

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

**PROGRESS REPORT**

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## ABBREVIATIONS, MEASUREMENT UNITS, AND SYMBOLS

ALMP	active labour market policy measures	GDE	Guidelines on Development of Education for 2014–2020
RE	renewable energy	PIT	personal income tax
RES	renewable energy sources	LPCI	Law on Prevention of Conflict of Interest
DFI	Development Finance Institution	GDP	gross domestic product
AIC	Academic Information Centre	ICT	information and communication technologies
MD	Ministry of Defence	GDIS	Guidelines for Development of Information Society for 2014-2020
UN	United Nations Organisation	IT	information technologies
JSC	joint stock company	MES	Ministry of Education and Science
MFA	Ministry of Foreign Affairs	YEI	Youth Employment Initiative
FDI	foreign direct investment	CF	Cohesion Fund
CERT.LV	IT Security Incident Response Institution	km	kilometre
CO <sub>2</sub>	carbon dioxide	MC	Ministry of Culture
CSB	Central Statistical Bureau	KNAB	Corruption Prevention and Combating Bureau
WBL	work-based learning	CCFI	Climate Change Financial Instrument
FEAD	Fund for European Aid to the Most Deprived	kWh	kilowatt-hour
EDS	electronic declaration system	FTUCL	Free Trade Union Confederation of Latvia
EEA	European Economic Area	ECL	Employers' Confederation of Latvia
eID	electronic identification	IDAL	Investment and Development Agency of Latvia
CEF	Connecting Europe Facility	LQF	Latvian qualifications framework
EFMF	European Fisheries and Maritime Fund (2014-2020)	MoW	Ministry of Welfare
EC	European Commission	LPR	Latgale planning region
EQF	European qualifications framework	LCCI	Latvian Chamber of Commerce and Industry
EAFRD	European Agricultural Fund for Rural Development	Mbps	megabit per second
ME	Ministry of Economics	CM	Cabinet of Ministers
EQAR	European Quality Assurance Register for Higher Education	Mt	megaton
ERDF	European Regional Development Fund	Mtoe	megaton oil equivalent
EU	European Union	SMM	small and medium-sized merchants
ESF	European Social Fund	SME	small and medium-sized enterprises
ESSPROS	European system of integrated social protection statistics	MW	megawatt
ETS	Emissions Trading System	NEET	youth not in education, employment or training
EUR	euro, EU single currency		
FDL	Fiscal Discipline Law		
FCM	Financial and Capital Market Commission		
MF	Ministry of Finance		
GWh	gigawatt-hour		

PMLTF	Prevention of Money Laundering and Terrorism Financing	TEN-T	trans-European transport network
		MJ	Ministry of Justice
NRP	National Reform Programme	MGF	Maintenance Guarantee Fund
SEA	State Employment Agency	AMGF	Administration of Maintenance Guarantee Fund
NGO	non-governmental organisation		
OECD	Organisation of Economic Cooperation and Development	CIT	corporate income tax
		RE	Register of Enterprises
R&D	research and development	USD	US dollar
WB	World Bank	MEPRD	Ministry of Environmental Protection and Regional Development
VECC	vocational education competence centre		
PJ	petajoule	SJSC	state joint stock company
CSCC	Cross-Sectoral Coordination Centre	SEDA	State Education Development Agency
		SRS	State Revenue Service
VAT	value added tax	SC	State Chancellery
YPLL	years of potential life lost	MH	Ministry of Health
SO	specific objective	MTG	Medium-Term Budget Goal
GHG	greenhouse gas	MA	Ministry of Agriculture
LLC	limited liability company	GRTDI	Guidelines on Research, Technology Development, and Innovation for 2014–2020
SKDS	market and public opinion research centre		
MT	Ministry of Transport		
STEM	science, technology, engineering and mathematics		

## INTRODUCTION

Latvia has prepared the sixth *Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020” Strategy*<sup>1</sup> (hereinafter – Progress Report on the Implementation of the NRP of Latvia) which is closely linked to the *Stability Programme of Latvia for 2017-2020*.

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

The Progress Report on the Implementation of the NRP of Latvia was prepared taking into account the *National Development Plan of Latvia for 2014–2020, Partnership Agreement for the EU Investment Funds Programming Period 2014–2020*, the *Operational Programme Growth and Employment for the EU Funds Programming Period 2014–2020*, commitments of Latvia under the *Euro Plus Pact*<sup>2</sup>, the EU Council’s country-specific recommendations for Latvia for 2016-2017<sup>3</sup>, the *2017 Annual Growth Survey*<sup>4</sup> published on 16 November 2016 by the EC, the Commission’s staff working document *Country Report – Latvia 2017*<sup>5</sup>, and the Letter from the EC Secretariat-General to the EU Member States on the European Semester 2017<sup>6</sup>.

The Progress Report on the Implementation of the NRP of Latvia has been prepared on the basis of information received from the Ministry of Defence (MD), the Ministry of Foreign Affairs (MFA), the Ministry of Economics (ME), the Ministry of Finance (MF), the Ministry of Education and Science (MES), the Ministry of Culture (MC), the Ministry of Welfare (MoW), the Ministry of Transport (MT), the Ministry of Justice (MJ), the Ministry of Environmental Protection and Regional Development (MEPRD), the Ministry of Health (MH), the Ministry of Agriculture (MA), the Cross-Sectoral Coordination Centre (CSCC), the State Chancellery (SC), the Financial and Capital Market Commission (FCMC), and it has been discussed with the Employers’ Confederation of Latvia (ECL), the Free Trade Union Confederation of Latvia (FTUCL), the Latvian Chamber of Commerce and Industry (LCCI), and the Latvian Association of Local and Regional Governments on 15 March 2017.

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

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 2016. Chapter 3 provides a detailed description of the NRP policy directions, including the

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

<sup>2</sup> Euro Plus Pact, conclusions of the European Council of 24–25 March 2011: [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/120296.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf)

<sup>3</sup> The EU Council’s country-specific recommendations for Latvia 2016: [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818\(20\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818(20)&from=EN)

<sup>4</sup> *2017 Growth Survey*: [https://ec.europa.eu/info/file/35024/download\\_en?token=26OpX6mk](https://ec.europa.eu/info/file/35024/download_en?token=26OpX6mk)

<sup>5</sup> *Country Report Latvia 2017*: [https://ec.europa.eu/info/file/96711/download\\_en?token=i5i9Q\\_FV](https://ec.europa.eu/info/file/96711/download_en?token=i5i9Q_FV)

<sup>6</sup> Letter from the EC Secretariat-General to the EU Member States on the European Semester 2017, ARES(2015)5723722, 27.09.2016.

progress on the achievement of the quantitative targets of Latvia within the *Europe 2020* strategy. Chapter 4 presents information on the use of the EU funds.

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

## 1. MEDIUM-TERM MACROECONOMIC SCENARIO

In 2016, the gross domestic product (hereinafter – the GDP) in Latvia increased by 2% demonstrating a slower economic growth compared to 2.7% in 2015.

In 2016, increase in private consumption (by 3.4%) had a positive impact on growth. It was affected by wage raise, as well as markedly low inflation, even deflation during some months. Public consumption increased by 2.7% in 2016. Export of goods and services increased by 2.8% in 2016, and a stronger growth was hindered by the weak EU growth. Export of vehicles, chemical industry goods, timber and timber products, as well as agricultural and food products had a positive impact on export of goods. Meanwhile, export value of mineral products and mechanisms, devices and electric appliances decreased substantially.

The main reason slowing down growth in 2016 was the drastic decline of investments. In 2016, the level of investments was by 11.7% lower than a year before. The decline in investments was mainly due to the slow implementation of EU structural fund projects. This fact affected the construction branch – the volume of construction decreased by 17.9 per cent in 2016.

By sectors, an increase in manufacturing should be noted. Industry output increased by 5.6% in 2016. Nearly all manufacturing sub-sectors demonstrated good growth indicators. Increase on volume within food industry, woodwork and electric and optical equipment manufacturing contributed significantly. Within service industry, the strongest growth in 2016 was observed in accommodation and catering – by 8.9%, trade – by 3.3%, art and entertainment – 3.1%, as well as information and communication services – by 2.9%.

Table 1

Medium-term Macroeconomic Scenario

	2015	2016	2017	2018	2019	2020
GDP, in current prices, million EUR	24368	25021	26312	27690	29345	31021
growth in current prices, %	3.1	2.7	5.2	5.2	6.0	5.7
growth in constant prices, %	2.7	2.0	3.2	3.4	3.2	3.0
GDP deflator (y-o-y), %	0.4	0.7	1.9	1.8	2.7	2.6
Consumer price index (y-o-y), %	0.2	0.1	2.3	2.0	2.0	2.0
Employment, thousand people	896	893	895	897	897	897
Unemployment rate, % (aged 15-74)	9.9	9.6	9.4	8.9	8.4	8.2
Exports of goods and services, in current prices, million EUR	14361	14510	15061	16219	17483	18921
growth in constant prices, %	2.6	2.8	3.3	3.5	3.7	4.1
Import of goods and services, in current prices, million EUR	14636	14373	14798	16567	18219	19970
growth in constant prices, %	2.1	4.6	1.4	7.1	5.2	4.9
Growth of potential GDP	2.0	2.3	2.7	3.0	2.8	3.0
contribution:						
– employment	0.2	0.0	0.2	0.1	0.0	0.1
– capital	-0.4	0.2	0.5	1.2	1.3	1.3
– total manufacturing factor productivity	2.1	2.2	2.0	1.8	1.6	1.6
Output gap (% of potential GDP)	-0.1	-0.5	-0.1	0.3	0.7	0.7

*Data source: Output gap (% of potential GDP)*

In 2016, the increase in average gross wages continued. In comparison with 2015, the increase was 5% and average wage was 859 EUR. Wages grew more rapidly in the private sector – by 5.8%, whereas in the public sector – by 3.7%. In 2016, the average net wage increased by 4.7%. Meanwhile, the actual wage increase by 4.6%.

The average inflation in 2016 was 0.1%. Inflation gradually reinstated starting from mid-2016, and consumer prices increased already by 2.2% in December 2016. The price fluctuations of 2016 were mainly determined by development in the global commodity markets. In the beginning of 2016, dropping oil prices gave a significant reduction in fuel, heating, and gas prices in Latvia. Meanwhile,

an equally rapid increase in food prices at the end of the year compensated slightly the decrease in prices of energy resources related products and services.

In 2016, unemployment continued its decline, however, at a slower rate than previously. On average, the unemployment rate fell to 9.6%, or by 0.3 percentage points compared to 2015. Also, the registered unemployment rate continues to gradually decline, and at the end of 2016, it stood at 8.4%. The number of registered unemployed was reduced by 4.2% during this year, reaching 78,400 in the end of December.

The total number of working population in 2016 constituted 893,300, which is a reduction by 0.3% compared to 2015. On one hand, it was determined by reduction in labour demand in the construction, trade, agriculture, as well as certain service sectors, while, on the other hand, a significant increase in employment was observed in manufacturing industry where the number of employed increased by 7,200 or 6.2% compared to 2015.

The main assumptions under medium-term macroeconomic scenario:

- The macroeconomic development scenario is formed based on the EC winter forecast technical assumptions for 2017 expecting the EUR/USD currency rate to be 1.07 in both 2017 and 2018;
- The forecast expects a gradual medium-term increase in growth rates in eurozone and the main Latvian external trade partner countries. There will be an increased demand in Latvian goods and services contributing to stronger economic growth in 2017 and 2018. A more rapid acquisition of EU funds will ensure an increase in investment in the next years;
- Also, increase in private consumption will continue supporting economic growth. Medium-term growth will become more balanced in terms of external and internal demand;
- The labour market situation will be determined by the reduction in number of population in the giving age, as well as economy growth rate. The number of working population in 2017 will slightly increase – by 0.2%. A very moderate growth in employment rates is expected in medium-term as well, and growth will mainly be ensured by increase in productivity;
- The increase in consumer prices will be more rapid in 2017. This factor will be determined by increase in energy resource and food prices in the world markets. Increase in consumer prices will be affected by increase in service prices, especially for health, telecommunication, education, as well as management prices. In 2017, an inflation increase of up to 2.3% and medium-term consumer price increase of 2% are expected;
- After the financial crisis of 2007, a relatively rapid growth of Latvian potential GDP restarted exceeding increase of 2.5% annually. However, this increase is approximately two times slower than before crisis. The growth of potential GDP is negatively affected by the decrease in labour force supply due to the unfavourable demographic trend. Since a rapid increase in employment figures is not expected in the medium term, development of potential GDP in medium term depends on the volume of investments and total increase in productivity.

While preparing the forecasts of macroeconomic indicators, the MF consulted with experts from the Bank of Latvia and the Ministry of Economics, as well as the European Commission and International Monetary Fund. Macroeconomic indicator forecasts have been approved by the Fiscal Discipline Council upon publishing its opinion on 16 February 2017.<sup>7</sup>

Internal and external environment risks that might both accelerate or slow down the economic growth compared to basic forecast have also been taken into consideration when working on macroeconomic forecasts. The major negative risks are related to the external environment and geopolitical situation in Latvia. Among internal risks potentially negatively affecting the development of economics, the continued low level of investments should be mentioned, slowing down development of certain sectors, as well as the rapid increase in wages unsustainable in terms of

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<sup>7</sup> <http://fdp.gov.lv/jaunumi/fiskala-padome-es-fondu-kavesanas-var-atstat-negativu-ietekmi-uz-budzeta-izpildes-rezultatiem>



productivity and an unexpectedly rapid manufacturer cost increase determined by higher costs of energy resources, as well as further delay in EU funds investment acquisition.

Among the positive risks, an improvement of economic situation in the world, more rapid than expected, should be mentioned, and it may increase demand for Latvian goods and services, allowing the growth of export in 2017 to possibly be stronger than expected. A stronger growth in Latvia can also be ensured by the currently increased activity in lending and more rapid development of enterprise investments based on own resources.

## 2. IMPLEMENTATION OF THE EU COUNCIL RECOMMENDATIONS

### 2.1. MEDIUM-TERM BUDGET OBJECTIVE AND FISCAL POLICY

**Ensure that the deviation from the medium-term budgetary objective in 2016 and 2017 is limited to the allowance linked to the systemic pension reform and major structural reforms in health care sector. Decreasing tax share in labour force costs for low-paid employees by facilitating a favourable change in fiscal policy, namely, moving the emphasis to environment and real estate taxes, as well as improving tax collection.**

In similarity with the previous years, also the overall governmental structural budgetary balance targets in budget for 2016 were defined in accordance with the approach stating that the only permissible deviations from the medium-term budget objectives (MTO) are the ones related to increased contributions into the pension level 2. In addition to that, while preparing the *Stability Programme of Latvia for 2016-2019*, Latvia announce the health care reform once again, acknowledged by the European Commission as justified, allowing to qualify for additional deviation MTO in 2017 equal to 0.1% of GDP. Considering the permissible deviations, the Law on Medium-Term Budget Framework for 2017, 2018, and 2019 sets the overall governmental structural budgetary balance target for 2017 at 1% of the GDP.

In 2016 and 2017, several significant measures were implemented aimed at reducing the inequality in income among population:

- Starting from 1 January 2016, a differentiated non-taxable minimum has been introduced stating that yearly differentiated non-taxable income amount will vary depending on the total income;
- Starting from 1 January 2016, monthly PIT allowance for dependent persons has been increased from EUR 165 to EUR 175;
- Starting from 1 January 2016, a solidarity tax has been introduced aimed at preventing the regressive tax system that emerged after the maximum amount of the object of state social security mandatory contribution was reintroduced on 1 January 2014 (EUR 46 400 in 2014, EUR 48 600 in 2015 and 2016, 52 400 EUR in 2017);
- Starting from 1 January 2016, the minimum monthly wage has been increased from 360 EUR to 370 EUR, and from 1 January 2017 – further to 380 EUR monthly.

In order to compensate for the drop in tax revenues due to the reduction of the labour tax wedge, in 2016 and 2017, several tax amendments had been made, including ones related to consumption taxes. Excise-duty rate for tobacco and the majority of oil products has been raised. The excise-duty base was extended to new taxable objects – on liquids used in electronic cigarette (entered into force on 1 July 2016) and heated tobacco (starting from 1 March 2016). A gradual rate increase schedule for tobacco products has been made for the period until 2019, while for alcoholic drinks – until 2018. Starting from 1 March 2017, the excise-duty rate on alcoholic drinks has been increased. Starting from 2016, the vehicle operation tax rate was raised for trucks with gross vehicle mass up to 12 t, as well as for corporate cars, and simultaneously the tax base was extended. Meanwhile, starting from 1 January 2017, vehicle operation tax rate has been raised for cars, and a new vehicle operation tax rate calculation principle has been introduced based on CO<sub>2</sub> emission volume to be applied to cars previously not registered in Latvia and whose first date of registration is later than 31 December 2008. From now on, the vehicle operation tax rate will also be applied to persons whose registered domicile is in Latvia using M<sub>1</sub> or N<sub>1</sub> category cars registered abroad. VAT changes are related to VAT application to management of residential premises (starting from 1 July 2016), reverse charge introduction for certain goods, as well as increased VAT deductibility restrictions for cars. Starting from 1 January 2017, certain electricity tax breaks were abolished.

With regard to transfer of tax burden to environment taxes, significant amendments to natural resource tax rates were adopted in 2016 and entered into force in 1 January 2017. Thereby, the nature resource tax has been increased on extraction of natural resources, water extraction, waste disposal, air pollution, environmentally harmful goods (all types of tires), electrical and electronic equipment,

goods and packaging, as well as coal, coke, and lignite. At the same time, nature resource tax has been increased on vehicles aimed at funding collection and recycling of old cars.

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

## ***2.2. SOCIAL ASSISTANCE SYSTEM, VOCATIONAL EDUCATION, AND HEALTH CARE***

**Improving adequacy of social assistance benefits and strengthening the measures allowing the recipients of benefits to find and keep a job, including widening the scope of activation measures. Speeding up the reform of vocational education programmes involving the social partners, setting up work-based learning regulatory framework and increasing offer thereof. Improvement of health care system accessibility, quality, and cost efficiency.**

On 9 February 2017, amendments to *the Social Services and Social Assistance Law* entered into force aimed at improvement of coverage of social assistance recipients and motivating the social assistance recipients to engage in paid labour, and said amendments provide the following:

- Improving social assistance accessibility for families with children without considering the family state benefit in income assessment<sup>8</sup>. As a result, a larger number of families with low income will be eligible for the needy family status and will be able to receive the municipal social services and social assistance benefits. Moreover, these families will be able to receive the state-provided services and support to needy families. Taking into account the increase in state benefit for families for the 4<sup>th</sup> child and subsequent children starting from 1 January 2017, the financial situation will improve for many large families;
- Motivation for employment by introducing a gradual social assistance benefit payment suspension 3 months after commencement of employment of economic activity, and, during this period, personal income in the amount of state determined minimum monthly wage shall not be included in the income assessment.

Continuing work on the further improvement of social assistance system, Ministry of Welfare will submit to the government *the Minimum Income Level Introduction Plan for 2018-2020* (currently announced in the state secretary meeting) allowing to increase the income level for population groups with the lowest income.

In addition to the existing active employment plans, improvement of the existing activation mechanisms and conditions for a more efficient involvement of the unemployed and job seekers in labour market is ongoing;

- Amendments to *the Social Services and Social Assistance Law* improve the professional rehabilitation services, separating the determination of professional suitability, and increases the accessibility of professional rehabilitation services, ensuring provision of these services to persons with a serious or very serious disability, as well as to persons with mental disorders, including persons with mental disorders without diagnosed disability or predictable disability. The intended amendments are aimed at ensuring a more efficient cooperation between Social Integration State Agency and State Employment Agency (hereinafter referred to as SEA) with regard to integration into labour market of registered unemployed with disability or predictable disability, and unemployed with functional disorders, and provision of a support more in line with the abilities;
- In 2015 and 2016, implementation of several ESF co-funded measures and projects was initiated: 1) “Support for long-Term unemployed”, by 2023, support will be provided to 20 000 persons; 2) “Social entrepreneurship support”, by 2023, support will be provided to

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<sup>8</sup> Municipalities grant social assistance to needy and low-income persons, based on assessment of person’s (family’s) income. The amount of guaranteed minimum income level benefit is calculated as a difference between the guaranteed minimum income level per family member set by the Cabinet of Ministers or municipality and the total income of a needy family (person). Family state benefit is taken into account in the family income assessment. Excluding the family state benefit from income assessment will increase the number of families eligible for need person status.

- 217 unemployed persons in a more unfavourable situation, persons with disability, and persons with mental disorders; 3) “Retention of ability to work and promotion of employment among elderly employed persons”, by 2023, support will be provided to 3000 persons; 4) “Integration of persons with disability or mental disorders into employment and society”, by 2022, support will be provided to 100 residents in a more unfavourable situation; 5) “Motivational programme in employment seeking and mentoring services for persons with disability”, by 2020, support will be provided to 1200 persons (*more detailed information on these measures is provided in Chapters 3.3 and 3.5.1*);
- Amendments to legislative framework have been prepared providing for clarification of a criteria for determination of suitable job and more strict conditions for acceptance of a job offer for unemployed persons after six months unemployment period, as well as clarification of conditions for filling-in the job seekers diary connecting them with the registered unemployment level in the respective territory. The aim of these amendments is to activate and motivate the unemployed to return into labour market sooner by setting stricter job seeking duties and reviewing the suitable job criteria. As a result of these amendments, an expense reduction for unemployment benefits is planned in the amount of 3.2 million EUR in 2017, 3.5 million EUR in 2018, and 3.6 million EUR in 2019.

The coverage of registered unemployed with the active labour market policy measures has been steady in the previous years – approx. 11%. In 2016, all the unemployed persons seeking support in SEA (102 298 persons) had received in total 118 589 SEA services. It must be emphasized that involvement of registered unemployed in the ALMP is carried out in accordance with the profiling results (*see Chapter 3.3*). During 2016, in total 72 286 registered unemployed persons engaged in employment, and out 20 857 (28.9%) out of these engaged in employment after completing one of the active labour market policy measures (except for informational day of raising the competitiveness measure).

In order to raise the quality of **vocational education**, its attractiveness and suitability for the needs of economics, and to raise the level of interest in vocational education among students, reforms of vocational education were continued, including reforming contents of vocational education and implementing work-based learning.

Vocational education content reform was initiated to ensure a transition from subject-based vocational education content to result-based learning, as well as to introduce a modular approach in implementation of vocational education programmes. The first stage of reform was completed on 30 November 2015. In 2016, preparatory works for implementation of the second stage were carried out.

A new *Procedure for Development of Professional Standards, Professional Qualification Requirements, and Sectoral Qualification Structure* was developed, replacing the previous procedure, including regulative framework for sectoral qualification structure, professional standards and professional qualification requirements.

In the end of 2016, the ESF-supported project “Ensuring Compliance of Vocational Education with European Qualification Framework” was launched in order to develop a vocational education content in line with the changing labour market requirements and ensure compliance of vocational education with European Qualification Framework. Within this project, from 16 December 2016 until 31 December 2021, improvement of sectoral qualification system will be carried out, including research of two new sectors (public health and design) and preparation of descriptions, development or improvement of 160 professional standards and professional qualification requirements, development and implementation of 184 modular vocational education programmes, development of contents of professional qualification exams for 210 professional qualifications, and development of the relevant teaching aids and methodological materials. Total planned funding is 12.9 million EUR, including European Social Fund resources in the amount of 11 million EUR, and state budget co-funding –1.9 million EUR.

During academic year 2016/2017, approbation of implementation of the developed vocational education modular programmes was launched. Currently, 29 out of 56 modular programmes are being approbated.

On 15 June 2016, the Cabinet of Ministers approved the *Procedure for organization and implementation of work-based learning*. It stipulates the conditions for **work-based** (hereinafter referred to as WB) learning implementation, rights and duties of involved parties coordinating and facilitating the cooperation of merchants and educational establishments and ensuring that vocational education meets the requirements of labour market. Work on the draft of *Guidelines for Organization and Implementation of Work-Based Education* is currently ongoing.

In 2016, preparatory works have been carried out to launch the ESF project *Increasing the Number of Qualified Students in Vocational Education Institutions after Their Participation on Work-Based Learning and Teaching Practice in an Enterprise*. The first informational meeting with representatives from vocational education institutions and enterprises on project implementation conditions have already taken place within this project launched on 27 January 2017. By the end of January 2017, letters of intent have been signed on participation on the project with in total 87 enterprises from all the regions in Latvia. By the 3<sup>rd</sup> quarter of 2023, within this project, support will be provided for engaging 3 150 students in WB learning and 11 025 students in teaching practice in an enterprise. Total planned funding is 21.9 million EUR, including ESF resources in the amount of 18.6 million EUR, and state budget co-funding 3.3 million EUR.

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

In promoting the WB learning in cooperation with partners in Estonia and Lithuania, from 1 December 2014 until 28 February 2017, the Erasmus+ programme project *National Authorities for Apprenticeships: Implementing Work-Based Learning in Latvia, Lithuania, and Estonia (WBL-Balt)* was implemented (*for more information see Chapter 3.4.3*).

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

- Health care funding model, health care basket of services, rates and service accessibility. In the meeting of 11 October 2016, CM approved the conceptual report *On Changing the Latvian Health Care Funding Model* and conceptually supported state universal mandatory health insurance funded by state budget resources. In state budget 2017, an increase of 50 million EUR or 6.5% compared to previous year has been allocated to health care, including 34.3 million EUR for implementation of reforms granted the European Commission deviation in the amount of 0.1% for budget deficit objective. In 2016, work on calculations to establish economically justified tariffs in priority areas (radiology, obstetrics, and specialists) has been commenced. Starting from 1 October 2016, the so called “green corridor” has been implemented to insure an efficient and timely examination and start of treatment in the event of several oncology diseases;
- Mapping medical institutions, issues of infrastructure, human resource development in health care, and health care system management. CM adopted the informative report *On mapping the systemically important medical institutions and development of reforms* providing a vision on EU funds investment plan in senior level hospital infrastructure and the detailed implementing conditions for EU funds investments in high-intensity inpatient treatment establishments. In 2017, agreements with medical institutions on allocation of funds will be signed, and in 2018, acquisition of EU funds will be commenced. In order to increase the number of doctors, especially in sectors lacking specialists, in addition to the assigned 200 residency posts, in the academic year 2016/2017 funding was allocated for

- admission of additional 30 interns. In order to increase the number of medical nurses, in 2016 the number of state-funded study places in nursing speciality in Riga Stradins University was increased by 35 places compared to 2015 (75 places in 2015, 110 – in 2016). In 2017 under the EU funds programming period 2014-2020, support measures aimed at attracting medical practitioners (doctors and nurses) for work in regions outside Riga will be launched; also, raising qualification and renewal of medical practitioners' certificates will be possible under continuous education support measure, allowing a medical practitioner not practising in his/her speciality to return in labour market;
- E-health system E-health system is available to residents, medical institutions, and pharmacies since 12 September 2016. In the e-health portal ([www.eveselib.gov.lv](http://www.eveselib.gov.lv)), residents may access their electronic health card, and medical practitioners may write e-prescriptions, e-sick-leaves, e-referrals and other medical documents. Since the end of 2015, training of medical practitioners and pharmacists in e-health system matters is ongoing (as of 7 February 2017, in total 4393 specialists have been trained), while since the end of 2016, an active campaign for raising the awareness of residents on use of e-health system is ongoing. E-health system pilot testing will be completed by 31 August 2017, and an active work is being carried out to encourage all the medical institutions, doctors and pharmacists to join the system and ensure an extensive use of e-health system functionalities. As of 16 February 2017, in total 17% of general practitioners, 30% of other medical institutions and 85% of pharmacies had signed the agreement with National Health Service on using the E-health system. A further development of E-health system is planned using funding from EU funds programming period 2014-2020;
  - Health promotion and disease prevention. Implementation of EU fund-financed health promotion and disease prevention measures has been launched. In order to limit the distribution of products harmful to health, as well as unhealthy habits, in 2016, CM approved regulations on maximum permissible amount of trans-fatty acids in food products, amendments to regulations have been made aimed at improving catering service quality in educational and medical institutions, long-term social care and social rehabilitation institutions, as well as stipulating certain food products permissible to be distributed in general and vocational education institutions in addition to the set and optional menus. *Law on Distribution of Energy Drinks* has been adopted laying down the prohibition of energy drinks for children. On 20 May 2016, stricter smoking restrictions have entered into force. A rate increase schedule for tobacco products has been elaborated into the Law on Excise Duties, and the rate will be increased yearly from 2016 until 2019, while for alcoholic drinks the rate will be increased yearly in the period from 2015 until 2018. In order to address the distribution and use of new psychoactive substances, a generic system has been introduced in Latvia to be used to include controlled substances in the list on a regular bases, and the so-called interim prohibition system has been established where any new substance can be rapidly subject to interim control for a period up to 1 year. Both of the aforementioned systems have allowed to reduce the distribution of new substances;
  - Improvement of health care quality and patient safety. A *Health Care System Quality Improvement and Patient Safety Concept* has been developed, as well as the action plan to be implemented within it. Implementation of the measures has been launched in 2017, and EU fund programming period 2014-2020 resources have been allocated for this purpose. With the aim of ensuring coordination and support for continuous improvement of medical treatment process quality and patient safety, in February 2017, amendments to *Disease Prevention and Control Centre regulations* were adopted assigning a new function to the said Centre – ensuring methodological support for medical institutions in the matters of medical treatment quality and patient safety.

