

# **National Lisbon Programme of Latvia for 2005-2008**

**Latvia 2005**

## **Preface**

In keeping with an appeal at the March 2005 meeting of the Council, Latvia has prepared the National Lisbon Programme for 2005-2008 (hereinafter the “Programme”), aimed at the promotion of national growth and employment.

The Programme is a policy planning document which shows how, in 2005-2008 Latvia will reach the Lisbon strategy goals on the basis of the Integrated Guidelines, approved by the Council in July 2005.

The Programme reflects the most essential problems for Latvia to achieve the Lisbon strategy goals, indicating the main lines of action and activities to solve these problems, as well as performance indicators for achieving the goals. The Programme is based on policy planning documents approved by the Republic of Latvia.

The Programme was developed by the Ministry of Economics in co-operation with the Ministry of Foreign Affairs, Ministry for Children and Family Affairs, Ministry of Finance, Ministry of Education and Science, Ministry of Welfare, Ministry of Regional Development and Local Government, Ministry of Transport and Communications, Ministry of Justice, Ministry of Health, Ministry of Environment, Ministry of Agriculture, Ministry of Culture, Secretariat of the Special Assignments Minister for Social Integration, Secretariat of the Special Assignments Minister for Electronic Government Affairs, Latvian Investment and Development Agency, Competition Council and Public Utilities Commission.

Co-ordination for developing the Programme was provided by the Supervisory Board of the Lisbon Strategy. Consultations with the Saeima (the Latvian Parliament) and social partners were held.

The Programme consists of an introduction, main part (macroeconomic policy, microeconomic reforms, employment policy guidelines) and annexes.

All numerical information and data, except in cases specifically indicated, were received from the Central Statistical Bureau of the Republic of Latvia or from Eurostat.

## Contents

Abbreviations, Measures, Conventional Designations .....	4
Introduction.....	5
1. Macroeconomic Policies for Growth and Jobs .....	10
1.1. Fiscal Policy .....	10
1.2. Government Debt.....	11
1.3. Sustainability of Public Finances.....	11
1.4. Wage Development.....	13
1.5. Tax Policy .....	14
2. Microeconomic Reforms .....	15
2.1. Knowledge and Innovation .....	15
2.1.1. Research and Development.....	15
2.1.2. Innovation .....	16
2.1.3. Information Society .....	18
2.1.4. Competitiveness of Industry .....	19
2.1.5. Sustainability of Resources.....	20
2.2. Favourable and Attractive Environment for Investment and Work.....	23
2.2.1. Internal Market.....	23
2.2.2. Competition.....	24
2.2.3. Business Environment and Regional Framework.....	26
2.2.4. Small and Medium-Sized Enterprises.....	28
2.2.5. Infrastructure.....	29
<i>Transport</i> .....	29
<i>Energy</i> .....	30
<i>Public - Private Partnership</i> .....	31
3. Guidelines for the Employment Policies .....	33
3.1. Goals and Priorities.....	33
3.2. Labour Supply.....	34
3.2.1. Life-Cycle Approach to Employment.....	34
3.2.2. Inclusion in the Labour Market.....	35
3.2.3. Labour Market Needs .....	37
3.3. Adaptability of Workers and Enterprises.....	38
3.3.1. Labour Market Flexibility.....	38
3.3.2. Labour Costs and Wages .....	40
3.4. Education and Skills .....	41
3.4.1. Investment in Human Capital .....	41
3.4.2. Availability and Quality of Education System .....	44

### **Annexes**

Annex 1. Structural Indicators

Annex 2. Utilisation of European Union Structural Funds and the Cohesion Fund

## **Abbreviations, Measures, Conventional Designations**

### **Abbreviations**

CM	Cabinet of Ministers
COST	European cooperation in the field of scientific and technical research
EEA	European Economic Area
EF	European funds
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EU-25	European Union after enlargement on May 1, 2004
EUREKA	Europe-wide Network for Industrial Research and Development
EURES	European Job Mobility Portal
FICIL	Foreign Investors Council in Latvia
GDP	Gross domestic product
ICT	Information and communication technologies
INTAS	International Association for the Promotion of Co-operation with Scientists from the New Independent States of the Former Soviet Union
JSC	Joint stock company
LLC	Limited liability company
OSHA	European Agency for Safety and Health at Work
PCCSA	Professional Career Counselling State Agency
PHARE	EU program for assistance to countries of Central and Eastern Europe
PPP	Public - Private Partnership
SEA	State Employment Agency
SIC	Social Integration Centre
SIS	State Information System
SLI	State Labour Inspectorate
SME	Small and Medium-sized Enterprises
UN	United Nations

### **Measures**

EUR	Euro
GWh	Gigawatt-hour
ha	hectare
LVL	National currency of Latvia – the Lats

### **Conventional designations**

–	Magnitude zero / absent
...	Data not available or too uncertain

## Introduction

Reforms accomplished in Latvia and integration in the European Union has left a positive impact on the economic development of this country. Latvia has achieved one of the highest economic growth rates in the EU. Since 2000 the average annual GDP growth rate has been 7.4%, and in 2004 GDP increased even faster - by 8.3%. High growth rates are also expected in 2005 (GDP increased by 9.5% in the 1<sup>st</sup> half of 2005).

Employment and unemployment indicators are improving. During the four years (2000-2004) the employment rate has increased by 4.8 percentage points (in 2000 the employment rate in Latvia was 4.9 percentage points lower than the EU-25 average, but in 2004 it fell behind only by 1 percentage point). The unemployment rate went down from 14.4% in 2000 to 10.4% in 2004.

To ensure continued growth also in the future, transition from a labour-intensive economy to a knowledge-based economy must be promoted. Latvian business activities at present are characterised by production based on low value added output, but the proportion of high technologies is very small. One of the most topical problems is the incompatibility of education and skills with labour market requirements, as well as marked regional disparities.

Accession to the EU provides Latvia with new opportunities for economic development. By joining the EU single market Latvia is able to use advantages offered by the broad and stable market, free movement of goods and services, labour and capital, i.e., the most favourable conditions in the EU market. Support of the EU funds fosters structural changes in the national economy and helps to reduce social and economic disproportions.

The developed National Lisbon Programme of Latvia for 2005-2008 (hereinafter the "Programme") is a policy planning document, which shows how Latvia will promote growth and employment in the medium-term and how it will implement Integrated Guidelines approved by the Council in July 2005.

In order to achieve the goal during 2005-2008 the annual GDP growth rate should be 6-8% and employment rate should be increased to 65% (of which 61% is for women and 48% for older people). In order to ensure balanced development Latvia plans to continue gradual decrease of the budget deficit, which will also contribute to a decrease in the current account deficit. Gross domestic expenditures on research and development (R&D) have to grow from the present 0.38% of GDP to 1.1% of GDP by 2008. Latvia has defined also several other performance indicators for the medium-term period (see Annex 1).

The Programme points out five main economic policy directions to reach the Lisbon goals in Latvia, namely:

- Securing macroeconomic stability (*see Section 1, Guidelines 1-5<sup>1</sup>*);
- Stimulating knowledge and innovation (*see Section 2.1, Guidelines 7-11*);
- Developing a favourable and attractive environment for investment and work (*see Section 2.2, Guidelines 12-16*);
- Fostering employment (*see Sections 3.1-3.3, Guidelines 17-22*);
- Improving education and skills (*see Section 3.4, Guidelines 23-24*).

---

<sup>1</sup> Hereinafter in the Programme text, Guideline numbers correspond to the numbers of Integrated Guidelines approved by the European Council in July 2005.

The National Lisbon Programme of Latvia takes into account the EU approach of dividing economic growth from resource usage so that economic and social progress is not achieved at the expense of excessive use of natural resources and deteriorated environmental quality.

### **Securing macroeconomic stability**

Latvia has a goal of maintaining a stable macroeconomic environment, which is a necessary precondition to ensure growth and employment. At present, the comparatively high inflation and imbalance of the foreign sector must be carefully assessed, although the current influence of these factors on the development of the national economy still does not require fast and cardinal interference.

The comparatively high inflation negatively affects the business environment, reducing competitiveness of the national economy. Besides, it can be an obstacle to the introduction of the Euro in 2008<sup>2</sup>.

The high current account deficit of the balance of payments is a risk factor, which may negatively affect the volume of domestic consumption in the future due to sudden changes of financial flows caused by various reasons. In the medium-term it is forecasted that the current account deficit level may decrease slightly, mostly due to faster export growth, stimulated by structural reforms. However, a comparatively high demand for imports will also remain, which will be determined by further modernisation of the national economy and an increasing openness of the economy.

Monetary policy possibilities to restrict domestic demand under a fixed exchange rate regime are rather limited, because the inter-target and operational target of monetary policy is maintenance of the national currency rate at a fixed level. Latvia is an open economy country, where an increase in domestic demand encourages increase in imports. The comparatively high share of loans granted in foreign currencies in the overall credit structure, as well as the relatively easy access of banks to foreign resources limit the effectiveness of instruments available for the Bank of Latvia.

In implementation of fiscal policy, a prudent permissible amount of the total budget deficit and rational budget spending directed to growth will be observed.

The Programme for 2005-2008 defines the following main tasks to maintain macroeconomic stability:

- Comply consistently with the fulfilment of the Maastricht fiscal criteria in Latvia and ensure gradual reduction of the government budget deficit;
- Introduce medium-term (3-5 years) budget planning and strategic planning in the ministries and, in accordance with it, to base budget formation on financing the action of policy goals and results;
- Promote concerted increase of wages and labour productivity in order to prevent additional economic instability, at the same time taking into account the consequences of inflation;
- Ensure successful Latvia's accession to the Euro zone.

### **Stimulating knowledge and innovation**

One of the main goals of Latvia's economic policy is to establish an effective and competitive sectoral structure. The present dominant model of Latvia's economy, which is

---

<sup>2</sup> The Government has set January 1, 2008 as the target date for introduction of the EU single currency in Latvia. As Latvia is not a Member State of the euro zone, Guideline 6 is not considered in the Programme.

characterised by using the advantages of cheap labour and available natural resources, as well as manufacturing products with low value added, will not be able to ensure high economic development rates and promote the achievement of higher prosperity level in the future.

Essential drawbacks, hindering structural changes, are low public and private sector investments in research and development, a poorly developed innovation system, incompatibility of the education structure with long-term labour market requirements, a low level of Internet availability, non-introduced electronic signature, which is one of the main obstacles to e-commerce development.

To stimulate knowledge and innovation, the main tasks of the Programme in 2005-2008 will be as follows:

- Increase public investment and foster private investment in R&D;
- Ensure renewal of intellectual potential in science, improving the system of doctoral grants and modernising scientific infrastructure;
- Promote transfer of knowledge and technologies in production (including business incubators and technology parks);
- Increase Internet availability and introduce electronic signature, as well as ensuring wider public services in the e-environment.

### **Developing a favourable and attractive environment for investment and work**

Conditions to ensure a conducive environment for investment and work are improving every year: obstacles to EU internal market freedoms are basically eliminated. The tax burden has been diminished, competition is strengthened and liberalisation of monopoly sectors has commenced.

The main problems hindering business development in Latvia, especially SME, are encumbered with the funding receipt, various administrative obstacles, lack of adequate information, and shortage of a skilled labour force. Guarantee and investment instruments have not been sufficiently developed yet. Latvian enterprises working with EU directives on quality, lack information on product standards and new production methods. Product quality assessment instruments are not available in Latvia.

Only minor progress is observed in the improvement of the state road network. However, road deterioration is high and the carrying capacity of transport network is insufficient in several segments.

Economic activities in the regions outside Riga increase at a much slower pace than in Riga and its neighbourhood. One of the reasons is due to slow administrative territorial reform, there is a large number of economically and administratively weak local governments, unable to ensure the provision of all municipal functions, which continue to exist in Latvia.

In the Programme, the following main tasks have been set as priority directions for the creation of a favourable and attractive environment for investment and work in 2005-2008:

- Promote entrepreneurial culture, lessen administrative obstacles and burden, create a supportive environment for SME;
- Strengthen the supervision of competition and ensure effective competition in public services;
- Improve and develop transport infrastructure, increase the number of connections with other European infrastructure networks;
- Speed up administrative territorial reform.

### **Fostering employment**

Although employment in Latvia has increased in recent years due to economic growth, the employment rate still lags behind the EU average level and unemployment rate is among the highest in the EU.

The primary problems in the Latvian labour market are considerable regional differences in employment and unemployment, inadequacy of employee skills with labour market requirements, relatively high rate of undeclared employment, a high unemployment level among young people, persons following leave for child-care, disabled persons, people with insufficient knowledge of the Latvian language and other socially excluded risk groups.

The Programme for 2005-2008 defines the following main tasks for fostering employment:

- Promote inclusive labour market;
- Encourage economic activities in the least developed regions;
- Reduce undeclared employment.

### **Improving education and skills**

The market economy, setting down new requirements for professional skills, develops faster than the adequate professional and higher education programmes. Thereby a discrepancy between the labour market's demand and the current education supply exists in several professions. Distribution of students by thematic fields of studies does not correspond to the needs of the national economy and labour market changes. Co-operation between the education establishments and employers is insufficient.

A lifelong learning system has not been established in Latvia, which would increase the opportunity of the population to adapt to the conditions of a changing labour market.

There is a shortage of professional orientation services in the basic stage of education. Adaptation of the first-year students in the professional education establishments is incomplete and awareness of the opportunities for education as well as further education is insufficient. The number of students who do not graduate or do not achieve a professional qualification is relatively large.

Professional skills and further education opportunities of teachers are insufficient. Teachers and academic staff become old. The number of new teachers and academic staff with a scientific degree decreases. The low wages of teachers do not encourage involvement of young teachers into education. Preparedness of medium-generation teachers in bilingual education is insufficient.

