



# National Background Paper Latvia



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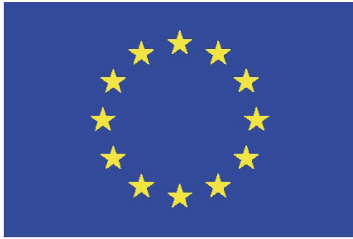
# 27 National Seminars Anticipating & Managing Restructuring

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## National Seminar – Latvia National Background Paper

### Anticipating and Managing restructuring Latvia

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### Executive summary

The global economic crisis has had significant negative consequences for the economy of Latvia. In 2009, as the financial problems in the world remained, Latvia's economic recession continued. In the 3rd quarter of 2009, compared to the same period of 2008, GDP fell by 18.4%. The global economic recession has affected the labour market too, and as a result there has been a decrease in labour demand. Thus, one of the primary indicators of the recession's impact on Latvia's economy is unemployment levels. Unemployment levels have increased dramatically to the highest rate in the EU. According to Eurostat, the unemployment rate reached 22.3% in November 2009 and the youth unemployment rate has almost tripled, reaching 36.3% in September 2009.

However, in comparison with the tremendous restructuring that Latvia underwent in the early 1990s, when the country started the transition to a market economy, the current restructuring process is completely different, because the government has established a system for anticipating and managing restructuring. By transposing all EU labour law directives relating to corporate restructuring, the Latvian government has developed a legal framework that ensures the protection of workers' rights and provides for the involvement of workers' representatives in the restructuring process.

The Latvian government has also acknowledged that restructuring can be managed more effectively and in a socially responsible way if those most affected are actively involved in managing change at all levels, and not solely at company level, thus ensuring that the adaptation process can move forward on the basis of consensus, which is an essential condition for competitiveness. Therefore particular attention has been given to the development of social dialogue at national level and the capacity of the institutions involved in the social partnership has been strengthened.

Bearing in mind the deepening of the global financial and economic crisis, the government of Latvia is acting to stabilise and revive the financial system, to improve the efficiency of public administration by reducing its expenditure and to restructure the economy by increasing its competitiveness, productivity and production with high added value. One of the main aims of the Latvian government is to encourage development and boost programmes in the domains of lifelong learning and employability, in order to support the transition to new jobs and occupations. It has been acknowledged that enterprises are the main actors and enablers in the process of change. Therefore many policies have been designed to contribute to adaptation to change and support for restructuring by creating enabling conditions for enterprises and industry, thereby increasing their dynamic capabilities and competitiveness in the face of intensified drivers of structural change. As fiercer international competition and rapidly evolving technology raise the need for successful innovation and marketing of new products, technologies and services, innovation policy has been acknowledged as a major tool for increasing competitiveness. The Economic Stabilisation and Growth Revival Programme of Latvia prescribes the injection of LVL 600–700 million into the economy in the form of support for entrepreneurship. An important economic revival instrument will be the export credit guarantee system.

The specific problem of Latvia is that the country has a relatively high level of undeclared employment that significantly affects the restructuring processes both at the national level and at the company level, as many companies are not able to compete with those that avoid taxes and, therefore, are forced to restructure their businesses. The government and social partners have agreed to pay particular attention to this problem and significantly reduce its scale.

In order to diminish the negative effects of the recession on the Latvian population, the government has decided to expand active labour market policy measures significantly and to modify them in accordance with labour market trends. One of the main priorities of Latvian employment policy is the implementation of measures aimed at raising and maintaining the professional qualifications of the workforce, thereby increasing its productivity and employability, by offering various training and retraining options. The new, more flexible approach to training has been developed by introducing a new voucher system, thus enabling those who participate in qualification-raising programmes to choose the institution for their education or training. The main aim of this system is to generate competition in the market for the provision of education and training for the unemployed, which should improve the quality of the skills and knowledge that the unemployed can get. New and innovative tools to acquire better qualifications have also been introduced. For example, a new measure to support people at risk of unemployment provides an opportunity to combine part-time work with training. This will allow access to state-funded training and retraining programmes not only for unemployed people, but also for people at risk of becoming unemployed because of the recession, thus introducing a more preventive approach to unemployment, whereby the potentially jobless have an incentive to undertake training while still in work and to look for a new job while studying.

Because the economic down-turn has had a significant impact on the labour market, and the situation is likely to remain very challenging during the next 2-3 years, the decision has been taken to strengthen the social safety nets in order to assist the most vulnerable people during the period of recession. Since registered unemployment has surged since the end of 2008, and unemployment benefit entitlement ceases after 9 months, it is envisaged that very large numbers of unemployed will be coming off unemployment benefit from the autumn of 2009. They will be entitled to income support from their local authority, but the amount of the allowances is very small and there are doubts about the financial capacity of local authorities to meet those obligations. The government's first priority has been to address this problem with a public works programme of community jobs, developed with help from the World Bank. The unemployed will be able to participate in the programme for up to six months and to receive an allowance during that period. It is intended both to maintain income after unemployment benefit entitlement has ceased and to enable people to maintain and improve their skills through work practice. It has been acknowledged that in 2010 the public works programme will be the most important active labour market measure. Its assessment will therefore be carried out in the middle of the year in order to decide on the allocation of additional funds.



### Introduction

The global economic crisis has had significant negative consequences for the economy of Latvia. Although all European economies, to a greater or lesser extent, have slipped into recession as the result of the world economic and financial crisis, the crisis has hit Latvia harder than other European countries. The decrease in economic growth has been accompanied by an increase in unemployment and a risk of deepening social polarization. A growing number of businesses have come under threat, putting the jobs of more and more employees at risk. The end of 2008 and the first part of 2009 were marked by a set of negative tendencies and factors in Latvia. The aim of this report is to analyse and describe the characteristics of the legal and institutional framework related to restructuring. The report is organized as follows. Chapter 1 outlines the national context. Chapter 2 gives a general overview of the methods for anticipating and managing restructuring, including new instruments the Latvian government is using to deal with the effects of the current crisis. Chapter 3 describes case studies related to the measures being taken, and Chapter 4 evaluates the existing measures and tools for anticipating and managing restructuring.



## 1.1 Structural and economic challenges

Since the beginning of the transition to a market economy in the early 1990s, Latvia has undergone tremendous restructuring, especially at the beginning of the 1990s. At that time the changes were very dynamic: there were collective dismissals and enterprises were collapsing, especially enterprises manufacturing for the Soviet army's needs (hi-tech products and radio). There were no assistance programmes for those who suffered from the restructuring. Employers were not obliged to provide the dismissed employees with any assistance. Any programmes were individual cases. It was also when micro enterprises started to appear, later followed by small and medium-sized enterprises (SMEs). There had been no tradition of entrepreneurship in the Soviet Union.

The initial transition shock, when real GDP dropped by about 50% in three to four years (after losing the existing trade links with the countries of the former Soviet Union in the early 1990s) was followed by a remarkable recovery, from the mid-1990s. In 2005–2007, rapid growth took place in Latvia, with annual average growth in GDP of 11% – 10.3% in 2007 alone. The high growth rates were mainly caused by domestic demand. Since mid-2007, however, the growth rates have started to decrease, due both to internal (weakening of domestic demand) and external (decrease in global growth) processes affecting the economy. Real gross domestic product fell by 4.6% in 2008. In 2009, as the financial problems in the world persisted, Latvia's economic recession continued. In the 3rd quarter of 2009, compared to the same period of 2008, GDP fell by 18.4%.