### ***2.3. RESEARCH AND INNOVATION, PUBLIC ADMINISTRATION REFORMS***

**Continuous consolidation of research institutions and stimulation of private sector investments in innovation. Strengthening the interest conflict prevention system and establishment of unified legal framework for all the public sector employees. Assigning a bigger responsibility to insolvency administrators and increasing their public monitoring.**

In 2016, structural reforms were continued with the main aim to concentrate public financial, research and human resources in competitive **scientific institutions**. In 2020, as a result of consolidation, there shall be 20 competitive scientific institutions. In accordance with the scientific international assessment recommendations, the consolidation is carried out by concentrating resources in the best state scientific institutes and universities, as well as knowledge centres. At the moment the number of institutions receiving funding for scientific basis has been reduced from 40 institutions (2014) to 22 institutions (2016), two of which are public derived persons of the University of Latvia. In 2017, joining of another institution to the University of Latvia has been proposed.

For this purpose, amendments to scientific base funding allocation regulations<sup>9</sup> were made in 2014, providing that, starting from 2016, scientific base funding shall no longer be allocated to scientific institutions internationally evaluated as weak. Likewise, in EU funds programming period 2014-2020 no ESI funds co-funding of such institutions is planned. Therefore, scientific institutions receiving a low score are stimulated to integrate stronger institutions, simultaneously encouraging concentration of resources and formation of the critical mass. In order to promote excellence, 10% of the scientific base funding is allocated to scientific institutions receiving a high score in the international science evaluation.

In order to support the concentration of research resources in the most competitive scientific institutions improving the efficiency of scientific institution management, as well as resource management, while simultaneously promoting development of research infrastructure in the areas determined by RIS3, investments in the amount of 120 million EUR with the co-funding from EU funds will be made to the infrastructure of 14 strongest scientific institutions by year 2020. Support will be provided for strengthening the institutional capacity of scientific institutions, development of research infrastructure, and concentration of research resources. A pre-condition for receiving a support is the development strategies elaborated by scientific institutions and approved by the sectoral ministries. Strategies shall, among other things, observe principles included in the European Charter for Access to Research Infrastructures. This condition is included also in the agreements on scientific basis funding concluded between MES and scientific institutions for 2017. Agreements also provide for a duty of scientific institutions to publish in their websites, as well as in data base of scientific equipment and services "*UseScience*", information on the large research infrastructure available and access procedure.

The next international science evaluation will take place in 2019.

During the EU structural funds programming period 2014-2020, several actions are being implemented contributing to **private sector investments in R&D** activities.

Support is provided for micro, small and medium-sized enterprise innovations promoting activities, supporting research outsourcing in development of new or significantly improved products or technologies (innovation vouchers). Total EU fund financing available in this programme is 7 million EUR.

In order to promote the cooperation of enterprises with research sector for commercialization of new products and development of technologies, a *Competence Centre Programme* has been developed and 8 competence centres in RIS3 areas have been established as a part of it. Total EU

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<sup>9</sup> Scientific base funding is institutional funding ensuring the ability of scientific institutions to carry out the research required for the development of society and economics. The allocation criteria take into account the following: 1) capacity of the institution - scientific staff employed by the institution; 2) objective results in compliance with a good international practice - the volume of research carried out, including attracted funding from entrepreneurial sector and international research projects, publication, intellectual property, and indicators stimulating renewal of staff - the number of masters and doctoral theses defended by the staff.

fund financing available in this programme is 72.3 million EUR. At the moment, all of the competence centres have launched active work.

Under the programme “Support for put new products into production”, support has been provided for increase of merchant productivity and competitiveness by developing and putting into production new products and technologies. Support is allocated for production or acquisition of experimental technologies, as well as installation and testing in a real production environment conducting economic activity on the 4th to 8th technology readiness level (TRL4-8).

In the programming period 2014-2020, funding in the amount exceeding 118 million EUR is available to support enterprises attempting to invest in R&D and innovative projects that might attract additional at least 80-100 million EUR in private sector investments for R&D activities.

Additionally, Latvian enterprises in the period from 1 July 2014 until 2017 (including) may benefit from enterprise income tax incentives for reduction of enterprise R&D costs (*for more detailed information please see Chapter 3.2.3*).

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

- Inter-institutional coordination of the KNAB proposals with respect to: a) members of the Saeima, with the possibility to suspend oneself in situations where there is a potential conflict of interest; b) the obligation to report on conflicts of interest or potential corruption, including cases of bribing a foreign public officials; c) acceptance of donations not only for the state or municipal needs, but also socially important objectives;
- Amendments to LPCI are currently pushed in MC aimed at ensuring a more efficient verification of state officials’ declarations and a more efficient prevention of conflict of interests, extending the scope to persons having a common household and cohabitation with these state officials;
- The responsible Saeima commission is reviewing proposals submitted by KNAB aimed at simplification of restrictions and prohibitions applied to state officials in relation to combining offices in cases not affecting performance of direct duties, not contradicting the norms of ethics and not creating a conflict of interests situation;
- Additionally, KNAB intends to carry out in 2017 an in-depth study on application of LPCI involving both public administration and non-governmental sector experts.

For example, the limitations and prohibitions imposed are currently under review, and in 2017 an in-depth study will be provided on application of LPCI. Likewise, amendments to LPCI are currently pushed in MC aimed at ensuring a more efficient verification of state officials’ declarations and a more efficient prevention of conflict of interests, extending the scope to persons having a common household and cohabitation with these state officials.

In order to strengthen responsibility of **insolvency administrators**, amendments to LPCI state that, starting from 1 January 2016, insolvency administrators are state officials and, in accordance with LPCI, they, in line with all state officials determined by LPCI, have a duty to submit state official declarations. Insolvency administrators who are also lawyers have their state official declaration submission deadline calculated from 1 September 2016. Likewise, from 1 January 2016, real estate auctions within insolvency procedure are carried out in the electronic auction site <https://izsoles.ta.gov.lv>.

On 22 December 2016, *amendments to Insolvency Law* were adopted, entering into force on 6 January 2017, prescribing transfer of insolvency administrators’ examination to the state, introducing disciplinary action for insolvency administrators and legal protection procedure monitoring persons, and the rights of Insolvency Administration to arrive in the place of practice of insolvency administrators and legal protection procedure monitoring persons, and inspect the documents of proceedings in their records. In order to develop the insolvency area in its entirety, including monitoring of insolvency administrators and credibility of profession, as well as professionalism, *Guidelines for Insolvency Policy Development for 2016-2020* (hereinafter referred to as Guidelines),



as well as *Implementation Plan for Guidelines for Insolvency Policy Development for 2016-2020* were developed and adopted by CM Order No. 527 of 21 September 2016 *On Guidelines for Insolvency Policy Development for 2016-2020 and Implementation Plan thereof*.

Under the **common legal framework for all the public sector employees**, in 2016, an interim evaluation of *Guidelines for Public Administration Development for 2014 – 2020* and *Public Administration Human Resource Development Concept* was carried out, and, in spring 2017, a *Public Administration and Human Resource Reform Plan* will be presented. This plan will also include measures for performance management system improvement (especially for measuring work performance of the heads of institutions), ensuring a competitive remuneration, monitoring the number of employed people, centralization of support functions; also a question on unified legal framework for all public sector employees, etc. will be evoked.

Additionally, several measures are carried out moving towards improvement of the existing legislation and establishment of the idea of public administration as a single employer, especially in terms of remuneration.

In August 2016, results of a study carried out by SIA Fontes on comparison of remuneration in public administration and private sector were received. Based on the results of this study, *amendments to the Law On Remuneration of Officials and Employees of State and Local Government Authorities* were prepared and they entered into force on 4 October 2016. In accordance with these amendments, for example, SRS is selected as the test project for insuring a competitive monthly salary, and a special premium is allocation to key experts securing performance of significant functions or implementation of important objectives. Likewise, the data of this study will be used in 2017 to prepare proposals for improvement of remuneration policy (improvement of existing legislation). The *Conceptual Report on Direct Public Administration Office Classification System* was prepared. Considering the connection of office classification system with remuneration, this report will be pushed along with proposals on improvement of remuneration policy.

## 3. POLICY DIRECTIONS

### 3.1. FINANCIAL STABILITY

#### 3.1.1. Sustainable Budget Development

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

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

For several years now, one of the government's specific objectives within the fiscal policy has been the gradual increase of tax income up to 1/3 of GDP, mainly by means of improving the collection of taxes and reducing the share of the shadow economy. The government has defined tax volume increase and a balanced and predictable tax policy as a tool for fostering achievement of strategic objectives of growth, i.e. economic growth, improvement of demography, and reduction of inequality. While Latvia traditionally has been a country with a relatively low tax burden (one of the lowest in the EU), it must be noted that government decisions on tax policy ensure a movement towards realisation of tax policy strategy set by the government declaration which includes raising the tax income share in relation to GDP growth. Though, it must be concluded that considering the current speed of convergence, achieving the EU average level of development in Latvia is not expected within the next few decades. Therefore, in the context of a sustainable development it is crucial to ensure conditions for an economy growth rate exceeding the current base scenario, i.e., ensuring a breakthrough in economy in order to facilitate a faster movement of Latvia towards a more developed welfare state. In order to ensure the aforementioned impulse for economy breakthrough, the government has defined the necessity to reform the aforementioned impulse for economy breakthrough tax system. In accordance with the Government Action Plan, the Ministry of Finance shall prepare the guidelines for medium-term state tax policy by April 2017. The fiscal impact of a tax reform is significant, the draft decisions are in the stage of being well-prepared, and, since tax reform is the most important fiscal policy measure in 2017, excluding it from programming documents for this European Semester would substantially reduce its quality. Development of tax reform is the responsibility of Ministry of Finance, therefore, a more detailed information on the planned tax reform directions, specific measures, and their fiscal impact are included in the *Stability Programme of Latvia for 2017-2020*.

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

The resources obtained for 2017 as a result of revision of expenditure constitute 61.3 million EUR, that, pursuant to the type of application, were distributed as follows: 32.6 million EUR allocated to joint priorities, and 28.7 million EUR diverted as internal resources for own sectoral priority funding.

The main policy directions and measures:

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

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

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

Since 2014, the special budget has had a positive balance facilitated by a string of measures aimed at both short-term and long-term financial stability: changing the source of financing premiums to the basic budget, gradually raising the retirement age for eligibility to the minimum insurance period increasing the old-age pension level<sup>10</sup>. A positive budgetary balance is expected also in the upcoming years.

In 2015, the issue of adequacy of pensions was raised in addition to the aspects of financial sustainability of pensions system further strengthened by the *amendments to the Law on State Pensions*<sup>11</sup> implemented in 2014.

Taking into account the high risks of poverty and social exclusion for persons of retirement age, amendments to the *Law on State Pensions* have been made in 2015 (entered into force on 01.07.2015). These amendments stipulate that following pensions will be revised: old age, service, and survivor's pensions received or recalculated between 1 January 2010 and 31 December 2015, and where negative pension capital index has been taken into consideration in the calculation. The pensions to be reviewed and regulations on their revision in the relevant year will be stipulated in the yearly law on state budget taking into account the budgetary possibilities. The *Law on State Budget for 2016* and the *Law on Medium-Term Budget Framework for 2016, 2017, and 2018* stipulate that:

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

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

In order to foster the growth of income among retired and conformity of pension growth with the pace of wage increase, 50% of average insurance contribution actual salary increase interest will be applied in the general indexation starting from 1 October 2017. At the same time, work group with the Saeima Social and Work Affairs Committee is currently working on the subsequent steps to further increase the pensions in order to provide for a more rapid increase in old-age pension for retired persons with a longer period of service and small pensions. The said Amendments to the Law on State Pensions will be adopted by June 2017 and enter into force on 2018.

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<sup>10</sup> In 2014, for the first time since 2009, revenues of the social insurance budget exceeded expenditures, and the year was concluded with a positive balance: +100.4 million EUR. The financial balance in 2015 was + EUR 91.1 million, the financial balance in 2016 was + 47.8 million EUR.

<sup>11</sup> Raising the retirement age to 65 years by 2025; raising the minimum length of period of insurance necessary for granting old-age pension from 10 to 15 years, and starting from 2025 – from 15 to 20; funding of supplements to old-age and disability pensions from the state basic budget; renewal of upper limit of social contributions.

At the end of 2016, Saeima adopted amendments to the *Micro-enterprise Tax Law* and *Law On State Social Insurance* abandoning the initial solution for improvement of a person's social security (introducing the state social insurance mandatory contribution monthly minimum object starting from 2017) and replacing it with increase in micro-enterprise tax rate and diverting the majority of micro-enterprise tax towards state social insurance mandatory contributions. In 2017, the micro-enterprise tax rate for a micro-enterprise with turnover below or equal to 70 000 EUR is 12%, while for enterprises with turnover between 7000.01 and 100 000 EUR the rate is 15%. Accordingly, 70.4% of micro-enterprise tax was diverted towards state insurance mandatory contributions, while in 2018 it will be 80%<sup>12</sup>. In addition to the aforementioned amendments to *Micro-enterprise Tax Law*, CM shall submit in Saeima by 1 June 2017 a bill providing for a new specialized and simplified tax regulation for small and micro-enterprises replacing the existing micro-enterprise tax regime. Likewise, amendments to the *Law on State Social Insurance* requires the Cabinet of Ministers to prepare and submit in Saeima by 1 May 2017 bills on amendments to the scope of social insurance services for socially insured persons with a low state social insurance mandatory contributions object. Work on the aforementioned task is currently ongoing.

### 3.1.2. Ensuring Stability of the Banking Sector

During the post-crisis period, Latvian banks have taken significant steps to strengthen the capital. Thus, they have been able to maintain a sufficient capital to cover inherent and potential risks of banking activity. Overall, the banking sector is well capitalised. The capital adequacy ratio of the banking sector remained high in 2016, reaching 21.2% at the end of the year (the minimum capital requirement – 8%), whereas the Common Equity Tier 1 capital ratio was 18.0%. Several banks, mainly those servicing foreign customers, have taken the opportunity to strengthen the capital base, by including the audited profit of the financial year. Meanwhile, shrinking amount of risk-weighted assets was ensured by reduction of investments in securities and a smaller amount of funds kept in corresponding accounts.

Despite the reduction in liquid assets, the overall liquidity ratio of the banking sector remained high reaching 61.7%. The liquidity ratio exceeds the minimum requirement more than twice (30%).

Since the second half of 2010, the quality of loans has been gradually improving along with the improving economic situation. The share of loans that were overdue more than 90 days in the total banking sector loan portfolio decreased from 6.0% to 4.4% in 2016. The share of loans with payments more than 90 days overdue remained high, 89.3% at the end of 2016.

Increased requirements regarding prevention of money laundering and terrorism financing (hereinafter – PMLTF), as well as weak economic growth in customers' countries of origin determined the reduction in volume and share of foreign deposits in the banking liability structure. During 2016, the volume of foreign deposits reduced by 3.3 billion EUR of 26.3%. Meanwhile, deposits of domestic households and private non-financial undertakings have increased in a year by 9% and 10% respectively, allowing the total domestic deposit balance to grow by 1.4 billion or 12.6%, which resulted in increased role of domestic deposits in the bank financing structure.

#### The main policy directions and measures:

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

In accordance with the Regulation of the European Parliament and of the Council of 26 June 2013<sup>13</sup>, of 1 January 2014, banks are subject to stricter capital adequacy requirements, such as qualitative requirements for capital elements to be included in the relevant equity tier, restrictions on

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<sup>12</sup> It must be noted that before 31 December 2016, micro-enterprise tax rate for enterprises with turnover below or equal to 100 000 EUR was 9% and 72.4% of this amount were diverted towards state social insurance mandatory contributions.

<sup>13</sup> Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 introducing the international bank oversight standard Basel III into the EU legislation.

inclusion of certain elements in equity and deductions of equity, and a Common Equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6% have been introduced in addition to the total capital adequacy ratio of 8%.

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

The *Credit Institutions Law* authorizes the FCMC to implement measures to ensure stable operations of credit institutions that comply with the law. According to the amendments to the *Credit Institutions Law* which entered into force on 28 May 2014, the FCMC is appointed to be the responsible institution of application of macro-prudential instruments, including the establishment of a counter-cyclical capital buffer to limit excessive credit growth, and it is entitled to define the requirement for a systemic venture capital buffer to reduce structural risks. As a part of macro-prudential measures, on 16 December 2015, the FCMC repeatedly identified six banks as systemically important institutions (C-SNI), and starting from 30 June 2017 the identified institutions shall maintain a C-SNI capital reserve in the amount of 1.5-2% (with 12 months transition period). Starting from 1 February 2016, the FCMC standard counter-cyclical capital buffer of 0% is in force.

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

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

- regarding a development financial institution (hereinafter – the DFI). In March 2014, the Saeima approved amendments to the *Law on State and Local Government Capital Shares and Capital Companies* envisaging a type of alienation of shares of capital companies – investment in the capital of another state capital company. After introducing the amended law, the CM in August 2014 approved a decree on investing the shares and stocks of the *SJSC Latvian Development Financial Institution Altum*, the *LLC Latvian Guarantee Agency*, and the *SJSC Rural Development Fund* in the equity of the DFI with a subsequent integration of the capital companies. A reorganisation agreement of the four capital companies was concluded in September 2014. The *Law on Development Financial Institution* was announced in November 2014 and entered into force in March 2015, stipulating activities of a completely integrated DFI, as well as the delegation of the DFI's activities, by implementing state support and development programmes through a full or partial implementation of financial instruments. In December 2015, the CM approved regulations on establishment of the DFI advisory board stipulating its agenda, actions to be taken to ensure programme development and implementation monitoring, as well as institutions represented in the advisory board; In 2016, CM approved clarifications for compliance of the co-funding ensured by DFI to the Baltic Innovations Fund in the amount of 26 million EUR with the investment projections prepared. In March 2016, CM regulations providing for DFI programme launch in order to promote increase in energy efficiency in state and residential buildings entered into force, with the total relevant funding in the amount of 166.5 million EUR. Meanwhile, the total amount of planned ERDF funding of 126 million EUR is intended to be used for implementation of programme delegated to DFI by CM in 2016 aimed at fostering establishment and development of small and medium-sized enterprises, as well as raise the number of rapid growth merchants;
- regarding the JSC Citadele banka and the JSC Reverta (former JSC Parex banka). In October 2014, the CM approved the conclusion of purchase transaction concerning the shares of the JSC *Citadele banka*, and in November 2014, the purchase agreement of the shares of the JSC *Citadele banka* was signed by the SJSC *Privatizācijas aģentūra*, an

international group of twelve investors, and *Ripplewood Advisors L.L.C.* The purchase transaction of the shares of the JSC *Citadele banka* was completed in April 2015.

From May 2012, the JSC *Reverta* has been operating as a professional management company of problematic assets, taking into account the change of the status and the name and giving up the credit institution license as approved by the FCMC. In accordance with the restructuring plan approved by the EC, the JSC *Reverta* is expected to operate until 2017. By the end of the said term, JSC *Reverta* shall complete preparation of portfolio, as well as liquidation of the undertaking. On 2 February 2017, Saeima adopted *Amendments to the Commercial Activity Control Support Act* affecting also conditions for termination of operation of JSC *Reverta*. In June 2016, CM decided to support sales of JSC *Reverta*'s loan portfolio and real estate sub-portfolio, as the same time continuing development of assets. This will allow to carry out the required preparatory measures and complete sales successfully prior to end of 2017 recovering as much funds as possible.

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

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

The *Development Plan of the Financial Sector for 2017-2019* was developed in 2016 and submitted for approval to the Cabinet of Ministers in 2017. The plan provides for policy goals, tasks, responsible institutions, deadlines, and procedure for monitoring the execution of plan, and it gives an opportunity to adjust the plan in this format depending on the future economic situation and challenges. The aim of implementation of the measures is to develop a stable, secure and internationally competitive financial sector with accessibility of innovative financial services ensuring a sustainable growth of Latvian economics and strengthening the position of Latvia as the regional financial services centre.

The *Development Plan of the Financial Sector for 2017-2019* defines specific directions of action and tasks for four separate branches of the financial sector:

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

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

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

On 1 January 2015, the *Law on Credit Bureaus* entered into force aimed at improving accessibility and quality of data necessary to perform a creditworthiness assessment, thereby reducing the credit risk and increasing availability of credit resources while limiting the risk of excessive borrowing. In order to achieve the objectives set in the *Law on Credit Bureaus*, the *Amendments to the Law on Taxes and Fees* entered into force on 1 March 2016, including provisions allowing the SRS to provide the information at its disposal on a natural person's income to a credit bureau for further transferral (without changing the content) to the user of credit information – a capital company

(or its branch) that has rights to carry out lending or has obtained a special permission (license) to provide consumer lending services – for assessment of creditworthiness of this natural person as a current or prospective client of the user of credit information or for own credit risk management.

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

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

- the FCMC is regularly updating the educational online vortal *Customer School* ([www.klientuskola.lv](http://www.klientuskola.lv)). The website contains information materials about popular financial services and associated risks, as well as new services. Additionally, the *Customer School ABC* provides with more than 60 educational materials on various financial literacy subjects. Vortal gives every user an opportunity to receive e-mail consultations from FCMC experts;
- in 2016, for the second time an assessment of implementation of the National Financial Literacy Strategy for 2014-2020 was carried out – the planned movement of virtually all performance indicators in the three strategic targets was observed;
- in 2015, in cooperation with the research centre SKDS, the FCMC performed the 2nd National Financial Literacy Survey of Latvian residents. Summary of data within the Financial Literacy Index showing that the level of residents' financial literacy index had slightly increased since 2014 (from +20.6 to 21.2 points) is also a part of survey;
- meanwhile, the annual FCMC measuring the financial sustainability of Latvian households carried out in 2016 states that financial situation in households is stable for the 2nd year in a row and within the desirable development zone (+4.2 points) as defined by FCMC approaching the sustainability as trend;
- in March 2016, already the fourth *Financial Education Week* took place (motto “*Journey towards financial literacy 2016*”) which for the first time comprised several regions (Talsi, Jelgava, and Rīga) in cooperation with municipalities under financial literacy activity, and FCMC released a new interactive tool – financial literacy index e-test allowing anyone to test their own level of financial literacy and compare it with the average Latvian within seven financial literacy topics;
- In autumn 2016, the work group of Strategic Partners finished the development of financial literacy base competence standard project for adults (in line with OECD INFE standards), and, further on, a single life-long learning programme in financial literacy based on this standards will be created.

From November 2011, a *non-bank creditor licensing system* was introduced, thereby guaranteeing the existence of financially stable creditors in the market in the long term. In 2013, several proposals for the improvement of the consumer crediting market had been prepared and promoted, particularly focusing on the *payday loans* sector. The amendments to the *Consumer Rights Protection Law* were adopted in 2015 and entered into force on 1 January 2016. They are aimed at fostering responsible lending, as well as limiting the interest rates. The work on the improvement of legislative regulation within mortgage lending is ongoing. In 2016, amendments have been made to several legislative acts in connection with transposition of *Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010* (hereinafter referred to as Directive 2014/17/EU).

## 3.2. PROMOTING COMPETITIVENESS

### 3.2.1. Business Environment and Modernisation of Public Administration

Latvia has been ranked 14<sup>th</sup> among 190 countries on the ease of doing business in the WB's *Doing Business 2017* report, and 6<sup>th</sup> among EU Member States which is the highest ranking in history (3 positions up compared to the previous year). In comparison with the neighbouring countries, Estonia has been ranked 12<sup>th</sup> (losing one position compared to the previous year), while Lithuania was ranked 21<sup>st</sup> (unchanged compared to the previous year). It must be noted that compared to the previous year, Latvian reforms in the areas of credit registry and tax payments have received a special praise. Meanwhile, in accordance with the Global Competitiveness Index published by the World Economic Forum *Global Competitiveness Report 2016-2017*, Latvia is ranked 49<sup>th</sup> among 140 countries (previously 44<sup>th</sup>) which is below Estonia (30<sup>th</sup>) and Lithuania (35<sup>th</sup>).

The main policy directions and measures:

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

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

The progress in improvement of the business environment is fostered by the implementation of the annual *Action Plan for Improvement of Business Environment*, of which the main activities in 2016 were as follows:

- *in starting a business* – faster and more convenient registration of taxpayers and taxpayer units in the SRS was ensured. Starting from 1 January 2016, SRS no longer issues registration certificates to tax payers or tax payers' structural units, also, the number of days required to carry out registration of a tax payer's structural unit is reduced from 10 to 3 working days, and a self-employed persons registration is ensured simultaneously with registration of performer of economic activity;
- *in the construction process* – starting from 1 January 2016, Construction State Control Bureau organizes expertise of construction projects and buildings in cases when construction commissioner is a legal entity that is a public law subject or its institution, and Bureau has also started granting independent practice rights to specialists within the area of construction. Prior to 1 July 2016, rights to carry out expertise were retained by natural persons provided they had received a certificate for the relevant design or construction types, as well as by legal entities in accordance with the procedure defined in the legislative acts provided they employ a certified specialist in the relevant area; after this date, only experts certified with the Construction State Control Bureau will be permitted to perform expertise.
- *in the sector of real estate* – from 1 January 2016, the shortcomings in the *Land Survey Law* were eliminated stating that State Land Service shall no longer provide an opinion on compliance of the encumbrances of the real estate object depicted in the graphic part of the land survey project with the technical requirements for data preparation stipulated in the legislative acts or on compliance of land unit borders with the data contained in Real Estate State Cadastre Information System. Thereby, term and costs of land survey project elaboration shall be reduced;
- *enforcing contracts* – monitoring the work of permanent arbitration courts has been strengthened. On 3 November 2016, Amendments to Arbitration Law entered into force aimed at fostering the quality of work of the permanent arbitration courts, strengthening the monitoring mechanisms, among others, excluding from the circle of permanent arbitration courts those courts whose activity does not comply with the legal requirements and have a negative impact on the institution of arbitration as such. On 17 February 2017,



the relevant amendments to Cabinet of Ministers Regulations No. 277 of 2 June 2015 *On Arbitration Court Register* entered into force.

The systematically implemented transition to pure court instances was completed – on 31 December 2016, the redistribution of competences among court instances was finalized. Pure court instances – the competent jurisdiction of regional courts of first instance courts and Supreme Court as appellation instance has been eliminated, thereby diverting the flow of cases from Supreme Court to regional courts and to district (city) courts.

On 1 January 2017, *Amendments to Civil Procedure Law*, *Amendments to Criminal Procedure Law*, and *Amendments to the Latvian Administrative Violations Code* entered into force allowing courts to use electronic means to communicate with parties to a case. *Amendments to Administrative Procedure Law* allowing courts to use electronic means to communicate with parties to a case entered into force on 1 March 2017.

