

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

PROGRESS REPORT

**Riga
April 2014**

TABLE OF CONTENTS

| | |
|---|-----------|
| ABBREVIATIONS..... | 3 |
| INTRODUCTION | 4 |
| 1. MEDIUM-TERM MACROECONOMIC SCENARIO..... | 6 |
| 2. IMPLEMENTATION OF THE EU COUNCIL’S RECOMMENDATIONS..... | 8 |
| 2.1. GOVERNMENT BUDGET, TAXES AND FISCAL POLICY | 8 |
| 2.2. BANKING SECTOR..... | 10 |
| 2.3. REDUCING LONG-TERM AND YOUTH UNEMPLOYMENT..... | 12 |
| 2.4. POVERTY AND SOCIAL ASSISTANCE SYSTEM..... | 16 |
| 2.5. HIGHER EDUCATION AND RESEARCH REFORMS | 18 |
| 2.6. ENERGY EFFICIENCY, LIBERALISATION OF NATURAL GAS MARKET | 21 |
| 2.7. JUDICIARY REFORMS, MEDIATION LAW, ARBITRATION COURT SYSTEM..... | 23 |
| 3. POLICY DIRECTIONS | 27 |
| 3.1. FINANCIAL STABILITY..... | 27 |
| 3.1.1. <i>Developing Sustainable Budget</i> | 27 |
| 3.1.2. <i>Ensuring Stability of the Banking Sector</i> | 28 |
| 3.2. PROMOTING COMPETITIVENESS | 31 |
| 3.2.1. <i>Business Environment and Modernisation of Public Administration</i> | 31 |
| 3.2.2. <i>Promoting Productive Investments and Exports</i> | 37 |
| 3.2.3. <i>Innovations, Research and Development</i> | 43 |
| 3.2.4. <i>Information and Communication Technologies</i> | 48 |
| 3.2.5. <i>Transport and Environmental Infrastructure</i> | 51 |
| 3.3. EMPLOYMENT | 53 |
| 3.4. EDUCATION | 59 |
| 3.4.1. <i>General Education</i> | 59 |
| 3.4.2. <i>Secondary Vocational Education</i> | 62 |
| 3.4.3. <i>Higher Education</i> | 64 |
| 3.4.4. <i>Lifelong Learning</i> | 68 |
| 3.5. FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION | 72 |
| 3.5.1. <i>Reducing the Poverty Level</i> | 72 |
| 3.5.2. <i>Demographic Challenges and Health Protection</i> | 75 |
| 3.6. ENERGY AND CLIMATE CHANGE..... | 78 |
| 3.6.1. <i>Fostering Energy Efficiency</i> | 79 |
| 3.6.2. <i>Increasing the Share of Renewable Energy</i> | 82 |
| 3.6.3. <i>Reducing Greenhouse Gas Emissions</i> | 85 |
| 4. USE OF STRUCTURAL FUNDS | 87 |

ABBREVIATIONS

| | | | |
|-----------------|--|-------|---|
| AIC | Academic Information Centre | LPR | Latgale planning region |
| ALMP | active labour market policy measures | MA | Ministry of Agriculture |
| ARTEMIS | a joint undertaking programme for progressive research and technologies in embedded intelligence and systems | MC | Ministry of Culture |
| BIF | Baltic Innovation Fund | MD | Ministry of Defence |
| CCFI | Climate Change Financial Instrument | ME | Ministry of Economics |
| CERT.LV | IT Security Incident Response Institution | MEPRD | Ministry of Environmental Protection and Regional Development |
| CF | Cohesion fund | MES | Ministry of Education and Science |
| CIT | corporate income tax | MF | Ministry of Finance |
| CM | Cabinet of Ministers | MFA | Ministry of Foreign Affairs |
| CO ₂ | carbon dioxide | MH | Ministry of Health |
| DFI | Development Financial Institution | MJ | Ministry of Justice |
| EC | European Commission | MPC | mandatory procurement component |
| ECL | Employers' Confederation of Latvia | MT | Ministry of Transport |
| EDS | electronic declaration system | Mt | megatons |
| EQAR | European Quality Assurance Register for Higher Education | Mtoe | megatons oil equivalent |
| EQF | European qualifications framework | MoW | Ministry of Welfare |
| ERDF | European Regional Development Fund | NEET | youth not in education, employment or training |
| ESF | European Social Fund | NLRC | national level research centres |
| ETS | Emissions Trading System | NRP | <i>National Reform Programme</i> |
| EU | European Union | OECD | Organization for Economic Cooperation and Development |
| EUR | euro, EU single currency | OSS | one-stop-shop |
| EUREKA | a Europe-Wide Network for Market-Oriented Industrial R&D and Innovation | PHC | primary health care |
| EUROSTA | International programme for supporting R&D performing SME's | PIT | personal income tax |
| RS | | R&D | research and development |
| Eurostat | EU statistical bureau | RE | renewable energy |
| FCMC | Financial and Capital Market Commission | RER | renewable energy resources |
| FDI | foreign direct investments | SC | State Chancellery |
| FDL | <i>Fiscal Discipline Law</i> | SEA | State Employment Agency |
| GDE | <i>Guidelines on Development of Education for 2014–2020</i> | SEDA | State Education Development Agency |
| GDIS | <i>Guidelines for Development of Information Society for 2014–2020</i> | SJSC | state joint stock company |
| GDP | gross domestic product | SLI | State Labour Inspectorate |
| GHG | greenhouse gas | SME | small and medium-sized enterprises |
| HEI | higher education institution | SRS | State Revenue Service |
| ICT | information and communication technologies | SSEQ | State Service of Education Quality |
| IDAL | Investment and Development Agency of Latvia | STEM | science, technology, engineering and mathematics |
| IT | information technologies | TEN-T | Trans-European Transport Network |
| JSC | joint stock company | VAT | value added tax |
| LCCI | Latvian Chamber of Commerce and Industry | VECC | Vocational education competence centre |
| LGA | LLC "Latvian Guarantee Agency" | WB | World Bank |
| LLC | limited liability company | YPLL | years of potential life lost |

INTRODUCTION

Latvia has prepared the third *Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020” Strategy*¹ (hereinafter – Progress Report on the Implementation of the NRP of Latvia) which is closely linked to the *Convergence Programme of Latvia for 2014–2017*.

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

The third Progress Report on the Implementation of the NRP of Latvia was developed taking into account the *National Development Plan of Latvia for 2014–2020* approved by the Saeima on December 20, 2012, the *Partnership Agreement for the EU funds programming period 2014–2020*, the Action Programme “*Growth and Employment*” for 2014–2020, the *EU Integrated Guidelines*², commitments of Latvia under the *Euro Plus Pact*³ approved by the European Council on March 24–25, 2011, the EU Council’s country-specific recommendations for Latvia⁴, the *2014 Annual Growth Survey*⁵ published on November 13, 2013 by the EC, the European Council conclusions of March 20–21, 2014⁶, the guidance on the content and format of the National Reform Programmes of the EU Member States⁷.

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

It should be noted that the issues related to the progress of the *Europe 2020* strategy and the European Semester, as well as the implementation of the NRP of Latvia and the *Stability Programme of Latvia*, including the implementation of the EU Council’s country-specific recommendations are discussed on a regular basis at the Cabinet of Ministers (hereinafter – CM), the Saeima, with social partners, representatives from non-governmental organisations

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

² “Europe 2020: Integrated guidelines for the economic and employment policies of the Member States”, 06.05.2010, <http://ec.europa.eu/eu2020/pdf/Brochure%20Integrated%20Guidelines.pdf>

³ Euro Plus Pact, conclusions of the European Council of March 20–21, 2011: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

⁴ EU Council’s country-specific recommendations for Latvia: <http://register.consilium.europa.eu/pdf/en/13/st10/st10642-re01.en13.pdf>

⁵ Annual Growth Survey 2014: http://ec.europa.eu/europe2020/pdf/2014/ags2014_en.pdf

⁶ European Council conclusions, EUCO 7/1/14, March 21, 2014: http://consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/141749.pdf

⁷ Letter from the EC Secretariat-General to the EU Member States on the content and format of the NRP’s, Ref. Ares(2013)3248869, 15.10.2013.

and the civic society, for example, at the National Tripartite Cooperation Council of Latvia, the Saeima's Committee for European Affairs, etc. Three bilateral meetings have been held with the EC mainly addressing the progress of Latvia in implementing the EU Council's country-specific recommendations.

The Progress Report on the Implementation of the NRP of Latvia consists of 4 chapters. Chapter 1 contains an updated medium-term macroeconomic scenario described in the NRP of Latvia. Chapter 2 assesses the progress on the implementation of the EU Council's country-specific recommendations for 2013. 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 reflects information on the use of the EU funds. According to the EC requirements, Latvia has completed and sent tables containing information about the key measures focused on the implementation of the EU Council's country-specific recommendations and fulfilling the *Europe 2020* strategy targets.

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

1. MEDIUM-TERM MACROECONOMIC SCENARIO

The economy of Latvia continued growing at a steady pace in 2013, and the gross domestic product (hereinafter – GDP) increased by 4.1% compared to the previous year, thus being the fastest among the EU Member States.

Economic growth in 2013 was based on strong domestic demand. Construction, manufacturing, financial services, real estate, as well as trade and communication service sectors grew at a rapid pace. Private consumption contributed the most to the growth. The growth of public services sectors was slightly slower, while investments experienced a slight decline in 2013.

In 2013, the export growth rates dropped significantly – export volumes of Latvian goods and services were by 1% higher than in 2012. Considering the high level of 2012, the weak external demand and problems in the metal processing industry, it should be recognized as a rather good progress. The increase in wood processing exports by 10.1% had the greatest positive influence. The year 2013 was a rather successful year also for the food and agricultural industry, whereas exports of metal and metal products and transport vehicles decreased by 22% and 16.3%, respectively, thus exerting the greatest negative influence.

The situation in the labour market improved along with the economic growth. The number of the employed aged 15–74 years reached 893.9 thousand in 2013, which was by 2.1% or 18.3 thousand more than in 2012. The unemployment rate dropped to 11.9% in 2013 and was by 3.1 percentage points lower than a year ago. The registered unemployment rate at the end of December 2012 declined to 9.5%, thus reaching a reduction of 1 percentage point in a year.

Although the economic growth rate remained high, the average consumer prices in 2013 remained at the level of the previous year. Minor deflation was even observed in the second half of 2013, and consumer prices in December 2013 were by 0.4% lower than a year ago. The low inflation rate in 2013 was still determined by external processes or the so-called imported inflation, primary drop in the prices for energy resources. At the same time, the core inflation or the part of the consumption basket that determined domestic processes remained at a low level which was atypical for the period of solid growth.

Table 1

Medium-Term Macroeconomic Scenario

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|--------|--------|--------|--------|--------|--------|
| GDP, in current prices, million EUR | 22 083 | 23 315 | 24 648 | 26 345 | 28 076 | 29 922 |
| growth in current prices, % | 8.7 | 5.6 | 5.7 | 6.9 | 6.6 | 6.6 |
| growth in constant prices, % | 5.2 | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 |
| GDP deflator (y-o-y), % | 3.3 | 1.4 | 1.6 | 2.8 | 2.5 | 2.5 |
| Consumer price index (y-o-y), % | 2.3 | 0.0 | 1.1 | 3.0 | 2.5 | 2.5 |
| Employment, thousand | 875.6 | 893.9 | 904.6 | 911.9 | 916.4 | 919.2 |
| Unemployment rate, % (aged 15–74) | 15.0 | 11.9 | 10.5 | 9.7 | 9.0 | 8.7 |
| Exports of goods and services, in current prices, million EUR | 13 600 | 13 912 | 14 758 | 15 746 | 16 863 | 18 112 |
| growth in constant prices, % | 9.4 | 1.0 | 4.0 | 4.6 | 5.0 | 5.3 |
| Imports of goods and services, in current prices, million EUR | 14 471 | 14 346 | 15 292 | 16 393 | 17 582 | 18 900 |
| growth in constant prices, % | 4.5 | -1.7 | 4.5 | 5.1 | 5.2 | 5.4 |
| Growth of potential GDP | 1.5 | 2.5 | 3.2 | 3.8 | 4.1 | 4.1 |
| contribution: | | | | | | |
| - labour | -0.9 | -0.2 | 0.1 | 0.4 | 0.5 | 0.5 |
| - capital | 1.1 | 0.9 | 0.9 | 1.0 | 1.1 | 1.1 |
| - total factor productivity | 1.3 | 1.8 | 2.2 | 2.4 | 2.5 | 2.5 |
| Output gap (% of potential GDP) | -1.7 | -0.1 | 0.6 | 0.7 | 0.6 | 0.3 |

Investments are likely to play a major role in pursuing stable growth. It is also proved by the high or even maximum use of the production capacity observed in subsectors of manufacturing which signals the need for investments. The contribution of private

consumption in the growth is likely to drop along with the decrease in the employment growth rates.

The global environment is another essential factor that will determine future economic trends. The growth of our key trade partners directly influences the export volumes. The strong demand for Latvian goods enables allocation of profits for investments in production and further strengthening of positions in the international market. At the same time, a solid increase in productivity may boost exports regardless of the economy in partner countries because, by expanding the market shares, productive manufacturing may squeeze competitors out of the market with factors of either price or quality. That highlights the need for investments in economy. Healthy economic growth in the region is a precondition for investment inflow.

The latest data shows that the European economy is returning to positive growth. In the 4th quarter of 2013, the year-on-year positive growth was observed in the Eurozone and the entire EU. Confidence indicators show that this trend has been continuing also in the first months of 2014. The medium-term macroeconomic scenario is based on an assumption that the situation in the Eurozone will continue stabilizing. The external demand for Latvian export of goods and services is expected to increase and investment flows are likely to be boosted along with the resuming growth of the Eurozone, thus promoting further development of the economy in Latvia. The EC assumptions on the external environment have been used for the macroeconomic development scenario.

The risks of global environment still dominate among the risks that might affect the export volumes of Latvia. The key risks of global environment include the developments in Ukraine, economic slowdown in Russia, threat of prolonged low inflation in the EU, decrease in the growth of China and other developing countries, as well as changes in the US monetary policy. At the same time, it should be noted that the geopolitical risk associated with the situation in Ukraine is the most crucial challenge to the economic growth of Latvia.

In addition to the risks of global environment, the macroeconomic scenario will be influenced also by internal factors: the ability of enterprises to attract financial resources and to implement investment projects to increase production capacities, the situation in the labour market, lending trends, and other factors that directly influence the national credit rating, interest rates, confidence indicators and the domestic demand.

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

- The economic growth of Latvia will still be driven by private consumption in 2014, however, the influence is expected to decrease gradually and the economic growth will be driven by investments and foreign trade in the coming years;
- The increase in investments will be determined by the growing domestic and external demand, as well as the high capacity utilization rate in certain subsectors of manufacturing. The share of investments in GDP is expected to continue growing, however, it is likely to still lag behind the pre-crisis level;
- The increase in private consumption will depend on changes in personal income. The total income level is expected to be less affected by the rise in employment along with the dropping unemployment rate; however, the increase in wages in the medium-term is expected to be rather high, though it will not exceed the increase in productivity;
- Employment growth rates will slow down gradually and the output will be mainly based on the rise of productivity. The declining population, particularly the working-age population, as well as the ageing labour force are the key challenges in the medium term;
- The consumer price level will increase at a rather slow pace in 2014. Based on the cyclic position of the economy, the core inflation is expected to be low, however, it will gradually increase in the medium-term. Among the single measures, the rise in electricity tariffs in 2015 is expected to have a rather strong influence on inflation.

2. IMPLEMENTATION OF THE EU COUNCIL'S RECOMMENDATIONS

2.1. GOVERNMENT BUDGET, TAXES AND FISCAL POLICY

The EU Council recommends Latvia to reinforce the budgetary strategy to ensure that the deviation from the medium-term objective only reflects the incremental impact of the systemic pension reform. Within this strategy, reduce taxation of low-income earners by shifting taxation to areas such as excise duties, recurrent property taxes and/or environmental taxes. Maintain efforts to improve tax compliance and combat the shadow economy. Continue strengthening the fiscal framework through effective implementation of the *Fiscal Discipline Law* and multi-annual budgeting.

With the approval of the *Fiscal Discipline Law* (hereinafter – the FDL) at the beginning of 2013, the national fiscal policy is further based on the concept of ensuring a balanced budget in the economic cycle, meaning the amount of the general government structural budget balance shall be below -0.5% of GDP as defined in the FDL. Latvia reached the structural deficit in the amount of 0.5% of GDP in 2012. Thus, the task for the coming years is no longer to reduce the structural deficit, but to maintain it at the level of the medium-term objective, allowing only deviations to the extent referred to in the EU regulations (the *Stability and Growth Pact*).

The acceptable structural deficit target has been determined based on the national medium-term objective (-0.5% of GDP), as well as by applying the possible deviations from the increase in contributions to the 2nd level pension plan. The increase in contributions to the 2nd level pension plan consists of 3 stages: an increase in contributions from 2% to 4% in 2013 (fiscal impact of 0.5% of GDP), an increase in contributions from 4% to 5% in 2015 (fiscal impact of 0.27% of GDP) and an increase in contributions from 5% to 6% in 2016 (fiscal impact of 0.29% of GDP). Pursuant to the *Regulation (EU) No 1175/2011 of the European Parliament and of the Council amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies*, Member States are allowed to deviate from their medium-term budgetary objective with the deviation reflecting the amount of the direct incremental impact of the reform and such a deviation shall be eliminated within the next three years. Based on this condition, the structural deficit target for 2014 and 2015 has been determined in the amount of 1% of GDP and 0.9% of GDP in 2016. Latvia has committed to completely eliminate deviations and return to the medium-term objective in 2019. In order to strengthen the fiscal framework through effective implementation of the fiscal discipline rules in practice, the *Law on the Medium-Term Budget Framework for 2014, 2015 and 2016* has been developed based on the FDL, using the top-down approach and thus determining the maximum acceptable structural deficit and the maximum increase in the general government expenditures compared to the previous year.

It should be also noted that within the drafting process of the *Law on the State Budget for 2014* and the *Law on the Medium-Term Budget Framework for 2014, 2015 and 2016*, the CM approved funding for establishment of the Fiscal Council which has been working since 2014 with the main goal to supervise compliance with the FDL regulations within the medium-term budgeting.

One of the budget priorities of the *Law on the Medium-Term Budget Framework for 2014, 2015 and 2016* set by the Latvian government is to revise the labour tax burden with an aim to reduce income inequality and improve the quality of life, including an aim to reduce the tax burden on the economically active population and groups of population at the highest risk of poverty (particularly families with children and low-income earners). The key measures to reduce labour taxes are as follows:

- As of January 1, 2014, the rate of mandatory state social insurance contributions has been reduced by 1 percentage point, including the employer's share from 24.09% to 23.59% and the employee's share from 11% to 10.5%;
- As of January 1, 2014, the monthly non-taxable minimum of personal income tax (hereinafter – PIT) has been increased from EUR 64.03 to EUR 75;
- As of January 1, 2014, the rate of monthly PIT relief for dependants has been increased from EUR 113.83 to EUR 165;
- As of January 1, 2015, PIT rate will be reduced from 24% to 23%, while as of January 1, 2016 – to 22%.

It is planned to support low-income households to compensate the increase of expenses for electricity due to the cancellation of the Start tariff as a result of the opening of the electricity market in Latvia.

In order to compensate the drop in tax revenues due to the reduction of the labour tax burden, as of January 1, 2014:

- A number of anti-tax evasion regulations have been introduced in the *Law on Personal Income Tax*;
- The excise duty for petroleum gas and other gaseous hydrocarbons has been increased from EUR 128.06 to EUR 161 per 1000 kilograms;
- The excise duty of EUR 5.65 per 1000 m³ is being applied to natural gas used to operate technological equipment of industrial production and initial processing of raw materials for agricultural needs and endure the necessary technological climate (up to now it was exempted from the excise duty);
- The excise duty for cigarettes is going to be changed twice in 2014 (January 1 and July 1), expecting an increase in the excise duty for cigarettes every year on July 1 over the period from July 1, 2014 to July 1, 2018. The tax structure has been changed as well by increasing the tax burden on low-price cigarettes;
- A number of new natural resource tax objects have been introduced, as well as the effective natural resources tax rates have been increased for the extraction of natural resources, air and water pollution, for goods harmful to environment, product packaging, disposable tableware, end-of-life vehicles and waste disposal;
- A new subsidized electricity tax has been introduced.

Thus, the EU Council's country-specific recommendation – to reduce taxation of low-income earners by shifting taxation to areas such as excise duties, recurrent property taxes and/or environmental taxes – has been met. It should be noted that the *Law on Immovable Property Tax* grants local governments the right to set the tax rate themselves by applying the so-called rate corridor.

In order to make further progress towards better tax compliance and efficient combating of the shadow economy, it has been agreed to allocate additional funding from the budget in the amount of EUR 33.6 million in the next three years, including EUR 3.6 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016.

As of January 1, 2013, the activity of companies registered in the Commercial Register may be terminated based on a decision of the Commercial Register Office. Yet, the activity of companies registered in the Commercial Register may be terminated based on the State Revenue Service's (hereinafter – SRS) decision since December 11, 2013. This regulation has been introduced with the aim of efficiently excluding economically inactive subjects from the commercial environment.

Pursuant to the *Amendments to the Law on Taxes and Fees* adopted on December 13, 2012 by the Saeima, the public register of the SRS tax debtors has been created since April 1, 2013. The said register contains information about tax payers that have debts of

taxes (fees) administered by the SRS and the total amount of such a debt exceeds EUR 142.3 (until the day of introduction of the EUR in Latvia) or EUR 150 EUR (from the day of introduction of the EUR in Latvia).

Since January 1, 2014 the SRS has been maintaining a list of risk persons and ensures supply of information about the risk persons entered in the register of risk persons to the Register of Enterprises. In case the Register of Enterprises established that an application for registration of a company or a merchant, for changes in a registration file or re-registration contains information entered in the SRS list of risk persons, it shall suspend or reject registration or re-registration of the merchant.

As of January 6, 2014, every electronic declaration system's (hereinafter – EDS) user after authentication in the EDS receives a notification from the SRS regarding tax debts exceeding EUR 15. Every July and December tax payers will be notified of all current tax debts, including the ones below EUR 15.

The state budget revenues administered by the SRS in 2013 comprised EUR 6.83 billion which was by EUR 0.29 billion or 4.5% more than expected. Comparing to 2012, the revenues have increased by EUR 0.36 billion or 5.5%. The increase in the budget revenues administered by the SRS, and the overachievement of the revenue plan is mainly achieved on the account of revenues from social insurance contributions, PIT and value added tax (hereinafter – VAT) – see also Chapter 3.2.1., policy direction „*Combating shadow economy*”).

Study findings published by Latvian and foreign researchers show a certain drop in the level of the shadow economy in Latvia. According to the study conducted by T. Putniņš and A. Sauka⁸, the level of the shadow economy in Latvia has decreased by 9.1% in 2012, compared to 2011. However, according to the estimates by Friedrich Schneider, Professor of Economics at the University of Linz⁹, the share of the shadow economy in Latvia has dropped from 26.1% in 2012 to 25.5% in 2013.

2.2. BANKING SECTOR

The EU Council recommends Latvia to continue to use micro and macro prudential policies to prevent possible vulnerabilities that could arise from future credit growth and non-resident banking activities.

As a result of the implemented policy, no considerable inflow of non-resident financial resources has been observed, while the risks associated to non-resident banking activities are subject to certain restrictions like more stringent liquidity and capital requirements. As regards vulnerability that could arise from future credit growth, the Latvian government will keep closely assessing and monitoring this issue. However, as the lending still tends to grow at a negative pace and considering the current debt levels of the private sector, there is no reason to expect a rapid credit growth and to implement measures to limit crediting.

After the financial crisis, non-resident deposits resumed growth already in the mid-2009. However, the growth rate dropped significantly over the past year, and despite the developments in Cyprus, there was no considerable inflow of non-resident deposits observed in Latvia in 2013. In 2013, non-resident deposits increased by EUR 546.4 million, while the annual growth rate dropped to 6.3% (in 2012 – 16.8%), which was influenced also by the Mortgage and Land Bank of Latvia and UniCredit Bank leaving the market, as well as by the

⁸ Tālis, J. Putniņš and Arnis Sauka: “The Shadow Economy in the Baltic States”, Stockholm School of Economics Riga, 2013, http://www.sseriga.edu/files/content/sseriga_enukonomikasindekss_2009_2012.pdf

⁹ Schneider, Friedrich: “Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2013: A Further Decline”, Johannes Kepler University, Austria, 2013, http://www.econ.jku.at/members/Schneider/files/publications/2013/ShadEcEurope31_Jan2013.pdf

weakening of the US dollar. The share of non-resident deposits in the total amount of deposits is 47.3%, while the highest share in the history has been observed in 2001–2005.

When analysing the capability of banks focusing on non-resident customers to absorb risks associated to possible outflow of non-resident deposits, it should be noted that most of non-resident financial resources attracted in a form of deposits have been invested in liquid foreign assets – in banks and in debt securities issued by central governments and the private sector. Yet, the banks servicing non-residents have granted loans in the amount of just 28% of their assets (compared to 60-70% by the banks oriented towards servicing residents). As the non-resident loan portfolio of these banks is growing at a moderate pace (in line with the volume of their assets in 2013 – by 13.3%), the resident loan-portfolio has slightly shrunk, thus reducing their share to 14.6% of assets of these banks. The average liquidity ratio of the banks servicing non-residents is 77.8% (thus more than twice exceeding the minimum requirement). For comparison – the average liquidity ratio of the banks providing services to residents was 51.7% at the end of 2013. Over the past three years, foreign liabilities of the banks focusing on providing services to non-resident customers have increased in line with the volume of foreign assets, thus developing no stronger link with the Latvian economy. Since March 2013, the banks are a subject to individual liquidity ratio based on the share of non-resident deposits in the assets (the individual liquidity ratio is set at 40-60%). In order to identify the sources of potential liquidity problems and to identify the required amount of liquidity buffer, the banks shall regularly conduct stress tests, as well as develop and update from time to time emergency funding. The results of stress testing conducted by the Bank of Latvia show that all banks in Latvia are capable to survive the outflow of non-resident deposits in the amount of nearly 50%.

The credit institutions oriented towards servicing non-resident customers are well-capitalized (at the end of 2013, the capital adequacy ratio was 17.7%, thus more than twice exceeding the statutory minimum). Since July 2011, the FCMC has been applying additional capital and liquidity requirements individually to credit institutions based on the share of non-resident deposits and loans (correspondingly over 20% and/or 5% of the assets) and their dynamics. The calculation of additional capital and liquidity requirements is revised once a year or more than once a year in case of any significant changes in the activity of a credit institution.

Servicing non-resident customers is associated with a higher risk for a credit institution to get involved in money laundering, terrorism financing or an attempt to commit these crimes. In July 2012, the European Council's MoneyVal Committee of Experts in its annual *Report on Anti-Money Laundering and Combating the Financing of Terrorism in Latvia* have confirmed compliance of Latvian legislation in general with international standards in this area. At the same time, the MoneyVal experts in their report have issued a number of recommendations that are to be implemented in accordance with the plan of measures approved by the Council for Financial Sector Development which is chaired by the Prime Minister. The draft amendments to the *Law on the Prevention of Money Laundering and Terrorism Financing* have been developed. Latvia has to submit a report regarding the implementation of the draft amendments along with the implementation of other recommendations to the MoneyVal plenary session in September 2014. It is also expected to further strengthen regulatory measures to combat money laundering possibilities through the Latvian financial sector.

Latvia implements legislation in compliance with international standards, thus imposing an obligation on credit institutions to introduce an efficient internal control system. Moreover, market participants are being constantly supervised and inspected on a regular basis (a total of 12 on-site inspections on average per year are carried out at credit institutions focused on providing services to non-resident customers). The FCMC has a wide range of instruments to

be used actively for the purpose of achieving improvement of the internal control systems of credit institutions and used efficiently to manage the risks of money laundering.

It should be noted that in order to reduce the risks, the FCMC implements also other measures to limit the risks associated with non-resident business, for instance, applying additional limits to credit institutions for non-resident loan portfolio growth or attraction of deposits, stricter requirements for internal control in the field of risk management. Attention is paid to a certain extent also to credit institutions that deal with non-resident lending and their loan portfolio indicators significantly differ from the average indicators in the sector, and therefore the FCMC analyses monthly changes in the volume of loan portfolio and the loan quality changes.