The Programme envisages the following main tasks for improvement of education and skills in 2005-2008:

- Strengthen co-operation between public administration institutions, education establishments and employers in order to adjust the supply of the education system with the needs of the labour market;
- Raise cost efficiency in all levels and forms of education;
- Improve availability of education at all levels and reduce the number of students who do not graduate or do not achieve a professional qualification;
- Increase the availability of lifelong learning and motivation of the population in this area;



- Raise the overall level of technological skills and natural science knowledge, improve the professional orientation system and ensure the availability of professional orientation services for all the population in the context of lifelong learning.

In order to ensure the fulfilment of tasks set up in the Lisbon strategy in Latvia, the government has established the ***Supervisory Board of the Lisbon Strategy*** (hereinafter, the Board). The Board is chaired by the Minister of Economics, approved by the Cabinet of Ministers as the coordinator for the implementation and supervision of the Lisbon strategy. Ministers and representatives of the Saeima, local governments and social partners, who are connected with the Lisbon process, are included in the Board.

Tasks of the Board are to co-ordinate the development of the *National Lisbon Programme of Latvia*, involve public institutions, the Saeima, local governments and social partners in the development process of the Programme, supervise implementation of the Programme and inform the public about the fulfilment of the tasks.

Social dialogue is very important for achieving the goals of the *National Lisbon Programme of Latvia for 2005-2008*. That is why the Programme foresees different measures for the improvement of the social dialogue both at the state's level and at the regional level (*see Sections 2.2.3., 3.2.3., 3.3.1*).

Consistently implemented economic policy directed towards the establishment of a new knowledge-based economy and fostering employment, provides an opportunity for Latvia to achieve goals set down in the Lisbon strategy. However, it is important to understand that the successful development and economic growth in Latvia will be determined not only by the work of public institutions, but also by personal initiative of every person anywhere in Latvia under the conditions of mutual understanding and dialogue in the society.

# 1. Macroeconomic Policies for Growth and Jobs

## 1.1. Fiscal Policy

In recent years, the general government budget deficit in Latvia has been low, not exceeding the reference level set in the Maastricht criteria, and gradual improvement of the fiscal situation is observed. According to the September 2005 government budget deficit and debt notification data, in 2002 the general government budget deficit made up 2.3% of GDP, in 2003 – 1.2% of GDP, while in 2004 it equalled to 1% of GDP.

The implemented fiscal policy in Latvia envisages gradual decrease of the general government budget deficit, ensuring formation of a balanced budget in the long term. The government has agreed to set the general government budget deficit in 2006 at 1.5% of GDP. A gradual decrease of the budget deficit in the following years has been foreseen.

The Cabinet of Ministers has resolved to review substantially the positions of the state fiscal and budget policy, ensuring efficient and fair spending of the government budget resources.

### **Main planned activities for 2005-2008 in the area of fiscal policy** (Guidelines 1 and 3).

**To fulfil the Maastricht fiscal criterion and ensure efficient budget spending** (responsible institution: Ministry of Finance):

- By reducing the general government budget deficit gradually, ensuring the formation of a balanced budget in the long term;
- By introducing medium-term (3-5 years) budget planning. To introduce strategic planning in the ministries in order to ensure purposeful development and efficient spending of the government budget resources;
- By examining the expedience and efficiency of the budget programmes, to prevent the inexpedient spending of the budget.

In order to fulfil these goals successfully, the development of strategic plans is being implemented by the ministries, envisaging the preparation of the 2007 budget to be based on strategic planning principles. In accordance with the priorities set by the government, the action strategy of institutions defines medium-term development goals and directions, as well as all the corresponding programmes and sub-programmes of the particular ministry related to these goals and directions including their funding.

### **To ensure successful accession of Latvia to the Euro zone:**

- On July 21, 2005 the Cabinet of Ministers adopted decision to establish Governmental Committee for the Introduction of the European Union Single Currency in Latvia, which has the task of working out the plan of necessary measures in order to ensure the successful accession of Latvia to the Euro zone.

## 1.2. Government Debt

On December 31, 2004 the central government debt<sup>3</sup> reached LVL 975 million or 13.3% of GDP.

It is expected that the central government debt will continue to increase gradually in the following years and may reach 13.6% of GDP in 2008.

The level of the general government debt in Latvia is among the lowest in the European Union and is expected to remain considerably below the gross government debt volume criterion in the medium-term (60% of GDP) as defined in the Maastricht Treaty.

On the basis of the outlined information, it is not urgent to work out a particular scheme for the reduction of the government debt in the present situation of Latvia but, before any action in the area of central government debt management, a careful analysis of potential risks must be carried out in order to ensure execution of the most favourable transactions for the state.

**Main planned measures for 2005-2008 in the area of government debt policy**  
(Guideline 2).

**To ensure the necessary financial resources for financing the government budget deficit and refinancing the central government debt liabilities at costs as low as possible and under conditions as favourable as possible, limiting financial risks and taking into account the development of Latvian state capital market and all financial systems** (responsible institution: Ministry of Finance):

- By working out new debt repurchase and debt exchange programmes for the management of debt refinancing risks, in order to use the opportunities offered by capital markets to attract low-cost long-term resources;
- By continuing the started reduction of external government debt servicing costs, all existing provisions of foreign loan contracts will be evaluated, in order to assess the opportunities and existing restrictions on the anticipated repayment of several loans in the future by refinancing these loans with other more favourable loans, or on possible changes in loan contract provisions.

## 1.3. Sustainability of Public Finances

Sustainability of Latvian public finances can be evaluated positively and is characterised by a relatively low level of the government debt, as well as adequate fiscal discipline. Latvia's commitment to fulfil the requirements of the Stability and Growth Pact, as well as the goal to join the Euro area is another additional guarantee for steadiness of the positive trends, relating to the existing fiscal position.

From the long-term perspective, sustainability of public finances will be mostly affected by the population's ageing process, resulting in a decreased number and proportion of able-bodied people and in increased demographic load.

Initial calculations of financial sustainability show that the population's ageing will have an impact on Latvian society, national economy and public finances, but, due to the effected

---

<sup>3</sup> Excluding the borrowings of the local governments outside the State Treasury.

pension reform, this impact will not create insurmountable consequences<sup>4</sup>. The low level of Latvia's government debt and growing expenditure pressure also provides certain flexibility for the government, preserving stability of public finances.

However, it has to be noted that the population ageing creates new challenges for the health-care system. Breakdown of healthcare expenditure by age groups clearly shows that the higher costs fall on older people, whose number will significantly increase within the next 50 years. Long-term care expenditures in Latvia are currently quite low, determined both by the limited central and local government resources to be spent for this purpose, as well as the traditions and values of the society. At the same time, health of other demographic groups has to be ensured as well, because the overall sickness rate is high. The government is formulating an efficient healthcare system based on a long-term perspective.

Changes in public finance policy will be required in the future to adjust the budget for a substantially different demographic situation.

As the demographic load will increase in the more distant future, GDP growth based on growing labour productivity will play a decisive role in the rise of the living standard of all population groups. Therefore it is important to ensure training of Latvia's main resource – human resources – in accordance with labour market requirements, to create an inclusive labour market (*see Section 3*).

### **Main planned measures for 2005-2008 in the area of ensuring sustainability of public finances** (Guideline 2).

#### **Raise the retirement age** (responsible institution: Ministry of Welfare):

- By increasing the retirement age for women by 0.5 years annually, so that on July 1, 2008 it will reach 62 years as set down by the Law “On State Pensions”. The retirement age of 62 years for men has been set since 2003.

#### **Improve the healthcare system** (responsible institution: Ministry of Health):

- By modernising emergency medical service;
- By optimising the structure of healthcare service providers. It is planned to transform several (smaller) hospitals into other („lower level”) institutions, which would provide health-care services, such as health care and social care centres, long-term health care institutions, nursing care centres and old people's homes. Thereby old people would be provided with high-quality care brought closer to their needs, and resources allocated to healthcare would be used efficiently.

#### **Create inclusive labour market** (*see Section 3*).

---

<sup>4</sup> Unfavourable demographic trends and the need to ensure sustainability of the pension system underlay the implementation of the pension reform in Latvia, which currently is basically finished. Three tier pension system has been introduced in Latvia, which consists of the state compulsory non-funded pension scheme, state compulsory funded pension scheme and private voluntary pension insurance scheme (according to terminology of the World Bank). Such timely pension reform significantly mitigated the risks relating to the future financing of pensions.

## 1.4. Wage Development

The main mechanism of the wage regulation in Latvia is the minimum monthly wage. In order to establish the system for a regular fixing of the minimum monthly wage, the government adopted the concept of a minimum wage in 2002. The concept envisages that by 2010, the minimum monthly wage will be increased to 50% of the average gross monthly wage for the previous year. As from January 1, 2004 the Cabinet of Ministers has set the minimum monthly wage at the amount of LVL 80, but it is envisaged to increase this to LVL 90 as from January 1, 2006.

At present, work on optimisation of wage payment system in the public sector is in progress to establish a single regulation for wage payments in order to ensure unified principles for the fixation and planning of wage payments in the public sector.

Wage increase is mostly achievable by promoting economic development, consequently by encouraging growth of entrepreneurship and labour productivity, investment in the development of human resources and education in particular.

### **Main planned measures for 2005-2008 to ensure wage development** (Guideline 4).

**To promote concerted increase of the wages and labour productivity, so as not to create additional economic instabilities, at the same time taking into account the consequences of inflation:**

- By implementing the concept of a minimum wage, and by 2010 increasing the minimum monthly wage to 50% of the average gross monthly wage for the previous year (responsible institution: Ministry of Welfare);
- By increasing the understanding and improving the analytical basis for introducing an optimal wage payment, tax and benefit system in Latvia. In context of the national programme “Labour market studies”, co-financed by the ESF, studies “Wages and factors influencing these” and “Optimal employment-promoting system of taxes and benefits” shall be conducted (*see Section 3.3.2*) – responsible institution: Ministry of Welfare;
- By encouraging social dialogue. In context of the national programme “Support to strengthen the capacity for introducing a labour market and gender equality policy in responsible institutions, distribution of information and improvement of understanding” co-financed by the ESF, institutions involved in employment partnerships will be strengthened, among these the Employers’ Confederation of Latvia and Free Trade Union Confederation of Latvia. Also the capacity of Latvia’s local governments and Latvian Association of Local and Regional Governments is being increased in context of the Programme in order to ensure development of employment partnerships and social dialogue at the local government level (*see Section 3.3.1*) – responsible institution: Ministry of Welfare;
- By improving the wage payment system in public administration institutions – responsible institution: Ministry of Finance.

## 1.5. Tax Policy

In order to promote growth and employment, the following tax changes have been made in Latvia in recent years:

- Social security contribution rate was lowered from 38% in 1996 to 33.09% in 2003;
- Corporate income tax rate was reduced from 25% in 2001 to 15% in 2004;
- Real estate tax rate was lowered from the maximum rate of 4% in 2000 to 1.5 per cent.

Personal income tax in Latvia is applied at a flat rate to all taxpayers. The personal income tax system in Latvia envisages neither differentiation of rate nor establishment of special tax regime for some separate category of taxpayers. One of the most current problems in personal income tax policy is the untaxed minimum that has a very low amount for the proportional rate of 25%. The amount of untaxed minimum set in Latvia was not changed from 1997 to 2004. The fact that without an increase in the untaxed minimum the tax burden has grown, is also reflected by the data about changes in average gross and net wage payments during 1995-2003, which show that the amount of gross wage payments increase faster than net wage payments. In this period the total burden of personal income tax and compulsory state social security contributions from average wage payments increased from 18.9% to 28.6%.

In view of the increase in inflation, the rise of personal income tax burden and influence of the untaxed minimum of personal income on people with low incomes, the situation was unsatisfactory and required a solution. At the same time such a situation created insufficient motivation to work and was not financially attractive due to the existence of too high effective tax rates and consequently also an excessively high tax burden on people with relatively low incomes.

### **Main planned measures for 2005-2008 in the tax policy** (Guideline 5).

**To improve motivation and promote financial attractiveness of jobs** (responsible institution: Ministry of Finance):

- By gradually raising the untaxed monthly minimum and allowances for dependent persons.

Implementation of the planned measure has already started. The untaxed monthly minimum not subjected to personal income tax was increased by LVL 5 in 2005 (from LVL 21 to LVL 26) while the tax allowance for dependent persons was raised by LVL 7.50 (from LVL 10.50 to LVL 18). For 2006, the untaxed monthly minimum is fixed at the amount of LVL 32, while the amount of allowance for dependent persons is LVL 22.

## 2. Microeconomic Reforms

### 2.1. Knowledge and Innovation

#### 2.1.1. Research and Development

Development of applied research, commercialisation of scientific results and development of innovative businesses in Latvia is hindered by insufficient public and private investment in this field. In 2003 the total finance for research and development in Latvia was 0.38% of GDP (whereas in the EU it is 1.93% of GDP on average). Public finance for research was 0.18% of GDP. At the same time the existing system of research finance does not act as a catalyst, which would attract private investment. Financing by enterprises in this area amounted to 0.13% of GDP in 2003 (0.73% of GDP in the EU on average).

In 2003 there were 3.2 scientists per 1000 employees in Latvia (5.68 in the EU on average). The number of scientists working in the private sector is insignificant (only 14.5% of the total number of scientists). Annual number of people acquiring a Doctor of Science degree is small as well (8.6 per 1000 persons aged 20 to 29 years in 2003), however statistical data indicates that interest in doctoral studies and acquisition of a Doctor of Science degree is growing in recent years.

A pressing issue in today's rapid technological development is the explanation of scientific achievements to a wider public, as well as the necessity to lessen the prejudice and reluctance of young people to acquire hard sciences and motivate them to take up studies in natural and engineering sciences.

To foster research and development, the priority tasks in the coming years are as follows:

- Ensure substantial growth of public investment in research and development to achieve that the mechanism for granting finances would ensure the attraction of private investment as much as possible;
- Strengthen the leading role of higher educational establishments in the development of science and research;
- Consolidate the intellectual potential of science and develop applied research in the area of innovative technologies, create preconditions for scientific research in fields, which have adequate potential and development prospects.