At present, due to the decrease of financial inflow, there is a rapid decline in private consumption and investment, as well as substantial economic adjustments, which result in the decline of economic activities. The decrease in output has been observed in all basic sectors of the economy. Economic activities decreased most significantly in trade, manufacturing and construction. The production volume of manufacturing in January–May of 2009 was 24.7% lower than in the respective period of the previous year. The most substantial decrease was in light industry: production of electrical and optical equipment, transport vehicles, machinery and equipment. The lowest falls were in food production and wood processing. According to Ministry forecasts, in 2009, GDP will decrease by 18%. Despite the improvement of the situation in the second half of 2010, GDP growth will remain negative in 2010. The growth of Latvia's economy could begin again in 2011. It will be closely related to the gradual increase in economic activities in export partner countries, especially those in the EU.

## Structure of Economy (%)

	By value added		By number of employed	
	2000	2008	2000	2008
Primary sectors	4.8	3.5	14.5	8.2
Manufacturing	13.7	10.6	17.9	15.1
Electricity, gas and water supply	3.6	2.8	1.9	1.4
Construction	6.1	8.9	5.9	11.3
Trade, hotels and restaurants	17.9	19.0	17.7	19.9
Transport and communications	14.0	10.8	8.3	9.3
Other commercial services	23.0	28.7	12.4	15.5
Public services	16.9	15.7	21.4	19.4
<b>Total</b>	100	100	100	100

*Central Statistical Bureau of Latvia*

As the Latvian economy slides into recession, companies face increasing financial difficulties. Many companies have closed or reduced their scale of operations substantially. The number of bankruptcy cases among Latvian companies increased dramatically at the end of 2008 and is continuing to grow in 2009. From the beginning of this year until October 2014, new bankruptcy cases have been initiated. The cases of bankruptcy have been especially widespread among companies operating in trade, wood-working and forestry.

The present dominant model of Latvia's economy uses cheap labour and natural resources, as well as manufacturing products with low added value, but the proportion of high technology is very small. The main growth stimulus for Latvia in the future must be related to the expansion of exports. As the competitiveness of key export-oriented industry sectors in both international and local markets has a decisive role in ensuring growth, the Ministry of Economy has drawn up a number of proposals for economic recovery. Five or six national economy sectors will be prioritized: wood processing, the food industry, the chemical industry, production of electric and optical equipment, mechanical engineering and metalworking, and certain services. Money from the state budget will be allotted to those sectors. The economic recovery plan envisages the gross domestic product of Latvia growing by an average of 5% per year in 2011–2015.

## 1.2 Labour market challenges

One of the primary indicators of the recession's impact on the Latvia's economy is unemployment levels. Since the country's independence was restored, the highest level of unemployment was recorded in 1996, at 20.5%. This figure had stood at just 0.5% of the active population in 1990. After Latvia's accession to the EU, which fostered rapid economic

development, unemployment fell significantly. In 2004, the level of unemployment stood at 10.4% and continued to decline in 2005 (8.7%), 2006 (6.8%) and 2007 (4.4%). However, in 2008, all of the country's economic sectors experienced a decline in growth that was accompanied by an increase in the number of persons made redundant. The level of unemployment registered in December 2008 was 7%, compared with 4.9% in December 2007. In June 2009, unemployment reached 17.2%. In percentage terms, registered unemployment is not quite as high (14.1% in November 2009) but numbers grew rapidly from just over 50,000 in mid-2008 to 147,754 in September 2009. Most unemployed persons up to 25 years old had secondary education, whereas those aged 26–30 had higher education. In the group of pre-retirement age, most had vocational education. This indicates the need to expand the active labour market policy measures significantly and to modify them in accordance with labour market trends.

According to the forecasts of the Ministry of Economy, recovery of the labour market is expected a year after the recovery of economic growth, as it will be based on growth of productivity, not on the number of employed persons, and social problems related to high unemployment will prevail over the next 3–4 years. Less unemployment is expected only in 2011, when it will drop to 11–14% of economically active persons.

## Key Indicators of Employment and Unemployment

Indicators	2000	2005	2007	2008
Population aged 15–64 years (thousands)	1600.3	1583.8	1573.4	1567.8
Economically active persons aged 15–64 (thousands)	1074.7	1100.8	1146.6	1167.5
Employed persons (thousands)	917.6	1003.6	1075.5	1076.2
Participation rate (%)	67.2	69.5	72.9	74.5
Employment rate (%)	57.3	63.4	68.4	68.6
Unemployed (job-seekers) (thousands)	158.3	99.1	72.1	91.6
Unemployment rate (%)	14.4	8.7	6.0	7.5
Registered unemployed persons (end of period, thousands)	93.3	78.5	52.3	76.4
Registered unemployment (end of period, %)	7.8	7.4	4.9	7.0

*The Ministry of Economy*

The recession has significantly influenced the number of vacancies, which started to decrease rapidly in 2008. In January 2008 there were 17 662 registered vacancies, but in December 2008 there were only 3 205 vacancies. The number of vacancies started to decrease in the second half of 2007. Since mid-2007, the majority of Latvian enterprises have not foreseen an increase in production. Employers expect 17 618 jobs will be lost and 528 created in 2009. By sector, 3 664 jobs will be lost in public administration, defence, and compulsory social insurance; 3 485 in manufacturing; 1 949 in health and social work; 1 938 in wholesale and retail trade; and 1 462 in transport and storage. There will be 244 jobs created in manufacturing; 66 in agriculture, hunting and forestry, 65 in wholesale and retail trade; 31 in arts and entertainment; and 30 in mining and quarrying.

In addition to redundancy, there is also a transition to part-time working and other forms of reduced hours. In 2008, according to the data of the Central Statistical Bureau, 6.3% of employees were working part-time, 27.2% of whom were not able to find a full-time job. According to the Employers' Confederation of Latvia (LDDK), companies try to plan administrative costs more rationally, allowing their workers to work from home or to work reduced hours. In these cases, wages are reduced in proportion to the reduction in working hours. In order to reduce costs, holidays are often unpaid in the public sector. For example, the offices of the State Employment Agency were closed for a number of days in 2009, including every Friday in July 2009.

## 1.3 Restructuring frameworks

### 1.3.1 LEGAL FRAMEWORKS

#### *1.3.1.1 Redundancies*

The legal provisions for protection of employees in the case of redundancy are contained in the Labour Law. In the case of reduction of the number of employees or liquidation of the company, the employer must give one month's notice of termination. During this period the employer, at the written request of the employee, has a duty to grant sufficient time to the employee, within the scope of the contracted working time, for seeking other work. The employer also has a duty to provide severance pay of:

- one month's average earnings if the employee has been employed for less than five years;
- two months' average earnings if the employee has been employed for five to 10 years;
- three months' average earnings if the employee has been employed by the employer for 10 to 20 years; and
- four months' average earnings if the employee has been employed by the employer for more than 20 years.

Currently the Labour Law requires that, in the case of a cut in the number of employees, an employer must notify the State Employment Agency not later than one month ahead regarding the number and occupations of the employees to be dismissed. In order to diminish the administrative burden on employers, the Ministry of Welfare has devised amendments to the Labour Law that will abolish this requirement.