In March 2014, the CM approved the *Development Plan of Financial Sector for 2014–2016*. The planned measures are aimed at ensuring stability of the financial sector, at the same time fostering sustainable economic growth in Latvia. The measures are grouped into six directions of action regarding issues related to the credit institution sector, capital market, judiciary system, state aid programmes, funding types and knowledge of finance.

2.3. REDUCING LONG-TERM AND YOUTH UNEMPLOYMENT

The EU Council recommends Latvia to tackle long-term and youth unemployment by increasing coverage and effectiveness of active labour market policies and targeted social services. Improve the employability of young people, for example through a Youth Guarantee, establish comprehensive career guidance, implement reforms in the field of vocational education and training, and improve the quality and accessibility of apprenticeships.

At the end of 2013, there were 33 thousand long-term unemployed or 35.4% of the total number of registered unemployed. The number of long-term unemployed has decreased by 28% in 2013. There were 48.4% unemployed over the age of 50 years of the total number of long-term unemployed, 15% – disabled unemployed, and 3.7% – unemployed youth (15–24 years). At the end of 2013, the average duration of unemployment for the long-term unemployed was approximately 2.8 years. Over a half of the long-term unemployed has an education level that is not suitable for the labour market. Based on the information about the last job, the long-term unemployed have mostly worked in lower qualification jobs.

The number of youth in the total number of unemployed has declined by 15%, as compared to 2012, and there were 8.8 thousand young people registered at the State Employment Agency (hereinafter – the SEA) at the end of 2013 (10 thousand – at the beginning of the year). The long-term unemployed constituted 13.9% of the total number of unemployed youth, 9.7% – persons after childcare leave, and 3.8% – disabled persons. At the end of 2013, the average duration of youth unemployment was approximately 3.7 months. About 70% of the registered unemployed youth have a relatively low education level.

Active labour market policy measures (hereinafter – the ALMP measures) are divided into seven key blocks: support in job search and promoting motivation, training measures, including practical training at the employer, lifelong learning measures, support measures for the youth, subsidized employment measures for disadvantaged unemployed and disabled persons, support for business start-ups and temporary public works. In order to further reduce long-term and youth unemployment, the existing ALMP measures have been implemented and improved, as well as implementation of several new measures for the long-term unemployed and the youth have been commenced in 2013 (see also Chapter 3.3).

In 2013, certain changes were introduced to the regulatory framework in order to improve the support opportunities for the unemployed and simplify the conditions for participation in a number of the ALMP measures. Implementation of the measure *Minnesota 12-step programme* for the long-term unemployed with addiction problems and the measure *Job in Latvia* has been continued.

In order to involve different target groups of the unemployed in the labour market in a more targeted way, the SEA introduced the unemployed profiling system at the end of 2013. Profiles for 71% of the total number of registered unemployed were created by the end of 2013. At the same time, a number of changes were made to the regulatory framework to promote motivation of the unemployed to fulfil their responsibilities within the job search process, as well as the definition of appropriate job was specified.

In 2013, the share of the long-term unemployed in the total number of the ALMP participants exceeded 60% (in 2012 – 64 %). In order to facilitate elimination of the causes for the unemployment of the long-term unemployed receiving social assistance, the SEA has started deeper cooperation with social services in 2013. The cooperation involved exchange of available information, agreements on the best measures to activate customers and help them integrate into the labour market, as well as joint supervision of the customer's integration process in the labour market. Although currently the enhanced cooperation applies to a part (approximately 3000 long-term unemployed or about 15% of the long-term unemployed) of the SEA and social services customers, they intend to expand the cooperation in the future. At the end of 2013, the outcomes of the cooperation were assessed, allowing to conclude that 62% of the unemployed involved in the enhanced inter-service cooperation have found a job, while only 35% of the unemployed with a similar profile involved in none of the activities have found a job. Efficient results may be achieved through a comprehensive and coordinated support for the unemployed with fewer opportunities to find a job.

In 2013, 17.7 thousand long-term unemployed have found a job, 14.8 thousand (83.4%) of them found a job after completion of an ALMP measure (except information days of the measures to increase competitiveness).

About 6 thousand young people have been involved in the ALMP measures in 2013. Comparison of the data on finding of a job of the unemployed youth with the data of finding a job of the rest of the unemployed shows that data on finding of a job of the unemployed youth are by approximately 5 percentage points higher. Moreover, young people tend to hold the status of an unemployed person for half the time of that of other registered unemployed (in December – approximately 3.7 months). In 2013, 12 096 unemployed youth have found a job, while 43.3% of the unemployed youth have found a job after completions of an ALMP measure (except information days of the measures to increase competitiveness).

The ALMP has been evaluated within the World Bank's study "*Latvia: Who is Unemployed, Inactive or Needy?*" (hereinafter – the WB's study) analysing the outcomes of the labour market – employment and wages for 18 months after completing the ALMP measures. It has been established that vocational training of any type and informal education programmes for the unemployed have a boosting effect on the outcomes of the labour market both after the completion of training and in the medium-term. The findings of the WB's study are to be used for the development of the *Guidelines for Promotion of Employment and Inclusive Growth for 2014–2020* to be coordinated between institutions in the 2nd quarter of 2014. It is expected to prepare proposals for revising the ALMP measures based on recommendations included in the WB's study, particularly focusing on the training measures with an employer by involving German and Austrian partner experts and subsidized employment measures, especially those that are aimed at improvement of employment of disabled persons.

Since 2014, involvement of the youth in the labour market is going to be promoted through the initiative "**Youth Guarantee**"¹⁰, which is expected to offer young people aged 15–24 years in need of support for integration into the labour market measures of

¹⁰ On December 17, 2013, the CM approved the *Informative report on the implementation of the Youth Guarantee in Latvia in 2014–2018*, which served as the basis for preparation of the *Youth Guarantee Implementation Plan* and submission to the EC on December 20, 2013, as well as preparation of the *Informative report regarding implementation of the 1st and 2nd stage of the specific support target 7.2.1 "Promotion of employability of youth not in employment, education or training through the Youth Guarantee" of the EU funds operational programme "Growth and Employment"*.

employment, traineeship, apprenticeship or continued education within four months of leaving school or becoming unemployed.

Young people have an opportunity to participate in both short-term training programmes administered by the SEA and vocational education programmes with duration of 1-1.5 years to acquire a new profession (a total of 1969 young people started education in 36 different vocational education institutions in the academic year 2013/2014, while a total of 2462 young people have obtained a qualification until the current academic year) administered by the State Education Development Agency (hereinafter – the SEDA). It is also possible to acquire practical skills in measures “*First Youth Work Experience*”, “*Development of the Skills Necessary for the Job in the Non-Governmental Sector*” and to use other SEA services. The most enterprising young people are provided with support for self-employment or business start-up.

The planned activity plays a major role in involvement of the young people who are not in education, training or employment (hereinafter – NEET). Activities to involve the inactive youth are expected to be implemented all over Latvia in cooperation with local governments and non-governmental organizations working in the field of youth, education, employment and social sector.

In case the youth have never acquired basic education, their return to the general education system will be funded from the government budget.

The ongoing **vocational education** reforms are continued to improve the quality, attractiveness and relevance of vocational education to the labour market needs, as well as to promote the interest of students in vocational education, thus facilitating the changes in the share of students of vocational education and general secondary education in favour of vocational education from 39/61 (in 2012) to 50/50 (in 2020).

In order to increase the number of students of vocational education, a number of measures to improve attractiveness of vocational education are being implemented, for example, improvement of the vocational education institution network and modernization of infrastructure, increasing the quality of education programmes (also through implementation of short vocational education programmes and gradual transition to modularization of vocational education programmes), promotion of social security of students, ensuring apprenticeships and innovative approaches to vocational education in cooperation with the Expert Councils of the Sectors representing all interested parties. Local governments have a major role in implementing vocational education in regions, including the work-based learning in relation to economic (sectoral) trends and the labour market development trends in the region. The EU funds financing also has an important role in implementing the said reforms, for example, modernization of infrastructure of vocational education institutions, implementation of short vocational education programmes and granting of scholarships based on the academic achievements and attendance rate of students in the vocational education.

As of the academic year 2013/2014, six vocational education institutions have launched implementation of work-based learning elements, meaning close link between learning theory and practical work, providing an opportunity to acquire qualification in 17 professions. So far, a total of 148 students and 29 companies are involved in the pilot project. At the same time, further negotiations with employers’ organizations are taking place regarding the possibilities to involve more companies in the work-based learning process by applying encouraging conditions. A decision is going to be made on implementing the best and most efficient work-based learning process at the system level, along with the necessary amendments to the legislation based on the assessment of the project results and taking into consideration the opinion of employers’ organizations and other social partners.

The improvement and differentiation process of vocational education institutions continues. In the period between 2010 and December 31, 2013, the number of vocational education institutions under the supervision of the MES has been reduced from 90 to 34.

Moreover, three vocational education institutions have been handed over to local governments in 2013.

Implementation of projects continues within the EU funds activity “*Modernization of Learning Equipment and Improvement of Infrastructure for Implementation of Vocational Education*”, forming an important tool to promote attractiveness of vocational education and to improve the match between the education process and the labour market demands. A total of 16 education institutions (21 projects in total) are implementing projects within the first stage. The implementation of 10 projects has been completed, while 8 projects are currently being implemented and are expected to be completed in May–June 2014. In the meantime, modernization and improvement of infrastructure has been started at all 11 vocational education institutions that have been qualified and invited to participate in the second selection stage of the activity. The second stage is to be completed by August 31, 2015.

In order to promote the use of the European Regional Development Fund (hereinafter – ERDF) funding invested in the public education infrastructure and to provide the unemployed with an access to quality services, a pilot project for education of the unemployed at vocational education institutions is being implemented since January 2014¹¹.

For the purpose of promoting primary vocational education’s attractiveness and increasing the share of young people acquiring vocational education and a qualification, including facilitating a more serious attitude towards acquiring education and a profession, a total of 30.7 thousand students have received scholarships at least for one month in 2013 through the EU funds financing.

In the first half of 2014, *Amendments to the Law on Vocational Education* are expected to be submitted to improve the management of vocational education institutions, the legal status of the Expert Councils of Sectors, classification of vocational education in Latvia and legislation regarding other priority issues.

The government keeps working on the comprehensive *Concept of Expanding the Career Development Support System* particularly emphasising the role of career education in general, vocational and higher education, as well as the involvement of sectors and employers in the exploration of the world of professions. The concept is expected to be finalized on September 1, 2014. Improvement of the career support system legislation provided an opportunity to impose an obligation on local governments to ensure children and youth career education and to define the main concepts in the *Education Law*. At the same time, a range of support measures are being implemented and tools to provide access to information about the education and job opportunities are being developed (for instance, “*Career Week*” – a programme of measures for students of general education institutions of national level, website “*World of Professions*”, e-game “*Try a Profession*”, national database of education opportunities NIID.LV). Local government, private and other initiatives are being implemented as well, in order to raise the youth awareness of the labour market, for example, youth career portal prakse.lv in cooperation with the Employers’ Confederation of Latvia has implemented a project “*Virtual Apprenticeship*”.

At least 110 people have obtained a career consultant qualification from 2009 until 2012. The number of teachers-career consultants at the education institutions tends to grow (for example, over the past few years the number of teachers-career consultants in general education has increased from 54 (in the academic year 2012/2013) to 88, mainly part-time employees (in the academic year 2013/2014 – 807 general education institutions). Workshops for training and exchange of experience are being organized for career support specialists of education institutions with an aim to learn new approaches to individual and group consultations, work with parents as regards issues of children’s and youth career choices,

¹¹ The pilot project is implemented within the sub-activity “*Training of the Unemployed and Job Seekers*” of the operational programme “*Human Resources and Employment*” for the programming period 2007–2013.

work with the youth from the risk groups in pedagogical process and informative seminars about the development trends in the leading sectors of the economy and changes in the qualification requirements for the employed. At the same time, certain EU funds support is expected to be provided in 2014–2020 for accessibility of career development support for the students in general and vocational education institutions.

2.4. POVERTY AND SOCIAL ASSISTANCE SYSTEM

The EU Council recommends Latvia to tackle high rates of poverty by reforming social assistance for better coverage, by improving benefit adequacy and activation measures for benefit recipients. Reinforce the delivery mechanisms to effectively reduce child poverty.

In 2012, 702 thousand people or 35.1% of the population were at the risk of poverty or social exclusion in Latvia which was by about 120 thousand people or 5 percentage points less than in 2011. The number of children at-risk-of-poverty under the age of 17 years has been dropping for the third year (in 2010 – 24.7%, in 2011 – 24.4%, and in 2012 – 23.4%). In 2012, single parent households (38.3%) and households with both parents raising three and more children (32.6%) were still at the highest risk of poverty. At the same time, the risk of poverty for these households has decreased by 3.2 and 3.3 percentage points, as compared to 2011. The local governments' data on social assistance also showed certain improvement of the situation. In 2013, the share of poor people in the total number of population dropped from 5.4% at the beginning of the year to 4.1% at the end of the year. The number of people receiving the benefit for ensuring the guaranteed minimum income level shrank by over 30% in 2013 (from 38.7 to 26.3 thousand people).

In 2013, the key direction to tackle poverty and social exclusion was raising the state material support for certain groups of population at the risk of poverty and social exclusion, primary – families with children and disabled persons. The main measures approved in 2013 were as follows:

- financial support to parents for childcare up to the age of 1.5 years has been increased, as well as the supplement to the parents for twins or more children born in one childbirth up to the age of 1.5 years has been increased, the maternity, paternity and parents' benefit ceiling has been doubled, and other measures;
- the mandatory social insurance contributions for parents taking care of children up to the age of 1.5 years and receiving childcare benefit and parent taking care of children up to the age of 1 year and receiving parents' benefit have been doubled;
- the duration of the unemployment benefit no longer depends on the person's insurance period and from now on it will be 9 months;
- a state support with an aim to eliminate queues for pre-school education institutions of local governments has been introduced to help the parents successfully balance the work and family life, thus improving the material condition of families with children;
- disabled children aged 5–18 years and adults with disability of Group I and II have access to assistant services in local governments up to 40 hours a week, thus making different services available to disabled persons and promoting their integration into the society;
- state and local government support has been granted to provide schools with learning materials, thus significantly reducing parents' expenses for learning materials and giving them an opportunity to spend these funds on covering other family-related expenses;
- a free lunch is provided also to both 1st grade pupils and 2nd grade pupils. As from September 1, 2014 free lunch is to be provided also to the 3rd grade pupils;
- real estate tax relief is granted to large families (3 or more children aged up to 18 years);
- old-age pensions, disability pensions, service pensions, survivor's pension, compensations for the loss of the capacity for work and compensation for the loss of a

provider below the amount of EUR 284.57 per month have been indexed, while pensions of politically repressed persons have been indexed irrespective of the size of the pension;

- the monthly PIT relief for dependants has been increased from EUR 99.60 to EUR 113.83.

One of the budget priorities of the *Law on the Medium-Term Budget Framework for 2014, 2015 and 2016* determined by the Latvian government is reducing income inequality, by assessing its impact on poverty. In 2014, a range of measures are being implemented in the field of taxes and finance to reduce the tax burden on low-income earners, provide support to families with children (see Chapter 2.1), as well as disabled persons are expected to receive more state support by increasing the material support to certain groups of disabled persons and providing a broader range of people with technical aids. Since January 1, 2014:

- childcare benefit of both working and unemployed parents for taking care of children up to the age of 1.5 years and the minimum parents' benefit have been increased from EUR 142.29 to EUR 171 per month;
- the amount of maintenance provided by the state has been raised: for children up to the age of 7 years – EUR 71.14 and for children aged 7–18 years – EUR 78.26 EUR per month;
- for children having state reimbursed medicinal products prescribed until December 31, 2013 in the reimbursement amount of 50% or 75%, further on drugs and medical equipment are going to be reimbursed in the amount of 100% (except non-reference medicinal products).

At the end of 2013, work on proposals for changes in the indexation system of pensions/compensation starting from 2014 was commenced with an aim to index pensions/compensations according to the actual consumer price index and applying 25% of the interest on the actual increase in the wage subject to insurance contributions.

Within the budget priorities the CM has also approved the need to increase the support to disabled persons in 2014, by raising the material support to certain groups of disabled persons (the benefit for disabled persons over the age of 18 years in need for nursing has been increased from EUR 142 to EUR 213.43 per month, as well as the state social security benefit for persons with disability of Group II has been raised from EUR 64 to EUR 76.84 per month, and for persons with disability of Group I since childhood – from EUR 107 to EUR 138.73 per month, for persons with disability of Group II since childhood – from EUR 107 to EUR 128.06 per month), and a broader range of people has access to technical aids.

In 2013, a number of conceptual decisions have been adopted regarding the medium-term development prospects of certain social policy areas that have a direct influence on the amount, coverage and quality of support and services for population groups at the risk of poverty and social exclusion (*Informative report on proposals for improvement of social security system, Guidelines for Development of Professional Social Work for 2014–2020, Guidelines for Development of Social Services for 2014–2020, Guidelines for Implementation of the United Nations' Convention on the Rights of Persons with Disabilities for 2014–2020*). One of the primary tasks to be done in 2014 in relation to improvement of the social security system and social assistance system is to determine a new minimum income level to be used in further support and policy planning for Latvian people. The proposals are being prepared based on the common global and the EU's approach to measuring and reducing poverty, the finding of the WB's study "*Latvia: Who is Unemployed, Inactive or Needy?*", the research of certain social security system-related issues conducted by the MoW, and social situation of the population. Considering the social and fiscal influence of the proposed social security system measures, the broad range of cooperation partners involved (all local governments) and the time required to restructure the system, changes are expected to be introduced gradually, over a period of several years.

The impact of measures already implemented and to be implemented for the purpose of implementing the recommendations on the monetary poverty indicators will be seen only in the medium-term.

2.5. HIGHER EDUCATION AND RESEARCH REFORMS

The EU Council recommends Latvia to implement the planned reforms of higher education concerning, in particular, the establishment of a quality-rewarding financing model, reform of the accreditation system, consolidation of the institutions and promotion of internationalization. Take further steps to modernise research institutions based on the on-going independent assessment.

In December 2013, a research has been launched (in cooperation with the WB's experts) on the **new financing model of higher education** which involves consultations with representatives from the higher education sector in order to evaluate the current legislation and financing system, as well as to develop a medium-term financing offer for higher education, taking into account fiscal limitations, macroeconomic development prospects, socio-economic and demographic factors and international competitiveness. The research is expected to involve actively cooperation partners of higher education, at the same time ensuring an independent internal expertise of the financing policy of higher education and an opportunity to compare the situation in Latvia with other countries. The research will be implemented in nine months.

The *Informative Report Regarding the Medium-Term Financing System of Higher Education*, including proposals for amendments to legislation and for establishment of an optimal financing model of higher education will be prepared by September 1, 2014, based on the research results, particularly considering a possibility of gradual transition to 100% public financing for state-founded higher education institutions. It is also expected to develop mechanisms for implementing a gradual transition thereof starting from 2016 with an aim to achieve competitive higher education opportunities focused on labour market demand; legislation regarding the implementation thereof will be developed by the end of 2014. The *CM Draft Concept on Implementing New Financing Model of Higher Education* is expected to be submitted by December 31, 2014.

In order to promote a closer link between the higher education and the labour market demand, to prevent overlapping study programmes and ensure a rational use of the government budget financing, the MES defined a number of fundamental principles within the government budgeting for 2014:

1. **The “Envelope” principle** – the amount of the government budget grants for a higher education institution shall not be below the amount of the grant in 2013 with an aim to strengthen the capacity and long-term planning of higher education institutions.
2. **Relevance to the labour market demand.**¹²
3. **Strategic specialization principle** of higher education institutions – to reduce fragmentation and overlapping study programmes through common use of resources.
 - The University of Latvia, Riga Technical University, Latvia University of Agriculture and Rīga Stradiņš University are specialized in certain completely different areas and their core mission is to focus on achieving international excellence in their respective fields of competence;

¹² According to the *Informative Report on Medium-Term and Long-Term Labour Market Forecasts* prepared by the ME in 2013 and the proposals of the Employers' Confederation of Latvia and other employers' organizations, the number of state funded study positions in the education thematic groups “Education” and “Social Sciences, business and law” is being gradually reduced by 20%. The decrease in the state funded study positions in 2014 refers to the estimated enrolment data of the academic year 2014/2015. The number of state funded study positions is increased and ensured mainly in the education thematic groups of study programmes “Natural sciences, mathematics and information technology” and “Engineering sciences, manufacturing and construction”.

- The Daugavpils University, Liepāja University, Rēzekne Higher Education Institution, Ventspils University College, Vidzeme University of Applied Sciences are higher education institutions with the main mission to boost the growth of their respective regions.
4. **Matching the demand for study programmes** (state funded study positions are granted based on the performance of each state funded study position in the previous academic year).

Accreditation of study fields has been introduced in 2013. The accreditation process has been commenced in May 2013. In the time period from May 14, 2013 until March 12, 2014, applications for accreditation of study fields of 247 higher education institutions have been considered (out of 251 submitted applications), as a result 218 study fields have been accredited for 6 years, 27 study fields for 2 years, while accreditation has been rejected for 2 study fields.

In 2013, the current internal quality assurance systems of higher education institutions and their efficiency have been assessed, as well as a list of criteria has been determined for the assessment of internal quality assurance systems of higher education institutions and their efficiency for the purpose of accreditation of study fields. It is planned to keep working on the establishment of a national accreditation institution in 2014. Higher education institutions are expected to be further allowed to select any of the European accreditation authorities that are registered in the European Quality Assurance Register for Higher Education (hereinafter – EQAR) for accreditation purposes. At the same time, the work on the establishment of the national accreditation institutions continues, and it is expected to implement measures to build its capacity through the EU funds support.

In order to prevent overlapping study programmes in regions and to encourage cooperation between higher education institutions in the development of joint programmes, it is expected to assess the efficiency and quality of the activity of branches of state higher education institutions and colleges, thus defining the quality and efficiency criteria for the activity of branches.

In 2013, a number of measures to deepen **internationalisation of higher education** have been implemented. At the beginning of the academic year 2010/2011, there were 1979 foreign students studying in Latvian higher education institutions, thus constituting 1.9% of the total number of students. However, the number of foreign students has increased to 4477 foreign students in the academic year 2013/2014, thus constituting 5% of the total number of students. Higher education institutions are entitled to develop and implement study programmes jointly with higher education institutions in other countries and to issue joint certificates. Currently, there are three joint study programmes with foreign higher education institutions.

According to the *Law on Higher Education Institutions*, 20% of the credit points of a study programme may be implemented in the EU official languages. In 2013, higher education institutions in Latvia offered over 100 study programmes in the EU official languages (for instance, the Riga Technical University implemented 24 programmes, the University of Latvia – 19 programmes, the Daugavpils University – 15 programmes, and the Jāzeps Vītols Latvian Academy of Music – 12 programmes).

The number of students acquiring study programmes in English at higher education institutions in Latvia is increasing. At the beginning of the academic year 2013/2014, a total of 5394 students studied in English, constituting 6% of the total number of students (for comparison – in the academic year 2008/2009, a total of 1666 students studied in English constituting 1% of the total number of students). Yet, the analysis conducted by the MES showed that higher education institutions failed to sufficiently take the opportunities granted by the legislation in force, including the opportunity to attract academic staff in the status of guest lecturers. Therefore, a range of measures will be planned to support higher education

institutions, including the support to develop programmes in the official EU languages, support for post-doctoral research and the abovementioned thematic doctoral study centres (see also Chapter 3.4.3).

Measures to promote recognition of higher education were implemented on a regular basis. In 2013, the Department for promotion of higher education exportability established in the Academic Information Centre (hereinafter – AIC) and the SEDA ensured maintenance of website www.studyinlatvia.lv.

As regards measures to modernize research institutions, the **international assessment of science in Latvia** (launched in February 2013), carried out in cooperation with the Nordic Council of Ministers' Office in Latvia was completed at the end of December 2013 as part of the preparatory work for the EU funds programming period 2014–2020. The assessment was aimed at objective analysis of the science in Latvia within the context of the EU Common Space in Research and Cooperation in the best interests of the cooperation between the Baltic Sea region countries and the Nordic countries. The international assessment was conducted at 150 research units, including scientific institutions, higher education institutions and their structural units, private institutions, commercial foundations, foundations, including all 41 scientific institutions receiving the science base financing. The results of the assessment showed that there were 15 or 10% strong and internationally recognized scientific institutes and structural units of higher education institutions, 33 or 22% strong local scientific institutes and structural units of higher education institutions working in Latvia, while 70 or 47% of institutes and structural units of higher education institutions were assessed as satisfactory. According to expert recommendations, those institutes should merge with stronger institutes or implement mutual thematic merger, thus achieving the critical mass for quality development. A total of 22 or 15% institutes and structural units of higher education institutions were recognized as weak. Experts rendered no opinion regarding a total of 10 (or 6%) of the assessment units as they found that these institutions had not been engaged in research or they had not provided self-assessment reports and requested publications. The assessment results were expected to be used in decision-making on implementation of reforms in the science field, including consolidation and streamlining of the activity of scientific institutions.

Based on recommendations provided in the result of the science assessment, the *Informative Report on the Implementation of Structural Reforms of Science in Latvia until July 15, 2015* will be submitted to the CM by July 2014. The *Development Strategy of Scientific Institutions* is being developed on the basis of the assessment results.

Consolidation of scientific institutions and building capacity of competitive scientific institutions based on the results of the External Assessment of Science is a precondition for investments from the Cohesion policy funds in the programming period 2014–2020. This will help to prevent further fragmentation of the research and development (hereinafter – R&D) funding and ensure targeted concentration of the Cohesion policy investments on **smart specialisation areas**.

On December 17, 2013, the CM approved the *Guidelines on Research, Technology Development and Innovation for 2014–2020*, identifying the main directions, priorities and specialization areas of the *Smart Specialization Strategy of Latvia*. The financing of scientific institutions has to be sufficient to ensure a link between fundamental and applied research projects and the priorities of the *Smart Specialization Strategy of Latvia* (see Chapter 3.2.3).

In order to use the current financing rationally, it is planned to revise and approbate the criteria for granting **base financing to scientific institutes** by September 1, 2014 in order to reduce institutional fragmentation, achieve scientific excellence and ensure innovation transfer. Certain amendments are expected to be made by the second half of 2015, by defining the criteria and procedure for registration of scientific institutions in the Register of Scientific Institutions aimed at reducing institutional fragmentation and ensuring development of the

critical mass necessary for scientific excellence and development in accordance with the conclusions of the informative report.

In 2014, the preparation of the ex-post evaluation of national level research centres (hereinafter – the NLRC) is expected to be commenced by establishing a working group, preparing methodology for evaluation of the NLRC establishment. The *Informative Report on Involvement of Latvian Scientific Institutions in the Development Plan of European Research Infrastructure* is planned to be prepared in September 2014.

2.6. ENERGY EFFICIENCY, LIBERALISATION OF NATURAL GAS MARKET

The EU Council recommends Latvia to continue improving energy efficiency, especially of residential buildings and district heating networks; provide incentives for reducing energy costs and shift consumption towards energy-efficient products. Improve connectivity with EU energy networks and take steps towards liberalisation of the natural gas market, including provision of clear rules for third-party access to storage capacities.

Through implementation of **energy efficiency measures** in the final energy consumption and energy transformation sector, Latvia is moving towards the set target to achieve energy savings in the amount of 0.670 Mtoe by 2020. Over the past years, the gross domestic energy consumption has decreased by 0.35 Mtoe (from 4.6 Mtoe in 2008 to 4.25 Mtoe in 2011).

The new *Law on Energy Performance of Buildings* is in force since January 9, 2013 with an aim to promote the use of energy resources, thus improving the energy performance of buildings and informing the public about energy consumption of buildings. According to the delegation defined in the law, a number of CM regulations regarding energy efficiency have been adopted in the mid-2013, defining the calculation method of energy performance of buildings, prescribing the procedure for energy certification of buildings, providing samples of energy certificates of buildings, comparative assessment system of energy performance of buildings, as well as requirements for independent expert competences in the field of energy performance of buildings and the procedure for registration and supervision of experts.

A number of support programmes for measures to improve energy performance and efficiency of centralized heating systems of multi-apartment residential buildings and development of cogeneration plants have been implemented within the EU funds programming period 2007–2013.

In the EU funds programming period 2014–2020, Latvia plans to support manufacturing companies, improvement of energy performance of residential and public buildings, the use of renewable energy resources (hereinafter – the RER), as well as modernisation of centralized heating systems. Currently, the estimated amount of the EU funds financing for these activities is EUR 376.16 million, including EUR 322.97 million for energy performance of buildings and the use of the RER and EUR 53.19 for modernisation of centralized heating systems. The planning documents for the period 2014–2020 are being coordinated with the EC and the support for implementation of the projects is expected to be available starting from the end of 2014/beginning of 2015. An opportunity to provide support through financial instruments is being considered to ensure a financially efficient and sustainable support model.

