in the long term); by making several fundamental changes to the improvement of processes; replacing technical work with analytical (ministries have not evaluated economic benefits of such changes); analysing the possibilities of optimising the ICT area, which will provide benefits in the future. The funding of 7.6 million EUR obtained as a result of review of expenditures has been diverted to the improvement of the general fiscal environment, while 43.7 million EUR were diverted to horizontal measures, which affect several ministries, and the priorities set by sectoral ministries.

It should be noted that additional work to reduce administrative burden of municipalities was carried out in 2018. The made and planned changes focus on the improvement of cooperation between different levels of public regulatory authorities by digitalising information exchange processes. As a result of these changes more operative exchange of information was ensured and information evaluation and analysis possibilities were improved already in 2018.

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 the Stability and Growth Pact, and since the entry of the FDL 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 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 level²⁶. A positive budgetary balance is expected also in the upcoming years.

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*²⁷ implemented in 2014.

Number of measures were introduced in 2018 aiming to increase social security of certain groups of persons, to motivate to make mandatory state social insurance contributions (hereinafter – MSSIC), as well as to improve the adequacy and financial sustainability of the social insurance system in the medium and long term. As of 1 January 2018, self-employed persons in addition to the MSSIC object, which cannot be smaller than the minimum wage, should make contributions for pension insurance of at least 5% of the difference between income and a freely selected MSSIC object. If monthly income of a self-employed person does not reach the size of the minimum wage, contributions for pension insurance of at least 5% should be made starting from the month, when income reaches 50 EUR since the beginning of the year. If income has been lower than 50 EUR since the beginning of the year, no contributions for pension insurance shall be made. In

accordance with the SRS data, 126 800 self-employed persons –performers of economic activities were registered in December 2018, of which 24 700 submitted a self-employed person's report, i.e. pay MSSIC, in the Q3 2018. The number of self-employed, who submitted a self-employed person's report, increased compared to the end of the previous year (11 500 in the Q4 2017), which can be mainly explained by changes in the law in 2018.

In the recent years, significant amendments to the *Micro-Enterprise Tax Law* have been made to increase social protection of employees of micro-enterprises, as well as to foster the inclusion of these companies in the general tax regime. Several conditions were changed with regard to payers of the micro-enterprise tax (hereinafter – MET) within the scope of the tax reform. From 2018, the maximum annual turnover of micro-enterprises may be 40 000 EUR. Furthermore, the taxpayers, whose turnover in 2018 or 2019 is higher than 40 000 EUR, but does not exceed 52 000 EUR, are entitled not to apply the 20% MET rate for the turnover exceeding 40 000 EUR, if their turnover did not exceed 40 000 EUR in 2017 or 2016. For the company to be able to keep a status of MET payer, its employees are allowed to be employed by one microenterprise only. If, however, the employee employed by the enterprise is also employed by other micro-enterprises, then these micro-enterprises should add two percentage points to the 15% MET rate for each such employee. However, in 2020 such a company will lose the status of a MET payer and will have to choose some other tax regime. 70.4% of MET were diverted to MSSIC in 2017, and 80% in 2018.

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

²⁶ The financial balance in 2017 was +113.8 million EUR, the financial balance in 2018 was +202.2 million EUR.

²⁷ 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.

high in 2018, reaching 21.8% at the end of the year, whereas the Common Equity Tier 1 capital ratio was 19.7%.

Despite a considerable decline in foreign investments, the total EU harmonised liquidity coverage ratio (LCR) of the banking sector remained high and was 253.6% at the end of December 2018, thus exceeding the minimum requirement more than twice (100%).

Since the 2nd 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 4.1% to 4% in 2018.

The share of loans with payments more than 90 days overdue remained high, 82.1% at the end of 2018.

As the banks focusing on service of foreign countries implemented their risk mitigation measures and refused from cooperation with high risk customers, as well as annulment of the licence of the *ABLV Bank*, the scope of foreign investments declined by 58.8% or 4.7 billion EUR in 2018. Domestic deposits, on the contrary, increased by 803 million EUR or 6.6% along with a favourable development of the economy reaching 13 billion EUR. Thus, the total amount of deposits of the banking sector shrank by 19.4% or 3.9 billion EUR in 2018. The share of foreign deposits decreased from 39.7% to 20.3% during the year.

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 2013²⁸, from 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%.

In accordance with the *Amendments to the Credit Institution Law* (entered into force on 28 May 2014) in addition to the said requirements credit institutions should maintain a capital conservation buffer of 2.5% with the tier 1 capital requirement. The *Credit Institution Law* also provides that the EC is entitled to request that a credit institution maintains a level of equity, which is higher than the one defined in the EC Regulation No.575/2013²⁴, which is increased by the total capital buffer calculated in accordance with Sections 35.²², 35.²³, 35.²⁴ or 35.²⁵ of the *Credit Institution Law* to cover those risks and elements thereof which the credit institution is exposed to and which are not included in the Regulation.

The harmonised liquidity coverage ratio was introduced at the 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 Institution 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 in the period of economic growth to be able to absorb losses in times of downturn, and a systemic venture capital buffer to reduce non-cyclical risks. As a part of macro-prudential measures, on 27 November 2018, the FCMC repeatedly identified six banks as systemically important institutions (C-SNI), and starting from 30 June 2019 the identified institutions shall maintain a C-SNI capital reserve in the amount of 1.25-2% with Tier 1 capital requirement. Starting from 1 February 2015, the FCMC determines the counter-cyclical capital buffer once a quarter. Until 30 April 2020 the counter-cyclical capital buffer for transactions with Latvian residents is 0%.

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

²⁸ 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.

achieve the aim, the following measures are implemented:

- In July 2018 the CM Regulations entered into force, which provide for the initiation of the programme of development financial institutions (DFI)²⁹ to promote economic activity outside big cities, in particular initiators of agricultural activities, new and biological farmers, providing loans for investments and working capital amounting up to 100 000 EUR with the planned total funding of 13.8 million EUR. In 2018, the DFI issued bonds amounting to 10 million EUR, which was the second issuing of bonds within the programme. In addition, in 2018 the selection of managers of acceleration funds (6 funds), seed and start capital funds (2 funds) and growth capital funds (2 funds) ended and investments of 1.19 million EUR were made;

- After restructuring in 2010 and giving up a licence of a credit institution in 2012 the *JSC Parex banka* operated as a professional management company of problematic assets named the *JSC Reverta*. In accordance with the restructuring plan approved by the EC, the *JSC Reverta* was expected to operate until 2017. In 2017, the process of sale of the credit portfolio of the *JSC Reverta* (with the exception of the CIS credit portfolio) completed. In 2017, the process of liquidation of the *JSC Reverta* was initiated, but was not completed by the end of 2018 due to different litigations and legal obstacles. In order to foster the completion of liquidation of the *JSC Reverta*, the *LLC REAP*, a subsidiary of the *SJSC Privatizācijas aģentūra* was established at the end of 2017, which took over claim rights and undeveloped assets of the *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 the CM 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). The MF is currently implementing four development projects in the area of capital market in cooperation with the EC Structural Reform Support Service and the European Bank for Reconstruction and Development (EBRD). On 6 November 2017, Ministers of Finance from Estonia, Latvia and Lithuania jointly with the EC and EBRD signed a *Memorandum of Understanding to create a regional capital market in the Baltics*. Projects were started in February 2018:
(1) *Creation of a regulatory and legal framework for covered bonds*, where a project concept report has been completed and work on the preparation of the draft law is ongoing, (2) *Development of a legal regulation for close-out netting*, where a project concept report has been completed and work on the preparation of the draft law is ongoing, (3) *Development of an EU structural*

funds support instrument to raise SME funding in the capital market, where a project concept report has been prepared and project implementation documents have been drafted, as well as a consultation project on the evaluation of the Latvian capital market has completed;

- 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 regarding the Prevention of Money Laundering and Terrorism Financing (hereinafter – PMLTF) and state reputation;
- international competitiveness.

In continuing to improve the system for prevention of money laundering and terrorist financing, on 25 September 2018 the CM approved a *Plan for the Implementation of MoneyVal Recommendations for the period until 31 December 2019*. The plan provides an extensive range of measures to be taken by Latvia for the purposes of fulfilling the *MoneyVal*

²⁹ DFI was established in 2014-2015.

recommendations. 5 essential priorities arise from measures of the plan:

- Strengthening of risk-based supervision and implementation of preventive measures, incl. controlled, transparent and professional management of the liquidation process of the *ABLV banka*;
- Effective exchange of information to promote investigation, equalisation of approaches and guidelines;
- Ensuring the required human resources for supervisory, controlling and law enforcement authorities increasing their analytical capacity and capacity to act;

- Introduction of information technology solutions for timely and efficient data management;
- Improvement of a system of targeted financial sanctions creating common understanding between cooperation partners and the need for its operation.

In 2019, the MF continues working on the implementation of *Money Val* recommendations in the area of financial sector, as well as continues the transposition of the 5th *Anti-Money Laundering Directive of the EU*³⁰ into national regulatory enactments.

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 understandable, equal 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 the FCMC experts;
- In March 2018, a uniform website of financial literacy partners (<http://www.finansupratiba.lv>) was opened, where all materials on financial literacy are provided in one place – Strategy, Financial literacy competence standard for adults, latest Latvian and international research, financial literacy week archive;
- In 2019, the third survey of the Latvian population in financial literacy is planned, which will determine the actual financial literacy index. The Strategy fulfilment analysis evidences that the most essential positive trends of 2017-2018 were as follows – long-term saving habits of the Latvian population have strengthened considerably having grown by a billion EUR within a year, digitalisation of financial services is getting increasingly extended, and the credit/deposit ratio was 82/100;
- In an informative and education campaign on responsible borrowing named “Call things as they are” the Consumer Rights Protection Centre (hereinafter – CRPC) draws attention that financial literacy of the population in Latvia is low encouraging the population to evaluate their financial sustainability more carefully when deciding to borrow money. The results of the research “Use of distance or payday loans in Latvia” conducted by the CRPC and the Faculty of Business, Management and Economics of the University of Latvia indicate that the Latvian population spends more than earns and the creation of savings is delayed by the easy opportunity to borrow. An educational and interactive website www.parads.lv was created within the scope of the campaign, which provides a debt repayment calculator which can be used to determine the number of working hours one needs to work to repay the debt. The website also provides an explanation or glossary of terms related to financial liabilities, as well as expert advices to focus on prior to deciding to borrow;
- In March 2018 the sixth Financial Education Week with a slogan Where Money Lives? took place, focusing on the digital financial environment. Everyone was invited to develop their financial literacy competence in the digital environment, to search for new interesting materials, learn about details of digital financial literacy. Partners provided measures to foster financial literacy of the population for different audiences – guest lectures and seminars, visits to schools to highlight the importance of financial literacy and make advices to any interested person.

As of November 2011 a *licensing system for non-bank lenders* has been introduced guaranteeing existence of financially sound lenders on the market in the long term. In 2013, several proposals for the improvement of the consumer crediting market were 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

³⁰ Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 of 20 May 2015 on the prevention of the use of the financial system for the

purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

several legislative acts in connection with transposition of the *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*. On 27 April 2018, the CRPC approved new *guidelines* for lenders providing

crediting services to consumers *for the evaluation of consumer's ability to repay a loan*. On 4 October 2018 the Saeima approved amendments to the *Consumer Rights Protection Law* providing for stricter limits for total loan payouts to the consumer and advertising of credits, as well as the possibilities of lenders were extended to receive information necessary for evaluation of the consumer's ability to repay the loan.

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. Taking into account the *Doing Business* rating analysis, as well as proposals of organisations representing businesses and public institutions for the improvement of the business environment, the *Action Plan for Improvement of the Business Environment* is drafted (updated) once in two years and approved by the CM.

According to the research of the World Bank – *Doing Business 2019*, Latvia takes the 19th place among 190 countries and ranks 7th among the EU Member States. Latvia's result in this period is evaluated very positively compared to the previous year reaching a higher percentage point score than before or remaining unchanged almost in all positions. Meanwhile, in accordance with the *Global Competitiveness Index 2018* Latvia is ranked 42nd out of 140 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.

Amendments to the *Action Plan for Improvement of the Business Environment 2019-2022* are being drafted right now.

The plan emphasises the following areas: customer-oriented public administration, digitalisation of services, competitiveness of the tax system, openness of the business environment, rule of law, promotion of innovation.

Box 3.3

Implementation of business environment improvement measures in 2018-2019

- Starting from 1 January 2018, a new CIT model has entered into force, which further envisages that the tax should be paid for distributed profits (as well as in other cases, for example, on expenses not related to economic activity). Companies no longer need to pay CIT advance payments like before; there are also other administrative benefits, for example, only a CIT tax return should be submitted, if the tax does not need to be paid in the specific month;
- a data exchange solution has been developed – when information about the change of a name of a legal person from the Register of Enterprises (hereinafter – RE), from 1 June 2019 the relevant information in the land register division will be updated without direct involvement of a legal person;
- The Treasury information system was improved so that in a situation when a corroboration request includes information about the payment made and the purpose of the payment includes information about the personal code or registration number of the person requesting corroboration and the cadastral number of the immovable property or the land register division number, the payment will be recognised in the Treasury information system, and starting from 1 June 2019 the information about the payment made will no longer need to be added separately;
- A series of the 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 the 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 2018, the Saeima approved *Amendments to the Law on Support for the Activities of Start-Up Companies* were also developed, which significantly broaden the scope of the law allowing a wider range of start-ups to qualify for available support in the form of tax reliefs 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 is ongoing on the possibilities to improve existing support instruments in existing state support programmes. In 2018, start-ups in Latvia 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;
- In 2019 work on the draft law enabling to put an end to shared property, when it is located in privatised multi-apartment residential houses continues;
- On 25 October 2018 *Amendments to the Criminal Procedure Law* entered into force, 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;

- In 2018, the evaluation of the Latvian judicial system by the Council of Europe's Commission for the Efficiency of Justice (CEPEJ) completed within the scope of the project *Justice for Development* co-financed by the ESF. The evaluation analyses functioning of the judicial sector, as well as functioning of the institutions involved in drafting of policies and strategies for the judicial system. The reforms that have been implemented recently were evaluated. CEPEJ gives a positive assessment and supports the reforms that have already been implemented and those that are planned, incl. also the territorial reform of courts. 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. Project implementation is planned until 2022;
- In order to make the work of courts more efficient, extend specialisation opportunities of judges, equalise load of courts and judges of the same level in different Latvian regions, the merging of territories of district (city) courts was completed in March 2018. The reform resulted in merging of territories of several courts forming one large court of first instance. 9 district courts were created in Latvia instead of 34 district courts of general jurisdiction;
- As of 1 July 2018, electronic acts and certifications have been introduced. In light of the foregoing, a sworn notary may prepare acts and certifications electronically, also in a videoconference regime. Since 1 July 2018, a register of authorisations certified by sworn notaries has started functioning. It includes information on authorisations certified by Latvian sworn notaries. Thus, any interested person may verify that the power of attorney certified by a Latvian sworn notary exists and compare the power of attorney presented by a person with the power of attorney certified by a Latvian sworn notary.
- Starting from 1 July 2019, a new function was included in the competence of sworn notaries – legalisation of public documents using apostille.
- Since 1 July 2018 extensive amendments to Chapter 71 of the *Civil Procedure Law* entered into force introducing several significant changes to the procedure of bringing recovery against debtor's movable property.

Modernising public administration

/responsible institutions – MF, MEPRD, ME, State Chancellery/

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 – 85 centres have been created. The work is expected to end by 2020. Pursuant to the *Amendments to the Public 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 the CM adopted four interrelated regulations regulating government services, including e-services and the use of the one-stop-shop principle³¹.

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). The information included in the portal www.latvija.lv is reviewed and updated on a regular basis. There is a portal use and administration procedure, duties and responsibilities of the administration and public government authorities, information exchange and

updating procedure. Work on transformation of the portal continues, creation of a new design to enable the population and companies to easily and conveniently find necessary information and receive public services electronically. A portal development concept was developed and approved by the CM.³²

The concept includes a portal development vision for 2018-2020 providing the population and businesses with comprehensive, clearly structured, up-to-date, easily accessible information and e-services online, as well as electronic communication between private persons and public administration regardless of the location of portal users and responsible authorities. In addition, in continuing the started work discussions with businessmen on necessary improvements and proposals made in the study were ensured.

In the Q1 2019 it is planned to organise a design thinking workshop on the development of content of the business section of the Portal using the study as a basis *Concept of the Business Section of Portal www.latvija.lv. Evaluation of the Current Situation and Future Development Proposals* conducted by the LLC PricewaterhouseCoopers.

With support from the EU funds, the following projects are being implemented since 2018:

- Implementation of *Single Portal for the Elaboration and Harmonization of Draft Regulatory Enactments* (hereinafter – REP). The

³¹ 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*.

³² Informative report *On the development of the public administration services portal www.latvija.lv* (approved by CM on 17.07.2018).

aim of the project is modernization of the decision-making process by the CM ensuring more accessible community participation and more effective and quick process of elaboration and harmonization of draft regulatory enactments for public administration. Two cooperation partners were involved in the project in 2018 – the SJSC *Latvijas Vēstnesis*, Information Centre of the Ministry of the Interior and the MJ, as well as business requirements, architecture of the REP portal, the technical specification and documentation of the developer attraction negotiation procedure were developed. A new agreement with a developer of the REP portal was concluded in December 2018. The total project financing is 1.5 million EUR, incl. ERDF financing of 1.2 million EUR.

- Implementation of the *Single platform of websites of state and municipal institutions*. 12 cooperation partners were involved in the project – state and municipal institutions of different sizes, as well as business requirements, architecture were defined, technical specification and procurement documentation was drafted and an open tender for the attraction of a developer of single website platform was announced. The project financing is 2 million EUR, incl. ERDF financing of 1.7 million EUR.

In July 2018, the MEPRD started the implementation of the ESF project *Development and approbation of a public services transformation methodology*. In 2018, a developer of the methodology, manual and guidelines for transformation of public services was involved, as well as the analysis and transformation of provision of services in the form of pilot projects for five cooperation partners (the State Construction Control Bureau, the National Health Service, the State Medical Commission for the Assessment of Health Condition and Working Ability, the State Environmental Service and the Treasury) started.

- **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. To be able to follow progress in the implementation of the principle, it is planned to conduct an annual evaluation of *Consult First* in the institutions, which have joined the memorandum on the implementation of the principle. The evaluation provides for a comprehensive assessment conducting a survey of customers of institutions and employees of institutions, as well as sets out a single methodology for the evaluation of institutions. At the end of 2018, the first evaluation of the implementation of *Consult First* was started, which

will show success of institutions in the application of this principle and will provide recommendations for the improvement of results in the future. The notification of the results of the first year is expected at the end of March 2019.

- 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 2018, the “*tacit consent*” principle was implemented in 8 public services. The initiated work will continue also in the context of new legislative initiatives.
- **Promotion of fair dealing in public administration.** On 11 October 2018, the Saeima adopted the *Whistleblowing Law*, which will come into force on 1 May 2019. The aim of the law is to promote whistleblowing – information about such violations, which may harm public interests. The law provides for the establishment of the mechanism of internal and external whistleblowing. The law also provides that in certain cases it will be possible to disclose information about a violation publicly. The law provides guarantees to protect whistle-blowers. It also provides that the SC is the contact point for whistle-blowers. At present, the SC coordinates the work of competent authorities, which will review reports of whistle-blowers, will create a special website, draft two guidelines, as well as take other implementation measures.

On 21 November 2018, the CM Regulations *Values and Basic Ethical Principles of Public Administration* were approved. They are binding for the institutions and officials subordinated to the CM. Other public institutions are also welcomed to follow these recommendations. The new legal regulation lays down seven values of public administration and corresponding ethical conduct/action principles. The recommendations also include special requirements to heads, requirements to transparency in communication with lobbyists, as well as provides that institutions designate or elect trustees in ethical matters.

- **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, SMEs, 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 was improved. The SC is carrying out an evaluation of information compliance and quality of the initial impact assessment (abstract) with regard to

administrative burden, community participation and creation of new jobs.

- **Development of human resources in public administration.** In 2018 an agreement on financing of development of the ICT tool *Human Resources Management Platform (CIVIS)* and its implementation until 2021 was signed to ensure, with support of the ERDF financing, 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.

Significant changes in public administration are impossible without additional contributions in the development of competences of employees, in particular heads. Systematic trainings for heads and employees are provided with support of the Latvian School of Public Administration and the SC. There are specialised trainings for development of specific abilities and skills, for example, design thinking, *LEAN* services development method, prevention of conflicts of interests, drafting of regulatory enactments, etc. In 2018, more than 13 500 public administration employees attended different types of trainings.

In 2018, with support of EU funds, 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).
- A campaign *Give a pass once, hit always!* was implemented to **reduce administrative burden**.

During the campaign every resident is welcome to report (on mazaksslogs.gov.lv) about cases, when the “*submit once*” principle is not observed – institutions ask for information which they already have. About 115 proposals on different challenges have been received in total. The *Change Management Expert Group* consisting of representatives of ministries ensures resolution of the challenges sent during the campaign. At the same time, the SC has prepared proposals for systemic reduction of the administrative burden by introducing a “*Zero bureaucracy*” approach in the 2nd half of 2019.

- **Centralisation of support functions and review of internal processes of institutions** started in 2018 to achieve simplification, standardisation and digitalisation of the management process and would allow to divert the free administrative resources to strategic functions – policy planning, analysis and implementation. Standardisation of processes also envisages the implementation of uniform requirements in all public administration institutions, which promote transparency and openness. Already now the Treasury provides accounting functions to 8 institutions³³. Personnel management record-keeping functions will be centralised from 2021 introducing a single personnel management system *CIVIS*. In cooperation with the Procurement Monitoring Bureau, the MEPRD and ministries work on centralisation of different procurements is ongoing. Review of functions will not only promote the fulfilment of their efficiency but will also create the opportunity to reduce remuneration of highly qualified state administration employees. At the same time, it should be noted that centralisation may be implemented only at the same time as investments in technologies (systems) and human resources. Political support of the government is important for the implementation of further centralisation processes. Beside that an evaluation of efficiency of use of vehicles available to direct public administration institutions was carried out and proposals for its improvement were drafted in 2018. The SC ensured monitoring of the implementation of proposals made.

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:

- On 28 November 2018 *Amendments to the Labour Law* entered into force. They provide for the

employer’s duty to specify in the job announcement the amplitude of gross or intended hourly tariff rate payment of the total monthly or yearly wage amount for the job, clarify the procedure of making and disputing a reproof and

³³ The MF, SC, Latvian School of Public Administration, CSCC, Procurement Monitoring Bureau, Fiscal Discipline Council, Lotteries

and Gambling Supervisory Inspection and National Electronic Media Council

reprimand, provide for two additional cases, when the employer does not need to get a previous consent of the trade union for termination of an employment contract, provides more details of payment of the dismissal benefit, when an employee terminates an employment contract due to an important reason, which, based on considerations of virtue and impartiality, does not allow continuing the employment relationship. At the same time, the legal employment relationship regulation was improved with regard to non-discrimination based on language. It was defined that the employer is not entitled to request knowledge of a specific foreign language from an employee, if its use is not included in job duties, and it was defined that the employer has the duty to prove this in case of dispute;

- On 28 March 2019, the Saeima adopted in the 3rd reading amendments to the Section 68 of the *Labour Law* that were jointly proposed by the FTUCL, ECL and the government. The aim of the amendments is to develop a system for the conclusion of a collective agreement of the sector in Latvia and to ensure that the minimum wage in the sector increases. In its conclusions of 22 November 2018, the Employment Committee (EMCO) recommended the Latvian government to form a dynamic bilateral social dialogue and to promote the autonomy of discussions between social partners in Latvia. The EC recognised in the *Country Report Latvia 2019* that a collective agreement in its current version would be a novelty for the Latvian industrial relations system, as so far there have been no collective agreements at sectoral level in the private sector. The offered version of amendments is the first innovative step to increase the “space” of social partners to regulate industry rules and to introduce solutions. It provides social partners with possibilities to “bargain”, at the same time ensuring protection of general interests of employees. The amendments provide that collective agreement of the sector can be used to derogate from the supplement for overtime of 100% as defined in the law, if all the conditions mentioned below have been fulfilled, namely, the collective agreement of the sector: (1) is comprehensive (*erga omnes*) in the sector; (2) has been signed by a trade union, which is included in the largest confederation of trade unions in the country; (3) provides for a significant increase of the minimum wage in the sector; (4) the supplement for overtime defined in the collective agreement of the sector is not lower than 50%;
- The implementation of the ESF co-financed specific support objective *To improve labour safety, especially in enterprises of hazardous industries* continued³⁴. Total planned financing of the project

is 12.64 million EUR, including the ESF co-financing 10.75 million EUR, and state budget financing – 1.89 million EUR. Within this project, a total of 4700 enterprises of hazardous industries will receive support until 31 December 2023 providing an advisory support for adjustment of labour safety environment, assessment of labour environment risks, support will be provided for the performance of the laboratory measurements, as well as other activities will be implemented to improve practical implementation of the labour law and labour protection requirements. The FTUCL, ECL, the Riga Stradins University Agency *Institute for Occupational Safety and Environmental Health* are involved in the project as cooperation partners. A number of educational and informative measures, incl. seminars, educational excursions for companies, measures for the youth from vocational schools, consultations for employers and employees, are implemented in 2018 in cooperation with social partners;

- 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, their review in the 2nd reading is planned in the Q2 2019;
- In order to ensure the application of labour protection requirements, in particular with regard to safety and environmental protection of self-employed and remote employees, *Amendments to the Labour Law* were drafted. These amendments at the same time modernised the procedure of drafting of labour protection documentation, define more accurate and clear requirements for the creation of an organisational system of labour protection and cooperation, and cooperation in labour protection matters. The draft law is currently viewed in the responsible Saeima commission;
- The *Plan for the Development of the Field of Labour Safety 2019-2020* was drafted with the aim to create qualitative jobs, which would ensure safe and healthy work environment and to promote the extension of life of employees, the improvement of the economic condition of the state and businesses, as well as increase of the level of welfare of the entire society. The plan aims to organise different public information measures, promote effective implementation of labour protection requirements, promote health protection of the employed, supervise and control the labour

³⁴ The CM Regulations No. 127 of 1 March 2016 *Conditions 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*.

protection area, draw attention to ensuring safe work environment within the scope of non-

standard employment forms, as well as in the work of self-employed persons.

Combating shadow economy

/responsible institution – MF/

In the *Action Plan of the National Authorities in Combating Shadow Economy for 2016–2020* (hereinafter – Shadow Economy Combating Plan) main tasks are aimed at the reduction of shadow economy in certain national economy sectors (for example, construction, transport, security, trade, public catering and accommodation and other services).

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

Box 3.4

Shadow economy combating measures

The cooperation of the SRS with other public administration 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 the *Shadow Economy Combating Plan*. Thus, for instance, on 14 November 2018 a memorandum of cooperation between the SRS, the Health Inspectorate, the State Police, the KNAB and other institutions was concluded for combating shadow economy and corruption in healthcare, agreeing on tasks performed to arrange activities of the health sector.

At the same time, a dialogue between the government and non-governmental organisations is ensured, implementing memorandums of cooperation and general agreements as effective tools to reduce shadow economy and promote sector development, for example, the memorandum of cooperation between the MF, the SRS and businesses in the construction sector on the transfer of working hours registration data before introduction of a joint database on 13 July 2018, the mutual agreement between the MF and the accommodation sector of 21 September 2018 to reduce shadow economy in the sector, etc.

In order to improve supervision of payment of taxes by natural persons, exchange of information between credit institutions and payment service providers with the SRS had been introduced. It provides for submission to the SRS by 1 February of each year of information about its customers (natural persons – residents of the Republic of Latvia), whose total annual account turnover in one credit institution or with one provider of payment services in the previous year is 15 000 EUR or more. Information about customers, whose total balance of on-demand deposit accounts and payment accounts on 1 January 2018 was 15 000 EUR or more was submitted to the SRS in 2018, while information about account turnover was first submitted at the beginning of 2019, thus this year the SRS will be able to identify more effectively those persons, who may probably earn undeclared income, incl. in the form of “envelope” wages, as well as risk of potentially unregistered economic activity.

In order to promote safety of the business environment, fair competition and voluntary fulfilment of tax liabilities, provision of publicly available information about employers having employees with average monthly wage amounting to the minimum monthly wage defined in the country or less, as well as persons, whom an administrative penalty for violation of wage payment regulations was imposed, has been introduced starting from 1 January 2018.

In accordance with the *Cheque Game Law* adopted in 2018, a *Cheque Game* will be organised since 1 July 2019, 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 enterprises. By registering a cheque confirming a transaction starting from 5 EUR for the game it is possible to earn valuable cash prizes.

From 1 October 2017 an electronic working hours registration in construction was introduced aiming to arrange the construction sector, improving payment of taxes for employees, preventing illegal employment and incorrect registration of working hours, as well as improving traceability of economic activity. In continuing work on arrangement of the construction sector and reduction of shadow economy in the construction sector, proposals for regulatory enactments were prepared in 2018, which aim to extend the use of the electronic system for registration of working hours at construction sites, namely, from 1 January 2020 it is planned to reduce the threshold of costs of construction works with regard to construction sites, where electronic registration of working hours should be introduced (at present the regulation provides that electronic registration of working hours should be introduced at a construction site, where a new third group building is built or costs of construction works are 1 million EUR or more). In 2019, a regulation was approved banning immovable property alienation transactions in cash.

In 2019, *Amendments to the Law on Gambling and Lotteries, the Latvian Administrative Violations Code, the Electronic Communications Law and the Law on Payment Services and Electronic Money* were adopted to reduce the illegal market of gambling and interactive lotteries in Latvia. These regulations provide for a ban to a person to participate in non-licensed interactive gambling and interactive lotteries, as well as person's responsibility for participation in them, improves regulation with regard to blocking of websites organising non-licensed interactive gambling and lotteries in Latvia and obliges credit institutions and providers of payment services to refuse transactions with organisers of interactive gambling not licensed in Latvia, as well as provide information to the SRS and Lotteries and Gambling Supervisory Inspection on respective refused transactions.