On 6 June 2016, the Courts Office entered into an agreement with the Central Finance and Contracting Agency on starting the implementation of project *Justice System for Development* activities. Project shall be implemented with ESF support to achieve the specific support objective 3.4.1 *To improve the competence of the staff of courts and law enforcement authorities to promote improvement of business environment* and will continue until 2022. By the end of 2018, an assessment of Latvian judicial system shall be carried out within the project and in accordance with the Plan for Building the Human Resource Capacity and Developing the Competences of the Judicial Power and Law Enforcement Authority Employees 2015-2020. The conclusions from this assessment can be used as a basis for preparation of long-term policy planning documents and possible amendments to legislative acts. Training programmes shall be implemented within this project, and preparation of a competence development programme, manual and guidelines is intended. In 2016, scientifically practical conferences and discussions have been held and will be held in the future as a part of this project.

Starting from 1 January 2017, a unified judge specialization catalogue has been introduced, i.e., specialization in courts may only be determined in accordance with the specializations listed in this document, and, when possible, principle of randomisation in distribution of cases within relevant specialization should be observed;

- *in the tax and accountancy field* – simplified requirements to micro and small companies for preparation of annual reports were introduced. The new *Law on Annual Account and Consolidated Annual Accounts* entered into force on 1 January 2016. With this new law, the requirements of *Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings* have been transposed – requirements have been eased releasing micro- and small enterprises from preparation of management report, cash flow statement, and report on changes in equity, thereby reducing the amount of information to be submitted with the financial statements, as well as raising the mandatory audit threshold. A decision on introduction of the accrual principle in SRS-administered state budget income accounting and reduction of SRS-administered state budget income accounts has been adopted.

In accordance with the *Amendments to Law on Corporate Income Tax* of 23 November 2016, starting from 1 January 2017, CIT advance payments are automatically calculated in EDS and tax payer is no longer required to fill in the tax advance payment calculation. Also, in 2016, an automated processing of annual returns and PIT refunds has been introduced.

Several EDS have been implemented, for example, possibility to make online payments for the regular taxes and tax debts for domestic VAT, SSIMC, PIT, CIT, and any domestic excise duty objects, employers have access to review of closed and annulled sick-leaves, etc. the Electronic Customs Data Processing System (ECDPS) has been improved, and

improving the e-customs environment has been continued by developing the ECDPS in accordance with *Union Customs Code* requirements, etc.

In accordance with the research results of *Doing Business 2017*, the time required for tax return submission and payment has been reduced by 24.5 hours (reduction from 193 hours to 168.5 hours).

The following tasks have been prioritised within the *Action Plan for Improvement of Business Environment for 2017*:

- *in starting a business* – ensuring a gradual enterprise registration only in electronically (online);
- *in the construction field* – completing implementation of Construction Information System and ensure coordination and receipt of all the documents in connection with construction process (permit, technical regulations, etc.) solely via Construction Information System;
- *in tax and accountancy field* – to provide for possibility for business to make tax payments solely from one of their account and assess the possibility to introduce a 0 bureaucracy model in enterprise tax payments, as well as simplify reports containing overlapping information required both by SRS and CSB, to replace the statements SRS issues in paper form with electronic ones using an online system ensuring oil product limit accounting, etc.;
- *enforcing contracts* – improving the monitoring of assigned court hearings ensuring the accessibility of e-services and connection with payment module for making a payment for service. The judicial e-service portal *manas.tiesas.lv* has been created allowing a person to submit documents in court and follow own proceedings using authentication. Currently work on online payments is ongoing.

In order to facilitate and improve raising capital for Latvian economics, in 2016 and 2017, work on the following improvements is ongoing:

- the legislative framework of joint stock companies. In 2016, work on revision of the legislative framework of joint stock companies aimed at easier capital raising for the company, as well as strengthening the protection of investors' (bondholders) rights. Also the procedure how shares are issued to company employees is revised, expanding companies' rights to decide on incentives for their employees. In 2017, revision of the legislative framework of joint stock companies will be continued, and electronic registration of shares in the financial instrument accounts will be implemented. The said regulation is being elaborated with a goal to increase the level of protection of shareholders' ownership rights and the level of transparency in share ownership, at the same time ensuring also protection of third parties (for example, pledgee);
- the area of insolvency. In 2016, several amendments have been made, for example, real estate auctions are conducted electronically also in insolvency proceedings, all the insolvency administrators are public authorities and are obligated to submit public authority disclosure of income (fully or partially). In the 2nd half of 2016, CM adopted the *Guidelines for Insolvency Policy Development for 2016-2020* and implementation plan thereof. Meanwhile, in the end of 2016, *Amendments to Insolvency Law* were adopted by Saeima implementing one of the measures included in the aforementioned guidelines – reform of insolvency administrator profession.

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

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

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

In accordance with the *Concept on Improvement of Public Services System* approved in 2013, work on establishment of a single customer service centre is being continued. By 2017, in total 59 centres have been established. During 2017, in total 13 new state and municipal single customer services centres will be established in the district level development centres and 4 state and municipal single customer service centres in regional development centres. It is expected to complete the work by 2020 in accordance with the state budget grant.

On 5 May 2016, Saeima adopted *Amendments to State Administration Structure Law* aimed at creation and provision of state and municipal services corresponding the needs of residents and entrepreneurs, thereby reducing the administrative burden considerably, improving accessibility of services and contributing to efficiency and transparency of public administration. During spring 2017, the relevant CM regulations shall be adopted<sup>14</sup>. Revision and update of information included in portal [www.latvija.lv](http://www.latvija.lv) is carried out on a regular basis in order to ensure a one-stop-shop service establishment in accordance with the requirements of Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market. At the same time, information materials (road maps) in specific sectors are being developed to provide a more detailed information on requirements set in the respective sectors.

On 16 June 2016, the *Law on Official Electronic Address* was adopted and will enter into force on 1 March 2018. This law will allow to stipulate that mandatory communication between public administration and its customers is carried out only in electronic form.

- Promoting Efficiency and Productivity. In the end of 2016, work on methodology for efficiency and economy of permanent sectoral funding and the implemented sectoral policy, and they will be prepared by the July 2017. Meanwhile, by June 2017, efficiency of support functions (wage accountancy, personnel selection, personnel records, procurements) with the ministries and its subordinate institutions will be assessed to provide recommendations for further implementation of these support functions.
- Evidence-Based Decision Making on 31 August 2016, CM approved the Conceptual Report on Introduction of Impact Follow-up, providing for activities aimed at implementing an assessment of effect of legislative acts on the executive level of Latvian public administration. In 2017, two pilot projects will be developed, and by the end of 2018, a joint methodology shall be elaborated – guidelines for implementation of impact follow-up assessment.

In 2016, amendments to the Cabinet of Ministers Instruction No. 19 of 15 December 2009 *Procedure for Initial Impact Assessment of a Legislative Draft* were prepared. The intention is to improve the scope on content of information to be included in the annotation to legislative drafts, inter alia, adding a short and concise explanation on the purposes and effects of the legislative act, additional analysis of impact on SMEs and NGOs, necessity to perform the compliance cost calculation, and explanation on performance of impact follow-up assessment of implementation of the legislative act. Likewise, a possibility to develop joint legislative act annotation is provided for.

- Development of Public Administration Human Resources in 2016, *Guidelines for Assessment of Responsibility of the Employees with Public Administration* shall be prepared. Guidelines form a unified practice of application of legislative acts for the purposes of assessing the responsibility of public authorities in order to ensure an individual and personalized responsibility in the event of abuse.

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<sup>14</sup> Incl. Regulations on Public Administration E-services (provides for a national single legal framework for electronation of services and procedure for e-service accessibility, establishment and promotion procedure, minimum technical and quality requirements, as well as e-service parameter measuring); Unified state and municipal customer services centre types, scope of services provided and procedure for provision of services (aimed at creating a unified customer service centre legal framework); Public administration service accounting, provision and quality control procedure and Public administration service portal regulations (stating, inter alia, responsibility of authorities on chapter “Business” in portal [www.latvija.lv](http://www.latvija.lv), ensuring coordination among state authorities for provision and update of information).

The training system for public administration employees is being improved, for example, a training module “Introduction to work in public administration” has been improved and module implementation pilot project has been realized. In order to expand the training services, a market research has been carried out and proposals for internal training have been prepared for the authorities. Likewise, a study concerning establishment of e-training has been carried out, guidelines for establishment of e-training, as well as guidelines for involvement of training participants have been prepared.

Before 2022, training in elaboration of better regulation on support for small and medium-sized merchants and in the areas of corruption prevention and shadow economy combating will be carried out within ESIF. In 2016, the first specialized measures took place, and an active work on formulation of base model learning content, as well as development of methodology, is currently ongoing.

From 2016 to 2022, the ESF project *Senior Management Development Programme* is being implemented. The programme is aimed at development of expertise of existing and new senior level managers in an increasingly more dynamic environment, strengthening the leadership skills, etc. The senior level managers of public administration bodies whose operation is directly or indirectly linked to improvement and adjustment of business environment and reduction of administrative burden for small and medium-sized merchants are improving their competences in this programme. In 2016, the *Manual of an Efficient Manager* was published containing ideas for reflection, action, and inspiration for both professional and personal growth. During 2016, a professional recruitment company carried out an independent assessment of senior level management competences, and participants of the first round have already received tailor-made learning plans.

In 2016, an open and unified recruitment procedure implementation on the senior management level has been provided. Within the ESIF project Personnel Management Platform, a Single Human Resources Management Information System shall be introduced, and will serve as a convenient ICT tool for personnel management user for measurement of public administration operation results and modelling remuneration.

In order to promote honesty in public administration, a draft of *Law on Whistle-Blower Protection* has been submitted to Saeima for review. In addition to it, informative campaign is being implemented aimed at explaining the benefits of whistle-blower protection bill in Latvia.

Work on Code of Ethics for Public Administration Employees is ongoing and OECD and European Council guidelines are taken into consideration. The aim of the code of ethics will be to set the standards of professional ethics, to create an ethical environment in the public administration. Etc. in Spring 2017, draft proposal on code of ethics shall be reviewed in CM.

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

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

- On 9 June 2016, *Amendments to the Labour Law* (reviewed in the CM on 29 February 2016), as well as the relevant CM recommendations, entered into force, in order to comply with the requirements of *Directive 2014/67/EU of the European Parliament and of the Council (on posting of workers in the framework of the provision of services)* and the *Directive 2014/66/EU of the European Parliament and of the Council (on the conditions of entry and residence of third-country nationals in the framework of an intra-corporate transfer)*. The aim of these amendments and recommendations is to lay out the course of action to be taken by public authorities when posting of workers in the framework of the provision of services internationally and to ensure uniform action, as well as foster

cooperation between public administration institutions on implementation of the legislative regulation within posting of workers;

- On 19 January 2016, *Labour Safety Policy Guidelines 2016-2020* and *Plan for the Development of the Field of Labour Safety 2016-2018* were adopted. The main directions set within the Guidelines are the following: an active implementation of labour protection requirements, facilitation of monitoring and control of the labour protection field, promotion of health protection of the employed. Likewise, attention will be paid to securing a safe work environment in non-standard employment and raising awareness of the society, etc. In order to achieve the result indicators set the *Development Plan for Labour Protection Area 2016-2018*, during the year 2016, various information seminars and campaigns were arranged, different materials prepared and practice standards developed ([www.stradavesels.lv](http://www.stradavesels.lv)).
- in 2016, the implementation of ESF co-funded specific support objective *To improve labour safety, especially in enterprises of hazardous industries* was launched<sup>15</sup>. Total planned funding of the project is 12.64 million EUR, including ESF co-funding 10.75 million EUR, and state budget funding – 1.89 million EUR. Within this project, a total of 4700 enterprises of hazardous industries will receive support before 31 December 2022 providing an advisory support for adjustment of labour safety environment, assessment of labour environment risks, as well as performance of the laboratory measurements. Implementation of improvement and supervision measures for implementation of the regulatory framework within employment relations and labour protection fields is planned, and development of various ancillary materials to help identify and assess the work environment risks, as well as educational measures for raising the culture of prevention, etc., are planned;
- work on drafting the *Amendments to the Labour Law* continued in 2016 aimed at implementing several new requirements of EU directives, as well improving the legal regulation for employment relationships, taking into consideration proposals from social partners (representing employers and employees), as well as conclusions from case law and judicial doctrine;
- at the same time, work on *Amendments to Labour Law, Amendments to Labour Protection Law, Amendments to Strike Law, and Amendments to Law on Informing and Consulting Employees of European Community-scale Undertakings and European Community-scale Groups of Undertakings*, aimed at making implementation of sectoral administrative penalty system (de-codification).

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

In 2016, the *Action Plan of the National Authorities in Combating Shadow Economy for 2016–2020* was adopted in the Shadow Economy Combating Council meeting (hereinafter referred to as Shadow Economy Combating Plan). The main objectives of this plan are aimed at reducing the shadow economy in certain sectors (such as construction, transport, trade, and other services). Attention is paid to strengthening the capacity of relevant authorities, registration of enterprises, application of penalties, communication, and education.

Monitoring of electronic commerce will be strengthened in order to reduce the growing trend of tax evasion and fraud in electronic environment (SRS role in monitoring of electronic commerce is strengthened providing rights to make a decision on closing a domain name or decision on termination of hosting services), and combating and limiting of illegal audiovisual market (TV programmes and movies) has been strengthened as a part of implementation of shadow economy restriction plan.

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<sup>15</sup> CM Regulations No. 127 of 1 March 2016 *Regulations for Implementation of the Specific Support Objective 7.3.1. To improve labour safety, especially in enterprises of hazardous industries within the Operational Programme Growth and Employment.*

In order to diminish the attraction of fictitious enterprises, employing unidentified employees and improve the situation with regard to tax payment for employees in the field of construction, general contractors now have a duty to calculate and pay the state social insurance mandatory contribution for each employee of a sub-contractor working on the general contractors construction site.

Amendments to a range of legislative acts have been made, inter alia, strengthening the rights of SRS in relation to information requests from certain data holders<sup>16</sup>; improving the procedure for excise duty circulation<sup>17</sup>; providing for limitation of tax evasion risks in vehicle maintenance and repairs sector<sup>18</sup>, when compensation for repair services is selected as insurance indemnity; reducing the possibility to discard, store, and sell fuel imported on preferential terms<sup>19</sup>.

Starting from 1 January 2016, the *OECD global standard on Automatic Exchange of Information on Financial Accounts* was introduced. In line with this standard, financial institutions (including credit institutions) will submit information to the SRS on accounts opened with them by the non-residents allowing the SRS to send the data (without the annual request) to the relevant non-resident tax authorities to allow for performance of administration functions. The SRS will receive information from foreign tax authorities on accounts opened by Latvian residents in the relevant foreign financial institutions. The first exchange of information will take place in 2017 when tax authorities will exchange information on financial accounts (as of 2016).

As a result of the implemented measures of combating shadow economy, the tax gap in 2016 should reduce by 1 to 3 percentage points.

The following measures are planned:

- Implementing a fast, secure, and convenient data exchange in the tax debt recovery procedure allowing credit institutions to accept and execute orders issued by the SRS or sworn bailiffs electronically<sup>20</sup>;
- Strengthening the cooperation between the Register of Enterprises of the Republic of Latvia and SRS with regard to evaluation of information derived from commercial registers and attesting to the tax risks of the legal subject<sup>21</sup>;
- Expanding the range of subjects providing information to SRS on suspicious transactions, thereby facilitating detection of criminal activities related to tax fraud and evasion of taxes or equal duties<sup>22</sup>;
- Obligation of the sworn notaries to provide SRS with information on cases when unregistered movable property is inherited, including cash, exceeding the value of 15 000 EUR, thereby allowing SRS to carry out verification of the origin and ownership of the unregistered movable property (including cash) to be inherited;
- Prohibition for natural persons to perform cash transactions exceeding 7200 EUR, thereby reducing the numbers of undeclared transactions and limiting the possibility for persons to legalize funds obtained by engagement in shadow economics, as well as reducing the possibilities for persons to evade taxes;
- Use of cash register receipts submitted by the residents for monitoring of tax payments;
- Improvement of public authority control system in order to determine the division of duties and responsibilities on verification of truthfulness of data included in the income return submitted by a public authority;

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<sup>16</sup> *Amendments to the Law on Taxes and Duties and to the Law on State Revenue Service.*

<sup>17</sup> CM Regulations No. 753 of 29 November 2016 and CM Regulations No. 643 of 27 September 2016, *Amendments to the Cabinet of Ministers Regulations No. 662 of 30 August 2005 "Procedure for Circulation of Excise Goods"*.

<sup>18</sup> *Amendments to Compulsory Civil Liability Insurance of Owners of Motor Vehicles Law.*

<sup>19</sup> CM Regulations No. 21 of 3 January 2017, *Procedure for Control of Certain Excise Goods and the Amount of Fuel Contained in a Commercial Vehicle Required to Ensure Operation of a Vehicle Carried out in a Border Crossing Point Located on a Motorway.*

<sup>20</sup> *Related Amendments to Law on Credit Institutions and Amendments to Law on Payment Services and Electronic Money.*

<sup>21</sup> *Amendments to Law on Register of Enterprises of the Republic of Latvia.*

<sup>22</sup> *Amendments to Latvian Code of Administrative Violations providing that subjects of the Law On the Prevention of Money Laundering and Terrorism Financing (except for credit institutions) are administratively liable for failure to provide the SRS with information on suspicious transactions.*

- Implementation of ID card system for construction sector employees by development of legislative framework for administration and control mechanism of the ID card system;
- Setting the minimum remuneration level in construction sector by using general agreements and introducing reference remuneration levels with the help of legislative framework;
- Drafting amendments to legislative acts providing for stricter conditions for receipt of special permits (licenses) on operations with tobacco products and production of alcohol;
- Limiting the possibilities to discard, store or sell fuel imported in preferential terms (in fuel tanks of international cargo transportation vehicles).

In order to prevent any manipulation with the applicable vehicle operation tax, in 2016 and 2017 amendments to regulations on the said tax collection procedure for vehicles owned or held by an entrepreneur.

In order to reduce the risks of VAT fraud, in 2016 and 2017 the so-called reverse VAT charge system has been temporarily introduced in sectors where a high risk of VAT fraud is detected.

In order to improve the tax collection, from 1 January 2017 the VAT taxation period equal to half of the calendar year has been abolished stating that there are only two taxation periods when it comes to VAT: a calendar month and a quarter. Likewise, for state or municipal authorities or local governments registered as VAT payer solely for purposes of receiving construction services, the taxation period is set at a quarter.

In order to ensure a better monitoring of newly registered VAT payers and their VAT payment discipline, as well as reduce the risk of VAT fraud, the VAT taxation period for the first 6 months after the registration in the VAT payer register shall be one calendar month.

Moreover, by establishing a unified attitude towards all the registered VAT payers, irrespective of their VAT taxation period for submission of VAT returns, starting from 1 January 2017, SRS may request a registered VAT payer to submit a VAT return no less than every calendar month.

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

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

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

The “tacit consent” principle is one of the tools promoting modernisation of public administration, to reduce delays in decision-making by authorities, costs and unfavourable consequences to small and medium-sized enterprises. In 2016, the “tacit consent” principle was implemented in 11 public services. It is expected that the “tacit consent” principle will be introduced for 16 more services by the end of 2017.

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

In 2016, a new approach to assessment of projects to be implemented during EU funds programming period 2014-2020 will be launched allowing to identify all the state ICT management development needs in an integrated way. This new approach provides state ICT development measure structure allowing to carry out a more efficient state ICT management organization in long-term ensuring a mutual ICT investment complementarity.

### 3.2.2. Promoting Productive Investments and Exports

In order to promote structural economic changes in favour of production of goods and services with a higher value added, the *Guidelines on the National Industrial Policy for 2014–2020* were approved by the CM in 2013. The Guidelines identify the following main policy directions of action: development of industrial areas, promotion of access to finance, increased innovation capacity, issues related to access to labour and qualification, promotion of exports and reduction of energy resources costs; a plan of measures for the next 3 years has been prepared based on the aforementioned directions. During 2017, the Ministry of Economics shall carry out the interim assessment of industrial policy guidelines and submit it to the Cabinet of Ministers.

The *Guidelines for Promoting Latvian Exports of Goods and Services and Attracting Foreign Investments for 2013–2019* and the *Action Plan* for their implementation were approved by the CM in 2013 in close connection with the *National Industrial Policy*. The guidelines are aimed to promote competitiveness of the economy of Latvia in the open product (goods and services) and capital markets fostering the increase in high and medium-high technology branch products in Latvian export, and focusing on foreign demand-oriented sectors when attracting FDI.

#### The main policy directions and measures:

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

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

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

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

- Export loan guarantees protecting the exporter against foreign buyer's insolvency or lengthy non-payment by selling goods or providing services against deferred payment. Within the European Union programming period 2007-2013, by the end of 2016, in total 210 short-term export loan guarantees were issued in the amount of 6 million EUR. In December 2016, the new CM regulations were adopted on issuing the short-term export guarantees in accordance with which more favourable conditions for performers of economic activity receiving export guarantee are ensured by increasing the volume of transaction. In 2017, merchants in Latvia will have access to medium and long-term export loan guarantees for the first time.
- acceleration funds. This is a new financial instrument in Latvia aimed at promoting development and competitiveness of economic activity performers by providing acceleration (free help attracting mentoring, sectoral expert, partner, and future investors) services and funding (up to 250 000 EUR) for business projects including technological or industrial failure risks. Acceleration funds are intended for development of a business idea at its early development stage. In total in the programming period 2014-2020, there are 15 million EUR (ERDF) allocated for implementation of acceleration funds. Implementation of the financial instrument shall occur via financial intermediaries. The public tender for selection of financial intermediaries was announced in 15 February 2017. Also during the programming period 2007-2013, early stage risk capital instruments for initial development of a business concept were implemented, and support for economic activity performers is being provided until June 2017 within preparatory capital fund where public funding in the amount of 10 million EUR is available.
- seed capital, start capital, and growth capital funds – the goal of financial instruments is promoting development of economic activity performers. Funding in the amount of



- 60 million EUR (ERDF) is available for implementation of financial instruments during European Union fund programming period 2014-2020. Currently, work on preparation of procurement documentation to ensure the selection of financial intermediaries is ongoing. In the European Union fund programming period 2007-2013, several support instruments in the form of risk capital were available for the development of economic activity performers. By the end of 2016, within this programme, in total 186 risk capital investments were issued to the merchants for the total amount of 66.6 million EUR;
- by 30 June 2016, a support in the form of a loan to economic activity performers and merchants for improvement of competitiveness was available to economic activity performers (programme available since 2009). The aim of the programme is to ensure accessibility of funding for those merchants who have economically justified further action plans and lack funding from credit institutions due to elevated risks. Within this programme, in total 126 liquid assets were issued and investment loans in the amount of 77.4 million EUR, 169 micro-loans in the amount of 2.2 million EUR, and 363 loans to economic activity start-ups in the amount of 6.3 million EUR;
  - micro-loans – the aim of this programme is to promote involvement of residents in business activity and increase the possibilities for merchants to receive the financial support for commencing and developing business. Support in the form of micro-loans and start-up loans is provided to new merchants, micro-, small and medium-sized merchants. In June 2016, Cabinet of Ministers regulations on implementation of European Union fund programming period 2014-2020 funded programme were adopted. Within this new programme, loans for the total amount of 2.1 million EUR have been granted by the 31 December 2016;
  - Latvian and Swiss Micro-Lending Programme. Financial aid (up to 14 000 EUR) is intended for investments and liquid assets. Total planned financing amount for the lending fund is 7.1 million EUR, where 6.5 million EUR were intended for loans (80% Swiss co-funding) and 0.6 million EUR for grants. By the end of 2015, in total 1309 loan agreements were signed for the total value of 10.8 million EUR. Further funding will be made using repayments. Aid will be provided until 30 June 2019;
  - loan guarantee programmes – the aim is to provide economic activity performers with credit resources for implementation of own business, if the existing security is insufficient to obtain bank financing. On 31 October 2016, the European Union fund programming period 2007-2013 programmes was completed, and 564 loan guarantees had been issued under these programmes for the total value of 158.5 million EUR. In June 2016, the new state aid conditions for European Union programming period 2014-2020 were approved. By the end of 2016, within the new programme, 66 loan guarantees had been granted in the total amount of 12.7 million EUR. In February 2017, amendments to state aid programme were made providing economic activity performers with loan guarantees in the amount up to 3 million EUR, instead of current 1.5 million EUR.
  - parallel loans – the aim of the programme is to promote the development and competitiveness of economic activity performers, by granting funding as a mezzanine loans (i.e., together with a funding from a Latvian registered credit institution or its subsidiary) for implementation of viable business projects. On 31 October 2016, an aid programme funded from European Union fund programming period 2007-2013 means was completed, and within this programme in total 28 mezzanine loans were granted for the total value of 15.2 million EUR. In July 2016, Cabinet of Ministers regulations on implementation of European Union fund programming period 2014-2020 funded parallel loans were adopted. Within this programme, 5 parallel loans for the total amount of 0.5 million EUR were granted.
  - support for agricultural, rural and fisheries development. Producers of agricultural products can apply for support for a purchase of liquid assets (the amount of the credit line is 25.6 million EUR). In 2016, 157 loans in the amount of 9.8 million EUR were granted. Since 2012, financing for the purchase of agricultural land is available as well (the total amount of

available financing – 70 million EUR). By the end of 2016, in total 1 117 loans had been granted for the total amount of EUR 56.2 million EUR, where only in 2016, 322 loans in the amount of 15.6 million EUR were granted.

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

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

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

In 2016, activities aimed at attracting FDI in order to improve the business environment and foreign investment attraction process, as well as strengthen cooperation among public authorities. These activities have been included in the *The Guidelines for Promoting Latvian Exports of Goods and Services and Attracting Foreign Investments for 2016–2019* (adopted on 14 March 2017). At the same time, IDAL activities in attracting the foreign investment will prioritize three directions: reactive servicing of incoming investments, post-servicing, as well as proactive action attracting investments.

Attracting investors will be improved by the EU fund measure *Support for Investments for Establishment of Reorganisation of Production Facilities*.

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

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

- coordinating foreign economic policy and organisation of the network of the Latvian Foreign Economic Representative Offices abroad – in 2016, there were 47 diplomatic and consular missions of Latvia: 37 embassies, 6 permanent representations, 1 consulate-general, 2 consulates and 1 consular unit (in Kaliningrad). The Ministry of Foreign Affairs continues to expand its network of embassies and honorary consulates thereby keeping up with the interests of Latvian entrepreneurs. Foreign affairs service supports the efforts of Latvian entrepreneurs in acquiring new external markets and strengthening their positions in the existing ones, with major emphasis on sectors of transport and logistics, food industry, information and communication technologies, pharmacy, timber industry, tourism, and higher education export. Geographically, the main emphasis is placed on the traditional markets in the Baltic Sea region, as well as a rapidly growing export markets in North America, China, Gulf States, South East Asia, and Far East.
- in order to deal with economic issues and provide support to Latvian entrepreneurs, there were 21 Latvian Foreign Economic Representative Offices located alongside the embassies (in United Kingdom, Germany, Sweden, France, the Netherlands, Norway, Denmark, Poland, Japan, Russia, Lithuania, Ukraine, Belarus, China (Beijing and Shanghai), Finland, Italy, Singapore, United Arab Emirates, Azerbaijan, and Kazakhstan) operating in 2016. In 2016, the Ministry of Economics in cooperation with IDAL has started work on reinstated the Latvian External Economic Representation in the USA, intended to resume its operation during the 1<sup>st</sup> half of 2017. At the same time, considering the unfavourable situation in Azerbaijan and low interest in this market from the side of merchants, this representation shall not continue its operation in 2017;

- supporting enterprises in taking external marketing measures, by encouraging Latvian enterprises to participate in international exhibitions using Latvian stand. In 2016, more attention will be paid to ensuring the representation of agricultural and food industry sectors in joint stands of the international agricultural, food industry, and gardening exhibitions in the distant markets: China and the United Arab Emirates. At the same time, 4 Latvian Days of different scope and intensity were organized in 2016 (in Lithuania, China, Belarus, and Japan).
- direct export support services for enterprises provided by IDAL. These services include general consultations, information seminars on external markets and organization of external trade matters, as well as on sectoral market review, research, and information report preparation. Business forums, trade missions and individual business visits with potential cooperation partners abroad are being organized;
- short-term export loan guarantees are available to merchants in order to promote export. In 2016, a new legislative framework was elaborated with regard to issuing short-term export loan guarantees providing more favourable conditions to economic activity performers for receiving export guarantees, since the range of guaranteed services is expanded to new countries and the volume of transaction is increased, as well. In 2017, merchants in Latvia will have access to medium and long-term export loan guarantees for the first time; the Cabinet of Ministers regulations are currently being approved.