Projects for increasing energy efficiency are supported also by the *Climate Change Financial Instrument* (hereinafter – CCFI). The CCFI projects have been implemented through 14 open tenders, providing support to increasing energy efficiency, transition to RER and development of climate friendly technologies. A total of EUR 204.16 million has already been granted for the project implementation, and another EUR 20 million is expected to be available in the nearest future. By September 20, 2013, implementation of 2028 projects has already been completed, while implementation of another 96 projects continued. The open

call “*Emission reduction technologies, including renewable energy, sustainable buildings and technology development*” under the European Economic Area Financial Mechanism 2009–2014 Programme “*National Climate Policy*” is aimed at providing support for implementation of energy efficiency measures and installation of the RER technologies through construction of low energy consumption buildings and reconstruction of existing buildings (the programme co-financing available within the open call is EUR 3 million), as well as the use of the RER technologies to produce heat energy and electricity (the programme co-financing available within the open call is EUR 1 million). The project activities shall be implemented not later than by April 30, 2016.

CM *Regulations on Industrial Energy Audits* have been adopted to promote industrial energy efficiency. In order to ensure consumption of energy efficient products and the exemplary role of the state, *Amendments to the Public Procurement Law* have been developed and are currently being coordinated. Central governments are expected to be allowed to purchase only energy efficient products and services for their needs.

Within the Baltic Energy Market Interconnection Plan Latvia has committed to complete the **opening of the energy market** and terminate regulation of electricity prices by 2015. Since June 3, 2013, when *Nord Pool Spot* started to operate in Latvia, a new *Elspot* bidding area has been launched in Latvia, thus achieving the long-term objective, namely, to develop a transparent and open Baltic electricity market that would be connected with the Nordic region electricity market, thus ensuring public accessibility and reliability of electricity prices. The electricity market for households is expected to be opened on January 1, 2015. The free market is characterised by transparent and non-discriminatory prices and free choice of electricity suppliers. At the same time, a support mechanism for low-income households is being developed to compensate the rise in expenses on electricity due to the cancellation of the Start tariff as a result of the opening of the electricity market in Latvia. In 2014, the *Draft Law on State Support for the Needy and Low-Income Households to Cover Expenses on Electricity* has been developed, prescribing a monthly support in the amount of EUR 5 per person in a household. The support applies to the total amount of electricity invoice. The draft law envisages an equal amount of support for all relevant households and the amount has been calculated by consumption of 100 kWh per month irrespective of the actual consumption and the size of the household. The data on specific needy and low-income persons will be provided to electricity suppliers who will reduce the financial obligations of a person for electricity based on the granted support amount.

Latvia has a duty to transpose the requirements of the *Directive 2009/73/EC of the European Parliament and of the Council of July 13, 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC* into national legislation. According to the *Amendments to the Energy Law* approved by the Saeima on March 13, 2014, the liberalisation of natural gas market in Latvia has been divided into two stages. During the first stage, from April 4, 2014, system operators must ensure for all system users and any applicant, who requests it, an equal and transparent access to the relevant system, providing natural gas transmission, distribution, storage and liquefied natural gas services to them; as well as the natural gas transmission system has to be open for input of biogas and gas produced from biomass, as well as liquefied natural gas turned into a gaseous condition. During the second stage – on April 3, 2017, natural gas distribution system operators will become independent and not later than by April 3, 2017 Latvia has to ensure independency of transmission system operators and grant the right to all natural gas users to freely choose natural gas supplier and change them without restrictions, unless one of the following circumstances sets it until the abovementioned date: the natural gas system of Latvia is directly connected with the interconnected natural gas system of any EU Member State, except Estonia, Lithuania and Finland or the share of the dominant supplier in the total

consumption of natural gas in Latvia is below 75%. Thus, liberalisation of natural gas market in Latvia is expected to be finished by April 4, 2017.

As regards **energy interconnections**, the Connecting Europe Facility (CEF) has been established within the EU multiannual budget for 2014–2020. It is aimed at providing financial support for the energy infrastructure in the amount of EUR 5.85 billion.

On October 14, 2013, the list of approved projects contains information on the following projects of Latvia:

- Continuing modernization and reconstruction of the Inčukalns underground gas storage facility and expansion of the storage facility. Modernization of Inčukalns underground gas storage facility is closely linked with other natural gas infrastructure projects of the EU common interest in the Eastern Baltic cluster, for instance, the construction of Polish-Lithuanian interconnection, regional liquefied gas terminal, construction of an interconnection between Estonia and Finland. If these objects are constructed, it is necessary to store the natural gas purchased during the summer season. It means that the Inčukalns underground gas storage facility needs to be completely modernised and expanded as necessary along with commissioning the abovementioned objects. It is the only way for the construction of these objects to be economically justified, and thus providing an opportunity to pump the natural gas from the Polish-Lithuanian gas line into Inčukalns storage facility during summer season and sell it to Lithuanian, Estonian and Finnish consumers during the winter season;
- Construction of the Baltic regional liquefied natural gas terminal;
- Electricity transmission network “*Kurzeme Circle*” stage No. 3. The project is expected to be completed in 2018. Construction of Kurzeme Circle is aimed to improve the stability and safety of electricity supply in the Kurzeme and the entire Baltic region, to increase the opportunities to construct new connections in the region and to ensure possible increase in transit flow by construction of 700MW direct current connection between Sweden and Lithuania;
- The third electricity interconnection between Latvia and Estonia. The project is expected to be implemented by 2020. The third Latvian-Estonian interconnection will help to eliminate the bottleneck situation on the interconnection between Estonia and Latvia and will increase the interconnection transfer capacity for the electricity market. It will guarantee a safe electricity supply in the Baltic region, efficient operation of electricity market in the Baltics and competitiveness in and between the Baltic States and the Nordic countries. At the moment, the Latvian and Estonian transmission system operators are evaluating the line and carrying out environmental impact assessment.

The second electricity interconnection Estlink-2 between Finland and Estonia is open for commercial use since March 6, 2014. Estlink-2 increases the capacity of Estonian-Finnish interconnection to 1000 MW compared to the previous 350 MW, and significantly strengthens integration of electricity market in the Baltic Sea region. However, in order to reach full capacity, Estonia needs to construct a back-up sub-station. It is expected to be put into service in September 2014.

2.7. JUDICIARY REFORMS, MEDIATION LAW, ARBITRATION COURT SYSTEM

The EU Council recommends Latvia to complete pending reforms to improve the efficiency and quality of the judiciary and reduce the backlog and length of proceedings, including as regards insolvency. Put in place a comprehensive human resources policy and take steps to implement the mediation laws and streamline the arbitration court system.

The statistics of 2013 show a positive trend – district (city) courts have reviewed by 10% more civil cases than district (city) courts have received (so called “*clearance rate*”).

Yet, when comparing the number of received and reviewed cases by the civil cases of category 3 (claims on recovery of losses and debts), the “clearance rate” in 2013 is 19% (the year 2012 was the first year when courts have reviewed more civil cases than the courts have received. The number of cleared civil cases exceeds the number of received cases at the court by 19%). However, taking into account the amount of pending cases, the priority objective for the judiciary sector in 2014 is to reduce it. And therefore, a particular focus is paid to measures aimed at improving court efficiency and reducing the length of proceedings, and quality of rendering court rulings.

In order to balance the backlog of courts and speed up the proceedings, the number of the judges at the first instance courts in Riga court district has been increased by 10 positions starting from 2014, thus reducing the number of pending cases by about 5%.

In 2013, a number of *Amendments to the Administrative Procedure Law* and the *Civil Procedure Law* have come into force with an aim to **improve the efficiency of legal proceedings**. The *Civil Procedure Law* defines the principle of the declared place of residency, sets a deadline for submission of evidence prior the court hearing, expands the possibilities to render judgement by default, and increases the state fees for claims of financial nature to prevent the risk of bringing unjustified claims. A special legal proceeding is applied to streamline the proceedings in case of recognizing shareholders’ decision of capital companies as invalid, while commercial disputes and raiderism cases are considered by one specialised court since July 1, 2013.

As regards the planned activities to partially reduce the backlog and ensure efficiency of courts, the *Guidelines on Development of the Judiciary for 2009–2015* acknowledges that untypical functions cause extra load and limit the use of judicial resources to perform the function of judging. And therefore, it is expected to gradually move the untypical duties and consideration of cases involving no dispute from courts to other institutions based on their competence and mission. Since November 1, 2013, the *Civil Procedure Law* envisages that enforcement of court rulings according to the prescribed procedure requires enforcement of notarial deeds drawn up in compliance with the *Notariate Law*; and the *Amendments to the Notariate Law* envisage that contracts drawn up as a notarial deed shall be enforced according to the procedure for enforcement of judgements (compulsory enforcement). Thus, granting the status of an enforceable document to notarial deed helps partially removing the untypical duties from courts and also simplifying and speeding up the recovery process. In cases where there is no dispute regarding enforceable obligations and the amounts to be recovered, the enforcers may ask sworn notaries and then sworn bailiffs to enforce the relevant obligation without involving the court.

At the same time, it is expected to promote access to courts through the ERDF support within the operational programme “*Growth and Employment*” for 2014–2020 by introducing appropriate information and communication technologies (hereinafter – ICT) solutions to reduce the length of proceedings and promote access to judiciary information (e-proceedings, electronic process, an opportunity to obtain information about the case online, automated processing and publishing of judgements, etc.). Moreover, a number of measures to improve competence of court and law enforcement institution personnel are going to be implemented through the European Social Fund (hereinafter – ESF) support within this operational programme by providing training in the field of civil law, as well as by reducing the length of proceedings to promote improvement of the business environment.

Amendments to the Civil Procedure Law regarding **insolvency regulation** have come into force on November 1, 2013, while the *Amendments to the Insolvency Law* are being developed at the moment. They envisage practical elimination of problems encountered in the field of insolvency, namely:

- Reinforcing protection of the rights of a debtor in case of submitting an application for insolvency process of a legal entity to the court;

- Solving the issue related to paid state fee;
- Specifying the procedure for consideration of the application for the insolvency process of a legal entity;
- Solving a situation when a debtor partially pays his/her debt before considering the application for an insolvency process and continues not to fulfil his/her obligations;
- Improving the monitoring system of insolvency process administrators.

In addition, within the operational programme “*Growth and Employment*” for 2014–2020, an electronic auction model is expected to be introduced with the ERDF support in the field of enforcement of judgements, as well as the insolvency process, thus ensuring maximum satisfaction of interests of plaintiffs and creditors.

In order to streamline and accelerate transfer of ownership rights to the new owner, thus promoting an efficient and simplified procedure, it is planned to make *Amendments to the Civil Procedure Law* and the *Land Register Law* until September 1, 2014 to move the consideration of an application for approval of the deed of an auction organized by sworn bailiffs from regional courts to the Land Registry Offices of district (city) courts; and bailiffs as a public officials have been granted the authorization to request corroboration of the ownership rights on the name of the new owner. Approval of an auction organized by insolvency procedure administrators is expected to remain the duty of the district (city) courts which deal with each individual insolvency procedure, thus ensuring approval of the auction results and corroboration of the ownership rights on the name of the new owner in a single proceeding.

As regards the **human resources development policy** in the context of judicial power, professional evaluation of judges’ work has been commenced in January 2013 to improve professional activity of the judicial power. The initial stage of evaluation of all working judges is expected to be completed by 2016. Afterwards judges are going to be evaluated once every 5 years. Moreover, in order to assess the qualification of judges, Latvia plans to implement a reform where one of the main priorities is training and raising qualification of employees of law enforcement institutions through development of new training programmes, interdisciplinary training and promotion of the use of modern technologies in the training process. Currently, Latvia works on absorption of the European Cohesion policy funds financing, and the *CM Draft Guidelines on Strengthening Capacity and Developing Competences of Human Resources of Judicial Power and Law Enforcement Institutions* are expected to be submitted by May 1, 2014. It is also planned to implement measures to improve organizational management of the court work, thus drawing public attention to building capacity of human resources at law enforcement institutions, studying the improvement of organizational management of the court in other EU Member States, organizing exchange visits and preparing a court chairperson in training programme management.

The *Draft Mediation Law* and accompanying *Amendments to the Civil Procedure Law* are about to be considered by the Saeima in the 3rd reading (approved in the 2nd reading). Furthermore, a number of measures to inform and educate the public are being implemented to reach public understanding of the **mediation** services and multiple ways to use it, and its advantages in dispute resolution.

The *Draft Law on Arbitration Courts* and the *Amendments to the Civil Procedure Law* have been developed with an aim to increase public confidence in the **arbitration courts** as an alternative to public courts for dispute resolution. The Saeima has approved both draft laws in the 1st reading on January 30, 2014. The aim of the *Law on Arbitration Courts* is to prescribe a procedure for establishing arbitration courts and to define fundamental principles of their activity to ensure efficient and fair resolution of civil disputes at the arbitration court. According to the estimates of the MJ, once the regulation of the draft law comes into force,

the number of permanent arbitration courts might drop by over 80% of the total number of registered permanent arbitration courts.

3. POLICY DIRECTIONS

3.1. FINANCIAL STABILITY

3.1.1. Developing Sustainable Budget

Stability of public finances is a key aspect of promoting economic growth based on the development of a counter-cyclical fiscal policy in the long-term, thus reducing the risks of economic overheating in the years of rapid growth and fosters economic activity during economic downturn, as well as the management of public resources to boost economic growth and the quality of life of the population.

The global economic crisis severely affected the economy of Latvia, leading to a critical situation in the financial sector and the government budget. In order to improve the unsustainable fiscal position, restore balance in the economy and to increase national competitiveness, Latvia implemented comprehensive budget consolidation measures that affected the amount and the quality of public services. At present, Latvia has resumed growth again, achieving considerable progress in fiscal position. However, the severe consequences of the crisis are obvious in a number of the important economy sectors. Inadequate financing has escalated issues that need to be solved in order to avoid irreversible processes like road collapsing. Therefore, the coming years in the national fiscal policy are marked as a post-crisis period during which the state should make any effort to provide adequate financing for the implementation of its functions, whilst fully respecting the requirements of the fiscal discipline.

Key policy directions and measures:

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

The aim is to strengthen the national legal framework to ensure development of sustainable, counter-cyclical fiscal policy, by strengthening medium-term budget planning, as well as by stipulating clear conditions for defining fiscal targets.

The FDL entered into force on March 6, 2013. The FDL stipulates binding fiscal conditions for the annual budget and medium-term budget. The law introduces basic principles, instruments and fiscal conditions for developing the fiscal policy.

Not only the development and approval of the fiscal discipline framework but also the use of instruments to introduce the fiscal discipline regulation in practical budgeting plays a major role. Therefore, two laws have been developed within the government budgeting for 2014 and approved by the Saeima: (1) the *Law on the State Budget for 2014* and (2) the *Law on the Medium-Term Budget Framework for 2014, 2015 and 2016* which practically ensures succession of fiscal policy decisions, i.e. regarding the implementation of structural reforms that is an essential element for the implementation of the EU Council's country-specific recommendations.

Respecting the fiscal discipline requirements throughout the budgeting process and the implementation of the budget is an equally important task in strengthening fiscal discipline. It should also be admitted that in order to make the best out of the fiscal discipline concept, policy makers should respect the fiscal requirements and an independent institution from outside should participate in the supervision of the budgeting process and inform the public about the compliance of the process with the fiscal regulation. The Fiscal Council established in 2014 is the supervisor of budgeting processes in Latvia.

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

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

According to the *Law on State Pensions*, as of 2014:

- the retirement age is planned to be increased gradually by three months every year until reaching 65 years by 2025. At the same time, the possibility to request an old-age pension two years prior to reaching the defined retirement age is preserved;
- the minimum length of social insurance period has been increased from 10 to 15 years, granting the rights to receive an old-age pension and from 15 to 20 years starting with 2025;
- expenditures for payment of an old-age and disability pension will be ensured from the state general government budget, thus unburdening the social insurance special budget;
- the social contribution cap has been restored – EUR 46.4 thousand per year.

3.1.2. Ensuring Stability of the Banking Sector

Over the past 5 years Latvian banks have implemented significant measures to strengthen their capital base in the amount of EUR 2.4 billion. Thus, they have been able to cover the losses incurred due to deteriorating quality of the loan portfolio and maintain sufficient capital to cover inherent and potential risks of banking activity. Overall, the banking sector was well capitalized. The capital adequacy ratio of the banking sector remained high in 2013, reaching 18.9% at the end of the year (minimum capital requirement – 8%), while the Tier 1 equity capital ratio is 17.3%. The majority of banks have taken the opportunity to strengthen the capital base, by including the audited profit of the financial year (i.e. a half-year or nine months). As the amount of loan depreciation exceeded the amount of issued loans, the amount of risk-weighted assets continued shrinking.

The liquidity ratio of the banking sector remained high and was 64.4% at the end of December 2013, thus exceeding the minimum requirement substantially. The remaining low lending and rapidly increasing balance of resident deposits prior to the introduction of the euro resulted in rather high resources in liquid assets accumulated by banks.

Since the second half of 2010, the quality of loans has been gradually improving along with the improving economic situation. The amount and the share of loans with overdue payments exceeding 90 days in the loan portfolio of the banking sector decreased from 11.2% to 8.3% during a year. The share of deposits and loans with overdue payments exceeding 90 days remained high at 73.6% at the end of 2013.

As the financing of foreign banks, mainly parent banks, decreases gradually, the role of client deposits in the financing structure of the banks is increasing. The commitments towards monetary financial institutions have dropped by 2/3 or EUR 9.4 billion, while the total deposits have increased by 40% or about EUR 5.7 billion.

Key policy directions and measures:

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

According to the Regulation of the European Parliament and of the Council of June 26, 2014¹³, as of January 1, 2014 banks are a subject to stricter adequacy requirements (the procedure for estimating capital requirements; qualitative requirements for capital

¹³ Regulation (EU) No 573/2013 of the European Parliament and of the Council (June 26, 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 introducing the international bank oversight standard Basel 3 into the EU legislation.

elements to be included in the relevant level of own capital, restrictions on inclusion of certain elements in own capital and deductions of own capital) and a Common Equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6% have been introduced in addition to the total capital adequacy ratio of 8%.

After the observation period, the revised liquidity ratios (liquidity coverage ratio and net stable funding ratio) are expected to be introduced as of 2015 and the leverage ratio is expected to be introduced as of January 1, 2018, and a requirement for publishing the leverage ratio is to be introduced as of January 1, 2015.

After the approval of the *Amendments to the Credit Institutions Law* the FCMC will be entitled to apply macro-prudential instruments, including the requirement for a countercyclical capital buffer to limit excessive credit growth, and the requirement for a systemic venture capital buffer to reduce structural risks. The *Draft Amendments to the Credit Institutions Law* authorizes the FCMC to implement measures to ensure stable activities of credit institutions that comply with the requirements of the law.

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

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

- The Mortgage and Land Bank of Latvia (hereinafter – the Mortgage Bank). In 2011, the CM approved the *Strategy for Sale of the Commercial Part of the Mortgage Bank*. The sale of the assets of the commercial part of the Mortgage Bank was fully completed in September 2013;
- The development financial institution (hereinafter – DFI). The CM approved the guidelines for establishing the DFI at the meeting on October 2, 2012. The procurement *Assessment and Consultations for Establishing a single DFI* was completed. The contract with the winner of the procurement was signed on November 20, 2012 and an alternatives assessment of establishment of the DFI was submitted on January 18, 2013. The CM approved the *Informative Report on the Establishment of the Single Development Financial Institution* on April 2, 2013. At the meeting on December 17, 2013, the CM made a decision to establish the JSC “Development Financial Institution”, as well as further work on its establishment, defining the following steps to be taken:
 - to establish the DFI as a holding company, merging the JSC “Latvian development financial institution Altum”, the LLC “Latvian Guarantee Agency” and the SJSC “Rural Development Fund”;
 - a nomination committee established by the MF, the MA and the ME organizes the selection of a restructuring manager;
 - the MF in cooperation with the MJ develops and submits to the CM amendments to the legislation necessary for increasing the equity of the JSC “Development Financial Institution” through the shares of the SJSC “Latvian development financial institution Altum”, the shares of the LLC “Latvian Guarantee Agency” and the shares of the SJSC “Rural Development Fund”;
 - the MF in cooperation with the ME and the MA prepares information about the new financial instrument within the state support and development programmes and the scope of programmes, and submit the given information to the EC;
 - the DFI coordinates the implementation of the financial instruments within the state support and development programmes until further decision of the CM.

- The JSC “Citadele banka” and JSC “Reverta” (former JSC “Parex banka”). In 2011, the CM approved the sales strategy of the JSC “Citadele banka” and of the JSC “Parex banka” envisaging mutually unrelated sales processes, by applying the most suitable solution to each bank.

Taking into account the situation in the Baltic banking market and the unstable European financial markets, the CM made a decision to postpone the sales process of the JSC “Citadele banka” at the end of 2013. Yet, on July 16, 2013, the CM made a decision to activate the investor attraction process of the JSC “Citadele banka”. As a result of a tender, two international consultants were involved in 2013 – Societe Generale and Linklaters. The task of the international investment bank Societe Generale was to analyse the market situation, identify the best model for attracting investors to the bank and to attract investors. The task of the legal consultant Linklaters was to prepare documents in relation to the investor attraction. On December 17, 2013, the CM made a decision to approve the *Strategy for Attracting Investors to the JSC “Citadele banka”*. The strategy provides an opportunity for the state to sell the shares of the bank through a direct sales process and the initial public offering for the shares on the stock exchange. An initial survey of possible interest of different investors is expected to be carried out, while the decision on a specific business model is to be made after implementing the marketing activities and summarizing the investor opinions in 2014. According to the restructuring plan, the investor attraction process to the JSC “Citadele banka” is planned to be completed by the end of 2014.

As regards the JSC “Reverta”, at the meeting on December 3, 2013, the CM made a decision to continue implementing the strategy “Combined Solution” approved by the CM in 2011 envisaging not to sell the entire bank, but to take all the necessary steps to increase or maintain the asset value, as well as to sell the assets that require higher total costs for maintenance and management than the expected increase in the value based on the restructuring plan approved by the EC. As of May 2012, the JSC “Reverta” works as a professional management company of problematic assets taking into account the change of the status and the name and giving up of the credit institution license approved by the FCMC. According to the restructuring plan approved by the EC, the JSC “Reverta” is expected to operate until 2017.

- ***Informing the society on 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 a general view on the financial sector and its development tendencies to potential users of financial services, as well as to strengthen supervision of the financial services sector to ensure consumers with access to financial services that meet their needs and abilities. In order to achieve the aim, the following measures are being implemented:

- An Internet website “Customer School” (www.klientuskola.lv) is being updated on a regular basis by the FCMC. The website contains informative material about popular financial services and associated risks, as well as new services. The website is expected to be considerably improved and redesigned in 2014, including also the “Customer ABC” or learning materials about important knowledge of finance and tests. The “Customer School” gives every user an opportunity to receive e-mail consultations;
- As of 2012, an informative tool “Bank Compass” is available on the FCMC website that allows viewing easy and fast quarterly performance results of the banks of Latvia and their explanations;

- In 2013, the FCMC joined the international movement *Child and Youth Finance International*, thus committing itself to ensure further coordination of the measures of the *Financial Education Week* in Latvia for children and youth;
- On April 18, 2013, the FCMC joined the international financial education expert association of the OECD countries *International Network for Financial Education* (hereinafter – the OECD INFE), thus becoming the national coordinator for promoting knowledge of finance. During 2013, the FCMC ran the working group for the development of the National Strategy for Knowledge of Finance (hereinafter – the Strategy) which was drafted in consultation with the OECD INFE in 2013. On February 24, 2014, the involved persons (cooperation partners) signed the Memorandum on the Implementation of the Strategy. A new measurement system was expected to be developed within the implementation of the strategy – the knowledge of finance index of Latvian population. Annual results are made available to the public for consideration.

As from November 1, 2011, a *Non-bank creditor licensing system* has been introduced, thus guaranteeing the existence of financially stable creditors in the market in the long term. In 2013, several proposals for improvement of consumer crediting market have been developed and forwarded, particularly focusing on the payday loans sector. The proposals for stricter regulation of consumer crediting advertising have been approved in the mid-2013, while the proposals for promoting responsible repayment of loans and the proposals for interest rate limits have been submitted to the Saeima for approval.

3.2. PROMOTING COMPETITIVENESS

3.2.1. Business Environment and Modernisation of Public Administration

Latvia has been ranked 24th among 189 countries on the ease of doing business in the WB's *Doing Business 2014* report. It should be noted that Latvia has made progress in almost all 10 areas of *Doing Business* over the past 2 years. Latvia is ranked 9th among the EU Member States.

Key policy directions and measures:

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

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

The progress in improving the business environment is fostered by the implementation of the *Annual Action Plan for Improvement of Business Environment* and the main measures in 2013 were:

- *Starting a business* – electronic registration of enterprises in the Commercial Register on the website www.latvija.lv has been introduced, as well as the costs for starting a business (an opportunity to establish enterprises with reduced equity, reduced state fees) and the time (for example, the list of situations when the officials of the Register of Enterprises are entitled to certify signatures on documents to be submitted to the Register of Enterprises) have been reduced;
- *Paying taxes* – as of January 1, 2014, the administrative burden on the VAT application to real estate has been reduced. Electronic payroll tax booklets are going to be introduced to the EDS and the work on decreasing the accounting requirements is continued. The *Law on Value Added Tax* has been amended, stipulating that in case a registered VAT payer sells real estate purchased at an auction arranged by a sworn bailiff, the registered VAT payer in certain situations referred to in the *Law on Value*

- Added Tax* has the right to apply the VAT applicable value of the real estate estimated by the sworn bailiff when calculating the VAT applicable value of the real estate;
- *Dealing with construction permits* – the process of obtaining construction permits has been simplified – the new *Construction Law* has been approved and will come into force on October 1, 2014. The CM regulations are currently being developed, as well as the work on finalizing the practical introduction of the Construction Information System is continued;
 - *Registering property* – a regulation for the introduction of one stop shop agency principle in registration of property data and corroboration of the title has been developed. To introduce the said principle, *Amendments to the Land Register Law*, the *Real Estate State Cadastre Law* and the *Law on Recording of Real Estate in the Land Register* have been drafted. The 2nd reading of draft laws is expected to be launched by the Saeima in the nearest future. The work on introducing electronic registration of real estate is also being continued;
 - *Enforcing contracts* – the *Amendments to the Civil Procedure Law* came into force on July 1, 2013, prescribing a special legal proceedings procedure for resolving commercial activity-related matters and reducing raiderism. Moreover, an improved framework for arbitration courts has been developed, prescribing the procedure for establishment of arbitration courts and defining fundamental principles of their activity to ensure efficient and fair resolution of civil disputes at the arbitration court. The Saeima has approved in the 1st reading of the *Draft Law on Arbitration Courts* on January 30, 2014;
 - *Closing a business* – the *Insolvency Law* introduced in 2010 has reduced the duration of insolvency proceedings from 3 years to 1.5 years, as well as the process expenses from 13% of the property value to 10%. Currently, the *Insolvency Law* is being improved – the draft law is being considered by the Saeima before the 3rd reading and further process improvements are expected. Proposals for major changes in relation to the administrator's profession, its status, qualification and supervision have been prepared for the third reading. The administrator's profession is expected to be regarded as equal to that of a public official. Moreover, the *Insolvency Law* is expected to specify regulations regarding the legal protection proceedings, deposit of legal entities, submission of creditor claims, sale of property, and the costs of the insolvency proceedings of natural persons, etc.

The following tasks have been prioritised within the *Action Plan for Improvement of Business Environment* for 2014:

- *Starting a business* – as of July 1, 2014 to introduce a possibility to apply employees of new microenterprises for registration in the Register of Enterprises;
- *Dealing with construction permits* – to develop and approve the subordinate CM regulations of the *Construction Law* and launch the Construction Information System by May 1, 2014;
- *Registering property* – to ensure introduction of electronic property registration in Latvia as soon as possible;
- *Paying taxes* – to ensure drafting of the new *Annual Accounts Law*, envisaging simplified requirements for micro- and small enterprises;
- *Enforcing contracts* – to continue working on improvement of legal proceedings, to promote adoption of the regulation of the arbitration courts by the Saeima, as well as to urgently improve the procedure for defining principles for the specialisation of judges and the procedure for the determination of the case workload;
- *Closing a business* – to ensure approval of the *Amendments to the Insolvency Law* as soon as possible.