**Main planned measures for 2005-2008 in fostering research and development**  
(Guideline 7).

**To invest public resources in research and development more efficiently and effectively and encourage research and development in the private sector** (responsible institutions: Ministry of Education and Science and Ministry of Economics):

- According to the Law on Scientific Activity the annual increase in finance for scientific activity in the state budget is prescribed to be at least 0.15% of GDP or LVL 10-15 million on average annually, at the same time improving the procedure of granting public financing for scientific activity set out by the normative acts, in order to ensure attraction of private investment as much as possible, improving

conditions of finance for research commissioned by public administration bodies and market-oriented research;

- By defining the priority of scientific directions for 2006-2009 and by implementing 5 research programmes in these priority scientific directions till 2008. LVL 0.6 million for implementation of public research programmes has been granted in 2005.

**To modernise scientific infrastructure in research institutes and higher education establishments** (responsible institution: Ministry of Education and Science):

- By reorganising state science institutes;
- By 2008, modernising scientific infrastructure in the state science institutes, attracting ERDF co-financing (accepted financing for 2004-2008 to the amount of LVL 10 million);
- By promoting the development of innovative business and applied research infrastructure in the regions. Financing from the government budget for 2005 is LVL 1.6 million while the EU financing is LVL 6.1 million (responsible institutions: Ministry of Regional Development and Local Government and Ministry of Economics).

**To ensure renewal of the intellectual potential in science** (responsible institution: Ministry of Education and Science):

- By improving the system of doctoral grants and scholarships and establishing a postdoctoral research support system;
- By developing the project of a Science and Technology Centre (2008). Activity of the Centre would cover all scientific disciplines and recent technological achievements, and would deliberately organise work for the popularisation of science to a wider public and offer opportunities for Latvian schoolchildren to conduct various experiments and scientific observations in addition to visits of interactive expositions.

**To promote participation of Latvian science in the international co-operation projects** (responsible institution: Ministry of Education and Science):

- By supporting participation in the EU science and technology development programmes (Framework Programmes, COST, INTAS, EUREKA etc.) (public financing for 2005 is LVL 1.1 million).

### **2.1.2. Innovation**

The national innovation system of Latvia is poorly developed at present and does not provide the innovation capacity required to increase the competitiveness of the state. Only 18.6% of all enterprises on average are innovative, while in the EU countries the average indicator is 45%.

The number of national patents is small (approximately 100-150 patents are issued every year), and their importance, from the point of view of competitiveness in the world, is not high. At present, Latvia considerably lags behind the economically developed countries in the number of patents per 1000 people (this indicator in Latvia is 5 times lower than in Sweden and Finland).

Latvian patents of alcoholic beverages, food products and perfumery, with small international importance, dominate among the patent applications of the private sector.



The goal is to achieve an increase in the number of national patents up to 70 patents in 2006, of which 14 are international, and to 80/18 in 2007 and 95/24 in 2008 respectively. The goal to increase the number of innovative enterprises to 32% in 2008 is also envisaged.

The government has determined the following tasks as priority directions to increase the national innovation capacity:

- Create favourable institutional environment for innovative activity;
- Promote co-operation between science, education and private sector;
- Support transfer of knowledge and technologies (*see also Section 2.1.4*);
- Encourage development of new products and technologies, including promotion of entrepreneurs' awareness of intellectual property and its protection (*see also Section 2.1.4*).

#### **Main planned measures for 2005-2008 in facilitation of innovation** (Guideline 8).

**To improve innovation support structures and public support programmes** (responsible institution: Ministry of Economics):

- By 2007, establishing a technology agency, the main task of which would be to encourage private sector investment in applied research, promote transfer of technologies and ensure efficient introduction of research results into production;
- By improving the existing public support programmes as well as developing new innovation support measures. Entrepreneurs will be able to receive grants for concept or prototype developments of new products to the amount of 45% of the supportable costs of a project by 2008, in context of the programme „Support for the development of the new products and technologies”. LVL 10.3 million from ERDF and the government budget are available for implementation of the programme in 2004-2006. The programme will also continue after 2006 until 2013 under similar conditions;
- By developing a public support programme for the protection and enforcement of intellectual property rights, as well as commencing its implementation (responsible institution: Ministry of Justice in co-operation with Ministry of Culture, Ministry of the Interior, Ministry of Economics and Ministry of Education and Science). Development of the programme and beginning its implementation are planned in 2006;
- By implementing a complex of measures for establishing entrepreneurs' awareness about the importance of industrial property and its protection, for increasing competitiveness (responsible institution: Ministry of Justice).

**To support transfer of knowledge and technologies, encourage development of new products and technologies** (responsible institution: Ministry of Economics):

- By developing a programme of technology incubators and starting its implementation from 2007. The programme is aimed at encouraging the establishment and development of new competitive enterprises in high technology and medium technology industries and service sectors, providing these with the necessary infrastructure and seed capital;
- By continuing the formation of a technology transfer network started in 2005 to ensure the efficient introduction of research results from public research institutions into production. Contact points for co-operation with industry will be established at public science institutions and higher educational establishments where applied

research financed by the state is conducted. LVL 0.2 million to start implementation of the measure was granted in 2005;

- By developing and implementing the innovative business incubator and industrial (science and technology) park support programme for the establishment of new innovative enterprises and attraction of investment to the regions.

### **2.1.3. Information Society**

The most significant indicator reflecting the development of an information society is the number of Internet users. According to *Eurostat* data, 27% of Latvia's inhabitants used the Internet at least once a week in 2004. Internet accessibility in Riga and other larger cities of Latvia has increased rapidly in recent years, but its level is insufficient for the development of an efficient information society.

The government has set building the information society as an essential priority, envisaging to:

- Promote free competition in the market of information and electronic communication services (*see Section 2.2.1 for more details*);
- Ensure rational and efficient use of limited national resources (radio frequency spectrum, numbering and addressing);
- Encourage education of society in the area of information technologies;
- Implement public e-government and wider accessible e-government services, introduce electronic signatures, at the same time putting in order the public administration structure, and ensure strong co-ordination in the creation of various information systems of national importance;
- Develop public Internet access points.

### **Main planned measures for 2005-2008 in facilitation of ICT use and building an information society** (Guideline 9).

**To encourage widespread use of ICT in public services, SMEs and households** (responsible institution: Secretariat of the Special Assignments Minister for Electronic Government Affairs; in the area of local governments: Ministry of Regional Development and Local Government; in the area of culture: Ministry of Culture):

- By developing various channels and organisations for the provision of services, building technical and organising infrastructure for the complex provision and convenient use of services (2005-2008);
- By creating new state information systems (hereinafter SIS), among these e-procurement systems, the State Unified Library Information System (*see also Section 3.4.1*), the National Museum Inventory System, State Unified Archive Information System, improving the registration of existing systems and promoting their development (2005-2008);
- By aligning normative environment of e-government (organising and technical requirements of SIS projects and systems, data exchange conditions and legal force of register entries) (2005-2008), creating a data base of local e-government (2005-2007);
- By establishing a single state portal, formulating instructions for the development and maintenance of public institution websites and promoting semantic national-level and cross-border interoperability of e-Content (2005-2008);

- By ensuring the creation, improvement and maintenance of Internet connections, as well as development of software for schools and libraries (2005-2008). Financing from the government budget is LVL 2.9 million for 2005-2006;
- By encouraging development of public Internet access points in the regions (2005-2006). Financing from the government budget is LVL 0.5 million for 2005-2006, while the EU financing is LVL 1.4 million.

**To ensure the security of networks and information, as well as convergence and interoperability in order to establish an information area without frontiers** (responsible institution: Secretariat of the Special Assignments Minister for Electronic Government Affairs):

- By improving co-operation between public registers. Up to 80% of central and local government registers have to be linked together in a joint system by 2008;
- By creating a system of safe electronic signature, improving information security and expanding the use of e-services (2005-2008);
- By establishing a computer security incident response team in the public administration sector (2006) and encouraging establishment of a computer security incident response team in the private sector (2007) (responsible institution: Ministry of Transport and Communications).

In order to implement the above-mentioned measures, in the period from 2005 to 2008 the ERDF co-financing of LVL 8.1 million has been granted for 19 projects, while the public budget resources comprise LVL 2.7 million.

**To encourage the deployment of broadband networks, including the poorly served regions, in order to develop a knowledge economy** (responsible institutions: Ministry of Transport and Communications and Secretariat of the Special Assignments Minister for Electronic Government Affairs):

- Ensure broadband access for distant regions, by using the ERDF financial support (LVL 4.3 million granted). Provide 10 000 households with access to broadband by the middle of 2007;
- Develop government policy for ensuring broadband network access by 2008 (2005) and from 2009 to 2014 (2008).

#### **2.1.4. Competitiveness of Industry**

Industrial production volumes are growing steadily. The highest growth rates have been observed in the timber industry, machine building and metalwork production. Competitiveness of Latvian industrialists is largely determined by the rapid increase in productivity, encouraged by investment made in previous years. Rapid growth of exports indicates that several branches of industry can compete in external markets, even under a combination of not so favourable conditions. At the same time, the negative impact of globalisation on the further development of several industrial sectors must be noted. Modernisation and reconstruction of production and disposition of EU funds will increase productivity and competitiveness of industry.

Despite the fast growth rates, Latvian industry is characterised by a low productivity level, high proportion of low technology sectors and a poorly developed national innovation system in comparison with the EU.

The government has the goal to create effective and competitive industry with a rational sectoral structure conforming to conditions of Latvia, which would ensure a high economic growth also in the future. The priority task is to orientate the structure of industry to production of higher value added products and increase productivity.

The main tasks for increasing the competitiveness of Latvian industry are the following:

- Increase productive capacity, promoting absorption of modern technologies, development and introduction into production of new technologies and products, encouraging investment in knowledge-intensive economic activities, development of modern infrastructure and ensuring introduction of international standards (*see Section 2.1*);
- Development and analysis of sectoral policy initiatives, taking into account specific problems of various sectors;
- Creation of attractive conditions for investment and employment (*see Section 2.2*).

**Main planned measures for 2005-2008 to strengthen the competitive advantages of industrial base** (Guideline 10).

**To identify competitiveness factors in industrial sectors:**

- By carrying out sectoral studies in order to identify specific problems of sectors, assess their competitiveness factors and impact of globalisation and develop adequate policy measures on the basis of these studies (2005-2008) – responsible institution: Ministry of Economics;
- By promoting development of creative industries, encouraging establishment of creative laboratories and business incubators, as well as raising entrepreneurs' awareness of the protection of intellectual property rights – responsible institution: Ministry of Economics (*see also Section 2.1.2*).

**To promote development of clusters** (responsible institution: Ministry of Economics):

- By providing support to development of clusters. The goal is to stimulate increased competitiveness and productivity of enterprises, promoting their mutual co-operation and collaboration with educational, scientific, research and other related institutions (2005-2008). It is planned to conduct a study on the potential of the cluster creation and, through a tender procedure, provide support for the development of the three most perspective clusters.

### **2.1.5. Sustainability of Resources**

Latvia ratified the UN Framework Convention on Climate Change in 1995 and the Kyoto Protocol to it in 2002, assuming commitments to ensure reduction of volume of its anthropogenic greenhouse gas emissions by 8% in comparison with 1990 in the commitment period 2008 to 2012. Due to restructuring of the national economy at the beginning of 1990s and measures to increase energy efficiency, forecasts show that Latvia can meet this requirement.

Taking into consideration the policy implemented by the European Union in the field of the climate change reduction, as well as the energy supply security issue topical for Latvia, the sustainable use of energy resources is one of the priorities of the state. In accordance with the breakdown of the greenhouse gas emissions by national economy sectors, significant measures are being implemented in the energy sector, agriculture and waste management. Support for energy efficiency increasing measures, use of cogeneration and renewable energy resources, and promotion of development of environmental technologies are all of essential importance.

Several scientific research institutions and higher educational establishments are engaged in the analysis of technologies for the use of various renewable energy resources (biomass, sun and wind) as well as potential technological solutions of energy efficiency increase.

In the context of the state budget programme „Latvian Environmental Protection Fund”, financing of various research projects is possible. Financing for scientific research is also granted by commercial companies, allocating funds for research they are interested in.

In order to meet the goals for the use of renewable energy resources in electricity generation and for the use of bio fuel established in the EU normative acts, greater support for the production and use of renewable energy resources (especially biomass and bio fuel) is required. Taking into account the importance of public procurement in conditions of economic growth, it is necessary to ensure the inclusion of environmental considerations in central and local government procurement. In order to reduce potential losses caused by the imminent climate change, it is necessary to assess the impact of climate change on economic, social and natural resources of the state and develop adequate adaptation measures.

The comparatively intact nature of Latvia is frequently mentioned as the most important resource of Latvia and as its symbol, which attracts tourists from all over the world and the largest areas of intact nature are situated in the specially protected nature reserves (12.1% of Latvia's land area). The area of Latvia's reserves "Natura 2000" (unified network of protected nature territories of European significance) is equal to the total area of the specially protected nature reserves.

Forest substantially contributes to the overall development of Latvia's national economy, as it meets the requirements of raw materials for timber processing, which is one of the largest export sectors of Latvian industry. Forest is also an important resource for development of the countryside because it provides subsistence to local inhabitants working in various fields of action, for about 150 thousand forest owners and forest-related enterprises.

Part of the profit gained in final felling, thinning or services is invested by a forest owner into conservation of forest value or implementation of continuous production. The biggest forest owners (state, local governments and some private forestry companies, owning thousands of hectares of forest areas) can ensure a continuous process of production throughout the long forest management cycle. In small forest properties, taking into account the composition of tree species, age, structure, former management practices, the economic situation in the countryside as well as the knowledge of forest owners, the practice of continuous forestry production is noticeably hindered. Due to the above-mentioned circumstances, at present an insufficient amount of investment (profit) is channelled into reproduction of forest value in the private forestry, therefore it is necessary to promote the rise of forest stands' productivity (timely and high-quality renewal of forest, use of selected forest reproductive material in renewal of forest, tending of young forest stands etc.), especially in private forests.

