

PROGRESS REPORT
ON THE IMPLEMENTATION OF THE
NATIONAL REFORM PROGRAMME OF LATVIA
WITHIN THE “EUROPE 2020” STRATEGY

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ABBREVIATIONS

ARTEMIS	A joint undertaking programme for progressive research and technologies in embedded intelligence and systems	ICT	information and communication technologies
ASIIN e.V.	German higher education quality assessment agency	IDAL	Investment and Development Agency of Latvia
BIRTI	Baltic Innovative Research and Technology Infrastructure	IT	information technologies
BIS	Construction Information System	JSC	joint stock company
CCFI	Climate Change Financial Instrument	LVL	National Currency of Latvia – lats
CERT.LV	IT Security Incident Response Institution	MA	Ministry of Agriculture
CF	Cohesion Fund	MC	Ministry of Culture
CM	Cabinet of Ministers	ME	Ministry of Economics
CO ₂	carbon dioxide	MEPRD	Ministry of Environmental Protection and Regional Development
COST	an intergovernmental European framework for international co-operation between nationally funded research activities	MES	Ministry of Education and Science
CSB	Central Statistical Bureau of the Republic of Latvia	MF	Ministry of Finance
DFI	Development Financial Institution	MFA	Ministry of Foreign Affairs
EC	European Commission	MH	Ministry of Health
ECB	European Central Bank	MJ	Ministry of Justice
EQAR	European Quality Assurance Register for Higher Education	Mt	Megatons
ERDF	European Regional Development Fund	MT	Ministry of Transport
ESA	European System of Accounts	Mtoe	megatons oil equivalent
ESF	European Social Fund	MW	Ministry of Welfare
ETS	Emissions Trading System	NDP2020	National Development Plan for 2014–2020
EU	European Union	NRP	National Reform Programme
EUREKA	A Europe-Wide Network for Market-Oriented Industrial R&D and Innovation	PJ	petajoule
EURO-STARS	International programme for supporting R&D performing SME's	R&D	research and development
Eurostat	EU statistical bureau	RE	renewable energy
FDI	foreign direct investments	RER	renewable energy resources
FDL	Fiscal Discipline Law	SC	State Chancellery
FCMC	Financial and Capital Market Commission	SEA	State Employment Agency
GDP	gross domestic product	SJSC	state joint stock company
GHG	greenhouse gas	SLI	State Labour Inspectorate
GMI	guaranteed minimum income	SRS	State Revenue Service
		TEN-T	Trans-European Transport Network
		VAT	value added tax

INTRODUCTION

Latvia has prepared the second *Progress Report on the Implementation of the National Reform Programme of Latvia within the “Europe 2020” Strategy*¹ (hereinafter – Progress Report on the Implementation of the NRP of Latvia) which is closely linked to the *Convergence Programme of Latvia for 2013–2016*.

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

The second Progress Report on the Implementation of the NRP of Latvia was developed taking into account the *National Development Plan of Latvia for 2014–2020* (hereinafter – NDP2020) approved by the Saeima on December 20, 2012, the *EU Integrated Guidelines*², commitments of Latvia under the *Euro Plus Pact*³ approved by the European Council on March 24–25, 2011, the EU Council’s country-specific recommendations for Latvia⁴, the *Annual Growth Survey for 2013*⁵ published on November 28, 2012 by the EC, the European Council conclusions of March 14–15, 2013⁶, guidance of the EC regarding preparation of the National Reform Programmes of the EU member states⁷.

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

It should be noted that the issues related to the implementation of the NRP of Latvia and the *Convergence Programme of Latvia*, including the implementation of the EU Council’s country-specific recommendations are discussed on a regular basis at the Cabinet of Ministers (hereinafter – CM). Three bilateral dialogues have been held with the EC mainly addressing the progress of Latvia in implementing the EU Council’s country-specific recommendations.

The issues related to the reforms implemented within the NRP of Latvia, the “Europe 2020” strategy and the European Semester are discussed on a regular basis by involving also representatives of the Saeima, social partners, non-governmental organisations and the civil

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

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

³ Euro Plus Pact, European Council conclusions of March 24–25, 2011:

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

⁴ EU Council’s country-specific recommendations for Latvia:

<http://register.consilium.europa.eu/pdf/en/12/st11/st11261.en12.pdf>

⁵ Annual Growth Survey 2013: http://ec.europa.eu/europe2020/pdf/ags2013_en.pdf

⁶ European Council conclusions, EUCO 23/13, March 14, 2013:

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/136151.pdf

⁷ The letter from the Secretariat-General of the European Commission to the EU member states on the guidelines for the preparation of the NRP and annex of the letter, D(2011), Ref. Ares(2013)38899, 14.01.2013.

society, for example, in the Reform Management Working Group chaired by the Prime Minister, in the National Trilateral Cooperation Council, in the European Affairs Committee of the Saeima, etc.

The Progress Report on the Implementation of the NRP of Latvia consists of 4 chapters. Chapter 1 contains an updated medium-term macroeconomic scenario described in the NRP of Latvia. Chapter 2 assesses the progress on the implementation of the EU Council's country-specific recommendations for 2012. Chapter 3 provides a detailed description of the NRP policy directions, including the progress on the achievement of the quantitative targets of Latvia within the "Europe 2020" strategy. Chapter 4 reflects information on the use of the EU funds in the current period and in 2014–2020.

All numerical information and data, except for specific cases, is obtained from the Central Statistical Bureau of the Republic of Latvia (hereinafter – CSB) or the EU statistical office – Eurostat.

1. MEDIUM-TERM MACROECONOMIC SCENARIO

The economy of Latvia continued growing at a rapid pace in 2012 and the gross domestic product (hereinafter – GDP) increased by 5.6% compared to the previous year. It was the fastest growth among the EU member states. Despite the unfavourable environment in external markets, growth remained rapid throughout 2012 – quarterly by 1.4% on average.

The strong economic growth in 2012 was based on both external and domestic demand. Trade, manufacturing, construction and transport sectors contributed the most to the growth. The volume of public services sectors remained at the level of the previous year. It was influenced by the implemented fiscal consolidation measures.

Exports of goods and services remained the key growth driver in 2012. The improved competitiveness of local producers and diversification of export markets allowed increasing the exports value of Latvian goods by 15%. Taking into account the complicated external environment, it is a remarkable achievement. The highest contribution to the increase in exports was ensured by exports of agricultural and food products which increased by 43.3% compared to 2011. Exports of metal and metal articles increased by 11.4%, while exports of wood and products of wood – by 3.1%.

The situation in the labour market is improving along with the economic growth. The number of employed aged 15–74 years reached 886 thousand in 2012 which was by 2.8% or about 24 thousand more than in 2011. The share of job seekers dropped to 14.9% in 2012 which is by 1.3 percentage points lower than a year ago. The registered unemployment rate at the end of December 2012 reached the lowest point since April 2009 constituting 10.5%.

Although the economic growth rate remained high, the dynamics of inflation showed a tendency to decline significantly in 2012 – the annual inflation dropped from 3.6% in January 2012 to 1.6% in December 2012. The dynamics of annual average inflation was similar, dropping from 4.4% to 2.3% during a year. Latvia has been complying with the Maastricht inflation criterion for the euro introduction since September 2012. Consumer prices were mainly influenced by imported inflation in 2012 determined by price changes for energy resources and unprocessed food products, while core inflation remained at a low level.