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

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

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

A total of 15 measures under the plan have been implemented by 2014 and the work on implementation of the remaining measures continues in 2014.

- Different studies have been developed in 2013 within the ESF project *Reducing administrative burden and simplifying administrative procedures*, for example, a study on revising the administrative burden to protect intellectual property (the aim is to revise requirements of legislation for industrial property, copyrights and related rights, as well as for plant varieties protection and the administrative burden caused by their application and the possibilities to reduce it); a study on impact assessment of implementation of the *Administrative Procedure Law* and preparation of proposals for streamlining the implementation process (the aim is to carry out post-evaluation of the implementation of the *Administrative Procedure Law* and prepare specific and innovative proposals for improvement of the process).

Different assessments are expected to be carried out, a plan of measures to reduce the administrative burden and simplify administrative procedures in the field of documenting private sector activities and storage of documents is planned to be developed; a methodological material for employees of public administration institutions about reducing and estimating the administrative burden (in terms of finance) will be prepared, by drafting new laws and regulations and annotations thereof; as well as training on calculation of administrative expenses and reduction of administrative burden will be provided, experience exchange and participation in working groups at the EU level are planned by the end of the project. The total planned financing is EUR 0.6 million.

In 2013, assessment of administrative burden has been conducted for certain services of local governments, and proposals for legislation to reduce the administrative burden of local government services in such areas as coordination of implementation of adult informal education, coordination of public measures and taxi transportation have been prepared based on the assessment. The proposals are being implemented within the government budget, without allocating financing specifically for this purpose;

- Developing e-government and e-services, one-stop-shop principle. The measure is aimed at streamlining public administration processes, by ensuring access to public services for citizens and entrepreneurs.

In January 2013, the *Concept on the Organisational Model for the Management of the State Information and Communication Technologies* was approved defining the objectives and tasks of the management of state ICT (see Chapter 3.2.4).

The *Draft Law on Public Services* was developed to introduce the one-stop-shop (hereinafter – OSS) principle, defining the fundamental principles for providing public services – the principle of proportionality, the time management principle, the one-stop-shop principle, the e-governance principle, the principle of good cooperation, the principle of multichannel service delivery, the principle of “silence means consent”, the principle of territorial differentiation, and the principle of public service financing.

In 2013, introduction of the OSS principle was continued in the electronic environment on the single state and local government services website www.latvija.lv, thus ensuring access to 65 e-services and providing information about the possibilities to receive more than 2073 state and local government services. In 2012, 14 new e-services were introduced. A new version of the website was introduced in 2013 including a real situation guide where citizens and entrepreneurs are told in a simple language which service (e-service) should be used in certain situations. A total of 70 guides were published.

According to the *Concept on Improvement of Public Services System* approved in February 2013, a pilot project of a single customer service centre network is being implemented. In the first half of 2014, the project is being implemented in Rīga and another 4 towns and cities in different regions to identify the capacities of institutions and readiness to work in a single place, thus providing access to services in regions. Successful implementation of the pilot project is most likely to result in establishment of the State Single Customer Service Centre Network across the country in the future. At present, citizens and entrepreneurs have access to about 2000 state and local government public services provided in more than 900 places throughout Latvia. Such a system is expensive and inefficient from the viewpoint of citizens and entrepreneurs, and the state.

To extend the functionality for the purpose of registering enterprises on the website www.latvija.lv, a number of solutions have been developed to ensure a link with virtual e-signature and to ensure authentication of legal entities in case the signing person of the legal entity has the right to represent the legal entity separately and the right has already been registered in the Register of Enterprises;

- Reforming management of state capital shares and commercial activity of public persons. The measure is aimed at ensuring more efficient management of state capital shares and commercial activity of public persons according to the principles of good corporate governance, as well as evaluating the necessity for public persons to engage in business.

A package of draft laws has been prepared, including the *Law on Management of Capital Companies and Capital Shares of Public Persons* which has been developed on the basis of the effective *Law on State and Local Government Capital Shares and Capital Companies* as well as the amendments to the *State Administration Structure Law* envisaging changes in the conditions when the public person is entitled to establish a capital company or acquire shareholding in an existing capital company. The draft laws have been approved at the CM meeting on May 28, 2013 and submitted to the Saeima for consideration which has approved them in the 1st reading (3 readings in total).

- ***Improving the regulatory basis for employment legal relations, labour security and its application*** (responsible institution – MoW)

In order to continue improving the regulations of employment legal relations and labour security, in cooperation with social partners the following is planned in 2014:

- To continue working on the *Amendments to the Labour Law* in order to strengthen the principles of flexicurity in employment legal relations, as well as to improve the quality of business environment. The issues regarding conclusion of fixed-term employment contracts and supplementary payments are expected to be revised. It is also planned to reduce the administrative burden on the employer in the case of collective redundancy (by reducing the time period for announcing the planned collective redundancy to public institutions). The issues regarding notice of dismissal, termination of employment legal relations, working hours and breaks and wage are

going to be defined more precisely. The draft law will contain also provisions regarding the reduction of non-registered employment by providing the controlling institutions with a possibility to instantly obtain information from the employer about concluded employment contracts during inspections, as well as by incorporating a condition that delegates the CM if necessary the power to define those types of commercial activities which impose an obligation on the employer to issue a certificate to an employee when entering into an employment contract, and to determine information to be contained in the certificate of an employee and conditions for their issue;

- To improve occupational safety requirements for construction works. The amendments are required to match the training of occupational safety coordinators with the new training system in the field of occupational safety, as well as to define specific requirements for the protection against landslides. The procedure for investigating an accident at work has been changed in 2013, by simplifying it and specifying the procedure for investigating an accident at work abroad and for investigating accidents where employees of a foreign employer have been injured;
- To supplement the legal framework regarding safety of workers who work at a height by setting clear requirements for work at a height, improving the understanding of employers and workers about the need for protection of workers against the risk of falling from height;
- To introduce new e-services to the State Labour Inspectorate (hereinafter – SLI) with the support of the EU funds. By the end of 2013, the SLI developed 16 e-service prototypes. Those 16 e-services are expected to be available for individuals and enterprises on www.latvija.lv by March 2014.

• ***Combating shadow economy*** (responsible institution – MF)

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

In 2010, the *Plan of Measures for Combating Shadow Economy and Ensuring Fair Competition for 2010–2013* (hereinafter – Plan) had been developed with an aim to reduce the administrative burden on entrepreneurs, promote fair competition and support improvement of the business environment.

Within the tax support measures from October 1, 2012 until the end of 2013 the SRS has made a total of 3 015 decisions on applying the Tax support measures to different taxes administered by the SRS (PIT; corporate income tax (hereinafter – CIT); VAT; excise duty; customs duty; state social insurance mandatory contributions and natural resources tax) for the total debt amount of EUR 23.8 million.

As a result of the implementation of the Plan, the following significant amendments to the legislation have come into force:

- Suspending economic activity in case of establishing material violations of the tax laws (14 283 decisions made by 01.03.2014);
- Terminating economic activity (or simply – liquidation) based on the decision of the tax administration if a tax payer fails to prevent tax violations (information about 91 tax payer has been sent to the Register of Enterprises by 01.03.2014);
- Introducing the concept “risk address”, thus limiting the possibilities to register economic activity in places where it is impossible to carry out business activity and providing an opportunity to cease economic activity if the enterprise is registered at a risk address (by 01.03.2014 – 74 legal addresses);

- Reducing the threshold for cash transactions from EUR 4 269 to EUR 1 500, thus imposing an obligation to declare cash transactions above the threshold; as well as reducing the threshold for declaration cash transactions from EUR 14 229 to EUR 7 200 for ship agency and aircraft agency commercial companies, as well as international transport services and shipping transactions provided by international transport and shipping companies. Moreover, a new obligation has been imposed to taxpayers carrying out economic activities, i.e. to declare all cash transactions of the previous year with natural persons that are not required to register economic activity by the tax laws if the amount of one transaction with every transaction partner exceeds EUR 3 000. The cash transactions have to be declared by February 1 of the year subsequent the taxation year.

Since January 1, 2014 the SRS has been maintaining a list of risk persons and ensures supply of information about the risk persons entered in the register of risk persons to the Register of Enterprises. In case the Register of Enterprises establishes that an application for registration of a company or a merchant, for changes in a registration file or re-registration contains information entered in the SRS list of risk persons, it shall suspend or reject registration or re-registration of the merchant.

The plan on combating the shadow economy has been implemented successfully so far. However, further measures are going to be implemented to reduce the share of the shadow economy in the country.

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

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

Latvia has fully ensured 20 electronic basic services as defined by the EU. It is now possible to electronically request and receive almost all services related to the *Services Directive* (*Single Electronic Contact Point* is available on the single state and local government services portal www.latvija.lv, which provides descriptions of services related to the *Services Directive*), by introducing the relevant provisions in related regulatory enactments, enabling a person to request a service electronically by sending an application with the secure electronic signature and accompanying documents to the official e-mail given in contact information or receive the service electronically.

In 2012, the *Plan of Measures for Implementation and Application of the “Silence Means Consent” Principle to the Administrative Practice of Responsible Institutions* was approved envisaging initial implementation of the “silence means consent”¹⁴ in 15 services.

At the moment, Latvia has started working on the implementation of the “silence means consent” in services outside the *Services Directive*.

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

The measures to improve the absorption of EU funds implemented in 2013 are related to improvement of the management and control system based also on the EU instructions on the required improvements. For instance, a new regulation regarding procurement procedures and the procedure for their application to customer-funded projects has been drafted, thus

¹⁴ The “silence means consent” principle is one of the tools fostering modernization of public administration. The principle defines that in case a responsible institution does not provide the answer on the application for a permit, it shall be considered that the service provider has received the permit and is entitled to start service provision.

strengthening prevention of interest conflict, ensuring publicity and assessment of reasonableness of the costs, while reducing the administrative burden.

The EU funds administration system for the programming period 2014–2020 is going to be developed in line with the directions indicated by the EU Cohesion policy funds – reducing the administrative burden on funding beneficiaries, clear allocation of functions among the authorities dealing with the administration of the EU Cohesion policy funds, focusing on results, clear risk management strategy, including defining measures to combat corruption and performance-based assessment system. It is expected to approve a draft law and prepare a description of the management and control system in 2014.

The key principles for improving the system is reducing the number of authorities involved in the administration of the EU Cohesion policy funds, inter-institutional cooperation, avoiding overlapping functions, developing efficient monitoring and control system, including full introduction of e-governance, reducing the administrative burden on funding beneficiaries, efficient involvement of partners and non-governmental sector in the EU funds planning and absorption, etc.

3.2.2. Promoting Productive Investments and Exports

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

The *Guidelines for Promoting Latvian Exports of Goods and Services and Attracting Foreign Investments for 2014–2020* and the *Action Plan* for their implementation have been approved by the CM in May 2013 in close connection with the *National Industrial Policy*. The guidelines are aimed at improving competitiveness of the economy of Latvia in the open product (goods and services) and capital markets.

The key policy directions and measures:

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

The aim is to provide financial support for business start-up and development, to facilitate access to loans and to provide support for risk investments.

In order to improve the implementation of the state support and development programme, the JSC “Development Finance Institution” has been established at the end of 2013 (see Chapter 3.1.2). The capital share of the SJSC “Latvian Development Financial Institution Altum”, the LLC “Latvian Guarantee Agency”, the SJSC “Rural Development Fund” are expected to be transferred to the JSC “Development Finance Institution” that will further administer the entire range of financial instruments together in one place, thus not only simplifying the access to state support financial instruments, but also providing better understanding of the available products and quicker response to market failures.

In order to improve access to financial resources, the following financial instruments are offered to entrepreneurs in 2013–2014 (the conclusions of the assessment of market failures on the access to finance for entrepreneurs carried out in 2013 have also been taken into account):

- Mezzanine instrument programme (launched at the end of 2011). The programme is aimed at providing long-term financing to enterprises in addition to bank loans to cover all investment project costs for tangible and intangible assets related to establishing a new enterprise, expanding the existing enterprise, diversifying the production of an existing enterprise with new additional products or significant changes in the general production process.

The total financing of the *mezzanine* loan fund is EUR 18.7million (including the ERDF financing in the amount of EUR 15.2 million and the government budget financing – EUR 3.5 million). By the end of 2013, 8 *mezzanine* loan agreements have been concluded for the total financing of EUR 3.3 million. To increase the interest, a number of changes have been introduced to the *mezzanine* programme at the end of 2013, thus extending the list of eligible sectors by adding wholesale and retail trade, real industrial property development and rental of manufacturing equipment. Considering the amount of available financing, the *mezzanine* programme is expected to be implemented until 2015;

- Individual guarantees for enterprises – issue of credit guarantees and short-term export credit guarantees (programme launched in 2009). The credit guarantees are aimed at ensuring enterprise access to credit resources for business activities in situations where the collateral available to the enterprise is not sufficient to obtain the necessary loan (the target group – enterprises operating in manufacturing). The short-term export credit guarantees are aimed at supporting exporters by bearing the risks related to export transaction and serving as collateral to access financing for export transactions with deferred payment deadline up to 2 years.

The financing for the implementation of the guarantees is 100% ERDF financing and its total amount is EUR 16 million. By the end of 2013, 474 credit guarantee contracts have been concluded for the total financing of EUR 117.8 million (including export guarantees for EUR 8.5 million). The duration of the issue of credit guarantees is June 30, 2014. Taking into account the conclusion of the assessment of market failures that the support in form of guarantees should be constantly available, a new credit guarantee programme is expected to be implemented to ensure further access to credit guarantees;

- Investments for business start-ups and growth within the venture capital funds. There are 6 active venture capital funds co-financed by the ERDF and the government budget. The venture capital funds provide opportunities for enterprises to receive investments at different stages of their development, including the seed capital in form of turnover for the initial development of a business idea. Depending on the venture capital fund, the amount of one investment may vary from EUR 50 thousand to EUR 1.5 million.

The total available financing, including attracted private co-financing for venture capital investments, is EUR 60.3 million. By the end of 2013, a total of 45 venture capital investments have been made for the total financing of EUR 19.6 million (including the ERDF – EUR 13 million). The venture capital investments include 29 seed capital investments, 11 venture capital investments and 5 start-up capital investments.

Since May 2013, seed capital fund provides an opportunity to receive turnover capital for the initial development of a business idea in the amount of up to EUR 50 thousand (the total amount of the financing is EUR 1.8 million). By the end of 2013, a total of 14 turnover loans have been granted for such investments. The seed and start-up capital funds make investments in micro-, small- and medium-sized enterprises for the development, enhancement of the initial business idea concept, product development and market testing, as well as initial marketing, while the venture capital funds investments for micro-, small- and medium-sized enterprises are mainly aimed at boosting growth and expanding activities of enterprises.

The venture capital investments are expected to be made until 2015, while the seed capital investments might be available by the end of 2014, taking into consideration the amount of absorbed financing;

- On September 26, 2012, representatives from Latvia, Lithuania and Estonia, as well as the European Investment Fund signed the management agreement of the Baltic Innovation Fund (hereinafter – BIF) to provide opportunities for Baltic enterprises to receive larger investments in their growth. The public financing available within the BIF is EUR 100 million. Latvia ensures the required co-financing for establishing the BIF (EUR 20 million) from the LLC “Latvian Guarantee Agency” (hereinafter – LGA) resources – financing paid back from the investments in small and medium enterprises within the EU structural funds co-financed programmes administered by the LGA. Private co-financing in the amount of at least EUR 100 million is also expected to be attracted. Venture funds established within the BIF are going to operate in all three Baltic States, thus ensuring investments in one enterprise in the amount of EUR 3 to 15 million.
- By February 1, 2014, the European Investment Fund has selected administrators of 3 venture capital funds continuing to attract private capital. The first investment within the venture capital fund has already been made in the 1st quarter of 2014;
- The Start Programme is aimed at supporting self-employment and business start-ups (launched in 2009). Participants of the Start Programme are offered consultations on preparing and implementing business plans, as well as financial support (the available financing is EUR 28.8 million, including the ESF – EUR 12.8 million. Overall, 1088 contracts for the total financing of EUR 19.4 million (including the ESF – EUR 8.4 million) have been concluded within the programme by 2014. The support will be provided to entrepreneurs until the mid-2014;
- Support in form of loans to improve competitiveness of entrepreneurs (the programme has been available since 2009). The total financing available within the programme is EUR 75.1 million (including private co-financing of EUR 18.8 million). The programme is aimed at providing financing for entrepreneurs, who have economically justified plans of future activity plans but have no access to financing of credit institutions due to increased risks (the target group – enterprises operating in manufacturing). By the end of 2013, 85 loan agreements have been concluded for the total financing of EUR 76.7 million. Taking into account the amount of available financing, the programme is expected to be implemented by the end of 2014;
- Support in the form of loans for the growth of enterprises. The programme provides an opportunity for enterprises to apply for two types of loans – for investments and for working capital, including credit lines and loans for production of agricultural products. The European Investment Bank’s funds in the amount of EUR 100 million have been attracted for the programme’s implementation. By 2014, 858 loan agreements have been concluded for EUR 57.2 million. Taking into account the amount of available financing, the programme is expected to be implemented by 2015;
- Latvian and Swiss Micro-Lending Programme. The programme provides an opportunity for entrepreneurs to receive financial support: microloans and grants for implementing their business projects. Financial support is provided for investments and turnover capital. The total financing of the loan fund is EUR 7.1 million, out of which EUR 6.5 million is allocated for loans (80% Swiss co-financing) and EUR 0.6 million – for grants. By the end of 2014, 856 loan agreements have been concluded for EUR 7.1 million. The programme financing has been fully absorbed already in August 2013, while financing for new loans is provided from the repaid loans and expected to be provided by 2015;

- Support for agricultural, rural and fisheries development. The amount of the credit fund of certain investment measures under the *Rural Development Programme* and the *European Fisheries Programme* in 2011–2013 is EUR 52.8 million, while the financing for measures approved by 2014 amounts to EUR 32.9 million.

Moreover, producers of agricultural products can apply for support for purchase of turnover capital (the available financing by 2013 amounts to EUR 25.6 million). Since the financing available for producers of agricultural products has already been absorbed, new loans are financed from the repaid loans. By the end of 2013, 958 loans have been granted in the amount of EUR 45 million. Since 2012, financing for the purchase of agricultural land is available as well (the total amount of available financing – EUR 24.2 million). By 2014, 268 loans have been granted in the amount of EUR 12.8 million;

- The micro-loan support programme is aimed at ensuring sufficient access to micro-loans for small business start-ups or development on economic favourable terms. A new micro-lending support programme has been developed, providing an opportunity for entrepreneurs to receive loans up to EUR 25 thousand through several commercial financial institutions. The state support regulations regarding the programme have been approved.

The total amount of financing available within the programme, including the estimated private co-financing is EUR 10 million, including the ERDF: EUR 4.6 million. On December 6, 2013, the LGA announced an open call for the selection of micro-loan financial intermediaries. Micro-lending is expected to be launched after the end of the selection procedure of financial intermediaries, i.e. starting from the 2nd quarter of 2014.

- ***Promoting investments, incl. attracting 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 servicing potential and existing investors: they provide the necessary information, communicate with the relevant institutions, offer places for implementation of investment projects and appropriate investment incentives. Yet, the Coordination Council for Large and Strategically Important Investment Projects ensures harmonized inter-institutional cooperation for successful implementation of investment projects. The Coordination Council is composed of ministers from interested ministries and invited representatives from state and local government institutions, infrastructure enterprises, non-governmental organisations and other experts.

The activities for the attraction of FDI were focused on the priority countries by preparing/developing offers for certain sectors and fields and intense wide investor post-servicing has been implemented in 2013 and is being continued in 2014.

In 2013, two EU structural funds programmes have been implemented to attract investors: improvement of industrial space and support for the creation of new jobs. Evaluation of investment projects has been completed within both programmes, and a part of the projects already is being implemented.

In 2014, another stage of the EU structural funds programme for construction and reconstruction of the industrial space will be announced, as well as the CIT allowances will be applied to new production technology equipment and the CIT allowances on large investment projects above EUR 10 million will be maintained at least until 2015.

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

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

- Coordinating foreign economic policy and ensuring the network of the Latvian Foreign Economic Representative Offices abroad. In 2013, there were 44 diplomatic and consular missions. After the preparatory work was completed, the embassy in India opened its doors in 2014. An embassy in South Korea is planned to be opened in 2014, in 2015 – in Brazil and in 2016 – in the United Arab Emirates. A regional embassy is expected to be opened in the Southeast Asia – Singapore in 2016. Considering the significant increase in the number of visa applications at the Latvian Embassy in Minsk, the number of the embassy and consulate employees will be increased in 2014. At the end of 2013, the study information centre of Latvia has been opened in Chennai, India to promote education exports. Taking into account the opening and maintenance costs of representations, a possibility to open joint embassies with other EU Member States has been considered, as well as to share the administrative costs required for their maintenance.
- There are 14 Latvian Foreign Economic Representative Offices dealing with solutions to economic issues and providing support to Latvian entrepreneurs. The offices are located along with embassies, thus ensuring synergy for solving political and economic issues. Latvia is interested in adapting to the global changes occurring in the world's economy, finding new cooperation partners, fostering access to new markets and attracting investments to the economy, and diversifying export markets;
- Direct export support services for enterprises – in 2013, 1581 consultations on export-related issues including foreign markets, specific trade requirements and searching for business partners have been provided, as well as 16 seminars on export skills and informative seminars on foreign markets have been organized and 20 sectoral market reports have been prepared. Moreover, 34 trade missions (the number of entrepreneurs – 462) and 48 individual business visits to potential cooperation partners abroad have been arranged. The abovementioned services are expected to be provided within available resources in 2014;
- Supporting enterprises for implementation of external marketing, by fostering integration of enterprises into international supply chains, encouraging Latvian enterprises to participate in international exhibitions and trade missions. In 2013, 834 enterprise applications for the support have been evaluated.

In 2013, a total of EUR 7.8 million have been spent on these activities, including EUR 4.2 million have been attracted from the ERDF. Currently, EUR 7.7 million, including EUR 3.6 million from the ERDF are planned for these activities in 2014.

The Foreign Economic Policy Coordination Council has been established in Latvia. The Council is chaired by the Minister of Foreign Affairs and composed of employees of public institutions, as well as representatives from the IDAL, the Employers' Confederation of Latvia and the LCCI. Five meetings of the council have been held in 2013 resulting in decision-making on important matters and the priority target markets for Latvian exporters, the criteria for participation of entrepreneurs in business delegations within foreign visits of public officials, as well as the criteria for initiating economic visits.

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

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

- Preparing proposals for improvement of the municipal financial system (including considering all the possible changes in the taxation policy) and expansion of rights of municipalities to handle their property. The *Informative Report on the Proposals for Improvement of the Municipal Financial Equalisation System* will be prepared by July 1, 2014, while the new draft law on municipal financial equalisation will be developed by September 1, 2014. Proposals for providing more opportunities to local governments to be flexible in defining rent for built-up land plots in case of renting the land for construction of industrial object or performing economic activities, by setting specific criteria (conditions) in the binding regulations;
- Improving access to and quality of services provided by local governments, by introducing the one-stop-shop principle (see Chapter 3.2.1), by reducing the administrative burden on entrepreneurs and residents when using local government services;
- Improving and developing transport and environmental infrastructure in local governments (see Chapter 3.2.5);
- Improving the state and local government public business infrastructure. By the end of 2013, 53 urban infrastructure projects have been implemented with the support of the EU structural funds. The implementation of 14 projects have been launched in 2013 for additional financing from the government budget or the overcommitment financing, out of which 10 projects are focused on improvement of public transport infrastructure that plays a major role in business development;
- Investments in business-friendly infrastructure, regeneration of degraded areas, culture objects and natural heritage objects of international significance are planned in the next EU funds programming period for 2014–2020 under the Action Programme “*Growth and Employment*” in accordance with local government integrated development programmes in the amount of EUR 314.6 million (ERDF);
- Providing support in the amount of EUR 6.6 million (100% ESF financing) for attraction of specialists to planning regions, cities, towns and counties, as well as for building the capacity of planning regions and local government development planning. By the end of 2013, 220 specialists have been attracted and development capacity has been ensured in 47% of local governments and planning regions;
- Through the financing of the Norwegian Financial Mechanism (2009–2014) in the amount of EUR 1.1 million within the project *Implementation of Regional Policy Activities in Latvia and Development of Regional Development Measures*. The project runs from November 2013 until April 2016. The key activities of the project are focused on the development of a regional business and innovation system and implementation of the business and innovation system in the pilot region – the Latgale planning region (hereinafter – LPR). Since the LPR is the most underdeveloped planning region in Latvia, characterised by long-term negative economic, social and demographic trends, the measures (visits of non-governmental organisations representing local governments and entrepreneurs to neighbouring countries, participation and representation of local governments in investment forums, preparation of investment catalogue of the Latgale region, development of a new website www.investlatgale.com, establishment of the Latgale region’s representation in Rīga, etc.) under the activity will be focused on activating local resources and local partnerships among entrepreneurs, local public institutions, culture and education institutions, the financial sector and non-governmental sector and increasing the development level of the region;
- Increasing the role of local government in promoting entrepreneurship. The activity includes training for specialists from local governments. In order to expand the capacities of local governments and instruments in promoting entrepreneurship and attracting private investments, the support will be provided to large local governments for external marketing measures (offering them to prepare marketing materials in

- English and providing opportunities to participate in international exhibitions) and preparation of investment offers for potential investors;
- Development of support measures for attraction of qualified labour and entrepreneurs to remote and underdeveloped regions. The activity envisages learning from the Norwegian experience and taking over the best practices for the development and implementation of support measures.

3.2.3. Innovations, Research and Development

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

Table 2

| R&D target's achievement trajectory | | | | | | |
|---------------------------------------|-------|------|-------|-------|--------------------|-------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2020 |
| Total financing for R&D (million EUR) | 141.6 | 85.2 | 109.6 | 141.4 | 145.4 | 553.5 |
| % of GDP | 0.62 | 0.46 | 0.60 | 0.7 | 0.66 ¹⁵ | 1.5 |

Over the past few years the weak progress of the target can be explained by two reasons: firstly, the low contribution of the private sector which is considerably lower than in the pre-crisis period and has not increased along with the resuming growth; and secondly, the insufficient increase in public financing. The amount of insufficient commercial contribution is mainly affected by the fact that Latvian business structure consists mostly of micro-, small- and medium-sized enterprises with insufficient capacity to invest in R&D and an underdeveloped high-tech sector (the share of high-tech goods in the total exports in 2011 constituted just 6.7%, in 2012 – 6.3%)¹⁶. Yet, most of public financing is associated with the use of the EU funds financing (on average 2/3 of public financing). A half of R&D investments in Latvia come from external sources (mainly the EU funds).

On December 28, 2013, the CM approved the *Guidelines on Research, Technology Development and Innovation for 2014–2020* (hereinafter – the Guidelines) setting an objective to develop the Latvian research, technology and innovation sector into a sector capable of competing at global level and satisfying the needs of the economy and the society. The guidelines define the trajectory to achieve investments in R&D in the amount of 1.5% of GDP by 2020, as well as the required measures and indicators to achieve the target. The guidelines also contain the *Smart Specialisation Strategy* defining the main directions for transformation of the economy, growth priorities and smart specialisation areas. The key direction is economic transformation to knowledge- and technology-driven growth and catching up towards development of knowledge-based skills. The strategy also identifies the following specialisation areas: (1) knowledge-based bio-economy, (2) biomedicine, medical appliances, bio-pharmacy and bio-technology, (3) advanced materials, technologies and engineering systems, (4) smart energy and (5) ICT.

The Guidelines emphasize the following key challenges to R&D in Latvia:

- Insufficient financing for the sector for a long period;
- A small number of employed in science and research, technology development and innovation and insufficient renewal of personnel engaged in these areas;
- Fragmented structure and overlapping management functions of scientific institutions;

¹⁵ Total investments in R&D in Latvia in 2012 were 0.66% of GDP (in 2011 – 0.7% of GDP). An analysis of the R&D investment structure shows that the contribution of the private sector (companies) in 2012 constitutes 23.7% of the total investments in R&D or 0.16% of GDP (in 2011 – 0.18% of GDP). Although public (state and higher education institutions) financing in 2012 has increased in actual numbers, the share in the total GDP has remained unchanged – 0.17% of GDP. The amount of foreign, including the EU structural funds investments in R&D in actual number has increased and constituted 0.33% of GDP in 2012, as compared to 0.35% of GDP in 2011.

¹⁶ EU-27 average share of high-tech goods in the total exports in 2011 constituted 15.4%.