Although waste management systems in Latvia have been improved, and society's awareness of the necessity to reduce waste increases, the volume of generated waste continues to rise every year. Separate waste collection takes place only in the biggest local governments of Latvia. Therefore many materials that might be recycled are dumped. Opportunities for waste processing and utilisation are insufficient, although enterprises receive subsidies, through tender from the Latvian Environmental Protection Fund for the collection and utilisation of residue from environmentally harmful goods and products.

Infrastructure of water management (water supply and sewage collection and treatment) is insufficiently developed and outdated, its capacity is not justified economically, technologies utilized are energy-intensive and do not comply with all environmental requirements. This restricts business development, especially in the periphery of the country. Accessibility to water management infrastructure very noticeably affects the development of the public utilities sphere, public catering, healthcare and the tourism industry.

The most important tasks in ensuring the sustainable use of resources are:

- Encourage the use of renewable energy resources, especially in the cogeneration mode;
- Raise energy efficiency (*see also Section 2.2.5*);
- Preserve biological diversity at the current level;
- Improve and modernise environmental protection infrastructure;
- Continue to combat climate change and minimizing its harmful impact.

**Main planned measures for 2005-2008 in encouraging the sustainable use of resources and strengthen the synergies between environmental protection and growth** (Guideline 11).

**To encourage the use of renewable energy resources** (responsible institutions: Ministry of Environment and Ministry of Economics):

- By setting up balanced volumes of compulsory procurement for new energy sources if renewable energy resources are used for energy generation;
- By implementing test projects where energy would be generated from renewable energy resources less used in Latvia, including biogas (2005-2008);
- By developing a strategy for the use of renewable energy resources, preparing policy planning documents in the field of development of environmental technologies (2006);
- By working out support schemes for promotion of bio fuel use in public transport, logging machinery, means of inland water transport (2005);
- By preparing recommendations for application of the “green procurement” in public administration as well as central and local government institutions (2006).

**To preserve biological diversity at the current level** (responsible institutions: Ministry of Environment and Ministry of Agriculture):

- By creating specially protected maritime nature territories (2007) and establishing micro-reserves (2008);
- By implementing activities of the Rural Development Plan sub-programmes “Agrovide” (“Agro-environment”) and „Less favourable terrains and terrains with restrictions aimed at environmental protection” for the preservation of biological diversity (responsible institution: Ministry of Agriculture, 2006);
- By ensuring a favourable conservation status for specially protected species and habitats and creating the NATURA 2000 network (2008);
- By implementing nature monitoring programmes and adequate action plans, and developing long-term state programme for scientific research in priority problems of biological diversity (2008).

**To improve and modernise environmental protection infrastructure** (responsible institution: Ministry of Environment):

- By developing water management in towns and settlements (2005-2008) with the received financing of LVL 16.5 million from the government budget for 2005-2006 and the financing of LVL 75.5 million from EU funds;
- By establishing a regional system of municipal waste management (including waste disposal areas), closing and re-cultivating dumps, which do not comply with normative act requirements (2005-2008) with the received financing of LVL 0.96 million from the government budget for 2005-2006 and the financing of LVL 10.7 million from EU funds;

- By promoting the processing of municipal waste and establishing a system of sorted collection of waste (2005-2008) with the received financing of LVL 0.1 million from the government budget for 2005-2006 and the financing of LVL 0.065 million from EU funds.

**To continue fighting the climate change and lessening its harmful impact** (responsible institution: Ministry of Environment):

- By establishing and maintaining a greenhouse gas registry (2005), allocating emission quotas to Latvian enterprises and ensuring their participation in the emission quota trading system (2005-2008);
- By reducing the volume of methane emissions from waste disposal areas, landfills and wastewater treatment facilities (2008);
- By encouraging the attraction of carbon dioxide – supporting the rise of forest plantation productivity and reforestation of non-agricultural land (finance from EU structural funds is available for activities „Reforestation of agricultural lands” and „Replacement of low-value forest plantations or species of trees in order to increase biological diversity and ecological value”, 2004-2006);
- By supporting the implementation of measures aimed at increasing the energy efficiency of the energy production sources and energy transmission and distribution systems (responsible institution: Ministry of Economics);
- By promoting energy saving and efficient use in buildings and heat supply systems (responsible institutions: Ministry of Regional Development and Local Government and Ministry of Economics).

## **2.2. Favourable and Attractive Environment for Investment and Work**

### **2.2.1. Internal Market**

Latvia must set a deadline to transpose Internal Market directives as well as ensure the supervision and co-ordination of directives' transposition at the public administration level and political level. As of September 7, 2005, Latvia had not announced transposition of 1.3% of EU directives (or 0.5% of the total number of directives). Taking into account that 99.5% of directives were transposed into the normative acts of Latvia as of September 7, 2005, this fully ensures meeting the Lisbon goal of transposing at least 98.5% of directives, or to allow a transposition deficit for directives to the amount of 1.5%.

Transposition of Internal Market directives and implementation of the relevant legal acts directly depends on establishing a common system for supervising the transposition of EU legal acts. At present, no efficient comprehensive data base for the supervising the transposition of EU legal acts has been established, which would provide an opportunity to follow up the directives' transposition process at several reference points in due time, hence, beside other circumstances, the process of directives' transposition slows down and the creation of a normative base of the EU Internal Market is encumbered. Limited human resources of public administration institutions reduce their ability for a qualitatively and timely controlled compliance of EU directives' transposition process with the Latvian legal system.

Restrictions to the EU Internal Market freedoms were largely eliminated before Latvia's accession to the EU, however, obstacles to cross-border transactions continue to exist. Essential hindrances are created by the existing requirements for business licensing and cumbersome administrative procedures, which require additional financial and time resources from

entrepreneurs and affect most negatively the small and medium-sized enterprises. Thus it is necessary to analyze the validity and compliance with EU requirements of separate existing systems of licensing and other restrictions, including the requirements and validity of the current restrictions for the liberal professions (lawyers, notaries, accountants, architects, engineers and pharmacists), in order to promote competitiveness in these sectors.

Presently, the set requirements regulating operations of the financial sector comply with EU requirements in all essential aspects.

Priority tasks for Latvia to extend and deepen the Internal Market are to:

- Ensure timely and qualitative transposition and implementation of EU directives;
- Identify and eliminate administrative restrictions hindering free movement of services;
- Apply EU public procurement rules effectively, ensuring practical implementation of the new Public Procurement Directive regulation.

**Main planned measures for 2005-2008 for extension and deepening of the Internal Market** (Guideline 12).

**To ensure control over transposition and implementation of EU directives** (responsible institutions: Ministry of Justice and Ministry of Economics):

- By transposing directives efficiently and timely. The target is 24 non-transposed directives in 2005, which make a transposition deficit to the amount of 0.92%, and no more than 10 non-transposed directives in 2006-2010 (1%), and quality control of transposition of the existing directives selectively. A data base will be established to ensure an efficient control system over the transposition of EU Internal Market directives;
- By ensuring efficient implementation of transposed directives, performing adequate market surveillance, which would create a favourable business environment and fair competition and would reduce consumer risks of traumas and being injured in accidents, using unsafe goods and services (2005-2008). LVL 0.3 million has been granted for this goal in the government budget of 2006.

**To identify and eliminate administrative restrictions hindering the free movement of services** (responsible institution: Ministry of Economics):

- By identifying the current administrative restrictions, which exist in national normative acts and hinder free movement of services, and developing an action plan to eliminate these. Term of implementation is 2006.

**To apply EU public procurement rules effectively** (responsible institution: Ministry of Finance):

- By transforming Directive 2004/18/EC of the European Parliament and of the Council of March 31, 2004 on the coordination of procedures for awarding public works contracts, public supply contracts and public service contracts in the national practice. In order to implement the new Directive's regulation, the enactment of a new Public Procurement Law is envisaged at the appointed terms of the Directive's implementation.

### **2.2.2. Competition**

To implement a single and harmonised competition policy, in 2004 the Latvian normative acts of competition were harmonised in compliance with the requirements of the EU



competition standards. In case of cross-border jeopardy of competition or for prevention of potential competition distortions, the Latvian competition protection body – the Competition Council – has started active co-operation with the European Commission and competition protection bodies of EU Member States.

The electricity market is being opened gradually. As of July 1, 2004 the threshold for eligibility of a legal entity to the status of a qualified eligible customer was set at the 0.0 GWh. Thereby at present only households are not allowed to choose the supplier, and the electricity market opening is ensured up to 75%. None of the eligible customers has changed suppliers of electricity up to now.

In order to activate competition and encourage entry of alternative suppliers in the market, it is necessary to separate legally and functionally electricity transmission and distribution functions from the electricity production and sale functions. Conditions for the electric power supply structure are defined in the Electricity Market Law. The JSC “Augstsprieguma tīkls” was established in accordance with these conditions. It is fully owned by the state JSC “Latvenergo” and from September 1, 2005 started to perform the functions of the transmission system operator.

In the natural gas supply sector, Latvia depends on the Russian company “Gazprom”, which is the only supplier of gas. Prices for natural gas supply, which are set by “Gazprom”, directly affect the gas price for the end users in Latvia. Real competition in this sector may develop, when the natural gas market in Russia is liberalised and several mutually competing traders exist in this market. Liberalisation of the natural gas market is postponed until 2010, which is determined by the June 30, 2005 law in process of coming into force with separate paragraphs of the Energy Law.

The market of electronic communications has been fully opened to competition since January 2003. Voice telephony services are offered by more than 20 service providers, thus the market share of LLC “Lattelekom” in providing fixed voice telephony services has decreased to less than 95%. The market share of the incumbent market operator LLC “Lattelekom” in providing leased line services has gone down even further to approximately 60% as the result of competition. More than 300 companies in total have received licences and general authorisations.

To ensure favourable conditions for competition, in the further policy it is important:

- Along with *ex post* application of competition protection instruments, when distortions in the market are identified and investigation is done in the context of specific cases, to turn more actively to the use of *ex ante* measures so as not to allow the possibility of such distortions;
- To continue liberalisation of network infrastructure.

**Main planned measures for 2005-2008 to ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation** (Guideline 13).

**To implement *ex ante* measures of competition ensuring policy** (responsible institution: Ministry of Economics):

- By analyzing competition conditions and prices in markets where suspicions of insufficient competition and its pressure on prices of goods/services exist. Term of implementation: 2005-2008;
- By participating in the development process of sectoral normative acts in the institutions of Latvia and the EU, in order to encourage competition in sectors where

a high level of administrative regulation and inefficient use of public resources exist. In 2005-2008, participation in the market liberalisation process of gas, electricity, rail and air transport sectors will be especially important in this regard.

**To continue liberalisation of network infrastructure** (responsible institution: Ministry of Economics):

- By handing over the functions of distribution system operator and public trader to two new joint stock companies fully owned by the state JSC “Latvenergo” by July 1, 2007;
- By analyzing the electronic communications market. In 2005 it is envisaged to complete the analysis of priority markets and work out specific requirements for electronic communications operators having significant market power. Analysis of other markets will continue in 2006.

### **2.2.3. Business Environment and Regional Framework**

Business environment in Latvia is being consistently improved through development of the legal framework, its harmonisation with EU requirements, and supervision of the effects of administrative procedures on business.

Since 1999, the Action Plan for Improvement of Business Environment has been developed annually. The Action Plan is based on a reform cycle, which consists of: 1) identification of a problem, 2) dialogue between government/entrepreneurs, 3) decision-making and 4) supervision and assessment of influence. The most substantial achievements since 1999 are: simplification of enterprise registration and tax administration, improvement of inspection work, activities in the fields of customs and border crossing, construction and real estate, as well as improvement of procedures of foreigners' stay and work, achieved easier availability of information and ensured better protection of investors' rights. However, as business survey data show, substantial problems for the development of production are caused by the costs of infrastructure services as well as certification and environmental requirements.

Many small local governments cannot ensure separation of decision-making power and executive power. Therefore local governments have a comparatively high proportion of administration costs set off against low administrative and insufficient financial capacity, as well as insufficient volume of the fulfilment of municipal services, which does not promote development. Development of local governments is possible through the provision of enlarged financial autonomy to them, which in turn is possible in conditions of higher administrative capacity of all local governments that could be achieved through implementation of administrative territorial reform.

The administrative capacity of regional institutions is a topical issue. Further strengthening of regional institutions is largely related to attracting financing from structural funds, especially the European Regional Development Fund, as well as the ability to ensure adequate flow of priority projects.

A substantial problem in the reduction of territorial discrepancies is the fact that sectoral policies and regional policy are poorly co-ordinated at the moment. Therefore, in order to promote a reduction of discrepancies in the territories of the country, it is essential to ensure the alignment of development planning systems and the purposeful and mutually co-ordinated use of support instruments in regional development planning documents for achievement of the set goals.

It is necessary to improve the social dialogue mechanism, especially on the regional level. At present, the trilateral social dialogue is better developed at the state's level (*see Section 3.3.1*). However, it does not occur at the national and regional levels in all sectors, although the legal base for its development is established. Thus, the social dialogue is fragmentary. The main reason for weak dialogue at the territorial level is the lack of information and understanding about the advantages of the social partnership in solving strategically important issues. The developed social dialogue is also a substantial factor for the efficient utilization of the EU funds.

Main priorities of the government in improvement of business environment are:

- Regular assessment of business environment, maintenance of dialogue between government/entrepreneurs;
- Reduction of administrative burden, facilitating administrative procedures for business people (registration, real estate deals);
- Implementation of administrative territorial reform and strengthening the institutional capacity in regions, development and implementation of mutually co-ordinated sectoral and regional policy;
- Promotion of the consolidation of the regional entrepreneurs in organizations and their stimulation to take part in the social dialogue (*see Sections 3.2.3 and 3.3.1*).

**Main planned measures for 2005-2008 to create a more competitive business environment and encourage private initiative through better regulation** (Guideline 14).