The Labour Law also puts several obligations on employers concerning information and consultation with employees. Employee representatives, when performing their duties, have the right to request and receive from the employer information regarding the economic and social situation of the undertaking, and to receive information in good time and consult with the

employer before the employer takes such decisions as may affect the interests of employees, in particular a decision which may substantially affect pay, working conditions and employment in the company.

Additional measures for the protection of employees are provided in the case of collective redundancies. According to the Labour Law, collective redundancy is when the number of employees to be made redundant within a 30-day period is:

- at least five if the employer normally employs more than 20 but less than 50 people in the company;
- at least 10 if the employer normally employs more than 50 but less than 100 people in the company;
- at least 10 per cent if the employer normally employs at least 100 but less than 300 people in the company; or
- at least 30 if the employer normally employs 300 or more people in the company.

The law stipulates that an employer who intends to carry out collective redundancy shall in good time commence consultations with employees' representatives in order to agree on the number of employees subject to the collective redundancy, its process and the social guarantees for the employees to be made redundant. During consultations, the employer and the employee representatives shall examine all the possibilities for avoiding the collective redundancy or of reducing the number of employees to be made redundant and how to alleviate the effects of such redundancy by taking measures that make it possible to further employ or retrain the employees made redundant. Not later than 60 days in advance, the employer must notify in writing the State Employment Agency and the local government in the territory in which the undertaking is located of the reasons for the intended collective redundancy, the number of employees to be made redundant, the time within which it is intended to carry out the collective redundancy, and provide information regarding the consultations with employee representatives. An employer may commence collective redundancy not earlier than 60 days after the submission of notification to the State Employment Agency, unless the employer and the employee representatives agree on a later date for starting the collective redundancy. In exceptional cases, the State Employment Agency may extend this time limit to 75 days.

### **1.3.1.2 Insolvency**

In the case of an employer becoming insolvent, employees' claims are met from the resources of the Employee Claims Guarantee Fund. These are:

- wages for the last three months of the employment relationship during 12 months before the company became insolvent;
- compensation for annual paid leave (holiday pay) which an employee became entitled to receive less than 12 months before the company became insolvent;
- compensation for other types of paid absence within the last three months of the employment relationship during the 12 months before the company became insolvent;
- redundancy payment of the minimum statutory amount stipulated by the law;
- compensation of damage for the whole unpaid period;

- amount of compensation for damage to be paid for three subsequent years ahead.

Since 10 July 2009, the amounts of claims from Employee Claims Guarantee Fund have been limited to the amount of the state minimum wage. This limitation will apply until 31 December 2011.

### 1.3.2 SOCIAL DIALOGUE

Tripartite dialogue, involving not only employers and employees, but also the state, is currently more successful in Latvia. This dialogue is held within the National Tripartite Cooperation Council (NTCC), which was set up on 30 October 1998 by a tripartite agreement signed by the President of the Cabinet of Ministers, the President of the LDDK and the President of the Latvian Free Trade Union (LBAS). The NTCC was established with an aim of promoting co-operation between the government, employers' organisations and trade unions on the national level and thereby deal with issues of socioeconomic development in compliance with the interests of the whole society and the state, so as to guarantee social stability, increase the level of well-being and spur economic growth in the country.

Since 2006, the meetings of the NTCC have been called and steered by the Prime Minister, and the NTCC has a secretariat within the State Chancellery. Seven sub-councils act within the NTCC:

- the Labour Affairs Tripartite Cooperation Sub-council;
- the Social Security Sub-council;
- the Health Care Sector Sub-council;
- the Transport, Communications and Information Technologies Tripartite Cooperation Sub-council;
- the Environmental Protection Affairs Sub-council;
- the Regional Development Tripartite Cooperation Sub-council.

Several measures have been taken in recent years to improve social dialogue, on both the national and the regional level. The institutions involved in the social partnership (including the LDDK and the LBAS) have been strengthened by a national programme entitled *Support to capacity-building for implementation of labour market and gender equality policy in responsible institutions, distribution of information and raising awareness*, co-financed by the European Social Fund (ESF). It is also planned to take further measures to promote social dialogue and strengthen the administrative capacity of the social partners in 2008–2010 by attracting financing, including ESF resource absorption. The main goals of these measures are to increase participation opportunities for the social partners in development and implementation, to get the non-governmental sector to take part in decision-making, and to improve the quality of the public services provided by NGOs. With the support of the ESF, regional centres of social partners have been established in each of the five regions (Latgale, Vidzeme, Zemgale, Kurzeme and Rīga).



Recently, the role of social partners has significantly increased because the government has acknowledged that social dialogue may help to find better ways to overcome the economic crisis. On 7 July 2009, the government established a reform management group to promote transparency in the development of the state budget. The Prime Minister chairs this group, which includes representatives of the social partners. On November 2, the reform management group presented an assessment of its current work and outlined the main tasks to be accomplished concerning structural reform. It recognized the cooperation model established by the government and non-governmental organizations, which have joint responsibility for the socio-economic situation in the country, the international obligations of Latvia, and their impact on future developments. The group assigned priority to tasks which promote national competitiveness, growth and economic recovery.



## 2.1 Measures and tools for anticipating restructuring

### 2.1.1 LABOUR MARKET FORECASTING SYSTEM

In order to balance labour market demand and supply, which are influenced by a changing labour market, Latvia has introduced a labour market forecasting system. Several research studies on the labour market and on movement and geographical mobility of labour were conducted as part of the ESF national programme entitled *Labour market studies (2005-2007)*.

On July 1, 2007, the Cabinet of Ministers made the Ministry of Economics responsible for co-ordinating medium and long-term labour market forecasting. A Co-ordination Department of Labour Market Forecasting was established in the Ministry of Economics, and the functions of the Central Statistical Bureau were expanded to carry out the direct work, i.e. projecting labour market development scenarios, as well as medium and long-term forecasts. At the beginning of 2008, the Ministry of Economy established an Advisory Council of the Labour Market Forecasting, comprising representatives of the state institutions and social partners. Its task is to ensure inter-institutional co-operation by assessing the prepared forecasts and by deciding on further action. In April 2008, the Ministry of Economics prepared initial medium-term labour market forecasts until 2013. These were approved by the Cabinet of Ministers in June 2008. They forecasts looked at 15 sectors of the economy and 37 professions. They were based on 3 economic development scenarios – slow, moderate and dynamic development. Taking into account the global economic crisis and its impact on Latvia, in 2009 the Ministry of Economics updated the forecasts. The updated medium-term labour market forecasts were for the period until 2015.

In addition, as part of its short-term labour market forecasting, the State Employment Agency carries out surveys of employers and employers' associations twice a year to analyse the situation in the labour market and provide forecasts regarding labour sufficiency. Employers are asked about the needs of enterprises for employees at that moment and over the next six months, as well as about requirements for the candidates. The focus is on employers' demand for labour and early identification of the skills needed by employers. In order to develop tools for better short-term labour market forecasting and monitoring, as well as new labour market measures (linking the numbers and profiles of the unemployed to resources spent, unemployment benefits, etc.) a new ESF co-financed project has been drawn up (scheduled to start in 2010).