- Weak potential of commercialization of research results, insufficient cooperation and coordination between research, technology development and innovation institutions, higher education and manufacturing sectors;
- Underdeveloped international cooperation;
- The business structure of Latvia consists mostly of small- and medium-sized enterprises with no capacity to invest in R&D and a relatively low high technology sector.

The increase in the total investments in R&D is expected to reach 1% of GDP or about EUR 240.75 million in 2015.

In order to achieve the target of 1.5% of GDP by 2020, it is necessary to ensure the increase in the government budget financing according to the plan as the public investments play a crucial role also in attraction of private financing; to develop balanced structure of research, technology development and innovation financing composed of a wide range of institutional financing tools and those acquired through a tender procedure; and develop financial tools to promote attraction of private sector investments and foreign financing, including the EU framework programme *Horizon 2020* financing.

Based on the abovementioned, the achievement of the target of investments in R&D in the amount of 1.5% of GDP by 2020 still is a big challenge for Latvia.

The EC's report on the progress in *Innovation Union* (2013) emphasizes that the weak progress of Latvia in the field of innovation still affects competitiveness of the country. Failure to tackle the abovementioned issues will make it difficult for Latvia to compete internationally. The disproportional share of low base financing (in 2010 – only 21% of the required, in 2013 – 25% of the required) promoted non-strategic, “from project to project” approach to research development and contributes to fragmentation of financial resources. The reduced public programme financing is insufficient to make joint scientific efforts to tackle common issues and has no boosting effect on attraction of private financing.

Based on the *2013 New Policy Initiatives*, in 2014 additional government budget financing in the amount of EUR 2.8 million has been allocated for the base of scientific institutions and EUR 1.6 million for covering VAT for the projects under the EU Framework programme.

In order to foster private sector investments in R&D, as of July 1, 2014, enterprises making investments in R&D will be a subject to a tax relief, providing for a possibility to write off certain R&D costs in the year that such costs were incurred by applying a value-increasing coefficient – 3.

Key policy directions and measures:

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

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

According to the agreement with the Nordic Council of Ministers' Office in Latvia, international experts have assessed structural units of 150 scientific institutions in 2013. General conclusions regarding quality, research management and infrastructure show that human resources are one of the key challenges to developing potential of scientific activity, and therefore measures to develop human resources have been recognized to be the most crucial.

The international research assessment has been carried out through the EU funds support in the amount of EUR 453 thousand. Currently, the development strategy of scientific institutions is being developed (deadline for submission to CM is July 1, 2014) – see also Chapter 2.5).

In 2013, the priority directions for financing of fundamental and applied research projects for 2014–2017 have been approved¹⁷:

- Environment, climate and energy;
- Innovative and advanced materials;
- Public health;
- Research and sustainable use of local resources;
- Sustainable development of the country and the society;
- Latvian studies.

The *National Research Programmes for 2014–2017* are expected to be approved in the abovementioned directions in 2014. In 2013, the financing for implementation of the *National Research Programmes for 2009–2013*) has been EUR 5.7 million, and for 2014 is planned to be EUR 5.7 million.

In 2013, the government approved a new regulation for calculation of the base financing for scientific institutions. The introduced regulation for calculation and granting the base financing sets new criteria for assessment of the quality of scientific activity. These criteria are aimed at promoting achievement of the research policy objectives – increasing research excellence, link with the industry, attracting external financing, concentration and renewal of human resources. The prepared criteria are to be introduced and approved in 2014.

The base financing in 2013 was calculated for 41 national research institutions for remuneration of the research staff, covering the costs of maintenance of research institutions and achievement of the objectives set in the strategy for the activity of research institutions, including patenting inventions and protection of the right to use them, preparation for economic use (commercialization), as well as ensuring co-financing of the EU structural funds, other foreign and international financial instruments and international research projects. In 2013, the base financing amounted to EUR 11.3 million, while in 2014 it increased to EUR 14.1 million as a result of the New Policy Initiative.

Within the EU R&D 7th *Framework Programme for 2007–2013*, Latvian scientists have participated in project tenders with relatively good results – 22% (on average in the EU – 21%), thus attracting EUR 40.6 million in this period which is about ½ of the Latvian contribution to the 7th *Framework Programme*. The government allocated additional EUR 1.6 million from the government budget of 2014 to pay VAT in the next *Framework Programme Horizon 2020 (2014–2020)* to move towards research excellence and increase the intensity of programme applications, and thus increase the investment from the programme *Horizon 2020*.

The EU funds investment in the amount of up to EUR 2 million is planned for preparation of project applications in the programme *Horizon 2020* and applications in project tenders in 2014–2015.

In order to encourage cooperation between the scientists of the Baltic States in the project tenders under the programme *Horizon 2020*, the Baltic States decided to establish the *Baltic Bonus System* in 2013 where each of the countries pays for the work of their project developers for joint participation of the Baltic scientists in tenders under the programme *Horizon 2020*. A total of EUR 139 thousand has been allocated for this measure in 2014.

At the same time, the following key activities are being implemented to increase investments in R&D:

- 9 national level research centres for concentration and development of science and technologies have been established for the purpose of financing modernisation of research infrastructure and laboratories and purchase of new equipment within the first stage of the ERDF sub-activity “*Development of Research Infrastructure*” (2011–2015), thus modernising 27 national level research centres in the leading scientific institutions. As a result, a modern, adaptive research infrastructure system

¹⁷ CM Decree No. 551 of November 20, 2013 “*On Priority Directions in Research for 2014–2017*”.

will be developed to ensure the basis of complex fundamental and applied research projects, thus allowing Latvian research institutions to integrate in the EU Common Space in Research and Cooperation. The ERDF co-financing in the amount of EUR 80.2 million has been granted for development of research centre infrastructure in the programming period 2007–2013;

- In 2013, the support was still available within the ESF activity “*Attraction of Human Resources to Science*” for scientific groups, the conduct of interdisciplinary research, by engaging doctoral students, new scientists and scientists wishing to return to Latvia, and foreign scientists in scientific work attracting doctoral students, young scientists and scientists wishing to return to Latvia, through organization the second project selection stage for the amount of EUR 23.6 million;
- Ensured joint participation of Latvian entrepreneurs and scientists in programmes fostering cooperation between research and manufacturing sector and development of new technologies and products (within EUREKA, EUROSTARS, ARTEMIS programmes);
- In 2013, a number of projects has been approved and launched within the EU structural funds activities, providing support to science, thus promoting creation of new jobs for new and returning scientists; attracting new scientists to research and financing costs of research work of new scientist groups (48 projects for the total eligible financing EUR 23.1 million); fostering integration of research and manufacturing and implementation of research results in line with the national priority research directions (24 projects for the total eligible financing EUR 9.2 million).

In order to increase human resources in R&D in the EU funds programming period 2014–2020, it is planned to provide support to conducting research projects by scientific groups at scientific institutions and conducting post-doctoral research by new scientists, as well as innovation grants for students (especially in the STEM fields) presenting better and competitive academic or research achievements; cooperation projects with entrepreneurs and their organizations for development of innovative solutions to tackle sector-specific issues (the total indicative financing EUR 174.54 million, including the ERDF financing of EUR 148.35 million).

Yet, in order to ensure international research competitiveness in the EU funds programming period 2014–2020, it is expected to support the improvement of R&D infrastructure in accordance with the priorities set in the *Smart Specialisation Strategy* (the total indicative financing EUR 100 million, including the ERDF financing of EUR 85 million), to build institutional capacity of research institutions through implementation of external quality assessment recommendations of performance of research institutions for increasing competitiveness internationally and targeted mergers of research institutions (the total indicative financing EUR 15.25 million, including the ERDF financing of EUR 12.96 million), as well as support for development of bilateral and multilateral cooperation projects under the EU Common Space in Research and participation in international research events is expected to be provided (the total indicative financing EUR 32.55 million, including the ERDF financing EUR 27.66 million).

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

The implementation of the EU structural funds programmes *Competence Centres* and *Technology transfer contact points* has been continued in 2013 with an aim to improve cooperation between the research sector and entrepreneurs, achieve successful commercialization of research results and to boost technology transfer and improve research infrastructure. By the end of 2015, the EU funds financing in the amount of EUR 55.8 million is expected to be invested in the programme implementation, thus possibly attracting another

EUR 8.3 million from the private sector. A total of 188 industrial research and development projects of new products and technologies are being implemented at 6 competence centres established within the *Competence Centre Programme*, out of which 9 projects have been completed in 2013. A total of EUR 2.4 million has been paid for the activity of competence centres in 2013. Yet, the activities of 8 technology transfer contact points in 2013 have resulted in preparation of commercialization offers of 67 research project results, submission of 55 patent applications (out of which 5 are international patent applications) and 2 applications for other industrial property objects (designs and prototypes), and conclusion of 85 cooperation agreements between enterprises and scientists on conducting commissioned research, research services and sale of industrial property or the right to use it.

At the same time, in order to boost development of research infrastructure within the ERDF activity "*Development of Research Infrastructure*", 17 projects have been launched/implemented in 2013, including 9 projects in the 1st selection stage for the development of national level research centres (the ERDF financing in the amount of EUR 79.6 million) and 8 projects in the 2nd selection stage (the ERDF financing in the amount of EUR 43 million). The projects are expected to be implemented by August 31, 2015. The implementation of the projects in the 1st selection stage is expected to result in modernisation of 27 research institutions, thus establishing a modern, adaptive research infrastructure system to provide the basis of complex fundamental and applied research project, thus allowing Latvian research institutions to integrate into the EU Common Space in Research and Cooperation.

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

The implementation of projects approved in the first selection stage of the programme "*Development of New Products and Technologies*" and the first and second selection stage of the programme "*Introducing New Products and Technologies in Production*" was continued in 2013. A total of 80 contracts for the EU structural funds financing in the total amount of EUR 7.30 million were signed within the programme "*Development of New Products and Technologies*", out of which 78 projects for the total EU structural funds financing of EUR 7.17 million were completed by the end of 2013. A total of 117 contracts for the EU structural funds financing for the total amount of EUR 38.8 million were signed within the programme "*Introducing New Products and Technologies in Production*", out of which 107 projects for the total amount of EUR 32.9 million were completed by the end of 2013. The implementation of 5 projects concluded within the programme "*Development of New Products and Technologies – Support to Securing Industrial Property Rights*" for the total EU structural funds financing EUR 0.10 million was also continued in 2013.

In 2013, the 3rd selection stage of project applications within the programme "*High Value Added Investments*" was implemented for the total available EU structural funds financing in the amount of EUR 56.9 million. As a result of the 3rd selection stage, a total of 73 entrepreneur project applications were approved for the requested support amount of EUR 43 million. At the same time, the implementation of 2013 projects approved within the first selection stage of project applications for the total financing of EUR 60.2 million and the implementation of 15 projects approved in the second selection stage for the total financing of EUR 39 million were continued in 2013. By the end of 2013, a total of EUR 72.8 million (in 2013 – EUR 16.3 million) were paid to the implementers of projects approved in the first and the second selection stage of the programme, and 17 projects for EUR 48.9 million were completed. The programme provided support to purchase of manufacturing equipment, construction and modernisation of production units with an aim to foster production of new high value added products and creation of new jobs. In 2013, the acceptance of projects continued within the programme "*Development Programme of New Products and Technologies by Micro-, Small and Medium-Sized Enterprises*" and 28 project applications

were submitted within the programme, out of which 17 projects were supported (i.e. agreements were signed) for the requested amount of support EUR 0.21 million. The total available EU structural funds financing in the programme was EUR 2.84 million.

The ERDF financing of EUR 240.9 million is expected to be invested in the implementation of the described activities¹⁸ by the end of 2015, thus possibly attracting private sector co-financing in the amount of EUR 290 million.

In 2013, certain preparatory works have been carried out to launch the practical implementation of the Norwegian financial instrument programme “*Green Industry Innovation*”. The programme envisages establishment of the Technology incubator to provide support for development of technological business ideas at their early stage. The programme is also aimed at implementing an open call for project applications to provide support for enterprises to purchase waste- and emission-reducing equipment, thus promoting introduction of environmentally friendly solutions into the production process. The total programme financing is EUR 12.6 million, out of which EUR 11.3 million is the Norwegian financial instrument co-financing and EUR 1.3 million – financing of Latvia. The implementation of activities under the programme is expected to be launched in the first half of 2014.

The Norwegian financial instrument project “*Capacity-Building and Institutional Cooperation between Latvian and Norwegian Public Institutions, Local and Regional Authorities*” has been implemented since November 2013 and five regional competitions for innovative business ideas will be organized. The competition is intended for every interested person wishing to start a business and having an innovative and viable business idea. The total financing for the competition is expected to amount to EUR 81 thousand. In order to draw attention to regional development-related issues and focus also on the potential of regions, the competitions for business ideas are going to be held in each planning region. Regional competitions will be held in 2014–2015. All planning regions will be engaged in organization of regional competitions for innovative business ideas and distribution of information about the business idea competitions to be held in each region.

In order to foster private sector investments in R&D, as of July 1, 2014, enterprises making investments in R&D will be a subject to a tax relief, providing a possibility to write off certain R&D costs in the year that such costs were incurred by applying a value-increasing coefficient – 3.

3.2.4. Information and Communication Technologies

The aim is to ensure equal access to electronic communications across Latvia, to increase 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 2013, 71% of Latvian population used internet on a regular basis (at least once a week). At the beginning of 2013, the number of broadband internet access lines¹⁹ in Latvia reached 23.1 per 100 persons (at the beginning of 2012 – 20.4).

In January 2013, in 63.7% of cases internet connection in Latvia using fixed lines ensured data transfer speed ≥ 10 Mbps (mbit/sec), in 43.4% of cases – data transfer speed from 30 Mbps to 100 Mbps and in 20.5% of cases – data transfer speed above 100 Mbps (on average in the EU only 14.8% fixed lines had data transfer speed above 30 Mbps in December 2012).

¹⁸ “*Development of New Products and Technologies*”, “*Introducing New Products and Technologies in Production*”, “*Development of New Products and Technologies – Support to Securing Industrial Property Rights*”, “*High Value Added Investments*”, “*Development Programme of New Products and Technologies by Micro-, Small and Medium-Sized Enterprises*”.

¹⁹ In Latvia, access is recognized as a broadband connection if it is constantly in an on-line mode and the data transmission speed is at least 144 Kbit/s, basic broadband speed is 2 Mbit/s, high-speed broadband – 30 Mbit/s and very high-speed broadband – 100 Mbit/s.

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

Key policy directions and measures:

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

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

So far, calls for proposals for the design and construction of optical network infrastructure have been announced within the *State Support Programme for Optical Network*, and construction works have already been commenced. A broadband network of at least 1200 km is planned to be constructed and about 130 connection points are expected to be established in 2014. Development of the next generation broadband networks is implemented based on the EU recommendations and in those geographic areas where there is no efficient competition and where no next generation networks would be established in the nearest future without the public support (EU funds or state support). The intensity of project implementation will have no negative impact on competition and it will not grant any competitive advantages to any electronic communication enterprise.

- ***Ensuring access to digital content and e-services*** (responsible institutions – 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.).

The *Concept on ICT Organisational Management Model of Public Administration* approved in February 2013 envisages major reforms in the public ICT management by developing centralised ICT platforms.

In 2013, development of a universal payment service for the use of e-services outside website www.latvija.lv has been launched.

In 2013, digitalization of cultural content and development of e-services to improve access to infrastructure and content of libraries, museums and archives by introducing new e-services was continued, including e-services “*Ensuring Access to Latvian Audio Visual Materials in the e-Environment*” and “*Developing Multilingual Corpus and Machine Translation Infrastructure to Ensure Access to e-Services in the e-Environment*”.

The *National Digital Collection Strategy* has been drafted in 2013, with an aim to develop a model for planning, management and financing of digitalization of cultural content in order to ensure digitalization, preservation and access to cultural content for the society from 2014 until 2020.

The implementation of the ERDF co-funded projects within the *e-Health* 1st round will be completed in 2014. The implementation of *e-Health* 2nd round projects has been launched in 2013 and is expected to be completed in 2015. Within the *e-Health* 1st round projects an e-health website, e-booking and e-assignment information system, electronic health record, e-prescription and integration platform solution information systems will be developed and introduced.

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

For the purpose of the safe use of IT, the *Law on Information Technology Security* was approved and came into force in 2011. According to the law:

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

In January 2014, the CM approved the guidelines on the *Cyber Security Strategy of Latvia for 2014–2018*, describing the cyber security situation in Latvia and defining the fundamental principles, aims and strategic priorities of cyber policy making in the following five priority directions of action: cyber security management and resources, the rule of law in the cyberspace and reducing cybercrime, readiness and ability to respond to crisis situations, international cooperation. The Plan of Action is being drafted and will be approved by the CM for the implementation of the priority directions. In 2014, the priority tasks are: preparation for Latvia's Presidency in the EU Council, strengthening the national ICT security and international cooperation, as well as raising public awareness and understanding about the wide and safe use of the ICT.

According to the *Draft Regulation of the European Parliament and of the Council on electronic identification and trust services for electronic transactions in the internal market*, each Member State is expected to establish a national qualified supervisory body of trust service providers to promote trust in cross-border cooperation, and cross-border processing and recognition of electronically signed documents in the EU. Enforcement of the regulation will be one of the key elements for proper functioning of the Digital single market. Currently, the CM is working on an informative report and a decision on the establishment and operation of the relevant competent authority in Latvia.

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

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

The e-skills development policy should be seen in the light of the GDIS. The ICT education and e-skills have been identified as one of seven directions of action in the GDIS. Activities in the e-skills area should encourage small- and medium-sized entrepreneurs 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 population, entrepreneurs and employees of public administration, training of the employed organized in a form of a partnership, e-skills week for the unemployed and job seekers, including by involving employers, etc. It is expected to develop an integrated curriculum in education areas for children aged 5 years to the 6th grade (including algorithmic thinking and information literacy), development of digital teaching materials for general education, etc. Ergonomic improvements are planned to be made in study environment and support for introduction of innovative ICT solutions to the study process is expected to be provided for the implementation of the improved general education content in regional secondary schools, improvement of teachers' qualification, including business skills, leadership, creativity, ICT and foreign language skills, etc.

The following conditions of the Chapter 6 “Planning further action” of the GDIS envisage promotion of e-skills of teachers in general education schools and heads of education institutions:

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

The implementation of the GDIS is expected to improve the medium level ICT skills of population, reaching 40% in 2020, and reducing the share of people that have never used internet from 18% in 2014 to 9% in 2020.

Promotion of the ICT education and e-skills learning will result in improvements of e-commerce, thus enterprise turnover from internet sales will reach 15% in 2020 and the public administration efficiency (GRICS indicator²⁰) will be increased from 75% in 2014 to 85% in 2020.

3.2.5. Transport and Environmental Infrastructure

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

The transport infrastructure 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.

Assessment of both state and municipal roads and streets shows that the overall technical condition of roads is insufficient and fails to comply with the needs of economic, safe, convenient and environmentally friendly traffic. Approximately half of roads with asphalt coverage are in very bad or even critical condition. One third of gravel roads are in bad condition.

The insufficient carrying capacity of railway lines in certain line sections should also be noted. Therefore, reconstruction of railways, modernisation of communication and alarm system, etc. need significant modernisation projects to increase the carrying capacity with an aim to reach 85 million tonnes per year in 2015. The intention to electrify several railways is essential factor in achieving considerable energy efficiency and reducing a significant amount of hazardous emissions. The length of electric railways is expected to be increased by 20% by 2020, while the amount of CO₂ emissions in railway transit is expected to be reduced by 60% compared to 2012.

Freight transit plays a major role in the economy of Latvia, constituting approximately 1/3 of the total exports of all types of services. Development of transit fosters also development of other sectors of the economy, and supports foreign trade and exports.

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

²⁰*Governance Research Indicator Country Snapshot.*

Key policy directions and measures:

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

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

The main directions for 2011–2013 are reconstruction and improvement of railway, road, port and air transport infrastructure, as well as development of the International Freight Logistics and Port Information System. The total public financing in 2011–2013 was EUR 469.4 million, including EUR 222.5 million in 2013, while EUR 179.7 million are planned in 2014.

In 2012, the project *Construction of the Second Railroad with the Length of 52 km Skrīveri–Krustpils (Rīga–Krustpils district)* was continued to be implemented using the co-financing from the Cohesion fund (hereinafter – CF). The total eligible costs of the project amounted to EUR 93.5 million, including the CF financing in the amount of EUR 65.6 million and the SJSC “Latvijas dzelzceļš” financing in the amount of EUR 27.9 million.

In 2013, implementation of the largest launched CF projects continued – reconstruction and construction of national main roads. The length of roads reconstructed within the projects financed by the EU funds amounted to 158 km in 2013.

In 2013, development of infrastructure to move port operations of the Riga port away from the city centre, development of Riga International airport infrastructure, as well as coordination of project selection financed by the TEN-T at national level were continued as well.

The implementation of the launched projects will be continued in 2014.

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

Regional roads in the country are improved through the ERDF financing. The total public financing for regional roads in 2011 amounted to EUR 56.9 million, including the EU funds financing of EUR 48.2 million, while in 2012 the financing constituted EUR 41.1 million, including the EU funds financing EUR 35 million and in 2013 – EUR 44.5 million, including the EU funds financing EUR 37.8 million.

In 2013, construction works within 13 projects have been completed with the total length of regional roads of 119.3 km.

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

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

By the end of 2013, water management systems have been modernized, thus increasing the number of population having access to centralized water management services. The improvement works are planned to be continued in 2014, thus ensuring operation of 272 modernised water management systems. Thus, 64.8% of population will receive quality drinking water supply services and 60% of population – waste water management services.

The waste management infrastructure has been improved by constructing waste landfills in accordance with the requirements of the legislation, developing separate waste collection and sorting and performing dump-site re-cultivation. By December 31, 2013, 1078 separate waste collection points, 29 waste sorting sites, 11 composting sites and 15 sorting and reloading centres have been established. As a result of the abovementioned activities, the average share of separate waste collection points has reached 856 people per one point. In

2013–2014, waste landfill sites are planned to be improved – in total, infrastructure of 9 landfill sites is planned to be improved through the CF support by 2014, as well as to promote the development of a separate waste collection system by providing support to 20 enterprises and achieve re-cultivation of several dump sites – in 2013, it is planned to re-cultivate 10 household dump sites all over Latvia, while another 32 dump sites are planned to be re-cultivated by the end of the EU funds programming period.

To reduce the anthropogenic load, the environmental protection infrastructure has been developed also in *Natura 2000* territories by implementing 38 projects in 2012. A total of 35 projects have been completed by the end of 2013. The number of projects is expected to reach 60 in 2014.

Financing is also allocated to reducing the risk of floods, construction of hydrotechnical structures and environmental monitoring.

The total EU funds financing for the development of environmental infrastructure in 2013 was EUR 72.3 million, out of which the majority, i.e. EUR 55.2 million was invested in development of water management. Higher EU funds financing in the amount of EUR 130.2 million is expected to be allocated for the development of environmental infrastructure on 2014 since the projects of the current EU funds programming period are about to be completed.

3.3. EMPLOYMENT

A target to reach a 73% employment rate (population aged 20–64 years) by 2020 has been set in the NRP of Latvia. Over the past few years, economic growth has fostered an increase in employment – from 2011 until 2013 the average increase in the number of employed has been 1.7%. In 2013, the employment rate for the given age group has increased to 69.7%.

Table 3

| | Employment target's achievement trajectory | | | | | | |
|--|--|------|------|------|------|------|------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2020 |
| Employment rate (population aged 20–64), % | 75.4 | 66.6 | 64.3 | 66.3 | 68.1 | 69.7 | 73.0 |

Economic growth is expected to further boost employment. However, the growth rate might slow down as the growth will be mainly determined by the increase in productivity. Despite that, Latvia is likely to exceed the employment target in 2020 as there have been faster improvements in the labour market over the past few years than expected. Moreover, the increase in the employment rate will be partially affected by the expected decline in the number of working-age population.

Key elements of the employment policy in Latvia:

- Fostering labour demand – promoting economic activities and entrepreneurship, including reduction of labour taxes, combating unregistered employment, indirect and direct state support measures for entrepreneurs, measures to reduce administrative barriers, implementing support measures for micro-enterprises, business incubators, etc. (see Chapter 3.2);
- Strengthening labour supply – improving competitiveness of persons at unemployment risk in the labour market, including improvement of skills to match the labour market demands (vocational continuing education, informal education for unemployed, consultations and professional mobility), lifelong learning measures, consultations on business start-ups, etc.;
- Promoting matching of labour supply and demand²¹, including improvement of the education system, involvement of employers' organizations in improvement of education

²¹ The ME prepares an annual report on labour market forecasts based on which the MES and the SEA adjust the supply.

quality, forecasting consistency of labour demand and supply, educating labour market participants, including pupils and students, about the labour market and career issues (see Chapter 3.4 on education reforms).

In 2013, Latvia continued and improved the ALMP measures to improve labour skills and qualifications, measures to improve involvement and encouragement of unemployed, for example:

- Improvement of the job search system and support measures;
- Promoting cooperation between employment services and social services to provide targeted support to the long-term unemployed;
- Introducing the unemployed profiling system;
- Promoting youth employment and reducing unemployment.

In 2013, a total of EUR 46.4 million has been spent for the implementation of the ALMP measures, including the ESF co-financing in the amount of EUR 37.8 million. About 50% of the financing has been spent for raising and improving qualification of the unemployed, about 30% – for organisation of paid temporary public works, about 15% – for supporting the most disadvantaged unemployed and creation of subsidised jobs, including youth initiatives, slightly over 4% – for raising qualification of the employed and for business initiatives. In 2013, a total of 195.6 thousand unemployed have participated in the SEA ALMP measures (one person is allowed to take part in several activities), out of them 186 thousand unemployed have been involved in the measures in 2013. A total of 75.5 thousand unemployed have found a job in 2013, 40% of them have found a job after completion of active measures (except information days of the measure to increase competitiveness).

In order to promote employment and foster labour mobility, in the programming period 2014–2020 it is expected to raise qualification and skills of the unemployed to match the labour market demand, to promote NEET youth employment and education through the *Youth Guarantee*, to maintain the capacity to work and employment of elderly employed as long as possible, to foster integration of the most disadvantaged unemployed into the labour market, as well as integration of people at the risk of discrimination in the society and in the labour market.

Key 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 by improving the training measures in education institutions and at an employer. In order to achieve the aim, the following measures are being implemented:

- As of the 3rd quarter of 2013, the unemployed profiling system is applied. It helps efficiently and quickly fill the vacancies and offer the best ALMP measures. Profiles for 65 979 or 70.7% of the total number of registered unemployed have been prepared by December 31, 2013;
- In 2014, a pilot project has been launched within the vocational education of unemployed. From January 2014 until June 30, 2014, the pilot project gives about 200 unemployed an opportunity to acquire a certain profession at certain state vocational education institutions that have improved their material-technical base through the ERDF support. The project results are going to be assessed after the end of the project, followed by a decision-making on expanding the training opportunities for unemployed in state- and local government-founded education institutions. The education expenses within the pilot project are expected to amount to about EUR 292.3 thousand that is planned to be financed from the ESF funds;

- In 2014, a discussion about the amount of the grant paid for participation in the training measures is planned to be initiated as the amount has been last revised in 2009 – thus, it is expected to support those unemployed studying far from their place of residence and incurring additional transport and living expenses out of the declared place of residence.

In 2013, about 30 thousand persons were involved in training measures. The total public financing was EUR 23.4 million in 2013, including the EU funds financing EUR 16.9 million²². The total estimated public financing in 2014 amounts to EUR 14.4 million, including the EU funds financing – EUR 12.4 million.

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

The aim is to develop practical skills of the youth and to foster the possibility for them to find a job successfully by developing and implementing the measures oriented towards unemployed youth (see also Chapter 2.3).

The unemployed youth is one of the SEA priority target groups. The SEA offers different services (measures to improve competitiveness, short-term training programmes to improve job search skills, career consultations, vocational education programmes to obtain new qualification or improve the existing one, training at the employer or at the request of an employer, informal education programmes). The following measures are intended exclusively for the youth: *Work Place for the Youth*, *Support for the Youth Volunteering*, *Youth Workshops* (getting acquainted with different professional areas), as well as assistant training and practice of the SEA inspectors.