**To assess the business environment on a regular basis, maintaining dialogue between government/entrepreneurs** (responsible institutions: Ministry of Economics and Ministry of Justice):

- By preparing and implementing the *Action Plan for Improvement of Business Environment* annually, including recommendations of entrepreneurs, social partners and the Foreign Investors Council in Latvia (FICIL) in this plan;
- By conducting studies on the influence of administrative procedures on business;
- By improving the operation of the Enterprise Register, ensuring electronic access to documents and information;
- By establishing a joint registration system of the real estate transactions (unification of registers);
- By implementing the new Insolvency Law, which is planned to come into force on January 1, 2007. This law is aimed at facilitating the restoration of debtor's solvency and protection of creditors' interests in the case of debtor's insolvency.

**To encourage development of local governments and ensure the rise of their capacity, implement mutually co-ordinated sectoral and regional policy** (responsible institution: Ministry of Regional Development and Local Government):

- By carrying out administrative territorial reform until the local elections in 2009, in order to create an optimum administrative and organizing structure of local governments and promote their capacity (2005–2009);
- By implementing the PHARE 2003 National Programme “Strengthening the institutional capacity in regions”, which has the following aims: to increase administrative capacity of regional institutions and their socio-economic partners in the identification, promotion, preparation and management of projects financed from EU structural funds (especially the European Regional Development Fund); to

create and strengthen partnerships at a regional level. 2005–2006, public budget financing – LVL 0.1 million, EU financing – LVL 1 million.

**To implement mutually co-ordinated sectoral and regional policy** (responsible institutions: Ministry of Regional Development and Local Government, Ministry of Economics, Ministry of Agriculture and Ministry of Culture):

- By carrying out supervision and assessment of regional development (2005-2006);
- By promoting diversification of rural economy and establishment of favourable conditions and the necessary infrastructure;
- By establishing favourable conditions for the creation and development of products and services for tourism and cultural tourism.

#### **2.2.4. Small and Medium-Sized Enterprises**

Statistical data from recent years indicates positive trends in the development of small and medium-sized enterprises (SMEs). The number of enterprises and investment volumes increased. Programmes approved by the government and the means from EU funds have enabled SMEs to obtain much more support than in the previous 5-10 years.

Although opportunities to receive external financing have considerably increased recently, access to current and capital financing is a significant obstacle for the increase of business activity and competitiveness of SMEs and among the business starters. Guarantee and investment instruments are not sufficiently developed yet, and difficulties in the field of external finance availability are more pronounced in more distantly situated enterprises outside Riga.

Results of business surveys and summary reports of the meetings and conferences of non-governmental organisations representing SME interests allow the conclusion that a many administrative obstacles still exist and there is a lack of information on the existing and planned initiatives for the promotion of SME development.

The main directions of governmental policy to promote SME development are as follows:

- Promotion of availability of finance, including funds for development of an idea (seed capital);
- Ensuring informative and consultative support;
- Raising competitiveness through support to introduce new technologies and modernisation of production (*see Section 2.12*).

#### **Main planned measures for 2005-2008 to promote a more entrepreneurial culture and create a supportive environment for SMEs** (Guideline 15).

**To improve access of SMEs to funding** (responsible institutions: Ministry of Economics and Ministry of Regional Development and Local Government):

- By promoting availability of credit resources, issuing medium and long term loan guarantees to small and medium-sized enterprises of Latvia. In context of the state aid programme “Aid Scheme of Loan Guarantees of Latvian Guarantee Agency” the fixed capital of the Latvian Guarantee Agency will be increased by LVL 10.3 million in the period from 2004 to 2006, which will allow to issue guarantees to entrepreneurs to the amount of approximately LVL 25 million;
- By ensuring allocation of financing for business development in the early stage (measures for availability of seed capital, opportunities to obtain loans on preferential terms);

- By promoting availability of finance in the form of SME venture capital. Funding of venture capital with total financing to the amount of LVL 10.3 million (75% of which are EU structural funds) was established by the Latvian Guarantee Agency in 2005. By 2006 three private companies will be chosen, which will operate as management companies of venture capital funds to be created – venture capital funds. Financing funds by granting LVL 3.4 million to each of the private funds, which will constitute 70% of resources for the funds, and the companies will have to cover the remaining 30% themselves;
- By co-financing entrepreneurs' development projects to encourage economic activity in the territories requiring special assistance, which would favourably influence the establishment of SMEs and their growth in context of the state aid programme “Development of commercial activity in specially assisted regions”, 2005-2006, public budget financing – LVL 3.9 million, EU financing – LVL 3.9 million.

**To ensure informative and consultative support** (responsible institution: Ministry of Economics):

- By providing support with consultation and participation of commercial companies in international exhibitions and trade missions. Envisaged financing in the time period of 2004-2006 consists of Latvian financing to the amount of LVL 2.8 million and EU financing to the amount of LVL 6.5 million.

## **2.2.5. Infrastructure**

### ***Transport***

The main problems of Latvian transport systems are related to high depreciation of road and railway infrastructure, insufficient carrying capacity in several segments, insufficient capacity of access roads to the largest ports and the Riga International Airport, and inadequate level of road safety. The most essential traffic shortcomings in Riga (where about one third of the country's population lives) are: depreciation of infrastructure, inefficient connections of bridges to the street network, poorly organised traffic and outdated technical means for traffic regulation.

Improvement and development of the quality of international transport corridors and an increase in the load carrying capacity of road surfaces and bridges in accordance with EU requirements, is a substantial precondition for improvement of traffic safety, in order to achieve a 50% reduction in the number of traffic accident deaths by 2010 in comparison with 2002, which is a target set up in the Verona Declaration.

Long-term objective of the transport development policy is to create an effective, safe, competitive, environmentally friendly, balanced and multimodal transport system, which is integrated in the European transport system and satisfies the economic and social needs of the state for passenger and cargo transportation in domestic and international traffic, where the priority tasks for the following years are to:

- Ensure improvement of the state road network's condition and to increase the load carrying capacity of the road surfaces and bridges in accordance with EU requirements;
- Improve and develop the quality of international transport corridors;
- Create integrated passenger transportation system.

**Main planned measures for 2005-2008 in expanding, improving and linking up European infrastructure and completing priority cross-border projects** (Guideline 16).

**To improve and develop the quality of international transport corridors** (responsible institution: Ministry of Transport and Communications):

- By developing Via Baltica and East–West road corridors, improving the infrastructure quality and traffic safety, increasing the load carrying capacity of bridges and road surfaces, as well as envisaging the construction of new segments with a total length of approximately 286 km on several routes (2005-2008) with total state and EU financing of LVL 485 million;
- By updating the East–West railway corridor, envisaging an improvement of safety levels and carrying capacities (2005-2008), preparing “Rail Baltica” project, implementation of which (2010-2014) would ensure connection with European railway network in the North–South direction, achieving compliance with EU railway interoperability standards (feasibility study, 2005-2007; in co-operation with Estonia, Lithuania, Poland) with total state and ERDF funding of LVL 118 million;
- By promoting the development and rise in infrastructure competitiveness of Latvian ports, constructing access roads of ports as well as carrying out the reconstruction of common hydraulic structures at ports (2005-2008) with total state and ERDF funding of LVL 17 million;
- By ensuring the development of infrastructure at Riga International Airport (2005-2008) with ERDF financing to the amount of LVL 10 million.

**To ensure improvement of the state’s road network condition and increase the load carrying capacity of the road surfaces and bridges in accordance with EU requirements, increased funding for road maintenance and improving the system of financing** (responsible institution: Ministry of Transport and Communications):

- By changing the financing model of state roads, envisaging channelling certain portion of the excise tax on fuel to roads (65% in 2007, 70% in 2008). Finance for 2006 is LVL 109.5 million, including increased funding for maintenance and development of 2<sup>nd</sup> class state roads, to promote the development of the regions (amalgamated local governments).

**To create an integrated passenger transportation system** (also Guideline 21) (responsible institution: Ministry of Transport and Communications):

- By establishing a new efficient management system of public transport, defining priorities and the role of various modes of transport in the provision of public transport services;
- By granting adequate state financing (subsidies, tax allowances) for public transport, creating an efficient and transparent system in the use of government budget resources to provide public transport services;
- By creating a unified and rational network of public transport routes.

### ***Energy***

Vertically integrated monopolies exist in the energy sector (*see also Section 2.2.2*), therefore prices for electricity and gas supply services and end sale tariffs for connected customers are regulated. In addition, heat and electricity generation prices for combined heat and power stations are regulated. Competition exists in the market of primary energy resources.

At present, Latvia has transposed Directive 2003/54/EC of the European Parliament and of the Council of June 26, 2003, concerning common rules for the internal market in electricity and repealing Directive 96/92/EC into national legislation, adopting the Electricity Market Law in May 2005. First steps have been taken for the restructuring of the energy company “Latvenergo”. An open electricity market is available to all users with the exception of households. Secondary legal acts required for the Electricity Market Law to be developed by 2007.

Although interconnection capacities of Latvia exceed electricity consumption several times, their further development, especially providing connections with Nordic and Central European countries, is necessary in order to increase the security of electricity supply and foster development of the electricity market.

**Main planned measures for 2005-2008 in the energy sector are as follows** (Guideline 16):

**To continue development of the electricity market** (responsible institution: Ministry of Economics):

- By developing the secondary legal acts required for the Electricity Market Law by 2007;
- To establish the independent distribution system’s operator by July 1, 2007.

**To develop interconnections between electricity networks of the Baltic, Nordic and Central European countries** (responsible institution: Ministry of Economics):

- By participating in the NORDIC ENERGY LINK project aimed at the construction of an underwater electricity cable connection between Estonia and Finland across the Finnish Gulf. Launch of the cable is foreseen in November 2006. Implementation of the project is financed with funds attracted by the participating private companies.

### ***Public - Private Partnership***

Legal preconditions allowing central and local governments to develop public - private partnership (PPP) projects and transfer to the private sector their rights to provide services were established in Latvia on January 20, 2000 when the Saeima (parliament) of the Republic of Latvia adopted the Concessions Law. However, PPP is not widely used up to now and only 14 comparatively small concession agreements have been registered in the Register of Concessions, which is a very low indicator, taking into account the huge necessity for investment projects in Latvia.

There are several reasons for the low spread of the PPP projects in the national economy, and the most essential reasons are lack of experience in the implementation of such projects and the overall lack of knowledge about PPP.

Main directions of the governmental policy in the PPP area are:

- Alignment of the legal environment,
- Development of instruments promoting PPP process,
- Improvement of understanding and knowledge in this area.

**Main planned measures for 2005-2008 for the development of public - private partnership** (Guideline 16):

**To promote public - private partnership** (responsible institution: Ministry of Economics):

- Establish an Advisory Council of PPP, which would serve as a forum for representatives of central and local governments and the private sector in regard to PPP issues;
- Conduct feasibility studies in the period of 2006-2009, of at least 12 potential PPP projects for assessing the suitability of PPP financing models;
- to develop methodology of the management cycle of PPP projects and carrying out its specification on a regular basis;
- Create a website about PPP, which would contain all information – explanatory materials, normative acts, methodology and guidelines, standard documents, current events, characteristics of situations, information from abroad, most important links;
- Organise training seminars on various aspects of PPP.



### 3. Guidelines for the Employment Policies

#### 3.1. Goals and Priorities

Fast economic growth has encouraged the increase of the employment level in Latvia every year, which reached 62.3% in 2004 (population aged 15-64 years), i.e., increasing by almost 5 percentage points in comparison with 2000.

Male employment has increased a little faster than female employment since 2000. The female employment level is relatively high (58.5% in 2004) and exceeds the average EU level (55.7% in 2004), but male employment (66.4% in 2004) lags behind the EU average (70.9% in 2004) (see Annex 1).

Employment goals set by Latvia for 2010 lag slightly behind the level set by the EU, because several problems in Latvian labour market do not allow setting higher goals. The main problems are related to:

- Pronounced regional differences in employment and unemployment – high unemployment rate in districts more distant from Riga, at the same time a shortage of labour with certain skills exist in Riga;
- Relatively high rate of undeclared employment in particular sectors of the national economy (construction, manufacturing industry, agriculture and transport services), which reduces social security benefits and does not allow to diminish the burden of labour taxes, which especially negatively impact low-paid workers;
- High risk of unemployment for young people, persons after child care leave, people with poor knowledge of Latvian and other socially excluded risk groups;
- Non-compliance of labour skills with labour market requirements.

Therefore, the priorities of Latvia's employment policy are as follows:

- Promote an inclusive labour market by expanding the range of active employment measures in order to improve competitiveness of the unemployed (especially socially excluded risk groups, including people with poor knowledge of Latvian) in the labour market, by expanding co-operation of the SEA and employers (*see Section 3.1 (Guidelines 18, 19 and 20)*);
- Stimulate economic activities in the least developed regions, by improving the business environment, encouraging development of business and self-employment, and providing state aid, in order to reduce regional differences (*see Section 2.2 (Guidelines 14, 15 and 16)*);
- Address the issue of undeclared work more intensively and stimulate the population to engage in the formal economy, by increasing net wages for low-paid employees, raising the minimum wage and increasing the amount of non-taxable minimum, strengthening both the state control institutions and associations of social partners (trade unions, employer associations, etc.) (*see Sections 3.1 and 3.2 (Guidelines 19, 20, 21 and 22)*);
- Expand opportunities of education and training, especially for low-skilled persons, as well as develop life-long learning, at the same time improve the quality of

education and develop professional orientation activities (*see Sections 3.2 and 3.3 (Guidelines 21, 22, 23 and 24)*).

## **3.2. Labour Supply**

### **3.2.1. Life-Cycle Approach to Employment**

Although trends in the labour market in recent years are positive, the unemployment rate of young people (aged 15-24 years) is still high (19% in 2004) and twice as high as the unemployment rate of able-bodied people aged 15-64 years (9.8% in 2004).