In 2019, measures to reduce shadow economy in already identified shadow economy risk areas (construction, transport sector, restaurant and accommodation area, security, etc.), at the same time introducing new measures to reduce shadow economy in healthcare, waste management area, organisation of gambling, incl. restriction of circulation of cash.

Work to introduce an electronic goods traffic control system ensuring electronic circulation of e-waybills to reduce traffic of potentially unrepresented goods continues.

Public campaigns have been continued 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.

In order to strengthen the capacity of tax administration, measures to increase analytical capacity of the SRS in the evaluation of legal norms on application of the VAT, improvement of the SRS work methods and other directions were implemented in 2018 within the scope of the World Bank project to increase capacity and efficiency of the SRS and reduce the VAT fraud. In 2019, the World Bank project to improve the work of the tax administration will continue.

In implementing the state policy in restricting shadow economy, incl. promoting cooperation between institutions and strengthening it in the *Action Plan of the National Authorities in Combating Shadow Economy* approved by the Shadow Economy Combating Council, the share of shadow economy in Latvia gradually decreases and in accordance with the data of research conducted by the Austrian professor F. Schneider, using an indirect evaluation method, the share of shadow economy in Latvia was 21.3% of GDP in 2017, which is by 1.6% less than in 2016. In 2018, in accordance with forecasts of the Austrian economy professor F. Schneider the share of shadow economy in Latvia will continue decreasing and may reach 20.2% of GDP.

Taking into account the Report on the 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 and recommendations made to Latvia, on 20 June 2018 the Saeima supported in the 3rd reading a proposal for *Amendments to the Criminal Procedure Law*, which aims to clearly define that there is no need to prove a specific predicative criminal offence, as a result of which funds were obtained, thus effectivising anti-money laundering and this legal regulation enters into force on 1 September 2018.

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 Exports of Latvian Goods and Services and Attraction of Foreign Investments for 2013 – 2019* and the *Action Plan* were approved by the CM in 2013. The

abovementioned 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 products in Latvian exports 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 aim 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 support available to enterprises 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. From 30 May 2017, enterprises 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**, which aim to promote enterprises' access to finance. Within the scope of the programme, in 2018 three credit institutions (Luminor Bank, Swedbank and UniCredit Leasing) will offer enterprises financial services with a reduced loan interest rate. Small and medium-sized enterprises, which 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** will provide support through financial intermediaries (managers of acceleration funds) to innovative companies for the creation and development of a business idea, company or product to promote their growth and competitiveness, in particular for technological and industrial projects. Support to businesses is provided in two stages – pre-seed funding for the establishment of a company, consultations and development, research, evaluation and approval of a product (in the amount up to 50 thousand EUR), and seed funding – to companies, which have successfully passed the pre-seed investment stage, for further growth, for the development of a product and economic activity model (up to 250 thousand EUR). In total in the programming period 2014-2020, there are 13 million EUR (ERDF) allocated for implementation of three acceleration funds (Buildit Latvia, Commercialization Reactor Fund, Overkill Ventures) and 2 million EUR of repaid public funding, making 5 million EUR for each fund. The acceleration programme started functioning in the Q3 2018.
- **Seed capital, start capital, and growth capital funds** – the goal of financial instruments is promoting establishment, development and competitiveness of economic activity performers proving seed capital, start capital and growth capital investments for the implementation of business projects. 60 million EUR (32.2 million EUR of the ERDF financing and 27.8 million EUR of repaid public financing) 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 commenced their activities in March 2018. The LLC Expansion Capital AIFP has completed the private fund-raising process and the seed and start capital fund INEC2 and start capital fund INEC1 started operations;
- **Micro-loans** – the aim is to promote involvement of residents in business activity and increase the possibilities for enterprises to receive the financial support for commencing and developing business. Support in the form of micro-loans and start-up loans is provided. Start loans can be received by those who start business, as well as by newly established companies for the implementation of their business ideas, while microloans are intended for micro, small and medium-sized companies for the implementation of viable business projects – for investments and working capital. On 23 January 2018 amendments to the CM Regulations were adopted, by which up to 5 years old starters of economic activity will be able to apply for start loans. 400 start loans for a 9 million EUR and 118 microloans for 1.5 million EUR had been issued within the programme by the end of 2018;
- **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. In 2018, the list of sectors to be supported was extended and the total support financing was increased (ERDF financing of 44.8 million EUR). 394 guarantees in the total amount of 69 million EUR had been issued within the programme by the end of 2018.
- **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. 10 parallel loans for the total amount of 4 million EUR have been granted by 31 December 2018;
- **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 2018, 165 loans in the amount of 8.17 million EUR were granted. Since 2012, financing for the purchase of agricultural land is available as well (the total amount of available financing – 80 million EUR). By the end of 2018, in total 1 600 loans had been granted for the total amount of 78.7 million EUR, where 228 loans in the amount of 12.94 million EUR were granted in 2018.

Promoting investments, incl. attraction of foreign direct investments

/responsible institution – ME/

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

The Investment and Development Agency of Latvia (hereinafter – 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 2018, 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*. 38 project applications were supported within the first round of the measure, of which 9 were projects of developers of industrial territories. Two projects for the total amount of 2.2 million EUR, incl. ERDF funding of 965 900 EUR, were suspended. Project implementation agreements were concluded for 54.3 million EUR, incl. ERDF financing of 22.4 million EUR and private co-financing of 31.9 million EUR. Out of 38 supported projects, 14 projects for the total amount of 13.9 million EUR, incl. approximate ERDF financing of 6.2 million EUR, and approximate private co-financing of 7.6 million EUR, have already been implemented.

In 2018, the CM regulations regulating the second selection round of the measure *Support for investments into the creation and reconstruction of production facilities and infrastructure* were adopted and project application evaluation criteria were approved by the Monitoring Committee of the EU Structural Funds and the Cohesion Fund.

The second project application selection round of the measure was announced on 15 January 2019.

In order to improve the FDI attraction process, mainly proactive action in raising investments, in 2018 the ME received support of the Structural Reform Support Service for the development and practical implementation of the proactive addressing process. The project was partially implemented in 2018 and its implementation continues in 2019.

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 being implemented:

- Provision of a **foreign economic policy** and organisation of the network of the Latvian 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. Active work is ongoing on popularisation of Latvia as a country focusing on the development of new technologies. At the same time, export sectors like transport and logistics, food industry, timber industry, pharmacy, tourism and higher education are emphasised. Geographically – on the traditional markets in the Baltic and Nordic region, as well as distant markets in the United States, Canada, China, Japan, India,

South Korea, Gulf States, Africa and South East Asia;

- **In order to deal with economic issues** and provide support to Latvian entrepreneurs, permanent Latvian foreign representative offices (21 in total) were operating in 19 countries (in Belarus, Denmark, France, Russia, China (Beijing, Shanghai and Ningbo), Japan, United Kingdom, Lithuania, the Netherlands, Norway, Poland, Germany, Sweden, Finland, Italy, Singapore, United Arab Emirates, Kazakhstan, United States) in 2018;
- **In order to expand and deepen cross-border cooperation of Latvian entrepreneurs in export markets.** In 2018 and at the beginning of 2019 visits of top state officials were organised, which were of economic nature, incl. jointly with entrepreneurs, to European countries – Spain, France, Germany, Finland, Switzerland, as well as

third country markets – United States, Japan, China, South Korea, Belarus, Russia regions, etc. Latvia also welcomed high-level officials accompanied by entrepreneurs from Japan, Hungary, Norway, United Arab Emirates, South Korea, China, Germany, etc.

- **In order to improve the economic contractual base with third countries.** In 2018, the government of the Republic of Latvia and the government of the Republic of Belarus signed a memorandum of understanding on key directions of economic cooperation in the medium term;
- **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 were organised in 2018 and within the scope of them there have been bilateral meetings of officials with representatives from Belarus and Kazakhstan;
- **Supporting enterprises in taking external marketing measures,** by encouraging Latvian enterprises to participate in international exhibitions using national stands. In 2018, 33 sectoral national stands were organised at international exhibitions abroad with participation of 235 enterprises, and participation with Latvian national stands in 12 international travel exhibitions was also ensured;
- **Direct export support services for enterprises** provided by the 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 are organised. In 2018, a new type of support started to be provided to start-ups – support to participation in international exhibitions abroad, participation in business-related conferences and direct visits to a potential investor or cooperation partner in foreign countries – 92 companies were supported;
- **Short-term export loan guarantees** are available to enterprises in order to promote exports (*see Box 3.5*);
- 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 (business and event tourism, well-being tourism). By 31 December 2018, 1839 agreements on receiving support had been concluded and the total number of provided financing (grants) is 4340 for the total amount of 15.72 million EUR.

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 the CM Regulations providing more opportunities to local governments to be flexible in setting the rent for built-up land plots in case of renting the land for construction of industrial object or performing economic activities, by setting specific criteria (conditions) in the binding regulations;
- **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 buildings, etc.) has been ensured using financing 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 2018, 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 funds financing available for this objective is 347.7 million EUR (ERDF). The following results are expected with the help of these investments: at least 4 933 new jobs created in private sector and investments attracted in the amount of at least 347.7 million EUR, and at least 202 enterprises in private sector supported, at least 556 hectares of degraded territories

renewed. With support of EU funds 75 municipalities are planning to implement public infrastructure development projects for business support. By 28 February 2019, these municipalities have submitted for evaluation 160 projects with the ERDF financing of 214.7 million EUR, which amounts to 70.9% of total planned ERDF financing (agreements on implementation of 123 projects have been concluded with the ERDF financing of 145 million EUR). By 28 February 2019 the investment projects created 929 new jobs and attracted 93.2 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 equivalent to at least 5 180 CO₂ annually will be achieved (see also Chapter 3.6.2);

- Measures have been taken for the development of **business and innovation system in the Latgale Region**. In 2018, the development of a concept for

Local Development, Poverty Reduction and Cultural Cooperation programmes of the Norwegian financial instrument and the EEA for 2014-2021 started, and on 1 February 2019 a draft concept of the project was coordinated with the responsible authority of donor countries – the Financial Instrument Bureau. Within the programme each planning region will implement pre-defined projects to promote the development of regional business support centres, as well as strengthen planning abilities, knowledge and experience of municipalities. In order to achieve the results defined in the programme, all the five Latvian planning regions will receive financing to strengthen their capacity and promote business opportunities, promote youth business and jobs increase. Within the programme special attention will be drawn to the Latgale Region envisaging a proportionally higher funding than for other Latvian regions, and also implementing a scheme of small grants for business support (for the implementation of new business ideas promoting employment in the Latgale Region).

3.2.3. Innovation, Research and Development

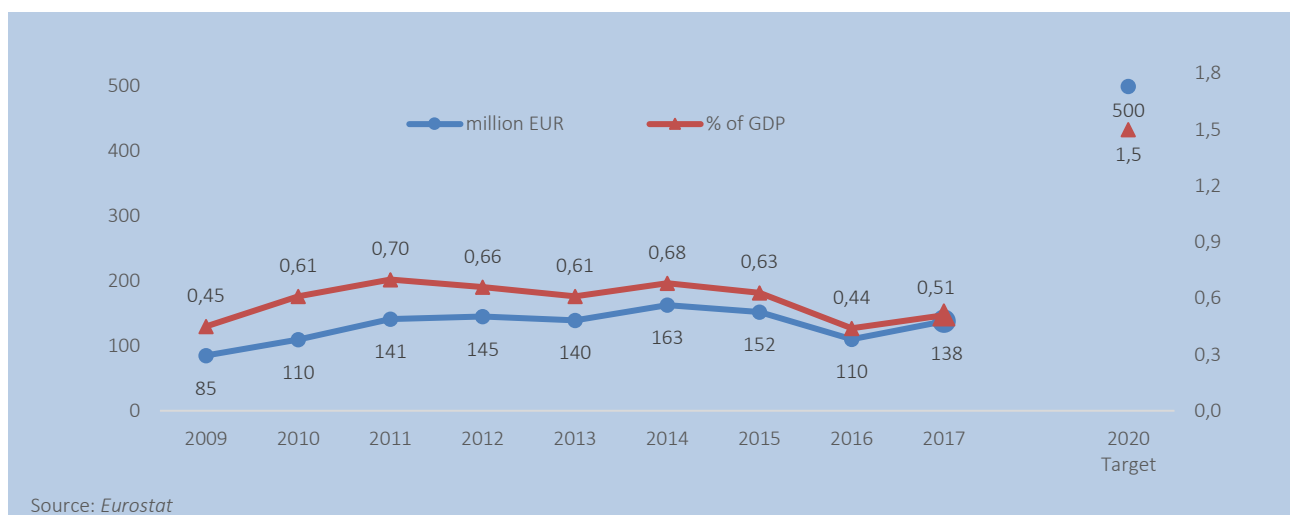
The target of the NRP of Latvia regarding investments in research and development (R&D) for 2020 is 1.5% of GDP.

The *European Innovation Scoreboard 2018*³⁵ places Latvia 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 the EU average level.

At present there is a serious risk that the target for investments in R&D will not be met³⁶ (see Figure 3.1).

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



Total expenditures of Latvia on R&D in 2017 amounted to 137.9 million EUR or 0.51% of GDP.

Although the total increase in funding is 25% compared to 2016, it is considerably lower than

³⁵ <https://ec.europa.eu/growth/sites/growth/files/infographic-innovation-scoreboard-2018-map-full-size.png>

³⁶ Paragraph 2 of minutes No. 13 of CM meeting of 27 February 2018, § 46 Informative report "Monitoring of the Smart Specialization Strategy"

planned in 2017 (1.1%). The increase was mainly fuelled by renewed European Structural and Investment Funds (ESIF) funding which raised the public funding level to 0.37% of GDP. Since the most financially intensive activities for R&D supported by the EU funds were mostly started in the first half of 2017, those still could not level the funding drop trend, which was particularly sensed in 2016.

The biggest increase (by 39%) was in the business sector, mainly own financial investments of companies in R&D activities. This was largely affected by the ME's work on measures to promote innovation in state-owned enterprises. At the same time, the structure and dynamics of R&D financing evidence that investments in R&D in Latvia are low and depend on ESIF. Therefore, it is natural that R&D expenditures cyclically increase and reduce along with investments from the EU funds.

The volume of investments in R&D is insufficient and it is still lower than the NRP target. Thus, for instance, in order for Latvian R&D expenditures to constitute 1.5% of GDP, in 2020, it should be equal to 462.6 million EUR, where 50% should be public funding and 50% should be private sector 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 framework³⁷.

In 2018, only 50% of the calculated science base funding is paid with at least 20.7 million EUR missing. Moreover, it should be taken into account that the number of persons employed in R&D has significantly decreased as a result of deficit in R&D funding. In 2017, it was still by 18% lower compared to 2008 and the share of scientific staff in the Latvia's total employment structure is lower than 50% of the EU average.

Latvia is the second-worst country among EU Member States 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- and technology-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 research;
- 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 research results and intellectual property.

The *Guidelines on Research, Technology Development, and Innovation for 2014–2020* (hereinafter – the GRTDI)³⁸ 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.

The GRTDI makes a contribution to the achievement of goals of the *Smart Specialization Strategy* (hereinafter – *RIS3*). *RIS3* is a national economy development strategy defining the economy transformation directions, growth priorities, and smart specialisation fields and prescribing a well-determined focus of research and innovation resources in the fields of knowledge where the state has relative advantage or a basis to create such advantage.

The goal of *RIS3* is to stimulate transformation of the national economy to more efficient use of resources, creation of higher value added products and services.

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.

Since 2018 focused coordination of each *RIS3* specialisation area ecosystem and ensuring representation of international interests in programme committees of Horizon 2020 has started within the scope of EU funds support. At the same time, more close cooperation started with related sectoral ministries (for example, the Ministry of Economics in the area of Smart Energy, incl. within the

³⁷ CM Regulations No. 1316 of 12 November 2013, *Procedure for Calculation and Allocation of Base Funding for Scientific Institutions*.

³⁸ Adopted at the end of 2013.

scope of drafting the National Energy and Climate Plan).

In 2018, the methodological approach to the RIS3 monitoring system was improved. By June 2019 the second RIS3 monitoring report will be prepared, which will provide an overview of the overall RIS3 implementation progress in 2014-2017, as well as an analytical insight into RIS3 specialisation areas ecosystems by topics, identifying the priorities, goals and activities to be put forward in the process of drafting RIS3 for the new period (2021-2027) in accordance with the specifics of development needs of each RIS3 area. The current analysis does not point out to the need to redefine RIS3 specialisation areas.

In order to link the existing science and innovation policy management model to national needs, as well as, among other things, in response to the recommendations made in the evaluation by EC experts of the Latvian science funding (2017)³⁹, the following measures have been taken so far:

- In June 2018, amendments to the *Law on Scientific Activity* entered into force, which enable sectoral

ministries to develop and finance their state research programmes in priority sectors of the state. The ME state research programme in the energy area was started in 2018. MC, MA, MT, MJ, MEPRD, MoW, MD, MH and MFA are planning to develop their own state research programmes;

- Investments in the EU funds support programme *To ensure better governance in higher education institutions* are made for modernisation of higher education governance (also see *Chapter 3.4.4*).

As to the increase of R&D funding for projects obtained through a competition, new conditions for financing of fundamental and applied research projects, as well as state research programmes were drafted, ensuring evaluation of projects equivalently to the principles of the Horizon 2020 programme, which is done by foreign experts. Starting from 2018 funding for fundamental and applied research projects has increased from 4.4 million EUR per year to 9.5 million EUR per year.

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;
- 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 the EU and other international scientific cooperation organizations, etc.

Funding from the 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* 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.

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

Box 3.6

Measures to raise the competitiveness of GRTDI sector

- In 2018, work on implementation of the following EU fund (2014-2020) measures continued: The **post-doctoral research programme**, within the scope of which it is planned to improve skills and scientific capacity of indicatively 380 young scientists – post-doctoral researchers, ensuring the development of young leaders of scientific groups, career starting opportunities in a scientific institution and with entrepreneurs, as well as promoting the renewal of human resources and the increase in the number of qualified specialists. Total funding of the programme is 64.03 million EUR (including ERDF funding – 54.4 million EUR, state budget funding – 6.4 million EUR). In 2018, the implementation of 131 research applications with the total funding of 17.4 million EUR (incl. ERDF funding of 14.8 million EUR, state budget funding of

³⁹ Assessors – EC's *Horizon 2020 Policy Support Facility* unit

1.7 million EUR) continued within the scope of the first round of the programme, and the implementation of the second selection round of the programme started supporting advancement to implementation of 63 post-doctoral research applications with indicative total funding of 8.4 million EUR (incl. ERDF funding of 7.1 million EUR, state budget funding of 0.8 million EUR). It is planned to announce the third selection round in April 2019 with the total project funding of 15 million EUR, incl. ERDF funding of 12.75 million EUR.

- **Programme of research aimed at practical application**, the purpose of which is to support research, which contributes to the achievement of goals of the Latvian RIS3, to the development of human capital for science and technology and to the creation of new knowledge for the improvement of competitiveness of the national economy. The total funding of the programme is 86.1 million EUR (ERDF funding – 65 million EUR, state budget funding – 11.47 million EUR, planned private co-funding – 9.6 million EUR). In 2018, the implementation of 74 research projects with total funding of 44.22 million EUR (incl. ERDF funding – 36.77 million EUR, state budget funding – 2.99 million EUR) actively continued. In September 2018, the submission of projects in the second selection round was announced and in December 2018-January 2019 decisions on the advancement to implementation of 44 research projects with indicative total funding of 28.66 million EUR (incl. ERDF funding of 18 million EUR, state budget funding of 5.5 million EUR) were adopted. 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.

Overall, by 31 December 2018 the projects implemented within the first selection round of the two above-mentioned programmes created 78 new research staff jobs employing scientific staff and technical scientific staff, ensured cooperation of scientific institutions with 29 entrepreneurs in the implementation of research projects, 204 scientific articles have been drafted and submitted for publication, 21 new product or technology with commercialisation potential have been developed, as well as private co-funding of 1.7 million EUR have been attracted for the implementation of projects. In order to foster an increase in private sector investments in R&D and stimulate mutual cooperation between scientific institutions and entrepreneurs in the implementation of research projects, the rules of selection and implementation of project applications for the Programme of Post-Doctoral Research and Research Aimed at Practical Application were revised and updated in 2018. Thus, the number of those research projects has increased in the second selection round of the Programme of Research Aimed at Practical Application, the implementation of which involves entrepreneurs – 39 such projects (89% of all the approved projects) for total eligible funding of 25.5 million EUR were advanced to implementation in the second selection round, while 17 projects with involvement of entrepreneurs (23% of all the approved projects) for total eligible funding of 10.2 million EUR are implemented in the first selection round.

In 2018, conceptually new implementation rules for state budget R&D investment programmes – Fundamental and applied research and state research programmes were developed. In 2018, this restructuring of implementation rules fostered and is expected to foster in the coming years an increase of state budget funding for R&D:

- The amount of annual funding available for the implementation of projects increased significantly for the implementation of projects of the **Fundamental and Applied Research Programme** – from 4.4 million EUR per year to 9.5 million EUR per year (the increase was partially secured taking into account the adjusted financing structure in state research programmes, as well as allocation of additional state budget funding of 1.4 million EUR). The purpose of the Fundamental and Applied Research Programme is to create new knowledge and technological considerations in all fields of science, thus creating the necessary knowledge base and human capital necessary for further knowledge and technology transfer. Projects are implemented in accordance with priority axes in science, while topics, goals and tasks of research are formulated by scientists themselves. Two project application selection rounds were announced in 2018 and 102 projects for the total funding of 26 million EUR were approved for implementation and started to be implemented as a result of that.
- In order to foster the state order for scientific research in a sector of priority for the state, the procedure of implementation and financing of **state research programmes** was revised. Thus, on 28 June 2018 the Saeima approved amendments to the Law on Scientific Activity enabling sectoral ministries to create, implement and finance their state research programmes as the state order in scientific research considering their sectoral priorities. The implementation of three state research programmes started in 2018 – the state research programme of the Ministry of Economics in energy (the total planned funding for 2018-2020 – 6 million EUR), as well as state research programmes of the Ministry of Education and Science “Latvian Language” and “LATVE” (the total planned funding for 2018-2020 – 6.2 million EUR).

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**:

- In 2018, the implementation of projects within EU funds measure *Support to International Cooperation Projects in Research and Technologies* was started. Total planned funding of the programme is 32.55 million EUR, including ERDF funding – 27.66 million EUR, state budget funding – 4.88 million EUR. The implementation of complementary measures of national and institutional level is ongoing within the measure for the development of international cooperation. In 2018, within the scope of the first round the Ministry of Education and Science and the State Education Development Agency started work on the implementation of projects, including ensuring active national representation in programme committees of the *Horizon 2020* programme, ensuring informative and advisory expertise of the National contact point, as well as financing the implementation of 5 research projects within ERA-NET COFUND activity and allocating funding to the development of 38 high-quality project applications of Horizon 2020 programme and other international research projects. The implementation of projects of the second round of the programme, which were introduced by 18 leading scientific institutions, also started in 2018. Projects of the second round ensured preparation of 217 high-quality project applications for Horizon 2020 programme (data as of 28 February 2019), as well as the implementation of 7 national partnership plans for participation in strategic forums of European research infrastructures. In turn, within the third round of the measures in 2018 funding from EU structural funds was granted for the implementation of four projects of the Horizon 2020 programmes, which were assessed above the quality threshold, but have not received funding for the implementation of the project;
- Within the scope of measure *Development of R&D infrastructure in smart specialisation fields and strengthening the institutional capacity of scientific institutions* 14 agreements with scientific institutions on the implementation of projects continue for the total eligible funding of 130.05 million EUR, incl. public funding of 120.25 million EUR (of which ERDF funding of 102.96 million EUR and state budget funding of 17.29 million EUR). The implementation of the projects is planned until December 2021. At the end of 2018, one of the largest construction projects within the measure was completed – the construction of the Science House of the University of Latvia creating so far the newest and the most modern study and research centre in Latvia, which will concentrate exact, medical and life sciences studies and research directions of the University of Latvia in one place;
- 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;
- A concept document of the CM programme was drafted in 2018 and approved on 15 January 2019. In 2019 it is planned to sign programme agreements and draft a relevant regulation to allow Latvia to announce a project contest in Latvia in 2019 (Estonia announced the contest on 25 October 2018, where Latvian scientific institutions were able to participate as project partners as well).

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 entrepreneurs;
- 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, as well as interdisciplinary cooperation 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 the 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 enterprises 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 enterprises by stimulating cooperation between research and industry sector, which develops new products and technologies and introduces them in production, thus fostering cooperation between companies and the research sector for the development and commercialisation of new products and technologies. Total EU funds 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 123 enterprises, which receive grants for the development and marketing of new products and technologies, including private sector funding into R&D of at least 16.07 million EUR. As of 31 December 2018, 191 research projects in total were approved in eight competence centres. By the end of 2018, 174 studies have completed and the products created as a result of them are produced or are expected to be produced in the nearest future. The co-funding of companies involved in R&D project reached 21 million EUR as of 31 December 2018. 149 performers of economic activities received support. 492 new jobs, incl. those employing scientific employees in the public sector, were created within the scope of the measure. 175 doctoral researchers and doctors are involved in the implementation of research and innovation projects. 238 scientific articles were published in journals indexed in international databases (Scopus, Web of Science).

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). The programme will constitute a supplement to those EU fund programmes providing support for conducting research, ensuring monitoring of programme results to identify commercialisation possibilities. In parallel, consultations are provided on technology transfer, innovation and available support instruments, as well as a cooperation promotion platform is provided;
- **for commercialisation and patenting of research results** (support to research organisations for the development of projects not related to economic activity);
- **for innovation vouchers** (support to enterprises in attraction of external services for new or substantially improved product or 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, conferences, contact stocks, investor attraction activities, as well as opening of representation offices of start-up in the United States, in the Silicon Valley).

Total planned 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 27 enterprises for granting of innovation voucher support had been approved by the end of 2018 within the *Technology transfer programme*. 85 commercialisable project ideas were presented at pitch sessions within the programme.

Submission of projects was announced in 2018 and projects for the EU funds measure *Innovation Grants for Students* were submitted 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 enterprises. The total planned funding of the programme 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 2nd-3th quarter of 2019.

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*⁴⁰ was approved by the government in 2018, where it was concluded that significant work on the improvement of RIS3 eco-system 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.

In 2018, a roadmap for sharing of research infrastructure by countries of the Baltic Sea Region was developed within the scope of the Interreg project “Baltic Science Network”, the recommendations of which will be taken into account in drafting the research infrastructure sharing strategy of the Latvian scale.

In 2019, the second international evaluation of Scientific institutions will be carried out, where the scientific capacity and performance, as well as governance efficiency of scientific institutions will be evaluated, which will become the basis for further decision-making in this area.

Supporting 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 Enterprises* 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 enterprises:

- *Support in introduction of new products* – the goal is raising the productivity and competitiveness of enterprises 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. Support was 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. 51 project applications were submitted within the second project application selection round, which closed in April 2018. It is planned to approve about 20 projects for the total ERDF funding of 34.2 million EUR. Overall, it is planned to support at least 30 enterprises for development of new

products and technologies within the scope of the programme by 2022. At the same time, it is planned to attract at least 10.5 million EUR of private sector investments for R&D activities⁴¹;

- *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 activities for different target groups were implemented within the scope of the programme in 2018, including for pupils, students, business starters, existing enterprises and start-ups, as well as any interested person, involving different innovation and business activities in a practical and interactive way. Overall, 29 measures were implemented in 2018, involving more than 7 400 persons;
- Additionally, in order to facilitate the development of innovative enterprises, support measures for training of employees have been developed (*see Chapter 3.4.5*);
- For the purposes of promoting wider involvement of state-owned enterprises in research, development and innovation activities, an initiative was implemented in 2018, within the

⁴⁰ https://www.izm.gov.lv/images/statistika/petijumi/RIS3_progress-report_LV_2018.pdf

⁴¹ CM Regulations No.293 of 10 May 2016 *Implementing Regulations for Measure 1.2.1.4 “Support in Introduction of New Products into*

Production” of Specific Objective 1.2.1 “To Increase Investments of Private Sector in R&D” of the Operational Programme “Growth and Employment”

scope of which more active state capital companies (Latvenergo, LMT, Lattellecom, Latvijas valsts meži) engaged in closer cooperation for definition and development of joint cooperation lines and projects. The cooperation is developing on three levels: (1) management workgroup – ensures coordination and long-term development of strategic cooperation; (2) intersectoral project development workgroups for identification and commencement of project-level measures; (3) innovation forums – once half a year public events are organised to discuss the results achieved and latest news. Other state-owned enterprises, for example, *Latvijas Pasts*, *Latvijas Valsts radio un televīzijas centrs*, *Latvijas dzelzceļš*, *Elektroniskie sakari* and others have gradually jointed this cooperation platform.

- In 2018, work started on the implementation of the programme *Business development, innovation and small and medium-sized enterprises* for 2014-2021 programming period of the Norwegian financial instrument. It is expected that the programme will be implemented until 2024 and within the scope of it enterprises will be able to receive support for the development and implementation of such new, innovative products and technologies, which make a contribution to the development of digital and ICT solutions, support more environmentally friendly and society inclusive solutions. The total funding of the programme is 14.7 million EUR, where 12.5 million EUR are allocated by the Norwegian financial instrument and 2.2 million EUR are 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 Support for the Activities of Start-Up*

Companies entered into force. This law is intended for start-ups – 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 support programme for making the fixed payment with an additional opportunity to receive PIT relief, as well as for support programme allowing to attract highly-qualified employees. At the same time, start-ups have access to venture capital funding – 15 million EUR in acceleration funds (ALTUM has selected three managers of acceleration funds in total – *Overkill Ventures*, *Buildit Latvia* and *Commercialization Reactor Fund*, which will support 150 enterprises by 2021) and 60 million EUR in seed and growth venture 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 was extended to include small, medium-sized and large enterprises, which have the possibility to raise funding for the attraction of such qualified labour force, which contributes to the development of new products or technologies.