Table 1

Medium-Term Macroeconomic Scenario						
	2011	2012	2013	2014	2015	2016
GDP, in current prices, million LVL	14 275	15 520	16 382	17 426	18 520	19 651
growth in current prices, %	11.7	8.7	5.6	6.4	6.3	6.1
growth in constant prices, %	5.5	5.6	4.0	4.0	4.0	4.0
GDP deflator (y-o-y), %	5.9	3.0	1.5	2.3	2.2	2.0
Consumer price index (y-o-y), %	4.4	2.3	1.5	2.3	2.2	2.0
Employment, thousand	861.6	885.6	898.3	909.0	920.8	933.2
Unemployment rate, % (aged 15-74)	16.2	14.9	12.6	11.3	9.9	8.7
Exports of goods and services, in current prices, million LVL	8392	9490	10 093	10 800	11 545	12 347
growth in constant prices, %	12.7	7.1	5.3	5.9	5.8	5.9
Imports of goods and services, in current prices, million LVL	9081	10 002	10 627	11 375	12 183	13 047
growth in constant prices, %	22.7	3.1	5.2	6.0	6.0	6.0
Growth of potential GDP	-0.2	1.6	3.0	3.7	4.1	4.1
contribution:						
- labour	-0.9	-0.3	0.5	0.7	0.7	0.5
- capital	1.0	1.2	1.3	1.3	1.4	1.5
- total factor productivity	-0.2	0.6	1.3	1.7	2.0	2.1
Output gap (% of potential GDP)	-4.4	-0.7	0.2	0.4	0.3	0.2

Further development of Latvia's economy will be still closely linked to export possibilities. Therefore the highest risk to the growth of Latvia is linked to global economic development. At the end of 2012, the growth slowed down in countries important for the

economy of Latvia, such as Germany and Sweden, and therefore one should look cautiously at the economic growth perspectives of Latvia in 2013.

Although the growth rates remained negative in the eurozone, the tension in financial markets has been relieved since the European Central Bank (hereinafter – ECB) expressed its readiness on certain conditions to buy unlimited amount of government bonds of the EU member states facing difficulties. The interest rates on government bonds of the EU member states facing crisis have shrunk significantly, while the confidence indicators of the EU member states have considerably improved over the past few months showing positive trends also in the real economy. Thus, the short-term risks related to the debt crisis in the eurozone have been reduced significantly. However, further development will depend on the ability of countries to implement the necessary structural reforms and reduce budget deficits.

The medium-term macroeconomic scenario is based on conservative assumptions regarding development of external environment. The macroeconomic development scenario is based on the assumption that the situation in the eurozone will continue stabilising and growth in the eurozone will gradually recover from the second half of 2013. Therefore, as growth resumes in the eurozone, external demand for Latvian exports of goods and services is expected to increase, thus promoting further economic development of Latvia. The GDP of Latvia in the medium term is expected to be equal to the potential growth of Latvia. The EC assumptions regarding external environment have been used in macroeconomic development scenario of Latvia.

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

- The economy of Latvia will be still driven by exports, though the growth rates are expected to be more moderate than in the previous years. It will be mainly influenced by the still weak external demand. At the same time, some manufacturing sub-sectors like production of wood and products of wood and production of metals achieved high export volumes last year. The growth rates of exports are likely to become moderate due to base effects. In the medium term, the increase in exports will be determined by better competitiveness of Latvian producers and further diversification of export markets, thus promoting an increase in the export market share in the global trade;
- The situation in the labour market continues improving. At the same time, employment will grow slower than the economic growth, as the output will be mainly based on the rise of productivity. The dropping number of population, particularly the working-age population, as well as the ageing labour force are the key challenges in the medium term;
- Increase in private consumption will depend on changes in personal income. The personal income tax is planned to be gradually decreased as of 2013, thus increasing personal income and fostering growth of private consumption. However, the still high unemployment rate does not allow to raise wages and the medium-term changes in wages are unlikely to exceed the increase in productivity;
- Increase in investments will be determined by the growing domestic and external demand, as well as by the high capacity utilization rate in some manufacturing sub-sectors. The share of investments in GDP is expected to continue growing, though it will be still behind the pre-crisis level;
- Increase in consumer prices in 2013 will be determined by the low monthly inflation in the last two months of 2012 and the reduced heating tariffs in the first two months of 2013. Consumer prices are expected to increase slightly in 2013 and 2014 due to the rise in electricity prices in relation to the growing mandatory procurement component in the total electricity tariff. No significant increase in inflation is expected in the medium term. The low output gap will determine a modest increase in the core inflation, while the EC

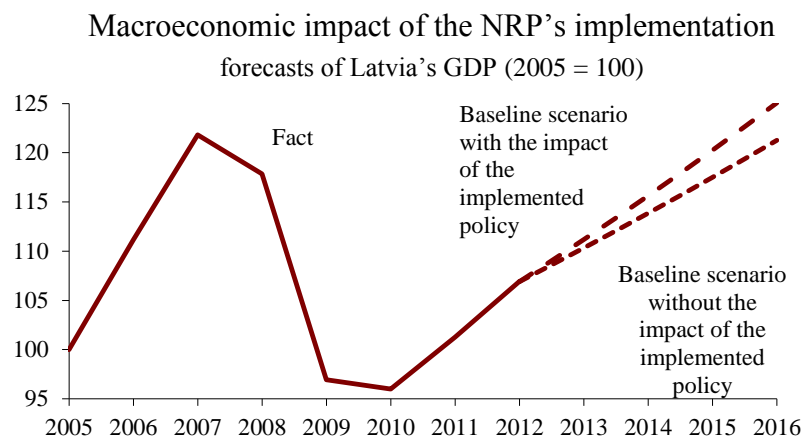
assumptions regarding external environment forecast a slight drop in prices for raw materials and energy resources in the nearest future.

Impact assessment of the NRP of Latvia for the medium term

The measures included in the NRP of Latvia will have a direct impact on the economy of Latvia in 2013–2016. It is based on public financing that is mainly related to public investments in infrastructure, promoting employment, as well as to direct support to entrepreneurs (mainly by the use of the EU funds).

The total financing for the measures included in the NRP for 2013–2016 is slightly more than LVL 2 billion. The implemented policy will foster an increase in investments and private consumption that will affect the growth of GDP by 1.5% annually.

Figure 1



In the medium term, the impact on GDP is related to changes of the corresponding potential GDP.

2. IMPLEMENTATION OF THE EU COUNCIL'S RECOMMENDATIONS

2.1. CORRECTION OF THE EXCESSIVE BUDGET DEFICIT

The EU Council recommends Latvia to ensure planned progress towards the timely correction of the excessive deficit. To this end, implement the budget for the year 2012 as envisaged and achieve the fiscal effort specified in the Council recommendation under the excessive deficit procedure. Thereafter, implement a budgetary strategy, supported by sufficiently specified structural measures, for the year 2013 and beyond, to make sufficient progress towards the MTO, and to respect the expenditure benchmark. Use better than expected cyclical revenue to reduce government debt.

In 2012, general government budget in Latvia was 1.2% of GDP according to the European System of Accounts'95 (hereinafter – ESA) methodology. It was significantly below the Maastricht criterion on budget deficit, thus Latvia has implemented conditions of the *Stability and Growth Pact* and the EU Council decision of July 7, 2009 on termination of the excessive budget deficit.

In 2012, Latvia achieved the medium-term budget target – 0.5% of GDP. A short deviation from the medium-term budget target is expected in the coming years, mainly due to a gradual increase in the mandatory contribution rate of the state funded pension scheme to 6%, overall returning to the medium-term budget target according to the conditions of the *Stability and Growth Pact*.

Principles and conditions of fiscal policy ensuring a balanced budget in the economic cycle (general government budget balance shall not be below -0.5% of GDP) are laid down in the *Fiscal Discipline Law*. This law also introduces conditions of the new EU fiscal discipline incorporated in the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* and it also complies with the conditions of the *Stability and Growth Pact* (balance requirement, requirement for the increase in expenditures, meeting the debt requirement and other requirements).

The fiscal policy of Latvia is based on the belief that implementation of counter-cyclical fiscal policy is the main condition of sustainable economic growth – to implement restrictive fiscal policy when GDP exceeds the potential level and to implement stimulating economic policy when the GDP is below the potential level.

According to the macroeconomic forecasts of the summer 2012, the GDP of Latvia in 2012 was below its potential level. The latest forecasts of February 2013 showed that the current negative output gap was closed in 2013 and the growth of Latvia's GDP will be equal to the potential GDP growth in the coming years. Although the output gap is closed, further fiscal policy is expected to be stimulating – specifically targeted to ensuring potential economic growth in the long term. Potential GDP estimates in the medium term show that there is a need to pay particular attention to the situation in the labour market by introducing measures directed to foster more efficient integration in the labour market, improving the activity of the working-age population and balancing the labour demand and supply.