Although female employment indicators in Latvia are higher than the EU average, certain risks for provision of real gender equality still exist in the Latvian labour market. Discrimination in the labour market is characterised by such practices as: women receive a lower average payment than men for identical work; unawareness about the opportunity to complain on gender discrimination, etc. One of the main obstacles for women to engage in labour relations is the lack of accessibility to kindergartens and day care centres.

The employment rate of older people (aged 55-64) was 47.9% in 2004 (55.8% for men and 41.9% for women), which is by 6.9 percentage points higher than the EU average (50.7% for men and 31.7% for women respectively). During the first years of the pension reform, the right to apply for premature retirement on a pension by July 1, 2005 was laid down. Considering that integration of pre-pension age people into labour market is not fully ensured yet (approximately 40% of pensioners used the opportunity of premature retirement every year), the opinion of the necessity to extend by three years the opportunity of premature retirement was supported after discussions in society and the Saeima.

The Latvian state pension policy directly promotes involvement in the labour market, because the amount of state old-age pension directly depends on the social security contributions made, and the age, when application for the pension was submitted. The amount of pension is higher, if application is made later. This motivates older people to stay longer in the labour market.

In order to foster employment of people in different age groups, priority tasks in future years are as follows:

- Strengthen co-operation between educational establishments and employers so that young people are prepared for the labour market (*see also Section 3.3*);
- Support the inclusion in the labour market of persons after child care leave;
- Continue informing and educating the society about gender equality in the labour market;
- Develop measures to stimulate economic activity of pre-pension age people.

**Main planned measures for 2005-2008 to foster employment of different groups of persons** (Guideline 18).

**To support integration of unemployed young people and job seekers in the labour market** (responsible institution: Ministry of Welfare):

- By providing practice places to unemployed young people (2005-2008) with the total state and ESF financing to the amount of LVL 2.5 million;

- By subsidizing employment measures for unemployed young people (training practice, working for an employer) with state financing to the amount of LVL 1.3 million;
- By providing work places for young people aged 15-18 years during summer holidays (2005-2006) with state financing to the amount of LVL 1 million.

**To inform and educate society about gender equality in the labour market** (responsible institution: Ministry of Welfare):

- By developing and implementing the strategy of informing society about gender equality issues (2005-2007) with total state and ESF financing to the amount of LVL 0.7 million;
- By conducting studies about gender equality in the labour market (2005-2006) with total state and ESF financing to the amount of LVL 0.1 million.

**To support the inclusion of persons child care leave for inclusion in the labour market** (responsible institutions: Ministry for Children and Family Affairs and Ministry of Welfare):

- By developing services of kindergartens, game and development centres, and babysitters (mostly local government financing). It is envisaged to promote the establishment of child day care centres in places of work (development of methodical recommendations) by creating a unified information system about babysitting services;
- By organising measures to heighten the motivation of persons after child care leave and long-time unemployed (2006) with state financing to the amount of LVL 0.1 million;
- By educating society about sharing roles in the family, emphasising the role of men in care and raising of children (EU financing for the project „Man – similar and different”; responsible institution: Ministry for Children and Family Affairs). The EU financing of 2005-2006 is LVL 0.3 million.

**To include pre-pension age people in the labour market** (responsible institution: Ministry of Welfare):

- By developing active employment measures organised by the SEA in order to stimulate competitiveness and inclusion in the labour market of pre-pension age people;
- By developing professional orientation services in accordance with the needs of this target group in the context of life-long learning.

### **3.2.2. Inclusion in the Labour Market**

Approximately 77% of registered unemployed people were involved in active employment measures in 2004. Most of these were measures to raise competition (approximately 75% of unemployed people were involved in active measures) and participation in paid temporary work (20%). A little less than 5% of the unemployed took part in professional training, retraining and improvement of professional skills. Special training for people with poor knowledge of Latvian is carried out.

Increase in support for preventive measures of unemployment reduction was observed during 2004 mainly for persons after child care leave, people of pre-pension age and for persons with recognised disabilities.

Active employment measures and preventive measures of unemployment reduction as well as increased economic activities still do not ensure anticipated positive changes in many rural districts and smoothing out regional differences. Regional differences are still mostly caused by comparatively poorly developed entrepreneurship skills and poor basic infrastructure.

In December 2004 district councils and councils of the largest cities in co-operation with SEA branches developed local plans of employment promotion measures for 2005. SEA established advisory councils for promotion of local employment partnership in every branch in 2004.

In order to ensure material support for the poorest inhabitants, local governments have an obligation to pay benefits to ensure a guaranteed minimum income. As from January 1, 2005 the amount of guaranteed minimum income is LVL 21 per person. Obligatory conditions for receipt of this benefit are co-operation, including employment, which are laid down for adult family members in collaboration with a social worker, in order to involve the person in the improvement of his/her situation. In order to stimulate benefit receivers to earn income from paid work and not to make them dependent on benefits, a restriction on the maximum amount of benefit is laid down.

A system of social services with clearly defined services reception criteria and procedure is established in Latvia and standards of service quality are developed, but difficulties also exist. Services of alternative care and social rehabilitation (home care, day care centres, group homes, etc.) are insufficiently available for various socially excluded risk groups, population density in rural areas is low, there is a shortage of specialists, financial and human resource capacity of local governments is low. That is why family members of these persons have difficulties in being included in the labour market, and material conditions of the family deteriorate. The disabled do not have sufficient access to professional rehabilitation services for acquiring skills sought in the labour market. Although the range of technical aids available to the population is being extended on a regular basis, the amount of supply needs to be increased and availability of the service improved.

In order to facilitate and motivate the inclusion of more people in the labour market, priority tasks in the next years are to:

- Improve and diversify active employment measures;
- Improve preventive measures of unemployment reduction;
- Improve the system of child care and social services (*see also Section 3.2.1*);
- Reduce tax burden on low-level wages (*see Section 1.5*).

**Main planned measures for 2005-2008 for ensuring inclusive labour markets, enhancing work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive** (Guideline 19).

**To improve and diversify active employment measures and preventive measures of unemployment reduction** (responsible institution: Ministry of Welfare):

- By improving professional training and retraining of the unemployed and raising skills (2005-2007) with the total state and ESF funding to the amount of LVL 1.1 million;
- by carrying out measures for raising competitiveness, among these for teaching the state language (2005-2007), with the total state and ESF financing to the amount of LVL 15.6 million;
- By organising paid temporary work (2005-2008);

- By creating subsidised classes and workplaces for the disabled and other socially excluded risk groups (2005-2008) with the total state and ESF financing to the amount of LVL 5.9 million;
- By diversifying active employment measures in accordance with regional needs in context of the PHARE 2003 National Programme “Economic and social cohesion measures in Latvia” (2005-2006) with the state budget financing of LVL 0.4 million and EU financing of LVL 1.3 million.

**To develop the system of social services** (responsible institution: Ministry of Welfare):

- By improving availability of professional and social rehabilitation services (2005-2008) with total state and ESF financing to the amount of LVL 8.6 million;
- By integrating persons with functional disorders into society, providing them with technical aids (2005-2008);
- By educating and training social work specialists (2005-2008);
- By improving the infrastructure of social care and social rehabilitation institutions (2005-2008) with total state and ERDF financing to the amount of LVL 5.6 million;
- By ensuring partial payment to social workers for the development and introduction of professional social work with families and children in local governments (2005-2008).

### **3.2.3. Labour Market Needs**

Regional infrastructure of the State Employment Agency (SEA), Professional Career Counselling State Agency (PCCSA) and State Labour Inspectorate (SLI) are being established to ensure availability of services as close to the domicile of the customer as possible. Territorial overlay of these institutions may be assessed as satisfactory, but development requires the establishment of new structural units for customer services as well as an improvement of existing units in order to ensure the availability for persons with limited mobility.

Since 2004 the SLI and SEA have to ensure compatibility of the European Job Mobility Portal (EURES) and European Agency for Safety and Health at Work (OSHA) registers with EU level databases, preparation and processing of analytical information and it's linking with international institutions, material and technical provision for research needs in the area of labour protection.

Labour drain adversely affects sustainable development and economic growth of national economy sectors, but at present a general shortage of labour has not been observed in Latvia.

Since Latvia's accession to the EU, no statistical data on the work permits issued to citizens of EU/EEA countries is available. Information about residence permits issued with rights to work is incomplete and not usable for analysis of the labour market situation. No common system for supervision of labour movement within the EU is developed, and this creates difficulties in seeing the real situation in Latvia's labour market in regard to employment of foreigners.

In order to bring labour demand and supply closer, priority tasks for the further years are as follows:

- Establish the system for long-term forecasting of the labour market;
- Conduct studies on labour market and movement of labour;
- Develop and strengthen labour market institutions, employment partnerships and social dialogue.

**Main planned measures for 2005-2008 to improve matching of labour market needs**  
(Guideline 20).

**To establish a system for long-term forecasting of the labour market** (responsible institutions: Ministry of Welfare and Ministry of Economics):

- By developing system for long-term forecasting of labour market in the context of ESF national programme „Labour market studies” (2005-2007) with total state and ESF financing to the amount of LVL 0.7 million;
- By ensuring sustainability of the system for long-term forecasting of the labour market, allocating on a regular basis the required resources for the system’s maintenance and periodic update of data.

**To conduct studies on labour market and movement of labour** (responsible institutions: Ministry of Welfare and Ministry of Education and Science):

- By conducting a study on movement and geographical mobility of labour (*see Section 3.3.1*);
- By conducting labour market studies (2005-2006) with the total state and ESF financing to the amount of LVL 1.3 million.

**To develop and strengthen labour market institutions, employment partnerships and social dialogue on the regional, sectoral and enterprise levels** (responsible institutions: Ministry of Welfare and local governments):

- By strengthening labour market institutions, including capacities of the SEA, local governments and Latvian Association of Local and Regional Governments in the context of the National Programme “Support to capacity-building for implementation of labour market and gender equality policy in responsible institutions, dissemination of information and raising awareness” (2005-2007) with total state and ESF financing to the amount of LVL 2.9 million;
- By strengthening non-governmental institutions (*see Section 3.3.1*).

### **3.3. Adaptability of Workers and Enterprises**

#### **3.3.1. Labour Market Flexibility**

Trilateral social dialogue in Latvia is conducted in the National Trilateral Co-operation Council, where the state, employer associations and representatives of trade unions discuss social policy issues, prepare and assess normative acts regulating employment legal relationships and other issues related to socio-economic relations. In the bilateral social dialogue trade unions of every sector and representatives of employers tackle issues independently under a general agreement (*see also Section 2.2.3*).

Although the field of employment legal relationships and social dialogue has improved, employers still do not pay sufficient attention to compliance with normative acts regulating employment legal relationships, not concluding labour contracts with employees or processing them incompletely and inaccurately, as well as violating work payment principles. Violations in work payment issues also occur often – overtime work is unpaid, payment rules for a rest period in the working week are violated, wages are not paid on time. Such violations are often established due to ignorance of normative act requirements, or lack of understanding and the low level of legal culture in employment relationships.

High level of undeclared employment exists in several sectors of the national economy (construction, manufacturing industry, agriculture, transport sector). Inefficient operation of the control system, insufficient mutual co-operation and limited administrative capacities of involved institutions, insufficient informing and education of society on these issues does not allow achieving desirable results.

Labour protection system in Latvia has to be improved. Total number of accidents at work has not changed in the last years and the trend decrease it is small. Unlike other EU Member States, Latvia still does not have a national work environment institute, which would provide consultative, scientific and technical support (e.g., training of State Labour Inspectorate inspectors on specific issues of work environment issues) to policy builders and implementation supervisors in the field of labour protection.

Although the number of enterprises and companies increases every year, this still remains at a low level per 1000 inhabitants in comparison with other EU Member States. The proportion of self-employed and entrepreneurs is small (6.2% and 3.4% respectively of all employed in 2004).

Geographic mobility of population is unsatisfactory due to poor the infrastructure of roads and problems of lodging availability, thus reducing the opportunities of territorial cohesion.

In 2004, 11% of economically inactive population were not looking for a job due to personal or family reasons. At the same time 10.4% of all employed worked part-time; 40.2% of them worked part-time, because they could not find a full-time job, and 18.6% of them were taking care of their child/children or were working part-time due to other personal or family reasons.

In order to improve labour market flexibility, priority tasks for the next years are as follows:

- Promote practical introduction of normative acts regarding the area of work safety and health protection at workplaces, to inform society about these issues, strengthening the role of social partners;
- Reduce undeclared employment;
- Support starting of businesses and promote geographic mobility in the least developed regions;
- Improve road safety and establish an integrated passenger transportation system (*see Section 2.2*).

**Main planned measures for 2005-2008 to improve labour market flexibility**  
(Guideline 21).

**To improve the system of the work safety and health protection at work** (responsible institution: Ministry of Welfare):

- By improving infrastructure of the State Labour Inspectorate and strengthening administrative capacities so that safety and staff competences complies with the requirements of the normative acts of the Republic of Latvia and EU standards and would be suitable for creation and circulation of electronic documents (2005-2008) with the total state and EU financing to the amount of LVL 1 million;
- By raising capacities of the Employers' Confederation of Latvia, Free Trade Union Confederation of Latvia, Latvia's local governments and Latvian Association of Local and Regional Governments, improving forms of co-operation, educating and

informing their employees (2005-2006) with the total state and ESF financing to the amount of LVL 1.5 million;

- By establishing the Latvian National Work Environment Institute and ensuring its operation;
- By improving supervision of labour safety systems and labour relations (2005-2008) with total state and EU funds (including ESF) financing to the amount of LVL 3.6 million;
- By conducting study on labour conditions and risks (2005-2006) with the total state and ESF financing to the amount of LVL 0.2 million.