A new CIT model was introduced within the scope of the tax reform, which provides for postponement of CIT until profit distribution starting from 2018 (*see Chapter 2.1*). Such a model promotes investment of funds in the development of enterprises, incl. promotes productive investments in business, innovation, research and development, because there are more funds at the disposal of the enterprise.

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.

From 2018 to 2023 MES will implement an integrated campaign to popularise science to foster the awareness of importance of science in creation of welfare and developing competitiveness of the national economy.

In order to promote the awareness and to educate on innovation and business, as well as to motivate the wider community to engage in business and

practically involve it in the development of innovative ideas and solutions and their further development, the Investment and Development Agency of Latvia implemented and supported a number of annual activities, for example, networking events for businessmen, interested persons, developers of business ideas; operation of pupil education companies (PEC) and local and international events subordinated to them; contest of innovative business ideas *“Cup of Ideas”*, cooperation platform for companies and students *“DEMOLA Latvija”*; international technological conference *“Deep Tech Atelier”*; *“MiniMBA”* for strengthening company innovation management capacity, as well as functioning of portal *labsoflatvia.com* and organisation of other events. In addition, other activities are implemented within the scope of state

innovation support programmes: annual innovation and digitalisation conference “*DigIn*”, events to promote cooperation between scientists and businessmen in regions “*Burger with a scientist*”, different hackathons and other activities.

In 2018, several national level activities were started and implemented for extension of international cooperation networks, establishment of targeted relationships with the diaspora of Latvian scientists in foreign countries, cooperation with Latvian and foreign economic and diplomatic representations, ensuring participation in international research and development cooperation initiatives, as well as ensuring a communication campaign⁴². In 2018, the World Congress of Latvian Scientists IV was organised bringing together scientists from Latvia and scientists of Latvian origin from all over the world, as well as their strategic partners and supporters.

Over 750 participants from 24 countries participated in the congress. The most significant goals and tasks set for the congress have been achieved – mutual communication and networking of scientists, as well as communication of scientists with strategic cooperation partners (representatives of the private and public sector) was ensured, as well as communication of science as an important field with the community has been ensured by highlighting the role of science in the modern society.

In 2018, international cooperation networks with the diaspora, including with the scientific diaspora, were created for the implementation of R&D measures and extension of cooperation opportunities. The Latvian scientific diaspora community was identified and its research activity was analysed, as well as proposals for the establishment and promotion of further cooperation between scientists from the diaspora and Latvian scientists were drafted. During the second round of the research (2020) the development of cooperation networks of the scientific diaspora will be studied – this will result in the development of a set of activities for strengthening human capital and extension of scientific networks, as well as

communication campaign activities for strengthening of cooperation with the Latvian scientific diaspora.

Active cooperation with the Latvian embassy and IDAL representative office in the United Kingdom started in 2018. Participation in several events organised by the diaspora was ensured. Cooperation with diaspora organisations was implemented – the World Federation of Free Latvians, the Union of European Latvians, the Latvian Medical and Dental Association, the American Latvian Association, the Association of Latvian Students and Researchers in the UK, etc. In 2019, it is planned to continue targeted cooperation with organisations of scientists and researchers in the countries, where most of the Latvian scientific diaspora is concentrated (United States, United Kingdom, Germany, Sweden) to establish cooperation networks and contacts to promote joint projects and activities for the development of Latvia.

In 2018, a new scientific communication tradition was started – the Latvian science calendar, which will annually include 12 scientists from different Latvian scientific institutions supplemented by their personal video stories about their field of science, thus contributing to the awareness of individual scientists and popularisation of the field of research for the wider community. At the same time, the calendar will travel with an exhibition to different Latvian higher education institutions, incl. in regions, throughout the year. The travelling exhibition will also go to foreign countries, where events for scientists of the Latvian diaspora are planned – United Kingdom, Sweden, United States.

In 2019, a research was started to identify target groups of scientific communication, the results of which will be used for the development of a science communication strategy – preparation of relevant messages, selection of communication channels, etc. In 2019, it is planned to develop a concept of a science brand to drive the science strategy further with a single visual identity.

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 2018, 81% of Latvian population used internet on a regular basis (at least once a week). There were 79% of households with broadband access in Latvia in

2018, which is by 2 percentage points higher than in 2017.

Latvia exceeded the EU average indicator in the use of high-speed broadband (share of homes subscribed to high-speed internet above 30 MB/s). These were 42% of all connections in Latvia, and only 33% on average in the EU. The number of mobile broadband users per 100 inhabitants increased to 91% (90% in the EU). Communications of 77% of the population with public and municipal authorities were electronic (58% in the

⁴² ERDF project “*Integrated national-level events to strengthen representation of Latvian research and development interests in the European research space*”

EU) and 71% of the population completed online forms (53% in the EU).

The *Guidelines for Development of Information Society for 2014–2020*⁴³ (hereinafter – GDIS) define the priorities of the ICT area for the programming period 2014–2020.

The *Development concept of the next generation broadband electric communication networks 2013 – 2020* lays down measures to reach the target set in the *Europe 2020* strategy – to improve access of Europeans to high-speed and very high-speed internet.

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 meet 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 the EU Member States by 2025.

In 2018, an informative report *On the implementation of Decision (EU) 2017/899 of the European Parliament and of the Council of 17 May 2017 on the use of the 470-790 MHz frequency band in the Union* was approved, which lays down measures for releasing the 700 MHz frequency band and further use of this band.

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. Optical network construction works started in spring 2018 and continue in 2019. In accordance with the initiative driven by the EC to improve the availability of the broadband, MT provides advisory support in the implementation of the broadband project within the scope of fulfilment of functions of the Broadband Competence Office (BCO).

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 Chapter 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 funds 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 are supported.

In 2018, within EU funds programming period 2014-2020, the implementation of 14 projects of the first stage of public administration ICT development continued and the implementation of 26 such projects started for the total amount of 105.8 million EUR, incl. EU funds financing of EUR 89.97 million EUR.

In 2018, 7 descriptions of projects for the second stage of public administration ICT development were prepared and coordinated, including them in the state joint ICT infrastructure (of which 5 project descriptions were approved in 2018), within the scope of which investments from EU funds are

⁴³ Adopted by the CM in October 2013.

intended to be diverted to further development of the Tax Information System, the development of the State Examination Organisation System, the creation of an External Trade Statistical Data Processing System, etc.

In 2017, the 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 the 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 2018, 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 December 2018 a new language technology platform *Hugo.lv* was presented in the public environment. It offers the most modern language technology opportunities – neural network machine translation, speech recognition, speech synthesis. Tools for browsers and mobile apps, etc. are available. The platform was of great interest to the population from the first day. At the end of 2018, work has started on the project *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 the 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 reuse of open data in the cultural sectors are resolved within the scope of the project. Extensive digitalisation of cultural heritage collections has been carried out within the project by March 2019, incl. 3.075 million pages of text documents, 117 thousand images, more than 55 thousand audios, 18.5 thousand videos and 12 thousand movie recording minutes have been digitalised, 10 cultural monuments were 3D scanned, as well as video streaming infrastructure has been created in 29 cultural centres, regions, a digital collection devoted for the General Latvian Song and Dance Festival has been developed and other activities have been implemented. In the period from 2019 until 2021, the project aims to continue digitalisation of audio, video and movie documents and museum objects, digitally record intangible heritage values and significant cultural events, as well as create stage 1 of the Latvian cultural heritage integrated platform.

In 2018, *www.eveseliba.gov.lv* started to operate on full scale. A further development of e-health system is planned using funding from EU funds programming period 2014-2020 (see also Chapter 3.5.2).

In 2017, the number of those projects with participation of Latvian partners continued, the development of which is ensured with support of the 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.

On 15 February 2017, the *Data-Based Society Action Plan*⁴⁴ 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, MT/

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 2018, work has started on the *Latvian Strategy for Cyber Security for 2019-2022*. It will characterise the cyber security situation, identify future challenges and

⁴⁴ <https://www.mk.gov.lv/lv/content/informacijas-sabiedribas-padome>

define national cyber security action lines for the period until 2022. This strategy is intended to be approved in the first half of 2019.

In 2018, penetration tests were still carried out in state ICT solutions and infrastructure, and the 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 requirements defined in *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* have been transposed into Latvian regulatory enactments. New bodies governed by law have been introduced – providers of basic services and providers of digital services, who are obliged to report information technology security incidents having serious impact on the basic service or digital service provided by the service providers and to observe specific information system security requirements.

In order to promote wider use of an eID card, the CM supported the proposal to determine eID as a mandatory and primary means of personal identification starting from 2023 envisaging a transition period from 2019 until 2022. In February 2019 the Saeima adopted in the 2nd reading the *Draft Amendments to the Personal Identification Documents Law* prepared by the MEPRD. The draft law will provide a uniform legal framework, which will regulate the use of personal identification means practically used in the electronic environment and will guarantee access to electronic services provided by the state.

In 2018, Latvia started to apply provisions of the *Law on Electronic Identification of Natural Persons* applying to qualified and qualified increased security electronic identification services. The first provider of qualified electronic identification services was registered and four of its electronic identification means were qualified, which (1) may be used to request and receive all the electronic identification services provided by national regulatory authorities; (2) are supervised and whose compliance with the law is evaluated by the Digital Safety Supervision Committee; (3) were notified to the EC as a national electronic identification scheme in accordance with the *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*.

The SJSC Latvijas Valsts radio un televīzijas centrs (LVRTC) is registered as the only qualified increased safety qualified service provider of electronic identification services in the country. This means that certification of e-identity using all the e-identification tools issued by the LVRTC – mobile app *eParaksts mobile*, eID card, as well as *eSignature card* and

eSignature card+ – is equivalent to certification of a person's identity in person by presenting a personal identification document. In addition, LVRTC has already submitted an application for the announcement of e-identity tools at the EU level. When the announcement process is over, any user of eSignature will be able to receive e-services in other EU countries. Residents of other EU countries will also be able to receive e-services provided by Latvian institutions and organisations, which need higher level identity certification.

In 2018, Latvia was actively involved in the discussions on the *Proposal for a Regulation of the European Parliament and of the Council on ENISA, the "EU Cybersecurity Agency", and repealing Regulation (EU) 526/2013, and on Information and Communication Technology cybersecurity certification ("Cybersecurity Act") and Regulation of the European Parliament and of the Council establishing the European Cybersecurity Industrial, Technology and Research Competence Centre and the Network of National Coordination Centres*.

With support of the CEF co-financed 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 SRDA 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 the CEF support, in 2018 the Latvian Safer Internet Centre continues the implementation of the project *Safer Internet* educating and informing the society about safety of children on the internet and ensuring the possibility to report discovered violations on the internet.

In 2019, the continuation and implementation of the initiatives started in the previous year will be priorities, and in parallel work will be related to the approval and commencement of implementation of the *Latvian Strategy for Cyber Security for 2019-2022*, as well as preparation of a report on the fulfilment of the action plan of the *Latvian Strategy for Cyber Security for 2014-2018*, the work on *Regulation of the European Parliament and of the Council establishing the European Cybersecurity Industrial, Technology and Research Competence Centre and the Network of National Coordination Centres* that was started in 2018 will continue.

The implementation of the specific objective *Establishment of centralised public administration ICT platforms, optimisation and development of public administration processes* co-financed by the ERDF continues. The project *LUDC (logically unified data centre) network, safety platform and LUDC shared part* continues, which is a part of the state electronic communication services centre. A centralised high-confidentiality, availability and integrity infrastructure to ensure backup and storage of state

information systems and critical infrastructure
information systems supervised by national

regulatory authorities has been created within the
project.

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 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.

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% to 9% by 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 indicator⁴⁵) 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.

The implementation of the specific objective *To ensure an increase in the reuse of public data and an efficient interaction between public administration and the private sector* co-financed by ERDF continues. A state unified communication and training activity programme *My Latvia.lv Do it digitally!* is implemented by implementing the project *Public administration information and communication technology architecture management system* and the SRDA project *Service provision and management platform*, within which until 30 June 2020 the society will be informed about various state and municipal e-solutions.

In 2018, number of activities were implemented within the programme:

- Training methodologies and training materials for librarians, teachers, journalists and state and municipal employees were prepared;
- By now (January 2019) 2049 out of 6000 planned digital agents (librarians, teachers, remigration coordinators, employees of the Office of Citizenship and Migration Affairs, employees of municipalities) have been trained;
- *mana.latvija.lv* was developed, where 24 stories from life have been published <https://mana.latvija.lv/situacijas>;
- The National Digital Forum was held in Cēsis on 25 November 2018;
- Regional activities were implemented – in Jelgava, Tukums, Daugavpils, Rezekne and Talsi;
- Integration was implemented at 4 partner events – *Work anywhere 2018*, *Start-up day* (within the *Digital Freedom Festival*), 20th conference of the Latvian Information and Communications Technology Association; Latvia's Geospatial Information Technology (GIT) conference;
- Two communication campaigns on the programme "*Mana.latvija.lv. Do it digitally!*" (advertising on TV, radio, internet, outdoor advertising, programme ambassadors);
- The activity Day without Queues was implemented for the fifth year in a row, where the population gets advises on the use of e-services;
- The informative campaign *Digital Week* was implemented. During the campaign 524 events dedicated to digital skills and attended by more than 24 000 people were organised in Latvia.

The *computer science programme* content for forms 1-9 is intended to be gradually implemented in all the general education schools on the state scale, starting from the academic year 2020/2021 – in forms 1, 4, 7, in academic year 2021/2022 – in forms 2, 5 and 8; in academic year 2022/2023 – in forms 3, 6 and 9.

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;

⁴⁵ Governance Research Indicator Country Snapshot.

- 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 39% of the roads with asphalt surface are in a bad or very bad condition. Approximately 46% 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. The *SJSC 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 2018, the EC signed the Commission's Implementing Decision on the Rail Baltica cross-border project on the North Sea-Baltic Core Network Corridor. In June 2018, the third agreement on co-financing of the CEF for the project resulting in the available financing reaching

824 million EUR by 2023. This year a contract on designing works for the branch Central Station – Riga Airport has been signed, the procurement tender for designing and construction works for the Riga Central Node and related infrastructure has closed, as well as the study of cultural and historical heritage in the entire Latvian Railway Core Network Corridor has been completed.

Development of **aviation sector** is successful providing a crucial precondition for economic growth. Infrastructure improvements from previous years, successful development of AirBaltic operations and attraction of new carriers allowed the Riga Airport to significantly increase the number of passengers served by the Riga International Airport also in 2018. 7.1 million passengers were served, which is by 16% more than in 2017, thus strengthening positions of Riga as the regional traffic centre.

The demand for the regular flights on route Liepāja – Riga – Liepāja, which were started by the *JSC Air Baltic Corporation* in 2017 on a commercial basis continues to grow, thus improving the accessibility of the region and promoting economic development of the region. 9325 passengers were carried on this route in 2018. Due to growing demand, 5 flights per week will be provided on this route starting from summer 2019 instead of the previous three flights per week.

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 the *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.

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, the CF and ERDF support measures are combined in the EU funds 2014-2020 programming period promoting sustainability and achievement of effective results. The 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 International Airport, large ports).

Within the EU funds programming period 2014-2020, financing from the EU funds is available for the improvement of transport infrastructure within the scope of 13 specific objectives (SO) and measures. Financing 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-financing of 924.2 million EUR; the ERDF co-financing 235.4 million EUR;
- 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); the ERDF co-financing of 7 million EUR; CF co-financing of 108.5 million EUR.

By the end of 2018 selection of project applications have started/completed in all 13 SOs/measures. In 2018, the implementation of approved projects 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 2018, national level coordination of selection of projects financed by the CEF was ensured. In 2018, the EC approved one project with Latvia's participation – a cross-border project *H2Bus Europe*, which aims to promote spread of hydrogen fuel-based buses in the territory of Denmark, Latvia and the United Kingdom, including by constructing infrastructure necessary for refilling of these buses. The implementation of the project is planned by the end of 2023 and will be coordinated by the Denmark-based Joint Stock Company *Everfuel Europe A/S*.

In 2018, the implementation of EU funds programming period 2014-2020 project *Development of a Safe and Environmentally Friendly Infrastructure in the International Airport Riga* continued.

In the area of air transport, an extension of passenger service infrastructure, the modernisation of the aircraft control system and further development of the cargo handling sector is important due to rapidly growing numbers of passengers and amount of cargo handled. Therefore, in 2019 the Riga International Airport is planning to develop a construction project for the second stage of extension of the passenger terminal, which will be connected to the *Rail Baltica* railway station forming a single passenger service complex and ensuring a convenient and quick connection not only with the capital of Latvia, but in the future also the entire *Rail Baltica* network, to develop and construction project of round 6 for a new air traffic control tower, which will allow to deploy and use latest technologies in air traffic control, and to construct a new load apron.

In 2019, monitoring of specific support objectives within the EU funds programming period 2014-2020, as well as coordination of the CEF-financed project selection will be continued.

Improving state regional roads

/responsible institution – MT/

State regional roads are improved with the ERDF co-financing. The total public financing for regional roads for 2016-2018 was 182.8 million EUR, including in 2018 – 69 million EUR.

273 km of national regional roads were fixed, incl. the total length of regional roads reconstructed within the projects financed by the EU funds amounted to 106 km in 2018. In 2018, the reconstruction of

regional roads connecting international, national and regional level development hubs with the TEN-T road network was continued as a part of EU funds programming period 2014-2020.

During 2019, construction works will be completed in another 66.7 km of state regional roads within the EU funds financed projects. Since the beginning of the period and until the end of 2019, in total 279.2 km of

state regional roads will be improved. In 2019, construction works are planned to be commenced in

additional 5 road sections with the total length of 55.5 km.

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 funds investments in environmental protection were continued in the amount of 270.69 million EUR. These funds shall be diverted to development of environmental infrastructure and environmental protection, mainly – expanding the sewage network (107.0 million EUR), separate waste collection, processing and regeneration infrastructure development (50.19 million EUR), reducing flood risks in cities (28.9 million EUR), and rural territories (total financing – 43.4 million EUR, incl. ERDF financing of 36.8 million EUR), building and reconstruction of infrastructure reducing anthropogenic load in *Natura 2000* territories (3.4 million EUR), biological diversity measures (15.9 million EUR), environment monitoring, improvement of environment control and environment information centre infrastructure (16.9 million EUR), as well as rehabilitation of historically polluted 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 47 agglomerations. 46 projects were implemented in 2018 ensuring connection of households of more than 2110 people by the end of 2018.

In order to protect 200 000 persons from the risk of flooding, in 2016 an additional project application selection started for implementation of preventive measures against flood risk threats and coastal erosion in several flooding cities. 8 projects were implemented and a selection (evaluation) for 1 project was organised in 2018.

Works to restore and reconstruct polder pumping stations, protecting dikes and flood control tunnels of national importance continue to reduce the risk of flooding in rural territories. By investing the ERDF funds intended in the 2014-2020 programming period for the improvement of melioration infrastructure, the *SJSC Zemkopības ministrijas nekustamie īpašumi* (ZMNI) continues to implement the works planned within the measure *To reduce flood risks in rural territories* – to restore and reconstruct hydrotechnical structures belonging to the state, as well as to

implement projects to restore flood control tunnels of national importance. In 2018, the reconstruction and restoration of 6 structures (polder pumping stations, protecting dikes and flood control tunnels) completed. In the Q1 2019, 7 other structures will be commissioned. By the end of the year there are plans to commission 3 polder pumping stations, which are being reconstructed. By now, construction works for the total amount of 12.4 million EUR have been implemented.

By implementing approved projects, flood risks have been reduced for the total area of 6 023 hectares, reducing the flood risk for 1835 residents, incl. their buildings, farms and equipment, as well as agricultural and forest lands.

In 2017, 12 projects on construction of infrastructure in municipalities in accordance with *Nature 2000* territories nature protection plans were launched and in 2018 they were completed.

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 specially protected 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 and 2018 more than half of Latvian inland territory was surveyed, as well as the development of protection plans for nature started in 15 specially protected nature territories.

In 2018 three projects for the improvement of environmental monitoring, environmental control system and infrastructure of environmental information centres, as well as for compliance with the requirements of the *INSPIRE* Directive⁴⁶ were implemented.

In 2017 selection of project applications started in all waste management system development measures. In 2018, the implementation of separated waste collection system projects was completed, 8 projects for recycling of domestic, biodegradable and dangerous waste were implemented, as well as the selection of projects for the creation of a waste regeneration plant was completed. Thus, the separated waste collection system will improve, waste

⁴⁶ <https://eur-lex.europa.eu/legal-content/LV/TXT/HTML/?uri=CELEX:32007L0002&qid=1551790729312&from=EN>

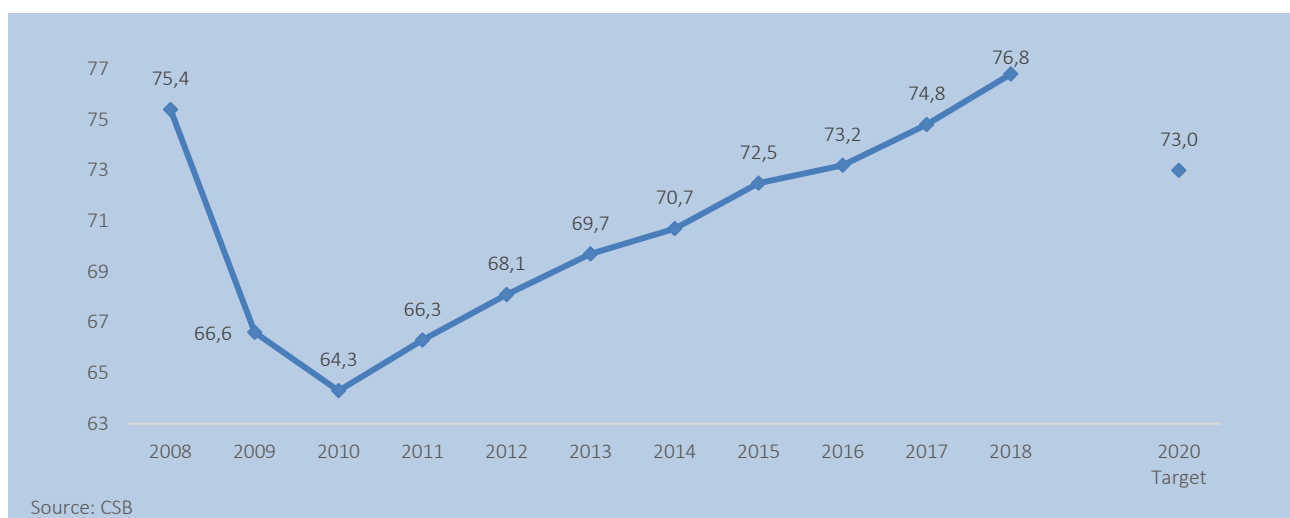
recycling, incl. domestic and biologically degradable waste, as well as waste regeneration with energy recovery units will be created. The investments will result in the increase in waste processing capacity by

at least 160 000 t/per year, waste regeneration with energy recovery capacity increase by at least 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.

Figure 3.2
Employment target
Employment rate (people aged 20–64), %



The employment target for 2020 was reached back 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).

The main elements of the Latvian employment policy:

- Supporting the labour demand – stimulation of economic activities and entrepreneurship, including reduction of 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 demand⁴⁷, 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 2018, 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:

⁴⁷ 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.

- 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 2018, 91 800 unemployed participated in ALMP (unique persons). In 2018, 47.3 million EUR have been used for the ALMP, 26.8 million EUR of which were ESF co-financing. Approximately 29% of the said amount was used to raise and improve the qualifications of unemployed, slightly more than 11% to arrange paid interim community work, approximately 12% to support employment, approximately 13% to implementation of *Youth Guarantee*, 31% to activate long-term unemployed and 4% to support social business. In 2018, in total 63 600 unemployed found job, and almost 22 500 or 35.5% 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 youth in employment and acquisition of education within 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 2018.

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 training. 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 the ALMP training measures is determined, taking into account labour market needs (there is a 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 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.

In 2018, in total 49 400 persons were involved in skill-improvement training measures. Skills measures in 2018 utilised indicatively 18.4 million EUR, including EU funds financing – 15.6 million EUR and state special budget financing – 2.8 million EUR. The planned financing in 2019 is 13.7 million EUR (EU funds financing of 11.6 million EUR), and the planned number of participants is 37 600 people.

In 2018, 12 600 unemployed registered at the SEA were permanently recruited after completion of vocational education, mastering non-formal education programmes and trainings in cooperation with employers.

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:

- From January 2014 to 31 December 2018, within the scope of the *Youth Guarantee* project of measure *Implementation of active labour market policy measures to promote employment of young unemployed*, youth at the SEA in cooperation with a career consultant and other specialists could 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 were in total 10 measures available to youth, and participation in those is determined by profiling results, including taking into account their prior experience in the labour market, the education obtained, as well as the level of skills and competences;
- Implementation of the SEDA project *Implementation of initial vocational education programmes as a part of the Youth Guarantee* initiated in 2014 is being continued, and 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 154 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 youth at a risk of social

exclusion and to facilitate their engagement in education, vocational training with master craftsman, employment, etc.

By 31 December 2018, cooperation agreements on project implementation had been signed with 82 municipalities (youth from 21 municipalities having no cooperation agreements concluded were also involved in the project). Overall, 31 online trainings were organised and 34 on-site non-formal education activities were organised for 519 mentors delegated by the municipalities, as well as 12 four-day training modules were organised for 204 programme leaders delegated by the municipalities. By the end of 2018, 1951 youths have involved in the project and 1010 of them have completed the individual event programme provided to them under the project successfully⁴⁸.

From 2014 to 2018, in total 156 700 youth aged 15-29 obtained the registered unemployed status with the SEA and became customers of the *Youth Guarantee*, while 9 400 unemployed youth were involved in the programmes implemented by the SEDA⁴⁹. During the same period, 99 200 youth on average found employment (62% of all the unemployed youth registered at the SEA). In 2019-2020, youth will continue to be involved in two *Youth Guarantee* projects implemented by the SEDA and the Agency for International Programs for Youth (AIPY). In September 2019, it is planned to enrol youth in 1.5-year vocational education programmes with individual approach to continuation of education, as well as ensure the implementation of education programmes (incl. strengthening general skills) to imprisoned youth. Starting from 1 January 2019, support to the young unemployed registered at the SEA will be provided on a “first-come, first-served” basis and measures available to youth will slightly change.

Box 3.8

Youth Guarantee programme performance results⁵⁰

Between 2014 and 2018, in total 137 700 youth were engaged in the job-seeking support measures within the *Youth Guarantee* programme, 47 100 youth were involved in competitiveness-raising measures, and 168 700 career consultations were provided to youth. Meanwhile, the so-called long-

⁴⁸ In accordance with the AIPY information 1039 youth (66% of 1580 graduates) have completed the programme successfully, of which: 33% have engaged in the labour market, 25% – have engaged in the *Youth Guarantee* project activities or active employment or preventive unemployment reduction measures implemented by SEA, 24% – have engaged in education, incl. vocational training with master craftsman, 18% – have engaged in activities of non-governmental organisations and youth centres.

⁴⁹ Youth who may or may not be registered at the SEA as unemployed or job seekers and who simultaneously do not participate in the SEA-implemented support measure (except for youth involved in job-seeking support measures, competitiveness-raising measures and

career consultations) are eligible for engagement in the SEDA programmes.

⁵⁰ Information on the *Youth Guarantee* participants, as well as the indicator value achieved in different support measures in 2014-2018 is provided cumulatively. This data is based on the operative information submitted by the SEA, the SEDA and the AIPY as of the end of 2018, and may differ from the information included in the payment requests submitted by projects to the Central Finance and Contracting Agency after 31 December 2018.

term or “quality” support⁵¹ was provided to 29 500 youth (to 20 083 registered unemployed; 8 938 unemployed youth, and 505 imprisoned youth). Number of participants amounts almost to 103% of youth to be engaged in the *Youth Guarantee* programme (in total 28 700 NEET youth were to be engaged in this programme during 2014-2018). 69% of all the youth receiving support were unemployed, including 18% long-term unemployed, while 31% of participants were NEET youth.

In 2014-2018, out of all the participants to the *Youth Guarantee* programme aged 15-24 (in total 83 261 persons: SEA project – 73 818, SEDA – 9 443, AIPY – 1 951) 26% or 21 453 persons found a job within the first four months from the date they received unemployed status or submitted application to the *Youth Guarantee*, 35% or 28 943 received at least one job offer (information on vacancy), 22% or 18 076 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 the *Youth Guarantee*, on average 39% youth enter into support programme or return to labour market, while on average 20% of all youth lose their unemployed status due to failure to perform their duties. Meanwhile, 50% of youth enter into support programme or return to the labour market within six months of receiving unemployed status or submitting application to the *Youth Guarantee*.

In 2014-2018, 69.62 million EUR were diverted to the implementation of the *Youth Guarantee* programme (99% of the total *Youth Guarantee* budget), including YEI funding of 27.49 million EUR, ESF co-financing of 32.91 million EUR, state budget financing of 4.34 million EUR and private co-financing of 4.88 million EUR⁵².

The total funding of the *Youth Guarantee* programme in 2014-2019 is 70.2 million EUR, including YEI funding of 29 million EUR, ESF co-financing of 35 million EUR, state budget financing of 4.7 million EUR and private co-financing⁴⁵ of no less than 1.5 million EUR.

In September 2018-March 2019 the auditing company *Ernst&Young* conducted the final evaluation *Effectiveness, efficiency and impact of support from the European Social Fund and the specific allocation for the Youth Employment Initiative including for the implementation of the Youth Guarantee*. It has been recognised in the evaluation that support activities of the *Youth Guarantee* are generally well targeted for the promotion of faster return of youth to the labour market. The survey of participants within the evaluation evidences that the youth on average have obtained positive experience in the support activities. According to the evaluation data, in four years (2014-2017) about 21 500 youth found a job after participation in the SEA and the SEDA support measures, i.e. the number of participants of the *Youth Guarantee* employed during a year corresponds to about 13% of the youth employed in 2017. As concerns planning of cooperation mechanisms and support measures, the evaluation recognises that the cooperation model between institutions, incl. circulation of information between institutions, was successful.