Moreover, the main reason for applying the stimulating fiscal policy was the country's position in the post-crisis period that determined the need for compensatory measures to mitigate the negative impact of the crisis in 2012 and in the near future, thus making it possible to finance the most urgent measures that cannot be postponed or would be expensive in the long term. It was decided to amend the budget for 2012 and increase the financing for the most urgent areas. At the same time, the fiscal discipline was preserved and the general government budget deficit target for 2012, including the budget amendments of 2012, was defined in the amount of 1.9% of GDP (lower than the initial general government budget deficit target of 2012 – 2.1% of GDP). It means that only a part of the fiscal space was used to increase expenditures, while the rest of resources were allocated to reduce the budget deficit and the public debt.

By ensuring the government budget deficit below the Maastricht criterion on budget deficit, and further defining the general government budget balance pursuant to the conditions of the *Fiscal Discipline Law*, the priority of the *Annual Growth Survey 2013* regarding the implementation of growth-friendly fiscal consolidation and Latvia's commitments under the *Euro Plus Pact* to ensure sustainable public finances (measure 3.1 of Latvia's commitments within the *Euro Plus Pact*) was also implemented in 2012.

2.2. TAX POLICY AND FISCAL DISCIPLINE

The EU Council recommends Latvia to implement measures to shift taxation away from labour to consumption, property, and use of natural and other resources while improving the structural balance; ensure adoption of the Fiscal Discipline Law and develop a medium term budgetary framework law to support the long-term sustainability of public finances; restore contributions to the mandatory funded private pension scheme at 6% of gross wages from 2013.

The Fiscal Discipline Law (hereinafter – FDL) came into force on March 6, 2013. The main idea of the FDL is to ensure balanced budget in the economic cycle as defined in the ratified *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Treaty)*. It means that structural deficit should not exceed 0.5% of GDP and growth of expenditures should not exceed 10-year average growth of potential GDP. The annual *Medium-Term Budget Framework Law* which is being prepared for the next three-year period is expected to be the key instrument to enforce the fiscal discipline.

The *Law on the Medium-Term Budget Framework for 2013, 2014 and 2015* was developed for the first time in 2012 and approved by the Saeima on November 15, 2012. The *Law on the Medium-Term Budget Framework for 2014–2016* is expected to be developed in autumn 2013 along with the *Draft Law on the State Budget for 2014*.

By adoption of the FDL the following fiscal policy principles have been laid down: principle of austerity, principle of accruals, principle of counter-cyclical fiscal policy, etc. The FDL also introduces conditions of the new EU fiscal discipline incorporated in the *Fiscal Treaty*, thus Latvia is one of the first EU member states to ensure conformity of national legislation with the EU-level fiscal discipline principles.

By approving the FDL and developing the medium-term budget framework law, Latvia's commitments under the *Euro Plus Pact* to ensure sustainable public finances (measure 3.1 and 3.2 of the Latvia's commitments within the *Euro Plus Pact*) and the priority of the *Annual Growth Survey 2013* regarding implementation of growth-friendly fiscal consolidation are also implemented.

The Saeima adopted amendments to the *Law on Personal Income Tax* on May 24, 2012 envisaging reduction of the personal income tax rate by 5 percentage points within three years – from the current 25% to 20%. As of January 1, 2013 the personal income tax rate is 24%, in 2014 – 22% and in 2015 – 20%. The CM adopted *Regulations Regarding the Amount of Monthly Non-Taxable Minimum and Tax Relief for Calculation of Personal Income Tax* on November 6, 2012 envisaging that as of July 1, 2013 the personal income tax relief for a dependant will be LVL 80.

The EU Council recommendation to restore contributions to the mandatory funded private pension scheme at 6% of gross wages from 2013 is partially implemented. According to the *Amendments to the Law on State Funded Pensions* adopted on November 15, 2012, a gradual increase in the mandatory contribution rate in the state funded pension scheme is planned starting from 2013 – from 2% in 2012 to 4% in 2013 and 2014, in 2015 – to 5%, in 2016 – to 6% and further on.

By introducing the Pension Level 2, the legislator decided to distribute equal proportions of social contributions as of 2010 between the state mandatory non-funded

pension scheme (Level 1) and the state mandatory funded pension scheme (Level 2) – 10% and 10%, respectively. The increase in resources of the special budget and the long-term forecasts showed that since 2010 Latvia could afford to allocate 10% of social contributions to the Level 2. However, the condition of the state budget in 2009 proved that the given rate was too high (in 2008 – 8%), thus hindering the fulfilment of commitments at solidarity level. Therefore, the *Law on State Funded Pensions* was amended envisaging a rate of 6% first in 2012, then in 2013 and according to the effective law – in 2016.

Since 2009, the annual financial balance of the special budget has been negative, and the special budget for 2013 is expected to have a deficit. In order to facilitate fast stabilisation of the special budget, a number of amendments to the legislation were made in 2012 envisaging a gradual increase in the contributions to the Pension Level 2 (2%), thus facilitating faster inflow of resources in the special budget than by increasing the rate straight by 4 percentage points. The part of pension insurance contribution rate that was not allocated to the Pension Level 2 is correspondingly transferred to the Level 1, thus increasing the capital of the Level 1 and the amount of future pensions as well. Thus, there is no reason to consider that gradual redistribution of the contribution rate would negatively affect the adequacy of future pensions. Participation in the state funded pension scheme is a long-term investment that makes it possible to accrue larger future pensions than the pension accrued by participating in the Pension Level 1 alone on a condition that the profitability of investment plan of the Pension Level 2 is higher than the Pension Level 1 capital indices. A stable social insurance budget is the key to further development and challenges to the system in relation to the interchangeability of pensions in the future.

After having assessed the performance of the state funded pension scheme⁸, it was decided to expand the investment possibilities of pension plans in the financial market of Latvia, to increase the share of investments in venture capital and provide more possibilities to invest in non-exchange traded capital companies. When developing the model for functioning of the financial institution (see also Chapter 3.1.2), one of its functions should be promotion of instruments for investments of pension fund resources. It was also decided to revise the scheme administration principles for fund managers by linking the administration to the investment plan results and to provide additional risk reduction mechanisms for the protection of interests of participants of the state funded pension scheme. Specific solutions are being prepared⁹. Yet, for the purpose of providing a possibility for the existing and potential participants to make well-considered decisions, public awareness measures are going to be implemented, paying particular attention to the risks of choice, for example, 10 years before reaching the retirement age participants of the scheme will be asked to consider a possibility to shift from the active investment plan to a conservative one. For the purpose of providing comprehensive information, content of the special website on pensions www.manapensija.lv is going to be improved.

2.3. REDUCING LONG-TERM AND YOUTH UNEMPLOYMENT

The EU Council recommends Latvia to take measures to reduce long-term and youth unemployment by fighting early school leaving, promoting more efficient vocational education and training and its apprenticeship component, enhancing the quality, coverage and effectiveness of active labour market policy and its training component and through an effective wage subsidy scheme.

The average registered unemployment rate was 11.5% in 2012 which was by 1.3 percentage points lower than in 2011. In December 2012, there were 104 thousand unemployed registered at the State Employment Agency (hereinafter – SEA). At the end of

⁸ Minutes of the Meeting No.56 22.§ of the CM on October 9, 2012 “*Informative Report on the Performance Assessment of the State Funded Pension Scheme*”.

⁹ *Amendments to the Law on State Funded Pensions* have to be submitted to the CM by June 1, 2013.

2012, there were 46 thousand long-term unemployed or 44% of the total number of registered unemployed. The number of long-term unemployed has decreased by 19% in 2012. The number of young people in the total number of registered unemployed has decreased by 33% compared to 2011 and there were 10 thousand young people registered at the SEA at the end of 2012 (at the beginning of 2012 – 16 thousand).

In order to promote reduction of long-term unemployment and youth unemployment, both existing active labour market policy measures are being developed and improved and new ones are being implemented for long-term unemployed and youth (see also Chapter 3.3).

Taking into account the high long-term unemployment rate, long-term unemployed are one of the main target groups of the active labour market policy measures. In 2012, 64% of all unemployed involved in the active labour market policy measures were long-term unemployed. Overall, 31 155 unemployed were involved in paid temporary public works co-financed by the European Social Fund (hereinafter – ESF) in 2012, 82.5% or 25 692 of them were long-term unemployed.