In order to achieve the aim, the following measures are being implemented:

- In 2013, the implementation of measures “*Work Place for the Youth*”, “*Assistant Training and Practice of the SEA Inspectors*” and “*Support for the Youth Volunteering*” was continued, and the implementation of the new measure “*Youth Workshops*” was launched as well. Overall, 1862 young people were involved in these ALMP measures in 2013. The total public financing in 2013 was EUR 0.90 million, including the EU funds financing EUR 0.51 million. The estimated financing in 2014 – EUR 6.4 million, including EU funds financing EUR 5.9 million.
- As of 2014, the implementation of the *Youth Guarantee* has been launched. The *Youth Guarantee* measures are offered to the youth registered as unemployed at the SEA or acquired the status of the *Youth Guarantee* client. The *Youth Guarantee* client status is granted to the youth involved in the MES’s one-year and one-and-a-half-year vocational education programmes. The *Youth Guarantee* also includes the activity “*Support for the Youth Not in Education, Employment or Training under the Youth Guarantee System*” aimed at encouraging young people to return to education or get involved in the SEA and the SEDA measures. Certain *Youth Guarantee* measures are intended for the youth aged 25–29 years – they are provided support in job search, participation in measures to increase competitiveness, career consultations, support for business or self-employment start-ups, subsidized employment measures and involvement in the one-year and one-and-a-half-year vocational education programmes. The total financing for the implementation of the *Youth Guarantee* for 2014–2020 amounts to EUR 66.7 million, including the EU budget special allocation for financing the youth employment initiative – EUR 29 million, ESF financing – EUR 32 million, the government budget co-financing – EUR 4.5 million and private co-financing – EUR 1.14 million.

²² Including financing for short-term programmes to improve competitiveness (career consultations and measures to improve competitiveness).

- In order to promote youth employment in the programming period 2014–2020, the implementation of a new project is expected to be supported in local governments with an aim to encourage, profile and activate young people aged 13–29 years not in education, employment or training and not registered as unemployed at the SEA, thus fostering their return to the education system and involvement in the labour market.
- Since 2010, one-year and one-and-a-half-year vocational education programmes are being implemented using the ESF support to provide an opportunity for the youth, who have chosen not to study at the university after graduating elementary school or secondary school and are unable to integrate in the labour market, thus fostering their integration in the labour market as soon as possible, thereby preventing the risk of youth unemployment (see Chapter 2.3);
- Since 2011, within the Latvian and Swiss cooperation programme *Support for the development of youth initiatives in peripheral or disadvantaged regions*, the youth may attend regular training with an aim to foster their active participation and development of social competences (in 2013, 218 have attended 11 trainings). The sub-programme *European Voluntary Service* of the programme *Youth in Action* (2007–2013) and the programme “*Erasmus+*” (2014–2020) offers young people an opportunity to obtain the first working experience through a volunteering in any of the EU Member States, as well as to improve their knowledge by participating in experience exchange seminars, training or intercultural study visits (in 2013, about 2438 young people have taken the opportunities of the programme *Youth in Action*);
- Annual state budget support is provided to youth centres and youth organizations for the implementation of informal education programmes for the youth. In 2014, the support for the implementation of youth policy is estimated to amount to EUR 330.5 thousand, out of which EUR 184.7 thousand is intended for the support of youth centres and youth organizations. In addition to the annual support, financing in the amount of EUR 76.7 thousand has been allocated in 2014 for support measures to promote social integration of the youth.

- ***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 groups of population, especially social assistance clients by providing more targeted support to long-term unemployed and by promoting geographical labour mobility (see also Chapter 2.3). To achieve this aim:

- Within the ESF co-financed activity “*Support for the implementation of regional action plans for promotion of employment*”, the conditions on participation of unemployed in the paid temporary public works have been simplified in 2013, thus expanding the current target group (unemployed not receiving unemployment benefit and having the status of an unemployed person for at least six months) and providing support to people who receive no unemployment benefit and have the status of an unemployed person for less than six months but have been unemployed for at least 12 months. In 2013, the measure has involved 32.1 thousand unemployed;
- In 2013, the conditions in participation have been simplified also for people having found a job far from their permanent place residence and wishing to apply for financial support within the regional mobility measure “*Job in Latvia*”, namely, the measure is designed for people having the status of an unemployed person for at least 2 months instead of 6 months as previously planned. The measure has involved 182 unemployed in 2013;
- In order to evaluate actual possibilities for an unemployed person to start suitable employment legal relations at the workplace, the SEA cooperates with social services to establish whether there is any objective obstacle preventing the unemployed, who is

also a client of social services, from starting the work. In order to encourage the unemployed and job seekers to actively search a job, the unemployed and job seekers have an obligation in cooperation with the SEA to prepare an individual employment searching plan and inform the SEA about their job search activities during each meeting. The cooperation model between the SEA and social services is expected to be further improved, especially to involve the long-term unemployed in the labour market;

- The implementation requirements of the paid temporary public works are to be revised in 2014, by including the selection of a range of services that match the unemployed profile to eliminate obstacles preventing the person from integration into the labour market. The development of proposals is going to be based also on the experience of other EU Member States in organising similar programmes.

The total public financing for these measures in 2013 constituted about EUR 14.2 million, including the EU funds financing EUR 11.6 million, the number of involved persons: slightly over 32 thousand people. The financing in 2014 has been estimated to amount to EUR 10.4 million, including the EU funds financing EUR 9.2 million.

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

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

- The impact of labour market policy measures and the efficiency of the SEA services are assessed on a regular basis using the ESF support. The assessment of the efficiency of the ALMP measures conducted within the WB's study serves as the basis for planning measures to promote employment in the programming period 2014–2020, for example, training measures with employers' involvement are to be improved and the amount of the grants for wages of disabled persons is to be revised depending on the severity of disability. The work on integrating the unemployed in the labour market will be continued and the profiling system of registered unemployed will be further developed;
- short-term forecasts regarding the most demanded skills and professions in labour market have been prepared in 2013 which is a prototype of the short-term forecasting model to be tested and finished in 2014;
- the SEA offers the unemployed, job seekers and persons at unemployment risk career consultation services. In order to promote accessibility, quality of career consultations and their match to labour market demands, a number of changes have been made to the structure of career services, by expanding the range of individual, customer-oriented services and reducing the number of group career consultations. The SEA has started cooperation with non-governmental organizations in the use of sign interpreter services during career consultations. The informative-methodological basis for consultations has been updated in 2013, thus providing customers and career consultants with the latest information about education opportunities in Latvia. The methodology in work with the youth is expected to be improved within the *Youth Guarantee* in 2014;
- in 2014, the implementation of the new ALMP measure "*Support Measures for the Job Search*" has been launched with an aim to encourage the unemployed and job seekers to actively search a job and integrate into the labour market (preparation of an individual employment seeking plan in cooperation with the unemployed, unemployed

profiling, identifying the best job, providing information about job search methods, preparation of job search documents and other measures to promote active job search).

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

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

In order to promote establishment and development of new micro-enterprises, a regulation for promoting support activities for micro-enterprises was implemented in 2010:

- Amendments to the *Commercial Law* as of May 2010 prescribed an opportunity to establish a limited liability company with reduced equity capital, and reduced the state fees, thus decreasing the total costs of business start-up. According to the RE, a total of 57 055 LLC have been registered in the time period from May 1, 2010 to December 31, 2013, out of which 38 086 or 66.75% are LLC's with reduced equity capital;
- Since autumn 2010 the introduced *Micro-Enterprise Tax Law* has encouraged registration of 32 073 micro-enterprise taxpayers in the SRS, out of which about a half are new enterprises. Currently, micro-enterprises employ over 80 000 registered employees;
- Regulation of patent fees has promoted the activity of micro activity – about 6500 registration applications for a patent fee have been registered at the SRS in the time period from the beginning of 2010 until the end of 2013, constituting on average 350 patent fee payers per month.

In order to help new enterprises to develop by supporting them at their early stage and providing infrastructure and consultation services, implementation of the ERDF co-financed programme *Business Incubators* was continued in 2012. Business incubation services were available in all regions of Latvia, more than 20 towns of Latvia. As a result of activities, of 9 business incubators in the regions of Latvia and a creative business incubator in Riga, 958 enterprises were supported in 2013. Incubated enterprises have created (maintained) 1514 jobs. A total of EUR 13.4 million have been spent to provide support services of business incubators within the programme from 2009 until 2013, out of which EUR 3.1 million have been paid in 2012, while EUR 5.3 million have been paid in 2013. Yet, EUR 4.1 million is to be paid in 2014.

In order to boost economic activity of the working-age population, including the unemployed who have expressed a wish to start a business or self-employment, as well as to promote development of new enterprises, the ESF co-financed programme *Support for Self-Employment and Business Start-Ups* is being continued, providing complex support, i.e. consultations and loans to start own business. The total programme financing is EUR 23 million. Initially the programme is expected to issue loans to 1450 business starters by the end of 2015. Since the launch of the programme in 2009, 1574 start-up projects have been supported for the total amount of loans EUR 17 million.

In May 2012, the CM approved regulations on the *Lending Programme for Purchase of Agricultural Land*. Loans up to EUR 426.9 thousand are available within the programme for one borrower for purchase of agricultural land to produce agricultural products and purchase existing buildings on the land if the cadastral value of the building does not exceed 30% of the cadastral value of the land. The total budget of the programme is EUR 24.2 million.

Practical implementation of the programme was launched in July 2012 and 268 loans in the amount of EUR 12.8 million were granted by the end of 2013.

3.4. EDUCATION

3.4.1. General Education

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

Table 4

Trajectory for decreasing the share of early school leavers

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2020 |
|-----------------------------------|------|------|------|------|------|------|-------------|
| Share of early school leavers (%) | 15.5 | 13.9 | 13.3 | 11.6 | 10.6 | 9.8 | 13.4 (10.0) |

Data source: Eurostat

Taking into consideration that the acquisition of basic education is compulsory, a number of measures are being implemented at local government (school) level to encourage pupils to return back to school, and therefore the share of early school leavers is low in basic education. However, there are some regional differences: in 2013, there were 14.4% early school leavers aged 18–24 years in rural areas, while 7.1% – in cities and towns. Significant differences had been observed in terms of gender where the share of early school leavers among girls constituted about 5.8% in 2013, while the share is considerably higher among boys – 13.6%.

The most common reasons for dropping out of school is disadvantaged family and socio-economic conditions, including families with children leaving the country to find a better job in other countries, as well as lack of systemic career education and consultations.

Key policy directions and measures:

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

The state has established a single procedure stipulating how an education institution should inform parents, local government or public institutions when a pupil is absent from the education institution without a justified reason, as well as the accounting of children at the mandatory education age has been improved. According to the data on children not registered in any list of education institutions (in 2010 – 11 327; in 2011 – 12 463; in 2012 – 12 618; in 2013 – 14 173) compiled by the State Service of Education Quality (hereinafter – SSEQ), the total number of children at the mandatory education age that have not been registered at any education institutions is changing, and the number of children that have left the country according to the data of local governments is particularly tended to grow (in 2010 – 5646; in 2011 – 7915; in 2012 – 9716; in 2013 – 12 218). The number of children, about whom local governments do not have information, has decreased significantly (in 2010 – 4484; in 2011 – 3327; in 2012 – 2648; in 2013 – 393).

In order to ensure monitoring of education quality for the purpose of improving the curriculum quality, support is going to be provided to education research, including participation in international education quality research, development of monitoring instruments and the implementation of monitoring.

A competence approach-based national standard for basic education is expected to be developed and approbated with the EU funds support. The competence approach-based curriculum is planned to be gradually introduced in practice, including with an aim to improve the knowledge of young people and raise the interest in the sciences, as well as to enhance and develop the role of career education and consultations in the education process.

At the same time, proposals for amendments to the *Education Law* and the *Law on General Education* will be prepared with an aim to prescribe compulsory secondary education, envisaging a transition period and other conditions for the implementation.

A new calculation method for wages of new teachers and a schedule for increasing wages of teachers is planned to be developed in cooperation with social partners by August 1, 2014 to ensure transparent and clear planning of wages and to improve the prestige of the teacher's profession.

Inclusive education is focused on two main target groups: children and youth at risk of exclusion due to their development, abilities or health condition and youth at risk of exclusion due to social conditions. Implementation of EU funds' activities provides a substantial contribution to the development of the support system and measures, as well as the development of proper infrastructure of educational institutions necessary for integration of these young people. For instance, the infrastructure of a total of 36 general education institutions and 61 special education institutions has been customized for children with special needs in the programming period 2007–2013, including customization of infrastructure has been completed in 13 special education institutions in 2013. In the previous years, the work has been done in the remaining education institutions and a total of 23 128 children have received support for education by the end of 2013 (including in 2013 – 5466 children) and 39% of the students with special needs have been integrated into general education and vocational education institutions.

It is planned to increase the interest of general education schools, particularly teachers and heads of educational institutions in approaching each pupil individually and in developing a favourable educational environment to meet the pupils' needs.

According to the tasks under the *Action Plan to Implement Reforms in General Education* the following key measures are being implemented:

- Assessment of financial efficiency of special educational institutions according to a common methodology as a result of which it will be possible to revise the financing model of special educational institution network and to develop a suitable financing model;
- Providing state paid assistant service to pupils who need special care in educational institutions (in the academic year 2012/2013, 207 children have received such service);
- Developing the description card of the inclusive education processes (VISC);
- In order to prevent discriminatory practice in education, since September 2012 special educational institutions have an opportunity to change the title of educational institution and remove the word “special” from the title of the institution. At the beginning of 2014, proposals for support measures are expected to be prepared with an aim to preserve special education institutions within the context of improving the education institution network.

The total public financing in 2013 was EUR 3.3 million.

The measures within the reforms to improve the education are incorporated in the *Draft Education and Development Guidelines for 2014–2020*²³.

Moreover, support is planned to be provided within the programming period 2014–2020 for preventive and compensatory measures to ensure accessibility of education and reduce early school leaving, thus achieving that children or youth continue education at general or vocational education institutions, graduates or acquire a qualification that could be used in the labour market, as well as providing support to involvement of young people in interest-related

²³ Approved by the CM on January 7, 2014. Currently is being considered by the Saeima committees.

education measures for successful integration of the youth in the education system and the labour market (the indicative planned EU funds financing EUR 73.6 million).

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

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

Modernization of the study process is carried out as follows:

- By implementing reforms in distance learning and second chance programmes in general education. From 2010 until 2013, the number of licensed distance learning programmes has increased (at the end of 2013 – 45 programmes);
- By updating school library funds. In 2013 and 2014, the state support to general education schools for purchasing modern teaching materials, including electronic has been increased. At the same time, the regulation clarifies the responsibility of the state, local governments and parents for financing the purchase of learning materials;
- By developing a set of teaching materials for the interactive board to develop research skills in natural sciences and to promote the joy of reading.

The total financing for the purchase of modern teaching materials in 2013 is EUR 1.93 million, and in 2014 the available financing has been increased to EUR 4.85 million.

In 2014–2020, the following modernisations of study process are expected to be supported through the EU funds:

- To introduce competence approach-based curriculum by developing guidelines for preschools and a basic education standard, as well as a national standard for general secondary education. At the same time, it is planned to improve independence of schools in flexible planning of the curriculum and the study process. The new competence approach-based curriculum is expected to be approved as of the academic year 2015/2016, envisaging subsequent introduction thereof (from the 1st grade) in the academic year 2016/2017;
- To increase the knowledge and interest of young people in the sciences, thus improving the studies of the STEM subjects through a complex body of measures. In order to raise the motivation and interest of students in natural sciences, schools must cooperate with higher education institutions, thus increasing the future student flow in the study fields of STEM, including medicine and creative industries;
- To improve and develop the role of career education in education process. It is expected to improve the informative and methodological base of career education, provide career consultations to students at general and vocational education institutions, as well as to implement other career support measures in cooperation with employers and higher education institutions;
- To improve monitoring of education quality. It is expected to provide support to education research, including participation in international education quality research, development of monitoring instruments, implementation of monitoring, result analysis and preparation of proposals, as well as development of scientifically justified instruments and indicators for quality assessment of learning environment. In addition to current international OECD education quality indicators, the existing education quality indicators will be improved and new ones will be developed and implemented in the quality assessment of general and initial vocational education programmes.

Proposals for complementing state examination systems with identifying state examinations in natural sciences are planned to be prepared, as well as a special monitoring of STEM subjects and natural sciences is expected to be carried out.

The total indicative EU funds financing in 2014–2020 is EUR 30 million.

At the same time, complex support will be provided for improvement of a general education institution network at a regional level in the programming period 2014–2020, based on the development strategies of regions and regional associations, providing support for improvement of natural science laboratories to implement basic education programmes; purchase of necessary teaching materials and technical equipment, adjustment of learning environment at general education institutions implementing vocational education programmes; modernisation of dormitories; establishment and modernisation of infrastructure at national level secondary schools and gymnasiums; introduction of innovative ICT solutions in the study process; development of methodological centres in the field of STEM and ICT; improvement of sports infrastructure at general education schools; adjustment of buildings and purchase of teaching materials and technical equipment for education institutions implementing education process from the 1st to the 6th grade.

The total indicative planned financing: EUR 162 million.

3.4.2. Secondary Vocational Education

By 2020, the share of the number of students in vocational education and secondary education is planned to be changed in favour of vocational education from 33/67 (in 2010) to 50/50 (in 2020). In the academic year 2013/2014, a total of 11 506 students have started studies in vocational education programmes which is by 12% less than in the academic year 2010/2011 (11 914 students). Although the number of young people is falling due to demographic challenges, the implemented measures have resulted in an increase in the number of young people preferring to continue their education in vocational education programmes by 15%, reaching the share of 39/61 in the academic year 2012/2013, thus approaching the target for 2020.

The key policy principles for changing the share of the number of students in vocational education and secondary education in favour of vocational education are 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.

In 2013, a total of 11 096 students of vocational education programmes started studies in state funded study positions (including with EU funds financing – 2219 students). Also on September 1, 2014, students will be enrolled in vocational education programmes with scholarships financed through the EU funds. In order to prepare specialists who match the labour market demand, enrolment in specific vocational education programmes will be determined based on the medium- and long-term labour market forecasts, opinion of industry expert councils and coordinated with the Tripartite Cooperation Sub-Council of Vocational Education and Employment.

The total public financing in 2013 within the activity *Promotion of Initial Vocational Education Attraction* for scholarships amounted to EUR 10.1 million per year, including the EU funds financing in the amount of EUR 6.4 million. The scholarships in the initial vocation education programmed with the ESF co-financing in the amount of EUR 14.3–71.4 were available to all students with good academic achievements, while the amount of scholarships in one-year and on-and-a-half-year vocational education programmes was EUR 71.4–114.3.

Key policy directions and measures:

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

The aim is to improve the quality of vocational education, thus ensuring its conformity to the labour market needs, as well as to foster efficient use of available resources by streamlining and differentiating the number and regional location of vocational education institutions (from 60 secondary vocational education institutions in 2010 to 30 institutions in 2015).

In order to optimise the number and location of vocational education institutions in the regions, the institutions are encouraged to obtain the status of a vocational education competence centre (hereinafter – the VECC). At the moment, the VECC status has been granted to 11 vocational education institutions. Another five vocational education institutions are expected to obtain the status by December 31, 2015.

In order to make it possible for students to acquire vocational education as close to their place of residence as possible, and for local governments to be able to independently improve the education institution network within the administrative territory of a local government, 11 small (300 and less students) vocational education institutions could be transferred to local governments. Thus, students will have a possibility to acquire both general and vocational education programmes at the same place, ensuring a rational and efficient use of infrastructure and training equipment of educational institutions. In case a local government does not wish to take them over, small vocational education institutions are expected to find an opportunity to incorporate the education institution into the VECC as a regional education institution (branch) or ensure transfer of vocational education programmes to the VECC in order to provide the students with an opportunity to continue ongoing studies. In both cases the conformity of vocational education programmes to be taken over with the labour market demands will be assessed, emphasising work-based learning as the priority.

In 2013, three state vocational education institutions have been transferred to local governments, while one vocational education institution has been merged with a college.

In 2014, two small vocational education institutions are expected to be merged with vocational competence centres, thus supporting regional labour market and at the same time highlighting implementation of work-based learning. Considering the VECC's prestige, financial resources to develop education institutions in regions and the capacity to attract the EU funds financing and assure a high education quality, the VECC regional structural units are expected to be able to increase the number of students and ensure their future development.

The total public financing in 2013 for modernisation of teaching equipment and improvement of infrastructure of vocational education institutions was EUR 8.2 million, including the ERDF financing of EUR 7 million.

In order to ensure modernisation of all priority vocational education institutions identified in the *Guidelines in Streamlining Vocational Education Institution Network for 2010–2015*, it is planned to continue making the EU funds' investments in improvement of vocational education programmes within the programming period 2014–2020 (the indicative planned financing – EUR 104 million).

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

In 2011, the 12 sectoral expert councils established within the ESF project *Establishment of Sectoral Qualification System and Increasing Efficiency and Quality of Vocational Education* continue working on fostering cooperation between employers of the sectors and vocational education institutions and on development of qualitative and

quantitative demand of sectors for labour preparation, identifying the labour market demands for preparation of quality specialists through internships at enterprises of the sectors.

Currently, the content of vocational education is being restructured based on a flexible modular approach. A total of 56 modular vocational education programmes and the content of professional qualification examination for 32 professions are expected to be developed within the said ESF project.

In the first half of 2014, the *Amendments to the Vocational Education Law* are planned to be submitted in order to improve management of vocational education institutions, legal status of industry expert councils, and classification of vocational education in Latvia and legal framework of other priority issues.

The total public financing for establishing an industry classification system and restructuring vocational education is EUR 3.4 million (100% EU funds financing). The financing spent in 2013 amounts to EUR 0.6 million, while the planned financing in 2014 constitute EUR 1.3 million and in 2015 – EUR 0.4 million.

Within the implementation of the *Recommendation of the European Parliament and of the Council of 18 June 2009 on the European quality assurance in vocational education and training* (EQAVET), the SSEQ has been appointed the coordinating authority of the EQAVET implementation. At the same time, to ensure improvement of the quality of vocational education, development of a methodology for the quality assessment of vocational education has been commenced in cooperation with social partners in the initial vocational education, vocational continuing education and professional improvement.

3.4.3. Higher Education

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

Table 5

Tertiary education target's achievement trajectory

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2020 |
|--|-------|-------|-------|-------|-------|-------|-------|
| Number of population having acquired tertiary education, aged 30–34 years, thousands | 42.7 | 47.3 | 50.3 | 47.8 | 48.5 | 53.2 | 61.1 |
| Number of population aged 30–34 years | 158.3 | 157.2 | 155.8 | 133.2 | 130.4 | 130.6 | 178.0 |
| Share, % | 27.0 | 30.1 | 32.3 | 35.9 | 37.2 | 40.7 | 34-36 |

Data source: Eurostat

The NRP target for 2020 with regard to the share of population having acquired tertiary education has been reached already in 2013. Although this indicator is expected to slightly change as of 2017 due to demographic trends, there is no reason to believe that it might be lower than 40% in 2020.

The number of students in Latvia has been decreasing already for seven years in a row. At the beginning of the academic year 2013/2014: a total of 89 671 students were studying in the higher education institutions of Latvia, which was by 5% lower than in the previous academic year. Yet, as compared to the academic year 2005/2006, when the number of students in Latvia reached the maximum level, the number of students has decreased by 32%. The decreasing number of students over the last four years resulted mainly due to demographic factors (demographic pit), and the impact of the economic crisis in 2008–2010 resulting in intense emigration and reducing abilities to pay for higher education studies. In the academic year 2013/2014, there were 34 546 students or 39% of the total number of

students studying for state budget financing. Although the total number of students has decreased, the number of students in state-funded study positions is tended to grow by 1–2% per year. Based on the medium and long-term labour market forecasts, about 70% of the state-funded study positions represent areas of the national priority, producing high value added and high-cost areas: natural sciences, engineering, health care, as well as master and doctoral studies which are important for preparation of both new teaching staff and scientists.

On November 12, 2013, the government approved the *Plan of Measures for Development of Higher Education and Science from November 20, 2013 until December 31, 2014* with an aim to continue implementing the necessary tertiary education and research reforms to ensure quality, internationally competitive and science-based tertiary education implemented by efficiently administered institutions with consolidated resources.

Key policy directions and measures:

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

The aim is to increase the efficiency, quality and international competitiveness of studies and research, as well as to ensure better match between the obtained qualification and skills, and the labour market requirements.

Accreditation of study fields has been introduced in 2013. The regulation regarding accreditation of study fields has been developed based on the quality standards and principles laid down at the European level in the *Standards and Guidelines for Quality Assurance in the European Higher Education Area (ESG)*. The accreditation process and the decision-making involve all the stakeholders, including the ECL, the Students Association of Latvia, the Latvian Trade Union of Education and Science Employees and others. As highlighted in the European Commission's report (2014)²⁴ on progress in quality assurance in higher education, only seven EU Member States have ensured active participation of employers in the monitoring process of higher education, and Latvia is among those countries. At the same time, participation of international experts in the assessment of study fields is mandatory. The accreditation process is transparent and open, and expert reports on the study fields are available to the public.

On April 30, 2013, the implementation of the ESF project *Assessment of Higher Education Study Programmes and Proposals for Increasing the Quality* has been completed. The project results have been used also in the accreditation process of study fields and in planning and re-planning of state-funded study positions.

In 2013, a new procedure for licensing study programmes had been introduced – the CM regulations of April 25, 2013 *Regulations on Licensing Study Programmes* defining stricter criteria for licensing study programmes, thus improving the quality of study programmes.

In 2014, higher education institutions are expected to be allowed to select any of the European accreditation authorities that are registered in the EQAR for accreditation purposes. At the same time, the work on the development of the *Concept on Improvement of the Quality Assurance System of Higher Education in Latvia* has been commenced to provide proposals for the establishment of a national institution for external quality assurance of higher education.

On November 12, 2013, a new short-term development planning document the *Plan of Measures for Development of Higher Education and Science from November 20, 2013 until December 31, 2014* was approved. The development of the document involved a wide range of social and cooperation partners. Discussions resulted in an agreement on the measures to be implemented within the plan in three main directions of action: increasing the quality of

²⁴ http://ec.europa.eu/education/policy/higher-education/doc/quality_en.pdf

studies and scientific activity; efficient use of resources of the higher education sector and integration with research; internationalisation and improving international competitiveness of higher education and research.

In order to achieve a match between study programmes and demands of the economy, as well as economic development interests of Latvia, the work on restructuring measures of higher education sectors has been launched with an aim to change the share of the number of students according to the medium and long-term labour market forecasts, by gradually changing the division of state-funded study positions in favour of STEM fields, taking into account the regional development interests.

Negotiations with higher education institutions at the end of 2013 and the beginning of 2014 highlighted their specialisation to prevent overlapping study programmes and foster advancement towards excellence.

The total public financing in 2012–2013 amounted to EUR 1.1 million (100% EU funds financing), including EUR 0.14 million in 2013.

In order to ensure quality and competitive higher education, it is planned to provide support to improve management and institutional capacity of higher education institutions, as well as international assessment of study programmes within the EU funds programming period 2014–2020 (the total indicative financing EUR 46.47 million, including the ESF financing EUR 39.5 million).

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

The aim is to improve the 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.

In 2013, the infrastructure of 6 higher education institutions has been modernised, while a total of 20 higher education institutions have been modernised from 2012 until the end of 2013, i.e. 64.5% of the total number of higher education institutions (31) implementing priority programmes.

By the end of 2013, a total of 20 higher education institutions have implemented their ERDF projects, while 11 higher education institutions continue modernising rooms and equipment within the projects until August 31, 2015.

The total public financing in 2013 amounts to EUR 14.6 million, including EU funds financing EUR 13.6 million.

In order to promote the concentration of resources of the higher education institution network and accessibility of education, including creation of more STEM, medicine and creative industry study positions, support is expected to be provided for the modernisation of infrastructure at higher education institutions and establishment of joint thematic doctoral study centres of several higher education institutions (the total indicative financing amounts to EUR 44.6 million, including the ERDF financing EUR 37.9 million).

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

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 study field.

At the end of 2013, a study on the new financing model of higher education to foster the accessibility, fairness, objectively evaluable increase of international competitiveness of the higher education has been launched in cooperation with the WB. Within the study, a proposal for a medium-term financing model of higher education will be developed in consultation

with representatives from the higher education sector and taking into account fiscal limitations, macroeconomic growth prospects, socioeconomic and demographic factors and international competitiveness.

The support in the form of a study loan (loan for covering the tuition fee) and the student's loan (loan for covering living costs and other costs) plays a major role for students to be able to start, continue studies and successfully graduate. In 2013, a total of 2142 contracts on granting study loans for the total amount of EUR 10.9 million had been concluded, as well as 613 contracts on granting the student's loan for the total amount of EUR 3 million. It should be noted that the demand for study and student's loans tends to drop from year to year. The number of contracts on study loans signed in 2013 compared to 2012 has decreased by 19%, while the number of contracts on student's loans has decreased by 31%. It is mainly related to the limited possibilities for students to find a guarantor due to the cautious attitude of Latvian households towards new loan commitments.