Along with the above measures:

- The Latvian and Swiss cooperation programme *Support for the development of youth initiatives in peripheral or disadvantaged regions* completed in 2017. In order to promote sustainability of 26 youth initiative centres created within the scope of the programme, trainings for representatives of youth initiative centres were organised in 2018, where participants drafted action plans to ensure sustainability of youth centres. In 2019, it is also planned to organise trainings as well as to monitor sustainability of youth centres;
- 590 400 EUR of state budget financing were available for the implementation of projects within the scope of the *MES Youth Policy State Programme 2018*. Support was provided for the implementation of youth policy and work with youth for the creation of the system at local level (28 projects), for the creation and development of a system for mobile work with the youth (14 projects), for initiatives of youth organisations for promoting participation of the youth (9 projects), for operation and participation of youth organisations in state and international youth policy (4 projects).

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. In 2018, in this area:

- 252 persons received regional mobility support for getting to work (the performance was similar in the previous years). Support for regional mobility is also available within employment measures, when the unemployed go to a training or a subsidised employment job (3059 unemployed have used such a possibility in 2018 to go to a training and 72 unemployed – to go to subsidised jobs, as well as 924 youth used it within the *Youth Guarantee*). In 2018, in total 84 960 EUR were spent on regional mobility promotion of employed persons;
- Rules of implementation of the regional mobility measure were amended envisaging transportation and rent compensation also in case of an

⁵¹ A quality offer is a measure helping youth to acquire a professional qualification (vocational education programmes, non-formal education programmes for youth 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.

⁵² 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).

employment in Riga, as well as reducing the necessary distance from home to work or training to receive support from 20 to 15 km, thus promoting more active participation of the unemployed in the support measure. The total financial remuneration within the mobility support measure was increased – no more than 600 EUR (150 EUR per month) for the first 4 months of the employment relationship (previously these were 400 EUR or 100 EUR per month).

- The availability of several new services for the

long-term unemployed were provided within the ESF co-financed support programme for the long-term unemployed, including targeted measures for the long-term unemployed with dependencies, long-term unemployed with disabilities. The programme provided support to 28 900 long-term unemployed, the used financing is 6.1 million EUR, including ESF financing of 5.2 million EUR and state budget financing of 0.9 million EUR. Total financing of the programme is 27.9 million EUR, including ESF financing – 23.7 million EUR, and state budget financing – 4.2 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 quality⁵³. 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 implemented:

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

Collective talks on ageing management matters are provided by cooperation partners of the project – the ECL and the FTUCL.

In 2018, a cycle of practical seminars was organised for personnel management specialists and occupational safety specialists of companies and institutions. Two informative campaigns on longer and better working life promotion opportunities were organised to inform employers and employees. In 2018, a procurement “*Ensuring the evaluation of the work environment and human resources*” completed, which include the development of a methodology and carrying out of an evaluation. After the approval of the methodology employers started to apply for the project (application from 45 employers (8 large, 21 medium-sized, 8 small and 8 micro enterprises) were received, 4 of which were rejected as inappropriate, cooperation agreements were concluded with 8 employers, which will cover evaluations of 1100 employees) and after the selection of employers the service provider has completed the evaluation of the potential of the work environment and human resources of two employers and started the evaluation of two employers. After the evaluation the project will start to provide support measures to the persons employed by the employer.

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. In 2018, in this area:

- The implementation of the ESF project “*Improvement of the labour market forecasting methodology*” continued. The purpose of the project is to create a system of anticipating changes in the labour market, which would help policy makers to take justified and relevant decisions for the needs of the national economy for the development and implementation of an action

⁵³ Project No. 7.3.2.0/16/l/001 *Support for longer working life of Specific Support Objective 7.3.2 To Prolong Preservation of Capacity for*

Labour and Employment of Elderly Employees of the Operational Programme Growth and Employment.

- policy. 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. In 2018, the *Short-Term Labour Market Forecasting Methodology* was improved within the framework of the SEA project to ensure that short-term forecasts on skills were prepared, conduct annual surveys of employers to update short-term labour market forecasts, and 270 SEA employees were trained on labour market forecasts, research and data analysis;
- In order to provide the unemployed with the possibility to submit and transfer to the SEA data on applications for an unemployment benefit to the SSIA electronically, the provision of the service electronically has been ensured. The population is actively using this opportunity;
 - Information and education about the use of the e-service continues. The SEA has created a self-service portal, where the 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 the SEA measures and services. In 2018, by 12% more unique users (than in 2017) visited the portal of CVs and vacancies (CVPP). In 2018, more than 368 000 job offers were published on CVPP;
 - The SEA started to participate in the MEPRD communication and training activity programme “*My Latvia.lv Do it digitally!*” to help the population and businesses to obtain necessary information, as well as to promote the use of e-solutions developed by the state and local government institutions (*for information about the project see Chapter 3.2.4*).

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 2016, a *Business Incubator (BI) 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). Overall, by December 2018 within the scope of BI activity 992 application had been received for pre-incubation support, of which 837 applications were approved, and 699 applications had been received for incubation support, where incubation support was granted to 423 entrepreneurs. In 2018, 186 enterprises have been created within the scope of the BI Programme. 30 enterprises develop eco-innovative products and 33 enterprises develop a product meeting the RIS3 criteria. On a regular basis, business incubators organise measures ensuring the attraction of new enterprises, promote the improvement of knowledge of support receivers in business matters (incl. organise master classes, lectures, seminars, etc.), attraction of mentors is ensured for enterprises, and targets to be reached during the support period are set individually for each enterprise. The total planned financing of the programme in the implementation period, which will last until 31 December 2023 is 32.8 million EUR (25.8 million euro for regional business incubators and 7.1 million EUR for incubators of creative

industries), where the ERDF financing amounts to 27.9 million EUR and state budget financing – 5 million EUR. Close cooperation with planning regions and local governments has established while implementing the BI Programme. A mid-term evaluation of the programme in the period from September 2016 to December 2018 was carried out to foster efficient and effective implementation and evaluate the network of business incubators.

In 2017, the FTUCL and the ECL started the implementation of the ESF co-financed 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. In the construction sector, the ECL’s cooperation partner is *Latvian Contractors’ Partnership*, which seeks the conclusion of a collective (general) agreement, has collected the necessary number of signatures for the conclusion of a collective (general) agreement in the construction sector, envisaging to set the minimum gross wage of 780 EUR in construction. For the collective (general) agreement to be declared and enter into force, amendments to the Section 68 of the *Labour Law* should enter into force. On 9 November 2018, these amendments were returned to the Saeima for the second review and on 28 March 2019 there was another voting in the Saeima, which was supported by the deputies. After

declaration of the law, the general agreement in construction will be declared for it to enter into force and become generally binding for companies in the construction sector. In the hospitality sector, in 2018, the *Latvian Restaurant Association* and the *Association of Hotels and Restaurants of Latvia* shows an initiative to seek conclusion of a collective (general) agreement in the sectors, industry and government representatives are discussing the necessary minimum hourly tariff rate to conclude a collective (general) agreement in the sector.

In order to foster the development of the Latvian design sector and to involve as many design ecosystem participants as possible, the *Latvian Design Centre* started its operation at the end of 2018. The tasks delegated to the design centre are to represent and popularise Latvian design locally and elsewhere in the world, to summarise information in the area of design, to establish communication with the society, to provide consultations, to coordinate cooperation between participants of the design ecosystem by initiative and jointly implementing measures. Financing of 20 000 EUR per year is intended to ensure functioning of the *Latvian Design Centre*.

Unemployed persons expressing a wish to start a commercial activity or be self-employed may receive

both consultations and financial support for implementation of their business plan. In 2018, in total 213 persons received support for start-up of self-employment or business within the ALMP measures (state budget financing consists of 0.54 million EUR, the measure 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 support allocated for implementation of business plans.

The course of implementing micro-crediting and start-up support programme (*start-up programme*) is further described in the *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 the purchase of agricultural land to be used for production of agricultural products. By the end of 2018, 1 600 contracts for the total financing of 78.7 million EUR had been signed.

3.4. EDUCATION

3.4.1. Preschool Education

The target set for the preschool education is to ensure that by 2020 at least 95% of all children (aged 4 up to mandatory school age) are involved in preschool education. In 2017 the rate in Latvia was 96.3%⁵⁴.

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 (mainly in republican cities and densely populated territories, where the population has increased rapidly). At the same time, more attention should be paid to the quality of preschool education.

⁵⁴ Eurostat data for 2017.

The main policy directions and measures:

Ensuring access to and quality of preschool education

/responsible institutions – MES, MEPRD/

A transition to the competence approach-based general education from 1 September 2019 will start from the stage of preschool education. In ensuring a transition to the competence approach-based general education in autumn 2018 the CM approved new preschool education guidelines and sample preschool education programmes⁵⁵. The preschool education content is created observing all the uniform content structure (transversal skills and curriculum definitions), content implementation and evaluation principles for the stage of education, specifying them in accordance with the preschool education stage.

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

Municipalities are obliged 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. Every year municipalities recalculate the amount of

support and the MEPRD supervises whether municipalities do this correctly. In 2018, the average amount of municipality support for 1.5-4 years old children was 221.7 EUR per month, while for the children undergoing mandatory preparation for basic education municipality support was 156.7 EUR on average.

20 municipalities, within their budget possibilities, have determined the amount of support for children, who use child supervision services (babysitters). In 2018, the average municipality support level per child was 142.1 EUR per month.

As of 1 January 2018, the State Education Quality Service (SEQS) organises evaluations of heads of preschool education institutions once in six years 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 the national level, which would improve competence and professionalism of heads of education institutions in the long term. If the head of a preschool education institution occupied the position for the first time, the evaluation is organised within two years, but not faster than in six months after occupying the position.

In 2018, 16 heads of preschool education institutions were evaluated, and in the Q1 2019 – 17 heads were evaluated.

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 2018, there were 8.3% of early school leavers among youths aged 18-24 (8.6% in 2017). At the same time, differences in terms of

gender still remain – the share of early school leavers among girls constituted 5% in 2018 (5% in 2017), while the share among boys was 11.4% (12% in 2017). 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 support⁵⁶.

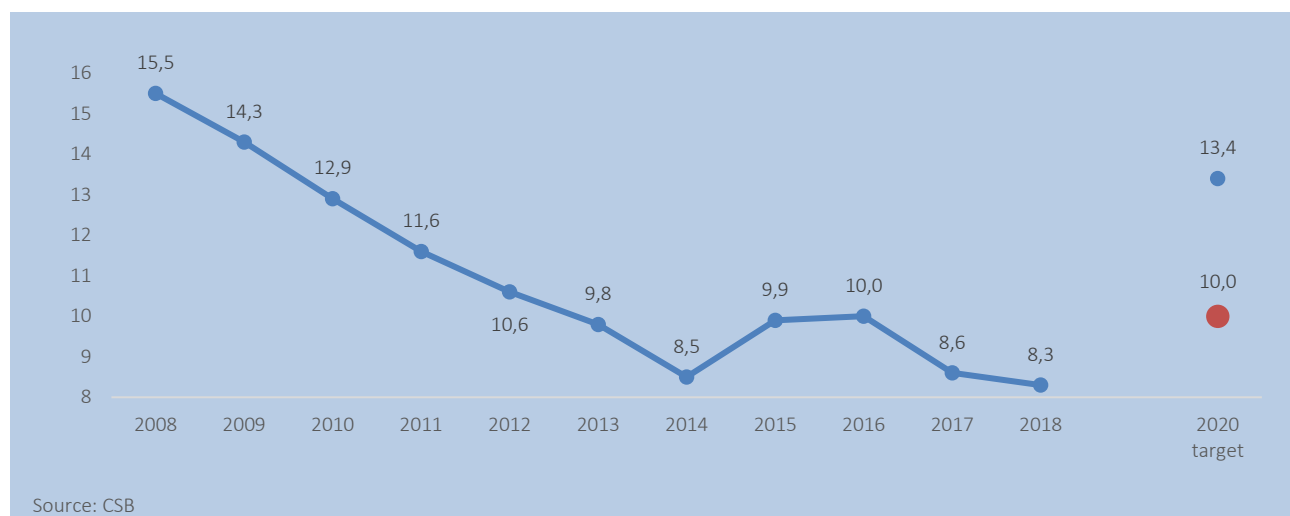
⁵⁵ Regulations of the CM No 716 “Regulations Regarding Preschool Education Guidelines and Sample Preschool Education Programmes” of 21 November 2018: <https://likumi.lv/ta/id/303371>

⁵⁶ 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*.

Figure 3.3

Share of early school leavers among youth

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*⁵⁷ ended in 2017, within the scope of which a geospatial planning platform of the network of general education institutions *School map*⁵⁸ was created. In 2018, the data included in the platform was updated, overall providing information about the three last academic years. Information is expected to be updated also in 2019. Mapping results are used for the further discussions with municipalities and other institutions involved on the best solutions for the development of an efficient and sustainable network of general education institutions.

On the basis of *Amendments to the Education Law* approved by the Saeima in November 2017, on 11 September 2018 the CM regulations were adopted, which lay down the procedure of participation of the state in financing of wages of teachers of general education institutions at the stage of secondary education on the basis of quality criteria for functioning of institutions and the minimum permissible number of pupils at the stage of secondary education. These regulations also set the criteria for determining the maximum permissible number of pupils. The CM Regulations will enter into force on 1 August 2020.

At the same time, the **modernisation of infrastructure of general education institutions** continues. By attracting ERDF financing and considerable municipality co-financing to general education institutions, it is planned to create a modern, ergonomic learning environment meeting sanitary requirements supplemented with necessary information and communication technology equipment and solutions. Projects are implemented in municipalities of national and regional development centres, individual municipalities of the Pierīga Region, as well as in the Viļaka Municipality⁵⁹. 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. 42 projects with the total costs of 332.6 million EUR are implemented at the beginning of 2019 with the ERDF financing of 131.1 million EUR (of total 142.9 million EUR available (of which 4.1 million EUR are state budget overcommitment financing)).

The work on improvement of **wages of teachers** continues. In 2018, the government approved the *Teacher wage increase schedule* for the next five years, which provides for an indicative increase of the lowest

⁵⁷ 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

⁵⁸ Geospatial planning platform of the network of general education institutions *School map*: <https://izm.kartes.lv/>

⁵⁹ The only functioning state gymnasium outside national and regional development centres.

monthly wage rate of teachers to 900 EUR on 1 September 2022. From 1 September 2018 the lowest monthly wage rate of teachers defined in the schedule has been 710 EUR.

The state has established a single procedure stipulating how **children who are not registered within any educational institution are registered**. The number of unregistered children in the academic year 2018/2019 is 17 200 children (of which 15 600 children are between ages 7 and 18). Most or 13 800 children who are not registered within any educational institution have left the country. Municipalities have no information on 1 042 children aged 5 to 18⁶⁰.

An ESF project *Support to reduce early school leaving* has been implemented by the SEQS since March 2017 to reduce the number of children, who leave school and do not complete their education. The project created 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 youth at risk of school leaving and provide them with customised support. Once a semester an individual support plan is created for each child and youth exposed to the risk of early school leaving. By the end of 2018, 107 cooperation agreements have been concluded with municipalities and state vocational education institutions, involving 365 education institutions in total, including 32 state vocational education institutions. 6849 individual support plans were implemented in 2017/2018, 6368 plans were implemented in the first semester of academic year 2018/2019, 13 200 plans in total. Several methodical support materials have been drafted, workshops are implemented and supervision education institutions for the creation of a sustainable support system. Total indicative planned funding is 37.5 million EUR, incl. ESF – 31.8 million EUR.

Support for career development also contributes to diminishing the early school leaving. In order to increase career guidance accessibility, the ESF project *“Career support 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 2018/2019, 77 local governments and their associations and 17 VECC are involved in the project and 385 teachers-career consultants have been employed. 149 600 pupils in 422 general and vocational education institutions have received support for career development in academic year 2018/2019 within the framework of the project. Total planned financing is 21.6 million EUR, incl. ESF – 18.3 million EUR.

Similarly to previous years, different career guidance and information activities (conferences, seminars and other) were organised also in 2018.

The opportunities in the school education sector offered by the EU’s *Erasmus+* programme significantly foster the quality and the innovative approach of general education. In 2018, the SEDA administered 127 training mobility and 374 partnership projects. In 2018, 58 training mobility projects were approved in the school education sector with total financing of 761 500 EUR, which in total provide 344 staff representatives of preschool education institutions and schools with an opportunity to go to other European country to obtain new knowledge and experience. Within the scope of strategic partnerships in this sector 4 projects for 303 900 EUR and 133 school exchange partnerships of 3.4 million EUR were approved.

12 special education development centres⁶¹ 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.

Amendments to the General Education Law provide that from 1 September 2020 special basic education programmes for pupils with physical development disorders, somatic diseases, speech disorders, learning disorders can no longer be implemented in special education institutions, this should be done inclusively – only in special classes or groups in general education schools, as well as these pupils should be integrated in general education classes. In 2019, it is planned to approve draft CM Regulations which update and supplement the requirements to be set for general education institutions, to enrol pupils with special needs in their general education programmes.

A project *“Creation and implementation of the education quality monitoring system”* was started in April 2018. Within its scope by 2023 with support of the ESF financing it is expected to develop, approve and introduce a description of the system of education quality evaluation monitoring and to develop and approve education quality monitoring tools, as well as to create and implement a national level research programme in education. Total planned financing is 4.1 million EUR, incl. the ESF co-financing of 3.5 million EUR.

⁶⁰ 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 within the

respective municipality are not registered at the educational institution, and to take the necessary action allowing these children to continue their education.
⁶¹ Data as of 1 September 2017.

The participation of Latvia in different international education studies, incl. the OECD, continues. Total financing is 6.2 million EUR, incl. the ESF financing of 5.3 million EUR. Preparation works for the new research have started – *OECD Programme for the International Assessment of Adult Competencies* (PIAAC), and on 25 March 2019 in Trends in

International Mathematics and Science Study started in Latvian schools at the level of the form 4 pupils (IEA TIMSS). The involvement of Latvia in projects and research implemented by the programme of the Education Research and Innovation Centre (CERI) is anticipated.

Introducing modern teaching methods

/responsible institution – MES/

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, (1) a gradual transition to competence-based approach education content is implemented, as well as (2) establishment and implementation of support system for development of pupils' individual abilities.

In autumn 2018, the CM approved preschool education guidelines⁶² and basic education standards⁶³. The development of the general secondary education standard continues. A transition to the competence approach-based general education from 1 September 2019 will start from the stage of preschool education, while from 1 September 2020 – in forms 1, 4 and 7 of basic education and in form 10 of secondary education. At the same time, approbation of content of the new competence-based approach started in 100 general education institutions at the stage of preschool, basic and general education in academic year 2017/2018. In order to strengthen knowledge of pupils in exact sciences and promote interest of technologies and engineering sciences, the curriculum was included in the new studying area – *Field of Technology Studies*. The curriculum of the field of Technology studies (form 1-12) was drafted within the scope of the project. At the same time, a new curriculum was developed for examinations in Physics, Chemistry, Natural Sciences, as well as for 12 diagnostic tests in STEM subjects according to the new curriculum within the scope of the project.

Methodical teaching materials have been developed in relation to the approbation and implementation of the new curriculum. In 2018, 10 methodical teaching aids were developed for the implementation of the competence approach in the process of studies and 3 methodical teaching materials for pupils with mental development disorders. Total financing of the measure is 18.4 million EUR, incl. the ESF financing of 15.6 million EUR.

In 2018, rules for the implementation of the ESF support were drafted intended for digital teaching and methodological materials to promote the implementation of new curriculum at the stage of preschool education and basic education. The first round of submission of project applications was announced in February 2019. The beginning of implementation of the projects is planned for the second half of 2019. The available financing is 1.87 million EUR, including the ESF financing of 1.31 million EUR, and private co-financing of 0.56 million EUR.

Two ESF-co-financed projects have been implemented since 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. Holding of 10 regional and 2 national scientific conferences, as well as 32 national olympiads in school disciplines was ensured by the end of 2018. Scientific research activity measures are provided in cooperation with Latvian higher education institutions. 167 pupils were provided with an opportunity to participate in international level olympiads in disciplines and scientific events. Overall, more than 7 000 Latvian pupils were involved in implemented projects. Since 2018, professional competence improvement measures for teachers for early identification and development of talents have been organised. 126 teachers were involved in these measures. In 2019, it is intended to extend the availability of these services, incl. by organising them in regions;
- 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.

⁶² Regulations of the CM No 716 "Regulations Regarding Preschool Education Guidelines and Sample Preschool Education Programmes" of 21 November 2018.

⁶³ Regulations of the CM No 747 "Regulations Regarding Basic Education Standard and Sample Basic Education Programmes" of 27 November 2018.

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. For example, within the scope of the *Year of Physics* of 2018, when Latvia ensured holding of the European Physics Olympiad, education institutions planned and implemented measures to promote learning of physics in a targeted way. If Latvia is entitled to welcome the Baltic and Nordic Regional Informatics

Olympiad next year, it is planned to declare 2020 as the year of informatics.

As a result of both abovementioned projects, until 2021, 272 general education establishments will introduce an individual approach to development of students' competences. At present, 358 education institutions have participated in the projects. Total planned financing is 35.2 million EUR, incl. the ESF co-financing of 29.9 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. In recent years, the share of students selecting studies in vocational secondary education has been gradually growing. These were 38.2% in academic year 2015/2016, 38.6% in 2016/2017 and the share of students in vocational secondary education versus general secondary education was 38.9/61.1 in 2017/2018.

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. The investment made in modernisation of infrastructure, which ensure the learning environment and material and technical supplies meeting modern requirements, are an essential preconditions for youth to choose to continue studies in vocational education, at the same time the impact of the investments made may be evaluated within a longer period of time, taking into account that significant investments are also made the current EU funds programming period. It should be considered that the impact of the vocational education reform will be reflected in statistical data with a time shift,

however, it is already visible that the attitude of society, incl. employers, to the attractiveness of vocational education is changing.

In order to foster a situation, when the idea of vocational education as unpopular choice disappears, it is necessary to implement different measures to popularise vocational education and vocational education career, incl. by informing society about changes being implemented, as a result of which the environment in education institutions and services offered by them have significantly improved in recent years.

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. At the same time, it is necessary to strengthen capacity of the parties involved for the performance of their duties. 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 policies.⁶⁴

The main policy directions and measures:

Implementing structural reforms in vocational education

/responsible institution – MES/

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.

⁶⁴ 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.

The number of secondary vocational education institutions under the MES decreased to 21 institution in 2018 (60 institutions in 2010), but the number of secondary vocational education institutions as a result of reorganisation decreased to 10 institutions (14 institutions in 2014).

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 2018, 23 vocational education institutions (incl. one college) had been granted VECC status, where 4 vocational secondary cultural education competence centres were established in vocational education institutions under the MC and one – in a municipal secondary vocation cultural education institution.

The implementation of 23 *modernisation projects of vocational education institutions* started in 2018 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. The total planned applicable financing is 104.2 million EUR, incl. the ERDF financing of 88.6 million EUR, and state budget financing of 15.6 million EUR.

In 2018, the 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* implemented by the ELC continued. The aim of the project is to promote the introduction of WB learning. Within the framework of the project, as of 31 December 2018 1 518 students were involved in the WB learning in 329 enterprises. By the end of 2023, within this project, support will be provided for engaging 3 150 students in the WB learning and 11 025 students in

apprenticeship in an enterprise. Total planned financing of the programme is 21.9 million EUR, incl. the ESF financing – 18.6 million EUR, and state budget financing – 3.3 million EUR.

A project *Testing New Approaches to Training VET and Workplace Tutors for Work Based Learning (TTT4WBL)* is implemented aiming to support the implementation of the WB learning in the Baltic countries exchanging experience and testing new approaches (for example, tandem training) in joint preparation of supervisors in an education institution and the company. By the end of 2018, the planned 300 WB supervisors of WB learning from schools and companies were prepared from Latvia, a professional improvement programme for supervisors of the WB learning and internship and methodical teaching materials were improved within the project. Work has started on the creation of competence profiles of internship supervisors and preparation of a research report on the impact of joint trainings on WB/ placement quality. All training participants, as well as heads and apprentices of schools and companies were involved in the study.

Within the scope of the project *“Creation and implementation of the education quality monitoring system”* that started in 2018 it is planned to develop monitoring of graduates also in vocational education.

On the basis of a due diligence study on financing of vocational secondary education in Latvia conducted in 2017, the improvement of the financing model for vocational education programme started in 2018 and continued in 2019. It is planned: (1) to develop criteria and procedure for education institutions of municipalities and other founders to qualify for state budget financing for the implementation of vocational education programmes; (2) to evaluate the compliance of costs of vocational education programme by determining base funding of vocational education programmes per student; (3) to prepare proposals for the implementation of performance funding.

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, the development of the sectoral qualification system and restructuring of vocational education content as a part of it continues. Updating of 14 sectors of economy and examination of a new sector, 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/

The ECL and the Agricultural Organization Cooperation Council (AOCC) continue to coordinate work of Sectoral expert councils (SEC) with involvement of sectoral experts in the development, implementation of vocational education curriculum and evaluation of qualification examinations, as well as in the implementation of reforms in vocational education.

Starting from the beginning of 2016, a collegial advisory institution – convent, has been working in all vocational education institutions under the supervision of the MES and in all cultural education VECC. The convent includes the head of vocational education institution, representatives of the ministry, local government, as well as employers and their associations, 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.

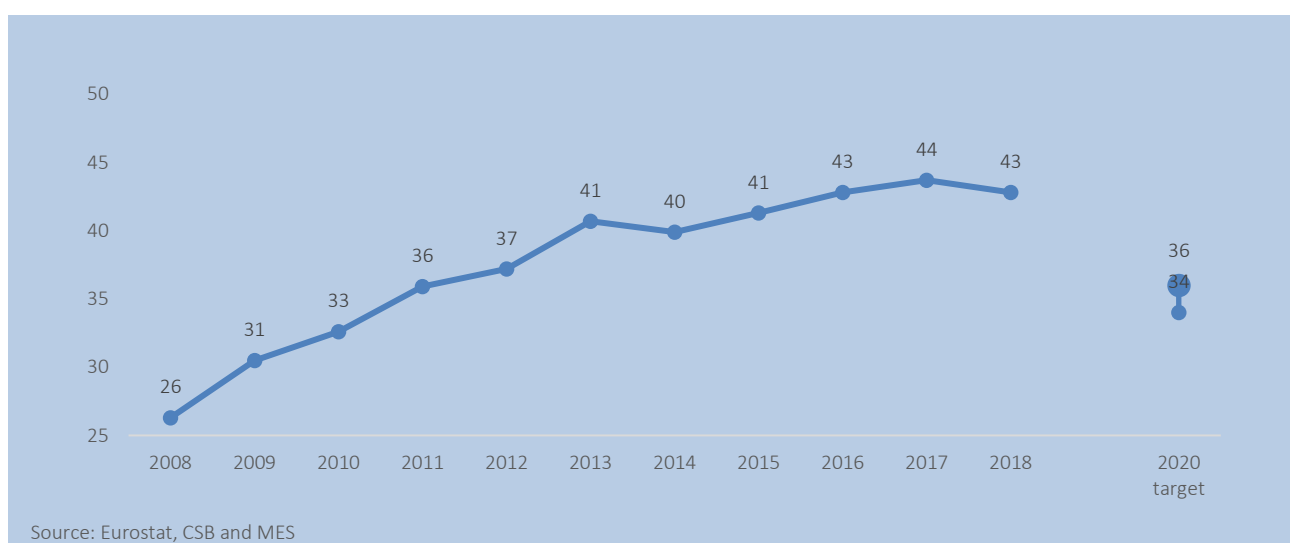
The implementation of the ESF project *Efficient management of vocational education establishments and raising the staff competence* that started in 2016 continues. Within the project support is provided to teachers of vocational education institutions, internship supervisors, administration representatives and sectoral experts for the improvement of professional competence (latest news and novelties in sectors, practical pedagogics in the implementation of the WB learning, development and implementation of modular vocational education programmes, improvement of general skills and competences, promotion of continuing education of adults and traineeship in companies). 5 789 persons have participated in trainings within the framework of the project. Trainings for mentors of new teachers, experts of examination commissions and heads of workgroups of accreditation commissions are also planned. The total planned project financing is 6.49 million EUR, including ESF financing of 5.52 million EUR, and state budget co-financing of 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 target set in the NRP for 2020 in relation to the share of population with higher education was reached already in 2012. The indicator reached 42.8% in 2018.

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



In Latvia, the declining number of students has been observed for the 10th year already. At the beginning of the academic year 2018/2019, a total of 80 400

students were studying in higher education institutions of Latvia, which was by 1.5% 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 38.7%. In the academic year 2018/2019, there were 33 200 students or 41.3% 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 2019, based on the medium and long-term labour market forecasts, about 57% 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 the 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 state-funded higher education.

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 economy 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*⁶⁵ in 2018 performance funding was granted to 13 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 enterprises (performance funding of 6.5 million EUR in total was paid). Current funding for research is insufficient and one of the lowest in Europe. As it is indicated in the *EC Country Report Latvia 2019* higher education is still fragmented, which has a negative effect on the quality of higher education and science. In order to stimulate progress towards excellence funding of the second pillar (performance) needs to be increased.

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. The development of new teacher education curriculum started within the scope of EU funds projects. 10 million EUR in total have been diverted to the development of teacher education. Furthermore, in continuing the improvement of the procedure of granting study places, the number of state-funded study positions for preparation of new

teachers decreased in 2018 and 2019. However, at the same time in 2018, the higher education institutions, which prepare teachers, get additional funding depending on the number of graduates, who started working in education institutions. Thus, in December 2018 performance funding of 78 000 EUR was first granted for 418 graduates of pedagogic study programmes of 2017, who started or continue work in education institutions. Similarly, in 2019 on the basis of data of the State Education Information System it is planned to grant teacher performance funding of 156 000 EUR to higher education institutions implementing pedagogic study programme for their graduates of 2018 depending on careers of their graduates. The purpose is to stimulate higher education institutions to carefully evaluate motivation of potential students and their suitability for work in higher education institutions.