**To reduce undeclared employment** (responsible institutions: Ministry of Finance and Ministry of Welfare):

- By increasing the minimum wage and the untaxed minimum in order to reduce the tax burden for low pay wages (*see Sections 1.4 and 1.5*);
- By raising administrative capacities of the State Labour Inspectorate, recruiting additional staff, improving control over observance of the labour law norms, increasing level of society's awareness about the issues of labour law, as well as developing a model of co-ordination mechanisms for effective exchange of information with the corresponding public administration bodies and other institutions (2005-2008) with the total state and ERDF financing to the amount of LVL 0.2 million;
- By strengthening the role of the trade and employer unions in entrepreneurship, fostering the consolidation of entrepreneurs in business organizations (see the previous list of measures), in order to create a favourable environment for an increase of socially responsible entrepreneurship reputations;
- By strengthening the role of trade unions in business activity, encouraging entrepreneurs' uniting in employer organisations (see the previous set of measures);
- By conducting a study for the assessment of unregistered employment in order to improve the analytical base for making statistically based decisions (2005-2006) with total state and ESF financing to the amount of LVL 0.1 million.

**To support starting business and promote geographic mobility in the least developed regions** (responsible institutions: Ministry of Economics, Ministry of Transport and Communications and Ministry of Welfare):

- By promoting measures of starting business (*see Section 2.2*);
- By conducting study about geographic mobility of labour (2005-2006) with state financing to the amount of LVL 0.1 million;
- By ensuring improved condition of state road network (*see Section 2.2*).

### 3.3.2. Labour Costs and Wages

Low work payment in Latvia is one of the main factors for such a negative phenomena as labour drain (mostly to the old EU Member States) and insufficient motivation to become involved in the labour market, especially for women with lower education level and skills. At the same time, the low labour costs are one of the main elements of the competitiveness in Latvian export sectors.

One of the work payment regulation mechanisms in Latvia is the minimum monthly wage (*see Section 1.4*).



In 2004 the average gross monthly wage was LVL 212 for men and LVL 179 for women. The differences of wages are consequences of the labour market segregation that starts already at school and strengthens with the stereotype dominance in the society about female and male roles.

In order to balance costs not related to wages, social security contribution rate for employer was lowered by 4 percentage points in recent years in comparison with the situation in 1998. Since 2003 the total social security contribution rate is 33.09% (employer share is 24.09%, employee share is 9%).

In order to ensure a conducive development of labour costs and price fixation mechanisms, priority tasks of the next years are:

- Raise minimum wage up to 50% of the average wage by 2010 (*see Section 1.4*);
- Tackle gender equality issues (*see Section 3.2*);
- Encourage social dialogue (*see Section 3.2.1*).

### **3.4. Education and Skills**

#### **3.4.1. Investment in Human Capital**

Total financing of education increases every year – from LVL 301.6 million in 2000/2001 academic year to LVL 406.9 million in 2003/2004 academic year. However, in spite of this increase, the proportion of finance in GDP was 5.9% in the 2003/2004 academic year in comparison with 6.1% in 2000/2001 academic year.

Market economy, setting new requirements to professional skills, develops faster than the supply of adequate professional and higher education programmes. In particular professions, a discrepancy between labour market demand and the existing education supply arises. Distribution of students by thematic fields of studies does not correspond to national economy needs and labour market changes. Co-operation between educational establishments and employers is insufficient. Employers lack the incentives to take charge of practice places for prospective specialists.

Creation of a management model for the education system and optimisation of school network is slow, which raises the relative cost of education services, taking into account the rapid decrease in the number of children and the growing urbanisation trends. The greater part of local government finances is channelled into maintenance of educational establishments, therefore the financing for developing education is insufficient.

Integration of children and young people from socially excluded risk groups (children and youth with unfinished basic education, with low motivation, from unfavourable families, orphans, prisoners, as well as children and youth with special needs) in education system and labour market is insufficient. Special qualification of teachers for work with this target group is insufficient. Inclusion of disabled and other people from unemployment risk groups in the labour market is problematic as well, especially for the disabled, who do not have access to higher education.

Although education costs increase, public financing for professional education establishments decreases annually (calculated as percentage of GDP). In 2004 it was 0.46% of GDP (0.5% in the previous year).

Distribution of students between professional education establishments and secondary schools does not conform to labour market needs. Traditions to recognise professional education as prestigious have not been fostered in Latvia.

The buildings of professional education establishments in the regions are physically obsolete, these are under utilized and maintenance of the buildings requires major financial resources. Material base of teaching provides no opportunity to acquire professional knowledge and skills required for the labour market.

In the recent years, with the increased demand for higher education, number of study places financed from the government budget stayed unchanged and even has decreased in comparison with 2001. It is especially necessary to increase the number of study places financed from the government budget in fields important for the development of Latvia – natural and engineering sciences.

Statistical data indicate that increasingly smaller number of young people in Latvia opt for natural and engineering studies, which in turn creates a shortage of skilled specialists in the various production sectors. In 2003/2004 academic year in Latvia, 54% of students chose study programmes in social sciences while engineering sciences were chosen by only 11% of students, and even smaller number of students – only 5.4% – chose natural sciences and mathematics.

Only 17% on average of the full-time students studying for government budget resources receive grants. The amount of student loans that is envisaged to meet the social needs of students is insufficient and should be increased.

Life-long learning system that would provide opportunity for the population to adapt to conditions of a changing labour market has not been created in Latvia. Uneven socio-economic development in the country creates different opportunities to acquire high-quality education for rural and urban population. Insufficient knowledge of foreign languages and skills to use modern technologies as well as an ignorance of basic business principles hamper involvement in life-long learning and labour market.

Further priority tasks in improvement of the situation are:

- Improve the ability of the education system to adapt to the changing requirements of the labour market, increase participation and responsibility of regional governments and employers in ensuring the availability of professional education;
- Improve availability of education at all levels, reduce the number of students expelled from educational establishments;
- Raise participation and responsibility of regional governments and employers in ensuring availability of professional education;
- Develop life-long learning strategy and support starting the creation of such a system on the regional level;
- Implement the project of new Latvian National Library and digital library.

**Main planned measures for 2005-2008 to expand and improve investment in human capital** (Guideline 23).

**To improve ability of education system and students to adapt to the changing requirements of the labour market** (responsible institutions: Ministry of Education and Science, Ministry of Regional Development and Local Government and Ministry of Welfare):

- Balance number of students in general and professional education programmes by taking into account the results of long-term forecasts of the labour market (*see also Section 3.1*);
- Modernise material and technical provision of professional education establishments by establishing the set of normative measures to ensure practice for students of professional education establishments (2005-2007) with the total state and EU funds financing to the amount of LVL 5.6 million;
- Promote modernisation of professional and higher education and practical training system, acquisition of adequate knowledge, skills and abilities in economic sectors important to regions in the context of the PHARE 2003 National Programme “Economic and social cohesion measures in Latvia” with the state budget financing of 0.4 million LVL and EU financing of LVL 1.3 million;
- Develop and carry out an information campaign in order to raise prestige of engineering sciences, natural sciences, medicine and other fields necessary for the development of Latvia.

**To improve availability of education at all levels, reduce the number of students expelled from educational establishments** (responsible institutions: Ministry of Education and Science and Ministry of Welfare):

- By integrating young people in the education system, creating pedagogical correction programmes, involving young people with special needs (2005-2007) with EU funds financing to the amount of LVL 0.1 million;
- By applying educational services to socially excluded population groups (*see Section 3.4.2*).

**To increase availability of higher education and its conformity with the labour market needs** (responsible institution: Ministry of Education and Science):

- By raising the number of study places financed from the government budget in natural sciences, engineering sciences, environmental sciences (2005-2008);
- By increasing the amount of student loan and fund of grants in higher educational establishments (2005-2008) (responsible institution: Ministry of Education and Science);
- By establishing the set of normative measures to ensure practice for students, acquiring modern technologies for research institutes, where education process and innovation are ensured, supporting entrepreneurs, who provide places of practice, creating system of employer and employee co-operation agreements;
- By developing availability of higher education and technical provision to acquire programmes for the disabled, ensure availability of study environment for the disabled with movement disorders in at least two higher educational establishments.

**To improve life-long learning system** (responsible institutions: Ministry of Education and Science and Ministry of Welfare):

- By developing life-long learning strategy (2005-2007) (responsible institution: Ministry of Education and Science) with EU funds financing to the amount of LVL 0.7 million;
- By improving professional orientation system (*see Section 3.4.2*);
- By conducting labour market studies (*see Section 3.1*).

**To implement the projects of new Latvian National Library and digital library** (responsible institution: Ministry of Culture):

- By constructing a new and modern building of the National Library as well as implementing the digital library project, creating ICT provision and digital content, ensuring availability of services in all country (*see also Section 2.1.3*).

### **3.4.2. Availability and Quality of Education System**

The system of professional education must ensure that professional education and skills acquired in Latvia and abroad would be mutually comparable and graduates of Latvian professional education establishments would have opportunities to continue education abroad and compete in the international labour market. Co-operation between professional education establishments and professional organisations is insufficient. As a result it is difficult to set labour market requirements for employee competence and development of professional education programmes.

Application of a unified criteria and methodology in assessment of implementation of initial professional education and further professional education programmes is not ensured in Latvia, unified criteria are not set for self-appraisal and external appraisal of educational establishments.

Acquisition of engineering and technical sciences professions is hindered by insufficiently qualitative and timely acquisition of knowledge, abilities and skills in mathematics and natural sciences in general and professional education programmes. Level of basic skills and general education in professional education is insufficient.

Aspirations of Latvian students to improve their education abroad are poorly supported. For example, due to the insufficient financing only 0.17% of the total number of students in Latvia can participate in Socrates/Erasmus programmes, although the goal of Socrates/Erasmus management is to achieve that 10% of students from every country would participate in exchange programmes.

Professional skills of teachers and their opportunities of further education are insufficient, teachers and the academic staff are aging. The number of new teachers and academic persons with a scientific degree is decreasing. The low salaries of teachers do not encourage involvement of young teachers in the education sphere. Preparedness of medium-generation teachers for bilingual education is insufficient.

The number of the employees, who have received services of the Professional Career Counselling State Agency (PCCSA), gradually increases every year. However, it is necessary to raise the PCCSA capacity in order to ensure higher quality services. Introduction of professional orientation measures in schools is also important.

Due to the shortage of pre-school child care centres in Latvia, harmonisation of work and family life is encumbered – opportunities of parents to be involved in social and employment activities diminish. So that all population would have equal access to education and training, establishment of game and development centres for long-time child care has been started.

Wider use of flexible working time and forms of work organisation would essentially contribute to harmonisation of work and family life (*see Section 3.2.1 for additional information*).

Priority tasks of the state's education system for improvement of the situation are:

- Continue improvement of educational programmes in accordance with labour market needs;

- Improve quality assessment system of educational programmes and activity of educational establishments;
- Continue the started wage reform and increase of the teaching staff in order to maintain the current staff and ensure natural replacement of staff, as well as encourage further education opportunities of teachers at all competence levels, including in international educational activities;
- Increase opportunities of student mobility for improvement of education and acquisition of particular professions;
- Ensure co-operation between science, higher education and business, which would promote approximation of science and higher education and would ensure faster introduction of scientific discoveries into production (*see Section 2.1*);
- Ensure high-quality comprehensive services of professional orientation;
- Apply services of the State Employment Agency and the Social Integration Centre to various population groups, mainly for the disabled, youth with unfinished basic education, with low motivation, from unfavourable families, orphans, prisoners, as well as youth with special needs.

**Main planned measures for 2005-2008 to adapt education and training system to new competence requirements** (Guideline 24).

**To improve educational programmes in accordance with the labour market needs** (responsible institutions: Ministry of Education and Science and Ministry of Welfare):

- By conducting an analysis of labour market demand and, on this basis, updating the Classifier of Professions and fields of studies with total state and ESF financing to the amount of LVL 0.3 million;
- By reorganizing administratively complicated and expensive licence receipts (or changes) and accreditation procedures, which hinder the high school possibilities for reacting more operatively to the labour market changes;
- By informing more widely potential students about prospects in the various fields of studies in order to ensure supply of specialists in these fields necessary for the national economy and increase supply of further professional education and professional improvement education programmes.

**To establish quality assurance system of professional education** (responsible institution: Ministry of Education and Science):

- By improving infrastructure of professional education establishments (2005-2007);
- By improving the system of compulsory centralised exams in order to ensure for children wider future options on enrolment in higher educational establishments for acquisition of modern technologies, mathematics, natural and engineering sciences;
- By working out a unified methodology for the raising the quality of professional education as well as the attraction and education of social partners (2005-2007), with total state and EU funds financing to the amount of LVL 1 million;
- By ensuring operation of Trilateral Co-operation Sub-council of Professional Education and Employment and establishment of the efficient operation of the regional councils (2006-2007);
- By developing and implementing procedure which envisages regular efficiency analysis of the use of government budget resources, assessing volume and results of resources used in the study process in view of their efficiency in the labour market.

**To increase opportunities of student mobility for improvement of education and acquisition of particular professions** (responsible institution: Ministry of Education and Science):

- By ensuring additional financing for student grants and academic staff grants in Socrates/Erasmus programmes (2006-2008);
- By ensuring opportunities for students and creating a mechanism of financing for acquisition of study courses in related higher educational establishments in Latvia.

**To ensure high-quality comprehensive services of professional orientation** (responsible institutions: Ministry of Education and Science and Ministry of Welfare):

- By improving professional orientation system of the Professional Career Counselling State Agency with the total state and EU funds (including ESF) financing to the amount of LVL 3.3 million;
- By introducing professional orientation information measures in educational establishments with accepted EU financing to the amount of LVL 1.1 million (2005-2007);
- By developing and updating 60 professional standards and programmes in accordance with labour market demands.

**To apply education services to socially excluded population groups** (responsible institutions: Ministry of Education and Science and Ministry of Welfare):

- By introducing distance learning and modern information and communications technology methods more widely in the process of acquisition of professional education, which would provide broader opportunities to acquire professional education for people with functional disorders as well as distance learning opportunities for the disabled with total state and ESF financing to the amount of LVL 6.5 million;
- By improving professional rehabilitation services, establishing a network of regional branches of the Social Integration Centre (SIC) as well as increasing the number of professional rehabilitation programmes, which provides an opportunity for the disabled to acquire professions sought-after in the labour market, as well as increasing the number of persons who have received services, with total state and EU funds (including ESF) financing to the amount of LVL 1.5 million.