It is anticipated that the labour market will stabilize in 2012 and employment will start to rise in 2013. In the medium-term (until 2015), the labour market will show the following: a negative impact of the recession on labour demand and slow changes in the post-crisis period; unfavourable demographic development and a fall in economic activity by the population. According to forecasts, future growth will be based mainly on increased productivity and less on increased employment, which will be determined by the high competition in the goods and services markets. While demand will in general fall evenly in all groups of professions, supply will fall unevenly, leading to significant imbalances in labour demand and supply across professions.

## 2.1.2 CAREER COUNSELLING

On 1 September 2007, a more targeted career guidance and job placement system was created by merging the State Employment Agency with the Professional Career Counselling State Agency. The State Employment Agency Career Services Department provides group or individual career and/or psychological counselling, identification of suitable work goals, information and help when searching for a job, retraining and work trials. Individuals are offered interest, aptitude, personality and psychometric testing, health profiling, role play, coaching and information. Group activities involve consultations, seminars and lectures on career management issues, career motivation tests and interpersonal communication training. The counsellors assess the person's professional interests and competences against specific professional profiles and evaluate personal characteristics, cognitive styles, aptitude for work and individual psychological characteristics compared to job requirements. The State Employment Agency (SEA) also provides internet services that include online career interest tests, information on careers and training opportunities, storage of CV and motivation letters, as well as responses to user questions by career guidance and/or psychological counsellors.

In 2008, career consultations were provided to 67 900 persons, including 39 100 unemployed persons and job seekers, as well as 28 800 other persons at risk of unemployment. In the first half of 2009, 35 500 persons received counselling, including 27 500 unemployed persons and job seekers. In 2008, 258 e-consultations were provided electronically and in the 1st half of 2009, 214 e-consultations were provided. New career services methods are being developed and the existing ones are being improved. Every year, surveys are organised with the participation of graduating pupils and research is carried out regarding future plans, issues and needs concerning the choice of profession, and the e-service provision is being improved.

## 2.1.3 PROMOTION OF REGIONAL MOBILITY

There are significant regional differences in the Latvian labour market. In order to address this problem, in the second half of 2008 a measure to promote regional mobility was brought in. The goal of the measure was to reduce the unemployment risk related to movement between the place of residence and the place of work. It permitted compensation for transport costs and rental costs. However, due to the significant fall in registered vacancies, the SEA did not actively promote this measure. In 2008, only 18 persons were provided with such services.

## 2.1.4 LIFELONG LEARNING

In 2008, only 6.8% of the adult population was involved in lifelong learning, which is below the EU average. The Latvian government has therefore started to put a special emphasis on lifelong learning in the development of the labour market. The lifelong learning system has been significantly improved: career education and career services have been strengthened, and career counselling services are provided to the whole population. On April 9, 2008 the Cabinet of Ministers approved a *Programme for Implementation of the Lifelong Learning Policy Guidelines*

for 2007–2013 in 2008-2010. The main aim of the programme is to raise the number of persons involved in the process of lifelong learning in 2010 to 12.5% of the target group. It aims to make lifelong learning available to all; to create qualitative education possibilities for adults; to harmonise laws and regulations and ensure efficient resource administration; to develop a flexible lifelong learning administrative system; and to develop lifelong learning action programmes for the state and the regions.

In order to improve the capacity of educational and training systems to respond to the needs of the labour market, co-operation has been strengthened among the public administration institutions, education institutions and employers regarding the adjustment of the educational system to meet the needs of the labour market. Regional Vocational Education and Employment Councils comprising representatives of public institutions, employers and employees have been established in South Latgale, Kurzeme, Vidzeme and Zemgale to deal with the development issues of labour resources, vocational education, further education and retraining in the region.

### 2.1.5 INNOVATION

Latvian industry has low productivity, a high proportion of low-technology sectors and a poorly developed national innovation system, in comparison with the EU. Only 18.6% of all enterprises on average are innovative, whereas the EU average 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. The key factors hindering development of innovative business activities are insufficient cooperation between science and business, and insufficient funding for innovative business activities on their early stage. The government has therefore launched a series of programmes to support innovation. The goal is to ensure that in 2010 the number of innovative enterprises constitutes 20% of all enterprises. These programmes aim to promote a knowledge-based economy, i.e. to facilitate knowledge and technology transfers in production in order to yield products with higher added value. For example, a *Programme of Market-Oriented Research Projects* is being implemented to promote co-operation between Latvian scientists and entrepreneurs on new technology and products. The Programme is financed from the state budget. Institutions on the Register of Scientific Institutions can get about 50% of their costs back and seek the remaining 50% from commercial companies.

### 2.1.6 SUPPORT FOR SMES

SMEs form a major part of the national economy and play a significant role in GDP growth and employment in Latvia. Promotion of financial accessibility for small and medium-sized enterprises is therefore one of the government's policy priorities. On June 28, 2007 the Cabinet of Ministers approved a *Programme on Promotion of Entrepreneurship Competitiveness and Innovation for 2007–2013*. The main goals of the programme are to provide favourable conditions for business development, to boost the capacity and efficiency of the national

innovation system, and to achieve substantial growth in industrial competitiveness and productivity, thus fostering increased volumes of high value-added manufacturing products.

An important role in the SMEs support system is played by the Mortgage Bank of Latvia, which implements support programmes financed by the state and the EU to improve access to loans with preferential conditions, providing high-risk loans to sustainable and perspective SMEs and business start-up projects which are not financed by commercial banks due to insufficient mortgage and other project risks. State support for the SMEs is also provided by the Latvian Guarantee Agency, which was established to make financing more accessible to small and medium-sized enterprises in Latvia by issuing loan guarantees as the necessary additional security for receiving a loan from a commercial bank. It also provides financial leasing guarantees as additional security for receipt of industrial leasing, and export credit guarantees, and co-finances investment in Latvian SMEs by specially established risk capital funds.

On March 31, 2009, the Cabinet of Ministers approved Regulations for a programme entitled *Support to Starting Self-Employment and Entrepreneurship*, co-financed by the ESF. The programme aims at increasing economic activity in the country, and at developing business knowledge and skills of beginners, as well as providing financial support. Its target group comprises working-age persons willing to start a business, as well as new businesses registered with the Commercial Register not earlier than one year before submission of an application. The Mortgage Bank will provide training in basic economic activities and preparing a business plan. It will provide consultations about available support. It will grant loans for economic activities envisaged in a business plan created by economic activity beginners (up to LVL 54 thousand), and make grants for economic activity (35% of the amount of a loan granted, not exceeding LVL 3.6 thousand) and loan repayment (20% of the amount of the loan, not exceeding LVL 2 thousand). The projects for business beginners may not exceed LVL 60 thousand (EUR 85 thousand) and the beginners must provide co-financing of 10%. The total financing of the programme is LVL 23 million (EUR 33 million), including LVL 14 million from the ESF and state budget, together with LVL 9 million co-financing from the Mortgage Bank. It was planned to start full implementation of the programme in July 2009, to train 1200 beginners by the end of 2013 and to provide funds (loans and grants) to 600 beginners.

## 2.1.7 UNDECLARED EMPLOYMENT

Latvia has a relatively high level of undeclared employment, especially in construction, manufacturing, agriculture and transport services. The undeclared unemployment significantly affects the restructuring processes both at the national level and at the company level, as many companies are not able to compete with those that avoid taxes and, therefore, are forced to restructure their businesses. In order to tackle this problem, the Cabinet of Ministers approved an *Action Plan for 2005–2009* to reduce undeclared employment. It has five main aims – increasing the administrative capacity of the State Labour Inspectorate (SLI), improving supervision, better co-operation among supervisory institutions, providing information to society and promoting a culture of legality. The SLI regularly inspects companies, mainly in the growing risk sectors of construction, wholesale and retail trade, hotels and restaurants, and industry. In order to improve the situation and reduce undeclared employment in the construction sector, in

February 2008 employee certificates were introduced. They should substantially improve control of legal employment relations in this sector.