In 2018, planning of development financing and implementation of projects from the EU funds continued. Support is ensured for post-doctoral research and practical research (*see Chapter 3.2.3*). At the end of 2018, the implementation of projects in programmes of EU funds was started, where investments in the improvement of internal management of higher education institutions⁶⁶, development of personnel capacity and competence⁶⁷, reduction of fragmentation of study programmes and sharing of resources⁶⁸ were made. Furthermore, projects in the innovation grants programme⁶⁹ are expected to be started in the first half of 2019.

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.

⁶⁵ 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.

⁶⁶ The total planned financing of the SO 8.2.3 *To ensure better governance in higher education institutions* is 20 million EUR, including ESF financing of 17 million EUR, and state budget co-financing of 3 million EUR. 17 projects with funding were approved with total financing amounting to 14.2 million EUR, including the ESF financing of 12.1 million EUR, and state budget co-financing of 2.1 million EUR.

⁶⁷ The total planned financing of the SO 8.2.2 *“To strengthen academic staff of higher education institutions in areas of strategic specialisation”* is 34.3 million EUR, including ESF financing of 27.4 million EUR, and state budget co-financing of 4.8 million EUR. 24 projects were approved in the rounds 1 and 2 with the total financing amounting to 22.4 million EUR, including the ESF financing of 19.1 million EUR, and state budget co-financing of 3.4 million EUR.

⁶⁸ The total planned financing of the SO 8.2.1 *To reduce fragmentation of study programs and strengthen resource sharing* is 10.8 million EUR, including the ESF financing of 9.2 million EUR, and state budget co-financing of 1.6 million EUR. 6 projects were approved in the round 1 with total financing amounting to 3 million EUR, incl. the ERDF financing of 2.6 million EUR and state budget financing of 0.5 million EUR; 14 projects were submitted in the round 2 with the total financing amounting to 6.7 million EUR, incl. the ESF financing of 5.7 million EUR and state budget financing of 1 million EUR.

⁶⁹ The total planned eligible financing of the measure 1.1.13 *Innovation grants for students* is 38.5 million EUR, incl. the ERDF financing of 28.9 million EUR, and private co-financing of 9.6 million EUR. 7 projects were submitted in the round 1 with the total financing amounting to 15.1 million EUR, incl. the ESF financing of 11.3 million EUR and private financing of 3.8 million EUR.

In 2018, 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 2018 for the total amount of 1.62 million EUR, as well as 1283 agreements on granting study loans for the total amount of

7.7 million EUR. Study and student loans were granted also to those studying abroad, thereby ensuring Latvian students accessibility of education also abroad.

In 2019, it is planned to develop a new model for crediting of studies and students.

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 June 2018, the European Association for Quality Assurance in Higher Education (ENQA) granted the Academic Information Centre (AIC) the status of a fully-fledged ENQA member, as well as welcomed AIC at EQAR in December 2018.

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 Standards and Guidelines for Quality Assurance in the European Higher Education Area (ESG⁷⁰), and the AIC will be a member of the EQAR, which will 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 accreditations 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 amendments to Latvian legislative acts in the area of quality assessment of higher education were approved in 2018. A *Higher education quality monitoring system concept* was prepared within the framework of the project in 2017. In 2018, the creation of an e-platform to ensure the process of accreditation and licencing continued.

By the end of the project the AIC still has to perform e-platform development and improvement works. For testing and improvement of the e-platform it is planned to stimulate the licencing and accreditation process, involving higher education institutions and colleges, experts and the AIC. In addition, it is also planned to have seminars and trainings for higher education institutions in the field of accreditation and to draft informative materials for higher education institutions in quality assurance matters. The implementation of the project will finish in September 2019.

The project is implemented with support of EU funds, its total financing is 1.44 million EUR, incl. the ESF financing of 1.22 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, a territorially focused infrastructure of the studies and scientific work is developed.

Total financing is 44.6 million EUR, incl. the ERDF co-financing of 37.9 million EUR. At the same time, a support from the EU funds is provided for the 1st level

⁷⁰ *European Standards and Guidelines for Quality Assurance*

vocational higher education STEM study programmes, including medicine and creative industries, and improvement of learning environment in colleges. Total financing is 14.2 million EUR, incl. the ERDF financing of 12 million EUR.

In 2018, implementation of 6 projects closed, while the implementation of 17 other projects continued. 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 2nd stage of the research was 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 1st 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 beginning of 2019.

The 2nd stage of the research resulted in expert recommendations on the improvement of academic staff career development and employment conditions. Conclusions and recommendations of the 2nd stage of the research have been taken into account, when developing programmes of EU structural funds to reduce fragmentation of study programmes and strengthen academic staff, the beginning of implementation started in the 2nd half of 2018.

The following CM regulations had been adopted at the beginning of 2018:

- *CM Regulations on reduction of fragmentation of study programmes of strengthening of shared use of resources* to invest ESF financing in the development of new, strong and internationally competitive study programmes in the next five years, including for the creation of new pedagogical study programmes in 6 state higher education institutions. Both state and private higher education institutions, incl. colleges, are able to get involved in the project. Total indicative financing is 10.8 million EUR, incl. the ESF financing of 9.2 million EUR. In 2018, the commission created by the MES evaluated and coordinated development and consolidation plans of study programmes and teacher education development plans submitted by higher education institutions. At the end of 2018, the implementation of projects for the creation of new pedagogical study programmes started;
- CM Regulations, which in the next 4 years envisage to invest financing 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 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. Total indicative financing is 34.3 million EUR, incl. the ESF financing of 29.2 million EUR. In 2018, 18 agreements were concluded on the implementation of projects within the round 1, as well as 6 agreements on the implementation of projects within the round 2 (to strengthen capacity of academic staff in pedagogical study programmes) intending to attract 271 young teachers (doctoral students) by 2023, 258 foreign teachers and ensuring 1743 improvement activities for the existing academic staff;

- *CM Regulations on the improvement of governance and organisational processes of higher education institutions*. Investments from EU funds are intended for strengthening cooperation of higher education institutions with the industry for the improvement and alignment of study programme curriculum with industry development needs, for the implementation of e-solutions and shared resources, as well as improvement of competencies of management personnel in order to create a range of heads and leaders of higher education institutions, who are competent to work at the international level and drive change management culture. Total indicative financing is 20 million EUR, incl. the ESF financing of 17 million EUR. The implementation of 17 projects started in 2018.

In accordance with strategic specialisation of higher education institutions, in order to ensure the reduction of fragmentation in higher education institutions and ensure sharing of resources, the cultural and art higher education institutions under the Ministry of Culture (Jāzeps Vītols Latvian Academy of Music, Latvian Academy of Culture, Art Academy of Latvia) started cooperation to create a supply of joint, competitive, interdisciplinary, international student oriented study programmes in accordance with development and labour market needs of cultural education, cultural sector and creative industries.

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 to reduce

fragmentation of study programmes, 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 2018/2019, 8 282 foreign students, who have obtained previous education outside Latvia (mobile students) are studying in higher education institutions of Latvia constituting 10.3% of the total number of students. The number of students involved in mobility have increased by about 58% since 2014/2015. These students most frequently obtained their previous education in India, Uzbekistan and Germany (23%, 15% and 12% respectively).⁷¹

In academic year 2018/2019 189 Latvian state scholarships were granted to foreigners from 26 countries, incl. 90 for studies, 28 for research, 71 for participation in international summer schools organised by Latvian higher education institutions (7 international summer schools have been approved).

15 accredited joint study programmes were implemented in 2018 in Latvian higher education institutions in cooperation with foreign higher education institutions (incl. higher education institutions in Lithuania, Estonia, Spain, Austria, Denmark and Germany) 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 2017/2018, there were 244 foreign teaching staff in the Latvian higher education institutions, constituting 5.6% 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 approved at the beginning of 2018 to promote the attraction of foreign teaching staff and internationalization of higher education. In 2018 higher education institutions drafted study programme development and consolidation plans and applications for a contest of the ESF projects on the development of study programmes in EU languages and joint doctoral programmes. The beginning of

implementation of the projects is planned for the Q2 2019.

The ESF projects enable the improvement of professional knowledge of academic staff and attraction of foreign teachers. The implementation of these projects started at the end of 2018 and at the beginning of 2019.

The quality, innovative approach and internationalisation of higher education are considerably fostered by the opportunities offered by the EU *Erasmus+* programmes in the sector of higher education – mobility of studies in European countries and partner countries, cooperation and innovation transfer projects, capacity strengthening projects with partner countries in higher education and other activities. The EU budget grant is available to Latvia for higher education within the *Erasmus+* in 2018 for student and staff mobilities between countries of the programme was 8.1 million EUR, and 1.7 million EUR for student and staff mobilities between programme and partner countries. In order to ensure equal access and conditions among the mobility activities in higher education, every year state budget co-financing is provided for the student and staff mobility in the amount of 20% of the total activity funding. In 2018, state budget co-financing was 2 million EUR. 46 projects for mobilities between programme countries with the total number of mobilities 3 579 and 20 projects for mobilities between programme and partner countries with the total number of mobilities 594 were approved in 2018 within the scope of total available funding. The projects approved in the previous years were also being implemented, and in 2018 the SEDA administered 199 mobility projects in higher education institutions, 9 projects in activity of strategic partners, 3 of which (for 588 500 EUR) were approved in 2018. Implementers of strategic partnerships in the higher education sector drafted new innovative training programmes, education methods, courses.

In the competition of the *Erasmus+* higher education international cooperation centralised activities of 2018 the EC's Education, Audiovisual and Culture Executive Agency (EACEA) approved 6 projects with participation of Latvian higher education institutions. The nature of these activities is transfer of knowledge and experience of consortiums of European higher education institutions to higher education institutions

⁷¹ Since academic year 2014/2015 the Central Statistical Bureau has changed its data methodology collecting data on mobile students instead of international students.

of partner countries, to higher education systems according to approved priorities of partner countries.

Since the beginning of the *Erasmus+* programme in 2014, in the EACEA activity *Strengthening capacity in higher education in partner countries* the EC's Executive Agency approved 9 projects, where Latvian higher education institutions are project coordinators, and 19 projects, where Latvian higher education institutions are project partners.

Furthermore, in the *Erasmus+ Jean Monnet (JM)* centralised activity, within which different aspects related to European integration, research, popularisation of European achievements and values are solved, since 2014 the EACEA approved 3 projects coordinated by Latvian institutions.

3.4.5. Lifelong Learning

The aim is to ensure that 15% of the population (aged 25–64) would be involved in the learning process by 2020. In 2017, the highest participation indicator was reached – 7.5% (see *Figure 3.5*). However, the participation indicator decreased to 6.7% in 2018⁷².

The most serious obstacles for participation in adult education are financial difficulties (mentioned by 14.5% of respondents) and inability to combine studies with work (12.6% of respondents) or family life (9.1% of respondents). Furthermore, it is necessary to promote public awareness of the importance of adult education (23% of respondents indicated that no studies are necessary)⁷³.

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

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. Within the open contest of the scholarship subprogramme, funding for scholarships can be received by students from Latvia, Norway, Lichtenstein and Iceland for academic and non-academic mobility of academic and administrative staff, and preference will be given to mobilities implemented in synergy with the projects supported by the Baltic Research Programme. A concept document of the programme was approved by the CM on 15 January 2019. In 2019, it is planned to sign a programme agreement and draft a relevant regulation to allow Latvia to announce a project contest in the scholarship subprogramme in 2020.

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.).

Latvia has started to participate in the OECD's Programme for the International Assessment of Adult Competencies (PIAAC)⁷⁴, which allows to evaluate skills of 16-65 years old population in main information processing areas – literacy, numeracy and problem solving and their use in daily life and in the work environment. At present, preparations are ongoing for the OECD's PIAAC trial study intended to be conducted in 2020 from April to June. The base PIAAC study is intended to be conducted from August 2021 to March 2022. The first results of the OECD's PIAAC study will be published in 2023.

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*⁷⁵, 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.

⁷² According to the Eurostat *Labour Force Survey* methodology.

⁷³ Eurostat *Adult Education Survey* (2016).

⁷⁴ The Programme for the International Assessment of Adult Competencies.

⁷⁵ CM Regulations No. 287 of 5 May 2016 *On Adult Education Management Model Implementation Plan 2016–2020*.

In 2019, the development of the project *Adult Education Management Model Implementation Plan for 2021-2026* started in cooperation with stakeholders.

A methodological material has been drafted *Practical Guide to Work with Adults in Vocational Education Institutions* – a manual offering methods, tools, information sources, guidelines and examples for planning of competitive adult education services in vocational education institutions. In addition, seminars *Challenges in Adult Education* are planned, where the topics related to the prestige of vocational education and possibilities of promoting its

attractiveness, drafting of pricelists of paid services in vocational education institutions, calculation of the prime cost of adult education services, anticipating studies of the labour market, etc., which are included in the methodological material, will be reviewed more in detail.

In the project of the *Erasmus+* programme *National coordinators for the implementation of European programme in adult education* needs for general skills will be determined and 26 modules for development of general skills of adults will be developed in cooperation with sectoral experts.

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

share, %



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 the ESF project *Improving the Professional Competence of Employed* was started. The purpose of the project is to improve professional competence of the employed (incl. self-employed) aged above 25 to eliminate in a timely manner any non-compliances in labour force qualification with labour demand, promote competitiveness and increase productivity of workers. Vocational continuous education programmes, vocational professional development programmes are implemented, as well as professional competence mastered outside the formal education system is evaluated within the scope of the project. The Adult

Education Management Council approved a list of education programmes in cooperation with social partners, employers and sectoral experts. Three rounds of studies have been organised so far. More than 300 different education programmes are offered in each round of studies in cooperation with about 60 education institutions. Needs for studies in 12 sectors of the economy are covered⁷⁶. The most demanded studies are in the ICT, transport and logistics, as well as food and beverage services. By the mid-March 2019, 9 038 employed (incl. 1 677 employed with low level of education) completed the studies. Overall, 16 800 adult employees, incl. 3 481 employed with a low level of education were involved in the studies. From October 2017 to the end of 2018, in cooperation with the SEA, 321 employees received career consultations, 209 employees used the service

⁷⁶ Construction, wood processing industry; production of electronic and optical equipment, information and communication technologies; metalworking, machinery and mechanical engineering; production of textiles, wearing apparel, leather and related products; food industry

and agriculture; food and beverage service activities and tourism; printing and media technologies; transport and logistics; energy; chemical industry; culture (libraries).

for evaluation of professional competence mastered outside the formal education system. Total planned eligible financing of the specific support is 27 million EUR, incl. the ESF financing – 23 million EUR, and state budget financing – 4 million EUR. The total planned eligible financing of the project is 25.3 million EUR, incl. the ESF financing of 21.5 million EUR, and state budget financing of 3.8 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 to persons employed in the enterprise. The aim of this measure is to provide enterprises 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 financing available within the programme is 18 million EUR. In spring 2016, 10 projects of the 1st 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, incl. the ERDF financing of 8.99 million EUR. Within the scope of the 1st round of the programme, 9 123 non-unique persons employed in 554 enterprises had been trained by the end of 2018. In 2018, the period of implementation of projects of the 1st round was extended until the mid-2022. In 2018, rules of implementation of the 2nd round were drafted, which are intended to be approved by the CM in April 2019. The support is planned for employees of the manufacturing subsector, the ICT sector and those employed in international business services centres;
- *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 enterprises, by

raising the employees' qualifications and skills in ICT areas, to provide enterprises with employees holding the relevant qualification, promoting introduction of non-technological innovations in enterprises, as well as to provide support for learning thereby attracting investments in the country. In a limited project application selection conducted in 2016, the LCCI, the LICTA, and the IDAL were selected to ensure a successful implementation of the programme. Agreements for 15.1 million EUR were concluded, including the ERDF financing of 6.9 million EUR. By the end of 2018, 2 490 non-unique persons employed in 614 enterprises had been trained.

The opportunities in the adult education sector offered by the EU's *Erasmus+* programme significantly foster the quality and the innovative approach of adult education. In 2018, the SEDA administered 35 training mobility and 19 partnership projects. In 2018, 14 training mobility projects were approved in the adult education sector with total financing of 106 200 EUR, which in total provide 47 teachers of adults with an opportunity to go to other European country to obtain new knowledge and experience. Within the scope of strategic partnerships in this sector 6 projects for 1.1 million EUR were approved, 3 of which for experience exchange partnerships and 3 for development of innovations. Thematic directions of projects are related to pedagogic and didactic matters, development of new innovative education programmes, business education and promotion of creativity.

In accordance with provisions of the *Education Law*, which will enter into force at the end of 2022, the state should support adult education by financing adult non-formal education programmes, as well as supporting employers in additional training of their employees. In 2019-2022, work on the development of regulatory framework for state support measures for employers for education of their employees is planned, incl. it is planned to set criteria for receiving such support. At the same time, it is planned to draft a procedure for the state to finance adult non-formal education programmes, continuing education programmes and professional competence improvement, as well as criteria for receiving respective funding.

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.

From 2011 until the end of 2018, more than 6 000 professional qualification certificates were issued as a result of evaluation of professional competence that had been obtained outside the formal education system. The evaluation of non-formal education results gradually becomes increasingly more appreciated by the society.

Employed adults have access to support for evaluation of professional competence obtained outside the formal education system, also within the EU funds project *Improving the Professional Competence of Employed*.

A workgroup has been created, the task of which is to draft recommendations for changes in the regulatory framework for the improvement of the system of evaluation of professional competence obtained

outside the formal education system and adjusting the regulatory framework until the end of 2019 (to recognise partial professions or specialisations, as well as evaluate non-formal and daily learning, competences obtained in professional experience and the outcomes of the previous education for work, continuation of education and personal development). In 2018, Latvia prepared and presented to the EC a report on recognition of outcomes of non-formal education and daily learning in the country.

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

/responsible institution – MES/

The aim is to develop the National qualifications framework of Latvia (LQF), which is based on learning outcomes and was made equivalent to the European qualifications framework (EQF) in 2011. In supplements to Latvian higher education diplomas a reference to the corresponding EQF level has been included since 2013, in vocational education documents the corresponding LQF level has been indicated since 2017.

In 2018, an updated self-assessment report on the development LQF since 2011 was prepared, and in 2019 it was submitted to the EC.

In 2019 and 2020 it is planned to continue to improve the Latvian qualification database (LQD) to ensure its sustainability. The LQD provides a summary of information about qualification equivalent to LQD and their learning outcomes in Latvian and English, as well as provides link to European online portals PLOTEUS/LOQ⁷⁷ and ESCO⁷⁸. It is planned to carry out a study on the impact of LQD on the development of Latvian education, as well as to continue a discussion on the possibilities of extending LQD.

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

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. As inequality of income of the population increased, the share of people at-risk-of-poverty started to grow again since 2013. It was fostered by faster increase of income from paid work and a growing employment rate. In 2017, the share of persons at-risk-of-poverty and/or persons living in households with low work intensity reached 470 000 or 24.6 % of the population. Therefore, in absolute terms reaching of the set target has considerably increased in the last year.

Since 2011, a steady rise in income can be observed in all households. In 2017, compared to 2016, only the poorest households (quintile 1 group) saw a decrease in income, while a stable growth of income was observed in other quintile groups.

A decline in the share of population exposed to a deep material insecurity in entire population and among the population below the poverty line is observed in recent years – from 16.4% of the total population in 2015 to 9.5% in 2018 and from 40.0% of the population below the poverty line in 2015 to 23.9% in 2018, and 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 17.5 % in 2017. 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 2017, the share of the population exposed to the risk of poverty in the age group above 65 increased (from 38.1% in 2015 to 45.7% in 2017). Lonely elderly people are exposed to a very high risk of poverty – if a person aged above 65 years resides alone, this indicator is 74%.

⁷⁷ Portal on Learning Opportunities Throughout European Space / Learning Opportunities and Qualifications in Europe

⁷⁸ European Skills/Competences, Qualifications and Occupations Database.

Compared with other EU countries, Latvia has one of the highest income inequalities – in 2017 the Gini coefficient in Latvia reached 35.6%. Unfortunately, in 2017 a considerable increase in income inequality was observed – by 1.1 percentage point compared to 2016. Furthermore, the income of the 20% of the wealthiest part of population was 6.8 times higher than that of 20% of the poorest part of population (in 2016 – 6.2 times, in 2015 – 6.3 times). In six years, the share of social transfers in disposable income of households has diminished by 9.4 percentage points – from 32.4% in 2010 to 23% in 2017. Meanwhile, share of income from paid work has increased from 63.7% in 2010 to 72% in 2017. Income from paid work per household member available to households increased from 311 EUR per month in 2016 to 352 EUR per month in 2017.

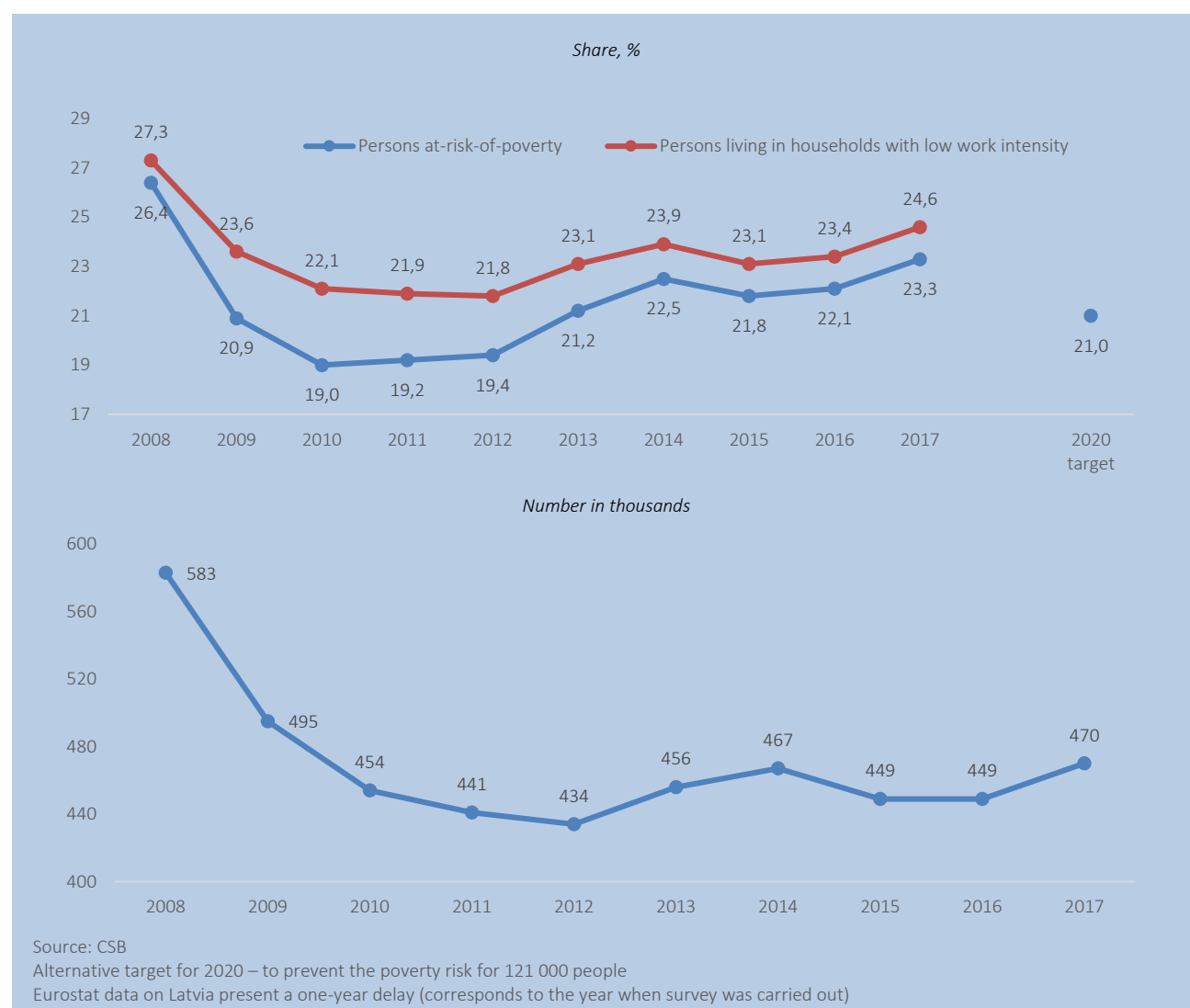
Although the common trend of development of poverty and social exclusion indicators points to a gradual improvement of the situation, the main risks for reaching the poverty reduction target are the following:

- 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 2018 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.

Figure 3.6
Poverty reduction target



In July 2017 the Saeima approved an extensive tax reform, which entered into force on 1 January 2018, including in labour taxes, where one of priorities was to reduce income inequality of the population (*see Chapter 2.1*).

In 2018, the implementation of the project *Professional Social Work Development in Municipalities* continued, its total financing is 5 million EUR, incl. the ESF financing of 7.2 million EUR. Within this project 2000 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 the Q3 2018, the number of supported social work specialists involved from the beginning of the project has reached 1 602 persons in 106 municipalities. Overall, 16 036 supervisions and training events were held, for which municipalities received compensation of 223 000 EUR in 2015-2018, incl. 185 300 EUR for supervision provided to social work specialists and 37 800 EUR for training. 189 500 EUR of the total amount used are the ESF financing, and 33 500 EUR – state budget financing.

With the ESF support deinstitutionalisation (DI) projects are implemented in all the regions of Latvia with participation of 115 municipalities. Within DI projects, 4876 persons of the target groups have been assessed and individual support plans have been developed (children in extra-familial care and children with functional disorders (FD) who have been diagnosed disability and who are living in families, and for adults with mental disorders (MD) who have been granted several and very severe disability (disability group I and II). All planning regions developed regional DI plans and plans for reorganisation of childcare institutions and branches of social care centres supported for closure. A selection process of the ERDF project applications started to allow 80 municipalities start to create necessary infrastructure for the provision of social services in 2019. In parallel, provision of community-based social services has started: In 2018, services of day care centres, group houses, specialised workshops, care houses, temporary respite services, specialist consultations, support groups and group classes were provided to 285 people with MD, social care, temporary respite and social rehabilitation services were provided to 651 children with FD. Social rehabilitation services were provided to legal representatives or foster families of 193 children with FD. A communication campaign *Human, not diagnosis!* was implemented in order to reduce the negative impact of society to people with MD and to ease introduction of DI⁷⁹.

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 FD and adults with MD is planned as a part of this project involving 200 adults with MD and 100 children with FD 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. By the end of 2018, 284 applications were received, and 229 agreements were concluded with people with MD on reception of services of a support person. Service recipients have learned to take decisions independently, their life situation has improved, part has started to work and study, their self-consciousness has improved. In September 2018, approbation of the mechanism of financing of the community-based social services started – an individual budget model for children with FD as a pilot project. Cooperation agreements with 10 municipalities were concluded, and provision of community-based social services to 100 persons from the target group have started.

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 the ERDF financing 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) financing. With the FEAD support, in 2018 in total 68 500 poor persons and low-income persons received food product sets, 17 400 families with children received hygiene and household goods, 9 700 pupils from poor and low-income families received school supplies kits, while 4 800 persons were provided prepared meals. 1 137 additional measures have taken place in 2018 (informative measures, individual and group work, non-formal education measures, socialisation measures, etc.). 6 300 persons participated in them. 1 000 families received food product sets for families with children below the age of 2 and 1 600 families received hygiene product sets for families with children below the age of 2.

In order to achieve better support for the population with low income, the range of recipients of the FEAD support was extended in 2018. From January 2019 support can be received by poor persons or families

⁷⁹ More information: <http://cilveksnevisdiagnoze.lv/>

with average monthly income not exceeding 242 EUR, instead of the current 188 EUR.

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.

To raise the level of income of the pensioners, in 2019:

- For old-age pensions calculated for 45 or more years with a long insurance period pension indexation will use the actual consumer price index and 80% (instead of the current 70%) of the real increment rates of insurance contributions wage;
- The amount of supplement per year of the insurance period accumulated before 31 December 1995 will be reviewed in October, taking into account the actual consumer price index and 50% of the real increment rates of insurance contributions wage;
- In case of death of the pension recipient the survivor shall receive a benefit of 50% of the pension granted to the deceased spouse (including an addition to their pension), the right to the benefit exists for 12 months from the day of death of the pension recipient;

- The insurance period includes service in the USSR army for the period until 1996.

The possibility to inherit the capital accrued by the insured persons for pension level 2 is provided for by *Amendments to the Law on State-Funded Pensions*. Starting from 2020 it will be possible to leave the level 2 or state funded pension capital as a heritage or add to the pension capital of the specified person, if the person dies before reaching the pension age. In accordance with the currently existing procedure, if a person dies before reaching the pension age and requesting a pension, the capital accumulated at the level 2 is included in the special state pension budget and is considered, when calculating a survivor's pension.

From 1 January 2018, the 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 institutions – the MoW, the MJ/

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. 987 subsidised jobs in total were created in 2018 (incl. the *Youth Guarantee* project), incl. 295 jobs for unemployed persons with disability. The financing spent on provision of subsidised jobs to the unemployed in 2018 indicatively amounted to 5.7 million EUR, incl. the ESF co-financing is 4.87 million EUR.

5 new professional rehabilitation continuing education programmes for persons with severe disability and 35 non-formal education skill training programmes for persons with MD were accredited within the framework of the ESF co-financed activity *Professional Rehabilitation* in 2018. A German method was purchased to improve the system of assessment of professional suitability, specialists for work with the method were trained, approbation of the method for assessment of professional suitability for persons from the target group of the measure has started. At

the same time, 41 persons with MD were involved in the skill training programme and 34 persons with severe disability were involved in professional rehabilitation continuing education programmes in 2018. Out of 75 persons of the target group involved in the measure 48 persons have already completed their participation in the project, of which 26 persons have started job seeking, involved in training, employment, including self-employed, after participation in the project. Total financing for the implementation of the measure is 1.25 million EUR, incl. the ESF co-financing – 1.06 million EUR, of which the total financing in 2017 was 0.32 million EUR, incl. the ESF co-financing – 0.27 million EUR.