In December 2015, the implementation of the EU funds measure for 2014-2020 *Building the International Competitiveness* was launched. The aim of this measure is to build the sectoral competitiveness on the international level by supporting businesses and conquering foreign markets, ensuring operation of Latvian Foreign Economic Representative Offices, and developing Latvia's international competitiveness in the priority sectors of tourism. As of 31 December 2016, in total 1012 agreements on received aid have been signed, and 724 of these have been assessed and paid for with the total aid amount of 3.5 million EUR.

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

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

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

- preparing proposals for the improvement of the municipal financial system (including consideration of all the possible changes in the taxation policy) and expansion of rights of municipalities to handle their property. On 2 July 2015, the *Law on Municipal Financial Equalisation* entered into force. Provisions of this law were applied in equalisation of municipal finances for 2016. Drafting the new Law on Municipal Financial Equalisation was necessary, since the previous regulation could not ensure a regionally balanced and sustainable distribution of funding among the municipalities. In accordance with the new *Law on Municipal Financial Equalisation*, a simple formula is used in the calculation, and all the indicators are publicly available. All the municipalities are evaluated in the same way. No calculations of financial necessities are made, and hence the previous economically unjustifiable division in municipality groups based on this calculated is also revoked. The assessed income of municipalities is distributed more equally providing that municipality with lower assessed income per equalising unit will not be ahead of another municipality with a higher assessed income per equalising unit. Amendments have been made to the CM Regulations providing more opportunities to local governments to be flexible in setting the rent for built-up land plots in case of renting the land for construction

- of industrial object or performing economic activities, by setting specific criteria (conditions) in the binding regulations;
- improving the access to and quality of services provided by local governments, by introducing the one-stop-shop principle (*see Chapter 3.2.1*), by reducing the administrative burden on entrepreneurs and residents when using local government services;
- improving and developing transport and environmental infrastructure in local governments (*see Chapter 3.2.5*);
- improving the public business infrastructure of the state and local governments. In 2016, the selection of project applications for EU funds (2014-2020) acquisition in the regional development area will be launched. A support for municipalities will be provided aimed at increasing the private investments, making investments in business development in accordance with specialization of the territory and support in revitalization of territory, regenerating degraded territories, as well as aid for increasing the energy efficiency of municipal buildings. Total EU fund financing available for this objective is 375.9 million EUR (ERDF). In 2016, all the selections of project applications were announced, and currently assessment of project applications and signing agreements is ongoing, as well as implementation of the first projects. The priority is business, creating work places in the regions.

The following results are expected with the help of these investments: at least 5 390 new work places created in private sector and investments attracted in the amount of at least 328.8 million EUR, and at least 202 merchants in private sector supported, at least 622 hectares degraded territory renewed. Meanwhile, in energy efficiency area, the primary energy annual consumption reduction in public buildings shall be achieved – 20.54 GWh/per year and reduction of greenhouse gas emissions – at least equivalent to 5 180 CO<sub>2</sub> annually. More information on support measures for municipal and business public infrastructure within EU fund programming period 2014-2020 can be found on MEPRD website<sup>23</sup>;

- in order to promote business and innovation system development in the region utilizing funding from the Norwegian finance instrument (2009-2014) in the amount of 1.2 million within the project *Implementation of Regional Policy Activities in Latvia and Development of Regional Development Measures*, a pilot project for establishment of the business and innovation system in the Latgale planning region (hereinafter – LPR) is being implemented. Since the LPR is the most underdeveloped planning region in Latvia, characterised by long-term negative economic, social, and demographic trends, within this activity, the operation of a Latgale business centre has been established – in 2016, the operation of website, [www.invest.latgale.lv](http://www.invest.latgale.lv), has been insured, a video advertisement “Invest in Latgale” has been launched, and other measures. In 2016, in total 5 investment attraction materials for Latgale municipalities have been developed and additional 2 investment materials will be developed in the beginning of 2017. With the help of the Norwegian partner, *Ministry of Municipalities and Modernization of Norway*, report has been prepared on the Norwegian best practice on development of measures for remote and sparsely populated areas.
- In 2016 support has been provided to the biggest municipalities for external marketing measures in order to expand the municipal opportunities and instruments promoting business and attracting private investments. During 2016, this opportunity was used by Liepāja city, Sigulda and Madona district municipalities. Likewise, in 2016, in total 25 investment attraction materials have been developed, while additional 7 investment materials will be developed by the end of 1<sup>st</sup> quarter 2017.
- amendments have been made to the *Regional Development Law* extending competence to new functions for promotion of business in the territory of the region. Regional business centres operate in all the planning regions carrying out business promoting measures (trade missions, municipal training, investment offers, identifying business supporting institutions and services, etc.).

<sup>23</sup> [http://www.varam.gov.lv/lat/fondi/kohez/2014\\_2020/?doc=18633](http://www.varam.gov.lv/lat/fondi/kohez/2014_2020/?doc=18633)

### 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

Trajectory of achievement of the R&D target

	2009	2010	2011	2012	2013	2014	2015	2020
Total financing for R&D (million EUR)	85.2	109.6	141.4	145.4	139.5	162.8	152.3	500.0
% of GDP	0.45	0.61	0.70	0.66	0.61	0.68	0.62	1.5

Source: Eurostat

Irrespective of *European Innovation Scoreboard 2016* assessment placing Latvia by one position up in comparison with the previous year, i.e., 25<sup>th</sup> among 28 EUR Member States included in the research, entering the group of *moderate investors* for the first time in the history, achieving the R&D investment objective is still to be considered a great challenge.

The total volume of investments in R&D in Latvia in 2015 decreased by 6.5% in comparison with 2014, mainly due to reduction in corporate funding (by one third). Meanwhile, public funding increased by 4% in 2015, including without the share of EU structural funds – by 19.4%. The corporate funding is still at a very low level, i.e., only 13% of the total R&D funding.

Majority of funding in the R&D financing structure comes from EU structural funds (77.7% in 2015). A slight reduction was observed in 2015 in comparison with the previous year (by almost 5%) due to a transition period between two EU fund programming periods when science support activities of programming period 2007-2013 had been completed, while implementation of support measures for science, research and development, and innovations under the new programming period (2014-2020) had not been commenced yet. All of the above mentioned, as well as the Latvian R&D financing structure, confirm that currently volume of R&D investments in Latvia is highly dependent from EU funds investments.

In the recent years, the volume of R&D investments has been insufficient and it is still significantly lower than NRP target. In order for Latvian R&D expenditure to constitute 1.5% of GDP, in 2020, it should be equal to 462.6 million EUR, where 50% should be public funding. The public expenditure (national and foreign) deficit for achievement of such a target in 2015 was approximately 109.6 million EUR.

Additionally, until now funding of science base is not being paid out in 100% of the amount calculated in accordance with the legislative framework<sup>24</sup>. Science base funding for 2016 could only cover 64% of the calculated remuneration of scientists or only 377 EUR per one full-time position, excluding the employer's social tax. In 2017, there is a deficit to full-scale science base funding in the amount of approximately 21.4 million EUR.

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

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

<sup>24</sup> CM Regulations No. 1316 of 12 November 2013, *Procedure for Calculation and Allocation of Base Funding for Scientific Institutions*.

In order to address the aforementioned challenges, approved the Guidelines on Research, Technology Development, and Innovation for 2014–2020 (hereinafter – the GRTDI Guidelines, adopted in the end of 2013) set the following main GRTDI sectoral policy directions:

- raising the sectoral competitiveness;
- connecting the sector with societal and economical needs;
- efficient management of the sector;
- raising awareness in the society and promoting science and innovation.

At the same time, the *Smart Specialisation Strategy* (hereinafter – *RIS3 strategy*), a part of the GRTDI, is being implemented – a national economy development strategy defining the economy transformation directions, growth priorities, and smart specialisation fields, and prescribing a well-determined focus on research and innovation resources in the fields of knowledge where the state has a relative advantage or a basis to create such advantage. The key direction is economic transformation to knowledge- and technology-driven growth and catching up towards the development of knowledge-based skills. The RIS3 strategy also identifies the following specialisation areas:

- 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) the ICT.

#### The main policy directions and measures:

- ***Raising the Competitiveness of GRTDI sector*** (responsible institution – the MES)

The main tasks of this policy are the following:

- 1) to create a national post-doctoral research support system;
- 2) to support practical research for solving the sectoral or societal problems;
- 3) to support implementation of individual post-doctoral R&D projects, including supporting post-doctoral work places in undertakings;
- 4) to ensure granting the science base funding in the amount of 100% and gradually increasing;
- 5) to implement the unity of pedagogical and research work;
- 6) to introduce research excellence-oriented criteria in allocation of base funding and project funding;
- 7) to support participation of Latvian scientific institutions in EU and other international scientific cooperation organizations, etc.

Funding from the EU fund specific objective (2014-2020) *To Increase the Research and Innovative Capacity of Latvian Scientific Institutions and the Ability to Attract External Funding by Investing in Human Resources and Infrastructure* will be used for implementation of policy tasks No. 1, 2, 3, and 7. A new approach in assessment of scientific projects is introduced, including the adopted EU research and innovation programme Horizon 2020 assessment approach and criteria for evaluation of the scientific quality of projects, including invitation of external experts registered in an internationally recognized data base of science experts for evaluation of the scientific excellence of scientific projects.

In 2016, work on implementation of the following EU fund (2014-2020) measures has been launched:

- *support for post-doctoral research*. The first agreements on implementation of post-doctoral research applications shall be concluded by May 2017. In total approximately 450 post-doctoral students shall receive aid within this programme, and competition shall be arranged annually (the planned total funding is 64 million EUR, including ERDF funding 54.4 million EUR);
- *support for research aimed at practical application*. The competition for project applications shall be arranged in several stages, and during the 1st stage, 74 projects shall

be supported. Both research staff employed in institutions and master's and doctoral students will be involved in implementation of research aimed at practical application, in order to promote involvement of young scientists in the field of research (planned total funding is 76.5 million EUR, incl. ERDF funding of 65 million EUR).

The science base funding includes excellence-oriented criteria: 10% of funding is allocated to research institutions receiving a high score in the international science assessment; scientific articles published in the international research editions, etc., are taken into consideration in calculations. Remuneration for partial ensuring of research work of academic staff with the state-established higher education institutions has been introduced in funding conditions – professors, associate professors, and assistant professors carrying out scientific work.

In order to foster Latvia's participation in implementation of projects and strategic forum infrastructure of the European research space and European research infrastructure, thereby promoting the international cooperation in the areas of research and technology, in 2016, the following activities have been launched:

- development of implementation conditions for measure *Support to International Cooperation Projects in Research and Technologies* (total planned funding is 32.6 million EUR, incl. ERDF funding of 27.7 million EUR);
- implementation of measure *Development of R&D Infrastructure in Smart Specialisation Fields and Strengthening the Institutional Capacity of Scientific Institutions* (total planned funding is 120.25 million EUR, incl. ERDF funding of 102.96 million EUR). In 2016, JASPERS experts provided support in development of conditions for selection of support measure projects (R&D infrastructure project assessment criteria and methodology of their application, as well as performance of socio-economic analysis) in order to promote high project application and assessment standards.

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

Additionally, in order to facilitate the study process and industry cooperation in promotion of student innovation project implementation to solve practical sectoral and societal problems, in 2017 implementation conditions for EU fund measure *Innovation Grants for Students* were elaborated (total amount of planned funding is 34 million EUR, incl. ERDF funding of 28.9 million EUR). Agreements with the recipients of funding – higher education institutions – on project implementation will be signed during the 1<sup>st</sup> half of 2018, while aid will be granted to students starting from the beginning of academic year 2017/2018, i.e., in September of 2018.

- ***Connecting the GRTDI Sector with Societal and Economical Needs*** (responsible institution – the ME, the MES)

The main tasks of this policy are the following:

- 1) to prioritize the doctoral and post-doctoral research addressing related to solving scientific or technological issues identified by the industry;
- 2) to continue implementation of the National Research Programmes;
- 3) to continue development of competence centres as a long-term cooperation platform for research institutions and merchants;

- 4) to continue development of Technology Transfer Contact Points established with the higher education institutions for transfer of technologies and support for innovations; to introduce a Single Technology Transfer Platform;
- 5) and other measures.

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

In 2016, implementation of EU fund (2007-2013) projects was completed providing for cooperation between researchers and undertakings to conduct joint research aimed at development of new products and technologies within the 6 established competence centres. In total 231 industrial research and new product and technology development projects were implemented in the competence centres involving 164 undertakings and 24 research institutions. Additional private financing of at least 18.4 million EUR was attracted for R&D activities as a result of operation of the competence centres and 445 R&D work places were created.

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

In order to facilitate a long-term cooperation between undertakings and scientists, a measure *Support for Development of New Products and Technologies within the Competence Centres* is being implemented. The aim of this measure is raising the competitiveness of merchants by stimulating cooperation between research and industry sectors when implementing industrial research or new product and technology development projects. Total EU fund financing available in this programme by the end of 2021 is 72.3 million EUR. Support shall be provided to 8 competence centres, which will be placed in each of the Latvian Smart Specialization sectors or sub-sectors.

In 2016, work on *technology transfer programme* development was completed. The following will be available within this programme:

- *for facilitation and coordination of technology transfer* (establishment of a single technology transfer centre, as well as support for commercialization and patenting of research results achieved by research organizations). Thereby, the programme will constitute a logical supplement to those EU fund programmes providing support for conducting research, ensuring support and providing consultations for commercialization of research results achieved by research organizations;
- *for innovation vouchers* (support for new or substantially improved product of technology development by means of technology transfer);
- to attract highly qualified employees (for conducting specific research activities, solving technological problems, or developing new or significantly improved products or technologies).

Total EU structural fund financing available in this programme is 40.6 million EUR. Implementation of the programme currently has been launched.

- ***Efficient management of GRTDI sector*** (responsible institution – the MES)

The main tasks of this policy are the following:

- 1) to increase efficiency of R&D investments;
- 2) to ensure increase state-budget funding to sectors of science, technology, and innovations, and allocate science base funding in line with these settings,
- 3) to introduce policy implementation monitoring and impact assessment system.



In the “*European Innovation Scoreboard 2016*” published in 2016, Latvia has had relatively better scores in indicators “Human Resources”, “Finance and Support” and “Firm Investments”, however, poorer results were achieved in such indicators as “Open, Excellent Research Systems”, “Corporate Cooperation”, “Innovative Enterprises”, and “Economic Effects”.

Latvia has a small, however, increasing in the past years, share of high-technology sectors confirmed also by the growing share of high-technology goods in total export, constituting 9.8% in 2015.

EU Council recommendations on consolidation of research institutions are currently being implemented in order to ensure an efficient management of Latvian sector of science, technology, and innovations (*for more detailed information please see Chapters 2.3*).

An informative report *On the Territorial Mapping of the Concentration of Science and Innovation Infrastructure and Research Activity* has been prepared in 2016 as a basis for intended investments in science infrastructure in the EU funds programming period for 2014-2020<sup>25</sup>. Setting a precondition for scientific institutions to be eligible for aid for implementation of consolidation measures is a novelty, as well as preparation of strategy for infrastructure development scientific institution development which must be approved by the relevant sectoral ministry (if applicable).

The introduction and implementation of *RIS3 monitoring system* launched in 2015 was continued in 2016 including, *inter alia*, implementation of result management in scientific institutions. To this goal, each institution shall indicate own indicators to be reached within the common indicator system determined in accordance with institution’s specialization in science and research. At the same time, several measures have been implemented in order to ensure the data required for RIS3 monitoring. In cooperation with the Central Statistical Bureau the national level statistical data in the areas of research, development, and innovation have been expanded, including carrying out a research on further career of Doctors or Science in accordance with OECD methodology. The International Development and Reconstruction bank research on improvement of internal management in higher education institutions has been launched. Assessment of European Union fund programming period 2007-2013 investments in science, research, and innovations has been commenced. The first RIS3 monitoring results shall be gathered in 2017.

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

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

In the state support programme, co-financed by the EU structural funds 2007-2013, *High Value-Added Investments*, in 2016, implementation of 187 supported projects was completed with the total (EU funds) funding of 169.1 million EUR.

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

- *Support for Putting New Products in Production*. The goal of this activity is raising the productivity and competitiveness of merchants by development of new products and technologies, and putting them into production, as well as increasing the private sector investment into research, development, and innovation. Aid shall be granted for production or acquisition of experimental technologies, their installation and testing in the actual industry environment. Total available funding within the programme is 60 million EUR;
- *Innovation Motivation Programme*. The goal of the measure is to inform and encourage (including giving awards) as large a part of society as possible to start entrepreneurship and introduce innovations. On 14 November 2016, implementation of the programme was launched. Total available funding within the programme is 5.7 million EUR;
- Additionally, in order to facilitate the development of innovative merchants, support measures for training of employees have been developed (*see Chapter 3.4.5*).

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<sup>25</sup> On 16.08.2016, Information report *On the Territorial Mapping of the Concentration of Science and Innovation Infrastructure and Research Activity* was reviewed in a CM meeting <http://tap.mk.gov.lv/lv/mk/tap/?pid=40353516&mode=mk&date=2016-08-16>

Pre-incubation and incubation services, support to the development of commercial activities for the development and commercialisation of new or significant improvement of environmental products and technologies, as well as acquisition of new production equipment, were continuously provided in 2016 within the framework of the Norwegian financial instrument *Innovations in the area of “green” production*. By the end of 2016, within the *Green Technologies Incubator* established under this programme, 152 teams (71 of them attracted in 2016) received or continued to receive pre-incubation services for testing the viability of environmental-friendly and innovative business ideas. At the same time, in the *Green Technologies Incubator* the provision of incubation services was continued, ensuring support for commercialization of innovative products and technologies, 23 small-scale grant scheme activity project implementers with the total programme co-funding of 2.4 million EUR. In an open competition within the said activity, 11 of 13 supported project implementers gradually completed project implementation putting into production new and environmentally-friendly equipment. 13 enterprises supported in the open competition are implementing projects for the total programme co-funding in the amount of 5 million EUR.

- ***Raising Awareness in the Society and Promoting Science and Innovation*** (responsible institution – the MES)

The main goal of this activity direction is popularization of science and innovation, as well as sectoral achievements, that might have a positive effect on making science and technology development attractive for talented youths.

Starting from 2017, agreements with scientific institutions, including higher education institutions, include a duty to create a demand for science and innovation using science base funding and informing the society on scientific achievements and promoting innovative activity and development of technology.

The subordinate institutions, such as Study and Science Administration managing fundamental and applied projects, shall implement communication on project achievements within the funding available.

Information on Innovation Motivation Programme is available in the chapter above *on support to development of innovative merchants*.

### **3.2.4. Information and Communication Technologies**

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

In 2016, 77% of the Latvian population used internet on a regular basis (at least once a week). In mid-2016, the number of broadband<sup>26</sup> internet access lines in Latvia reached 26%. At the same time, there were 77.6 mobile broadband internet connections per 100 persons in Latvia, while 4G (LTE) mobile internet was available to 89% of households.<sup>27</sup>

In mid-2016, in 78.4% of cases, the internet connection in Latvia using fixed lines ensured a data transfer speed of  $\geq 10$  Mbps (in 2015 it was 75.4%), in 61.7% of cases, the data transfer speed was 30 Mbps and more (in 2015 it was 56%), and in 48% of cases, the data transfer speed was above 100 Mbps (in 2015 it was 42%). On average in the EU, in mid-2016, 82.2% of fixed lines had data transfer was above 10 Mbps, 36.9% – 30 Mbps and more, and 15.5% – above 100 Mbps<sup>28</sup>.

In October 2013, the CM approved the *Guidelines for Development of Information Society for 2014–2020* (hereinafter – the GDIS) which define the priorities of the ICT area for the programming period 2014–2020. The GDIS is based on the objectives set in the flagship initiative *Digital Agenda for Europe* of the *Europe 2020* strategy.

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<sup>26</sup> In Latvia, access is considered to be a broadband connection if it is constantly in an online mode and the data transmission speed is at least 144 Kbit/s, basic broadband speed is 2 Mbit/s, high-speed broadband speed is 30 Mbit/s and very high-speed broadband speed is 100 Mbit/s.

<sup>27</sup> Data from the *Digital Agenda Europe* (European Commission).

<sup>28</sup> Data from the Public Utilities Commission.

### The main policy directions and measures:

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

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

The broadband network is being developed based on the EU recommendations and in those geographical areas where there is no efficient competition and where no next generation networks would be established in the nearest future without the public support. Project realisation will be carried out in two stages and in such an intensity that does not jeopardize competition, and would not give a competitive advantage to any electronic communications merchant. In addition to the optical cables of 1813 km with 177 access points built during the first stage of the project in 2015, in the second stage by the end of 2020, the total length of optical cable lines built will increase by approximately 2500 km and the number of optical network access points will increase by at least 220 points.

In order to increase the accessibility of electronic communication infrastructure in rural regions, in 2016 JSCS Latvijas Valsts radio un televīzijas centrs and the Central Finance and Contracting Agency entered an agreement on implementation of the EU funds project *Improvement of Electronic Communication Infrastructure Accessibility in the Rural Territories*. Preparatory works have been carried out as follows:

- inspection of areas to be supported;
- initiating negotiations with several electronic communications merchants on their broadband electronic communication infrastructure development plans and points of interests in order to create the optimal line of optic cables and connect as large a number of electronic communications merchant objects as possible;
- and several procurements have been announced to ensure implementation of the project.

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

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

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

In the course of 2016, within EU funds programming period 2014-2020, preparation of 41 public administration ICT development projects has been initiated, as well as coordination of ICT architecture of planned solutions including them into national single ICT architecture. In 2016, there were 2 new projects launched – public administration ICT architecture management systems (ERDF – 4.5 million EUR) and project for de-institutionalization process support information system development (ERDF – 1.7 million EUR), while implementation of the remaining projects will be launched in 2017.

In 2016, the Latvian language integration project in the digital environment continued involving the aspects of machine-translation tools, translation memory development and storage technologies, as well as practical application. Automated translation of public administration and local government e-service descriptions, home pages, and other internet resources, into another language, using technology tools, clearly expands the range of service recipients, as well as contributes to elimination of linguistic barriers in the single digital market.

In 2017, the Latvian National Library intends to launch the ERDF project “Digitalization of Cultural Heritage Content (Phase 1)”. In this project, approximately 3 million pages of textual documents, 100 000 pictures, approximately 460 000 minutes of audio-visual material and 80 000 minutes of movie records shall be digitalized. The intention is to create a single digital resource register in Latvia, state cultural monument register, and centralized open information system platform stage one. In order to implement this project, intellectual property rights, long-term storage and single open data creation principles and reuse issues will be addressed.

Continuing introduction of e-health, in 2016 access to e-health portal was granted ([www.eveseliba.gov.lv](http://www.eveseliba.gov.lv)). In the publicly accessible part of the portal, various health related information is available, while in the closed part (accessible only through identification), residents may access their electronic health card, and medical practitioners may prepare various medical documents on the patient. Using the EU funds programming period 2014-2020 financing, the development of e-health system and modernization of sectoral information systems (registers) will be continued by integrating them into a single e-health environment, while simultaneously optimizing them.

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

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

In 2016, penetration tests were carried out in state ICT solutions and infrastructure, and early warning system network was expanded, as well as both technical and leadership level cyber-security training was carried out. *Law On the Security of Information Technologies* was revised and amended in order to increase Latvia’s capability to respond to IT security incidents and strengthen the Latvian cyber-space security.

In 2016, implementation of *Responsible Disclosure Policy process* (hereinafter referred to as *RD process*) was continued stating that any security researcher (ethical hacker), in compliance with a certain procedure and requirements, may notify CERT.LV on vulnerabilities found or security shortcomings in the information systems or electronic communication networks. Although *RD process* shall not be stipulated in the Law on Security of Information Technologies, the experience and knowledge gained will allow to further support the application of *RD process* principles in the private sector.

Discussion on necessity to promote a more extensive use of government issued eID cards continued, and Cabinet of Ministers supported a proposal to stipulate eID as a mandatory and primary means of personal identification from 2019.

During the 2017, the priority will be continuation and implementation of initiatives launched during the previous year, while in parallel, work will be connected to transposition of *Network and Information Security Directive* into the national legislation.

Pursuant to the Regulation of the European Parliament and the Council on *electronic identification and trust services for electronic transactions in the internal market (eIDAS Regulation)*, each EU Member State shall appoint a national qualified trust service provider monitoring body in order to promote trustworthiness in cross-border cooperation, processing and recognition of electronically signed documents in EU. Currently, the Data State Inspectorate is carrying out monitoring in relation to trust services in accordance with the *Electronic Documents Law*.

Pursuant to the *Law on Electronic Identification of Private Persons*, on 1 November 2016 a new monitoring body started its operation – the Electronic Identification Monitoring Committee. This Committee shall carry out the monitoring of electronic identification service providers, and after the adoption of *Amendments to Electronic Documents Law*, planned for 2017, shall overtake monitoring of trust service providers from the Data State Inspectorate.

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

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

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

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

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

By promoting acquiring the ICT education and skills, e-commerce will improve and enterprise turnover from internet sales shall reach 15% in 2020, and public administration operation efficiency will increase (GRICS indicator<sup>29</sup>) by 85% in 2020.

From 2017 to 2019, a study Integrated Public Service Provision and Monitoring of End-User Needs will be carried out with the purpose to establish a single, integrated Latvian e-administration efficiency research that would monitor the increase in public data reuse and an efficient interaction between public administration and private sector.

In September 2016, during the campaign *Day without Queues*, more than 400 client customer service points in both state and municipal authorities all over Latvia were consulting residents and entrepreneurs on the use of e-services. During the campaign 7960 consultations on e-services were provided. After receiving a consultation, 4330 customers have expressed their willingness to continue using e-services in the future.

Since 2010, the annual information campaign European e-Skills Week is being held in Latvia. In 2016, both cities and more than 100 districts in Latvia actively participated in organization of the measures. Overall, residents and entrepreneurs had the opportunity to participate in 788 measures in person, provided for by more than 150 partners: ministries, state agencies, undertakings, banks, schools, universities, libraries, local government authorities, and NGOs, involving more than 22 000 residents of Latvia.

In order to introduce the new competence-based education standard, during the academic year 2015/2016 in total 5 computer science programme pilot projects were offered to schools for approbation, and 157 schools participated. The pilot project for approbation of the computer science during the first academic year in all the pilot schools was successful, raising significant amount of interest in both pupils and teachers. Launching and implementation of the computer science education programme approbation supported by Foundation IT Education Fund with the international company Accenture Latvian branch, both financially and in terms of organization. Within this project, a portal Start(it) was created providing learning and methodological material for each class and to be used by any education institution. The computer science programme shall be implemented in all the schools starting from the academic year 2018/2019.

Chapter 6 of the GDIS, *Planning Further Action*, provides for the following points with regard to promotion of e-skills among teachers, including teachers of general education institutions and heads of education institutions:

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<sup>29</sup> Governance Research Indicator Country Snapshot.