Despite the increased control of employers by the SLI, undeclared employment is still widespread in Latvia. Moreover, the situation is worsening because of the declining economic situation in the country. It appears that, as a result of the stronger control measures, the shift from undeclared employment into partially registered employment is increasing when employment contracts are concluded, but part of the salaries are being paid through the evasion of taxes. More specifically, companies are trying to cut salary taxes by using service agreements rather than employment contracts.

In October 2009, the Ministry of Welfare submitted to the Cabinet of Ministers proposals for a detailed action plan by the beginning of 2010.

## 2.2 Measures and instruments for managing restructuring

### 2.2.1 UNEMPLOYMENT BENEFITS

On January 1, 2008, a changed procedure for unemployment benefit payment came into force. Payment was made proportional to insurance length and to income, and maximum periods of payment were set:

- from one year to nine years of insurance – 50 per cent of the average wage subject to insurance contributions;
- from ten to nineteen years – 55 per cent of the average wage subject to insurance contributions;
- from twenty to twenty-nine years – 60 per cent of the average wage subject to insurance contributions;
- above thirty years – 65 per cent of the average wage subject to insurance contributions.

It also depends on the duration of unemployment:

- if the period of insurance was from one year to nine years: for the first two months – the full amount; and for the last two months – 75 per cent of the amount of unemployment benefit.
- from 10 years to 19 years: for the first two months – the full amount; for the following two months – 75 per cent of the amount of unemployment benefit; and for the last two months – 50 per cent of the amount of unemployment benefit.
- more than 20 years: for the first three months – the full amount; for the following three months – 75 per cent of the amount of unemployment benefit; and for the last three months – 50 per cent of the amount of unemployment benefit.

The changes mentioned were oriented towards labour market flexibility by getting the unemployed back to the labour market as soon as possible, thus trying to prevent a situation whereby the unemployed become long-term unemployed. However, the rapid fall in economic activity and rising unemployment have led the government to introduce special measures for the crisis period. Thus, from 1 July 2009 until 31 December 2011, the period during which unemployment benefit will be paid has been prolonged to 9 months for all groups of unemployed persons:

- if the period of insurance was from one year to nine years: for the first two months – the full amount; for the following two months – 75 per cent of the amount of unemployment benefit; for the last five months – 45 LVL per month.
- from 10 to 19 years: for the first two months – the full amount; for the following two months – 75 per cent of the amount of unemployment benefit; for the following two months – 50 per cent of the amount of unemployment benefit; and for the last three months – 45 LVL per month.
- more than 20 years: for the first three months – the full amount; for the following three months – 75 per cent of the amount of unemployment benefit; and for the last three months – 50 per cent of the amount of unemployment benefit.

## **2.2.2 MEASURES TO IMPROVE OR ACQUIRE QUALIFICATIONS AND TO INCREASE COMPETITIVENESS**

One of the main priorities of Latvian employment policy is raising and maintaining the professional qualifications of the workforce, thereby increasing its productivity and employability. The SEA offers unemployed persons various options to improve or acquire qualifications. A new, more flexible approach to training has been developed by introducing a new voucher system. Since September 2009, those who participate in qualification-raising programmes have been able to choose the institution for their education or training. Funding will be based on individuals' decisions. State funding has hitherto been allocated directly to institutions.

In order to make continuous vocational education and training opportunities more accessible to employed people by focusing more on informal training, the new ESF co-financed project uses a voucher system. To improve its design, there is currently an exchange of views and ideas taking place among governmental institutions responsible for the implementation of labour market policies and other stakeholders, such as organisations representing municipalities and organisations representing employers. They are discussing issues such as improving the system for licensing and accreditation of training institutions and programmes, and possible co-financing by prospective beneficiaries.

### ***2.2.2.1 Formal professional training***

Unemployed people have been offered an option to acquire formal professional qualifications including higher education since August 2009. The voucher system will be used for the payment



of the studies (maximum training voucher amount – 1000 LVL/EUR 1422). The voucher issued by the SEA will serve as a certificate of guarantee that the SEA will reimburse the educational institution for the training of the unemployed person. If the fee for the chosen educational programme is higher than stated by the educational institution, the unemployed will cover the difference themselves, and specify it in the contract with the educational institution. Unemployed people attending courses will also receive a 70 LVL (EUR 99.6) grant per calendar month.

### ***2.2.2.2 Informal education***

Informal education includes the acquisition of basic social and vocational abilities appropriate for the changing requirements of the labour market, such as computer skills, driving skills and book-keeping skills. An important part of informal education constitutes state language courses. In 2009, 18 811 persons were involved in informal education, 1 839 of whom were learning the state language.

### ***2.2.2.3 Training with an employer***

Since the end of 2008, employers have been offered the opportunity to take unskilled employees as apprentices in professions that do not require an official state-issued educational certificate, or when the unemployed person has obtained a professional qualification but has lost the relevant skills. The employer provides theoretical as well as practical training necessary to acquire a new profession (maximum 6 months) or update the skills of an unemployed person (maximum 3 months). After the training, the employer must employ a new trainee for at least 6 months. During the training period, the State Employment Agency pays the trainee 50% of the minimum monthly wage and covers medical examination. The employer is entitled to funds that cover the expenses of the practical training, including the expenses of the experts and teaching staff involved by the employer up to LVL 600 (EUR 854), a grant of 50% of the minimum monthly wage for the monthly salary of the work managers of the unemployed person, the expenses for the adaptation of the places of training and traineeship for disabled unemployed persons up to LVL 500 (EUR 711) for one place of training or practice and expenses for the services of a sign language interpreter, companion, occupational therapist and other specialists for disabled unemployed persons. In 2009, 441 unemployed people were involved in this programme.

### ***2.2.2.4 Competitiveness-increasing measures***

Competitiveness-increasing measures are designed for unemployed persons, persons seeking employment and persons at risk of unemployment, with the aim of boosting their competitiveness in the labour market. They include individual consultations and group classes (short courses, seminars, lectures and consultations offered to the unemployed in areas such as communications skills, networking, negotiation, interview skills and motivation) for the acquisition of methods for seeking employment, psychological support and for the acquisition of

the basic abilities and skills necessary in the labour market, including the development of legal employment relations, labour rights and labour protection. Courses and seminars can last from 5 to 35 hours. These are the measures which always have the largest number of participants. In 2009, almost 34 000 unemployed people participated.

#### ***2.2.2.5 Professional training for employees on stoppage***

This is a new initiative that has been implemented since September 2009. It is planned to last until December 2013. The aim is to provide training for employed persons at a risk of becoming unemployed. It covers employees who, due to the recession, are forced to work part-time and who meet two conditions: first, having been employed longer than 6 months at their current workplace and, second, having had their work time cut at least 1 month before the training. Vouchers will allow employees to choose a professional development programme and the institution for their education or training. The new measure has a budget of 10 million LVL (EUR 15 million) and will be implemented by the SEA together with educational institutions. It is expected to accommodate 11 000 participants, who will be provided with allowances of 70 LVL (EUR 99.6) per month for a period up to 6 months and training vouchers of up to 500 LVL (EUR 750).