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

The aim is to increase the share of highly qualified professionals in the priority fields of the labour market (natural sciences, mathematics, IT, engineering, health care, environmental sciences and creative industries), by evaluating the efficiency of master and doctoral studies on a regular basis and by developing new innovative study programmes, as well as by granting scholarships to students. A total of 1904 master students and 1914 doctoral students have received scholarships in the time period from 2007 until the end of 2013, including 158 master students and 141 doctoral students have obtained scholarships anew.

A draft regulation of the CM has been prepared to prescribe the procedure for assessing scientific and pedagogical qualification of candidates to professor and associated professor positions, thus increasing the requirements and international component in the assessment process. Currently a working group is being established to prepare proposals for improvement of doctoral studies and dissertation process, including proposals for attraction of new doctoral students to work at higher education institutions, improvement of the doctoral degree awarding system, establishment of joint thematic doctoral study centres of several higher education institutions, as well as envisaging *Amendments to the Law on Higher Education Institutions* to reinforce the legal status of post-doctoral studies and the process implementation.

In order to promote cooperation among the higher education institutions by concentrating material and intellectual resources, support is expected to be provided within the new EU funds programming period 2014–2020 for development and implementation of joint doctoral study programmes, as well as establishment of joint thematic doctoral study centres of higher education institutions. *Draft Amendments to the Law on Higher Education Institutions* have been prepared providing an opportunity for higher education institutions and colleges to offer preparatory courses in the study programmes that require deep knowledge of certain subjects at the secondary education level, as well as providing an opportunity to receive the government budget financing for this purpose. Thus, future students, particularly in the STEM fields will be well-prepared for studies, reducing the share of dropouts in these fields which currently constitutes about 50%.

In 2013, a total of 315 new science doctors have obtained the scientific degree at Latvian higher education institutions, which is by 48 more than in 2012. The increase in the number of doctors mainly relies on the support for master and doctoral students from the EU structural funds. In 2013, a total of 735 doctoral students have received the ESF support.

A positive trend has been observed, showing that the share of master students in priority study fields is growing from year to year, i.e. in 2009 – 27.2%, while currently there are 35% master students, which is mainly due to the increase in the number of state-funded study

positions in the abovementioned fields and, of course, investments from the EU structural funds. In 2013, a total of 615 master students have received the ESF support.

The total public financing in 2013 amounted to EUR 3.4 million, including the EU funds financing EUR 3.1 million (in 2012, EUR 10 million and EUR 9.3 million, respectively).

In order to prevent fragmentation of study programmes, including doctoral study programmes and promote preparation of qualified top level specialists to match the labour market demands, it is planned to provide support within the EU funds programming period 2014–2020 for development and implementation of interinstitutional/joint study programmes, including doctoral study programmes, and development and approbation of the EU official languages in the higher education study programmes (the total indicative financing amounts to EUR 20.18 million, including ESF financing EUR 17.5 million).

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

At the beginning of the academic year 2013/2014, there were 4477 foreign students from 82 countries studying in higher education institutions of Latvia constituting 5% of the total number of students, which was by 28% or 972 students more than in the previous academic year. Most of foreign students were from Germany (16.7% of the total number of foreign students), Russia (10.8%) and Uzbekistan (8.2%).

In 2013, a number of measures have been implemented to simplify the attraction of foreign students in the higher education institutions, for example, by granting higher education institutions rights to develop and implement study programmes jointly with higher education institutions of other countries and to issue joint certificates. Currently, there are three joint study programmes with foreign higher education institutions. In 2013, an additional licensed joint study programme has been licensed to be implemented by Riga Graduate School of Law in cooperation with the University of Copenhagen. The joint master study programme “International tourism event management” of the Vidzeme University of Applied Sciences will be implemented in cooperation with the Klaipėda University has also been submitted for licensing.

According to the *Law on Higher Education Institutions*, 20% of the credit points of a study programme may be implemented in the EU official languages. As regards the language restrictions, the analysis conducted by the MES shows that at the moment higher education institutions fail to sufficiently take the opportunities granted by the effective legislation, including the opportunity to attract academic staff in the status of guest lecturers. Therefore, a range of measures to support higher education institutions, including support to develop programmes in the official EU languages, support of post-doctoral studies and the abovementioned thematic doctoral study centres are being planned.

Measures to promote recognition of higher education are implemented on a regular basis. In 2013, the Department for promoting higher education exportability established in the AIC and the SEDA have ensured maintenance of the website www.studyinlatvia.lv. Moreover, the AIC has developed the website www.studies.lv to inform potential foreign students about study programmes, Latvian culture and education system. The website is linked to social networks, where students can ask questions of their interest and get information about education opportunities in Latvia.

3.4.4. Lifelong Learning

The aim is to ensure that 15% of the population (aged 25–64 years) would be continuously involved in the learning process by 2020 (in 2013 – 6.6%).

The economic crisis has clearly highlighted the increasing role of adult education in the achievement of the *Europe 2020* strategic targets²⁵. Support for adult participation in various education measures has a direct impact on the achievement of employment target as it reduces the structural unemployment risk.

Table 6

| Participation of people aged 25–64 years in the education process | | | | | | | |
|---|------|------|------|------|------|------|------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2020 |
| Share, % | 6.8 | 5.3 | 5.0 | 5.1 | 6.9 | 6.5 | 15.0 |

Data source: Eurostat

From 2009 until 2012, participation in adult education dropped by 1.1 percentage points across the Europe, thus significantly falling behind the target. Meanwhile in Latvia, participation in adult education increased by 1.3 percentage points in the given time period – from 5.3% in 2009 to 6.5% in 2013. Taking into account that Latvia has made a significant progress among the European countries in 2012²⁶, overall it has a rather good chance to achieve the defined target through continuing implementation of the ongoing activities and launching new ones.

On January 7, 2014, the government approved the *Draft Guidelines on Development of Education for 2014–2020* (hereinafter – GDE) for submission to the Saeima. The GDE measures are focused on the introduction of the lifelong learning principle, while one of the directions of action envisages expanding education opportunities for adults (for example, expanding the second chance education opportunities, support for employers in educating employees, as well as support of raising qualification of the employed based on employers' requirements, etc.).

Key policy directions and measures:

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

The European programme for adult education has been implemented since October 2013 with an aim to promote cooperation and establish common coordination and exchange of information among the partners involved in adult education, including higher education institutions, private partners, public, local government and non-governmental institutions. Project activities, which focused on promoting cooperation in the field of adult education, are being implemented also in 2014.

One of the project activities is providing consultations to adults regarding available education opportunities. By February 2014, a total of 823 adults have received individual consultations. The total financing of the project is EUR 1.4 thousand, including the EC financing EUR 1 thousand.

Support for building capacity of vocational education institutions in adult education is expected to be provided in the EU funds programming period 2014–2020, envisaging promotion of cooperation with employers, improvement of competences of administrative and teaching staff within the context of study organization, methodological matters and technology development, as well as implementation of assessment of competences obtained outside formal education within the context of labour migration processes, informative measures through involvement of industry expert organizations (the total indicative financing is EUR 4.9 million).

²⁵ Council Resolution on a Renewed European Agenda for Adult Learning (November 2011).

²⁶ EC "Education and Training monitor 2013", http://ec.europa.eu/education/library/publications/monitor13_en.pdf

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

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

In 2013, the CM regulations *Procedure for the Issue of State Recognized Documents Confirming Higher Education* prescribing the procedure for reflecting the qualifications framework level in the annexes to certificates of higher education.

A number of informative measures regarding important topics in relation to qualifications framework of Latvia and the EQF have been organized in 2013.

Measures to raise public awareness of the European national qualifications framework and the qualifications framework of Latvia is planned to be continued in 2014 in the form of seminars and conferences.

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

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

In 2011, the government approved the procedure for obtaining professional qualification that conforms to professional competence of the first, second or third professional qualification level if the person has obtained the knowledge during lifetime or through informal education. Professional competence is being assessed by taking a professional qualification examination according to the procedure for centralized professional qualification examinations specified in the relevant laws and regulations.

From 2011 until the end of 2013, a total of 1261 persons have obtained a new professional qualification according to the procedure for assessing professional competence obtained outside formal education, including 826 persons in 2013.

At the same time, the National Library of Latvia in cooperation with the National Centre for Education have been implementing the EC Lifelong Learning programme's project *Integrated Recognition System of Informal Education Results: Development of National Cooperation Network (Val-Net)* from spring 2012 until spring 2013. Several activities aimed at the development of cooperation between different institutions, identification of possible problems and development of proposals for solving those problems are being implemented within the project. Conclusions drawn during the project and examples of good practice of recognising knowledge and skills obtained outside the formal education system are compiled in a book.

In 2014, methodological materials about the assessment of professional competences obtained outside formal education are expected to be updated in cooperation with social partners, thus reaching common understanding of implementation of this service among education institutions. For the purpose of raising public awareness of the opportunities to assess professional competence, an examination schedule of assessment of professional competences obtained outside formal education is planned to be published on the SSEQ homepage.

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

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

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

In the academic years 2012/2013 and 2013/2014, a number of education institutions provided people with opportunities to acquire education in the evening (shift), distance and continuing education programmes. The list of education institutions contains data on 28 evening (shift) schools, including 7 distance secondary schools and 69 evening class and distance consultation points within the full-time schools. In the academic year 2012/2013, a total of 11 727 students studied in the evening and distance education programmes (including 85% of students in the evening and distance education programmes were 18 years old and older).

In order to ensure the second chance education, a total of 288 licensed education programmes, including 89 evening (shift) and 199 distance (including continuing education) general education programmes are being implemented in the academic year 2013/2014.

The evening (shift) or distance (including continuing education) education programme is aimed at providing basic education opportunities for persons who find it impossible to attend full-time education institutions due to family situation, work, socioeconomic reasons, health problems or other reasons but are ready to acquire a part of the curriculum on their own using electronic communication means. The opportunities to acquire second chance education are being provided also in 2014, by using the infrastructure of public education institutions for the training of unemployed.

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

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

The ESF support programme *Support to employee training for improving competitiveness of enterprises – support to training in partnerships* with the total available public financing of EUR 31.69 million is being implemented to promote direct participation of enterprises in raising the qualification of the labour force. The programme is implemented by industry associations. By the end of 2013, 13 projects for the total amount of EUR 2.2 million were completed and implementation of 16 projects for the total financing of EUR 27.7 million were continued. At the same time, in 2013 the programme continued providing support for improving skills in ICT area where the total financing constituted EUR 1.6 million and overall 5000 persons were expected to be trained. By the end of 2013, over 20 600 persons were trained within the programme (the first and the second selection round). In 2013, EUR 18 million has been paid for implementation of the programme, while EUR 6 million is expected to be paid in 2014.

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

In 2013, 7698 employed persons participated in the SEA lifelong learning measures, including 6376 new involved persons. The total EU funds financing in 2013 was EUR 1.7 million.

In 2014, the ESF co-financed study on the assessment of economic potential of population at pre-retirement age and the necessary improvements for integration of elderly people into the labour markets will be completed. Based on the study findings, the SEA

provided ALMP measures for this target group will be revised and the necessary improvements will be assessed.

In Latvia, similarly as in the most of the European countries, the population is ageing. Since the active ageing policy in Latvia is still at its early stage of development, a draft *Development of Latvia's Comprehensive Strategy of Active Ageing for Extending and Improving the Working Lives of Population* has been developed (within the EU programme for employment and solidarity – PROGRESS) with an aim to use the available financial support for development of active ageing strategy, particularly focusing on employment issues. The project envisages cooperation with the OECD to conduct a research and provide recommendations for improvement of the active ageing situation. The project will be implemented from February 1, 2014 until the end of 2015.

Support for improvement of professional qualification and competences of employed, including support for career consultation services are expected to be provided within the EU funds programming period 2014–2020 (the total indicative ESF financing is EUR 27 million).

3.5. FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION

3.5.1. Reducing the Poverty Level

The target of the NRP of Latvia is to reduce the share of people at-risk-of-poverty to 21% by 2020 or to prevent the risk of poverty or social exclusion for 121 thousand people. Taking into account the medium-term macroeconomic development scenario (see Table 1), the expected increase in employment and decrease in unemployment, as well as the fact that the increase in employment and income from wages for households has a direct impact on the reduction of the poverty risk, the poverty target for 2020 is most likely to be achieved.

Table 7

| Poverty reduction target's achievement trajectory | | | | | | |
|--|------|------|------|------|------|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2020 |
| Share of persons at-risk-of-poverty (%) | 26.4 | 20.9 | 19.0 | 19.2 | 19.4 | |
| Share of persons at-risk-of-poverty and/or persons in households with low employment intensity | 27.3 | 23.8 | 22.3 | 21.9 | 21.8 | 21.0 (or preventing the poverty risk for 121 thousand people) |
| Number of people at-risk-of-poverty and/or households with low employment intensity (thousand) | 582 | 495 | 454 | 442 | 434 | |

Data source: Eurostat

As already mentioned in the Chapter 2.4, the situation has been gradually improving for the past 2–3 years and the poverty risk has been reduced for the households with the main income from paid work, as well as child poverty has been reduced. Like in the pre-crisis period, the poverty risk tends to grow for certain population groups, such as persons with fixed income (for example, retired persons), single parent households, and low-income earners.

At the same time, the main challenges to the achievement of the poverty reduction target are:

- A larger informal economy sector 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 reforms and the implemented measures (see also Chapter 2.1) in 2013 and 2014 are focused on reducing the labour tax burden, increasing the prosperity of low-income earners and families with children, improving access to education for families with children, including children with disability. At the same time, emphasising the role of efficient support for groups of population at-risk-of-poverty and social exclusion, reforms in the social services system, social work system and social security system have been commenced in 2014 by incorporating minimum income schemes. The reforms and priorities in these areas are focused on the establishment of a support system for the population to tackle and reduce social problems through necessary support services and financial support, thus promoting integration of people in the society and the labour market.

As regards the development of professional social work²⁷, in 2014 particular attention will be paid to improvement of legislation with an aim to specify the competences of the involved institutions and allocation of responsibilities for tackling social problems of the client, to expand supervision of social work specialists of social services, to improve social work education and professional improvement systems.

As regards the development of social services²⁸, the planned measures are focused on providing society-based social services that match the needs of individuals. In 2014, the measures necessary for implementing deinstitutionalisation will be launched: revising requirements for placing a person in a care institution, drafting an action plan for the implementation of deinstitutionalisation, developing a model for financing the principle “money follows the client” in certain social services and setting the criteria for classifying clients by care levels.

In order to ensure the implementation of the *Guidelines on the UN Convention on the Rights of Persons with Disabilities for 2014–2020*, the measures planned in 2014 are related to assessing the access to education for children with disabilities and children with special needs, as well as improvement of the relevant legislations, revising and extending the list and the scope of social services for persons with disabilities and specifying the system for determination of disability.

A major support for reducing poverty and social exclusion in 2014–2020 will be provided through the EU funds co-financed measures. The Draft Action Programme “*Growth and Employment*” envisages allocating EUR 225 million or 35% of the ESF financing for the thematic objective No.9 “Fostering social inclusion and fighting poverty and any type of discrimination” in the programming period 2014–2020. Furthermore, another EUR 193 million or 8% of the ERDF financing is planned to be allocated for this objective. The financing available within the Action Programme is expected to be allocated for the integration of the most disadvantaged unemployed in the labour market, improvement of efficiency of social services, increasing the access to quality social service alternatives to

²⁷ *Guidelines on Development of Professional Social Work for 2014–2020* were approved by the CM Decree No.652 of 18.12.2013.

²⁸ *Guidelines on Development of Social Services for 2014–2020* were approved by the CM Decree No.589 of 04.12.2013.

institutional care at place of residence and family environment-based social services for persons with disabilities and children, etc.

On March 12, 2014, the *Regulation of the European Parliament and of the Council on the Fund for European Aid to the Most Deprived* (hereinafter – the Fund) came into force. The general objective of the Fund is to reinforce social cohesion with the EU, to promote social inclusion and fight poverty, thus achieving the *Europe 2020* strategy target of reducing the number of people at-risk-of-poverty and social exclusion by at least 20 million. This target may be achieved through providing non-financial support to the most deprived persons in a form of material assistance and measures to boost social inclusion. The draft programme for the Fund has been prepared envisaging the Funds financing of EUR 41 million for non-financial support to the most deprived in the programming period 2014–2020. In addition to the EU financing, the state budget co-financing in the amount of 15% is also planned for the implementation of the Action Programme. According to the Action Programme, the Funds financing will be allocated for food aid and material assistance to children.

Key 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) – see also Chapter 2.1.

The main measure to be implemented in 2014 is determination of an adequate minimum income level, based on the assessment of the minimum income system in Latvia carried out within the WB's study with an aim to methodologically define a reasonable income threshold that is linked with actual income of people. The minimum income level will be used for further planning of social assistance and provide appropriate support for reduction of poverty and social exclusion. In the 2nd quarter of 2014, the *Concept on Determination of the Minimum Income Level* is planned to be drafted. The draft laws and regulations necessary for providing support to households with income below the state determined minimum income level will be developed within a year after determining the minimum income level. The conceptual documents²⁹ required in the remaining directions of action will be prepared by December 31, 2015.

Proposals for indexation of pensions/remunerations as of 2014 will also be forwarded to the government and the Saeima, envisaging indexation of pensions/remunerations according to the actual consumer price index and applying 25% of the interest on the actual increase in the wage subject to insurance contributions in order to promote an increase in pensions in line with the rise in wages. The decision on pension indexation has been conceptually approved by the government.

By July 2014, the *Informative Report on the Labour Tax Changes to Reduce Income Inequality – Assessment of the Changes and Proposals for Further Action* will be submitted to the CM, with an aim to lay the foundation for a further decrease in the labour taxes based on fiscal possibilities of the government budget in order to promote competitiveness of the Latvian economy among the Baltic States and in Europe, as well as to provide a more efficient solution to reduction of labour taxes to decrease the tax burden on taxpayers, at the same time reducing income inequality in Latvia.

²⁹ *Concept on the possibility to determine the base or social pension; Concept on the possibility to determine the minimum amount of unemployment benefits; Concept on the possibilities to restructure the government expenditures on social benefits or revise their amounts to link them with a certain socioeconomic indicator.*

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

The aim is to foster social inclusion of the most disadvantaged groups of the population. In order to achieve the aim, ALMP measures are being implemented, among them also measures for certain groups of people by employing the most disadvantaged people in state co-financed workplaces. The total public financing for these measures in 2013 was EUR 3.7 million, including the EU funds financing EUR 1.7 million (2227 persons have been involved).

In addition to the measures described in the Chapter 2.3 and 3.3, the possibilities to introduce social entrepreneurship will be considered in 2014. The draft concept is being developed at the moment with an aim to assess development of alternatives to inclusive social entrepreneurship in Latvia, by offering support directions for socially responsible enterprises.

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

The aim is to ensure support measures enabling groups of population at risk of social exclusion, including Roma, third country nationals of a different culture, religion, language and ethnical 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, different forms of civil participation are strengthened and promoted, as well as any kind of discrimination is limited.

In order to promote the integration of Roma and to encourage their participation in social processes, a number of projects of Roma non-governmental organisations have been approved, thus strengthening cooperation between the Roma community, local governments and social partners, as well as enhancing preservation of the cultural identity of Roma and the intercultural dialogue. The Advisory Council for the Implementation of the Roma Integration Policy has been working under the MC since 2012 with an aim to promote Roma integration.

3.5.2. Demographic Challenges and Health Protection

Negative **demographic changes** are observed in Latvia – decrease and ageing of the population and a relatively high death rate. At the beginning of 2013, the number of Latvian population was 2.02 million. Since 2000, the number of population has decreased by 358 thousand or 15%. The rapid ageing of population is a particularly critical problem – the number and share of children is decreasing and the number and share of elderly people is increasing. At the same time, it should be noted that the international long-term emigration is decreasing and immigration increases along with the gradual economic growth. The negative migration balance has significantly shrunk over the past few years.

Tackling demographic issues is one of the urgent issues on the political agenda in 2013 and 2014. In order to identify the main issues to be addressed and to develop proposals for further action, the *Study of Factors Affecting the Reproduction of the Nation* has been implemented in 2013. The study, among other things, finds that the current national policy is mainly focused on boosting the birth rate and ensuring the first years of a child's life, the target of reducing the risk of poverty for families with children also plays an essential role. Therefore, the support should be particularly focused on two target groups: large families and single parents.

In order to decide on all measures to improve the demographic situation, the Demographic Affairs Council has been established, focusing on the following urgent issues in 2013: ensuring pre-school education institutions for children aged 1.5 to 4 years. Yet, the work in 2014 is expected to be concentrated on the development of complex support measures for families with children.

In order to facilitate the link to the Latvian diaspora abroad and encourage the return of Latvian people back to Latvia, the *Return migration support measure plan for 2013–2016* has been approved in 2013. The Plan contains 8 directions of action aimed at supporting and helping those Latvian nationals and their relatives living abroad who have decided or plans to return to Latvia by providing information about different situations of life. The work on compiling information and creating the section “Return to Latvia” on the state and local government website www.latvija.lv is continued in 2014, by linking the compiled information to local government services, including e-services.

A number of measures have been implemented in 2013 and are being implemented in 2014 with the primary aim to increase the state material assistance to families with children (see Chapter 2.4), as well as to improve access to education and health care services.

Despite the fact that a number of **public health** indicators in Latvia lags far behind the average EU indicators, they are improving gradually. The average life expectancy at birth in Latvia has been one of the lowest in the EU, reaching 92% of the EU average in 2010. However, it has been growing gradually, reaching 74.2 years in 2012. The decreasing death rate and the increasing average life expectancy at birth fosters a gradual rise in the healthy life years indicator which has increased by 5 years, reaching 59.1 years³⁰ in 2012 compared to 2007. The main causes of the years of potential life lost (hereinafter – YPLL) are external causes (mostly suicides and traffic accidents), diseases of the circulatory system and malignant tumours. The target indicators of Latvia for improving public health are reflected in the Table 8.

Table 8

YPLL target’s achievement trajectory

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2020 |
|---|------|------|------|------|------|------|
| YPLL per 100 000 people (aged up to 65 years) | 7043 | 6494 | 6476 | 6140 | 5922 | 5300 |

The analysis of the YPLL dynamics from 2008 until 2012 shows that the YPLL target for 2020 is likely to be achieved under the condition, if the current trends remain unchanged and the necessary investments are made in public health in the coming years.

Key policy directions and measures:

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

The aim is to ensure and improve the state and local government support to families with children, as well as to encourage parent integration in the labour market. The following measures to achieve the target are planned in addition to the already implemented measures to support and protect families with children (see Chapter 2.4):

- To eliminate queues at the pre-school education institutions of local governments in 2014. The government budget for 2013 allocates co-financing for local governments as of September 1 to cover the costs for parents for private service providers in case a local government cannot ensure a place in a kindergarten for children aged 1.5–4 years (incl.) in the queue for local government’s kindergarten. To improve availability of pre-school education services for children with disabilities;
- Infrastructure of pre-school education institutions is being improved in national and regional development centres. By the end of 2013, 47 projects have been completed, 19 projects are being implemented within the measure, including 15 pre-school education institutions have been constructed or expanded and 60 pre-school education institutions have been renovated and refurbished, as well as 2880 new places for children have been

³⁰ EUROSTAT data: Healthy Life Years (from 2004 onwards).

created in pre-school education institutions. The ERDF financing for this activity is EUR 30 million, including the overcommitment financing;

- In 2013, legislation has been prepared regarding state support for children aged 1.5–4 years, who have not been provided with a place in a local government's kindergarten. The amount of the state support is up to EUR 142.29 on the condition that the total amount of the state support and local government support for one child does not exceed EUR 227.66 in private education institutions or at babysitting service providers in the Riga planning region and EUR 184.97 outside the Riga planning region. The state support is expected to be provided by the end of 2015;
 - The legal framework has been improved as of September 1, 2013 to provide alternative services to children. By January 30, 2014, legally registered babysitting service providers – 485 nannies and 146 legal entities providing alternative services have helped to solve the issue with queues for pre-school education institutions of local governments;
 - In 2014, the work in the state support programme for the first housing guarantee in the form of financial instruments is being continued;
 - The *Concept on Development of Foster Families and Improvement of the Support* to be provided to these families is expected to be drafted in 2014 to promote child care in family environment, thus providing an opportunity to live at a guardian or a foster family to more children left without parental care, who cannot be adopted yet.
- ***Developing a quality and efficient health care services system, reducing the risk factors of diseases, eliminating the impact of traumatism and environmental risks on public health*** (responsible institution – MH)

The aim is to decrease morbidity and mortality from diseases, ensure efficient management of the health care system and use of resources, promote early diagnostics of diseases, improve the health care of chronic patients and implement health promoting measures.

The *Cardiovascular Health Improvement Action Plan for 2013–2015* contains measures to promote a healthy lifestyle among people for the purpose of improving early diagnostics of cardiovascular diseases, improving the quality of cardiovascular disease treatment at the primary and secondary outpatient and inpatient level, and upgrading cardiovascular disease monitoring (the total additional financing necessary for the improvement of the plan in the health care sector in 2014–2015 is EUR 6.8 million, out of which EUR 0.8 million in 2014 and EUR 6 million (and annually onwards)), thus, the actual extent of implementation of the plan depends on whether the additional financing will be granted. Certain measures of the plan are expected to be implemented within the EU funds financing.

In order to strengthen the primary health care, to increase the role of primary health care (hereinafter – PHC) in prevention, diagnostics and treatment, as well as to improve the quality of PHC, the *Plan for the Development of the Primary Health Care for 2014–2016* is to be approved in 2014. The measures under the plan are expected to be implemented in the following three directions of action: improving territorial and organisational access to PHC service providers, improving the quality and safety of PHC services, raising patients' awareness and compliance. A part of the measures under the plan requires additional financing from the government budget. The total additional financing from the government budget necessary for the implementation of the plan for a three-year period is EUR 14.8 million. Certain measures of the plan are expected to be implemented within the EU funds financing.

In order to pursue sustainable and stable health care services and to attract additional financing for health care services, the work on the implementation of the mandatory state health insurance system was continued in 2013. According to the *Concept on the Financing Model for Health Care System*, the *Draft Law on Health Care Financing* was developed to

foster attraction of the necessary financing to health care services, by outlining the general principles of the mandatory state health insurance and defining its financial and organisational structure, as well as laying down the general principles and structure of the health care financing system. The draft law was approved by the Saeima in the first reading.

Moreover, the following is planned in 2014–2015 to achieve the target:

- To develop *Guidelines on an Integrated Development of Health Care in the Field of Cardiovascular, Oncologic, Mental and Perinatal Health*, particularly to improve the health of people at the risk of social exclusion and poverty;
- To implement the mandatory state health insurance system;
- To draft the *Concept on Single Quality Assurance System of National Health Care*. The aim of the draft concept is to improve the patient security in the health sector and ensure efficient treatment, particularly to improve the health of people at the risk of social exclusion and poverty;
- To improve the access, the quality and follow-up of the PHC services, particularly for persons with chronic diseases, as well as to increase the role of PHC in prevention, early diagnostics and treatment of diseases;
- To continue development of outpatient services, including day-care hospitals in order to improve access to these services and to promote efficient use of health care resources;
- To implement measures to improve efficiency of inpatient health care by continuing development of a diagnosis-related group payment model and launching its implementation in inpatient health care;
- To continue support measures to ensure access to health care services to socially vulnerable groups of population. According to the effective procedure for health care financing, several groups of population are exempt from the patient contributions and co-payments for health care services, for example, children under the age of 18 years, pregnant women and women in postnatal period, persons with disability of Group I, the poor, etc. Moreover, the poor and children under the age of 18 years (unless compensation limits have been applied, for example, expenses for purchase of medicinal products and medical devices to treat conjunctivitis, non-suppurative otitis media, atopic dermatitis, etc. are compensated exclusively for children under the age of 3 years) are subject to compensation in the amount of 100% of expenses for purchase of refundable medicinal products and medical devices;
- To implement measures to promote health and prevention of diseases, for example, reduce the consumption of alcoholic beverages among young people, alcoholic beverages advertising is expected to be limited. In order to reduce morbidity with cardiovascular diseases, a campaign to raise public awareness of cardiovascular risk factors and healthy nutrition will be organized.