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

### 3.2.5. Transport and Environmental Infrastructure

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

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

An assessment of both state and municipal roads and streets shows that the overall technical condition of roads is insufficient and does not correspond to the needs of economic, safe, convenient, and environmentally-friendly traffic. Approximately 44% of the roads with asphalt surface are in a bad or very bad condition. Approximately 43% of the roads with gravel surface are in a bad condition.

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

The development of *Rail Baltica*, a European standard gauge railway, will be of utmost importance in the upcoming decade. In 2016, the route of *Rail Baltica* in Latvia has been agreed on, an Inter-beneficiary agreement between Ministries of Transport of all three Baltic States and *Rail Baltica* implementer JSC *RB Rail* was signed providing for a procedure in which financing and reporting during the first phase of *Rail Baltica*, as well as several procurements required during this stage were announced.

Development of aviation sector is successful providing a crucial precondition for economic growth. During the past years, the number of passengers in Riga Airport has exceeded five million and it continues to grow.

The development aim of the **environmental protection infrastructure** is to ensure quality water management services for the Latvian population by improving and developing water management, to prevent the risk of threats caused by floods and erosion in the cities, ensure the re-use of waste, as well as to continue separate waste collection and sorting. It is also crucial to promote the preservation of biological diversity by creating an anthropogenic load reducing infrastructure, to ensure rehabilitation of areas historically contaminated with oil products, as well as improve environmental monitoring and societal participation in environment management.

The main policy directions and measures:

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

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

The main directions are the reconstruction and improvement of railway, road, port, and air transport infrastructure, The total public financing for 2014-2016 was 692.9 million EUR, including 2016 – 176.8 million EUR.

In 2016, within the EU funds programming period 2014–2020, reconstruction of the state main road surface was continued in order to raise the carrying capacity, and, as a result, the reconstructed roads will allow providing the missing connection section with the TEN-T network development and reducing their maintenance costs. The total length of roads reconstructed within the EU funds financed projects in 2016 was 85.9 km.

In 2016, the last EU funds programming period 2007-2013 projects were completed; national level coordination of selection of projects financed by the Connecting Europe Facility (CEF) was ensured.

In order to ensure a further development of airport “Riga, in 2016, construction works within the 2<sup>nd</sup> stage of round 5 of airport terminal were completed. The new North Pier has been opened, thereby creating infrastructure allowing to serve the airport 7-10 million passengers annually, as well as large aircrafts which is a precondition for opening long-distance routes. In 2016, EU funds programming period 2014-2020 project *Development of a Safe and Environmentally-Friendly Infrastructure in the International Airport Riga* was approved.

In 2016, Liepāja airport infrastructure development project has been implemented and the air field of Liepāja airport is certified for servicing regular flights, thereby creating preconditions for development of international business connections and tourism in Kurzeme Region, as well as for further development of its economy.

In 2017, launching/monitoring of specific support objectives within the EU funds programming period 2014-2020 will be continued, as well as coordination of CEF-financed project selection

- ***Improving State Regional Roads*** (responsible institution – the MT)

Improvement of state regional roads is carried out by ERDF co-funding. The total public financing for regional roads in 2014-2016 was 78.5 million EUR, including ES fund resources – 66.7 million EUR, including 2016 – 54.2 million EUR, incl. ES fund financing of 46.1 million EUR.

The total length of regional roads reconstructed within EU fund financed projects in 2016 is 48.6 km. In 2016, the reconstruction of regional roads connecting international, national and regional level development hubs with TEN-T road network was continued as a part of the EU funds programming period 2014-2020.

During 2017, construction works will be completed in another 82.9 km of state regional roads within the EU fund finances projects. Since the beginning of the period, in total 131.5 km of state regional roads will be improved. In 2017, construction works will be commenced in additional ten road sections with the total length of 90.5 km.

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

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

During the programming period 2014-2020, EU fund investments in investments protection were continued in the amount of 234.1 million EUR. The said funds shall be diverted to development of environmental infrastructure and environment protection, mainly – expanding the sewage network (118.7 million EUR), separate waste collection, processing and regeneration infrastructure development (41.3 million EUR), reducing flood risks (28.9 million EUR), building and reconstruction of infrastructure in *Natura 2000* territories (3.4 million EUR), biological diversity measures (8 million EUR), environment monitoring, improvement of environment control and environment information centre infrastructure (14.1 million EUR), as well as rehabilitation of historically contaminated areas (11.6 million EUR).

In order to develop water management system, in 2016 a project selection for expansion of sewage network was launched. The intention is that after project implementation, the number of actual users will increase by 58 000 residents extending to 40 agglomerations.

In order to protect 200 000 persons from the risk of flooding, in 2016 an additional project application selection was announced for implementation of preventive measures against flood risk threats in several flooding cities.

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

In 2016, the Nature Protection Board started a project on mapping the habitats. The project is aimed at identification of EU especially protected habitat distribution and quality (mapping of habitats) all over Latvia, and protection plans for nature and species in special areas of conservation will be developed. Mapping results will provide with more precise information on condition and quality of nature in Latvia, and will allow to use these data for decision making and the required measures for sustainable management.

In January 2017, selection of project applications for improvement of separated waste collection system was commenced, providing for both new waste collection points and sites, as well as providing the existing infrastructure with additional containers. Meanwhile, selection of project applications for facilitation of processing various kinds of waste will be launched in 2<sup>nd</sup> quarter of 2017. The waste processing capacity shall increase by 172 000 t/per year, while sorted waste volume will increase by 52 000 t/per year as a result of these investments.

### 3.3. EMPLOYMENT

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

Table 3

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2020
Employment rate, %	75.4	66.6	64.3	66.3	68.1	69.7	70.7	72.5	73.2	73.0

Data source: CSB

In 2016, the target set for 2020 in NRP has already been exceeded in relation to the level of employment. Economic growth is expected to further boost the employment increase, however, the growth rate might slow down as the growth will be mainly determined by the increase in productivity. The increase in employment rate will be partially affected by the expected decline in the number of working-age population (*see Chapter 3.5.2 for information on demographic challenges*).

The main elements of the Latvian employment policy:

- supporting the labour demand – stimulation of economic activities and entrepreneurship, including reduction of the labour taxes, the fight against undeclared employment, indirect and direct support measures for businesses ensured by the government, measures to reduce administrative barriers, business incubators, etc. (*see Chapter 3.2*);
- strengthening the labour supply – increasing the competitiveness of the unemployed and people at risk of unemployment in the labour market, including skills development according to the labour market needs (vocational continuous education, non-formal education for the unemployed, consultations and professional mobility), lifelong learning measures, advice for starting a business, etc. (*see below Chapter 3.3*);
- facilitating the process of adjustment of the labour supply and demand<sup>30</sup>, including the improvement of the education system, involvement of employers' organizations in the improvement of the quality of education, forecasting the compliance of the labour market supply with the labour market demand, educating the labour market participants, including pupils and students, on labour market and career issues (*see Chapter 3.4 on education reform*).

<sup>30</sup> ME is preparing an *Informational Report on Labour Market Medium and Long Term Forecasts*, and it will be taken into consideration when adjusting the MES and SEA proposal.



In order to foster changes in the labour market providing with specialists required for economics and, thus, contributing to growing economy, in 2016, an Employment Board was established consisting of three ministers – ministers of economy, education and science, and welfare. The goal of this Board is to coordinate inter-sectoral cooperation required for planning, development, implementation, and monitoring of labour market reform or re-arrangement, thereby reducing the disproportion in the Latvian labour market.

In 2016, work on and improvement of various active labour policy measures (hereinafter referred to as ALMP) was continued aimed at improvement of skills and qualification of labour force, measures were taken to improve engagement and activation of the unemployed, for example:

- providing a more targeted support to certain groups more exposed to unemployment risk, paying special attention to support for long-term unemployed and persons with mental disorders;
- implementation and improvement of profiling of the unemployed;
- providing mobility support for the unemployed participating in ALMP measures;
- promoting youth employment and reducing unemployment as inactivity.

In 2016, 118 600 unemployed participated in ALMP (one person may participate in several activities). In 2016, 34.3 million EUR were used for ALMP, including ESF funding of 26.6 million EUR. Approximately 82% of the said amount is used to raise and improve the qualifications of unemployed, slightly more than 14% to arrange interim community work, approximately 15% to supported employment, and approximately 23% to implementation of *Youth Guarantee*. In 2016, in total 72 300 unemployed found job, and 21 000 or 28.9% of them were unemployed persons who found work after completing one of the active measures (except for information fay for the competitiveness raising measure).

In order to foster employment and labour force mobility, within programming period 2014-2020 qualification and skills of the unemployed will be raised to match the labour market demand; involvement of NEET youth in employment and gaining education within *Youth Guarantee* will be increased; the working ability and employment period for elderly employed will be prolonged; the inclusion in labour market of employed persons in a more unfavourable situation will be increased; involvement of long-term unemployed in the labour market will be improved; integration of residents exposed to risks of discrimination in society and labour market will be improved.

In 2016, the improved conditions for eligibility to status of the unemployed or job seeker will be applied along with conditions for involvement in certain active employment and preventive unemployment reduction measures<sup>31</sup>. State and municipality bodies (including private capital companies where state or municipal share in the capital asset, jointly or severely, exceeds 50 per cent) are now obligated to register open competitions for vacant work places with the SEA vacancy portal. It has also been set that only persons who have fulfilled the duty and registered their place of residence will be eligible for status of unemployed. Meanwhile, people can participate in the regional mobility promoting measures irrespective from whether they plan on working in public or private sector.

#### The main policy directions and measures:

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

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

- On 1 April 2016, implementation of 2<sup>nd</sup> stage of the pilot project *Implementation of Programmes for Continuing Vocational Education for Unemployed in State or Municipal Educational Institutions* was completed involving 181 unemployed. On 28 February 2017, an informational report on implementation of pilot project was submitted for review in CM,

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<sup>31</sup> *Amendments to the Support for Unemployed Persons and Persons Seeking Employment Law*, adopted in Saeima on 03.12.2015, entered into force on 01.01.2016.

and, along with the protocol decision draft, it provides for specific MoW competence tasks for more active involvement of SEA-registered unemployed in the vocational continuous education programmes with the state vocational education institutions that have applied for and have been selected in a SEA public tender as appropriate to provide education services;

- since the 3<sup>rd</sup> quarter of 2013, the profiling system of the unemployed has been implemented allowing for a more efficient and faster filling of vacancies and offering the most suitable ALMP measure to an unemployed person through an individual approach. In 2016, assessment of the profiling system will be carried out<sup>32</sup>. Out of the unemployed persons registered in the end of 2016, in total 95.6% or 74 900 unemployed had been profiled;
- On 3 March 2017, amendments to CM Regulations of 25 January 2011 *Regulations Regarding the Procedures for Organising and Financing of Active Employment Measures and Preventative Measures for Unemployment Reduction and Principles for Selection of Implementers of Measures*<sup>33</sup> entered into force providing for additional quality control and stricter qualification criteria for SEA education service providers.

In 2016, in total 55 900 persons were involved in skill-improvement teaching measures. In total 15.1 million EUR were used for skill measures, incl. ESF funding of 12.75 million EUR, and state special budget funding 2.25 million EUR. In 2017, the annual planned funding is 14.5 million EUR (ES fund financing) and the planned number of participants is 84 300.

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

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

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

- Since January 2014, youth at the SEA in cooperation with a career consultant and other specialists can find out their strengths, receive information on available vacancies in Latvia, obtain new skills and their first work experience, as well as receive support for entrepreneurship. There are in total 10 measures available to youth, and participation in those is determined by profiling results, including taking into account their prior experience in the labour market, the education obtained, as well as the level of skills and competences;
- implementation of the project initiated in 2014 together with SEDA is continued, and in 2016, within this project, in cooperation with 34 vocational education institutions and colleges implementation of vocational education programmes took place allowing youth aged 17 to 29 years (including) obtain a professional qualification within a year or year and a half in one of the 68 professions;
- work on the project “KNOW and DO!” of the Agency for International Programs for Youth, launched in 2014, continued in 2016. The goal is to develop the skills of youth at a risk of social exclusion and to facilitate their engagement in education, including vocational training with master craftsman, events of *Youth Guarantee*, as well as activities of non-governmental organisations and youth centres. Before 2017, cooperation agreements on project implementation had been signed with 70 municipalities and 245 municipality delegated mentors and 90 programme leaders had been trained. 151 youth were involved in the project and 37 of them completed the individual event programme successfully. It is planned that by 2018 in total 3684 NEET youth shall have successfully completed the individual event programme. Total planned funding for the project is 9 million EUR (incl. ESF funding of – 7.65 million EUR, and state budget co-funding –1.35 million EUR);

<sup>32</sup> Assessment report is available here: [http://www.esfondi.lv/upload/Petijumi\\_un\\_izvertejumi/izvertejuma-zinojums.pdf](http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/izvertejuma-zinojums.pdf)

<sup>33</sup> Cabinet of Ministers Regulations No. 115 of 28.02.2017 „Amendments to the Cabinet of Ministers Regulations No. 75 of 25 January 2011, “Regulations Regarding the Procedures for Organising and Financing of Active Employment Measures and Preventative Measures for Unemployment Reduction and Principles for Selection of Implementers of Measures”.

- in order to provide the imprisoned youth with knowledge and skills required in the labour market, as well as to foster their competitiveness in the labour market, in 2016 in total 155 imprisoned youths received individual diagnostic and career consultations and the most suitable professions were determined. In 2016, there were 173 imprisoned youths engaged in vocational improvement education programmes, and 145 of them completed these successfully.

From 2014 to 2016, in total 111 000 youths aged 15-29 obtained the registered unemployed status with the SEA and all of them received support as a part of the *Youth Guarantee* programme, while 6 700 unemployed youth were involved in the programmes implemented by SEDA<sup>34</sup>. During the same period, 65 000 youths found employment (58% of all the unemployed youths registered with the SEA).

Between 2014 and 2016, in total 92 400 youths were engaged in the employment seeking support measures within the Youth Guarantee programme, 28 600 youths were involved in competitiveness-raising measures, and 112 600 career consultations were provided to youths. Meanwhile, the so-called long-term or “quality” support<sup>35</sup> was provided to 18 900 youths (to 11 898 registered unemployed; 6 484 unemployed youths, and 483 imprisoned youths). The number of participants constitutes 66% of the planned number of youths to be involved in the *Youth Guarantee* programme (between 2014 and 2018, in total 28 700 NEET youths should be involved in the programme). 66% of all the youths receiving support were unemployed, including 15% long-term unemployed, while 34% of participants were NEET youths.

Between 2014 and 2016, out of all the participants to the *Youth Guarantee programme* aged 15-24 (in total 60 890 persons: SEA project – 54 395, SEDA – 6 495) 27% or 14 932 persons found employment within the first four months from the date they received unemployed status or submitted application to *Youth Guarantee*, 31% or 16 591 received at least one job offer (information on vacancy), 20% or 12 429 persons started training, gaining first job experience, and participated in other SEA and SEDA long-term support measures, 52% received support of a career consultant.

Within the first four months from the date they received unemployed status or submitted application to *Youth Guarantee*, on average 45% youths enter into support programme or return to labour market, while on average 19% of all youths lose their unemployed status due to failure to perform their duties. Meanwhile, 54% on youth enter into support programme or return to labour market within the first six months from the date they received unemployed status or submitted application to *Youth Guarantee*.

Between 2014 and 2016, 37.8 million EUR have been used for implementation of the *Youth Guarantee* programme (52% of the *Youth Guarantee* general budget), including YEI funding in the amount of 15.5 million EUR, ESF co-funding of 17.2 million EUR, state budget funding – 2.8 million EUR, and private co-funding of 2.3 million EUR.

The total Youth Guarantee programme funding for 2014-2018 constitutes 72.9 million EUR, including YEI funding – 29 million EUR, ESF co-funding of 35 million EUR, state budget funding – 5 million EUR, and private co-funding<sup>36</sup> in the amount of 3.9 million EUR. Youth Guarantee programme shall continue until the end of 2018, and after that YEI funding for provision of support to youths in Latvia will no longer be available, and proposals will have to be prepared for further support of youths who are neither working, nor learning a profession.

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<sup>34</sup> Youths who may or may not be registered with the SEA as unemployed or job seekers and who simultaneously do not participate in SEA-implemented support measure (except for youths involved in employment-finding support measures, competitiveness-raising measures and career consultations) are eligible for engagement in SEDA programmes.

<sup>35</sup> A ‘quality offer’ is a measure helping youth to acquire a professional qualification (vocational education programmes, non-formal education programmes for youths who need to acquire certain skills in order to find employment – for example, language skills, IT skills, etc., youth workshops allowing to choose learning type and start employment immediately after participation), gain professional experience (subsidised workplaces, first job experience for youth, development of skills necessary for work in non-governmental sector), start as self-employed or engage in business. Auxiliary measures are support measures in job seeking, career consultations, and measures to raise competitiveness.

<sup>36</sup> Private co-financing consists of employers’ contribution to youths’ salary when engaging in one of the following – Gaining First Work Experience for Youths or Subsidised Employment Measures (measures for certain groups of persons).

Along with the above measures:

- Within the Latvian and Swiss cooperation programme *Support for the Development of Youth Initiatives in Peripheral or Disadvantaged Regions*, 20 training measures for the youth (4 measures in each programming region) with the total number of participants reaching 384 have been implemented in 2016. Additional three training measures shall be organized until closing of the Latvian and Swiss cooperation programme (31 March 2017).
- Within the Youth Policy State Programme 2016 ensuring municipal work with youths, youth organizations and societies working with the youths, as well as fostering support and cooperation, state budget funding of 328 500 EUR were allocated, where 144 900 EUR were allocated to municipal projects, 65 100 EUR allocated to support of youth organizations, 202 700 EUR have been allocated to support of youth centres and youth organizations, while 36 400 EUR have been allocated to fostering social inclusion of youths. On 10 January 2017, Youth Policy State Programme 2017 was approved with the total state budget funding of 332 400 EUR, and additional 229 200 EUR were allocated and included in the state programme as proposals voted for by Saeima on allocation of funding as state budget subsidies.

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

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

- In 2016, demand for mobility support has increased significantly within the active employment measures (training measures). In 2015, 163 employed were involved in the regional mobility measure, while support for regional mobility was provided to 452 youths and 97 persons received support for regional mobility within employment measures. In 2015, in total 55 000 EUR were used for implementation of measures to foster the regional mobility of employed, while 86 000 EUR were used for youth regional mobility support. In 2016, 197 employed were involved in the regional mobility measure, while support for regional mobility was provided to 990 youths and 2435 persons received support for regional mobility within employment measures. In 2016, in total 49 600 EUR were used for implementation of the regional mobility of employed, while 105 600 EUR were used for youth regional mobility support;
- In the 3<sup>rd</sup> quarter of 2015, a new support programme for the long-term unemployed was initiated with the help of the ESF co-funding. Until 2021, measures will be implemented within this programme with the main goal to facilitate inclusion of the long-term unemployed into society and suitable work or training thereby reducing the risk of their social exclusion. In 2016, a gradual provision of support measures has been launched, and 29 400 long-term unemployed received support with the total funding of 1 216 981 EUR (ESF funding – 1 034 433 EUR, and state funding – 182 548 EUR). Total planned funding of the programme is 40 million EUR, including ESF funding – 34 million EUR, and state budget co-funding – 6 million EUR.

- ***Retaining the working ability and fostering employment among the elderly residents*** (responsible institution – MoW)

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

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

- assessment of working environment and human resources potential when determining the suitability of working environment and organization to benefit from potential of elderly employees and while assessing the knowledge, skills, and health condition of elderly employees, and recommendations for improvement of situation will be provided as a result;
- support measures for maintaining of working ability and employment among the elderly employed by providing training and life-long learning opportunities, adjusting work places and introducing flexible employment forms, as well as fostering the inter-generational transfer of skills.

On 2 August 2016, CM adopted *Regulations for Implementation of Operational Programme Growth and Employment Specific Support Objective 7.3.2 To Prolong Preservation of Capacity for Labour and Employment of Elderly Employees*, and cooperation agreements for implementation of measures are currently prepared. The practical implementation of measures will be initiated in the 3<sup>rd</sup> quarter of 2017.

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

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

- In 2016, an ESF project was launched to introduce the pre-emptive redeployment measures in labour market. Within this project, improvement of short-term labour market forecast method is intended in order to expand access to information on labour market for society and policy makers, as well as to create a simple and user-friendly e-environment tool showing the outlook on labour market demand and supply;
- In 2016, SEA updated its customer service standards, including rules for circulation of complaints and praises, providing for a joint understanding and action upon receiving a complaint, praise, or recommendation, thereby raising the quality of services, and gathering of information and analysis for a pro-active SEA action. Also, SEA prepared a document where information on service quality, principles, and requirements towards customers is included in a way that is understandable to customers.
- In order to use SEA resources more efficiently and ensure customer convenience, including fostering use of e-services, a *Customer Service Channel Strategy* has been developed defining the service provision and information exchange channels and instruments, and strategy of their use in cooperation with customers, thereby ensuring a customer-oriented approach and a more efficient working process. The capacity of Call Centre has been improved providing the customers with opportunity to receive those SEA services that are available via phone service channel 24 h;
- Development of e-services was continued (SEA provides 34 e-services), as well as improvement of information systems in cooperation with the involved institutions in order to improve the data quality, exchange of information among various governmental institutions, to reduce the administrative burden for SEA cooperation partners and customers;
- Career consultation provision process has been improved, including development of methodological recommendations for consulting imprisoned persons and persons with mental disorders. Career consultant training on the current trends in economics have been organized in cooperation with ECL and sectoral representatives.

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

The aim is to provide support for business start-ups and micro-enterprises in order to promote the establishment and development of new competitive micro-, small, and medium-sized enterprises

by supporting business incubators, organising training of young entrepreneurs and issuing loans and grants, as well as promoting non-agricultural entrepreneurship or employment in rural territories.

In order to promote the establishment and development of new micro-enterprises, a regulatory framework for promoting support activities for micro-enterprises was implemented in 2010. In recent years, significant amendments to the *Micro-Enterprise Tax Law* have been made, including amendments adopted by Saeima on 20 December 2016 providing that micro-enterprise tax rate starting from 1 January 2017 will be 12% provided that turnover is below or equal to 7000 EUR, while the rate would be 15%, if turnover is between 7000.01 and 100 000 EUR.

In order to continue to settle the tax regime for small and micro-enterprises, CM shall submit in Saeima by 1 June 2017 a bill providing for a new specialized and simplified tax regulation for small and micro-enterprises replacing the existing micro-enterprise tax regime.

In order to promote establishment of start-ups in Latvia, thereby fostering development of innovative commercial activity and research in private sector, as well as commercialization of research, *Law On Aid for the Activities of Start-up Companies* entered into force on 1 January 2017. This law is intended for start-up – capital companies possessing a high growth potential and whose main economic activity is related to design, production of development of scalable business models and innovative products; This law provides for aid programme for making the fixed payment with an additional opportunity to receive personal income tax and corporate income tax relief, as well as for aid programme allowing to attract highly-qualified employees with additional opportunity to apply the corporate income tax relief.

In order to facilitate establishment and development of new viable and competitive merchants in the Latvian regions, in 2016 a new business incubator programme was launched forming 15 business incubator units (8 national level development centres in municipalities, 6 regional level development centres in municipalities, and 1 creative industry business incubator in Riga). On 1 December 2016, accepting the applications for admission in one of the business incubators was started. During the 1st quarter of 2017, signing of agreements for aid has been initiated. The total planned funding during the programme implementation stage lasting until 31 December 2023, is 32.8 million EUR (25.8 million EUR to regional business incubators; 7.1 million EUR to creative industry incubator, including ERDF funding – 27.9 million EUR, and state budget funding – 5 million EUR).

Unemployed persons expressing a wish to start a commercial activity or be self-employed may receive both consultations and financial aid for implementation of their business plan. In 2015 within the ALMP measures, in total 157 persons, including 87 youths, received aid for start-up of business or self-employment (funding consists of 0.5 million EUR, including 0.3 million EUR state budget funding and 0.2 million EUR ESF funding). In 2016 within the ALMP measures, in total 433 persons, including 194 youths, received aid for start-up of business or self-employment (funding consists of 0.7 million EUR, including 0.3 million EUR ESF resources, and 0.4 million EUR state budget funding). Support measures for start-up of business activity or self-employment of the unemployed are aimed at establishment of small enterprises and starting self-employment taking into consideration the target group and the small volume of financial aid allocated for implementation of business plans.

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

In May 2012, the CM approved the *Regulations on the Lending Programme for the Purchase of Agricultural Land*. Within this programme, each borrower will have access to loans of up to 430 000 EUR for purchase of agricultural land to be used for production of agricultural products. By the end of 2016, within the programme, 1117 loans had been granted in the total amount of 56.2 million EUR. Taking into account the increasing activity of farmers, the financing for loans in 2016 was further increased from 40 million EUR to 70 million EUR.

### 3.4. EDUCATION

#### 3.4.1. Preschool Education

The target set for the preschool education sector is to ensure that at least 95% children (aged 3 up to mandatory school age) are involved in preschool education by 2020. In 2015, the rate was 95% in Latvia (in 2014 – 94%).

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

##### The main policy directions and measures:

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

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

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

After expiration of this deadline, municipalities are obligated to cover the costs of preschool education institutions corresponding to the necessary average costs per one student in a preschool education institution in the respective municipality, if a child cannot be guaranteed a place in the municipal kindergarten. Since 2016, a single *method and procedure for assessment of costs* is in force in order to ensure a transparent and similar approach.

#### 3.4.2. General Education

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

Table 4

Trajectory for decreasing the share of early school leavers

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2020
The youth having elementary or lower education level and of those who are no longer at school	15.5	14.3	12.9	11.6	10.6	9.8	8.5	9.9	10.0	13.4 (10)

Data source: CSB

Regional differences can be observed when analysing data on early school leavers: in 2016, there were 15.5% early school leavers aged 18-24 in rural areas (13.1% in 2015), while the rate is 6.8% – in cities and towns (8% in 2014). Differences in terms of gender still remain – the share of early school leavers among girls constituted about 6.2% in 2016 (6.2% in 2014), while the share among boys was 13.7% (13.4% in 2015).

### The main policy directions and measures:

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

The state has established a single procedure stipulating how an educational institution should inform parents, the local government or public authorities if a pupil is absent from the educational institution without a justified reason, and records of children at the mandatory education age who are not registered with any educational institution are being kept. An improvement to this record-keeping system has been made in 2016, and gathering information on 5 and 6 years old children who are not registered with educational institutions has been launched.

The number of unregistered children in the academic year 2016/2017 is 19 000 children, including 17 300 children between ages 7 and 18. Children who according to municipal data have left the country form the majority of them (14 800). Meanwhile, municipalities have no information on in total 1300 children aged 5 to 18<sup>37</sup>.

With the support of the ESF, development and implementation of a coordinated approach to prevention of and intervention to early school leaving is planned. Within this project, individual support to risk group students will be provided, and a suitable prevention system shall be established. The implementation of this project is planned for 2017, however, preparatory works have been commenced already in 2016. Total indicative funding planned is 39.81 million EUR, including ESF funding – 33.84 million EUR.

In order to provide each pupil with a quality education, identification of work to be done to organize the general education establishment network has been commenced. A sustainable school network will be created by ensuring a complex approach to reform.

Starting from September 2016, a new model for calculation of teachers' wages has been introduced. The model provides for raise in teachers' wages, while stimulating increase in the level of teachers' work quality and ensuring an efficient use of financial resources. In 2016, additional 9 million EUR were allocated in state budget for teachers' wages, while the subsequent years will receive 27 million EUR. The minimum remuneration for teachers has increased to 680 EUR per month per load or 13.3% per load.

Support for career development contributes to diminishing the early school leaving. In order to increase career support accessibility, the ESF project *Improving access to career support for students in general and vocational education institutions* was launched in 2016. As a result of this project, 328 general and vocational education institutions will provide career support for students by 2020. Total amount of planned funding is 23 million EUR, including ESF funding – 19.6 million EUR.