In 2013 similarly as in 2012, participants of the paid temporary public works will be activated by offering and motivating them to get involved in short training – motivation, skills course or job search, thus encouraging the unemployed to search for a job during the measure or get involved in other active labour market policy measures by participating in the measure or after participation in the paid temporary works.

A part of the jobless people has addiction problems, and therefore this problem should be solved first. The ESF co-financed *Minnesota 12-step programme* for long-term unemployed with addiction problems was launched at the end of 2012. The programme is designed to treat addiction to alcohol, drug and psychoactive substances to prevent addiction consequences and help this group of unemployed to integrate in the labour market. Overall, approximately 800 unemployed with addiction problems are expected to be involved in the measure from 2012 until 2014.

In order to solve regional unemployment issues and make it possible for unemployed to accept jobs in regions outside their place of residence, a legal framework has been developed in 2012 and regional mobility grants will be implemented in 2013 for long-term unemployed willing to accept a job located at least 20 km from the declared place of residence. The regional mobility pilot project is expected to involve 350 persons in 2013.

For the purpose of reducing youth unemployment, the implementation of youth targeted measures was continued in 2012 – support for creation of jobs at employer co-financed by the ESF and support for volunteering in non-governmental organisations. Overall, 2.4 thousand young people were involved in these measures in 2012. The youth had an opportunity to participate also in other active labour market policy measures and about 11 thousand young people were supported in 2012.

In 2013, the measure *Youth Workshops* co-financed by the ESF is expected to be implemented with an aim to help youth aged 15-24 years without previous vocationally oriented education make well-considered choice of future profession and enhance chances to find a job. The youth will have an opportunity to try hand in three professional areas in a vocational education institution within this measure, being engaged in each area for three weeks to get an insight in its specific nature (the expected number of involved persons – 500 young people).

As of 2013, a more targeted approach to encourage different target groups of unemployed to return to the labour market is planned to be implemented – by improving the profiling system in order to efficiently and quickly fill in vacancies and offer the best labour market policy measures for each individual.

The World Bank study on the causes and solutions for long-term unemployment was launched in 2012 and will be continued in 2013 with the EC support. Conclusions and proposals of the study will be used to improve the active labour market policy measures and

to ensure a closer link to the social security system by developing the *Guidelines for Promotion of Employment and Inclusive Growth for 2014–2020* where one of the chapters will be focused on promoting youth employment and planning the support necessary for reducing the youth unemployment rate.

At the same time, youth unemployment can be reduced by encouraging young people to return to the education process, especially to vocational education programmes.

Since 2010, one-year and one-and-a-half-year vocational education programmes are implemented using the ESF support to make it possible for the youth, who have chosen not to continue learning after graduating elementary school or secondary school and are unable to integrate in the labour market, thus fostering their integration in the labour market as soon as possible, preventing the risk of youth unemployment.

In 2012, social support measures were implemented for students of vocational education institutions. About 80% (33 521) of the total number of students in the vocational education system (42 058) have received the ESF scholarship for at least 1 month within the project *Promotion of Primary Vocational Education's Attraction*.

Taking into account the economic development trends, and as a result of the abovementioned measures, the share of youth and long-term unemployed in the total number of registered unemployed might decrease by 12% and 30%, respectively, in 2013¹⁰.

The abovementioned measures aimed at implementation of the EU Council recommendation have a positive impact on the achievement of the employment target within the "Europe 2020" strategy and indirectly also the achievement of the poverty reduction target. They also promote fulfilment of Latvia's commitments under the *Euro Plus Pact* (measure 2.3 of Latvia's commitments within the *Euro Plus Pact*), implementation of the priority of the *Annual Growth Survey 2013* for tackling unemployment and social consequences of the crisis, as well as implementation of the flagship initiatives *Agenda for new skills and jobs* and *European platform against poverty* of the "Europe 2020" strategy.

2.4. TACKLING HIGH POVERTY AND SOCIAL EXCLUSION

The EU Council recommends Latvia to tackle high rates of poverty and social exclusion by reforming the social assistance system to make it more efficient, while better protecting the poor. Ensure better targeting and increase incentives to work.

In 2012, implementation of the measures under the *Social Safety Net Strategy* was completed. The measures were aimed at providing support to the most disadvantaged groups of the population in the crisis situation. The socio-economic situation is gradually improving. The number of socially insured persons has increased from 902.6 thousand in 2010 to 945.6 thousand in 2012. The average wage subject to insurance contributions for determination of an unemployment benefit's amount has increased from LVL 403.37 per month in 2010 to LVL 421.43 per month in 2012. At the end of 2012, the number of recipients of the benefit for ensuring the guaranteed minimum income level (hereinafter – GMI benefit) was 41 thousand, which is by 1/3 less than at the beginning of the year, while the number of needy population¹¹ has dropped from 160 thousand in January 2012 to 109.6 thousand in December 2012.

Since 2013, the allocated state co-financing for payment of the GMI and the apartment benefit is no longer paid to local governments (for the period from October 1, 2009 until

¹⁰ Assumptions based on the registered unemployment statistics.

¹¹ According to the CM regulations No.299 of March 30, 2010 "Regulations Regarding the Recognition of a Family or Person Living Separately as Needy" a family (person) shall be recognised as needy if the average monthly income per each family member during the last three months does not exceed LVL 90, taking into account additional condition on property, receipt of services in institutions and registration at the SEA.

December 31, 2012) and the financing procedure of social assistance system procedure introduced in 2003 has been restored – local governments completely cover the financing of social assistance benefits for the poor and needy population. The introduction of the temporary state financing for local governments (from October 2009 until January 31, 2012) has not changed the basic principles of the social assistance system – the local governments remain the main administrators of the benefit (social service of the local government assesses the material resources and social situation of the person/household before granting the benefit). Local governments also remained the primary source of financing (at the request of local governments, 50% of the financing for GMI and apartment benefits was co-financed from the state budget and 20% from the local government resources). Thus, no centralisation element has been introduced in the social assistance system of Latvia by the implementation of temporary state co-financing. Administration and financing system of social assistance has been decentralised since its introduction without changing this principle in the times of economic and social crisis. Equal conditions for payment of GMI benefit are ensured by laying down basic principles for granting social assistance and defining the assistance threshold at national level.

In 2013, the amount of GMI has been reduced from LVL 40 per month for adults (LVL 45 for children) to LVL 35 per month. At the same time, since 2013 local governments are entitled to determine a higher GMI level (not exceeding the income level of a needy person or LVL 90 per month) for every target group by stipulating the abovementioned in the binding regulations of a local government. Overall, 28 local governments or 24% of the total number of local governments have exercised the right to determine higher GMI level. Higher GMI level has been determined for different target groups, but mostly for disabled (17%), children (15%) and retired persons (11%).

In 2013, additional state budget support has been provided to local governments with limited financial resources. Grants in the amount of LVL 11.5 million have been allocated to local governments in 89 municipalities and 4 cities (Daugavpils, Rēzekne, Jēkabpils, Liepāja).

Unemployed persons are one of the main groups of population at risk of poverty in Latvia. In order to partially unburden the budget of local governments, since 2013 the duration of the unemployment benefit has been extended irrespective of the length of service – socially insured persons may receive the unemployment benefit for 9 months, thus promoting self-activation of the unemployed in job search and improvement of their situation.

The effective regulation, the implemented and the planned policy measures are mostly oriented towards encouraging motivation of the people to work, for example the condition under the *Law on Social Services and Social Assistance* on fulfilment of the duties of participation of social assistance recipients, and the implementation of the expected unemployed profiling measure in 2014. Moreover, the *Law on Support for the Unemployed and Job Seekers* is being amended with an aim to make the fulfilment of the duty of job search of the unemployed and job seekers more efficient. The unemployed are going to be subject to an obligation to participate in job search support measures.