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

The SEA career consultants consulted imprisoned persons on career in 6 detention places: overall, 435 imprisoned persons received career consultations.

Starting from the 4th quarter of 2016 and until the end of 2022, within the ESF co-financed project *Social Entrepreneurship Support*, support is provided for social entrepreneurs, incl. 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, incl. providing financial support to social enterprises, shall be developed and implemented as a part of this project. Total financing for the implementation of the project is 14.9 million EUR, incl. the ESF co-financing of 12.7 million EUR. Since the entry into force of the *Social Enterprise Law* (1 April 2018) the status of a social enterprise was assigned to 27 companies. At the same time, before the entry of the *Social Enterprise Law* into force 98 actors within social entrepreneurship were registered in the ESF pilot project *Social Entrepreneurship Support*. Social entrepreneurs and enterprises which have received the status of a social enterprise may submit business plans to the Development Financial Institution ALTUM for the implementation of a social idea and to pretend for a grant up to 200 000 EUR. In 2018, the ALTUM received 99 applications, and 31 agreements for the total amount of 2.35 million EUR were concluded. The enterprises, which had concluded these agreements, included six social enterprises, which's total grant funding reaches 0.30 million EUR.

In order to contribute to return of persons to the society and to the labour market after serving a sentence, as well as to prevent recurrent crime, since the beginning of 2017 the Prison Administration has been implementing ESF-co-financed projects:

- *Integration of former prisoners in the society and labour market.* Specific support measures for employment of prisoners and new support methods for former prisoners are implemented within the project. Measures for career planning, official language learning and development of labour skills of prisoners and former prisoners are implemented. Likewise, support measures for families of prisoners and former prisoners are implemented (for example, family day measures in Latvian prisons) and measures for maintenance of positive social ties of former prisoners. By the end of 2018, 3 085 prisoners and former prisoners received resocialisation measures and support within the scope of the project, of which 2 033 persons received support in 2018. Until the end of the project, it is planned to provide resocialisation measures and support to 16 000 prisoners and former prisoners. Total financing of the project is 4.9 million EUR, incl. the ESF financing of 4.1 million EUR;
- *Increasing efficiency of the resocialisation system.* Professional capacity raising and improvement of the training system for employees of prisons and probation specialists working with prisoners and former prisoners started and continued within the project. By the end of 2018, 693 persons had been trained, of which 511 persons were trained in 2018. It is planned that 1 650 prison and probation specialists will be trained by the end of the project. The existing resocialisation system has been evaluated and a mechanism to increase its efficiency by introducing new tools (resocialisation programmes, support programmes, etc.) has been developed within the project. Total financing of the project is 3.9 million EUR, incl. the ESF financing of 3.4 million EUR.

Eliminating discrimination threats and stereotypes, as well as fostering participation in 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 civic participation are strengthened and promoted, as well as any kind of discrimination is restricted.

With the support from the EC (within the EU programme *Rights, Equality and Citizenship Programme 2014-2020*), the project *Platform II for Latvian Roma People: Dialogue, Participation, and Peer Learning* was implemented in 2018 to promote cooperation, consultation and dialogue between Roma civic society, in particular Roma youth, representatives from state and municipal authorities,

employers and social partners, and to ensure a more extensive and efficient engagement of involved persons in the implementation of Roma integration policy package and its coordination at national, regional and local level. The total project financing is 61 900 EUR, incl. the EC financing of 58 800 EUR. Overall, 376 participants from 18 cities and municipalities, incl. 257 Roma representatives, 119 state and local government representatives, representatives of other NGO participated in the project activities.

Moreover, in 2018, a project *Platform II for Latvian Roma People: Promoting Cooperation and Participation* was started, the aim of which is to continue developing the Platform for Latvian Roma People, as well as a Latvian Roma integration policy coordination and implementation support mechanism at national, regional and local level, which promotes

mutual cooperation and exchange of experience among all the persons involved, as well as engagement and participation of Roma, in particular Roma youth, in the development of the civic society and intercultural dialogue. The total project financing is 63 800 EUR, incl. the EC financing of 60 600 EUR. Overall, it is planned to directly involve representatives of 108 municipalities and public administration, as well as 99 Roma representatives and about 80 interested persons and experts from wider community, when implementing the project.

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. Within the scope of the *NGO Fund* programme NGO may receive total support of 400 000 EUR to strengthen their capacity and implement projects. 30 NGO projects were implemented in 2018 with support of the *NGO Fund* programme. In 2018, 5 regional NGO support centres provided 414 consultations on matters of importance for non-governmental organisations, as well as supported 88 projects within the scope of the *Regional NGO Support Programme*.

In 2018, the implementation of the ESF co-financed project *Promoting Diversity (Preventing Discrimination)* continued. In 2018, the provision of a motivation increasing and support services to groups of persons subject to risks of social exclusion and discrimination was started in Latvia. 450 persons were involved in the positive change programme, of which 61 have started to seek for a job, engaged in employment, education, training or obtaining a qualification. A movement *Diversity is Power* has been initiated and 17 employers interested in strengthening of their work environment have joined it in its first year of operation and carried out a self-

assessment. The platform www.dazadiba.lv was created in order to interest and motivate other employers to create an inclusive work environment and be open to diversity. An informative campaign *Openness is a Value* started in 2018 to draw the attention to discrimination, tolerance and unequal treatment matters. Services of a social employee and a social mentor are provided to over 120 asylum seekers, refugees and persons granted subsidiary protection, helped to find problem solutions and to fit well into the Latvian society within the framework of the project. Total financing for the implementation of project activities is 6.8 million EUR, incl. the ESF co-financing of 5.8 million EUR. 1.5 million EUR were spent from the beginning of the project to the end of 2018, including EU financing of 1.3 million EUR, and state co-financing of 0.2 million EUR.

An Information Centre for Incomers has been functioning with financial support of the *Asylum, Migration and Integration Fund* (AMIF) since 2016 in order to provide unified and targeted integration support to the third country nationals and to promote their successful inclusion in the Latvian cultural environment. 1 370 consultations were provided to 898 customers, as well as 71 psychologist's consultations were provided in 2018. 64 consultations were provided to the service providers, who are working with the third country nationals, within the scope of the project. An interpreting service was provided 1782 times, involving 27 interpreters. The total planned financing planned for project activities is 751 500 EUR, incl. the AMIF financing of 563 600 EUR, and national co-financing of 187 900 EUR. 333 300 EUR were spent from the beginning of the project to the end of 2018, including the AMIF financing of 250 000 EUR, and national co-financing of 83 300 EUR. In 2019, the planned financing is 300 400 EUR, incl. the AMIF financing of 247 800 EUR, and national co-financing of 82 600 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 2019, the number of Latvian population was 1.92 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, broken down by functions, carried out in compliance with the 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 the CSB, the biggest increase in expenditures in 2017 was support for families with children – by 3.6% more than in 2016. In 2017, the largest increase in expenditures was on support in case of loss of a breadwinner – 10.5% compared to 2016, which is mainly related to the increase in the state support for children, who have lost their breadwinner. From

April 2017, minimum sizes of pensions and benefits were increased for survivor's pensions, state social security benefits and survivor's benefit. Total expenditures on social protection increased by 5.2% in 2017 compared to 2016.

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.

Furthermore, the main activities proposed by the CDM for 2018 focused on a third child policy by improving the system of state family allowances and introducing supplements for caring for several children, 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. In 2019, the main planned activities proposed by the CDM focus on the review of the size of the object of social insurance contributions during a parental leave, continuation and development of the *Family-Friendly Municipality* programme, as well as starting of the *Family-Friendly Job* programme.

Taking into account the role of municipalities in demographic matters, a *Family-Friendly Municipality* programme started under the CDM initiative in 2017, which envisages:

- Organisation of an annual competition to evaluate Latvian municipalities and identify those municipalities, which provide most support, more diverse and accessible services to families with children. In 2018, all 119 Latvian municipalities were evaluated in the competition, and the prize fund of the competition for municipalities was 109 000 EUR. The awarded prizes are intended for the use to ensure support measures and services or creation of an environment 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. In June 2018, the initiative *Family-Friendly Municipality* that was started in 2017 received an international appreciation from the European Large Families Confederation – the main prize in the category in prizes *National Government Initiative* for the efforts towards a family-friendly country.

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, MH/

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 the Box 3.10.

Box 3.10

Support to families with children

- In order to reduce the risk of poverty and social exclusion of children living in institutions and to promote growing of children in a family, the draft budget for 2019 provides for a new type of support for persons, who have adopted a child, until the child reaches the age of 18 – a monthly benefit in the amount of minimum maintenance (107.5 EUR per month for a child up to 6 years (inclusive) and 129 EUR per month for a child from 7 to 18 years). It is planned to grant the benefit from 1 July 2019. Additional planned state budget financing: 0.9 million EUR in 2019, 1.9 million EUR in 2020 and each year thereafter;
- The Saeima is currently reviewing amendments to regulatory enactments to extend the range of adopters, who may go on a 10-day leave after adoption of a child and receive a paternity benefit from the state for this period. It would be available to one of the adopters, whose family has adopted a child aged 3 to 18 (at present, such a benefit can be received for a child younger than 3 years);
- In order to reduce the number of children placed in care institutions, two types of foster families have been introduced from July 2018 – crisis foster families, which will be ready to welcome children at any time of the day, and specialised foster families for children with severe functional disorders, who need special care. In parallel, special foster family support centres are created to provide psychosocial and practical help not only to foster families, but also to present and future guardians, guest families and adopters. The families, which will obtain a status of a specialised family, in addition to a compensation for the fulfilment of duties of a specialised foster family provided by the state, a benefit for child's nourishment from the municipality amounting to double minimum maintenance (215 EUR in 2018 per month for each child below the age of 7 or 258 EUR per month for a child from 7 to the age of majority) and a single benefit for acquisition of clothing and soft inventories (bed linen, blanket, mattress, etc.) will receive a single compensation of home equipment expenses of 500 EUR;
- In order to increase benefit for persons with disability, the draft budget for 2019 provides for an increase of the special care benefit from 1 July 2019 by 100 EUR per month (from 213.43 EUR per month to 313.43 EUR per month): 1) for children with disability, who have specific indications for special care and 2) for persons with disability group I, who have indications requiring special care and whose cause of disability is

“*disease from childhood*”. Additional planned state budget financing: 2.7 million EUR in 2019, 5.5 million EUR in 2020, 5.6 million EUR in 2021 and each year thereafter;

- 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 SJSC Latvian Development Financial Institution Altum. The total sum of guarantees issued is 76 million EUR. More than 10 749 families have received support for buying a home since the beginning of functioning of the programme, thus providing more than 15 500 children with a home. It is intended to amend the programme to increase the amount of guarantee for families with four or more children, as well as increase the amount of guarantee in cases, when the family already has at least one child and the family is expected to become larger. Similarly, changes are anticipated, which would enable to get state support within the programme repeatedly, in the cases, when after having received a guarantee the number of dependents and children living together in the family has increased or in case of a pregnancy. Such a condition would allow to get a repeated guarantee in situations, when the extension of living spaces is related to the increase in the number of family members, the financial situation of the recipient of support has increased or they want to increase their living space. There are also plans to refuse from the requirement to indicate a declared or registered place of residence in Latvia. The cancellation would promote re-emigration for families wishing to return to Latvia and to receive a benefit for purchasing or construction of a house;
- A long-functioning and readers-friendly website www.vietagimenei.lv was created and has been maintained since 2017, where a summary of information on support to families with children provided by 119 municipalities is available. The summary provides information to parent about their opportunities to get material benefits and other type of support in own municipality, thus improving the availability of services to families and separately for families from the target group (incl. large families, children in extra-familial care, children with disability, low-income and poor families). At the same time, the summary provides the municipalities with an opportunity to improve services by taking over experiences of other municipalities;
- In order to foster the use of an out-of-court dispute resolution method and to promote resolution of any conflict between parties in the process of its occurrence, which would in turn reduce the load of courts, also in 2018 the MJ in cooperation with a Council of Certified Mediators successfully continued to implement two projects *Free consultations of mediators* in courts and *Mediation in family disputes*, as well as supported organisation of Mediation Days;
- Since 1 January 2019 by 20% larger state compensations are paid to victims, in particular to minors. The size of the state compensation paid to victims, who suffered severe bodily injuries, were raped or suffered sexual violence or morals or sexual inviolability of the minor victims were impaired, or the victim of a victim of human trafficking. In these cases, a compensation of 1 935 EUR will be paid (previously – 1 505 EUR). The compensation was increased also in cases, if the minor victim suffered bodily injuries of medium severity or the minor victim was infected by a person having human immunodeficiency virus, hepatitis B or C. Furthermore, in these cases the size of the state compensation of 1 505 EUR will be paid (previously – 1 075 EUR).

In 2018, work continued on the implementation of different solutions to promote the fulfilment of parental duties to provide maintenance to the child at least in the minimum amount defined by the CM. Therefore, *Amendments to the Law on Maintenance Guarantee Fund* were proposed at the beginning of 2019, which provide that:

- The debtor is prohibited to use hunting, sport, self-defence and collectible firearms;
- If the debtor repays the principal debt to the Administration of Maintenance Guarantee Fund within a two-year period, statutory interest will be annulled;
- The list of conditions, statement of which presumes that the debtor avoids the duty to provide nutrition to apply criminal liability to debtors in accordance with Section 170 of the Criminal Law. In order to use this solution effectively, an interdepartmental agreement was signed between the Administration of Maintenance Guarantee Fund, the State Police and the Prosecutor General’s Office on 17 September 2018. The Administration of Maintenance Guarantee Fund, having stated the condition that the debtor avoids the duty to provide subsistence to a child, will inform the State Police, which will start and move forward

criminal proceedings after having received this information.

- At the same time, several updating amendments were made to the Fund’s law by these amendments.

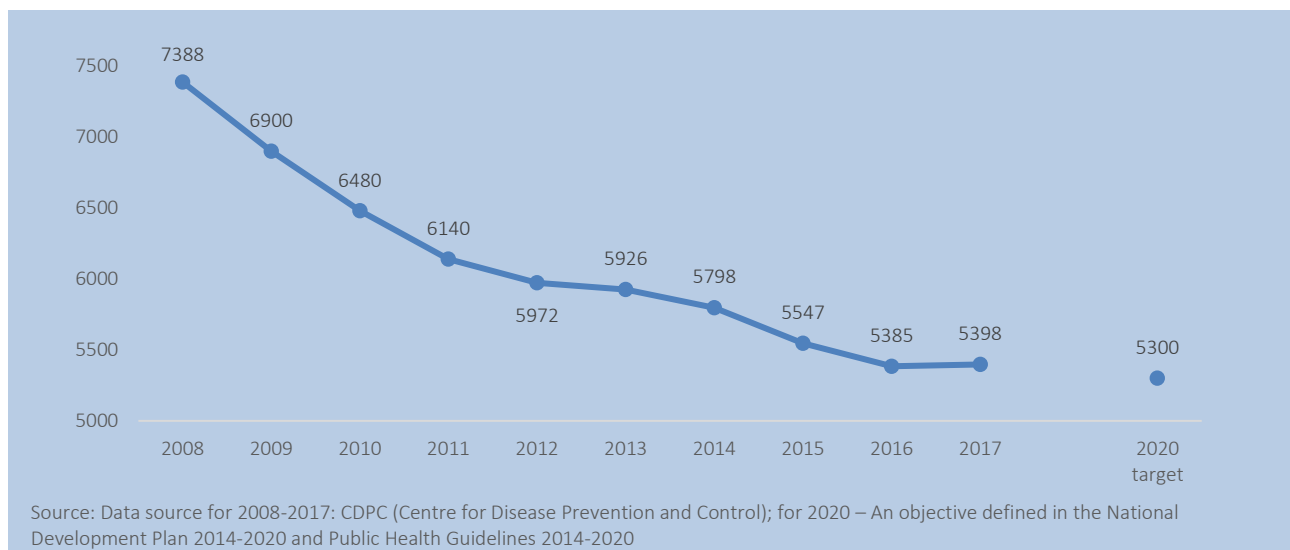
Despite the fact that a number of public **health indicators** in Latvia lag behind the average EU indicators, they are improving gradually.

A steady trend of decreasing infant mortality indicators is observed. In 2001, infant mortality rate was 11 per 1000 born alive, while in 2017 the number had reduced to 4.1. The average life expectancy at birth in Latvia has increased over the past ten years, however, it is still among the lowest in the EU (in 2017 it was 74.9 years in Latvia and 80.9 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 0.7 years for women, reaching 54.9, and by 0.6 years for men, reaching 52.3 years, in 2016 compared to 2013. 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



The *Public Health Guidelines 2014-2020* set the target to reduce the YPLL (up to 64 years) indicator by 11% (to reach 5300 YPLL per 100 000 inhabitants by 2020). The progress towards the target is quite rapid and in 2017 the YPLL value planned for 2020 had been reached by 98.1% (5398 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, prices 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 order to reach targets of the reforms, in 2017 the CM adopted the *Conceptual Report on the Reform of the Health Care System*. Its implementation requires additional funding for the improvement of availability of outpatient and inpatient health services, 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.

In accordance with the Section 4(2) of the *Law on Healthcare Financing*, starting from 2020 the healthcare general government sector⁸⁰ funding amounts to at least 4% of the GDP. In 2018, the total budget of the MH sector was 1 014.5 million EUR (3.45% of GDP), but in 2019 it is 1 170.8 million EUR (3.85% of GDP). In accordance with the decision adopted by the CM, in 2020 the maximum permissible amount of expenditure of the health care sector in the state basic budget is planned at the level of 996.3 million EUR, as well as additional financing of 144 million EUR is planned to continue the implementation of measures of the health care reform, and undivided state social insurance contributions for health care of 0.9 million EUR (99.1 million EUR are planned for 2020 in total), but in 2021 the maximum permissible amount of expenditure of the health care sector in the state basic budget is planned at the level of 989.2 million EUR, as well as additional financing of 144 million EUR is planned to continue the implementation of measures of the health care reform, and undivided state social insurance contributions for health care of 6.6 million EUR (104.8 million EUR are planned for 2021 in total).

113.4 million EUR were allocated in 2018 for the implementation of the reforms thus improving the availability of services in 2018 compared to the situation before the reform (*see Chapter 2.2*).

Also, the additional financing allocated for the implementation of the reforms in 2018:

- Has allowed to improve the availability of reimbursable medicines to patients with oncological, cardiovascular diseases, Crohn's disease, psoriasis and ulcerative colitis, hepatitis C,

HIV (from 1 October 2018 any restrictions for starting HIV treatment have been cancelled);

- The capacity money payment for family doctors has increased by 28%;
- A coronary risk evaluation method for persons aged 40, 45, 50, 55, 60, 65 has been introduced;
- Modern diagnostic and treatment equipment has been purchased;
- 11 training rooms for diabetic patients have been created;
- Tariffs for dentistry services have increased;
- Changes to the procedure of organisation of care, including payment condition, for chronic patients;
- And from 2018, positron emission tomography examination in case of certain oncological diseases are paid from state budget financing;

In addition to the abovementioned, the following measures are implemented to improve the availability of health care services:

- In order to improve the availability of the psychiatry service for children and youth, from 2019/2020 the duration of the academic year for obtaining the speciality of a paediatric psychiatrist reduced by half;
- In order to extend the opportunities of patients in rational selection of medicinal products and reduce their co-payments, it has been defined that if the price of the a medicinal products exceeds 100% of the reference price, the compensation base price for medicinal products reduces by 20% this year and next year (every year). Such a price restriction will allow to preserve the opportunity to select a medicinal product, if a cheaper medicinal product is not good for the patient, at the same time ensuring that patient's expenses are lower;
- Changes to the procedure of organisation of healthcare have been made ensuring that persons, who had a reactive express test in a HIV prevention point, get to the infectologist without referral from a family doctor;
- The CM approved the *Plan for Improvement of Mother's and Child's Health for 2018-2020*;
- In order to improve health care of patients having rare diseases, a Coordination Centre for Rare Diseases was established in 2018, as well as the scope of health care services available to patients with rare diseases was extended.

⁸⁰ Within the meaning of the Paragraph 2.113 of the Annex A to the Regulation (EU) No 549/2013 of the European Parliament and of the

Council of 21 May 2013 on the European system of national and regional accounts in the European Union (Text with EEA relevance).

In order to continue reforms initiated in 2017 and 2018, and extend them to include new initiative for improvement of efficiency of health care, availability of services and sustainability of the system, on 8 January 2019 the CM adopted an informative report *On the Implementation of Health Reform Activities in 2019*, which includes the following measures amounting to 154.2 million EUR:

- Improvement of the availability of health care services and reduction of queues (incl. by continuing the reduction of queues to specialists, diagnostic examinations, day hospital that were started in 2017 and 2018);
- Improvement of the availability of diagnostics and treatment of oncology diseases (incl. by continuing and extending the activities that were started in 2017 and 2018);
- Reduction of infectious diseases (incl. by continuing the reforms started in 2017 and 2018 to provide medicinal products compensated by the state to HCV patients);
- Improvement of quality and accessibility of the primary health care system;
- Reduction of cardiovascular diseases and improvement of disease treatment efficiency;
- Carrying out the reform on levels of medical institutions;
- Organisation of a strategic procurement of rehabilitation services;
- Improvement of mental health care;
- Improvement of the environment and effectivisation of infrastructure.

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 model of two “baskets” of health care services included in the *Law on Healthcare Financing* had to enter into force on 1 January 2019, but on 23 January 2019, amendments to the *Law on Healthcare Financing* entered into force, which extended the deadline (until 30 June 2019) by which the Latvian population irrespective of making health insurance contributions may receive healthcare services within the scope of state mandatory health insurance.

The government has committed to review the principle of two “baskets” of health care services defined in the *Law on Healthcare Financing* and to create a financing model, which envisaged mandatory inclusion of all Latvian residents (*see Chapter 2.2*).

On 19 February 2019, the CM adopted an informative report *On Necessary Amendments to the Law on Healthcare Financing*. The report offered to introduce a financing model for services, which is based on provision of a full basket of health care services to Latvian residents with mandatory state health insurance from state budget funds, providing health care services to Latvian residents within the meaning of the *Law on Taxes and Duties* and the *Law on State Social Insurance*. Such a financing model is based on preservation of the currently existing equality principle regardless of income level, health or age ensuring equal opportunities to receive health care services, which are not directly related to the amount of payment made by each individual.

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

/responsible institution – MH/

In December 2016 the CM approved the *Information report on mapping and development reform of systemically important medical institutions*. At the end of 2016, provisions for implementation of the 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 breakdown of providers of healthcare services into levels was enshrined in regulatory enactments in 2018, including the types to services to be provided at

each level were defined. These requirements enter into force on 1 April 2019. The National Health Service will review the compliance of the service provided by each hospital with the level assigned to it on an annual basis.

In 2018, the CM approved implementation conditions for investments of EU funds in local level hospitals and in emergency medical aid institutions and for the development of practices of a general practitioner. In 2018, projects started to be implemented in hospitals of the level 1, 2, 3 (local) (18) and in emergency medical aid institutions (4) concluding 12 cooperation agreements with the leading regional medical institutions to ensure better accessibility and quality of medical services in the corresponding region (*See also Chapter 2.2*).

In 2018, the MH project *Hospital Collaboration Model* supported by the EC Structural Reform Support

Service was started, the purpose of which is to develop an effective, well-functioning hospital cooperation models to promote qualitative and effective provision of healthcare services.

The issue of wages is being resolved to ensure the availability of human resources in health care. The *Conceptual Report on the Reform of the Health Care System* provides that starting from 2021 the average wage of physicians and functional specialists reaches the double average wage of those employed in the economy, at the same time increasing wages of other medical persons⁸¹.

Taking into account shortage of human resources and at the same time also continuing to increase wages of medical practitioners as planned, the Saeima adopted *Amendments to the Medical Treatment Law* by extending until 31 December 2021 the period, when the Section 53.1 on maximum permissible overtime hours for medical practitioners – 16 hours on average within a seven-day period, and it is calculated in the reporting period not exceeding four months. Additional financing of 103.6 million EUR was allocated in 2019 for the increase of wages of medical practitioners (for details see *Chapter 2.2 on the implementation of the health reform*).

In 2018, the internship planning process was improved by envisaging that the projected number of medical practitioners for full-time work is used when planning the number of persons to be accepted as interns⁸².

In order to reduce shortage of medical nurses and promote the development of profession of a nurse in accordance with changing labour market requirements, the MH in cooperation with professional industry organisation prepared a *Draft Conceptual Report on Further Development of Profession of a Nurse*. The purpose of the conceptual report arises from provisions of the *Conceptual Report on the Reform of the Health Care System*⁸³ and provides that the competence of a nurse is improved creating a new basic speciality in profession of a nurse – a general care nurse. The conceptual report will be forwarded to the government for approval in 2019.

In 2018, support measures started within the ESF project *Improving the availability of medical and medical support persons outside Riga* to attract medical

practitioners (doctors and nurses) to work in regions and thus reduce the lack of these specialists outside Riga. By March 2019, 236 medical practitioners (122 assisting nurses, 51 assisting doctor, 33 medical nurses, 23 doctors, 4 physiotherapists and 3 midwives) received total financial support of 1.6 million EUR (ESF – 85%, state budget – 15%).

In 2018 under the EU funds programming period 2014-2020 continuous education support measures for medical practitioners were started enabling to raise qualification and renewal of medical practitioners' certificates, allowing a medical practitioner not practising in his/her speciality to return to the labour market (*see also Chapter 2.2*).

Changes to functions and tasks of the MH 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*. In 2018, the reorganisation of the State Sports Medicine Centre resulted in the establishment of the Latvian Antidoping Office, a direct regulatory authority supervised by the MH, which has taken over functions of the State Sports Medicine Centre in the area of doping control, while the State LLC *Children's Clinical University Hospital* has taken over national regulatory tasks in the area of health care of minor athletes and children having increased physical load.

Since 2017, a selection of strategic service providers by special quality criteria or the so-called selection of strategic service providers has been implemented by the NHS. By 2019, the following services have been purchased within the scope of a strategic procurement: outpatient mammography, medical fertilisation, elective oncological treatment in an inpatient medical institution, rehabilitation and positron emission tomography using computed tomography. In 2019, it is planned to announce a strategic procurement of psychiatry services. In 2017, the creation of a Health System Performance Assessment System financed by the EC Structural Reform Support Service within the scope of the project *Developing Health System Performance Assessment for Slovenia and Latvia*. Within the project, a system of performance indicators and indicators was developed in 2018, and work on the development of its implementation plans will be completed in 2019. Furthermore, it is expected to carry out health care assessments in certain areas on an annual basis.

⁸¹ Table 12 of the Conceptual report "Health sector budget growth 2018-2023 to increase wages of medical practitioners", p.57.

⁸² Amendments to Regulations of the CM No. 685 of 30 August 2011 "Regulations on Distribution of Interns and Funding of Internships" (CM Regulations No. 227 of 17.04.2018 were adopted).

⁸³ Paragraph 161 of the CM Order No. 394 of 07.08.2017 *On the Conceptual Report on the Reform of the Health Care System*.

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, e-referrals, cards of patients having certain diseases, etc.

In 2018, the number of users of the e-health system and the scope of data available in it increased rapidly, because from 1 January 2018 the e-health system must be used, when a medical institution issues prescriptions for medicines reimbursable from state budget funds, as well as sick leave certificates on temporary disability, which since 2018 should be issued only electronically in the E-health system. In 2019, work is ongoing to switch to electronic circulation of referrals and their results. By March 2019, 1.3 million sick-leave certificates were submitted to the e-health system, 13.3 million prescriptions were redeemed, ~52% of which were prescriptions for medicines compensated by the state,

0.8 million conclusions on visual diagnostic examinations are available, as well as 52 000 thousand application for receiving a European Health Insurance Card were submitted. The data accumulated in the e-health system are an important source of information, when evaluating and planning the state social insurance policy.

By using the EU funds programming period 2014-2020 resources, 2 projects for the development of the e-health system were launched in 2018 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:

- Modernisation, development of health sector information systems (registers) and their integration with the e-health information system. Total financing is 5 million EUR, incl. the ERDF financing 4.25 million EUR;
- Further improvement of the Single health sector electronic information systems linking it to personal identification. Total financing is 5 million EUR, incl. the ERDF financing 4.25 million EUR.

Health promotion and disease prevention

/responsible institution – MH/

Implementation of EU funds financed health promotion and disease prevention measures continues. National level measures are implemented by the MH in cooperation with its delegated institutions, while 95 municipalities are implementing projects for local level health promotion and disease prevention in the local community. EU funds financed health promotion and disease prevention measures in other 24 municipalities are implemented by the CDPC.

In order to promote healthy nutrition habits by children and adults, regulatory enactments were amended by changing nutritional norms and the minimum amount of food on a weekly menu, as well as providing for the possibility to offer vegetarian food.

On 1 June 2018, the ban to start distributing food, in which the maximum permissible amount of trans-fatty acids entered into force.

An excise tax 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.

On 21 February 2019, the Saeima adopted in the 2nd reading amendments to the *Law on Handling of Tobacco Products, Herbal Smoking Products, Electronic Smoking Devices and Their Fluids*, 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 law also intends 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. The draft law also provides for the ban to place tobacco products, herbal smoking products, electronic smoking devices, their refill containers and also trademarks in retail outlets in a place visible for buyers.

Work on drafting of the *Action plan for reduction of consumption of alcoholic beverages and restriction of alcoholism* continues, which aims to take alcohol consumption prevention measures, 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 is functioning in Latvia to be used to include controlled substances in the list on a regular basis, and the so-called interim prohibition system where any new substance can be rapidly subject to interim control for a period up to 1 year. Both abovementioned systems have allowed for reduction of circulation of the new substances. In 2018, amendments were made to the *Law on the Procedure of Entry into Force and Application of the Criminal Law* to supplement it with new narcotic and psychotropic substances, which were not subject to control before, and to determine their amounts, as well as amendments were made to the *CM Regulations on Controllable Narcotic Substances, Psychotropic Substances and Precursors Controllable in Latvia*.