The number of teachers – career consultants in the general and vocational education institutions increased from 54 (academic year 2012/2013) to 196 (the beginning of academic year 2016/2017). The majority of them work part-time.

Similarly as during the previous period, career development support and information events were arranged in 2016 (for example, the annual national-level event Career Week when approximately 140 thousand children and youngsters took part in more than 4500 events).

The legislative framework has been drafted to improve the network of special education support institutions. In 2016, the criteria for *special education development* centre regional coverage and for granting a centre status. Work has been commenced on development of expense model for services for be provided to special needs students.

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<sup>37</sup> Pursuant to the *Law on Local Governments*, provision of education is one of the functions for local governments, therefore, duty of the local governments is to update on a regular basis the information on reasons why children whose residence is registered with the respective municipality are not registered with the educational institution, and to take the necessary action allowing these children to continue their education.



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

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

In 2016, implementation of the ESF project Competence-Based Approach in Education Content has been launched where a new education content in general education from pre-school till 12th grade will be developed, approbated and implemented. Development of education content is currently ongoing in order to start in the academic year 2017/2018 the approbation of competence-based general education content in 100 general education establishments. Total amount of planned funding is 13.9 million EUR, including ESF funding – 11.8 million EUR.

During the academic year 2015/2016, approbation of computer science education content was carried out in the general education establishments with participation of 9084 pupils. The pilot project for approbation of the computer science during the first academic year in all the schools was successful raising interest in both pupils and teachers. Additionally, with the support from company "Accenture Latvija" 60 teachers improved with ICT skills and professional competences in 2016 for further implementation of computer science education content. Within the state budget, 247 teachers completed professional growth programmes in the ICT area, while 1117 teachers improved their ICT skills.

At the same time, implementation of two ESF measures has been launched in 2016 providing support for development of pupils' individual competences in general education establishments. Measure "Support for implementation of national and international level measures for development of students' talents" is aimed at the development of students talents contributing to higher level of students' achievements in the country in general, including providing for elaboration of methodology for teachers allowing to detect and foster the potential of high-achieving students. Meanwhile, measure "Support for development of students' individual competences" is aimed at introduction of new learning forms in education establishments developing an individual approach to acquisition of education content and as extracurricular activities. As a result of both aforementioned measures, till 2020 272 general education establishments will introduce an individual approach to development of students' competences. Total amount of planned funding is 37.6 million EUR, incl. ESF co-funding of 31.9 million EUR.

Participation in the international educational research allows to assess objectively both the students' learning outcomes and efficiency of teaching methods used. Starting from 2016, participation in international research is supported by ESF funds, for example, Latvian participation in various Organisation for Economic Co-operation and Development (hereinafter referred to as OECD) research. Total planned funding is 2.4 million EUR, including ESF funding 2 million EUR.

At the same time, work on implementation provisions for measure "Development of education quality monitoring system" was started in 2016 providing for research on education monitoring indicators and methodology, as well as development of a single indicator system for assessment of students' learning outcomes. The said studies are necessary to support planning and implementation of evidence-based education policy. Total amount of planned funding is 4.8 million EUR, including ESF funding – 4.1 million EUR.

The regulatory basis required for provision of ERDF complex support for development of general education establishment infrastructure has been prepared in 2016. Thereby, gradual implementation of the planned competence-based general education content, as well as organisation of the institutional network in accordance with the Education Development Guidelines 2014-2020, will be fostered based on municipal development strategies. In 2016, some of the municipalities have submitted their development programme investment plan project ideas for implementation of the project. Total indicative funding planned is 167.6 million EUR, incl. ESF co-funding of 142.5 million EUR used (where 4.1 million EUR are state budget over-commitment funding). As a result, it is

expected that 100-115 general education establishments will be fully modernized by 2023, and 20-25% of students will have access to a fully modernized general education learning environment.

### 3.4.3. Secondary Vocational Education

By 2020, the share of the number of students in vocational education and secondary education is planned to be changed in favour of vocational education reaching the proportion of 50/50. The methodology for assessing the share of the number of students was clarified in 2015<sup>38</sup>. In accordance with this methodology, the proportion 33.9/66.1 was reached in the academic year 2015/2016. Meanwhile, the proportion of number of students in vocational secondary education versus general secondary education is 38.2/61.8.

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

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

#### The main policy directions and measures:

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

The aim is to improve the quality of vocational education, thus ensuring its conformity with the labour market needs, as well as to foster an efficient use of available resources by streamlining and differentiating the number and regional locations of vocational education institutions. The adjustment of network of vocational education institutions has been finalised. Thus, the number of secondary vocational education institutions under the MES decreased from 60 institutions in 2010 to 24 by the end of academic year 2015/2016.

In order to optimise the number and locations of vocational education institutions in the regions, obtaining the status of a vocational education competence centre (VECC) was encouraged. In the beginning of 2017, it total 22 vocational education institutions had been granted VECC status, where 3 vocational secondary cultural education competence centres were established in vocational education institutions under MC.

Within the project “*Increasing the number of modernized vocational education institutions*”, complex support will be provided to 27 vocational education institutions, especially for modernization of VECC infrastructure. Total amount of planned funding is 104.8 million EUR, including ERDF funding of 89.1 million EUR, and state budget co-funding 15.7 million EUR.

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

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

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<sup>38</sup> The indicator in previous years included data on all students starting in the 10th grade at school or their 1st year at a vocational education institution, whereas after the review, applying the methodology of proportion, the indicator is calculated based on the data solely on students admitted to the 10th grade or the 1st year straight after a completed 9th grade. The data for academic years 2012/2013 (35.9/64.1) and 2013/2014 (35.3/64.7) were clarified by applying the new methodology.

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

Eliminating the contradiction between teaching general subjects in the general secondary or vocational secondary education, as well as putting an emphasis on teaching exact sciences in vocational education programmes, in 2016 a technical general subject direction was implemented in vocational education programmes with technically-oriented attainable results.

During the EU funds programming period 2014-2020, support will be provided for building capacity in adult education in the vocational education institutions. (*see also Chapter 3.4.5*).

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

Pursuant to the amendments to Vocational Education Law adopted by Saeima in 2015, independent cooperation mechanisms with social partners, representatives of sectors of economics, as well as employers, ensuring a direct involvement in the vocational education process.

In 2016, provisions for the said cooperation were established, including for creation and operation of sectoral expert councils, as well as procedure for organisation and implementation of work-based learning. Starting from the beginning of 2016, a collegial advisory institution – convent, is active in all of the vocational education institutions under MES. Its objective is to promote the development of vocational education institution determining the strategic directions of its operation in line with labour market requirements.

In 2016, implementation of ESF project “Efficient management of vocational education establishments and raising the staff competence, where support will be provided for building capacity of vocational education institutions improving cooperation with employers, competence of administrative and teaching staff in the context of study organisation, methodology issues, and technology development. Total planned funding is 6.49 million EUR, including ESF funding 5.52 million EUR, and state budget co-funding – 0.97 million EUR.

### 3.4.4. Higher Education

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

Table 5

Trajectory of achievement of the tertiary education target among population

	2008	2009	2010	2011	2012	2013	2014	2015	2020
Number of population having acquired tertiary education, aged 30–34, thousands	38.7	43.7	45.0	47.8	48.5	53.2	53.2	55.5	61.1
Number of population aged 30–34, thousands	147.1	143.4	138.2	133.2	130.4	130.6	133.4	134.6	178.0
Share, %	26.3	30.5	32.6	35.9	37.2	40.7	39.9	41.3	34-36

*Data source: Eurostat*

The goal set in the NRP for 2020 in relation to the share of population with higher education was reached already in 2012. In 2015, the indicator reached 41.3%.

In Latvia, the trend of reducing number of students has been observed for the 10th year already. At the beginning of the academic year 2016/2017, a total of 82 900 students were studying in higher education institutions of Latvia, which was by 2% lower than in the previous academic year. However, if compared to the academic year 2005/2006, when the number of students in Latvia reached the maximum level, the number of students has decreased by 37%. In the academic year 2016/2017, there were 34 500 students or 42% of the total number of students studying in state-funded

study positions (in the academic year 2015/2016 – 41%). While the total number of students is decreasing, the share of students in state-funded study positions is increasing every year. In 2017, based on the medium and long-term labour market forecasts, about 70% of the state-funded study positions represent national priority areas: natural sciences, engineering, health care, as well as master and doctoral studies that are important for the preparation of both new teaching staff and scientists.

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

- The low funding of higher education area compared to general education (funding per student in Latvia is among the lowest in EU limiting the opportunities to ensure quality and international competitiveness);
- A targeted funding has not been allocated to the increased number of graduates in the STEM areas envisaged in the policy planning documents, hence, a gradual and limited relocation from state-funded study positions from other study areas is possible;
- Competition with Nordic countries most of which offer free higher education to all EU citizens and, in contradiction to the demographic trends, provide own labour markets with qualified labour force. For example, Estonia has switched entirely to a state-funded higher education, while 42% of students in Latvia in 2016 were studying in state-funded positions, while 58% of students were paying tuition fee.

The main policy directions and measures:

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

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

On 29 June 2015, the CM approved the conceptual report *Implementation of New Financing Model of Higher Education in Latvia*. A three-pillar financing model has been proposed as the most suitable solution for the socio-economic situation of Latvia with the following central elements: 1) key financing (institutional financing to ensure the study process and research); 2) achievement-based financing (the financing that is allocated for reaching the study and research results), and 3) innovation financing (future development-oriented financing that promotes specialisation of institutions and profile development). Total amount of achievement funding paid to higher education institutions in 2016 constitutes 6.5 million EUR.

MES is continuing improvement of study place allocation procedure, promoting resource-efficiency in budget resource planning. Budget funding is allocated to programmes having the minimum total number of students – at least 15 in Master's programmes and at least 30 in Bachelor's programmes (in all courses combined). Exceptions are permissible for new study programmes or programmes to be closed, or for unique study programmes in national or regional context. When allocating the state-funded study places, MES carries out an analysis of results achieved during the previous period based on MES annual agreement with each higher education institution.

Allocation of study places across education thematic groups is also affected by changes. STEM areas are a priority. Funding from study places left unfilled, as well as from reduced number of study places in other areas, will be allocated to STEM area budget places as a matter of priority in accordance with the opinion expressed by sectoral associations.

In 2016, amendments to *Law On Institutions of Higher Education* were adopted stipulating that the register of students and graduates is a part of State Education Information System containing data on personal level on students with the higher education institution programmes, as well as depersonified data on graduates' employment. Currently, the relevant CM Regulations are elaborated in order to launch a nation-wide storage of statistical data on students and graduates. Provisions on exchange of personified student data among higher education institutions and MES will be included in the CM Regulations, and a cooperation between SRS and SEA on researching employment of the graduates, thereby ensuring a targeted higher education funding and informed choice of study programme based on actual labour market situation.

In 2016, planning of development financing from EU structural funds has been initiated. Support is ensured for post-doctoral research and practical research (*see Chapter 3.2.3 on Potential Development of Scientific Activity*). Structural fund programmes are currently being prepared to secure investments in improvement of higher education institution management by June 2017, and development of academic staff capacity and competence by November 2017. Implementation of projects in these programmes is planned for 2018.

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

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

In 2016, the crediting of student and study loans from assets of credit institutions with a state warranty was ensured according to demand. In total, 308 agreements on granting student loans were signed in 2016 for the total amount of 1.5 million EUR, as well as 1509 agreements on granting study loans for the total amount of 7.5 million EUR. Study and student loans were granted also to those studying abroad, thereby ensuring Latvian students accessibility of education also abroad.

In January 2016, CM adopted amendments to *Regulations on Scholarships* providing, among other things, one-time scholarships for students' social needs. In 2017, improvement of students' support system is planned, and currently a discussion is ongoing on clarification of loan redemption provisions for certain professions and increase in budget resources. In order to ensure an efficient and qualitative study and student loan granting system reducing the administrative burden for loan takers, work will be continued on improvement of regulation for state guarantees for study and student loans from the means of credit institutions.

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

The policy direction is oriented towards the improvement of a quality assessment system of higher education and creation of provisions for the establishment of a national quality assessment agency and its registration at the *European Quality Assurance Register for Higher Education* or EQAR register. The intention is to submit the application for admission of accreditation agency to EQAR by 31 October 2018.

In March 2016, implementation of AIC project *Support for Fulfilment of Requirements to the Agency Set by ERAQ* was launched. Project envisages implementation by 2019 in Latvia of a higher education quality assurance system in compliance with the standards and guidelines accepted in the European higher education area. Project is implemented in cooperation with the Council Of Higher Education, Lithuanian Higher Education Quality Assurance Centre (EQAR registered), as well as 12 higher education institutions. In 2016, implementation of pilot accreditation of the higher education institution involved in the project, informational seminars were organized for the higher education institutions both on the course of pilot accreditation implementation and on issues of external and internal quality assurance, and an accreditation agency development strategy project, as well as proposals for amendments to Latvian legislative acts, were prepared. At the same time, work on higher education quality monitoring system concept development is ongoing. Total planned funding is 1.5 million EUR, incl. ESF co-funding of 1.27 million EUR.

The next comprehensive accreditation stage is planned for 2019.

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

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

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

In August 2016, CM approved the implementation regulations for programmes Increasing the number of modernized STEM, including medicine and creative industries, study programmes and Improving the first-level vocational higher education STEM, including medicine and creative industries, study environment in colleges. In accordance with regulations, higher education institutions have submitted to MES, as well as the relevant sectoral ministries, their development strategies<sup>39</sup>, and assessment of these development strategies has been launched. The implementation of this project will be initiated in the 3<sup>rd</sup> quarter of 2017.

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

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

In 2016-2017, a research is being carried out in cooperation with the WB on higher education management improvement for development of content and implementation regulations of the EU funds. In 2017, based on this research World Bank experts will prepare recommendations of improvement of both aforementioned areas. Recommendations will also be used in planning the EU fund contribution to ensure a better management in higher education institutions. By concentrating the material and intellectual resources, a support is intended for elaboration of higher education institution development strategies, improvement and implementation of external recommendation assessment, activities of study direction councils, incl., support for restructuring of studies and renewal of study content, improving efficiency of higher education institution internal quality assurance systems in accordance with quality assurance standards and guidelines in European higher education space, supporting development of e-solutions, incl., inter-institutional cooperation solutions. Total planned funding is 20 million EUR, incl. ESF co-funding of 17 million EUR.

With the support from EU funds, the fragmentation of study programmes shall be reduced and shared use of resources strengthened, financially supporting the development, approbation, and accreditation of joint doctoral study programmes, as well as programmes in EU languages, including, covering the costs of accreditation in international professional organizations. Costs related to international publicity of study programmes developed and accredited shall also be covered. Total amount of planned funding is 10.8 million EUR, incl. ESF co-funding of 9.2 million EUR. The initial assessment will be carried out prior to June 2017 and used in elaboration of implementation regulations.

At the same time, in order to ensure a qualitative and competitive higher education, during EU funds programming period 2014-2020 strengthening of strategic specialization of higher education institution academic staff is planned. A support will be provided for improvement of competences and skills of the academic staff, as well as attracting young lecturers (PhD students) and foreign lecturers to work in the higher education institutions. Total amount of planned funding is 34.3 million EUR, incl. ESF co-funding of 29.2 million EUR.

Implementation of higher education institution projects shall start in the first half of 2018.

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<sup>39</sup> The coordination of higher education institution development strategy with MES and sectoral ministry (if applicable) is a precondition for submission of project application in the cooperation authority.

On 28 March 2017, CM supported MES proposal to join the Riga Teacher Training and Educational Management Academy to the University of Latvia, as one of the measures for resource consolidation, spatial concentration of materially technical base and reduction of study programme fragmentation in the area of pedagogy studies.

- ***Internationalization of the higher education*** (responsible institution – the MES)

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

At the beginning of the academic year 2016/2017, there were 8137 foreign students from 108 countries studying in higher education institutions of Latvia constituting 10% of the total number of students. This marks an increase by 26% or 1672 students compared to the previous academic year. Most of the foreign students are from Germany (15% of the total number of foreign students), Uzbekistan (13%), and India (9%).

12 accredited joint study programmes were implemented in 2016 in Latvian higher education institutions in cooperation with foreign higher education institutions (including higher education institutions in Lithuania, Estonia, Spain, Austria and the Netherlands) in the areas of international business and export management, management of technologies and innovations, innovative engineering of roads and bridges, strategic border management, etc.

The goal in Latvia is to increase the share of foreign teaching staff from 0.5% in 2012 to 7% in 2020. During the academic year of 2016/2017, there were 244 foreign guest professors, assistant professors and lecturers working in the Latvian higher education institutions, constituting 4% of the total number of academic staff.

In order to attract foreign teaching staff, a range of support measures for higher education institutions, including support for development of programmes in the official EU languages, support of post-doctoral studies and the above mentioned thematic doctoral study centres, are being planned.

Starting from 2015, a new activity is available within the programme *Erasmus+*, *The International Student and Staff Mobility*, within the external instruments. This activity provides for student international study mobility for a period from 3 to 12 months and mobility of higher education institution academic and general staff for a period from five days to two months. In order to ensure equal access and conditions among the mobility activities in higher education, state budget co-financing will be provided for the international student and staff mobility in the amount of 20% of the total activity funding. State budget co-financing in 2016 amounted to 361 200 EUR, while in 2017 – 350 700 EUR. The EU budget allocation for higher education available to Latvia within the framework of the *Erasmus+* student mobility was 5.6 million EUR in 2016, while allocation for staff mobility – 415 800 EUR. In EC work programme 2017, the EU budget allocation for higher education available to Latvia within the framework of the *Erasmus+* student and staff mobility is almost 7 million EUR.

In 2016, measures for promoting higher education exportability and recognition of Latvian higher education were continued, incl. maintenance of the website [www.studyinlatvia.eu](http://www.studyinlatvia.eu) and [www.studyinlatvia.lv](http://www.studyinlatvia.lv) informing potential foreign students about the study programmes, Latvian culture and education system. The website is linked to social networks, where students can ask questions of their interest and receive information about education opportunities in Latvia.

### **3.4.5. Life-long Learning**

The aim is to ensure that 15% of the population (aged 25-64) would be continuously involved in the learning process by 2020 (7.3% in 2016). In 2016, the share of population participating in adult education increased by 1.6 percentage points compared to 2015.

Table 6

## Participation of people aged 25–64 in the education process

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2020
Share, %	6.9	5.6	5.4	5.4	7.2	6.8	5.6	5.7	7.3	15.0

Data source: CSB

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

The main policy directions and measures:

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

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

Considering that coordination of adult education system required a new and efficient management model focused on transparent and harmonised system operation in order to prevent the fragmentation of adult education, lack of harmonised action in separate institutions, as well as lack of information that is necessary for assessment of overall situation, and to establish an efficient adult education system, in 2016, the *Adult Education Management Model Implementation Plan for 2016-2020*<sup>40</sup> was developed and approved. The goal of the plan is to ensure accessibility of education and quality for residents irrespective of their age, sex, prior education, place of residence, income level, ethnic affiliation, functional disorders, and other factors. It clearly marks the areas of responsibility and interaction of sectoral policy, dividing the ministry functions among MES, ME, and MoW.

MES is responsible for raising the qualification and of re-qualification of the employed, MoW monitors return of unemployed in the labour market according to short-term labour market forecasts and work with persons exposed to the risk of social exclusion, refugees and persons holding the alternative status, while ME carries out labour market analysis and prepares medium-term and long-term labour market forecasts.

An inter-sectoral consultative institution – *Adult Education Management Council*, is established to carry out coordination of the plan and monitor the implementation, and it consists of representatives from ministries involved in adult education and other organizations, as well as representatives from social and cooperation partners.

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

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

In 2016, situation assessment on previous development of LQF was made. In 2017, work on a new self-assessment report will be launched with the aim to submit it to EC in 2018.

In 2016, various events were arranged, and CEDEFOP, etc. publication translations were distributed electronically in order to inform the involved parties on LQF and EQF.

<sup>40</sup> CM Regulation No. 287 of 5 May 2016 *On Adult Education Management Model Implementation Plan 2016 –2020*.



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

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

In 2016, 24 education institutions were delegated to evaluate professional competence obtained outside the formal education system. From 2011 until the end of 2016, close to 4000 professional qualification certificates (including 11 000 certificates in 2016 alone) were issued as a result of evaluation of professional competence that had been obtained outside the formal education system.

- ***Supporting improvement of employee qualifications*** (responsible institutions – the ME, the MoW, the MES)

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

In 2017, implementation of ESF project *Improving the Professional Competence of Employed* was started. Within this project, persons (at least 25 years old) upon their request received support for improvement of their professional qualifications and competences, including provision of career consultant services. In cooperation with the municipalities, a basis for joint and sustainable adult education support system will be created. The project will extend to more than 38 000 persons, primarily providing support to employed persons from social risk groups. In the 1st quarter of 2017, study offer and study needs are being gathered and development of information system for adult education implementation support is being prepared. Total planned project funding is 27 million EUR, including ESF funding – 23 million EUR, and state budget co-funding – 4 million EUR.

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

- *Support for employed learning.* Support is provided for learning provided to persons employed with a merchant. The aim of this measure is to provide the merchants with labour force holding the relevant qualification, thus contributing to increase in productivity and development and putting into production of new or improved products and technologies. On 24 March 2016, selection of project applications was concluded, and 10 projects implemented by the largest sectoral associations were approved. Total ERDF funding within the programme is 18 million EUR;
- *Support for ICT and non-technology learning, as well as learning aimed at attracting investors* The measure is developed with the aim to increase the productivity and work efficiency of self-employed persons, as well as micro, small, medium, and large merchants, by raising the employees' qualifications and skills in information and communication technology areas, to provide merchants with employees holding the relevant qualification, promoting introduction of non-technological innovations in merchants, as well as to provide support for learning thereby attracting investments in the country. In a limited project application selection conducted in 2016, LCCI, LICTA, and IDAL were selected to ensure a successful implementation of the programme. Total ERDF funding within the programme is 6.9 million EUR.

### ***3.5. FIGHTING POVERTY, DEMOGRAPHICS CHALLENGES AND HEALTH PROTECTION***

#### **3.5.1. Reducing the Poverty Level**

The target of the NRP is to reduce the number of persons at the risk of poverty and/or of those living in households with low work intensity by 121 000 or 21% by 2020. Taking into account the medium-term macroeconomic development scenario, the expected increase in employment and decrease in unemployment, as well as the fact that the increase in employment and income from

wages for households has a direct impact on the reduction of the poverty risk, it can be assumed that the poverty target for 2020 will be achieved.

Table 7

The trajectory of achievement of the poverty reduction target

	2008	2009	2010	2011	2012	2013	2014	2015	2020
Share of people at-risk-of-poverty (%)	26.4	20.9	19.0	19.2	19.4	21.2	22.5	21.8	21.0 (or preventing the poverty risk for 121 000 people)
Share of persons at-risk-of-poverty and/or persons living in households with low work intensity (%)	27.3	23.6	22.1	21.9	21.8	23.1	23.9	23.1	
The number of persons at-risk-of-poverty and/or persons living in households with low work intensity (thousand)	583	495	454	441	434	456	467	449	

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

*Data source: CSB*

If until 2013, there was a steady development towards the target set in the NRP, i.e., to reduce the number of persons subject to risk of poverty and/or living in low work intensity households, a slight deviation and worsening of indicators has been observed starting from 2013. Changes in objective achievement indicators, the common trend of development of monetary poverty and income inequality indicators in 2015 points to a gradual improvement of the situation. In 2015, the number of people subject to risk of poverty was 424 000 or 21.8% of population – decrease by 0.7 percentage points compared to 2014.

In the time period from 2012, a steady raise in income can be observed in all households. In 2015, compared to 2014, the biggest increase in income by 10.6% was observed in the most deprived or 1st quintile group households, while the average increase in income in the country was 7.6 per cent in the year.

The share of population exposed to a deep material insecurity has decreased – from 16.4% in 2015 to 12.8% in 2016. The situation has been gradually improving since 2011, and the poverty risk has been reduced for households with the main income from paid work, as well as for families with children. The share of children exposed to the risk of poverty has reduced by 4.6 percentage points reaching 18.6 per cent in 2015.

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

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

Compared with other EU countries, Latvia has a high income inequality, however, in 2015, the inequality indicators in Latvia have improved significantly. The Gini index was 34.5% in 2015, which is 0.9 percentage points down compared to 2014. The income of the 20% of wealthiest part of

population was 6.2 times higher than that of 20% of the poorest part of population (in 2014 – 6.5 times).

In five years, the share of social transfers in disposable income of households has diminished by 8.1 percentage points – from 32.4% in 2010 to 24.3% in 2015. Meanwhile, the share of income from paid work has increased from 63.7% in 2010 to 70.4% in 2015.

The most important measures implemented in 2016 and planned for 2017 are aimed at reduction of labour tax burden, increase of income for employed persons with low income and families with children, improvement of material support for persons of retirement age and improvement of services for population groups exposed to poverty and social exclusion, improvement of support for persons with disability and working ability assessment system.

*Law on Medium-Term Budget Framework for 2016, 2017, and 2018* and *Law on Medium-Term Budget Framework for 2017, 2018, and 2019* stipulate reduction of citizens' income inequality as one of the budget priorities, gradually raising the minimum wage and introducing the progressive non-taxable minimum income of the PIT. In 2017, the minimum monthly wage was increased from 370 to 380 EUR. Within the budget priorities, the CM supported measures for development of alternative family care forms, one parent family support, and support for large families with 4 or more children.

In 2015, the *Professional Social Work Development in Municipalities* was launched with ESF co-funding. Total planned project funding is 8.5 million EUR, including ESF resources – 7.2 million EUR. Within this project 2000 social work specialist will raise their competence, methodology for social work with different client target groups will be developed, cooperation between institutions and individuals will be improved, and social work in the community will be developed. In the 3<sup>rd</sup> quarter of 2016, the number of social work specialists involved reached approximately 900 persons in 92 municipalities.

In 2015, the regulatory framework was established allowing to develop with ESF support community-based services, as well as implement de-institutionalization (DI), promoting an increase in the numbers of foster families, custodians, and adoptive parents. DI projects are implemented in all the regions of Latvia with participation of 115 municipalities. Within the project, as assessment of individual needs and development of support plan for children in extra-familial care and children with functional disorders who have been diagnosed disability and who are living in families, and for adults with mental disorders. Development of DI projects in the regions will be completed in 2017. Likewise, with the ESF support, until 2021 a social services support system will be improved where a community-based social services funding and support person services implementation mechanisms will be developed and tested. Testing of funding mechanisms for provision of community-based services to children with functional disorders and adults with mental disorders is planned as a part of this project. 300 persons with mental disorders and children with functional disorders will be involved in the practical testing. In 2016, government adopted a legislative framework providing for a procedure in which Latvian municipalities in the period from 2018 until the end of 2022 will be able to create an infrastructure for new community-based social services within the DI project with ERDF co-funding.

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

For the support of the most deprived persons in Latvia, in the programming period 2014-2020, there will be 48.2 million EUR used, including 41 million EUR from *Fund for European Aid to the Most Deprived* (hereinafter referred to as FEAD) funding. With the FEAD support, in 2016 in total 66 400 needy persons received food product sets, 20 400 families with children received hygiene and household goods, 12 thousand pupils from needy families received school supplies kits, while 2400 needy persons were provided prepared meals. In 2016, FEAD allowed to ensure 1873 additional measures for reduction of social exclusion and solving a person's social problems independently.

10,800 persons participated in them. In 2017, with a support from FEAD, distribution of additional food and hygiene product sets for infants and small children below the age of 2 will be launched.

The main policy directions and measures:

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

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

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

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

To raise the level of income of the pensioners, amendments to the regulatory framework have been made providing for application of 50% of average insurance contribution wage increase starting from 2017. At the same time work on further steps to raise the pensions is ongoing in Saeima to ensure a more rapid increase in the amount of pension for pensioners having a larger length of service and low pensions. Amendments to the *Law on State Pensions* will be adopted by June 2017 and enter into force on 2018.