The scope of the measure is being discussed with the aim of adjusting it to the economic crisis situation. An assessment of its outcomes will be carried out, given that it touches upon issues like economic restructuring (substantial in Latvia) and possibly preserving work-places that are not longer-term sustainable.

#### ***2.2.2.6 Promotion of adult participation in lifelong learning***

On 1 July 2009, a new measure to provide training programmes for adult participation in lifelong learning was introduced with the aim of enabling the development of professional skills and promoting the sustainable preservation of jobs. This initiative is for employees over 25 years of age (except civil servants) and it is due to run from 2010 to 2013, with a budget of 5.4 million LVL (EUR 7.7 million). It is expected to involve 25 000 people.

#### ***2.2.2.7 Promotion of self-employment and entrepreneurship***

This measure targets unemployed people who already have some kind of business-related education, or some other formal or informal education. Its purpose is to develop entrepreneurship and thereby create new jobs for the unemployed. The programme offers consultation on the preparation of a business plan, evaluation of business plans drawn up by unemployed persons and monitoring of their implementation. Each business plan approved receives start-up financing of up to 4 000 LVL (EUR 5 700), coupled with an allowance for the entrepreneur equal to the minimum monthly wage for the first three months.

The role of the state, through the SEA, is to choose and contract the experts and consultants who evaluate the business plans. It also selects the most suitable candidates for support in writing

their business plans. Afterwards, it performs a supervisory function, ensuring that all the sides fulfil their obligations, and a coordinating function, informing participants of the extent of their obligations, rights and eligible support, providing them with the actual financing and tracking the performance of the new start-ups. If the business plan is approved, a contract is signed between the agency and the person receiving the support about creating the new venture in accordance with the approved plan and the law.

In 2008, the SEA provided consultations to 93 persons, of whom 20 started their own business. In 2009, it plans to involve 270 persons in this activity, with the best 80 receiving financial help in starting their businesses.

### 2.2.3 SUPPORT MEASURES

#### 2.2.3.1 *Complex aid measures*

The target group of the complex aid measures are unemployed persons with special social exclusion risks (for example, disability, having only basic education or less, addiction or dependency). The aim of these measures is to help deal with personality problems and dependency problems, as well as to strengthen motivation and stability in order to promote the inclusion of these persons in the labour market. The total time for the involvement of one unemployed person in the complex aid measures is not more than two years.

The complex aid measures include the following:

- assessment of the social situation and individual needs of an unemployed person – state of health, professional and physical capacities, psychological characteristics, professional suitability, any dependency or other social problem, or any crisis;
- the services of specialists (for example, psychologists, psychiatrists, psychotherapists) for the solution of personality problems and to boost motivation;
- measures for the improvement of social functioning abilities - group classes for persons with dependency problems and strengthening of stability for the solution of dependency problems, as well as other measures in conformity with the personal situation and individual needs of an unemployed person;
- measures for the renewal, improvement of work abilities and strengthening of the acquired work abilities, if the participation of an unemployed person in the measures for the improvement of social functioning abilities has given positive results. The measures include the acquisition or renewal of elementary work skills, measures to increase competitiveness, career consultations, and measures for entering into an employment contract.

The decision has been taken, however, to transform the measure by targeting the resources at the young unemployed by establishing places where they can get their first work experience, and other more specific services (the amendments to Government regulations will be submitted in January 2010).

### **2.2.3.2 Measures for certain groups of persons**

This programme targets people at a risk of social exclusion. Mostly, these are people with disabilities, but also young people, persons of pre-retirement age, long-term unemployed, alcohol or drug addicted people, single parents, immigrants, minorities, ex-prisoners, etc. The State Employment Agency offers wage subsidies to persons involved in this programme. If a person with disabilities is employed and needs a supervisor or assistant, subsidies for the wages of supervisors and assistants may be granted. In addition, a lump-sum payment is offered for an employer to buy special equipment necessary for a disabled person. Expenditure on medical examinations for all people with disabilities is also covered. The maximum duration of this programme for a person with disabilities is 24 months, for other targeted groups – 12 months.

Attention is being paid to youth employment. A project entitled *Employment Measure during Summer Holidays for Persons Acquiring Education in General, Special or Vocational Education Institutions* has been run for several years. Its aim is to promote summer employment of pupils and create an opportunity for them to acquire work experience. In the project, the SEA finances pupils' wages from state budget resources at 50% of the minimum monthly wage and covers expenses for the manager of the work practice. Expenses of employers were constituted by pupils' wages of at least 50% of the minimum monthly wage, tax payments, bonuses, lunches, etc. 11,200 pupils were involved in 2008, including 173 pupils with special needs. Unfortunately, this measure was not repeated in 2009, due to the lack of financial resources.

Although the female employment rate is comparatively high in Latvia, the female and male employment rates still differ from those of other EU member states. After child-care leave, women face several problems with integration into the labour market. A measure entitled *Raising Motivation and Professional Training of the Unemployed Persons after Child Care Leave* seeks to involve this target group in employment. In 2008, 161 unemployed persons took part, most of them young mothers.

### **2.2.3.3 Paid temporary work**

This involves low-skilled jobs for up to 6 months, to preserve skills and maintain income for unemployed, particularly long-term unemployed, people. The employer is entitled to a grant of the minimum monthly salary. The employer pays the difference between the minimum monthly salary and the actual wage of the unemployed person and covers social insurance contributions. In 2008, 9 983 persons participated in temporary paid work, and in the first six months of 2009 there were 6 671 new participants.

### **2.2.3.4 Public works programme**

From 2009 September to December 2010, a new public works programme will seek to strengthen the social safety net in order to reduce the severe social consequences of the economic crisis. It is designed both to maintain income after unemployment benefit entitlement has ceased and to enable people to maintain and improve their skills through work practice.

The measure comprises low-qualified community jobs in municipalities with no commercial aims – like cleaning, improvement and maintenance of public parks and other public infrastructure, small infrastructure building (like trails and benches in national parks), clean-up of polluted areas (rivers, lakes, forests), work in forests, municipal social services (like assisting elderly people) – sometimes in and/or in cooperation with NGOs – and municipal institutions (excluding municipal and state enterprises). The important requirement is that the workplaces have to be newly established in order not to replace those currently doing that kind of job.

A person will have the opportunity to participate in the measure for 2 weeks to 6 months per year. During that period, an allowance of 100 LVL (EUR 142) per month, approximately 75% of the net minimum monthly wage, will be paid to the beneficiaries. The measure will be co-financed by the European Social Fund. The total allocated is 24 million LVL. Over the whole period, 38 000 persons are expected to benefit from the measure.

### 2.2.4 GOVERNMENT RESPONSE TO THE RECESSION

With the deepening of the global financial and economic crisis, the government of Latvia is acting to stabilise and revive the financial system and restructure the economy. In co-operation with the European Commission and the International Monetary Fund, the government has devised an *Economic Stabilisation and Growth Revival Programme of Latvia*, approved by the Saeima on December 12, 2008 (updated on 16 June 2009). The programme prescribes the injection of LVL 600–700 million into the economy of Latvia in the form of support for entrepreneurship. It aims at structural change for sustainable economic development and orients government action as follows.