In order to promote improvement of social security system efficiency and to make it more targeted, a number of assessments are expected to be conducted in 2012 and 2013. In 2012, the ESF co-financed study “*Ex-ante evaluation of the planned social assistance policy structural reforms*” was completed in 2012. *The Guidelines for Development of Professional Social Work for 2014–2020* are being drafted based on the recommendations provided in the ex-ante evaluation above. A study “*Ex-ante evaluation of the planned social assistance policy structural reforms*” has been launched in 2013. The aim of the study is to evaluate the necessary changes in the social assistance system and the most efficient ways to implement the changes. Based on the conclusions and recommendations provided in this study and the World Bank’s study “*Latvia: Who is Unemployed – Inactive or Needy?*” proposals for reform of the social security system will be developed in 2013.

In 2013, the work is continued on the action policy document for the development of social services. In the field of social services, particular attention will be paid to diversification of services and development of alternative services for institutions with an aim to activate so called “community based services” that allows the recipient of service to be in their usual environment or as close to their usual environment as possible.

One of the elements for improving efficiency of the social security system is establishment of a successful policy supervisory mechanism, by providing the necessary latest information for decision-making, transparent use of financial resources and targeted social assistance. In order to ensure that, the social security system database is being improved and cooperation with local governments has been started to agree on the most optimal solutions for exchange of personalised data collected by social services with the Ministry of Welfare (hereinafter – MW). In 2012, the work on development of the Single Welfare Information System was started with an aim to ensure mutual compatibility, availability and possibility to analyse personalised data. Thus, the policy makers will have access to information about mutual correlation of different social services and benefits at a personal data level that will allow assessing more objectively the impact of different policies on population.

For the purpose of preparing proposals for reduction of the poverty risk, improving policy planning for reduction of poverty and social exclusion, a working group has been established¹². The main task of the working group is to identify the key reasons for the increase in poverty and social exclusion and the policy areas where the measures to reduce poverty and social exclusion are required, to assess potential impact of the planned measures on reduction of poverty and social exclusion, as well as to draft proposals for measures to reduce poverty and social exclusion and achieve the poverty reduction target within the NRP of Latvia. In February 2013, the Saeima adopted the *Draft Law on the Revised European Social Charter*, thus Latvia is bound by a range of articles of the charter, including Article 30 on the right to protection against poverty and social exclusion.

Overall, the abovementioned measures foster implementation of the EU Council recommendation – to ensure better targeting of social assistance system and increase incentives to work, and comply with the priority of the *Annual Growth Survey 2013* for tackling unemployment and social consequences of the crisis, as well as implementation of the flagship initiative *European platform against poverty* of the “Europe 2020” strategy.

2.5. ENCOURAGING ENERGY EFFICIENCY AND COMPETITION IN THE MAJOR ENERGY NETWORKS

The EU Council recommends Latvia to further encourage energy efficiency by implementing measures and providing incentives for reducing energy costs and shifting consumption towards energy-efficient products, including vehicles, buildings and heating systems. Promote competition in major energy networks and improve connectivity with EU energy networks.

- Latvia is implementing the following measures aimed at encouraging *energy efficiency*:
- In 2012, the new *Law on Energy Efficiency of Buildings* was adopted, transposing the requirements of the revised directive 2010/31/EU on the energy efficiency of buildings and introducing new provisions regarding increased requirements for energy efficiency, energy certification of state-owned buildings and certain parts of buildings, rights and obligations of building owners, and tasks to promote construction of almost zero-energy buildings;

¹²Decree No.24 of the Minister of Welfare of April 4, 2013 “*On the Establishment of a Working Group for the Development of Proposals for Reducing Poverty, Social Exclusion and Inequality*”.

- Housing insulation, as well as measures to improve energy efficiency in public and industrial buildings;
- Measures to improve efficiency of centralised heating systems with an aim to significantly increase efficiency of heat energy production, to reduce heat energy losses in transmission and distribution systems and to promote replacement of fossil fuels with renewable fuels;
- Revising the minimum requirements for energy efficiency of buildings (construction elements of external building envelopes and engineering systems of buildings);
- Laying down the requirements for final energy consumption (kWh/m² per year) for new buildings and buildings to be reconstructed and renovated, as well as commissioned buildings.

Within the Climate Change Financial Instrument (hereinafter – CCFI), a range of projects has been implemented that promote energy efficiency, increase the use of renewable energy resources in production of heat energy and electricity for enterprises and local governments. In total 49 projects have been implemented, including in 2012 – 44 projects. Data on actual volumes of heat energy and electricity will be available in the monitoring period from 2013 until 2018.

In 2013, the following is planned within the tender “*Complex Solutions for Reducing Greenhouse Gas Emissions*”:

- Implementation of 33 CCFI financed projects for investments in production technological equipment and improvement of energy efficiency in industrial buildings, including 19 projects are designed to increase the use of renewable energy resources in production of heat energy and electricity for enterprises;
- Implementation of at least 36 investment projects for complex solutions to reduce greenhouse gas emissions and improve energy efficiency in state, local government and private education institutions buildings, including 9 projects are designed to increase the use of renewable energy resources for supply of heat energy to education institutions.

The CCFI financing in the amount of LVL 9.93 million has been granted to the projects and financing in the amount of LVL 39.31 million is going to be granted within further stages of the tender planned in 2013.

More detailed information on implementation of energy efficiency measures is reflected in Chapter 3.6.1.

As regards *encouraging competition in the major energy networks and improving connectivity with EU energy networks* the following is being implemented:

- The electric energy exchange has been launched in Latvia. The bidding area of the electric energy exchange NordPool Spot Latvia is expected to be opened by June 2013 with an aim to promote integration of the Baltic electricity markets in the Scandinavian region;
- The project “*Kurzeme Circle, stage no.2: construction of 330kV line Grobiņa–Ventspils*” is being implemented with an aim to strengthen the transmission network of the northern region of Latvia (Kurzeme Circle);
- *Connectivity with EU energy networks* has been improved by active participation in the development of the new European infrastructure connection instrument, and promoting regional cooperation to agree on joint regional projects oriented towards integration of the whole Baltic Sea region market in the EU as soon as possible;
- The measures required for complete implementation of the Directive 2009/73/EC of the European Parliament and of the Council of July 13, 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC in

Latvia were continued. The *Informative Report on Further Steps and Possible Models of Natural Gas Market Liberalisation* was approved at the CM meeting on March 19, 2013. The ME was entrusted with an assignment to continue an in-depth analysis of the strengths and weaknesses of the models of natural gas market liberalisation, as well as to prepare for negotiations with the shareholders of the JSC “Latvijas Gāze” on progress towards market opening.

Overall, the abovementioned measures comply with the implementation of this EU Council recommendation and the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow. However, it is hard to assess the impact of these measures on the increase of energy efficiency at the moment, as it will be seen in the medium-term. These measures also foster implementation of the flagship initiative *Resource-Efficient Europe* of the “Europe 2020” strategy.

There are also risks in relation to the planned market liberalisation in the major energy networks where there is a different situation in each of the sectors. Restrictions still exist with regard to liberalisation in the natural gas market, and they have been stipulated also within the *Third Energy Package*. Therefore, competition in this sector depends on the necessity to develop a natural gas infrastructure and new supply sources. The electricity market is sufficiently developed and operates according to the requirements of the *Third Energy Package*.

In order to promote competition in the heat supply sector, large investments are required because of the specific nature of this sector. Thus, competition in heat supply will be ensured in those areas where it is economically justified and feasible. There may be also risks in relation to delay from the planned schedule for improvement of the connectivity with EU energy networks. Taking into account the abovementioned, it seems that Latvia is going to implement this EU Council recommendation partially.

2.6. IMPROVING MANAGEMENT AND EFFICIENCY OF THE JUDICIARY, INSOLVENCY REGIME AND MEDIATION LAWS

The EU Council recommends Latvia to take measures to improve management and efficiency of the judiciary, in particular to reduce the backlog and length of procedures. Take steps to improve the insolvency regime and the mediation laws.

In order to **improve management and efficiency of the judiciary** in Latvia, the following amendments have been made to the legislation:

- as of July 1, 2012, the *Amendments to the Criminal Procedure Law* entered into force envisaging a significantly reduced time required to consider criminal cases, thus reducing the overall length of legal proceedings;
- as of January 1, 2013, the *Amendments to the Law on Judicial Power* envisaging implementation of the assessment process of professional activities of judges with an aim to promote continuing professional growth of judges, thus improving the performance quality of judges and courts.