3.6. ENERGY AND CLIMATE CHANGE

The economic crisis has significantly changed the overall situation in the energy sector. In order to plan sustainable long-term development of the energy sector and to achieve the energy targets under the NRP of Latvia, the informative report *Long-Term Energy Strategy of Latvia 2030 – Competitive Energy for Society* (hereinafter – Strategy) has been approved in 2013. The Strategy outlines directions of long-term action for a secure energy supply, competitiveness, energy efficiency and use of renewable energy (hereinafter – RE). The *Energy Development Guidelines for 2014–2020* are being developed to replace the effective *Energy Development Guidelines for 2007–2016*. At the same time, the existing state support mechanisms for energy production from the RER are being assessed and revised.

3.6.1. Fostering Energy Efficiency

The aim of the *Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC* (hereinafter – Directive 2012/27/EU) is to foster energy efficiency and ensure the achievement of the key energy efficiency target of 20% and lay the foundation for further improvement of energy efficiency. The requirements of the directive shall be transposed into national legislation by June 5, 2014, while certain requirements are subject to other deadlines.

Within the implementation of the Directive 2012/27/EU Latvia has to achieve the indicative national energy efficiency target, which includes two binding targets to be pursued: the annual final energy savings of 1.5% supplied to final consumers in the country and annual renovation of 3% of the national stock of buildings.

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

- The overall indicative national energy efficiency target³¹ – the primary energy savings in 2020 – 0.670 Mtoe (28 PJ);
- The annual final energy savings target of 1.5%³² – in the amount of 1.5% of the energy supplied to final consumers – overall by 2020 – 0.213 Mtoe (8.9 PJ).
- The annual renovation target of 3% of central government stock of buildings (maximum estimates – total of 678 460 m²), along with the renovation of local government buildings ensure 0.016 Mtoe (0.67 PJ or 186 GWh) energy savings in the entire period from 2014 until 2020.

So far, Latvia has submitted two national energy efficiency action plans to the EC in accordance with the requirements of the 2006/32/EC. In 2011, the *Second Energy Efficiency Action Plan of the Republic of Latvia for 2011–2013* (hereinafter – Plan) was approved incorporating also the assessment of the progress of the *First Energy Efficiency Action Plan of the Republic of Latvia for 2007–2010*.

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

Latvia is moving towards the set target to achieve energy savings in the amount of 0.670 Mtoe in 2020 (the total energy savings in both the final consumption and the transformation sector).

According to the latest statistical data, the gross domestic energy consumption has decreased from 4.47 Mtoe in 2008 to 4.41 Mtoe in 2012, and the implementation of energy efficiency measures has an important role in decreasing energy consumption by 0.06 Mtoe.

Table 9

Energy efficiency target's achievement trajectory

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2020 |
|-------------------------------------|------|------|------|------|------|------------------------------------|
| Primary energy consumption** (Mtoe) | 4.47 | 4.25 | 4.47 | 4.14 | 4.41 | Primary energy savings 0.670 Mtoe* |

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

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

³¹ According to the 2013 *Progress Report on the Implementation of the National Reform Programme of Latvia within the Europe 2020 strategy*.

³² Savings are determined as the difference between the base scenario and the scenario with measures. These savings do not refer to the absolute reduction of national energy consumption. However, 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.

According to the requirements of the Article 3 of the Directive 2012/27/EU, the indicative national energy efficiency target of Latvia is 0.670 Mtoe (28 PJ) based on primary energy savings in 2020. 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 centralized heating systems have the largest energy efficiency potential. Overall, the implementation of energy efficiency measures is expected to foster the transition to an energy-efficient economy and increase competitiveness of industry and other sectors.

Low energy efficiency causes the risk of decreased energy security, sustainability and competitiveness, while 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. The heat supply in buildings and the transport sector have the highest potential for achieving energy savings through state support instruments.

In 2012, the new *Law on Energy Performance of Buildings* was adopted transposing the requirements of the revised *Directive 2010/31/EU on the energy performance of buildings* and introducing new provisions regarding increased requirements for energy efficiency, energy certification of state-owned buildings and certain parts of buildings, rights and obligations of building owners, and tasks to promote construction of nearly zero-energy buildings. The minimum requirements of energy performance of buildings are going to be revised to reach the optimal and cost-efficient balance between financial investments and the energy costs saved during the building lifecycle.

In 2014, the cost-benefit analysis is expected to be carried out with an aim to set targets for construction of nearly zero-energy buildings. As regards the construction of nearly zero-energy buildings, the requirements are likely to be defined to pursue cost efficiency during the building lifecycle.

Key policy directions and measures:

- ***Insulation of buildings*** (responsible institution – ME)

Two activities are being implemented in the EU funds programming period 2007–2013: *Measures to improve heat insulation of multi-apartment buildings* and *Measures to improve heat insulation of social residential buildings*.

The measures to improve heat insulation of multi-apartment buildings are aimed at increasing energy performance of multi-apartment residential buildings, thus ensuring sustainable housing and efficient use of energy resources. By April 2014, 916 projects have been approved for the ERDF financing of EUR 81.14 million, out of which 370 projects have been completed for the ERDF financing of EUR 27.5 million. For the purpose of promoting the activity, a wide information campaign has been carried out thus encouraging apartment owners to get involved in management of the common property and improvement of the energy performance of buildings.

Improvement of energy performance of buildings plays a major role in achieving the energy efficiency targets defined in the EU and policy documents of Latvia. Investments in housing insulations have been efficient, because the analysis of data on completed projects shows that the average heat energy savings after renovation comprise 47%. The average return period of investments in these projects is approximately 22 years.

In order to implement the measures to improve heat insulation of social residential buildings, a total of 55 contracts for EUR 5.2 million have been concluded by April 2014, out of which 51 projects have been completed for the total amount of EUR 4.65 million.

Within the EU funds programming period 2014–2020 measures to increase energy efficiency in public and residential buildings are planned to be supported: renovation of buildings, energy certification of buildings and construction works to improve energy

performance, as well as the use of RER in buildings in case of achieving particularly high energy performance and causing no negative impact on centralised heat supply. The support is expected to be provided in the form of loans with partial discharge of principal amount. The ERDF financing for increasing energy performance of residential buildings amounts to EUR 150 million, and for increasing energy performance of public buildings EUR 97.9 million.

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

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

The aim is to provide financial support to projects for increasing energy performance of public and industrial buildings in order to reduce greenhouse gas emissions (hereinafter – GHG). Complex solutions are supported within the measure: reduction of heat energy and electricity consumption, as well as efficient energy supply of buildings. The total CCFI financing in 2010–2013 for the implementation of the measure is EUR 133 million.

From 2011 until 2013 projects for improving energy performance of buildings have been implemented in 421 state and local government institution buildings.

In 2013, a total of 11 projects financed by the CCFI (EUR 2 million) have been implemented within the 2nd stage of the CCFI tender “*Complex Solutions for Reducing Greenhouse Gas Emissions*”, making investments in technological industrial equipment and improvement of energy performance of industrial buildings, as well as 31 projects financed by the CCFI (EUR 6.3 million) have been implemented, making investments in improvement of energy performance in education institution buildings.

In order to provide complex solutions for increasing energy efficiency in the industrial enterprises, from 2011 until 2013, 39 projects for the total CCFI financing of EUR 9 million have been implemented in the commercial sector to improve energy efficiency of industrial buildings and technologies and to promote the use of RE sources within the tender “*Complex Solutions for Reducing Greenhouse Gas Emissions*”.

From 2011 until 2013, 10 projects have been implemented and another 4 projects for increasing energy performance in buildings of state and local government institutions, enterprises and individuals are expected to be completed in 2014 and new energy efficient buildings are expected to be constructed under the tender “*Low energy consumption buildings*”.

In 2013, 27 projects have been implemented in the commercial sector and local government education institutions, while another 182 projects are planned to be completed in 2014 in the commercial sector and education, culture and medical treatment institutions for improvement of energy performance of buildings and technologies, as well as to promote the use of RE sources within the tender “*Complex Solutions for Reducing Greenhouse Gas Emissions*”. The 4th stage of the tender is expected to be implemented in 2014.

Within the programming period 2014–2020, local government buildings are planned to be renovated to increase energy performance in accordance with local government integrated development programmes, among all by supporting energy audits, energy certification and construction works to improve energy efficiency. The estimated ERDF financing is EUR 42.6 million.

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

Three stages are being implemented within the CCFI call “*Reducing Greenhouse Gas Emissions in Lighting Infrastructure in Public Territories of Municipalities*” to provide financial support to municipalities in introducing a lighting infrastructure to reduce the current electricity consumption, thus reducing GHG emissions.

From 2012 until 2013, 44 projects have been implemented for the total CCFI financing of EUR 5.4 million within the stage I and II of the call “*Reducing Greenhouse Gas Emissions in Lighting Infrastructure in Public Territories of Municipalities*”. The stage II of the call “*Reducing Greenhouse Gas Emissions in Lighting Infrastructure in Public Territories of Municipalities*” is planned to be implemented in 2014.

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

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

The projects are being implemented within the EU funds programming period 2007–2013. Until April 2014, 115 projects have been approved for the CF financing of EUR 75.68 million, out of which 36 projects have been completed for the CF financing of EUR 28.55 million. The project implementation is expected to result in installation of heat capacity of 323 MW and reconstruction of 168 km of heating pipes.

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

3.6.2. Increasing the Share of Renewable Energy

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

Table 10

| | 2005 | 2011 | 2012 | 2020 |
|-------------------------------|------|------|------|------|
| Share of renewable energy (%) | 32.3 | 33.5 | 35.8 | 40.0 |

The analysis of the progress made so far in the use of RER in energy production shows that positive trends in the further use of RER in Latvia and the target of RE share is likely to be achieved in 2020, taking into account the impact of the current and expected energy efficiency measures to the total gross final energy consumption, as well as considering other support measures to foster RE consumption, including the mandatory procurement mechanisms of electricity produced from RER and the planned support activities in the heat energy sector, thus increasing the use of RER in heat supply.

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

Table 11

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

| | 2005 | 2011 | 2012 | 2020 |
|---------------------|------|------|------|------|
| Heating and cooling | 42.7 | 44.8 | 47.4 | 53.4 |
| Electricity | 43.0 | 44.7 | 44.9 | 59.8 |
| Transport | 1.35 | 3.24 | 3.1 | 10.0 |

The measures to be implemented and the expected outcomes of broader use of RE are closely related to the progress of promoting energy efficiency, particularly, the energy efficiency target for 2020, which is defined in the Directive 2012/27/EU³³. Latvia still has a high energy saving potential in all final energy consumption sectors. Due to technology development trends and global challenges Latvia is revising its support mechanisms for production of RE by making them more flexible and economically reasonable.

Legislation regulating the RE sector is also being amended to improve the investment environment for the development of the planned projects. Currently, the implemented support measures have encouraged producers to start project planning and invest in electricity production using the RER.

In order to maintain competitiveness of the economy, current support mechanisms for the energy produced with the use of the RER are being revised at the moment, including careful assessment of total costs and aid intensity.

A number of projects have been implemented within the CCFI resulting in an increased use of RER in production of heat energy and electricity for enterprises and local governments. In total, 66 projects have been implemented, including 21 projects in 2012. The total available financing is at least EUR 19.1 million.

A total of 1761 projects have been implemented for the total CCFI financing of EUR 8.6 million within the CCFI funded tender “*Use of Renewable Energy Resources in Households Sector*”.

In 2013, 27 projects have been implemented in the commercial sector and in education institutions of local governments, and another 182 projects are expected to be completed in 2014 in the commercial sector and education, culture and medical treatment institutions for the improvement of energy performance of buildings and technologies, as well as to promote the use of RE sources within the 1st, the 2nd and the 3rd stage of the tender “*Complex Solutions for Reducing Greenhouse Gas Emissions*”. The 4th stage of the tender is planned to be implemented in 2014.

Key policy directions and measures:

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

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

In 2013, the work on the efficiency assessment of the current support mechanism for electricity production from RER and cogeneration was continued and proposals for further solutions were prepared. The *Action Plan to Limit the Risks of Rising the Total Electricity Price* includes measures to limit the increase in mandatory procurement component (hereinafter – MPC), as well as measures for enhanced surveillance of cogeneration plants and power plants operating within the mandatory procurement.

³³ Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.

In 2013, the legislation has been amended, introducing a body of measures to improve energy sector.

In order to reduce the MPC increase in the total electricity price, a support mechanism for electricity consumers will be implemented to partially compensate for the difference between the sale price for electricity under the mandatory procurement and the market price for electricity producers through target grants from the government budget. The introduction of such a support mechanism for electricity consumers is expected to prevent further MPC increase for electricity consumers and to maintain the MPC in the total price for electricity at the level of 2013, respectively 2.69 cents/kWh.

The current support mechanism has also been improved in 2013 with an aim to enhance surveillance of subsidised electricity producers, strengthen control mechanisms and limit the possibilities to extend deadlines for project implementation and the eligibility requirements for support and the size of capacity component. Moreover, the *Amendments to the Electricity Market Law* have been drafted and applied as of January 1, 2014, while specific conditions have been defined based on the amendments regarding the transfer of electricity produced from RER in households to electricity network (the net accounting principle).

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

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

Projects for promotion of development of cogeneration power plants using RER are being implemented within the EU funds programming period 2007–2013. Until April 2014, 10 contracts have been concluded for the CF financing of EUR 29.58 million, out of which 7 projects have been completed for the CF financing of EUR 16.33 million. Within the implementation of projects, the expected installed capacity is 36 MW_{el} and heat capacity 105 MW.

In 2013, the CCFI financing of EUR 7.4 million was allocated to the implementation of technologies using RER for production of heat energy and electricity, as well as ensuring a transition from technologies using fossil energy resources to technologies using RER, thus implementing 21 projects.

The total public financing in 2011–2013 for the support to energy production from biomass of agricultural and forestry origin if the produced energy is intended to be used mainly outside the farm was EUR 201.9 million (including the EU funds of EUR 133 million and the CCFI – EUR 60.9 million). By February 2014, 38 projects have been implemented for the public financing of EUR 42.3 million.

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

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

In 2014, it is planned to keep the mandatory biofuel addition, to continue applying the reduced excise duty rates to biofuels and biofuel blends with fossil fuel containing at least 30% biofuel, as well as to increase accessibility of biofuels for all consumers.

In order to promote the use of biofuels in public transport and state and local government vehicles, as well as to increase the demand for electric vehicles, proposals for amendments to the *Public Procurement Law*, the *Public Transport Law* and the *Law on the Procurement of Public Service Providers* have been prepared, stipulating that the commissioning party, upon arranging a procurement of vehicles, should take into consideration whether the vehicle engine is compatible with high concentration biofuel

blends with fossil fuel, pure biofuel or electricity. The draft laws are currently being coordinated with the public authorities and the non-governmental organizations.

3.6.3. Reducing Greenhouse Gas Emissions

Latvia's target is to limit the total national GHG emissions so that by 2020 they would not exceed 12.19³⁴ Mt CO₂ equivalent. This target includes fulfilment of other international commitments. The target of GHG emissions excludes emissions caused by the forestry and its attraction. Current GHG forecasts³⁵, including the policy and a body of measures to be implemented in the framework of the policy planning documents until 2012 prepared by Latvian government, show that the target for 2020 is unlikely to be achieved because the forecasted emissions exceed the target. The forecasts show that the target may be achieved through implementation of additional measures to reduce GHG emissions, as well as adoption of new binding legislation.

Table 12

Greenhouse gas emissions target's achievement trajectory

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2020 |
|--|------|------|------|------|------|--------------------|
| GHG emissions, Mt CO ₂ equivalent | 11.6 | 10.9 | 12.1 | 11.5 | 11.0 | 12.2 |
| GHG emissions in non-ETS sectors ³⁶ , Mt CO ₂ equivalent | 8.9 | 8.5 | 8.9 | 8.6 | 8.2 | 9.6 ³⁷ |
| GHG emissions in non-ETS sectors (% compared to 2005) | 8.5 | 3.6 | 8.5 | 4.8 | -0.1 | 17.0 ³⁴ |

According to the results of the National GHG Inventory Report of 2013³⁸, the total GHG emissions of Latvia in 2011 were 11.55 Mt CO₂ equivalent. Most of emissions were caused by the energy (40.8%), transport (27.2%) and agriculture (20.1%) sectors. The total GHG emissions of Latvia have decreased by 5% compared to 2010. In 2011, the drop of emissions in the ETS sector (10%) was mainly based on the change of operators' equipment and fuels.

Overall in 2011, the total emissions of the country were within the expected trajectory of achievement of GHG emissions target. According to the initial results of the National GHG Inventory Report of 2014,³⁹ the total GHG emissions of Latvia in 2012 were 11 Mt CO₂ equivalent, which is by 1.5% lower than in 2011. The decrease in emissions in 2012 was observed in the energy sector, as well as the transport sector, while emissions were tended to grow in other sectors. Therefore, it should be noted that emissions might increase faster in the coming years due to the growing industry and economic recovery from the crisis.

³⁴ The GHG emissions target for 2020 has been updated: 12.16 Mt CO₂ equivalent according to the EC's *Decision of March 26, 2013 on Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC*.

³⁵ Latvia's report of 2013 to the EC: "Policy, measures and GHG forecasts" according to the Article 3, Paragraph 2 of the *Decision 280/2004/EC* (<http://cdr.eionet.europa.eu/lv/eu/ghgpro/envubmp4a>).

³⁶ Sectors outside the EU ETS like transport, small-sized industry and energy, agriculture. Specific targets for non-ETS sectors have been defined in accordance with the EC's *Decision of March 26, 2013 on Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC*.

³⁷ According to the Annex No. 1 of the EC's *Decision of March 26, 2013 on Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC* (applying the values of the global warming potential laid down in the second assessment report by the Intergovernmental Panel on Climate Change) and the EC's *Implementing Decision of 31 October 2013 on the adjustments to Member States' annual emission allocations for the period from 2013 until 2020 pursuant to Decision No 406/2009/EC*.

³⁸ UN Framework Conventions on Climate Change website:

http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/7383.php.

³⁹ European Environment Agency's website: <http://cdr.eionet.europa.eu/lv/eu/ghgmm/envutvrsq>.

Key policy directions and measures:

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

The support for the use of RER in transport fuels and the improvement of vehicle technology in traffic are the key measures to reduce GHG emissions in the transport sector.

Taking into account the expected increase in emissions in the agriculture sector and the fact that so far the CCFI programme investments have not directly included agricultural production, as well as emissions of the agriculture sector constitute 1/5 of the total emissions in the non-ETS sector, GHG emissions reducing technologies and measures to protect environment in agricultural production are being supported.

The measures to reduce the non-ETS sector emissions are mainly supported by the CCFI programmes and implementation of projects within these programmes has been launched in 2010. The planned emissions reduction policy and measures must be continued by assessing and measuring the actual emissions reduction achieved therein. In order to promote reduction of GHG emissions, the tender “*Reducing Greenhouse Gas Emissions in Transport Sector – Support to Introduction of Electric Vehicles and Their Charging Infrastructure*” is going to be implemented in 2014 within the CCFI by supporting introduction of new manufactured vehicles which by construction uses energy from the electricity stored in the vehicle and GHG emissions of 0g/km (electric cars) and of new public charging points in Latvia. The CCFI financing available for the purchase of electric cars within the tender is EUR 3.3 million, and for the purchase and installation of charging points – EUR 1.7 million.

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

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

In order to transfer GHG reducing products and technologies in Latvia, 14 projects for the total CCFI financing of EUR 1.6 million have been implemented since 2011 within the tender “*Development of Technologies Reducing Greenhouse Gas Emissions*”. Within the completed projects, equipment prototypes have been developed for waste water cooling and conducting the produced heat to water heating, thus achieving the estimated heat energy savings of 345 MWh per year in a 108-apartment residential building and 124 MWh per year in a 40-apartment residential building. Furthermore, an efficient technology has been developed for burning low-emission non-fossil fuel using water electrolysis product as a catalyst, an energy efficient solar panel has been developed, as well as gasification technology has been developed suitable for biomass with a high ash content, a low-emission non-fossil combustion technology has been developed and a solar energy presentation project for reduction of GHG emissions in hazardous waste processing company has been prepared. By the end of 2013, 12 projects have been implemented for the total CCFI financing of EUR 2.3 million within the “*Development of Technologies Reducing Greenhouse Gas Emissions and Implementation of Pilot Projects*”. The CCFI co-financing has been granted for the development and presentation of innovative products or technologies, as well as technologies for transfer of international experience and knowledge through implementation of pilot projects to present practical application of innovative technologies reducing GHG.

In 2011–2013, 23 projects have been implemented for the total CCFI financing of EUR 0.8 million within the 1st and the 2nd stage of the tender “*Raising Public Awareness of the Importance and Possibilities to Reduce Greenhouse Gas Emissions*” to improve the public understanding of the importance and possibilities to reduce GHG emissions. Mass media has provided publications and radio and TV programmes, while associations and professional associations have prepared education programmes and hosted seminars for different target groups.

4. USE OF STRUCTURAL FUNDS

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

To achieve the *Europe 2020* strategy targets, financing in the amount of EUR 1.37 billion is planned to be allocated in the programming period 2007–2013, including the ERDF and the CF financing in the amount of EUR 1.29 billion for measures complying with the following *Europe 2020* strategy targets:

- Employment: public financing in the amount of EUR 358.47 million, including the ERDF and the CF financing in the amount of EUR 326.75 million;
- Investments in R&D: public financing in the amount of EUR 463.79 million, including the ERDF financing in the amount of EUR 451.88 million;
- Education: public financing in the amount of EUR 315.29 million, including the ERDF financing in the amount of EUR 280.94 million;
- Social inclusion: public financing in the amount of EUR 239.62 million, including the ERDF financing in the amount of EUR 218.64 million;
- Energy and climate change: public financing in the amount of EUR 201.16 million, including the ERDF and the CF financing in the amount of EUR 198.86 million.

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

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

Competitiveness is being fostered, reforms in vocational education and ALMP measures, lifelong learning and social inclusion measures are being implemented within the priority directions under the NRP of Latvia for 2012–2013 and with the ESF support.

To achieve the *Europe 2020* strategy targets, public financing in the amount of EUR 541.93 million is allocated for measures complying with the following *Europe 2020* strategy targets:

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

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

- Employment and R&D: public financing in the amount of EUR 55.11 million;
- Employment and education: public financing in the amount of EUR 17.88 million;
- Employment and social inclusion: public financing in the amount of EUR 48.02 million;
- Education and social inclusion: public financing in the amount of EUR 13.50 million.

So far, the investments co-financed by the Cohesion policy funds within the programming period 2007–2013 have had an enormous boosting effect on the economic activity and the planning documents for the next programming period 2014–2020 envisage a strategic and efficient investment of the funds to maintain and increase the positive impact in economic growth also in the future, thus contributing to the achievement of the *Europe 2020* strategy targets.

Allocation of the EU Cohesion policy funds financing for 2014–2020

A total of EUR 5350.1 million is available for further successful implementation of the Cohesion policy funds. According to the thematic objectives defined in the *Regulation (EU) 1303/2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006* that link the Cohesion Policy with the *Europe 2020* strategy, the *Partnership Agreement for the EU funds programming period 2014–2020*⁴⁰ provides an indicative allocation of the EU funds financing and link with the national *Europe 2020 targets* (see Table 13). Taking into account the development level and the needs of Latvia's economy, investments are expected in all thematic objectives. A detailed indicative allocation of investments by investment priorities, as well as the link between thematic objectives and the national *Europe 2020* targets is available in the draft *Partnership Agreement for the EU funds programming period 2014–2020*, the draft *Action Programme "Growth and Employment"*⁴¹ and the draft *"Rural Development Programme of Latvia for 2014–2020"*⁴² submitted to the EC.

Table 13

Indicative allocation of the EU Cohesion policy funds financing
and its link to the national *Europe 2020* targets

| Thematic objective | ERDF | ESF | CF | EAFRD | EMF F | YIE | Total | Link to the national <i>Europe 2020</i> targets |
|--|-------------|-----|----|-------------|-------|-----|-------------|---|
| 1. Strengthening research, technology and innovation | 467 519 706 | 0 | 0 | 15 037 765 | n.a. | 0 | 513 469 846 | Investments in R&D: 1.5% of GDP |
| 2. Improving availability, use and quality of ICT | 192 783 829 | 0 | 0 | 0 | n.a. | 0 | 192 786 609 | According to the target of the flagship initiative <i>Digital Agenda for Europe</i> of the <i>Europe 2020</i> strategy for 2020, every person in the EU should have an opportunity to subscribe for internet access service with the download speed ≥ 30 Mbit/s and at least 50% of the EU households subscribe to internet access services with the download speed ≥ 100 Mbit/s. |
| 3. Improving competitiveness of SMEs, and the agriculture sector (in relation to the EAFRD), and fisheries and | 317 174 557 | 0 | 0 | 333 578 032 | n.a. | 0 | 619 606 846 | The target of Latvia's NRP is to provide financial support to development of commercial activity, simplify |

⁴⁰ Approved by the CM Decree No. 1 of January 2, 2014 "On the Partnership Agreement for the EU funds programming period 2014–2020".

⁴¹ http://www.esfondi.lv/upload/14-20_gads/FMPI_g_250713_partner.doc.

⁴² https://www.zm.gov.lv/public/files/CMS_Static_Page_Doc/00/00/00/39/25/LAP_2014_20_10032014.pdf.

| Thematic objective | ERDF | ESF | CF | EAFRD | EMF F | YIE | Total | Link to the national Europe 2020 targets |
|--|-------------|-----|-------------|-------------|-------|-----|---------------|--|
| aquaculture sector (in relation to the EMFF) | | | | | | | | access to loans and provide support to venture investments, as well as provide support to innovative enterprises for the development and introduction of new products and technologies in production and increase the number of innovative enterprises. |
| 4. Supporting transition to low carbon economy in all sectors | 297 506 166 | 0 | 194 266 292 | 40 134 995 | n.a. | 0 | 531 914 547 | The share of renewable energy of 40% in the gross final consumption; Primary energy savings 0,670 Mtoe; Limit GHG emissions in non-ETS sectors to ensure the increase below 17% compared to 2005. |
| 5. Promoting adaption to climate changes, risk prevention and management | 65 819 321 | 0 | 0 | 219 760 048 | n.a. | 0 | 285 580 318 | The sub-objective "Adaption to climate changes, risk prevention and management" of the flagship initiative "Resource-efficient Europe" of the "Europe 2020" strategy and the BSRS strategic target "Raise welfare" envisage the need for a measure to reduce and prevent the risk of floods. |
| 6. Protecting environment and promoting resource efficiency | 314 952 523 | 0 | 190 138 398 | 219 760 048 | n.a. | 0 | 725 194 705 | To ensure efficient use of resources and preserve biological diversity, it is necessary to increase the number of areas to reduce the anthropogenic load on specially protected species and biotopes, as well as to improve the existing infrastructure. |
| 7. Promoting sustainable | 235 477 563 | 0 | 924 294 295 | 0 | n.a. | 0 | 1 159 788 587 | According to the "Resource- |

| Thematic objective | ERDF | ESF | CF | EAFRD | EMF F | YIE | Total | Link to the national Europe 2020 targets |
|---|---------------|-------------|---------------|---------------|-------|------------|---------------|--|
| transport and preventing shortcomings in the main network infrastructure | | | | | | | | <i>efficient Europe</i> ” of the “ <i>Europe 2020</i> ” strategy, the key objective of the European transport policy is to help developing a system to support the European economic growth, increase competitiveness and provide top quality services, at the same time using resources efficiently. |
| 8. Fostering stable and quality jobs and supporting labour mobility | 0 | 135 410 788 | 0 | 120 189 316 | n.a. | 29 010 639 | 284 610 743 | 73% employment rate in the age group of 20–60 years. |
| 9. Fostering social inclusion and fighting poverty and any type of discrimination | 193 377 447 | 225 160 750 | 0 | 68 164 097 | n.a. | 0 | 486 705 084 | The share of persons at-risk-of- poverty: 21% or prevent the risk of poverty or exclusion for 121 000 people. |
| 10. Investing in education, skills and lifelong learning | 277 460 786 | 238 500 493 | 0 | 16 580 422 | n.a. | 0 | 532 453 945 | The share of population aged 30–34 years having acquired higher education: 34–36%; The share of early school leavers aged 18–24 years: 13.4% (10%); |
| 11. Improving institutional capacity and efficient public administration | 0 | 18 063 357 | 0 | 0 | n.a. | 0 | 18 063 357 | Latvia’s NRP envisages reducing administrative burden on enterprises and improving the quality of business legislation through legal, efficient and quality public administration to provide public services that comply with the needs of population. Promote business-friendly environment. Build capacity of employees of law enforcement institutions. |
| Total | 2 362 071 898 | 617 135 388 | 1 308 698 985 | 1 033 204 723 | 0 | 29 010 639 | 5 350 174 587 | |