- A strict and stable monetary policy based on a fixed exchange rate of the national currency against the euro.
- Strict fiscal policy – balancing of state and local government expenditure with revenue. The aim is to cut the budget deficit by up to 3% of GDP in 2011.

In the economy of Latvia (in both the public sector and the private sector), a fall in the level of wages to align it with productivity. In addition to cutting wages and jobs in the public sector, the government will encourage understanding and agreement with the private sector to promote wage moderation in all sectors.

- Fostering the efficiency of public administration, reform of education, health and other public services; cutting and restructuring the human resources employed in these sectors and optimising the activities and the number of ministries and their agencies. Public administration staff will be cut by at least 15%.
- Increasing the flexibility of the labour market, promoting retraining and stimulating the unemployed to return to the labour market.
- Improving economic competitiveness by channelling EU structural funds to export sectors and infrastructure projects. Simultaneously, the government is taking measures to simplify the administration procedures for EU funds by fostering a more efficient use of resources and faster circulation of financial means.

- Reducing the administrative burden, especially for small and medium-sized enterprises, by simplifying the processes of tax administration, real estate registration, receiving construction permits, and by promoting wider use of the state's integrated information systems by institutions and enterprises.
- Maintenance of social protection measures, to reduce social tension.

At the end of December 2009, the Saeima adopted the state budget for 2010 and amendments to 71 accompanying laws. The state budget deficit is to be below 7.6% of GDP, which means that government debt will reach LVL 3.987 billion (EUR 5.673 billion) or 31% of GDP. Overall fiscal consolidation, agreed with the International Monetary Fund and the European Commission, was approved at LVL 500 million (EUR 711.4 million). Fiscal consolidation measures affect both state budget expenditure, cut by LVL 244.5 million (EUR 347.9 million), and revenue, increased by LVL 255.4 million (EUR 363.4 million). To find extra ways to cut the budget deficit, amendments were made to the tax laws, such as an increase in personal income tax from 23% to 26%, a rise in the annual vehicle tax, introduction of a progressive tax on real estate (0.1%-0.3% of the cadastral value), an excise tax on natural gas and a tax on capital gains.

### 3.1 Public sector reform

In January 2009, the Latvian government signed a financial assistance agreement (memorandum of understanding) with the European Commission and, in July 2009, a supplementary agreement that included a requirement to cut the budget deficit. To achieve this, the government has started structural reform of the public administration. The aim is to create a small, professional, client-oriented public administration. At the beginning of March, performance audits were begun with the aim of maximizing the efficiency of public administration, preventing duplication of functions, optimising the institutional structure and determining which activities could be minimised, liquidated or delegated to the private sector. A broad range of social and non-governmental partners were involved in the process. To elicit greater participation by civil society, the Cabinet of Ministers and the Latvian Investment and Development Agency web pages offered forums for proposals and suggestions on the improvement of the public administration system. At the moment, the list includes 625 entities, and the line ministries are in the process of evaluating costs and human resources for each function. On November 2, the reform management group presented an assessment of its work and outlined the main tasks to be accomplished within the framework of structural reform. The group emphasized that a joint assessment of the state functions and rational use of potential state budget resources had led to progress on results-based fund reduction and function assessment.

Substantial restructuring measures are taking place within the Ministries of Economics, Education and Science, Health, etc. The reorganization process has been initiated in 52 state institutions, 23% of all those which will be reviewed and reorganized. During 2008 and 2009, 8026 civil service positions were eliminated, leading to a total saving of 17.2 million LVL (EUR 24.5 million). The total reduction of employees in public institutions added up to 11.7 % in July 2009 in comparison to 2008.

In order to minimize the negative consequences of the reforms, the government has started to draw up new programmes. On 21 August, the European Commission approved Latvia's proposal to modify ESF operational programmes so as to use ESF funds for dealing with growing unemployment. Following this agreement with the Commission, on 1 September the government decided to allocate 20 million LVL (17 million LVL will be provided by the ESF) to retraining working teachers. The funds will be provided to support 17 400 teachers who are at a risk of losing their jobs in an educational institution and have a small or reduced amount of work. Teachers will be provided an opportunity to obtain general or specific skills that are necessary for work in a different sector or occupation including skills to take up entrepreneurship or become self-employed and to get support for re-training to perform different work (for example, to teach a new subject) within the educational institution. During training, teachers will receive an allowance and will be provided with career counselling. They will also be able to receive a grant to participate in the system for assessing teachers' performance.

## 3.2 Social partner consultancy centres

In order to provide support to companies to maintain their competitiveness and to restructure organizations successfully during the economic recession, the LDDK has established consultancy centres in 5 regions (Riga, Latgale, Kurzeme, Vidzeme and Zemgale). These centres have been created with funding from the ESF. The consultancy centres provide free advice to employers regarding questions of human resources management, labour safety, labour rights (particularly collective agreements), employment contracts, establishment and termination of labour relationships, wages, working time and rest time. The consultants also organize seminars to discuss developments and changes in the labour legislation and to foster the sharing of best practice among employers. In 2009, 565 companies were consulted concerning labour law issues in all regions. The main questions were on: amendments to labour contracts, the new wage system, dismissal of employees, settlement of labour disputes, organization of working time and cutting labour force costs. The employers consider this project very successful because it helps to eliminate labour rights violations and to reduce costly court cases.

Like the employers, the LBAS has also established consultancy centres in all 5 regions. They provide free advice to employees regarding labour legislation, seek to eliminate labour rights violations, help solve labour disputes, foster cooperation among social partners and other institutions involved in an employment field, coordinate the activities of trade unions in the region, and organize training and information activities. Since the project began in 2009, the centres have provided 2 485 consultations. The consultancy centre in Riga is also directly involved in the settlement of labour disputes. The consultants have provided assistance with 231 court claims. The main labour right violations relate to unpaid wages and unlawful dismissals.

## 3.3 Restructuring of sugar factories

Until 2007, Latvia had two sugar factories – the Liepāja Sugar Factory (Liepājas Cukurfabrika) and the Jelgava Sugar Factory (Jelgavas Cukurfabrika). Both were located outside the capital city, Riga, and played major roles in regional development and employment. In line with EU common sugar market reform principles, at the beginning of 2007 the Ministry of Agriculture and the owners of the companies agreed on restructuring provisions for Latvia, with the help of EU sugar industry restructuring assistance funds. Both companies opted for complete restructuring, which meant the end of sugar manufacturing in Latvia, closure of the factories, and dismantling of buildings and equipment. At the end of 2007, the dismantling of the sugar manufacturing companies started. The majority of employees were gradually made redundant. In Liepāja, 227 employees and in Jelgava, 300 employees were made redundant due to the



sugar market reforms. The management of both factories, in collaboration with employees, devised a social plan of restructuring that was approved by the Ministry of Welfare. Whereas the employees of the Jelgava Sugar Factory were able to reach a fair compensation deal with the company's shareholders, employees at the Liepāja Sugar Factory did not reach any compromise.