In order to reduce the risks of spread of infectious diseases when providing the services related to risk to health of other people and to reduce the administrative burden when performing unnecessary

health checks, the *CM Regulations on Works Related to Potential Risk to Human Health, and the Procedure of Carrying Out Mandatory Health Checks* were approved in 2018.

In order to promote safety of beauty services, the *CM Regulations on Hygiene Requirements for Provision of Beauty Services* were approved in 2018.

In order to protect children from increased risk to get malignant skin tumours, including melanoma, from April 2019 minors in Latvia are not allowed to attend solariums.

A number of public information campaigns were implemented in 2018, for example, reduction of risks caused by sunbathing and cosmetic tanning services *Do Not Roast! Protect Yourself from Skin Cancer!*, promotion of vaccination from influenza *Do Not Allow Influenza to Catch You!*, etc. In 2019, an informative campaign *Do Not Risk Your Contribution!* was started to increase responsiveness of the population to the organised cancer screening.

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 the EU funds 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 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 2nd half of 2017, training of patients in the area of patient safety and quality management were started (2 080 persons had been trained by the end of 2018).

A survey on satisfaction of patients with the quality of health care services was conducted in 2018⁸⁴. It was learned from the study that respondents are generally more satisfied with specific services than all the services of the health care system. The emergency medical aid service received the highest rating on a 10-point scale (index value of 8.21) followed by a service provided by a specialised physician (7.97), general practitioner (7.67), urgent aid (trauma room, admission departments, urgent assistance point)

service (7.44) and inpatient service of a hospital (7.32). The most crucial factors responsible for satisfaction with a service are related to interaction between the patient and the personnel. The involvement of a nurse in the provision of the service significantly improves perception of a general practitioner.

In 2018, work has started on the development of clinical algorithms, clinical patient paths and indicators in 4 priority areas (oncology, cardiovascular diseases, mental health, perinatal period care and paediatric care starting from the neonatal period) and determination of quality indicators. This work continued in 2019. There are also intentions to introduce an IT solution to ensure the availability of clinical guidelines, as well as drafted clinical algorithms and paths of clinical patients to medical practitioners. It is intended to attract EU funds for the development and introduction of these clinical algorithms, paths of clinical patients, as well as the IT solution.

In 2019, within the ESF project *Development and implementation of health network development guidelines in the priority disease areas* there are intentions to continue to provide training focusing on quality and patient safety for health care employees, as well as to foster the creation of a non-condemning reporting and learning system on patient security cases in medical institutions.

⁸⁴ Survey on satisfaction of patients with the quality of health care services (ISBN - 978-9984-837-46-8), 2018. Available at: <http://www.vmnvd.gov.lv/uploads/files/5c459e3f02295.pdf>

With the support of the EC Structural Reform Support Service, it is planned to introduce a patient experience monitoring system.

In 2019, the State LLC *Children's Clinical University Hospital* started an online survey for inpatient patients and their parents, which will constantly monitor experiences of patients in the hospital.

3.6. ENERGY AND CLIMATE CHANGE

In 2016, the 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 – 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

Latvian **electricity market** is fully liberalized as of 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 has been introduced for vulnerable users (poor or low-income households, large families, group I disabled, families with disabled children, around 160 000 residents in total who use electricity for their own consumption) to mitigate the negative impact of increased costs of electricity on socially vulnerable groups after the removal of subsidised regulated tariffs. The fee for the fixed portion of the distribution system services and the mandatory procurement power component, both of which depend on the electricity connection power, are compensated to these vulnerable users. Vulnerable users also pay a reduced tariff for the first consumed 100 kWh (300 kWh for large families)⁸⁵. In the Q4 2018, work on the information system on vulnerable users was started to facilitate receiving and providing of support, as well as promote digitalisation in public

administration. The planned financing for the support mechanism for vulnerable users is 9-11 million EUR per year.

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 and integration of Latvian electricity market and energy system strengthening the connections with European networks the transmission capacity is increased both in Latvia and in the Baltic region. This is demonstrated also by the objective set in the EU energy policy envisaging increasing interconnection capacity in the region up to 10% at throughput level before 2020 in relation to the installed generating capacity. It should be noted that the interconnection throughput capacity of the Latvian energy system was 60% in 2018, but that of the Baltic Region was 23%. At the end of 2015, work on the 1st stage of *LitPol Link* was completed establishing a connection between Lithuania and

⁸⁵ In 2017, the JSC *Latvenergo* provided the vulnerable user trading service to about 82 123 persons (families) per month (49 651 poor or low-income families (persons), 9 199 persons with group I disability, 2 913 families with disabled children and 20 361 large families). In total, the compensations paid to vulnerable users from the state budget in 2017 amounted to 4.4 million EUR (excl. VAT).

The Law on the State Budget for 2018 and the Law on Medium-Term Budget Framework for 2018, 2019 and 2020 provide the annual financing of 5.8 million EUR per year to support vulnerable users in 2018 – 2020.

Poland (transmission capacity 500 MW) and in 2016 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 well as promoted the security of electricity supplies. The average electricity price at the stock exchange in the Latvian trading region reached 49.90 EUR/MWh in 2018, and the price increased by 43.9% compared to 2017. In 2018, the day-ahead electricity price of the Latvian trading region at *NordPool* fluctuated from 14.91 EUR/MWh to 100.16 EUR/MWh. So drastic changes in electricity prices are explained by climatic conditions – dry summer in the Baltics and Scandinavian countries, which considerably reduced generation from hydroresources in rivers. In addition, the price of CO₂ emission quota increased considerably at the beginning of 2018, and it has effect on the final price of electricity generated at power plant with CO₂ emissions.

In 2018, Latvia covered 87.7% of the Latvian electricity consumption using local generation.

Work on the 3rd stage of *Kurzeme Circle* continues within the *NordBalt* project, which will increase the capacity connection, ensure development of wind parks, and increase the security of electricity supply in the Kurzeme region. It is planned to complete *Kurzeme Circle* by the end of 2019. Work on the 3rd Estonian-Latvian 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. Construction works for *Interconnection 3* started in January 2019, and the project is expected to complete in 2020.

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. In 2018, significant progress was reached in talks between Baltic and Polish transmission system operators on the selection of the most appropriate scenario and technical solution for synchronisation of Baltic countries with grids of continental Europe. The project aims to reconstruct and build internal infrastructure of each Baltic country, as well as construct a submarine direct current cable Lithuania-Poland.

Kurzeme Circle, *Interconnection 3* and the Baltic countries synchronisation project are included in the list of projects of common interest for Europe, and they are co-financed from the Connecting Europe Facility.

From 3 April 2017, the **natural gas market** is open for free competition, and in total more than 10 natural gas traders are currently actively operating on the Latvian market and the structure of natural gas supplies has changed, and since 2017 Latvian consumers receive natural gas also from the Lithuanian liquefied natural gas terminal in Klaipeda.

As the natural gas market reform continues, the earlier monopolist the JSC *Latvijas Gāze* was reorganised by separating from the company the operator of the transmission system the JSC *Conexus Baltic Grid* and the operator of the distribution system the JSC *Gasol*. In order to foster independence of the transmission system operator JSC *Conexus Baltic Grid* from the companies 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 the JSC *Augstsprieguma tīkls* purchased 34.36% of shares of the 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 2018, companies had pumped into the Inčukalns underground storage facility 13.4 TWh of natural gas, which 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 secured⁸⁶ for as long as it takes to avert any possible natural gas supply disruptions.

A *National Risk Assessment of Security of Gas Supply of Latvia 2018* and a *Regional Risk Assessment of Security of Gas Supply of Finland, Estonia, Latvia, Lithuania 2018* were drafted. The *Preventive Action Plan of Latvia*, which lays down measures to prevent and mitigate identified risks, as well as the *Emergency Action Plan of Latvia*, which defines roles and duties of natural gas companies and energy producers, competent institutions and other structures, whom the tasks, the role and duties are delegated at each crisis level, are being updated.

In January 2019, the EC supported the 44 million EUR co-financing for the implementation of the Inčukalns underground storage facility improvement project.

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. In order to implement a project of so high importance for the region, the ministries, regulators and operators of transmission systems of countries involved are performing the necessary preliminary

⁸⁶ Households, schools, preschool education institutions, hospitals, state and municipal long-term social care and social rehabilitation

institutions, crisis centres and other institutions of social importance and related to security of the state.

works – drafting general agreements and creating a new IT platform to enable successful functioning of the regional gas market.

The regional gas market with a single entry-exit tariff will start functioning in 2020. At the same time, a single balancing zone of Estonia and Latvia is starting to operate. Finland will join it later.

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 the further improvement of energy efficiency. In accordance with the requirements of the Directive 2012/27/EU, in April 2018 Latvia submitted a *Report on Progress in Reaching Energy Efficiency Targets in 2014-2016*.

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

- The total indicative national energy efficiency target⁸⁷ — primary energy savings in 2020 – 0.670 Mtoe (28 PJ);

- The annual saving target of 1.5% for energy supplied to end consumers⁸⁸ – 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 – RE) policy.

Table 3.1

Trajectory of achievement of the energy efficiency improvement target

Mtoe

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2020
Primary energy consumption*	4.57	4.43	4.56	4.30	4.45	4.36	4.35	4.27	4.32	4.30	Primary energy savings 0.67 Mtoe**

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

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

At present, the gross domestic energy consumption has decreased from 4.57 Mtoe in 2008 to 4.32 Mtoe in 2017 (decrease by 0.27 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 of 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 savings target (*see Table 3.2*).

Table 3.2

Primary energy savings forecast

Mtoe

	2014	2015	2016	2017	2018	2019	2020
Primary energy savings 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 the 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

⁸⁷ Savings are determined as the difference between the baseline scenario and the scenario with measures. These savings do not refer to the absolute reduction of national energy consumption. It refers to the limit of the increase achieved by those measures. The

methodological requirements for notifying about the target have been laid down in the Annex V to the Directive 2012/27/EU.

⁸⁸ The annual final energy savings correspond to the national mandatory accrued final energy savings 0.850 Mtoe.

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,

The main policy directions and measures:

Improving energy efficiency in households and industrial production

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 2019, 457 project applications for the total indicative ERDF financing of 84.5 million EUR have been submitted within the support programme to increase energy efficiency of residential buildings. The implementation of 55 projects has completed, and 78 projects are still under construction 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 financing of 25.7 million EUR to be issued to companies as a grant is available within the scope of the support programme for improving energy efficiency in the manufacturing sector. By 1 March 2019, 51 project applications for the total CF co-financing of 13.8 million EUR within the scope of the support programme have been approved or

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.

conditionally approved, incl. 10 projects have been completed for the CF co-financing of 3.8 million EUR.

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

By 1 March 2019, 117 project applications for the total ERDF co-financing of 88.6 million EUR and state budget co-financing of 88.6 million EUR have been approved or conditionally approved within the energy efficiency improvement programme, incl. the implementation of 7 projects with ERDF and state budget co-financing of 2.6 million EUR 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 reduction in primary energy consumption and GHG emissions compared to the invested ERDF financing. The intended ERDF financing 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 2018, selections of project applications and implementation of projects in municipalities with development centres of national importance, as well as the evaluation and implementation of projects submitted in the selection of project applications for municipalities that closed in 2017 continued. By 28 February 2019, 122 projects with the ERDF financing of 39.1 million EUR have been submitted for evaluation, which amounts to 83.2% of total planned ERDF financing, incl. agreements of the implementation of 83 projects have been concluded (ERDF financing of 24.4 million EUR) and 20 projects were completed (ERDF financing of 5.2 million EUR).

After closing of Climate Change Financial Instrument (CCFI), the MEPRD has started implementation of a new support programme – Emission Quota Trading Instrument (EQTI). In 2016, the implementation of projects started in two project competitions. Under competition *Reduction of Greenhouse Gas Emissions in*

Architectural Monuments of State Significance, 9 project implementation agreements were signed with the total EQTI support of 8.86 million EUR, while under competition *Reduction of Greenhouse Gas Emissions – in Low-Energy Consumption Buildings*, 7 project implementation agreements were signed with the total EQTI support of 23 million EUR. The total expected carbon dioxide emission reductions in both competitions will be 1 005 tons. In 2018, the implementation of 13 projects continues, two projects were completed, and a project implementation agreement termination procedure for one project started within both competitions. In the period of time from 2016 to 2018 the EQTI financing of 22.72 million EUR in total was paid for the implementation of projects.

On 28 June 2018 the CM Regulations *Rules of Open Competition “Reduction of Greenhouse Gas Emissions Using Smart Urban Technologies” for projects funded*

by the Emission Quota Trading Instrument entered into force. The purpose of the competition is to introduce and demonstrate smart urban technologies reducing GHG emissions. Project implementation agreements with project applicants are intended to be concluded in 2019.

On 24 July 2018 the CM Regulations *Rules of Open Competition “Reduction of Greenhouse Gas Emissions by Developing Construction of Buildings Self-Sufficient in Energy” for projects funded by the Emission Quota Trading Instrument* entered into force. The purpose of the competition is to limit potential GHG emissions by supporting construction of new and sustainable buildings self-sufficient in energy with low energy consumption and ensuring demonstration and popularisation of technologies necessary for low-carbon development in Latvia. Project implementation agreements with project applicants are intended to be concluded in 2019.

Improving energy efficiency in heat production

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

In the EU funds 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-financing of 60 million EUR is

available in the support programme. 104 project applications for the total CF co-financing of 53 million EUR have been submitted within the support programme by 1 March 2019. Within the scope of these project applications, 240 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. 60 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 abovementioned actions is higher than 160 000 tons per year.

Support to energy-intensive enterprises

Regulations of the CM *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, from 2017, the energy-intensive manufacturing enterprises operating within supported sectors can qualify for reduced

participatory payment of mandatory procurement component.

In accordance with provisional estimates, incl. taking into account historical applications in 2015-2016, when energy-intensive manufacturing businesses together requested more than 7.5 million EUR, as well as taking into account industry growth, 7 million EUR would have to be planned in the state budget for 2019-2021 to support energy-intensive manufacturing businesses (by cash flow method).

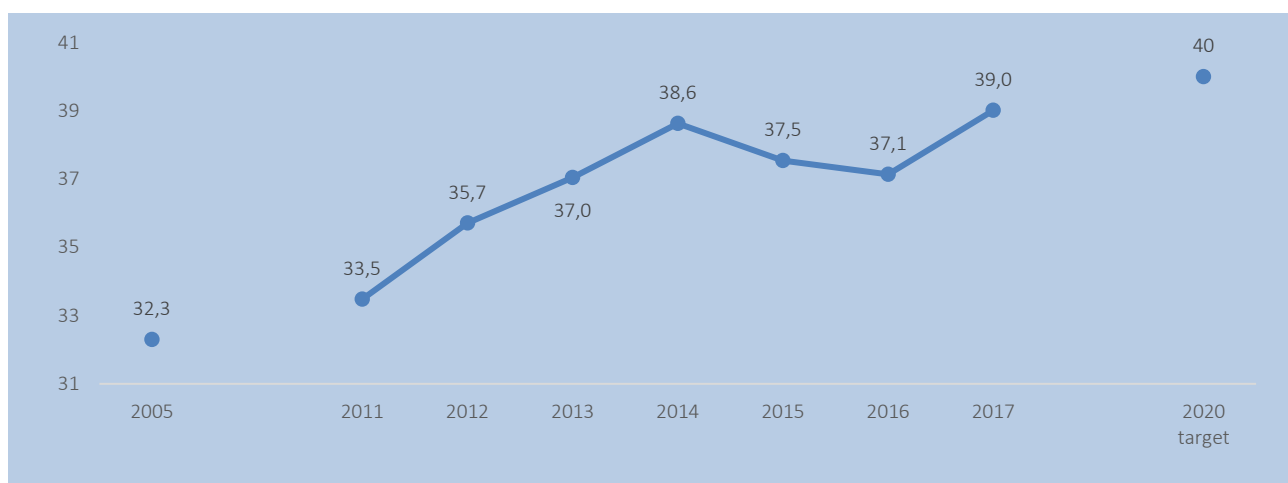
3.6.3. Increasing the Share of Renewable Energy

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. In accordance with the *Electricity Market Law* and related CM regulations, the state support mechanism that was introduced and implemented (mandatory electricity procurement) has been the main tool to reach this target in Latvia. By 2017 in accordance with the Eurostat data Latvia reached

39.01% share of renewable electricity in final energy consumption.

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 the *Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources* (hereinafter — Directive 2009/28/EC) are binding for Latvia, incl. legally binding targets for 2020 in respect of final energy consumption.

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

Following the technology development trends and global challenges, Latvia is revising its support mechanisms for the production of renewable energy by reinforcing control of the companies 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 the MPC. In order to stop its growth and maintain it on the level of a mean value of 22.68 EUR/MWh (26.79 EUR/MWh in 2017; 25.79 EUR/MWh at the beginning of 2018), state budget financing is allocated⁸⁹ to prevent from imposing an additional burden on end users of electricity, incl. 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 support 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

⁸⁹ 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*:

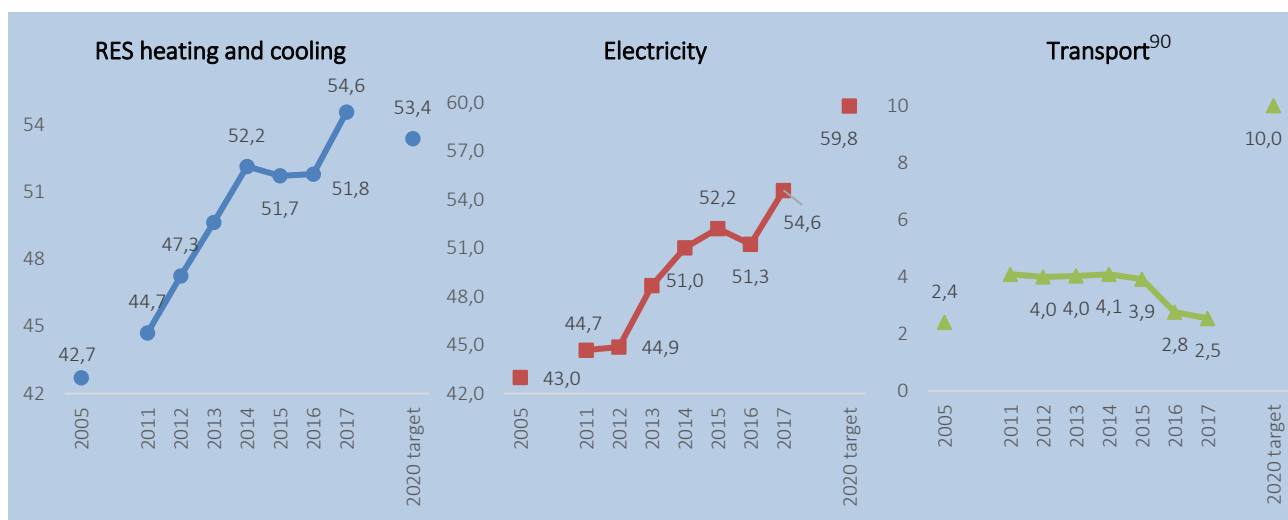
<https://likumi.lv/ta/id/293753-par-konceptualo-zinojumu-kompleksi-pasakumi-elektroenerijas-tirgus-attistibai>.
CM Order No. 202 of 7 May 2018 on the Reduction of the Total Mandatory Procurement and Power Component

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.

Figure 3.9

Renewable energy share in the final consumption by sectors % of final energy consumption of each sector



The main policy directions and measures:

Adjusting the legal basis

The aim is to promote a broader use of non-biomass RES in energy production and consumption, incl. in the transport sector.

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 bigger 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 plant 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.

In 2018, amendments were made to the regulatory enactments regulating mandatory electricity procurement and the guaranteed payment for capacity installed in cogeneration, intensifying control of companies, as well as preventing provision of the planned support to those companies, which do not observe the requirements of regulatory enactments, incl. supplementing them with the duty of the Ministry of Economics to cancel without a warning the decision entitling to sell electricity within the scope of mandatory electricity procurement, if significant violations are stated.

⁹⁰ 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.

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

The aim is to promote a broader use of local RES in the energy production and consumption, to promote energy production in co-generation, 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. No projects were supported for the achievement of this goal in 2018 and 2019.

Financing amounting to 2 million EUR was intended for installation of renewable energy sources using smart urban technology within the EQTI project competition *Reduction of Greenhouse Gas Emissions Using Smart Urban Technologies*.

One of activities supported within the EQTI project competitions *Reduction of Greenhouse Gas Emissions by Developing Construction of Buildings Self-Sufficient in Energy*, *Reduction of Greenhouse Gas Emissions in Architectural Monuments of State Significance* and *Reduction of Greenhouse Gas Emissions – in Low-Energy Consumption Buildings* was purchasing, delivery, installation, connection and tuning of equipment using renewable energy sources.

Measures for achievement of 10% RES within the transport sector

The aim is fostering utilisation of sustainable biofuel, electrification of transport sector, such as development of network of trams and trolley-buses, 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 Public Transport Services* were adopted in 2016 and the *Law on the Procurement of Public Service Providers* was adopted in 2017. These amendments allow the ordering party to 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.

Financing from the 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 network charging stations for electric cars, tram infrastructure in Rīga, 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 the *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 their introduction shall be assessed in certain transport sectors by the EU Member States as a

mandatory measure. According to the measure defined in the plan a study on alternative fuel introduction scenarios for vehicles in order to reduce greenhouse gas emissions and their impact on the Latvian economy was carried out in 2018. At present, the *Alternative Fuel Infrastructure Development Plan for 2017-2020* is undergoing an interim impact assessment.

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.

A new draft law – the *Transport Energy Law* – aiming to establish an umbrella regulation for the transport energy sector is being reviewed by the Saeima. It will replace the *Biofuel Law*, which is currently in force, after it is approved in 2019 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.

The CM Regulations *On the Mechanism of Participation for Fuel Suppliers* will enter into force in 2019 aiming to oblige fuel suppliers to sell energy obtained from RES in the amount to ensure that the share of energy obtained from RES in Latvia in final consumption is at least 10% by 2020.

In January 2018, *Amendments to the 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.

The *Amendments to the Law on Pollution*, which entered into force on 6 March 2018, and the CM *Regulations Procedure of Calculation and Reporting of*

the Amount of Transport Energy Life Cycle Greenhouse Gas Emissions and its Reduction, which were adopted on 25 September 2018, enshrine a mechanism for restriction of intensity of transport energy life cycle GHG emissions used in vehicles in final consumption obliging the suppliers to reduce by 6% the scope of life cycle GHG emissions compared to the base standard of 2010.

On 19 February 2019, the CM approved *Amendments to the Regulations Regarding the Sustainability Criteria for Biofuels and Bioliquids, the Mechanism for Introducing Thereof, and the Procedure by which They Shall Be Supervised and Monitored*. Sustainability criteria for biofuels and bioliquids have been strengthened considerably by stating clearly that sustainable biofuel should be used in the fulfilment of the goals set for the state and the fuel supplier.

3.6.4. Reducing Greenhouse Gas Emissions

Latvia's policy 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 – Convention) and its *Kyoto Protocol and the Paris Agreement*. The target of Latvia is to limit or stabilise the total national GHG emissions so that by 2020 they would not exceed 12.16⁹¹ Mt CO₂ equivalent. This target has been divided into activities included in the EU Emissions Trading System (hereinafter – EU ETS) and other activities (hereinafter – non-ETS activities). In the period until 2020, the target for GHG emission reduction does not include the sectors of land use, land use change and forestry activities (hereinafter – 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 2018 for the period 1990-2016⁹² (hereinafter – GHG inventory of 2018) as well as approximate GHG inventory for 2017⁹³, the total volume of Latvia's GHG emissions in 2016 decreased by 1.3% compared to 2005, but by 2017 total volume of Latvia's GHG emissions decreased by 1.6% compared to 2005 (see *Table 3.3*).

GHG emissions generated by Latvian EU ETS operators amounted to 2197 kt CO₂ eqv. in 2016, and 2049.8 kt CO₂ eqv. in 2017, or 19.4% or 18.2%, respectively, of Latvia's total GHG emissions. Latvian EU ETS operators had reduced their GHG emissions by 23% until 2016 and by 28.2% until 2017, in

comparison with 2005, thus fulfilling the GHG emissions reduction target for 2020 – 21% reduction by 2020⁹⁴.

The GHG emissions dynamics of non-ETS activities currently evidences the increase in emissions – 5.9% increase in 2005-2016 and an increase by 7.2% from 2005 to 2017. Overall, until 2017 Latvia was within the annual targets set for non-ETS activities.

The biggest sources of non-ETS GHG emissions were transport accounting for 35% of non-ETS activities in 2016, agriculture – 29%, as well as non-ETS energy – 25%.

GHG emissions projections prepared in the *Report on GHG Projections, Policies and Measures*⁹⁵ (submitted to the EC in 2019) for the scenario of measures until 2030 evidences that the total GHG emission volume may reach 11 752.16 kt CO₂ equivalent in Latvia by 2020, thereby securing by 3.4% lower Latvian GHG emission volume than the set national GHG emission reduction target 12.16 Mt CO₂ equivalent.

Total GHG emissions from non-ETS activities will increase by about 5.51% in 2005-2020 and may reach 9 101.44 kt CO₂ equivalent in 2020. Thus, Latvia will also be able to fulfil its non-ETS target by 2020 – no more than 17% increase in GHG emissions from non-ETS activities in 2005-2020. Meanwhile, the EU ETS GHG emission volume, provided the current scenario of measures applies, may reach 2 647.60 kt CO₂ equivalent which is approximately 15.1% more than the set target for 2020.

⁹¹ *Environmental Policy Guidelines for 2014-2020* (CM 26.03.2014 <http://polsis.mk.gov.lv/documents/4711>).

⁹² <https://unfccc.int/process-and-meetings/transparency-and-reporting/reporting-and-review-under-the-convention/greenhouse-gas-inventories-annex-i-parties/national-inventory-submissions-2018>

⁹³ https://cdr.eionet.europa.eu/lv/eu/mmr/art08_proxy/envw07vaw/

⁹⁴ *Environmental Policy Guidelines for 2014-2020* (CM 26.03.2014 <http://polsis.mk.gov.lv/documents/4711>).

⁹⁵ https://cdr.eionet.europa.eu/lv/eu/mmr/art04-13-14_lcds_pams_projections/pams/pams/envxiolw/

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 ⁹⁶	11.5	11.3	11.3	11.3	11.3	11.3	11.5	11.6	11.6
Latvian national total GHG emissions target ⁹⁷			12.0	12.0	12.1	12.1	12.1	12.2	12.2
EU ETS emissions ⁹⁸	2.9	2.7	2.4	2.3	2.2	2.04	2.4	2.5	2.6
Latvian national EU ETS GHG emissions target ⁹⁹		-	-	-	-	-	-	-	2.3
Non-ETS emissions ¹⁰⁰	8.6	8.7	9.0	9.0	9.1	9.2	9.1	9.2	9.1
Latvian non-ETS GHG emissions target ¹⁰¹		9.3	9.4	9.4	9.5	9.7	9.8	9.9	10.0

The main policy directions and measures:

Limiting non-ETS emissions

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

GHG emissions in the **energy sector** may be decreased by reducing consumption of primary and secondary energy sources, by taking energy efficiency measures for equipment and buildings, as well as replacing fossil fuel with renewable energy sources. In order to reduce GHG emissions in the energy sector, different complex measures are taken to reach EU targets with regard to increasing the share of renewable energy and energy efficiency, as well as electricity synchronisation projects are implemented to increase the availability of electricity from renewable energy sources.

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, for example, 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 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, electrification, etc.

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 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 livestock. In order to reduce GHG emissions, in 2018 within the *Latvian Rural Development Programme for 2014-2020* support for creation facilities for manure storage was granted to 92 projects with total eligible costs of 8 132 300 EUR, incl. public financing of

⁹⁶ GHG inventory of 2018 and approximate GHG inventory for 2017, *Report on GHG projections, policies, and measures* (2019).

⁹⁷ *Environmental Policy Guidelines for 2014-2020* (CM 26.03.2014 <http://polsis.mk.gov.lv/documents/4711>).

⁹⁸ Emission reports submitted by the Latvian EU ETS operators, *Report on GHG projections, policies, and measures* (2019).

⁹⁹ *Environmental Policy Guidelines for 2014-2020* (CM 26.03.2014 <http://polsis.mk.gov.lv/documents/4711>).

¹⁰⁰ GHG inventory of 2018 and approximate GHG inventory for 2017, *Report on GHG projections, policies, and measures* (2019).

¹⁰¹ 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.*

5 200 000 EUR, as well as for purchasing of accurate technologies – to 253 projects with total eligible costs

of 13 811 800 EUR, incl. public financing of 6 858 000 EUR.

Research, innovations, raising public awareness

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 the CCFI, but also from the National Research Programme, the Administration of Latvian Environmental Protection Fund, and projects within the programme *Horizon 2020* have been also available.

Within the *National Research Programme for 2014–2017*, a research programme *The value and dynamics 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 produced 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 the 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 the EU 2030/2050 climate policy by disclosing and estimating interaction between different development parameters and emissions generated within different sectors of the economy;
- To identify the potential for reduction of GHG emissions in the agricultural sector;
- To analyse the potential impact of forestry activities on CO₂ sequestration increase;
- Assessment of GHG emission reduction and CO₂ sequestration potential as a result of forest management, afforestation, and deforestation.

In 2018, the project *Raising Capacity for Implementation of LIFE Programme in Latvia* continued where funding provides for implementation of innovative and sustainable environmental quality and climate change projects within the *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 – 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 – ADAPT projects). A proposal for the *National Climate Change Adaptation Strategy* was developed in 2017 within the ADAPT project and it is further developed as the *Latvia's Climate Change Adaptation for the Period until 2030*. Several thematic researches were conducted to assess risks and vulnerabilities and to identify adjustment measures. 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 Change 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 change and to discuss the need for low-carbon development (LCD) and climate resilient development and their possibilities in the Baltic countries, as well as to identify specific tasks for the achievement of such development, to intensify materialisation of changes. High-level representatives of the IPCC (Intergovernmental Panel on Climate Change) visited Latvia for the first time in May 2018. The visit included several events, where scientists, politicians, NGO representatives and others were addressed.