Currently, the Saeima before the 3rd reading is considering the *Amendments to the Law on Judicial Power* within the framework of which a “clear court instance system” was introduced envisaging gradual liquidation of the Supreme Court panel (criminal procedure is to be completed by 2015, while civil procedure is to be completed by 2019) and transfer of all cases to district (city) courts of first instance, as well as to implement the same mechanism of time management of legal proceedings in courts as operates in courts in many European countries. In the result, proceedings are expected to become more efficient and enhanced, and the fragmentation of competences of court instances will be prevented, as well as available judicial resources will be used

- as rationally, efficiently and economically as possible, and availability of courts will be also improved;
- as of January 1, 2013, the *Amendments to the Administrative Procedure Law* entered into force ensuring a transition to written procedure as the main procedure in administrative cases, thus narrowing the range of issues subject to possible submission of ancillary complaints;
 - as of January 1, 2013, the *Amendments to the Civil Procedure Law* entered into force with an aim to reduce the backlog of cases and provide access to persons. The importance of the declared place of residence was strengthened, i.e. by designating the declared place of residence as the basis of jurisdiction, and stipulating that court documents shall be deemed to be issued if they are sent to the declared place of residence. In order to balance the number of appeal complaints among all courts in Latvia (appeal complaints are mostly initiated against credit institution with the legal address in Riga and its surrounding regions), the complaint should be submitted to the court which considered the respective application.

Within the implementation of the individual project of Latvian and Swiss cooperation programme “*Modernization of courts in Latvia*” oriented towards promotion of access to courts and increasing efficiency of the court process and work, including the backlog of cases and reductions of the length of legal proceedings, the following measures have been implemented:

- Courts and prisons have been equipped with audio, sound recording and video conference equipment, thus reducing travel expenses and required time for the parties, the number of court deferrals and the need to move (convey) prisoners from prison to the court, and the workload of courts in relation to preparation of documents;
- Functionality of the Court Information System has been improved by ensuring electronic processing of documents at courts;
- A solution for data distribution has been developed, thus ensuring processing (anonymisation) and availability of court decision on the internet, by establishing a platform for development of electronic court services, including by introducing an electronic attorneys’ calendar. Within the project, a solution for anonymisation of court decisions has been developed envisaging automatic anonymisation of court decisions made in an open hearing and their publication on the court portal www.tiesas.lv;
- Efficiency of the legal proceedings has been assessed and a methodology for calculation of the costs of court procedures oriented towards improving management of judiciary by ensuring proper and efficient resource planning;
- A procedure for defining basic principles of specialization of judges and caseload indicators has been developed with an aim to strengthen the principles of specialization of judges and caseload indicators, and their quality, transparency and integrity. By adoption of the given procedure, similar caseload indicators will be defined for similar cases, thus ensuring balanced and comparable workload of judges;
- A reform is planned to be implemented where one of the key priorities is training and raising qualification of the personnel of law enforcement authorities by developing new training programmes, guidebooks and teaching materials, carrying out interdisciplinary training, as well as using advanced technologies in the training process.

By implementing the *Concept on Criminal Penalties Policy*, the amendments to the *Criminal Law*, *Criminal Procedure Law*, *Latvian Administrative Violations Code* and the *Law on the Sentence Execution Code of Latvia* entered into force on 2013. These amendments foster efficient application of legal measures to achieve the objectives of the criminal penalties policy. The amendments provide clear principles and criteria for determination of

penalty and expand the possibilities to apply alternative penalties to deprivation of liberty, thus allowing also a prosecutor to determine the punishment for a person without submitting the criminal case to court for consideration.

On November 8, 2012, the Saeima supported in the 1st reading the *Amendments to the Insolvency Law* aimed at making the **insolvency** process of a natural person more favourable for the debtor. For the purpose of improving the regulation of insolvency procedure, proposals for specifying the given draft law have been submitted to the Saeima before the 2nd reading. The aim of these proposals is to:

- Prevent the practical issues related to the application of the law, thus speeding up the insolvency procedure and legal protection proceedings and ensuring faster solution of financial difficulties;
- Make the regulation of insolvency procedure clearer, thus ensuring clear procedures under the regulation of insolvency procedure and predictable insolvency procedure and legal protection proceedings;
- Promote application of the procedures under the *Insolvency Law* according to their intended purpose, thus facilitating successful reorganisation (legal protection proceedings);
- Strengthen protection of the rights of debtor and creditor.

In order to continue working on this draft law and to perform an in-depth analysis of all submitted proposals for amendments to the law, the Economic, Agricultural, Environmental and Regional Policy Committee of the Saeima has established a working group which meets on a weekly basis to discuss the submitted proposals and improvement of the *Insolvency Law* with an aim to support quality editing oriented towards improvement of the insolvency regulation.

In addition, on February 14, 2013, the Saeima has approved the *Amendments to the Civil Procedure Law* which, among all, contains certain improvements of the insolvency regulation. The aim of the amendments is to prevent issues encountered in practice and they envisage to:

- Specify the obligations of a debtor before submission of the application for the insolvency proceedings of a legal person;
- Strengthen protection of the rights of a debtor in case of submitting an unjustified application for the insolvency proceedings of a legal person to the court;
- Specify the procedure for consideration of the application for the insolvency proceedings of a legal person;
- Deal with the situation, when a debtor has partially paid his debt by the time of consideration of the application in order to avoid declaring the insolvency proceeding, but does not further fulfil obligations;
- Specify the range of decisions that can be appealed in a court;
- Clarify the range of persons entitled to submit application for the insolvency proceedings of a natural person, etc.

On February 28, 2013, the President has returned the given *Amendments to the Civil Procedure Law* to the Saeima for the 2nd revision. However, the amendments are expected to come into force by the end of the spring session of the Saeima.

Latvia is gradually introducing the **mediation** process. The aim of the *Draft Mediation Law* is to strengthen alternative dispute resolution mechanisms and ensure quality mediation process, thus making the out-of-court dispute resolution mechanism more efficient and promoting the commercial case and civil case procedures in court, thus reducing the backlog of cases.

Court recommended mediation is also being introduced, thus facilitating dispute resolution of parties with minimum court involvement. At the same time, the *Draft Mediation*

Law lays down common basic principles for the mediation process, requirements for certified mediators and supervision of professional activities of mediators.

On January 17, 2013, the *Draft Mediation Law* was approved in the 1st reading by the Saeima and it is expected to be approved within 2013.

According to the provisional information, the expected share of pending cases against the number of considered civil cases at district (city) courts in 2012 is 68% (preferable in 2022 – 34%) and criminal cases – 56% (preferable in 2022 – 28%). This share is mainly related to the reduced workload of courts and improved efficiency of legal proceedings.

Overall, the abovementioned measures aimed at implementation of this EU Council recommendation are linked also to the priority of the *Annual Growth Survey 2013* for modernising public administration.

In addition to the abovementioned, the NDP2020 includes tasks and activities to improve efficiency and strengthen administration capacity of judiciary, for example, development of e-services and modernisation of information system in the State Land Service, the Register of Enterprises, the Court Administration (State Unified Computerised Land Register), the Insolvency Administration and the Data State Inspectorate, introduction and improvement of information technology (hereinafter – IT) solutions in law enforcement authorities and the Insolvency Administration, by streamlining the conducting of the proceedings and ensuring maximum satisfaction of plaintiffs' and creditors' interests, development of a single system for raising qualification of the personnel of law enforcement authorities, thus laying the foundation for quality and timely investigation and consideration of cases and promoting business environment that supports growth of the economy by reducing the risk of corruption and ensuring legal use of the EU financial resources.

2.7. HIGHER EDUCATION REFORM, RESEARCH AND INNOVATION POLICY

The EU Council recommends Latvia to continue reforms in higher education, inter alia, by implementing a new financing model that rewards quality, strengthens links with market needs and research institutions, and avoids fragmentation of budget resources. Design and implement an effective research and innovation policy encouraging companies to innovate, including via tax incentives, upgrading infrastructure and rationalising research institutions.