From 1 January 2016, the tax relief for dependent persons has been increased from EUR 165 to EUR 175. Meanwhile, persons of a legal age and able-bodied persons have been removed from the list of persons eligible to receive allowance for dependent persons (except children under age of 24 engaged in studies (general, vocational, higher or special education) and disabled persons or unemployed spouse (entered into force on 1 January 2017) taking care of a minor child with a disability).

From 1 January 2016 until 2020, a differentiated non-taxable minimum will be gradually introduced and will be applied depending on the total income. During the transitional period for introduction of non-taxable minimum from 2016-2019, two types of non-taxable minimum will be applied simultaneously – monthly and yearly. Only starting from 2020, the monthly non-taxable minimum will no longer be applied, while yearly non-taxable minimum will be reimbursed based on income declarations submitted in 2021. By introducing the differentiated non-taxable minimum, the tax wedge indicator for a worker with no dependable persons and receiving 67% of average wage will decrease from 41.7% in 2015 to 39.6% in 2021.

In 2017, medium-term Fiscal Policy Guidelines are being elaborated, and measures significantly reducing labour tax burden, especially for low-wage recipients, will be included therein.

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

To foster the return or inclusion of the persons at the risk of poverty or social exclusion to the labour market, ALMP measures were implemented for these groups of population providing jobs co-financed by the state. In total, 731 subsidized work places were created in 2016, including 135 work places for unemployed persons with disability. In 2016, the funding used to ensure the subsidized work places for unemployed amounted to 3.76 million EUR. In 2016, in total 1356 persons received support.

From 2015 until the end of 2019, within the ESF co-financed measure *Professional Rehabilitation* following steps shall be developed and implemented: a) professional rehabilitation

programmes (including improved assessment of professional suitability of persons with a disability of Group I or II by setting new criteria, methods and instruments for evaluation of a person's health condition, motivation, work capacity, skills and abilities necessary in labour market); b) skill certification system, including skill descriptions and skill training programmes, improvement of system for professional suitability assessment for person with mental disorders by setting criteria, methods and instruments for evaluation of a person's motivation, work capacity, health condition, skills and abilities necessary in labour market. Within this project in 2016, a study was carried out identifying professions where the employer would be prepared to delegate tasks to persons with a disability and mental disorders, as well as skills required in labour market. Based on results of the study, 5 new vocational education programmes in line with the labour market requirements will be developed and implemented for persons with a serious disability. In the beginning of 2017, identification of target groups was launched in cooperation with municipal social services and non-governmental organisations, commencing also their notification on possibilities to participate in vocational education and skills training programmes implemented within this project. Total funding for implementation of the measure is 1.25 million EUR, incl. ESF co-funding of 1.06 million EUR. By the end of 2022, it is intended to ensure provision of professional rehabilitation services to 100 disadvantaged persons.

In order to improve the accessibility of services provided by SEA to persons with a disability, in August 2016 a delegation agreement was signed with the Latvian Association of the Deaf on provision of sign language interpreters during active employment measures. Since conclusion of this agreement, upon request from the unemployed the sign language interpreter service has been provided to 5 unemployed persons in the amount of 641 hours, out of which 497 were contact hours.

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

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

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

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

With the support from European Commission, in 2016 the project *Platform I for Latvian Roma People: Dialogue, Cooperation, and Involvement*, whose task is to promote a cooperation and dialogue between Roma civic society, representatives from state and municipal authorities, and social partners to ensure a more extensive and efficient engagement of involved persons and a better coordination of Roma integration policy package, as well as implementation thereof on a national, regional and local level. Total planned funding of the project is 44 600 EUR, where 42 300 EUR are EU funding.

To foster integration and participation of the civic society in the implementation of the policy, support from the national budget within the open project tender is provided on a regular basis to the

NGO projects for ethnic minorities, including Roma people, thereby building their capacity and facilitating mutual cooperation, as well as cooperation with the local municipalities. In 2016, the funding available in each planning region constituted 32 000 EUR, and in total 78 different NGO projects were implemented.

In 2016, the project Promoting Diversity (Preventing Discrimination) was launched. Measures aimed at preventing discrimination and promoting social inclusion will be provided to the groups of persons subject to risks of social exclusion and discrimination, including Roma people. Likewise, it is intended to provide measures for raising awareness and tolerance among employers and their employees, services of social worker and social mentor for the asylum seekers and persons holding refugee or alternative status, as well as measures for raising awareness in the society on issues of promoting social inclusion and prevention of discrimination. In 2016, in total 342 asylum seekers and persons holding refugee or alternative status received social support from a social worker and social mentor. Social support was provided to 58 families and 64 individuals. As of February 2017, 43 persons holding refugee or alternative status had been registered with the SEA, and 25 of these persons have lost the unemployed status (4 persons found jobs, while 21 persons failed to perform the duties of unemployed) and 18 persons are still registered. Also in the future, it is intended to involve persons holding refugee or alternative status and registered as unemployed in teaching Latvian without the use of intermediary language, and to continue individual work with employers who may be able to offer a job suitable for persons holding refugee or alternative status. Within the diversity promoting project, a research and profiling of needs of persons exposed to risks of social exclusion and discrimination in order to determine the most targeted support for a more successful integration in the community, involvement in employment, education of acquisition of a qualification. Total funding for implementation of the activities is 6.8 million EUR, incl. ESF co-funding – 5.8 million EUR.

### **3.5.2. Demographic Challenges and Health Protection**

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

Tackling demographic issues has been one of the urgent issues on the political agenda over the recent years. An assessment of social protection expenses, especially in division of functions, carried out in compliance with ESSPROS methodology confirms the positive impact of policy measures for families with children implemented in the recent years. In accordance with the preliminary data provided by CSB, the biggest increase in expenses in 2015 was support for families with children – an increase of 24.1% compared to 2014, while total expenditure for social protection increased by 5.9% in comparison with 2014. Additional 19 million EUR are allocation for demographics measures in the state budget for 2017, providing a special support for families most exposed to the risks of poverty and social exclusion (large families, one-parent families).

Positive and sustainable change of demographic situation in Latvia has been placed among the government priorities. Hence, in order to develop and submit proposals for improvement of support measures for popular reproduction, an inter-institutional cooperation platform “Centre for Demographic Matters” (CDM) was established. This cooperation platform is composed of a Saeima representative, representatives from ministries, experts on social matters and demographics, and operation of this platform so far can be considered as an example of a successful inter-institutional cooperation. Upon commencement of operation in April 2016, representatives of CDM analysed the social and family policy instruments and identified the areas where operational action is required for improvement of family living quality or for a systemic adjustment of regulatory framework.

### The main policy directions and measures:

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

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

- In order to diminish the poverty of incomplete families and ensure an equal social security to all children, starting from 1 April 2017, state minimum support to children who have lost the breadwinner closing in on minimum maintenance amount guaranteed by the state in the event when one of the parents fails to perform his/her duties and fails to ensure the required child maintenance, and stating the minimum amount for children below the age of 7 as 92.5 EUR (a child disable since childhood – 106.72 EUR), while starting from the age of 7 – 111 EUR, The approximate number of children affected by these amendments, is 9 200. Additional state budget funding allocated – 4 million EUR.
- Starting from 1 January 2017, state family benefit for the 4<sup>th</sup> child and subsequent children has been raised to 50.07 EUR monthly replacing the existing benefit of 34.14 EUR. The approximate number of children affected by the amendments to benefits is 19 400 (ca. 6% of all the state family benefit recipients). Additional state budget funding allocated for increase of benefit – 3.5 million EUR;
- Increased social insurance mandatory contributions for parents on a parental leave (with a child below the age of 1.5 y) in the event of old-age pension, disability or unemployment (contributions starting from 171 EUR);
- Increased state material support for adoptive parents, foster families and guardians by allocating additional 4.9 million EUR for development of alternative family care forms;
- Starting from 1 January 2017, PIT reduction for a dependent person will be extended to an unemployed spouse taking care of a minor who in accordance with the legislative acts is recognized as a person with disability, provided that the unemployed spouse does not receive non-taxable income or state pension;
- Starting from 1 July 2017, discounts on tickets in intercity public transport will be granted to large families by allocating additional 1.7 million EUR;
- Since 2015, the state provides support for families with children buying their first home in the form of guarantee that is issued and managed by the SJSC Latvian Development Financial Institution Altum. In 2016, additional funding in the amount of 4.8 million EUR has been found, and in total so far 7.5 million EUR have been allocated to provision of the support programme, and, as a result, in total 4143 families have received support for buying a home in the period from launching the programme. Funding for 2017 will reach approximately 6 million EUR, allowing to issue guaranties for additional ca. 3600 families with children.

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

- Payment of maintenance allowance until the person reaches the age of 21, if he/she continues basic, secondary, vocational or special education in Latvia.
- Launching maintenance allowance payments from Maintenance Guarantee Fund (MGF) – within 3 months as opposed to the current term of 9 months. If not dispute exists between parents, the CM determined minimum maintenance allowance will be granted in administrative proceedings by turning straight to the Administration of Maintenance Guarantee Fund (AMGF).
- Possibility for maintenance allowance debtors to make the maintenance payments at least within their means. Should the maintenance allowance be paid in administrative

proceedings and debtor fails to provide the minimum maintenance allowance in full amount, the debtor shall have the possibility to enter an agreement with AMGF on making the payments.

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

In the future, information on debtors will be publicly available in the portal [www.latvija.lv](http://www.latvija.lv). Information on the debtor will only be accessible with the debtor's personal ID number.

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

A steady trend of reduced infant mortality indicators is observed. In 2001, infant mortality rate for 11.1 on 1000 born alive, while in 2015 the number had reduced to 4.1. The average life expectancy at birth in Latvia has increased over the past 10 years; however, it is still among the lowest in the EU – in 2015, the average life expectancy at birth in Latvia was 74.8 years (average expectancy in the EU – 80.6). 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 2.1 years for women, reaching 55.3, while 0.7 years for men, reaching 51.5 years, in 2014 compared to 2005. The main causes of the years of potential life lost (hereinafter – YPLL) are external causes (mostly suicides and traffic accidents), diseases of the cardiovascular system and malignant tumours.

Table 8

Trajectory of achievement of the years of potential life lost target

	2008	2009	2010	2011	2012	2013	2014	2015	2020
YPLL per 100 thousand people (aged up to 64 years)	7387	6899	6479	6140	5972	5924	5798	5541*	5300**

Data source: CSB

\* Data source: CDPC (Centre for Disease Prevention and Control)

\*\*An objective defined in National Development Plan 2014-2020 and Public Health Guidelines 2014-2020

The analysis of the YPLL dynamics for the period of 2008–2015 shows that the YPLL target for 2020 will be achieved, if the current trends remain unchanged and the necessary investments in public health are made in the coming years.

Health care accessibility has long been one of the main health care system problems caused by the low state funding and large patient direct charges. A significant indicator for 2015 and 2016 compared to 2014, is decrease by 4.2 percentage points in share of population needing examination or medical treatment with a medical specialist (except for dentists) and failing to do so due to financial reasons distance or waiting time, by 12.5% and 8.3% respectively.

In order to improve the quality and accessibility of health care services for Latvian residents, implementation of health care reform is launched.

#### The main policy directions and measures:

- **Health care funding model, health care basket of services, rates and service accessibility** (responsible institution – MoH)

The aim of the health care reform is to increase the number of healthy life years among the population and to ensure the required human resources in health care system by improving the quality and accessibility of health care services funded from state budget, as well as raising the wages of medical practitioners. In order to achieve it, government has supported conceptually one of the health care funding models proposed by MoH stipulating that health care funding will be provided by the state mandatory universal insurance from state budget resources. Within this model, the existing



health care service basket is retained, along with a range of services contained therein and regional accessibility for all the Latvian residents irrespective of contributions paid.

While continuing work on implementation of sectoral reform, a movement towards increased funding for health care in the amount of 14% of total state budget expenditure should be made, while searching for health care funding model financing sources and simultaneously reviewing the state fiscal policy. In order to reduce the queues for receiving the health care services, additional 10 million EUR have been allocated adopting the state budget for 2017 to raise the accessibility of services, while in total 50 million EUR from state budget of 2017 have been allocated to health care, which is an increase of 6.5% compared to previous year, including 34.3 million EUR for reforms granted the European Commission deviation in the amount of 0.1% for budget deficit objective. The funding allocated for implementation of reforms has been diverted to the following health care measures:

- Diagnostics of oncology diseases and improvement of treatment accessibility (12.3 million EUR);
- Reduction of queues to see a specialist, diagnostic examinations, day in-patient and out-patient rehabilitation (16.6 million EUR);
- Reforms in provision of state compensated medicine for patients with Hepatitis C virus (HCV) in stages F3-F4 (5.4 million EUR).

In 2017, in total 5.8 million EUR were allocated to raising the minimum monthly wage and levelling of lowest wages.

In 2016, work on calculations to establish economically justified tariffs in priority areas (radiology, obstetrics, and specialists) has been commenced, and work on unified radiology services tariff method has been launched. Starting from 2017, childbirth tariffs have been raised by 50 EUR. Additionally, revision of tariffs for specialists not performing additional manipulations has been carried out raising it by 3 EUR per care episode. Other health care service tariffs will be reviewed within the future health sector reform.

Starting from 1 October 2016, the “**green corridor**” has been implemented to insure an efficient and timely examination and start of treatment in the event of several oncology diseases. It prescribes a duty to general practitioners to make a referral for patients with medically substantiated grounds to believe they have a malignant tumour to primary diagnostics examinations, and, if the grounds for believing there is a malignant tumour are confirmed, general practitioner upon agreement with a patient makes an appointment for the patient with a specialized oncology medical establishment to receive a specialist consultation. Medical establishment shall ensure patients consultation with the specialist within 10 working days from the day appointment is made, and secondary diagnostics examination of the malignant tumour in a term allowing the specialist or doctors' council to make a decision on further treatment within one month from the first consultation with the specialist. At the end of 2016, as a part of priority procedure, in total 926 patients received oncologists consultations.

- ***Mapping medical institutions, issues of infrastructure, human resource development in health care, and health care system management*** (responsible institution – MoH)

In 2016, a study carried out by World Bank was completed providing for a comprehensive assessment of health care system, analysis of health care service providers' structure, accessibility and quality of services, identifying main deficiencies of health care system and their causes in four priority areas of health care, and providing recommendations for required changes. Based on this study and analysis made by MoH, in December 2016 CM approved the informational report on mapping and development reform of systemically important medical institutions. At the end of 2016, provisions for implementation of EU programming period 2014-2020 investments in highest level hospitals (university, regional and monoprofile hospitals (rehabilitation, obstetrics, and traumatology)) were approved. In 2017, the limited project selection rounds 1 and 2 will be carried out and agreements will be signed.

The joint health care system reform document of *Master Plan* will include the needs of local level hospitals, psychiatric care, and primary health care development, plan for human resource development and changes in health care system management. After approval of *Master Plan*, provisions for implementation of EU fund investments in local level hospitals and primary health care establishments will be developed.

Measures improving situation in human resource within health care are currently being carried out. In 2015, amendments were made to procedure for admission of residents providing that university, in the event when the demonstrated results are equal, will prioritize residency applicants who have entered an agreement with municipal and/or state medical institution located outside Riga on commencement of employment with the said institution after completed residency. In the academic year 2015/2016, in total 42 students were admitted holding the said agreement with municipal and/or state medical institution located outside Riga on commencement of employment with the said institution after completed residency. Moreover, graduates of the residency whose studies have been paid by state budget resources shall work for 3 years after completed residency in the speciality acquired in either municipal or state medical establishment or in general practitioner's practice. The said condition applies to residents starting their residency in the academic year 2016/2017.

In order to increase the number of doctors, especially in sectors lacking specialists, in addition to the assigned 200 residency posts, in academic year 2016/2017 funding was allocated for admission of additional 30 residents. Thereby, in the academic year 2016/2017, in total 230 residents will be trained using state budget funds.

In order to increase the number of medical nurses, in 2016 the number of state-funded study places in nursing speciality in Riga Stradins University was increased by 35 places compared to 2015 (75 places in 2015, 110 – in 2016).

In order to promote the entry of young general practitioners in state paid primary health care service provision, as well as allow the doctors in retirement age to retire, amendments to legislative framework were made providing that in case general practitioner's practice terminates contractual relationships with the National Health Service (NHS) due to retirement of a general practitioner, the NHS shall support the GP's practice in settlement of financial obligations required by legislation in the event of enterprise liquidation. Practice may be eligible for compensatory payments only when another general practitioner takes over the patient care in the respective area of general practitioner's activity.

In 2017 under the EU funds programming period 2014-2020, support measures aimed at attracting medical practitioners (doctors and nurses) for work in regions outside Riga will be launched in order to address the lack of medical specialists in these regions; also, raising qualification and renewal of medical practitioners' certificates will be possible under continuous education support measure, allowing a medical practitioner not practising in his/her speciality to return in labour market. Selection of project application and signing the agreements is planned for mid-2017.

- ***E-health system*** (responsible institution – MH)

E-health is an instrument allowing to ensure a more efficient operation, monitoring and analysis of health care system. E-health system is available to residents, medical institutions, and pharmacies since 12 September 2016. In the e-health portal [www.eveseliba.gov.lv](http://www.eveseliba.gov.lv), residents may access their electronic health card, and medical practitioners may write medical documents, such as e-prescriptions or e-sick-leaves. E-health system pilot testing will be completed by 31 August 2017, and an active work is being carried out to encourage all the medical institutions, doctors and pharmacists to join the system and ensure an extensive use of e-health system functionalities. Final verification of the e-health projects has been carried out concluding that system functionalities and e-services have generally been developed in accordance with the project requirements and ensure the functional operation expected in the projects. At the same time, proposals for improvement of e-health system operation have been submitted. By using the EU fund programming period 2014-2020 resources, the development of E-health system is planned aimed at reduction of administrative

burden, raising the quality of health care services, efficiency of public services, as well as health care management and monitoring.

- ***Health Promotion and Disease Prevention*** (responsible institution – MoH)

Implementation of EU fund-financed health promotion and disease prevention measures has been launched. National level measures are implemented by MoH in cooperation with its delegated institutions, while more than 100 municipalities have prepared project applications and are gradually starting implementation of measures for local level health promotion and disease prevention in the local community.

In order to promote healthy habits and limit the use of products containing large amounts of fat, added sugar and salt in daily nutrition, in 2016, regulations on maximum permissible amount of trans-fatty acids in food products were adopted, amendments to regulations have been made aimed at improving catering service quality in educational and medical institutions, long-term social care and social rehabilitation institutions, as well as stipulating certain food products permissible to be distributed in general and vocational education institutions in addition to the set and optional menus. *Law on Distribution of Energy Drinks* has been adopted laying down the prohibition of selling energy drinks to children. On 20 May 2016, the new *Law on Circulation of Tobacco Products, Herbal Smoking Products, Electronic Smoking Devices, and their Liquids* entered into force, as well as several related legislative acts in connection with transposition of Directive 2014/40/EU<sup>41</sup> into national legislation, including stricter smoking restrictions. A rate increase schedule for tobacco products has been elaborated into the Law on Excise Duties, and the rate will be increased yearly from 2016 until 2019, while for alcoholic drinks the rate will be increased yearly in the period from 2015 until 2018.

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

- ***Improvement of Health Care Quality and Patient Safety*** (responsible institution – MoH)

A Health Care System Quality Improvement and Patient Safety Concept as well as the action plan to be implemented within it, were adopted in January 2017. Implementation of the measures has been launched, and EU fund programming period 2014-2020 resources have been allocated for this purpose. The concept includes measures such as capacity building of health care in the areas of quality and patient safety issue coordination and supervision, setting and monitoring of health care quality and patient safety indicators, improvement of procedure for monitoring of medical institutions, assessment of clinical guidelines registered in the database of guidelines and approved medical technologies, improvement of medical institutions registration process, educating on health care quality and patient safety issues. With the aim of ensuring coordination and support for continuous improvement of medical treatment process quality and patient safety, in February 2017, amendments to Disease Prevention and Control Centre regulations were adopted assigning a new function to the said Centre – ensuring methodological support for medical institutions in the matters of medical treatment quality and patient safety.

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<sup>41</sup> Directive 2014/40/EU of the European Parliament and of the Council of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC Text with EEA relevance. <http://publications.europa.eu/en/publication-detail/-/publication/025cab37-e4fd-43da-b4f8-7183ccf0f1b6/language-en>

### 3.6. ENERGY AND CLIMATE CHANGES

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

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

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

#### 3.6.1. Energy Market and Infrastructure

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

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

In continuing the improvement of operation of the Latvian electricity market, strengthening of transmission capacity is necessary both in Latvia and in the Baltic region in order to strengthen the connections with European networks. This is demonstrated also by the objective set within the EU envisaging increasing interconnection capacity in the region up to 10% before 2020 in relation to the installed generating capacity. At the end of 2015, work on the 1st stage of the *LitPol Link* was completed establishing a connection between Lithuania and Poland (transmission capacity 500 MW), and Lithuanian-Swedish interconnection *NordBalt* (transmission capacity 700 MW) was completed. These transmission lines allow for reduction of electricity prices for Latvian consumers, as well as levelling of price in the region. As a result of operation of both electricity transmission connections, in 2016, the wholesale price differences between Latvia and Scandinavian countries have reduced significantly. In 2016, the average electricity price in Latvian wholesale exchange *NordPoolSpot* was reduced by 13% in comparison with the previous year. At the same time, the average electricity in Latvian wholesale exchange *NordPoolSpot* was 22% higher than, for example, in Swedish Southern Region trade area SE4.

Work on the 3rd stage of Kurzeme Circle was continued within the *NordBalt* project aimed at preventing the missing possibility of increased capacity connection, ensuring development of wind parks, and increasing the security of electricity supply in Kurzeme region. Granting permissions on implementing new electricity production equipment is still ongoing, while rights to sell the produced electricity as a part of mandatory procurement are no longer granted. Work on the 3<sup>rd</sup> Latvian-Estonian interconnection is being continued – it will significantly increase the security of electricity

supply between Estonia and Latvia, as well as within power systems of both countries, ensuring an efficient capacity transmission corridor between the Baltic and Nordic electricity systems.

The required preparatory works have been carried out for **operation of natural gas market** under the conditions of free market; starting from 3 April 2017, the legislative framework has been prepared and reorganization of JSC “Latvijas Gāze” has been completed by transferring the transmission and storage services to the new JSC “Conexus Baltic Grid”. A solution promoting safety of natural gas supply has been developed. Regulatory framework has been prepared providing that natural gas safety reserves shall be placed in Latvia in the amount required to ensure a continuous supply of natural gas to first group users (households, schools, preschool education institutions, hospitals, state and municipal long-term social care and pre-school rehabilitation institutions, crises centres and other socially significant and with national security connected institutions) for as long as it takes to avert the circumstances causing the possible natural gas supply disruptions. In addition to this, the largest consumer of natural gas in Latvia and one of the natural gas traders, JSC Latvenergo, has expressed its readiness to provide for natural gas resources for its own needs, and natural gas trader JSC Latvijas Gāze shall ensure a secure gas supply for the last guaranteed supplies as provided by in the law.

### 3.6.2. Promoting Energy Efficiency

The aim of the Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency (hereinafter – Directive 2012/27/EU) is to promote energy efficiency and ensure the achievement of the headline energy efficiency target of 20% and lay the foundation for further improvement of energy efficiency. In accordance with the requirements of Directive 2012/27/EU, Latvia has submitted the Informative Progress Report of the Indicative National Energy Performance Target for 2017-2019 to the EC summarising the planned energy performance measures by 2019. The report will gather and assess the energy savings achieved in the period from 2014 to 2016.

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

- the total indicative national energy efficiency target<sup>42</sup> – the primary energy savings in 2020 – 0.670 Mtoe (28 PJ);
- the annual energy savings target of 1.5% supplied to end consumers<sup>43</sup> – the final energy savings in 2020 – 0.213 Mtoe (8.9 PJ);
- the annual renovation target of 3% of the state-owned building area (maximum estimates – 678.5 thousand m<sup>2</sup>) together with the renovation of municipal buildings – energy saving during the entire period of 2014–2020 – 0.016 Mtoe (0.67 PJ or 186 GWh).

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

Table 9

Trajectory of achievement of the energy efficiency target

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

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

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

<sup>43</sup> The annual final energy savings correspond to the national mandatory accrued final energy savings 0.850 Mtoe.

Table 10

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

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

Latvia is moving towards the set target to achieve energy savings in the amount of 0.67 Mtoe in 2020 (the total energy savings in both the final consumption and the transformation sector). The gross domestic energy consumption has decreased from 4.57 Mtoe in 2008 to 4.27 Mtoe in 2015 (decrease by 0.3 Mtoe), and the implementation of energy efficiency measures has an important role in this progress.

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

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

#### The main policy directions and measures:

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

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. In total, 740 projects have been completed using ERDF funding of 63.21 million EUR. For the purposes of promoting the activity, an extensive information campaign Warmer Living has been carried out thus encouraging apartment owners to get involved in the management of the common property and improvement of the energy performance of buildings.

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

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

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

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

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

The aim is to provide financial support to projects for increasing energy performance of public and industrial buildings in order to reduce greenhouse gas (hereinafter – the GHG) emissions.

Within the EU funds programming period 2014-2020, it is planned to rebuild and reconstruct municipal buildings, perform energy certification and construction works to improve energy efficiency, as well as foster the use of RER in buildings.

The most significant support criterion is a positive financial return from investments and reduced energy costs to end consumers. The intended ERDF funding is 47 million EUR. As a result of these investments, the primary energy annual consumption reduction in public buildings shall be achieved – 20.54 GWh/per year and reduction of greenhouse gas emissions – at least equivalent to 5 180 CO<sub>2</sub> annually. Project implementation shall commence in 2017.

After closing of Climate Change financial instrument, the MEPRD has starting implementation of a new support programme in the reporting period – EQTI. During the reporting period, the first two project application selections have been organised within EQTI. As a result, agreements with all the confirmed project funding receivers were signed in autumn 2016. Under EQTI competition *Reduction of Greenhouse Gas Emissions in Architectural Monuments of State Significance*, there were 9 agreements signed with the total EQTI aid amount of 8.86 million EUR, while under competition *Reduction of Greenhouse Gas Emissions – in Low-Energy Consumption Buildings*, there were 7 agreements signed with the total EQTI aid amount of 23 million EUR. The total expected carbon dioxide emission reduction in both competitions will be 1005 tons.

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

Implementation of CCFI has been completed and currently maintenance and follow-up of project results is carried out.

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

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

Within the EU funds programming period 2007-2013, 131 projects were completed with CF financing of 71.53 million EUR. The project implementation has resulted in installation of heat capacity of 286.7 MW and reconstruction of 149 km of heating pipes.

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

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

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

- the electricity costs intensity for the previous calendar year or the average electricity costs intensity for the previous three calendar years has been 20% or higher;
- the total annual electricity consumption for the needs of merchant in a single place has been above 0.5 GWh;

- an energy management system complying with the standard LVS EN ISO 50001:2012 Energy Management Systems. Requirements with Guidance for Use (ISO 50001:2011) has been introduced;
- the merchant’s turnover from economic activity within supported sector constitutes at least 30% of merchant’s total turnover in the previous calendar year.