To increase the restructuring payments to employees, on 20 March 2007, Latvia's Cabinet of Ministers adopted a regulation stipulating that sugar industry restructuring payments to employees were to be in the form of compensation and therefore not subject to income tax or compulsory state social insurance contributions. At the beginning of 2008, all compensation at both sugar factories was paid out in line with this procedure. As a result, the redundant employees were not able to get the full amount of state social guarantees such as unemployment benefit, because the amount of various benefits depends on the level of social insurance contributions. In contrast to the Jelgava Sugar Factory, which disbursed the funds that were not paid as social insurance contributions to all employees, the Liepāja Sugar Factory made a payment only to some employees. As a result, 82 of the former Liepāja Sugar Factory employees submitted a claim to the court. The employees considered that they had been misled, as they received less compensation than expected. The former employees are demanding that the money saved should be returned to them in full or at least in part, either as a cash payment or through social insurance contributions. However, the company's administration insists that the full amount of money intended for compensation has been paid out to the former employees, and that the social plan's principles have been complied with. The funds saved were instead being used for the plant's demolition and the rehabilitation of the area. Moreover, the State Labour Inspectorate, which oversaw the restructuring process and the related redundancy procedure, stated that it did not detect any violations. The court will hear the case at the beginning of next year.



A structure for anticipating and managing restructuring has been established in Latvia. By transposing all EU labour law directives relating to corporate restructuring, the Latvian government has developed a legal framework that ensures the protection of workers' rights and provides for the involvement of workers' representatives in the restructuring process. However, in practice, there are many cases when labour laws have been violated and employees have not been involved in the restructuring process. The different outcome of the restructuring process at the Jelgavas Sugar Factory and the Liepājas Sugar Factory clearly shows the importance of proper consultations with employees regarding restructuring compensation and an agreement that is fair and satisfactory for both sides. The social partners' initiative of consultancy centres is therefore very important to preserving workers' rights in an economic crisis. The consultancy centres have a preventive function, as employers consult them on labour law matters before they restructure. They also have a problem-solving function, as employees may receive legal advice if their labour rights have been violated by the restructuring of the company.

The Latvian government has acknowledged that restructuring can be managed more effectively and in a socially responsible way if those most affected are actively involved in managing change. Thus, particular attention has been given to the development of social dialogue, and the capacity of the institutions involved in the social partnership (including the LDDK and the LBAS) has been strengthened. Tripartite dialogue within the framework of the National Tripartite Cooperation Council has proved effective and successful. However, more effort has to be made to develop social dialogue at regional level. Although the social partners have recently been more actively involved in policy-making, their opinions have very often been ignored. For example, the social partners harshly criticized the 2010 state budget and refused to support the budget bill, calling it "anti-social".

In order to better anticipate and manage restructuring, the Latvian government has started to simplify the regulatory framework, take action to promote and support investment in production, research and innovation, ensure the development of a qualified workforce and use the Structural Funds for these purposes. One important tool that has been recently developed for anticipating the restructuring is a labour market forecasting system that predicts changes in the labour market for a timely balancing of labour demand and supply. However, concerns have been expressed about the effectiveness of the administration of the system, because the involvement of two institutions (the Ministry of Economy is responsible for medium and long-term labour market forecasting, and the Ministry of Welfare for short-term labour market forecasting) may cause discrepancies in practice. An important preventive measure - the system of career education and career services - has been strengthened and career counselling is available to the whole population. In a 2009 survey, 77% of respondents said career consultations were a useful service that provided knowledge, psychological support and help finding a job.

The deep economic crisis and growing unemployment have forced the Latvian government to devise new measures to deal with the negative consequences of the recession. Because registered unemployment has surged since 2008 and unemployment benefit entitlement ceases after 9 months, it is envisaged that very large numbers of unemployed people will be coming off unemployment benefit from the autumn of 2009 onwards. Such people will be entitled to income support from their local authority, but the allowances are very small and there are doubts about the financial capacity of local authorities to meet those obligations. Thus, the

government's first priority has been to address this problem. The solution adopted is a public works programme of community jobs designed with help from the World Bank. It is still too early to assess this initiative. A possible limitation is that the new programme does not provide any medium-term or long-term answer to the problem, and 6 months is too short, as an economic recovery is not expected before 2011. Another possible problem is that the planned number of participants may not be enough – 50 000 to 100 000 participants may be a more realistic estimate of the number of people involved. Because a public works programme will be the most important active labour market measure in 2010, it has been decided to assess it in the middle of the year in order to decide whether to allocate additional funds.

One of the main priorities of Latvian employment policy is to raise and maintain the professional qualifications of the workforce. According to the forecasts, in the medium and longer term a high structural unemployment rate and the risk of a lower activity rate are concerns. Therefore, during the recession, particular attention will be paid to training and retraining, particularly to improve the competences and skills of people trained. The SEA provides various training options for unemployed persons, persons seeking employment and persons at risk of unemployment. However, concerns have been expressed regarding the effectiveness of these measures. Of the 9 422 persons involved in the measures for training, re-training and raising qualifications in 2009, 736 found a job during the first six months afterwards.

A new measure for people at risk of unemployment provides an opportunity to combine part-time work with training. This is an innovation in Latvia. It will allow access to state-funded training and retraining programmes not only by unemployed people, but also by people at risk of becoming unemployed because of the recession, thus launching a more preventive approach to unemployment. It gives the potentially jobless an incentive to undertake training while still in work and to look for a new job while studying.

The government's initiative to promote self-employment and entrepreneurship is a positive step towards the creation of new jobs. However, requiring participants to have a business-related educational background severely limits the range of people who can benefit from that measure. While it might lead to individual success stories, its scope may be too small to have a major economic impact, especially if the business plans involve the creation of sole proprietorships such as hairdressing services. As its implementation has high administrative costs in comparison with its effectiveness, the Ministry of Welfare has decided to involve NGOs (for example funds that grant micro-credit) and change it from a micro-grant programme to a micro-credit programme, in order to involve more unemployed persons.

It is difficult to assess the effectiveness of a new, more flexible training approach that introduces a voucher system. Its main aim is to generate competition in the market for the provision of education and training for the unemployed, which has for many years been dominated by established providers. It is hoped that competition will improve the quality of the skills and knowledge that the unemployed can get and that the private sector will take on some functions formerly performed by the state.

Another innovative measure is a programme to retrain teachers affected by education sector reforms. It might serve as an example for similar programmes in other severely affected sectors.

As the Latvian economy slides into recession, many companies face increasing financial difficulties that lead them to cut back their operations and to cut jobs. This makes measures to keep jobs particularly important. The business support programme designed by the Ministry of Economy and the Ministry of Finance with funds totalling 603 million LVL (EUR 858 million) may help create new jobs.

There is a risk that successful running of active employment programmes could be hindered by insufficient capacity of the SEA to deal with the growing number of unemployed people. The administrative resources available to the agency have been cut by 24 %, relative to 2008. As a result, the offices of the SEA were closed for a number of days in 2009, including every Friday in July 2009. The agency has also been forced to reduce staff numbers and make significant cuts in wages. According to the SEA, each of its workers now has a load of 210 registered unemployed as compared with 131 in Lithuania and 156 in Estonia, but only 38 and 37, respectively, in Belgium and Germany. To overcome this problem it has been decided to amend government regulations and take other steps to prepare an ESF co-financed project for an internship programme at the SEA (approximately 127 trainees in the regional offices). The internship programme will consist of two parts – a training programme and an internship period of 12 months in the SEA regional office. The allowance for the internship is to be set at LVL 150 (EUR 213) per month. This measure should both improve the capacity of the SEA and test the new methods.



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