## Annex 1

## Structural indicators

	2000	2001	2002	2003	2004	Goal	
						2008	2010
<b>GDP per capita</b> % of the EU-25 level by purchasing parity standards (PPS)							
EU	100	100	100	100	100		
Latvia	35.2	37.1	38.7	40.7	43.3	51.0	54.0
<b>Labour productivity</b> GDP by PPS per employee (% of the EU-25 level)							
EU	100	100	100	100	100		
Latvia	38.2	39.5	40.3	41.3	43.1	50.0	53.0
<b>Employment rate – total</b> Number of employed % of population aged 15 to 64 years							
EU	62.4	62.8	62.8	62.9	63.3		70.0
Latvia	57.5	58.6	60.4	61.8	62.3	65.0	67.0
<b>Employment rate – women</b>							
EU	53.6	54.3	54.7	55.0	55.7		60.0
Latvia	53.8	55.7	56.8	57.9	58.5	61.0	62.0
<b>Employment rate – men</b>							
EU	71.2	71.3	71.0	70.8	70.9		
Latvia	61.5	61.9	64.3	66.1	66.4	67.5	68.0
<b>Employment rate of older people – total</b> Number of employed older people (55-64 years) % of persons aged 55-64 years							
EU	36.6	37.5	38.7	40.2	41.0		50.0
Latvia	36.0	36.9	41.7	44.1	47.9	49.0	50.0
<b>Employment rate of older people – women</b>							
EU	26.9	27.8	29.2	30.7	31.7		
Latvia	26.7	30.0	35.2	38.8	41.9	42.0	43.0
<b>Employment rate of older people – men</b>							
EU	46.9	47.7	48.8	50.3	50.7		
Latvia	48.4	46.2	50.5	51.3	55.8	57.0	58.0
<b>Gross domestic expenditure on research and development (R&amp;D)</b> % of GDP							
EU	1.88	1.92	1.93	1.95			3.0
Latvia	0.45	0.41	0.42	0.38	0.42	1.1	1.5

	2000	2001	2002	2003	2004	Goal	
						2008	2010
<b>Education level reached by youth – total</b> Number of young people (20-24 years) with at least secondary education, per cent of youth aged 20-24 years							
EU	76.4	76.2	76.5	76.5	76.7		85.0
Latvia	76.8	70.3	73.2	74.0	76.9	82.0	85.0
<b>Education level reached by youth – women</b>							
EU	79.2	79.0	79.5	79.1	79.6		
Latvia	82.3	76.2	82.2	79.7	83.4	84.0	85.0
<b>Education level reached by youth – men</b>							
EU	73.5	73.4	73.6	74.0	73.8		
Latvia	71.4	64.6	64.4	68.5	70.7	75.0	77.0
<b>Relative price level of private consumption</b> % of EU-25 average							
EU	100	100	100	100			
Latvia	57.6	58.3	57.6	55.1			
<b>Private investment</b> Expenditure for gross fixed capital formation in the private sector % of GDP							
EU	18.4	17.9	17.2	16.8	17.0		
Latvia	23.2	24.0	22.8	22.9	23.9	25.0	25.0
<b>Risk-of-poverty rate after social transfers – total</b> Share of population with equivalent disposable income (with transfers) under level of poverty (i.e., 60% of median equivalent disposable income)							
EU		15					
Latvia	16		16	16		11	11
<b>Risk-of-poverty rate after social transfers – women</b>							
EU		17					
Latvia	16		16	17		11	11
<b>Risk-of-poverty rate after social transfers – men</b>							
EU		14					
Latvia	17		16	16		11	11
<b>Long-term unemployment – total</b> Number of long-term unemployed (12 months and more) % of total population							
EU	3.9	3.8	3.9	4.0	4.1		
Latvia	7.9	7.2	5.7	4.3	4.3	4.0	3.8
<b>Long-term unemployment – women</b>							
EU	4.8	4.6	4.6	4.7	4.7		
Latvia	7.5	6.3	4.8	4.5	4.4	4.0	4.0



	2000	2001	2002	2003	2004	Goal	
						2008	2010
<b>Long-term unemployment – men</b>							
EU	3.3	3.2	3.3	3.5	3.6		
Latvia	8.3	8.1	6.5	4.1	4.2	3.7	3.5
<b>Greenhouse gas emission</b> Greenhouse gas emission – changes since 1990 (in terms of CO2 equivalent) in per cent – 1990=100							
EU	90.4	91.5	91.0				92.0
Latvia	39.6	42.2	41.8	41.4	45.0	92.0	92.0
<b>Energy intensity in economy</b> Total energy consumption in terms of GDP (in constant prices 1995=100) – kg of oil equivalent per 1000 euros							
EU	208.76	209.71	206.51	209.49			
Latvia	756.04	816.51	750.25	728.83		686.0	670.0
<b>Cargo transportation volume in terms of GDP</b> Volume of domestic cargo transportation in terms of GDP; tonkilometres/GDP (constant prices of 1995 in euros), 1995=100							
EU	100.8	99.8	100.6	99.7			
Latvia	120.2	120.1	122.4	133.1		150.0	165.0

## Utilisation of the EU Structural Funds and Cohesion Fund

**Latvia as a Member state of the European Union has access to financial aid from the EU Structural Funds, which is an instrument for implementation of the EU regional cohesion policy.**

The goals regarding the planned use by Latvia of the aid from the structural funds are set out under the Single Programming Document which was co-ordinated by the Cabinet of Ministers of the Republic of Latvia and the European Commission in December 2003 and approved by the Commission Decision C(2004)2121 of July 17, 2004, approving the Single Programming Document for Community structural assistance under Objective 1 in Latvia (see the box below).

### Box 1

#### **Priorities of the Single Programming Document**

Financing from the Structural Funds will be granted for implementation of measures and activities in the framework of priorities set out under the Single Programming Document:

Priority 1 – “Promotion of balanced development” (269 million EUR), which includes the following measures:

- 1.1. „Improvement of environmental infrastructure and promotion of tourism”;
- 1.2. „Development of accessibility and transport system”;
- 1.3. „Development of information and communications technologies”;
- 1.4. „Development of education, health and social infrastructure”.

Priority 2 – „Promotion of business activity and innovation” (209 million EUR), which includes the following measures:

- 2.1. „Support to development of innovation”;
- 2.2. „Development of business infrastructure”;
- 2.3. „Enhancing business support measures for small and medium-sized enterprises”;
- 2.4. „Access to financing for small and medium-sized enterprises”;
- 2.5. „Support to public research”.

Priority 3 – development of human resources and promotion of development (175 million EUR), which includes the following measures:

- 3.1. promotion of employment;
- 3.2. development of education and continuing education;
- 3.3. eradication of social exclusion.

Priority 4 – „Promotion of development of rural areas and fisheries” (public financing - 170 million EUR), which includes the following measures:

- 4.1. „Investment in agricultural enterprises”;
- 4.2. „Support to young farmers”;
- 4.3. „Improvement of processing and marketing of agricultural products”;
- 4.4. „Enhancing transformation and development of rural areas”;
- 4.5. „Development of forestry”;
- 4.6. „Support to local action (LEADER+ type measure)”;
- 4.7. „Training”;
- 4.8. „Balancing of fishing effort”;
- 4.9. „Renovation of fleet and modernisation of fishing vessels”;
- 4.10. „Improvement of processing and marketing of fishery and aquaculture products, fishing port facilities and aquaculture”;
- 4.11. „Development of coastal fishing, socio-economic measures, promotion of conquering new markets and support to producer organisations”.

Priority 5 – „Technical assistance” (22 million EUR).

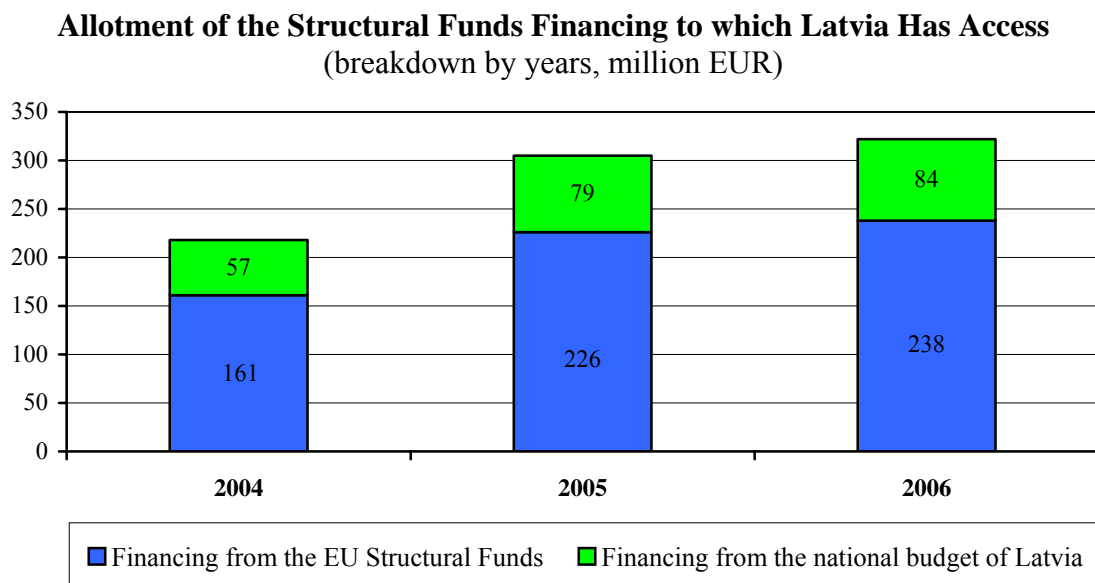
The total public funds accessible to Latvia in the Structural Funds framework in the programming period of 2004-2006 (845 million EUR), to which the beneficiaries of Structural Fund financing are able to apply, are made up of the co-financing of the EU Structural Funds (up to 75% of the amount of public financing) and financing from the national budget of the Republic of Latvia and budgets of local governments (at least 25% of the amount of public financing). To apply for the aid from the Structural Funds, the beneficiary of financing additionally has to provide its own co-financing.

From the public funds accessible in the Structural Funds Framework in the programming period of 2004-2006, the financing of the EU Structural Funds amounts to 625 million EUR and the financing from the national budget of the Republic of Latvia is 220 million EUR (see Figure A.2.1).

Breakdown of the EU Structural Funds financing by funds:

- European Regional Development Fund (369 million EUR);
- European Social Fund (139 million EUR);
- Guidance Division of the European Agricultural Guidance and Guarantee Fund (93 million EUR);
- Fisheries Management Financing Instrument (24 million EUR).

Figure A.2.1



Source: Single Programming Document, 2003

In order to smooth out differences existing between EU Member states, Latvia, after accession to the EU, has access to resources from the **Cohesion Fund**, because Cohesion Fund projects were administered as ISPA projects before May 1, 2004. Aid from the Cohesion Fund is available to those EU Member states in which the GDP per capita is below 90% of the EU average. The main goals of the Cohesion Fund are to provide support to the improvement of environmental and transport infrastructure.

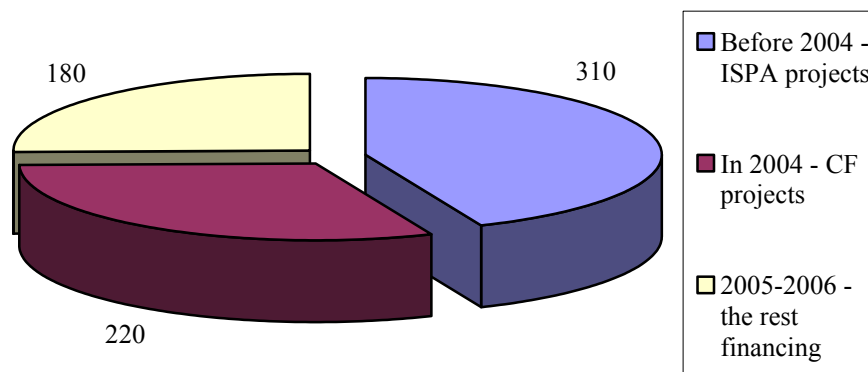
Like with the Structural Funds, also the resources from the Cohesion Fund are only granted as a co-financing for measures supported financially by a Member state. The EU co-financing from this fund has been set at 80-85%. The total project costs have to reach at least 10 million EUR.

Utilisation of resources from the Cohesion Fund is set out under the Reference Framework Document of the Cohesion Fund, which was co-ordinated with the European Commission in December 2003. In contrast to the Single Programming Document, which only sets out priority areas for aid, the Reference Framework Document of the Cohesion Fund also enumerates potential projects to which the financing will be granted.

The total financing from the Cohesion Fund accessible to Latvia in the period of 2000-2006 amounts to 710 million EUR, of which 310 million EUR make the financing for projects that are under implementation at present (former ISPA projects), 220 million EUR are earmarked for the Cohesion Fund project applications of 2004, and 180 million EUR make the financing for the Cohesion Fund project applications to be submitted in 2005 and 2006 (see Figure A.2.2).

Figure A.2.2

**Cohesion Fund (CF) Financing Projects in the Programming Period of 2000-2006**  
(million EUR)



*Source: Project Appraisal Department, Ministry of Finance of the Republic of Latvia, 2005*

As at the beginning of March 2005, 35 Cohesion Fund projects have been approved for Latvia with the total Cohesion Fund financing of 530.6 million EUR, of them 20 are environmental sector projects, 14 are transport sector projects and one is a technical assistance project of the Extended Decentralised Implementation System (EDIS).

In the environmental sector, 20 Cohesion Fund projects have been approved, including 17 infrastructure projects and 3 technical assistance projects with the total financing from the Cohesion Fund in the amount of 217.6 million EUR.

In the transport sector, 14 Cohesion Fund projects have been approved, including 11 infrastructure projects and 3 technical assistance projects with the total Cohesion Fund financing in the amount of 312.2 million EUR.