Higher education reform

In 2013, a research is planned to be conducted (in cooperation with experts from the World Bank) on the *new financing model of higher education* that would foster the accessibility, fairness, objectively evaluable increase of international competitiveness of the higher education. The research foresees also assessment of legal, economic, financial, social and other risks, as well as development of possible implementation scenarios of the model.

Based on the research results, proposals for public discussions on development of optimal financing model of higher education will be prepared, risk assessment of its introduction will be conducted, a detailed ex-ante impact assessment will be performed and opinions of the public and social partners regarding this model will be summarized, as well as legal basis for its implementation will be prepared by the end of 2013.

In 2012, the work on introduction of *new higher education accreditation and quality management model* was started envisaging stricter accreditation procedure, measurable accreditation criteria, balanced composition of the commission and transparent selection of experts.

Within the ESF project, the quality, resource adequacy, sustainability, cooperation and overlapping assessment of all study programmes within the relevant field of studies was

conducted for the first time in Latvia. The assessment of study programmes involved international experts and independent experts from Latvia. The work on the final report is being continued until May 1, 2013. The report will include recommendations for further improvement, development, consolidation, closing, fostering of international competitiveness, efficient use of resources of study programmes and their financing from the state budget resources. The assessment results of study programmes obtained within the ESF project will be used in the accreditation process of the study fields.

On December 12, 2012, (amendment of April 11, 2013) the Accreditation Commission of Studies was approved and will operate according to the accreditation rules adopted in 2012.

On April 25, 2013, the government approved a proposal for organisation of the accreditation of study fields of higher education institutions and colleges by the MES or its authorized institution in 2013. The government in its meeting also approved the *CM Draft Regulations Regarding Licensing of Study Programmes* that stipulate the procedure for licensing of study programmes and envisaging that the MES itself is allowed to perform functions of the authorized accreditation institution, as well as the updated price list establishing the procedure and costs of higher education institutions and colleges for accreditation of a higher education institution, accreditation of study fields, verification and evaluation of the information provided in the framework of accreditation of study fields, as well as licensing of study programmes.

It is planned that since 2014, higher education institutions are expected to be allowed to select any of the European accreditation authorities that are registered in the European Quality Assurance Register for Higher Education (hereinafter – EQAR) for accreditation purposes. Thus, the accreditation process will be more open and transparent, ensuring that the quality assessment process of studies meets the international best practice standards for external quality assurance. A possibility to establish a national accreditation institution in accordance with the EQAR criteria is being considered.

In order to promote quality, efficient use and consolidation of resources, as well as closer link between higher education and labour market and science by concentrating resources in higher education institutions with sufficient capacity and quality, the *Draft Action Plan for Implementation of Reforms in Higher Education and Science for 2013–2014* has been prepared in 2012.

At the same time, the work has been started on the *Guidelines for Development of Education for 2014–2020* (hereinafter – Guidelines). The guidelines are expected to be submitted to the CM at the end of June 2013.

To ensure better link between higher education and the labour market, the graduate monitoring system is being improved and the distribution of state budget funded study places is being gradually changed based on the medium-term and long-term labour market forecasts¹³, including the lack of specialists in the areas of national priority that are producing high value added and are expensive in terms of study costs – natural sciences, engineering, health care.

To promote internationalisation and exportability of higher education a number of measures to make it easier for higher education institutions to attract foreign students were implemented in 2012, for example, granting higher education institutions legal rights to develop and implement study programmes jointly with higher education institutions in other countries and to issue joint certificates, as well as to offer foreign students a possibility to receive the state budget scholarship for studies. In 2013, *Amendments to the Law on Higher Education Institutions* have been drafted and announced in order to expand the possibilities to implement study programmes in the EU official languages at the state-founded higher education institutions.

¹³ The ME prepares an annual report on labour market forecasts based on which the MES and the SEA adjust the supply.

To ensure a closer link between studies and science, establishment and development of the cooperation platform has been started for Baltic higher education, science and private sector (hereinafter – BIRTI)¹⁴ in the following areas: biopharmacy and organic chemistry, nanostructured materials and high-energy radiation, smart technology and engineering. In 2013, measures are planned to facilitate creation and development of joint doctoral study programmes in universities, higher education institutions and scientific institutions, thus promoting quality, closer mutual cooperation and concentration of resources, including the development of a joint doctoral study programmes (*Super Doctoral Programme*).

The abovementioned measures foster fulfilment of Latvia's commitments within the *Euro Plus Pact* (measure 1.3) and comply with the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow, as well as implementation of the flagship initiative *An Agenda for New Skills and Jobs* of the Europe 2020 strategy.

Research and Innovation Policy

In 2013, the *Guidelines on Research, Technology Development and Innovation for 2014–2020* is expected to be developed identifying the main challenges to scientific activity, defining government policy objectives, key principles and priorities for development of research, technology and innovation, as well as the *Smart Specialization Strategies* will be prepared covering also a significant component of cross-border and international cooperation for research and innovation.

In 2013, the *Law on Scientific Activity* is going to be amended to promote efficient legal protection of inventions stemming from the state budget funded scientific activity (especially state research programmes), commercialisation and knowledge transfer, by developing preconditions for an increase in private investments in research related activities.

In order to ensure promotion and strengthening of scientific excellence at the national level and concentration of scientific resources, 9 national level research centres have been established. New allocation principles of the state budget resources are expected to be introduced, thus promoting concentration of excellence and human resources, fostering cooperation with industry and strengthening national identity.

A single methodology and criteria for international assessment of public and private scientific institutions has been developed. Scientific institutions have prepared self-assessment reports that have been translated into English and entered in the single information system.

On February 5, 2013, a cooperation agreement with the Nordic Council of Ministers has been signed. Within the cooperation international assessment of the performance quality of scientific institutions is expected to be conducted and international examination of research and innovation policy is going to be organised and ensured, as well as recommendations for development of Latvian research and technology policy are planned to be prepared. It is planned that the *Final Quality Assessment Report* will be prepared by September 30, 2013.

The work on development of the European level research infrastructure – BIRTI platform for development of competitive technologies in the Baltic region is continued. It is planned to attract the technical assistance facility *Joint Assistance to Support Projects in European Regions* financed by the EU institutions. BIRTI is expected to be implemented in 2014–2020.

Participation of Latvia in research programmes ARTEMIS and Eurostars has been ensured. Support has been ensured for Latvia to participate in the European research and technology development programmes (COST, 7th Framework Programme and EUREKA), bilateral cooperation programmes with Belarus, France and trilateral cooperation programmes

¹⁴ Baltic Innovative Research and Technology Infrastructure.

with Lithuania and Taiwan aimed at supporting cooperation of scientists and researchers in different fields of research and technology development at the European level, promoting research, development and introduction of innovative civil technologies mainly in small- and medium-sized enterprises.

For the purpose of developing the potential of scientific activity, a number of activity projects were financed from the EU structural funds in 2012 – “*Attracting Human Resources to Science*”, “*Support for Science and Research*”, “*Support for International Cooperation Projects in Science and Technology (EUREKA, 7th Framework Programme and others)*”, “*Development of Research Infrastructure*”, “*Improvement of Information Technology Infrastructure and Information Systems for Scientific Activity*”.

In order to support innovative enterprises in developing and introducing new products and technologies in production and to increase the number of innovative enterprises, it is planned to extend some of the *corporate income tax support measures* oriented towards long-term investments to improve competitiveness of enterprises, including development of new products and services. At the same time, new corporate income tax incentive is planned to be improved to promote private sector investments in research and development providing a possibility to write off certain research and development costs in the year when such costs were incurred by applying a value-increasing coefficient – 3.

In order to support innovative enterprises, project implementation was continued within the EU structural funds programmes “*Development of New Products and Technologies*”, “*Introduction of New Products and Technologies in Production*”, “*High Value Added Investments*” and implementation of the “*Development Programme of New Products and Technologies by Micro-, Small and Medium-Sized Enterprises*” had been launched in 2012. It is planned to invest LVL 115 million in the implementation of the abovementioned activities by the end of 2015 that might attract private sector co-financing in the amount of LVL 143.6 million.