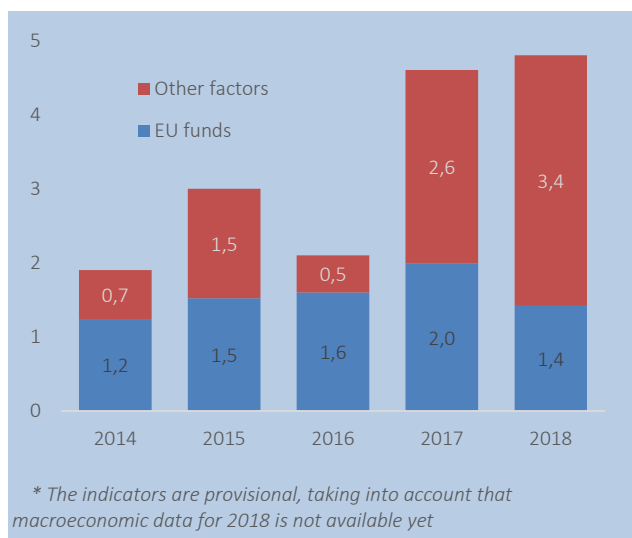
In 2018, the implementation of the State Research Programme *Energy* was started, where the ME will carry out research in 4 thematic directions in 2018–2021: (1) renewable and local energy sources; (2) energy efficiency; (3) sustainable energy infrastructure and market and (4) analytical framework of national long-term energy policy planning.

4. EU FUNDS INVESTMENTS

EU structural and investment funds financing in the programming period of 2014–2020 and its link to the Europe 2020 strategy, feasibility, effectiveness and impact assessment of EU funds

EU funds financing is an important source of investments in the economy, which so far mitigated the economic slowdown during the crisis, stimulated employment and investment activity in the post-crisis period, thus positively affecting economic growth in general. A positive impact of EU funds investments was also present in the current programming period of 2014-2020. Thus, in accordance with the MF assessment, EU funds investments increased GDP growth by 2 percentage points in 2017, which is considerably more than in 2016, and by 1.4 percentage points in 2018 (Figure 4.1), however, it should be taken into account that the economic growth rates of Latvia in 2018 had been the most rapid since 2011.

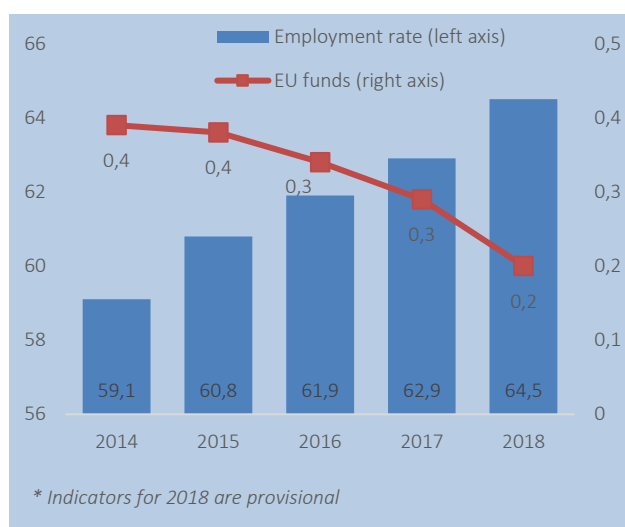
Figure 4.1
GDP growth and impact of EU funds
%



Despite the positive impact of EU funds investments on aggregate economic growth, it should be taken into account that although the employment rate in Latvia has been gradually growing annually during the current EU funds programming period, the role of EU funds investments in the dynamics of changes in this economic activity indicator is decreasing every year

(Figure 4.2). Therefore, the impact of EU funds investments on changes in individual economic development indicators should be treated with caution, because these indicators are also influenced by other factors, for example, state budget financing.

Figure 4.2
Employment rate and impact of EU funds
%



For the implementation of EU structural and investment funds (ESF, ERDF, CF, EAFRD, and EFMF), within the programming period for 2014-2020 in total 5,633.7 million EUR are available. In 2018, the intensity of investments within the EU funds programming period for 2014-2020 increased and state budget expenditures on EU funds investment projects amounted to 1,023 million EUR in 2018. Thus, this scope of investments is equivalent to almost 15.2% of total investments (private and public) in the economy in 2018.

In accordance with the thematic objectives laid down in the Regulation (EU) No. 1303/2013¹⁰² of the European Parliament and the Council and ensuring a link between Cohesion policy and Europe 2020 strategy, the Partnership Agreement for ESI fund programming period for 2014-2020¹⁰³ contains an

¹⁰² 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.

¹⁰³ Approved by the CM Order No. 313 of 19 June 2014 On Partnership Agreement for European Union Investment Fund Programming Period

indicative distribution of EU structural and investment funds financing and indicates link to the national targets in the context of the *Europe 2020*

strategy (see previous Progress Reports on the Implementation of the NRP of Latvia), which is available in Table 4.1¹⁰⁴.

Table 4.1

Latvian national targets in the context of the Europe 2020 strategy and total financing*

	Initial value	2018 (value reached)	2020	million EUR
1. Employment rate (population aged 20–64), %	67.1 (2009)	76.8	73	989.29
2. Investments in research and development (% of GDP)	0.46 (2009)	0.51**	1.5	548.89
3. Higher education (percentage of the population aged 30-34 with tertiary education), %	30.1 (2009)	43	34.0-36.0	43.19
4. Share of early school leavers among youth (aged 18-24), %	13.9 (2009)	8.3	13.4	172.62
5. Share of people at-risk-of-poverty, %	26 (2009)	23.3**	21.0	432.26
6. Energy efficiency (gross domestic energy consumption), Mtoe	4.6 (2009)	4.3**	to get a reduction of 0.668	189.04
7. Share of renewable energy in the final consumption of gross energy, %	29.9 (2009)	39**	up to 40%	189.04
8. Greenhouse gas (GHG) emissions (Mt CO ₂ equivalent of total GHG in Latvia or % of GHG emissions of 2005 in non-ETS sectors)				1270.47
Total GHG in Latvia, Mt	11.9 (2008)	11.3**	not to exceed 12.19 Mt CO ₂ equivalent	
GHG in non-ETS sectors, %	6.9 (2008)	7.2**	does not exceed 17% compared to 2005	

* EU funds (ERDF, ESF, CF) and total national financing

** Value reached in 2017

Source: Operational Programme "Growth and Employment" of the 2014-2020 programming period of the EU structural funds and Cohesion Fund

When analysing the defined targets of the *Europe 2020* strategy, it has been already stated that several of them, in essence, characterise the entire Latvian socioeconomic situation and are affected not only by contributions from EU funds, but also by general internal and external socioeconomic factors.

In order to identify more accurately the contribution of this operational programme to the achievement of targets of the *Europe 2020* strategy, the analysis that was carried out in 2018 on specific objectives of the Operational Programme *Growth and Employment*¹⁰⁵ and the supported activities included in it, which are defined in the Operational Programme and the CM Regulations of respective measures, was updated.

The breakdown provided in the Table 4.2 of the potential impact of EU funds investments on the achievement of the targets of the *Europe 2020* strategy should be evaluated with caution, because it is based on the assumption that supported activities directly or indirectly foster the achievement of the *Europe 2020* strategy targets. This assumption can be fully tested, when the phase of EU funds investments within the 2014-2020 programming period ends and

when we get an evidence based on actual outcome of investments.

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 latest results of the analysis. The impact of EU funds on the achievement of the targets set in the *Europe 2020* strategy will be evaluated in detail after the programming period 2014-2020 completes, using thematic impact assessments and observing the requirements of the EC regulation.

When evaluating the actual impact of the EU funds investments made so far on the achievement of individual targets of the *Europe 2020* strategy, it can be concluded that, for instance, the activities in environmental measures of the programming period 2007-2013 had made a much bigger contribution to the achievement of the national environmental targets than planned initially. The investments made were important on the Latvian scale, and without support from the EU funds activities of such scale would not

2014-2020 and EC Decision C(2014)4237 of 20 June 2014 on Approval of Partnership Agreement.

¹⁰⁴ Taking into account the actual allocation of financing at the end of 2018.

¹⁰⁵ Taking into account the amendments made to the Operational Programme in 2018, which were approved by the CM Order No. 485 of 3 October 2018. Changes in the allocation of financing

also occur, because when starting to implement a specific measure in accordance with state aid conditions, the amount of private co-financing to be raised was determined thus increasing the total national financing.

have been possible, in particular in the area of water management and rehabilitation of historically polluted areas¹⁰⁶.

Table 4.2
Latvian national Europe 2020 targets and EU funds financing*
million EUR

	ERDF	ESF	CF	Total million EUR	Total %
1. Employment rate	503.0	272.5	25.1	800.6	26.04
2. Investments in research and development	452.7	0.0	0.0	452.7	14.72
3. Share of graduates in tertiary education	6.0	30.7	0.0	36.7	1.19
4. Share of early school leavers among youth	88.4	57.9	0.0	146.3	4.76
5. Share of people at-risk-of-poverty	193.4	160.9	0.0	354.3	11.52
6. Energy efficiency	93.1	0.0	28.6	121.7	3.96
7. Share of renewable energy in the final consumption of gross energy	93.1	0.0	28.6	121.7	3.96
8, 9 Greenhouse gas emissions	217.9	0.0	823.0	1,040.9	33.85
Total	1,647.5	522.0	905.2	3,074.8	100

* without national co-financing

Source: Operational Programme "Growth and Employment" of the 2014-2020 programming period of the EU structural funds and Cohesion Fund

As to investments in research and science, the analysis of investments in the previous programming period shows that a number of general indicators characterising the Latvian science system have improved significantly, while ageing of academic staff and keeping of young scientists in science is still a serious challenge¹⁰⁷.

In the evaluation of investments into entrepreneurship in the previous programming period it is concluded that the investments fostered net turnover of businesses, increase in the average staff headcount and increase in capital productivity. It is concluded in the evaluation that high value-added investments in the medium-term (based on the results of a counterfactual analysis) were generally successful¹⁰⁸.

The total financing for the *Youth Guarantee* programme for 2014-2019¹⁰⁹ amounts to 70.2 million EUR¹¹⁰, including *Youth Employment Initiative* financing of 29 million EUR, the ESF financing of 35 million EUR, co-financing from the state budget – 4.7 million EUR, and private co-financing¹¹¹ of at least 1.5 million EUR.

The total financing available from the 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 *Europe 2020* strategy targets, which are set in three flagship initiatives: *Innovation Union*; *Resource Efficient Europe*; *Agenda for New Skills and Jobs*.

The EAFRD financing available for 2014-2020 is 1 075.6 million EUR and it helps to implement the *Europe 2020* 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 achievement of the following national targets will benefit from targeted investments from the programme: employment rate, investments in R&D, energy efficiency and reduction of greenhouse gas emissions.

Direct impact means such effect, where contributions from the SO or measure are thematically related to the achievement of the *Europe 2020* strategy targets. Direct impact or primary impact are the

¹⁰⁶ Final report *Evaluation of investments from EU Funds to support environmental measures in the programming period 2007-2013 and determination of the impact of these investments*. Available at: <http://www.esfondi.lv/upload/izvertejumi/zinojuma-galda-versija.docx>

¹⁰⁷ Evaluation of investments into support of science, research and innovation within the Operational Programmes *Human Resources and Employment and Entrepreneurship and Innovations* of the EU Funds 2007-2013 programming period. Available at: https://www.esfondi.lv/upload/Petijumi_un_izvertejumi/izvertejuma-zinojums_22122017.pdf

¹⁰⁸ Final evaluation *Evaluation of investments from EU Funds to support entrepreneurship in the programming period 2007-2013*

and determination of the impact of these investments. Available at: https://www.esfondi.lv/upload/Petijumi_un_izvertejumi/nosleguma-izvertejuma-zinojums-06-07-18.pdf

¹⁰⁹ The implementation of measures is intended to end in 2019.

¹¹⁰ <https://likumi.lv/ta/id/274081-darbibas-programmas-izaugsme-un-nodarbinatiba-7-2-1-specifiska-atbalsta-merka-palielinat-nodarbinatiba-izglitiba-vai>

¹¹¹ 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)*.

consequences, which are caused by investments from EU funds, and which is stated immediately after the investments or during investment. Indirect impact comes from such SO and included measures, which plan investments with indirect positive impact on the achievement of the *Europe 2020* strategy targets and/or the target group, for example, the training provided in the work indirectly fosters employment.

Indirect impact or secondary impact 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 impact. Such impact is the effect, which combines impacts from one or more projects financed from the EU funds and together cause significant changes or cumulative impact (for example, individual projects, which are implemented in sequence; several projects implemented at the same time, etc.).

EU funds investments together make a considerable contribution to the achievement of the *Europe 2020* strategy targets also in cases, when there is no direct/indirect thematic link of investments from the SO or measures linked to the national *Europe 2020* strategy targets.

5. LATVIA'S INVESTMENT NEEDS IN THE PROGRAMMING PERIOD 2021-2027

When planning investments of the Cohesion Policy, Latvia has been actively using EU funds available in the programming periods until now to implement structural reforms in the areas like education, science, healthcare, etc. Support from the EU funds was an important factor in infrastructure improvement and effectivisation, and in the implementation of more effective governance models.

The link to Latvia's national development planning documents was an important element of effective EU funds investments ensuring a systematic approach to financing of challenges and development potential of the state. Latvia keeps seeing investments of the Cohesion Policy as an important component of the National Development Plan and the national planning system.

Latvia has a systemic approach to development planning, which is based on its regulatory framework, where strategic objectives of the national level are set in the *National Development Plan (NDP)* and in the *Sustainable Development Strategy of Latvia 2030*. These objectives are used in making sectoral policies and planning public investment priorities.

The CSCC continues work on the development of the NDP2027. The NDP2027 development process is based on the impact assessment of current policies, the determination of market failure and the analysis of the gaps in the achievement of sustainable development objectives, integration into global processes, addressing socioeconomic challenges (demographic decline, migration, low productivity, inequality, climate change, etc.).

NDP2027 intends to set stable growth and improvement in the quality of life of each resident as the overarching objective of NDP2027. A people-oriented approach makes the quality of life the leitmotif of development of the state and synergy of all

measures. The largest challenges of Latvia are addressed through 3 strategic objectives – productivity, equal opportunities and balancing of development opportunities of regions, which will help to define priorities of the measures to be implemented within the NDP2027. The overarching objective is expected to be achieved through six priorities, which characterise the most important components of the quality of life – family, health, knowledge and skills, living environment, material welfare, productive work, community and leisure.

Taking into account that the national needs for 2021-2027 significantly exceed the potentially available resources, when evaluating measures and investment projects, which would have to be implemented in the next programming period, the priority will be placed on those projects, which will have more positive impact on the defined strategic objectives and NDP2027 indicators.

Latvia's investment needs in accordance with the scope of investments offered by the Cohesion Policy regulation for programming period 2021-2027 are broken down into seven priority action lines:

- Innovation and science;
- Education;
- Public health and healthcare;
- Inclusive society and labour market;
- Infrastructure;
- Regional development;
- Environment and energy.

Social partners (ECL, FTUCL) and cooperation partners (LCCI, LAPRG, municipalities), NGOs and others will be involved in the development and implementation of specific measures.

Innovation and science

The main challenges in innovation and science are:

- High share of SMEs with low or no R&D investments, small number of high-tech and medium high-tech companies;
- Insufficient state budget investments in R&D for a long period of time;
- Insufficient R&D staff; ageing R&D staff; small number of STEM graduates;
- Insufficient cooperation and coordination between R&D institutions, public administration and industry; weakly developed clusters;
- Insufficient international cooperation, excellence, integration into global value chains;

- Insufficient commercialisation of R&D results; very low level of digitalisation and inadequate use of digitalisation opportunities in the academic, scientific and commercial sector.

Action lines:

1. Promoting R&D excellence and capacity building of research and innovation centres, as well as public administration to promote smart growth and strengthen export capacity, including practical research, mobility of incoming and outgoing doctoral students and researchers, strengthening doctoral schools, improvement of innovation infrastructure in RIS3 areas, incl. digitalisation,

synergies with the *Horizon 2020*, *Horizon Europe* and engagement in international networks of excellence, in the European Open Science Cloud.

2. Commercialisation of research results (technology and knowledge transfer) and production of more technology intensive goods and services.
3. R&D innovation activities driven by the needs of the business sector.
4. Knowledge partnership initiatives bringing together students, researchers and entrepreneurs and focusing on improving the competitiveness of SMEs, building new innovative companies and developing high value added products and services, including cross-sectoral, strengthening regional business and growth, as well as cross-border cooperation. Innovation procurement

initiatives promoting the development of sustainable and innovative solutions.

5. Productivity increase – investments in fixed assets for developing new products, services, processes or improving existing ones.
6. Implementation of foreign direct investment projects in RIS3 areas.
7. Introduction of innovative green energy, energy efficiency, and other technologies.
8. Deployment of digital technologies and their broader use in public and private sectors.
9. R&D capacity building through collaborative platforms of companies, scientific institutions and the public sector (triple helix).

Education

The main challenges in education are:

- Shrinking number of pupils and graduates of engineering (STEM) degrees. Insufficient access to different needs of children, youth and adult education;
- Differences in performance of pupils in rural and urban schools, territorially uneven and insufficient excellence. Inhomogeneous quality and accessibility, including preschool, in sparsely populated areas, as well as high school infrastructure maintenance costs, including low energy efficiency;
- Ageing teachers, technology skills in vocational and higher education inadequate for the epoch;
- Insufficient involvement in vocational and adult education, inappropriate skills, particularly in technology and friendly use of resources;
- Fragmentation and insufficient excellence of higher education, slow responsiveness to the development needs of the business sector;
- Low acquisition and transfer of innovation and digital skills.

Action lines:

1. Quality, relevance and accessibility of general education (incl. preschool) – improving professional competence of teachers, incl. initiatives for attracting excellent teachers; improving the learning environment/infrastructure; pilot projects for the development and dissemination of excellence in studies; as well as addressing education challenges in sparsely populated areas, incl. through digital solutions; talent development initiatives; capital investments for high-quality education, improving cost efficiency and energy efficiency.
2. Strengthening vocational and higher education institutions as centres of knowledge creation, technology transfer and innovation for smart

growth; strengthening the excellence and internationalisation of higher education institutions, incl. by introducing cyclical accreditation of higher education institutions, and vocational education institutions as centres of sectoral excellence, especially RIS3 areas; improving links between education institutions, businesses and the labour market focusing on the use and integration of new opportunities in global value chains; professional improvement of pedagogical staff in vocational and higher education institutions, in particular in the field of new technologies; promoting innovation and improving the learning environment and infrastructure, in particular in digitalisation, creative industries and pilot projects for new technologies, as well as improving energy efficiency; capacity building to ensure high quality, relevant and flexible continuing education and adult education, in particular in the field of new technologies.

3. New skills for all: improving skills in digital and new technologies, entrepreneurship, language and skills to participate in decision-making; support to engineering (STEM) and learning-based work environment; upskilling and reskilling of adults, incl. improvement of digital and business skills; pilot projects for new funding models, incl. public-private partnerships for continuing education and improvement of skills of employees and adults.
4. Inclusive education – preventive and targeted measures to a) reduce the risk of early school leaving and support social inclusion, incl. support for young NEETs, people with disabilities; pilot projects for new funding models, including public-private partnerships for disadvantaged students, to support students; b) promote lifelong learning in line with the skills that are demanded in the labour market, in particular for persons with low level of education and skills.

5. Smarter governance and innovation: new digital solutions and artificial intelligence in education, incl. data democratisation.
6. Education quality monitoring, incl. development of education research and strengthening of education quality monitoring.

Public health and healthcare

The main challenges in public health and healthcare are:

- Ageing and shrinking working age population;
- High premature mortality. Main causes: circulatory system diseases, malignancies and external causes of death;
- Insufficient state budget financing for the health sector, access to healthcare services and long-term care, and shortage of human resources in health care for the provision of state-paid healthcare services, as well as the ageing of staff, supply of medical practitioners continues to decrease in all groups of medical practitioners;
- Early loss of capacity – large numbers of occupational diseases and accidents at work;
- Unhealthy lifestyle and insufficient physical activity;
- Digitalisation opportunities and challenges.

Action lines:

1. Strengthening healthy and active lifestyle habits in society, including socially excluded groups – comprehensive health promotion and disease prevention measures, health literacy and education measures, active ageing measures, public health research and improving the quality and effectiveness of preventive care in primary care, strengthening the role of the family doctor's team; prevention of risk factors of disability, occupational and labour safety.
2. Person-oriented social, health and long-term care. It is important to strengthen the role of primary healthcare in healthcare and to improve access to primary healthcare services: to ensure team expansion, attracting primary care professionals to remote regions, to establish a platform to support family doctors, to develop primary healthcare centres, to educate primary care specialists, to develop new services, to ensure a multidisciplinary approach to care for chronic patients at primary healthcare level. Both territorial and financial access to services is important, in particular for low-income people, in the area of health, social services (incl. long-term care and community-

based approaches), employment and lifelong learning.

3. Improving the quality and efficiency of healthcare services. Investments in attraction, in particular in regions, and development of health and long-term care staff, improvement of knowledge and skills (continuing education programmes, reskilling, return to the labour market, establishment of training facilities in medical institutions, development of mentors). Clinical algorithms, clinical patient pathways and quality indicators should be introduced in all areas of healthcare, a non-condemning reporting and learning system on patient safety should be introduced at the national level. Medical technology and healthcare infrastructure (equipment, buildings, premises, ICT software and equipment) should be developed to ensure timely diagnosis, treatment, rehabilitation of diseases, to reduce the impact of functional disorders and to ensure that services are adapted to the needs of society, such as the development of community-based services. Investments should be made in the development of national information systems, including in the development of the e-health system and ICT of medical institutions, the development of new platforms, data collection and analysis tools to ensure the availability and exchange of qualitative data for healthcare, research and service planning.
4. Integration of health and social care: in order to improve the availability and quality of healthcare services, to promote multidisciplinary and interdisciplinary cooperation in outpatient, inpatient and long-term care, investments need to be made to develop an integrated health and social care model for patients with chronic diseases, in particular patients with mental diseases, behavioural disorders, incurable diseases, geriatric patients, patients requiring dynamic monitoring and others. It is also essential to develop models of territorial cooperation between medical institutions, incl. infrastructure and human resources planning for the implementation of a collaborative model at all levels of healthcare. Application of services to persons with disabilities and socially excluded groups.

Inclusive society and labour market

The main challenges of inclusive society and labour market:

- Ageing, migration of society causing labour shortages, incl. insufficiency of skilled labour,
- pressure on the financial sustainability and adequacy of the social protection system;
- Labour market changes, impact of technological changes and digitalisation – non-standard work, quality of workplaces (wage, safe, health-friendly

- work environment, balance of work and family life, social protection, access to training, etc.);
- Regional differences in employment opportunities and unemployment;
- Coverage of active labour market policy measures for the unemployed;
- Income inequality, material deprivation, high risk of poverty (especially for the elderly, people with disabilities, the unemployed, people living in households with low work intensity and low-income households);
- Insufficient development of bilateral social dialogue between employer and employee organisations and major differences in the understanding of the role of social dialogue in sectors;
- Regional differences in the availability of social services and adequacy of housing infrastructure.

Action lines:

1. Support for upskilling and reskilling job seekers, unemployed and persons at risk of unemployment; targeted support for long-term unemployed, older unemployed/those at risk of unemployment; and for the unemployed with mental and physical disabilities or limited working capacity; increasing the capacity of the employment service and further development of active labour market policy measures, the development of social entrepreneurship, support for employers and measures to improve the quality of jobs, incl. the promotion of preventive culture at workplace with regard to safety at work and improvement of health protection.
2. Early prevention of disability and provision of services that encourage and provide opportunities

to people with disabilities and other vulnerable groups and their relatives – development of community-based services (ensuring sustainability of deinstitutionalisation), accessible and adequate long-term care services, creation of an early diagnostic system for the reduction of physical and mental disabilities, psychological and social support for families in different situations, prevention of domestic violence and victim support, development of social services for disabled persons and other vulnerable groups (incl. housing infrastructure), ICT development and accessible infrastructure for all (incl. disabled people, elderly).

3. Support for groups facing poverty and/or social exclusion – capacity building of municipal social services and other institutions to develop new methods of work with target groups and to continue ICT modernisation, methodological support and staff training. New services, incl. digital, for most vulnerable groups.
4. Integrated cross-sectoral services for activation and inclusion, in particular for the most vulnerable groups and groups at risk of social exclusion (persons with disabilities, the unemployed, low-income, low-skilled and elderly persons at risk of unemployment, those furthest from the labour market and are inactive, and other groups of society) in cooperation with local communities and civic society, incl. food and/or basic material assistance for the most deprived, further modernisation of ICT and the development of social dialogue, both bilaterally between employer and employee organisations by sectors, as well as awareness-raising of the role of social dialogue in the development of the labour market, both at government and society level.

Infrastructure

The main challenges in infrastructure are:

- Full integration of Latvia into the TEN-T network;
- Gaps in traffic flows between Riga and TEN-and lack of connection between the Riga railway station, airport and bus terminal;
- Unsatisfactory road quality;
- Low rate of electrification of railway lines;
- Slow transition to environmentally friendly, smart and inclusive mobility;
- Insufficiency of multimodal and intermodal transport solutions;
- Isolation of the Latvian railway space from the European railway network – development of a new railway corridor, Rail Baltica project;
- High number of deaths in traffic accidents, increasing road safety and security;
- Low use of alternative fuels;
- Decentralised data management of all means of transport;
- Development and cyber security of digital platforms; insufficient availability of high¹¹² and very high-performance¹¹³ electronic communications networks in the territory of Latvia.

¹¹² Electronic communications network capable of providing internet access services with a data transmission rate of at least 30 Mbps;

¹¹³ Electronic communications network capable of providing internet access services with a data transmission rate of at least 100 Mbps.

Action lines:

1. Development of the TEN-T network in line with the requirements of EU regulations, addressing bottlenecks and missing connections – investment in elimination of bottlenecks and missing links in the national road network; modernisation of railway infrastructure (Rail Baltica); development of port infrastructure.
2. Safe, smart, “clean”, “green” transport ensuring accessibility and promoting spatial and economic development:
 - Development of alternative fuel infrastructure (incl. the development of electric vehicle charging infrastructure, support for the environmentally friendly change of public transport);
- Development of airport infrastructure improving security;
- Development of railway infrastructure (modernisation of rolling stock, electrification of railway networks);
- Development of road infrastructure improving road safety, adapting roads to EU standards and dual-use (civilian – military) needs.
3. Improving the availability of electronic communications infrastructure in rural areas. Construction of the “middle-mile” optical cable.
4. Ensuring 5G coverage in major cities and along major road transport routes.

Regional development

The main challenges in regional development are:

- Negative demographic trends and depopulation;
 - Significant regional development differences, in particular differences in income and job opportunities;
 - Insufficient access to services and quality of the public environment;
 - Insufficient mobility of people to improve access to places where there is work, to improve labour availability;
 - Insufficient economic growth in regions – more efficient use of employment and business development opportunities in regions are necessary;
 - Insufficient use of digitalisation opportunities to improve the efficiency of services;
2. Attracting human capital to regions – creating well-paid jobs and reducing the cost of internal labour mobility, promoting regional labour mobility. Infrastructure of the municipal road network and other mobility solutions.
 3. Availability and accessibility of public services – development of e-services – development of digital skills, products (incl. artificial intelligence, open data), availability of services infrastructure and energy efficiency (health, culture, education and sports, social services) and accessibility of services (arrangement of municipal roads and street infrastructure), availability of preschool education and babysitting services, ensuring availability of housing (incl. providing social housing), arrangement of the public municipal outdoor areas, developing tourism and recreation services and creating an attractive cultural environment to improve the quality of human life.
 4. Capacity building of local government and public administration, strengthening social activity of society – knowledge and skills of local government and public administration for planning and implementation of business support, service efficiency, engagement of the population in planning and implementation of areas, modernising public administration and making it more efficient.

Action lines:

1. Support for infrastructure for business development and improvement of productivity development – public infrastructure for business support, incl. development of buildings/infrastructure intended for commercial purposes; industrial connections, preparation of areas for attraction of private investment and creation of jobs; investments in fixed assets for the development of existing/new products and services.

Environment and energy

The main challenges in environment and energy are:

- Insufficient waste recycling capacity, in particular for biodegradable waste;
- Lack of centralised sewage sludge management and recycling infrastructure, as well as infiltration of untreated wastewater into the environment due to ageing wastewater collection networks;
- Damage caused by pollution to the population, the environment and the economy;
- Insufficient protection of habitats and species;

- Growing impact of climate change on the population, infrastructure and the environment;
- Insufficient share of renewable energy in total final energy consumption, insufficient energy efficiency and the need to reduce overall energy consumption.

Action lines:

1. Further development of the waste management system: promoting recycling of waste (in particular biodegradable waste) and regeneration of waste with energy recovery, separated waste collection system, waste prevention measures to achieve the targets set by the EU directives post-2020.
2. Development of water management services: development of an integrated sewage sludge management system, measures to improve the capacity and efficiency of wastewater treatment plants (incl. energy efficiency) and reconstruction of wastewater collection networks (in line with the River Basin Management Plans).
3. Pollution reduction: rehabilitation of historically polluted sites (including recultivation of former landfills), measures to improve air quality.
4. Adaptation to climate change: anti-flood and coastal erosion actions, development of green infrastructure in line with national and local climate adaptation strategies and development programmes.
5. Biodiversity and nature conservation: conservation and rehabilitation measures for species and habitats to ensure a favourable conservation status, actions to reduce anthropogenic load in Natura 2000 sites.
6. Increasing the share of renewable energy sources in total final energy consumption and in the transport sector. Shifting from fossil energy sources to renewable energy sources and electricity in heat generation.
7. Increasing the level of energy efficiency and reducing the final consumption of energy – renewal of public and private buildings, including cultural monuments, renewal of energy generation and supply infrastructure, increasing energy efficiency of industrial sites. Promoting innovation in energy efficiency – cooperation between scientists and businesses in energy efficiency, building energy efficiency clusters.