### 3.6.3. Increasing the Share of Renewable Energy

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

Table 11

Trajectory of achievement of the renewable energy target

	2005	2011	2012	2013	2014	2015	2020
Share of renewable energy (%)	32.3	33.5	35.7	37.1	38.7	37.6	40.0

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

Table 12

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

	2005	2011	2012	2013	2014	2015	2020
Heating and cooling	42.7	44.7	47.3	49.7	52.2	51.8	53.4
Electricity	43.0	44.7	44.9	48.8	51.1	52.2	59.8
Transport <sup>44</sup>	2.4	4.1	4.0	4.0	4.1	3.9	10.0

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

The measures to be implemented and the expected outcomes of a broader use of RE are closely related to the progress of promoting energy efficiency, particularly, the energy efficiency target for 2020, which is defined in the Directive 2012/27/EU (*see Chapter 3.6.2*). Latvia still has a high energy saving potential in all final energy consumption sectors, while it is not proportionally equivalent in all the sectors. Following the technology development trends and global challenges, Latvia is revising its support mechanisms for the production of RE by making them more flexible and economically justified. The support measures implemented by now have encouraged producers to start project planning and invest in electricity production using RER. At the same time, it must be noted that the large number of supported projects has led to a significant increase in mandatory procurement component. In order to stop its growth and maintain it on the level of 26.79 EUR/MWh, state budget financing is allocated<sup>45</sup> to prevent from imposing an additional burden on the end-users of electricity, including burden on development and competitiveness of energy-intensive sectors. However, in order to maintain competitiveness of the economy, current support mechanisms for RE are being revised at

<sup>44</sup> The calculation methodology in transport sector is changed with the Directive (EU) 2015/1513 of the European Parliament and of the Council of 9 September 2015 amending Directive 98/70/EC relating to the quality of petrol and diesel fuels and amending Directive 2009/28/EC on the promotion of the use of energy from renewable sources (ILUC Directive), by applying multipliers to the electricity consumed in railway and road transport.

<sup>45</sup> The CM Order No. 572 of 4 October 2016 *On the Conceptual Report “Complex Measures for Development of Electricity Energy Market”*: <https://likumi.lv/ta/id/285195-par-konceptualo-zinojumu-kompleksi-pasakumi-elektroenerģijas-tirgus-attistibai->.



the moment, including careful assessment of total costs and support intensity. When launching additional coordination with the EC, it is assessed whether the granted support, incl. in correlation with investment support, for mandatory procurement of energy produced by plants or the guaranteed fee for the installed electric power is compatible with the EU internal market, and whether the support sum does not exceed the necessary minimum.

The main policy directions and measures:

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

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

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

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

In July 2016, amendments to the existing regulations were adopted providing for a procedure on payments for the electricity acquired under mandatory procurement or electric capacity installed in the plant, introducing an overcompensation prevention mechanism and prescribing that the total capital investment internal profit norm in the plant during the entire support period may not exceed 9%.

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

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

Within the Latvian Rural Development Programme for 2014-2020 a support was provided for acquisition of equipment for production of energy resources (except for equipment intended for production of energy from biomass of agricultural or forestry origins) in order to sustain own economic activity without the aim to gain profit from the produced energy. In 2016, in total 9 projects were supported to achieve the aforementioned aim with the total public funding of 245 600 EUR, where total eligible costs reached 522 300 EUR.

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

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

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

In accordance with the *Electromobility Development Plan for 2014-2016*, a network of electric vehicle charging stations on a national level has been launched and will provide for an opportunity to use the electric vehicles throughout the country eliminating the travelling distance limitations. Thereby also the dependence on oil within the Latvian transport system will be reduced, as well as GHG emissions produced by transport sector, the efficiency will be improved, mobility enhanced, and creation and utilisation of innovative technologies in the transport sector will be facilitated. The total financing for the said project amounts to 7.8 million EUR, including ERDF funding of 6.7 million EUR intended for installation of 150 electric vehicle charging stations.

In 2016, the *Alternative Fuel Infrastructure Development Plan for 2017-2020* has been developed. It applies to road, air and sea transport and aims at reduction of GHG in these sectors. The main emphasis is on alternative fuel types which in accordance with the Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 on the deployment of alternative fuels infrastructure shall be introduced or necessity for introduction thereof shall be assessed in certain transport sectors by Member States as a mandatory measure.

In 2017, the procedure of consultation and coordination has been launched on solution prescribing a duty to fuel merchants to ensure that the realized product contains a certain energy part produced from RER; from 2019 the mandatory duty is being introduced on a reduced scale, while from 2020 – in full scale, meanwhile retaining the mandatory admixture requirement.

### 3.6.4. Reducing Greenhouse Gas Emissions

Latvia's political goals in terms of climate are connected with the EU climate policy goals, as well as the international climate policy – the UN Framework Convention on Climate Change (hereinafter referred to as Convention) and the Kyoto Protocol attached thereto. The target of Latvia is to limit the total national GHG emissions so that by 2020 they would not exceed 12.16<sup>46</sup> Mt CO<sub>2</sub> equivalent. This target has been divided into activities included in EU Emissions Trading System (hereinafter referred to as EU ETS) and other activities (hereinafter referred to as non-ETS activities). In the period prior to 2020, the objective for GHG emission reduction does not include the sectors of land use, land use change and forestry activities (hereinafter referred to as LULUCF), while a separate goal, forest management reference level, has been set for certain sectors of LULUCF (forestry activities) in Latvia – 16 302 kt CO<sub>2</sub> per year.

According to the results of GHG inventory made in 2016 for the period 1999-2014<sup>47</sup> (hereinafter referred to as GHG inventory of 2016) as well as approximate GHG inventory for 2015<sup>48</sup>, the total amount of Latvia's GHG emissions in 2015 was reduced by 0.5% compared to 2015 (*see Table 12*).

Latvian EU ETS operators had reduced their GHG emissions by 17.5% before 2014 and by 19% before 2015, in comparison with 2005. The Latvian non-ETS activity GHG emission volume – 8776.9 kt CO<sub>2</sub> equivalent (2.8% increase in comparison with 2005) was confirmed by European Commission.<sup>49</sup> Considering the aforementioned, Latvia has overall complied with the set non-ETS activity annual targets for 2013-2015<sup>50</sup> (GHG emission volume is 3-5% lower than permissible).

The biggest sources of non-ETS GHG emissions are transport accounting for 33.9% of non-ETS activities in 2015, agriculture – 30.6%, as well as fixed combustion plants – 16.3% share in 2015.

In accordance with the Report on GHG projections, policies and measures<sup>51</sup> submitted to the EC in 2015, the total GHG emission volume with the existing scenario of measures may reach

<sup>46</sup> Environmental Policy Guidelines for 2014-2020 (CM 26.03.2014., <http://polsis.mk.gov.lv/documents/4711>).

<sup>47</sup> [http://cdr.eionet.europa.eu/lv/eu/mmr/art07\\_inventory/ghg\\_inventory/envv2e22q/](http://cdr.eionet.europa.eu/lv/eu/mmr/art07_inventory/ghg_inventory/envv2e22q/).

<sup>48</sup> [http://cdr.eionet.europa.eu/lv/eu/mmr/art08\\_proxy/envv5gjkq/](http://cdr.eionet.europa.eu/lv/eu/mmr/art08_proxy/envv5gjkq/).

<sup>49</sup> Latvian non-ETS GHG emission volume for 2013 has been approved by the EC Implementing Decision (EU) 2016/2132 of 5 December 2016 on greenhouse gas emissions for each Member State for the year 2013 covered by Decision No 406/2009/EC of the European Parliament and of the Council.

<sup>50</sup> Latvia's targets have been set in compliance with the Decision No 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020.

<sup>51</sup> [http://cdr.eionet.europa.eu/lv/eu/mmr/art04-13-14\\_lcds\\_pams\\_projections/envvyqbag/](http://cdr.eionet.europa.eu/lv/eu/mmr/art04-13-14_lcds_pams_projections/envvyqbag/)

12 586.82 kt CO<sub>2</sub> equivalent in Latvia in 2020, thereby exceeding the Latvian national GHG emission reduction target, however, the total GHG emission volume in 2020, provided additional measures are applied, might reach 11 154.576 kt CO<sub>2</sub> equivalent, which would be reduction by 8.3% in comparison with the Latvian national GHG emission reduction target.

Table 13

Trajectory of achievement of the greenhouse gas emissions target in Latvia

	2005	2013	2014	2015	2016	2017	2018	2019	2020
The total GHG emissions <sup>52</sup> , Mt CO <sub>2</sub> equivalent	11.26	11.43	11.38	11.54	11.68	11.9	12.13	12.36	12.59
Latvian national total GHG emission target <sup>53</sup> , Mt CO <sub>2</sub> equivalent			11.98	12.02	12.06	12.10	12.13	12.17	12.16
EU ETS emissions <sup>54</sup> , Mt CO <sub>2</sub> equivalent	2.85	2.65	2.35	2.31	3.01	3.13	3.25	3.73	3.5
Latvian national EU ETS GHG emission target <sup>55</sup> , Mt CO <sub>2</sub> equivalent		-	-	-	-	-	-	-	2.26
Non-ETS emissions, Mt CO <sub>2</sub> equivalent <sup>56</sup>	8.41	8.78	9.02	9.23	8.67	8.77	8.88	8.89	9.09
Latvian non-ETS GHG emission, Mt CO <sub>2</sub> equivalent <sup>57</sup>		9.26	9.35	9.44	9.53	9.63	9.72	9.81	9.90

The volume of non-ETS GHG emissions, provided the existing scenario of measures applies, will reach 9090.359 kt CO<sub>2</sub> equivalent in 2020, which is approximately 10% less than the set target for non-ETS activity GHG emission reduction in 2020. Therefore, it can be concluded that Latvia will achieve the EU set non-ETS activity GHG emission reduction target for 2020 even within the existing scenario of measures. Meanwhile, the EU ETS GHG emission volume, provided the current scenario of measures applies, may reach 3496.46 kt CO<sub>2</sub> equivalent which is approximately 50% more than the set target for 2020.

The main policy directions and measures:

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

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

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

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

<sup>52</sup> GHG inventory of 2016 and approximate GHG inventory for 2015. Report on GHG projections, policies, and measures (2015).

<sup>53</sup> Environmental Policy Guidelines for 2014-2020 (CM 26.03.2014., <http://polsis.mk.gov.lv/documents/4711>).

<sup>54</sup> Emission reports submitted by the Latvia EU ETS operators, Report on GHG projections, policies, and measures (2015).

<sup>55</sup> Environmental Policy Guidelines for 2014-2020 (CM 26.03.2014., <http://polsis.mk.gov.lv/documents/4711>).

<sup>56</sup> GHG inventory of 2016 and approximate GHG inventory for 2015. Report on GHG projections, policies, and measures (2015).

<sup>57</sup> The non-ETS GHG emission reduction targets in accordance with the Commission Decision No. 2013/162/EU of 26 March 2013 on determining Member States' annual emission allocations for the period from 2013 to 2020 pursuant to Decision No 406/2009/EC of the European Parliament and of the Council and Commission Implementing Decision (EU) 2016/2132 of 5 December 2016 on greenhouse gas emissions for each Member State for the year 2013 covered by Decision No 406/2009/EC of the European Parliament and of the Council.

sustainable cargo and passenger (both public and private) transportation, renewing the used car park, electrifying the vehicles used for transportation of passengers (public and private) and cargo, replacing use of fossil fuel with renewable energy resources or electricity, as well as other alternative types of fuel. Indirect positive impact on the reduction of GHG emissions can be achieved with a number of EU instruments: requirements of CO<sub>2</sub> emissions for new vehicles, application of vehicle operation tax to new vehicles based on CO<sub>2</sub> emissions generated, a more extensive use of alternative fuel in vehicles (electric transport, natural gas, hydrogen, and biofuel, etc.), renewal of road infrastructure, further electrification of railway infrastructure, etc. In the coming years, further improvement of the transport infrastructure is planned, namely, improvement in regional road networks, development of specialised transport corridors positively affecting organisation of the transport flow.

In the agricultural sector, the biggest volume of emissions is generated by tillage (mainly organic soil, use of mineral fertilizers, organic fertilizers, liming, etc.) and intestinal fermentation of cattle constituting more than 90% of the total amount of emissions in this sector. The potential for emissions reduction is limited here. The current use of mineral fertilizers on 1 ha of cultivated agricultural land is one of the lowest in the EU, and the utilisation of mineral fertilizers will increase with the development of agricultural production. Replacing the use of mineral fertilizers with organic fertilizers is hindered significantly by the fact that organic fertilizers in Latvia are not sufficiently available in relation to a low density of livestock. The manure management GHG emissions constituted 7.5% of the total emissions in the sector of agriculture in 2015, and support from the Rural Development Programme of Latvia for 2014-2020 (for production of biogas and installation of facilities for manure storage) is available to help reduce them.

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

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

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

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

- to develop and put into practice up-to-date scientific research methods, approaches and models fostering a sustainable Latvian economic climate change mitigation policy in line with EU 2030/2050 climate policy by disclosing and estimating interaction between different development parameters and emissions generated within different sectors of the economy;
- to identify the potential for reduction of GHG emissions in the agricultural sector;
- to analyse the potential impact of forestry activities on CO<sub>2</sub> sequestration increase;
- assessment of GHG emission reduction and CO<sub>2</sub> sequestration potential as a result of forest management, afforestation, and deforestation.

In 2016, several research projects related to GHG emission reduction were implemented and optimal emission reduction strategy for Latvia was developed in the context of 2030 and achievement of EU climate policy targets.

In 2016, a project Raising Capacity for Implementation of LIFE Programme in Latvia was launched where funding provides for implementation of innovative and sustainable environmental quality and climate change projects within LIFE programme until 2020.

In 2016, implementation of 18 projects within EEA Financial Mechanism 2009-2014 Programme *National Climate Policy* was completed with the total co-funding of 1.97 million EUR. The main project activities are related to educating various target groups of society in the matters of climate change.

The following projects were implemented among the EEA Financial Mechanism 2009–2014 Programme *National Climate Policy* pre-determined projects – *Adjustment of the National System to Greenhouse Gas Inventory and Reporting on Policies, Measures, and Projections* (hereinafter – project INVENT), and *Elaboration of Proposals for National Climate Change Adaptation Strategy Identifying Scientific Data and Measures to Ensure Adaptation to Climate Changes*, as well as Impact and Cost Assessment (hereinafter – project ADAPT). Within these two projects, several studies were carried out – calculations for N<sub>2</sub>O and CH<sub>4</sub> emission from agricultural sector were improved, parameters for a more precise calculation of projections within the waste management sector were developed, and assessment of the de-forestation volume was made, along with analysis of previous climate change, and future climate change scenarios were elaborated; studies on assessment of risks and vulnerabilities were carried out, and adaptation measures were identified.

## 4. USE OF STRUCTURAL FUNDS

### The EU funds (ERDF, ESF and the CF) financing for the programming period 2007-2013 and connection with the Europe 2020 strategy

EU fund investments in achievement of strategy goals during the previous programming period 2007-2013 have been analysed in the final reports prepared by the Ministry of Finance and submitted to the European Commission with regard to implementation of activity programmes “Human Resources and Employment” (hereinafter referred to as 1AP), “Entrepreneurship and Innovations” (hereby referred to as 2AP), and “Infrastructure and Services” (hereinafter referred to as 3AP) in the programming period 2007-2013<sup>58</sup>. The final reports include a summary of investments made. When assessing the connection of investments made with strategy goals, it should be considered that EU structural funds are only one of the factors contributing to achievement of goals, and the fact that investments, in particular in the areas of environmental protection and education, do not always demonstrate an immediate effect, however, they affect achievement of targets in long-term.

The national targets set in the Latvian strategy *Europe 2020* are only partially connected to programming period 2007-2013 investments (especially in the beginning of the period), as periods of validity and time of preparation of both documents differ. Additional difficulties in assessment are caused by indicators clarified and changed during EU fund investment period on all levels of activity programmes. In order to ensure a connection between investments and strategy goals, two groups of indicators were created (context and impact indicators) defining the results to be achieved on the level of activity programmes and their priorities.

Table 14

Values of EU2020 target indicators achieved by Latvia in relation to EU funds investments

No.	Indicator	2015	2020	EU funds investment divided among the activity programmes
1.	Employment rate, % (aged 20-64, %)	72.5	73	1 DP 444.1 million EUR*
				2 DP 268.9 million EUR
				3 DP 114.3 million EUR
2.	investment in research and development (% of GDP)	0.69 (2014)	1.5	1 DP 70.9 million EUR
				2 DP 588.5 million EUR
3.1.	Greenhouse gas emissions (%)	42.77 (2013)	-17 (in comparison with 2005)	3 DP 297.1 million EUR
3.2.	Share of renewable energy in the final consumption of gross energy (%)	38.7 (2014)	40	
3.3.	Energy efficiency (gross domestic energy consumption, Mtoe)	4.4 (2014)	Primary energy savings 0.67 Mtoe	
4.1.	Share of early school leavers among residents (aged 18-24, %)	9.9	10	1 DP 105.5 million EUR
				3 DP 171.6 million EUR
4.2.	Higher education (share of population in % aged 30-34 with higher education)	41.3	34.0-36.0	1 DP 58.5 million EUR
				3 DP 120.0 million EUR
5.	Persons exposed to risks of poverty of social exclusion (%)	28.5	21	1 DP 62.7 million EUR
				3 DP 226.1 million EUR

\*Here and below, the total relevant funding stated is in accordance with information available in final reports on programming period 2007-2013.

<sup>58</sup> Available here: <http://www.esfondi.lv/gadskartejie-es-fondu-ieviesanas-zinojumi>

Considering the aforementioned, it is possible to identify the EU structural funds investment distribution according to strategic objectives and to present them as a summary<sup>59</sup> (Table 14).

**Employment rate.** The rate has reached 73.2% in 2016 which is by 0.2% higher than the national employment objective for 2020 as laid down in the strategy *Europe 2020*. Despite the support measures carried out, Latvia still has a differing employment rate in various regions and, moreover, in some regions (especially in Latgale) it remains significantly lower than country average. In accordance with report on implementation of horizontal priority *Macroeconomic stability* and achievements of 2015<sup>60</sup>, ESF investments have short or medium-term effect on employment.

**Investment in research and development.** Most of the investment in programming period 2007-2013 have been made in research infrastructure in spite of public and private investment still remaining significantly below EU average – 2% of GDP. This is due to both slow implementation of innovation policy in Latvia, and also structure of economics containing a large number of small and medium-sized enterprises with low potential of investment in research and development.

**Reduction of Greenhouse Gas (GHG) emission.** A significant aid has been received within ERDF and CF support measures with regard to increased energy efficiency and reduced GHG emissions providing support in improvement of heat insulation in multi apartment buildings and social homes, as well as in increasing efficiency of centralized heating supply. Large scale environmental infrastructure construction and improvement projects have been carried out whose impact on environment and climate change reduction will be assessed in long term.

**Share of early school leavers among residents.** During the academic year 2015/2016, the share of early school leavers among residents has gradually reduced reaching 9.9% which can mainly be attributed to improved socio-economic conditions, pupils' motivation, and school resources, while at the same time also migration has increased. It must be concluded that since 2013 the share of early school leavers among residents aged 18-24, is below 10%. In 2013, the share was 9.8%, in 2014 – 8.5%, while in 2015 – 9.9%.

**Higher education** (share of population in (%) aged 30-34 with higher education). The number of graduates of Latvian higher education establishments keeps increasing and during the academic year 2015/2016 it reached 41.3%. The increase in share has been secured due to increasing number of students in previous years both in state-funded and self-financed study programmes. The share of population with higher education aged 30-34 has been at least 40% since 2013. In 2013, the share was 40.7%, in 2014 – 39.9%, while in 2015 – 41.3%.

**Reducing the number of persons exposed to risk of poverty.** The number of persons exposed to risk of poverty or social exclusion has diminished from 37.9% in 2008 to 28.5% in 2015. The main reasons for poverty in Latvia are inequality in income, including low income of employed, high unemployment rate, and low competitiveness of labour force, insufficient accessibility of various services (including transport, housing, social, health care, etc.) and inefficient structure thereof, as well as disproportionate territorial development. Despite significant investments having been made during programming period 2007-2013, the number of persons exposed to risk of poverty has declined only slightly, and data indicate that investments should be made along with the appropriate social reforms.

**In total, achievement of strategy objectives of 1AP has received 541.9 million EUR, 2 DP – 1287.0 million EUR, 3 DP – 1124.4 million EUR.**

The activities implemented within AP have contributed towards achieving the national objectives of Europe 2020. Activities supported by ESF in the areas of employment and social inclusion correspond to the policy directions laid down in the European Employment Strategy, NRP, and EU 2020 strategy. A significant contribution towards achievement of national objectives set by the strategy Europe 2020 will be provided by implementation of specific objectives within EU fund programming period 2014-2020 AP Growth and Employment, thereby ensuring an even more direct impact on achievement of national goals.

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<sup>59</sup> Sequence and numbering of strategic objectives is indicated in accordance with the EU structural funds and CF management information system.

<sup>60</sup> Available here: <http://www.esfondi.lv/es-fondu-ietekme>.

**Distribution of EU funds and Investment fund programming period 2014-2020 financing and connection thereof with strategy Europe 2020**

For the implementation of EU structural and investment funds (ESF, ERDF, CF, EAFRD, and EFMF), within the programming period 2014-2020 in total 5350.1 million EUR are available. In accordance with the thematic objectives laid down in the Regulation (EU) No. 1303/2013<sup>61</sup> of the European Parliament and the Council and ensuring a connection between Cohesion policy and strategy Europe 2020, the Partnership Agreement for ESI fund programming period 2014-2020<sup>62</sup> contains an indicative distribution of EU structural and investment fund financing and indicates connection with the national objectives in the context of Europe 2020 strategy (*see Table 15*).

More detailed information on thematic objectives, chosen priority directions and investment priorities, as well as information on the planned supported activities and connection of thematic objectives with national objectives in the context of strategy Europe 2020, is available in the Partnership Agreement for ESI funds programming period 2014-2020, as well as EU structural funds and Cohesion Fund programming period 2014-2020 activity programme Growth and Employment<sup>63</sup>, Latvian Rural Development Programme for 2014-2020<sup>64</sup>, and Action Programme for Development of Fishery for 2014-2020<sup>65</sup>.

Table 15

Distribution of ESI funds financing and connection thereof with national objectives of strategy Europe 2020 in year 2016

Thematic Objective	ERDF	ESF	CF	EAFRD	EFMF	YEI	Total	Link with national targets within the Europe 2020 strategy
1. Strengthening research, technology development, and innovation	467,519,706	0	0	20,473,592	0	0	487,993,298	<b>Target of the NRP:</b> investments in R&D – 1.5 % of GDP. <b>NRP challenges:</b> a small number of the employed in science and research, underdeveloped infrastructure of science and research, insufficient number of advanced laboratories for the implementation of technology projects, weak commercialisation potential of research results, weak cooperation between the sectors of science and industry, the structure of Latvian business is mainly comprised of small and medium-sized enterprises which have no R&D investment capacity and a small high technology sector, insufficient financing of the public budget and private sector, non-compliance of knowledge and skills of the employed with the labour market needs.
2. Enhancing access to and	172,783,829	0	0	0	0	0	172,783,829	In accordance with the flagship initiative Digital Agenda for Europe of the Europe 2020

<sup>61</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 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.

<sup>62</sup> Approved by CM Order No. 313 of 19 June 2014 On Partnership Agreement for European Union Investment Fund Programming Period 2014-2020 and EC Decision C(2014)4237 of 20 June 2014 on Approval of Partnership Agreement. Available here: <http://www.esfondi.lv/page.php?id=1149>.

<sup>63</sup> Approved by CM Order No.62 of 2 February 2015 On EU Structural Funds and Cohesion Fund Programming Period 2014-2020 Activity Program Growth and Employment and EC Decision C(2014)8508 of 11 November 2014 on Approval of Activity Programme Growth and Employment. Available here: <http://www.esfondi.lv/page.php?id=1149>.

<sup>64</sup> Available here: <https://www.zm.gov.lv/lauku-attistiba/statiskas-lapas/lauku-attistibas-programma-2014-2020/latvijas-lauku-attistibas-programma-2014-2020-gadam?nid=1046#jump>

<sup>65</sup> Available here: <https://www.zm.gov.lv/zivsaimnieciba/statiskas-lapas/ricibas-programma-zivsaimniecibas-attistibai-2014-2020-gadam?id=3515#jump>



Thematic Objective	ERDF	ESF	CF	EAFRD	EFMF	YEI	Total	Link with national targets within the Europe 2020 strategy
use, and quality of ICT								strategy for 2020, every person in the EU should have an opportunity to subscribe to an internet service with the download speed $\geq 30$ Mbit/s and at least 50% of the EU households subscribe to an internet service with the download speed $\geq 100$ Mbit/s. It is also emphasised that the EU Member States should facilitate distribution and use of completely cooperative e-government services. NRP challenges: provision of well-balanced economic development increasing the contribution of ICT to the growth and innovation of all sectors of the economy.
3. Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EFMF)	296,191,300	0	0	371,207,757	95,185,869	0	762,584,926	NRP challenges: improvement of the business environment, provision of merchant access to finances with an aim to support productive investments, small share of the SMEs in the export structure, complicated implementation of marketing activities abroad, discrepancy between knowledge and skills of those employed in SMEs with the labour market needs.
4. Supporting the shift towards a low-carbon economy in all sectors	286,344,229	0	194,266,292	40,173,411	0	0	520,783,932	<b>Targets of the NRP:</b> 40% of RE share in the gross energy final consumption; savings of primary energy 0.67 Mtoe; Limitation of GHG emissions in the sectors outside the ETS so that the increase would not exceed 17% if compared to 2005.
5. Promoting climate change adaptation and risk prevention and management	65,819,321	0	0	201,823,430	0	0	267,642,751	Flagship initiative Resource-efficient Europe of the Europe 2020 strategy prescribes the necessity of measures to reduce and prevent the flood risk.
6. Protecting the environment and promoting resource efficiency	367,097,718	0	190,138,398	201,823,430	24,397,873	0	783,457,419	<b>NRP challenges:</b> improvement of business environment by developing the waste management infrastructure water management infrastructure and ensuring availability and achievement of public services. Within the flagship initiative Resource-efficient Europe of the Europe 2020 strategy, the priority of water resources policy is water saving and effective use, ensuring its availability in sufficient amounts and quality, as well as returning it to the environment in an acceptable quality. It also envisages that the demand for primary raw materials will reduce as the processing level is increased, as well as valuable materials will be reused.
7. Promoting sustainable transport and removing bottlenecks in key network infrastructure	235,477,563	0	924,294,295	0	0	0	1,159,771,858	<b>The objective of the flagship initiative Resource-efficient Europe of the Europe 2020 strategy</b> – separation of economic growth and use of resources, support to transition to a low-carbon economy, increase

Thematic Objective	ERDF	ESF	CF	EAFRD	EFMF	YEI	Total	Link with national targets within the Europe 2020 strategy
								the use of renewable energy resources, modernise the field of transport, and foster energy performance by development of a sustainable transport infrastructure.
8. Promoting stable, quality employment and supporting labour mobility	0	135,410,788	0	31,641,487	12,750,000	29,010,639	208,812,914	<b>Targets of the NRP:</b> 73% of people aged 20-64 should be employed. Reduction of the share of people at the risk of poverty to 21% or prevention of risk of poverty and exclusion of 121 000 people.
9. Promoting social inclusion and combating poverty and any kind of discrimination	193,377,447	225,160,750	0	156,340,791	0	0	574,878,988	<b>Targets of the NRP:</b> 73% of people aged 20-64 should be employed. Reduction of the share of people at the risk of poverty to 21% or prevention of risk of poverty and exclusion of 121,000 people.
10. Investing in education, training, and vocational education for skills and lifelong learning	277,460,786	238,500,493	0	9,095,734	0	0	525,057,013	<b>Targets of the NRP:</b> The share of early school leavers (aged 18–24, %) is 13.4%. The share of people aged 30-34 having acquired higher education is 34-36%.
11. Enhancing institutional capacity of public institutions and stakeholders and efficient public administration	0	18,063,357	0	0	0	0	18,063,357	<b>NRP challenges:</b> to reduce the administrative burden on enterprises, improve the quality of business legislation, and foster creation of a business-friendly environment.
<b>Total</b>	<b>2,362,071,899</b>	<b>617,135,388</b>	<b>1,308,698,985</b>	<b>1,032,579,632</b>	<b>132,333,742</b>	<b>29,010,639</b>	<b>5,481,830,285</b>	

More detailed information on link between EU structural funds and Investment fund programming period 2014-2020 investments and the strategy targets to be achieved shall be included in the *Progress Report to European Commission on Implementation of Partnership Agreement European Union Investment Fun Programming Period 2014-2020*, which Member States shall submit to the European Union by 31 August 2017 in accordance with the existing regulation.