In 2012, 208 contracts for the EU structural funds financing of LVL 37.9 million have been signed within the programmes for development and introduction of new products and technologies in production. In 2012, 160 projects for LVL 19.8 million have been completed. It is planned that in the result of implementation of the supported projects, co-financing of private sector in the amount of LVL 72.7 million will be attracted. In 2013, the EU funds’ financing in the amount of LVL 10.7 million is planned to be paid for further implementation of the projects supported within both programmes.

At the end of 2012, a selection of project applications under the EU structural funds “*Development Programme of New Products and Technologies by Micro-, Small and Medium-Sized Enterprises*” had been started with an aim to promote innovations of micro-, small- and medium-sized enterprises, development of new products and technologies and strengthening competitiveness of technology transfer. The total available EU structural funds financing within the programme until the end of 2013 is LVL 2 million. It is planned that at least 200 micro-, small- and medium-sized enterprises by attracting co-financing of the private sector in the amount of LVL 1.2 million will be supported within the programme.

In order to support modernisation of production units, the second stage of the project selection under the EU structural funds programme “*High Value Added Investments*” was organized in 2012 for the total available EU structural funds financing in the amount of LVL 26 million. In total 16 project applications of enterprises were approved for the total requested financing in the amount of LVL 32.4 million. At the same time, implementation of 20 projects approved within the first stage of project selection for the total financing of LVL 42.8 million was continued in 2012 that might attract additional co-financing in the amount of LVL 69.7 million from the private sector. By the end of 2012, the implementers of the projects approved within both selection stages of the programme have received LVL 25.5 million, while LVL 12.7 million are expected to be paid within the programme in 2013.

The Norwegian financial instrument programme “*Green Industry Innovation*” has been approved on August 20, 2012. A technology incubator will be established within this programme providing support to green enterprises for development of innovative products and technologies. The total programme’s financing is LVL 8.8 million, of which LVL 7.9 million is co-financed from the Norwegian financial instrument and LVL 0.9 million is co-financed by Latvia. The implementation of activities within the programme (launching the technology incubator; opening selection of project applications) are planned to be started by the mid-2013.

To foster cooperation between scientists and entrepreneurs for implementation of joint large-scale industrial research, the EU structural funds programme “*Competence Centres*” is being implemented. The programme will be implemented until 2015 and the total public financing is LVL 37.4 million. Moreover, the activities of 6 competence centres are expected to attract additional co-financing in the amount of at least LVL 20 million from the private sector. In total, competence centres involve at least 72 enterprises and 17 scientific institutions. By the end of 2012, LVL 11.8 million have been paid to the recipients of financing, while LVL 8 million is expected to be paid in 2013.

Support is provided to ensure activities of technology transfer contact points established in 8 higher education institutions of Latvia within the *Programme for Technology Transfer Contact Points*. The total EU structural funds financing available within the programme until 2013 is LVL 1.7 million. By the end of 2012, LVL 1.3 million have been used for ensuring activities of all technology transfer contact points, while LVL 0.35 million are expected to be paid in 2013.

In general, the research and innovation policy is focused on successful integration of Latvia in the European Research Area (*ERA*) and implementation of efficient research and innovation policy by promoting innovation of enterprises, applying tax allowances, modernising infrastructure and concentrating scientific resources in competitive research institutions. The abovementioned measures foster fulfilment of Latvia’s commitments within the *Euro Plus Pact* (measures 1.2 and 1.6) and comply with the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow, as well as implementation of the flagship initiative *Innovation Union* of the Europe 2020 strategy.

3. POLICY DIRECTIONS

3.1. FINANCIAL STABILITY

3.1.1. Developing Sustainable Budget

Stability of public finances is a key aspect of promoting economic growth. Therefore, it is crucial to develop a sustainable and counter-cyclical fiscal policy in the long-term and to foster compliance of the general government budget deficit and the government debt with the Maastricht criteria and the provisions of the *Stability and Growth Pact*.

Consolidation measures implemented by the government in 2011 and 2012 resulted in decreased budget deficit to 3.6% and 1.2% of GDP, respectively, according to the ESA'95 methodology. In the coming years, the balance of the general government budget will be defined based on the provisions of the *Fiscal Discipline Law* envisaging a balanced budget in the economic cycle (the balance of general government budget shall not be below -0.5% of GDP), as well as according to the conditions of the *Stability and Growth Pact*.

By ensuring the general government budget deficit below the Maastricht budget deficit criterion and by defining the balance of the general government budget, according to the provisions of the *Fiscal Discipline Law* Latvia fulfils its commitments within the *Euro Plus Pact* to ensure sustainable public finances (measure 3.1) and the priority of the *Annual Growth Survey 2013* regarding the implementation of growth-friendly fiscal consolidation.

Key policy directions and measures to ensure sustainable budget:

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

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

The *Fiscal Discipline Law* (hereinafter – FDL) entered into force on March 6, 2013. The FDL stipulates binding fiscal conditions for the annual budget and medium-term budget alike. The law introduces basic principles, instruments and fiscal conditions for developing fiscal policy.

Amendments to the Constitution have been also developed and submitted to the Saeima on December 6, 2011. The amendments are now being considered by the Saeima committees.

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

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

By continuing promoting sustainability of the pension system, the *Law on State Pensions* has been amended in June 2012 envisaging:

- As of 2014, a gradual increase in the retirement age by three months every year until reaching 65 years by 2025. At the same time, the possibility to request an old-age pension two years prior to reaching the defined retirement age is preserved;
- An increase in the minimum length of insurance period from 10 to 15 years, granting rights to receive an old-age pension starting with 2014 and from 15 to 20 years starting with 2025;
- As of 2014, expenditures for payment of an old-age and disability pension will be ensured from the state general government budget, thus relieving the social insurance special budget.

3.1.2. Ensuring Stability of the Banking Sector

Latvia's commitments within the *Euro Plus Pact* include ensuring stability of the financial sector (group of measures No.4).

Over the last four years, Latvian banks have strengthened their capital base at the total amount of LVL 1.6 billion. Thus, they were able to cover losses caused by the deteriorating credit portfolio and maintain sufficient capital to cover inherent and potential risks of banking activity. In general, the banking sector is sufficiently capitalized. The capital adequacy ratio of the banking sector remained high in 2012 and reached 17.6% at the end of the year (minimum capital requirement – 8%), while the Tier 1 equity capital ratio was 15.2%. The majority of banks have taken the opportunity to strengthen the capital base, by including the audited profit of the financial year (i.e. a half-year or nine months). As the amount of loan depreciation exceeds the amount of issued loans, the amount of risk-weighted assets continues shrinking.

The liquidity ratio of the banking sector remained high and was 59.8% at the end of December 2012, thus exceeding the minimum requirement substantially. The remaining low lending has led to rather high resources in liquid assets accumulated by banks.

Since the second half of 2010, the quality of loans has been gradually improving. The share of loans with overdue payments above 90 days decreased from 13.3% to 11.1% during a year, if the indicators on banks that lost their licences in 2012 are excluded. It was fostered by a significant decrease in the amount of loans with overdue payments more than 90 days in the credit portfolio of resident enterprises (in 2012 – by 28.7%).

As the financing of foreign banks, mainly parent banks, decreases gradually, the role of non-bank deposits in the financing structure of the banks is increasing. Currently, the amount of resident and non-resident deposits exceeds the pre-crisis level.

Key policy directions and measures to ensure development of the banking sector:

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

On December 21, 2012, the *Amendments to the Regulations Regarding the Credit Risk Management* were approved with an aim to strengthen the requirements for assessing the creditworthiness of a borrower before granting the loan and specify the information to be provided to a client about the risks related to the loan.

Amendments in the Credit Institutions Law and related FCMC regulations with respect to the new EU framework regarding bank capital requirements and liquidity issues are being developed at the moment. The deadlines for approval of the *Amendments in the Credit Institutions Law* and related FCMC regulations will be closely linked to the approval procedure of the respective directive and regulation.

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

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

- The Mortgage and Land Bank of Latvia (hereinafter – Mortgage Bank). In 2011, the CM approved the *Strategy for Sale of the Commercial Part of the Mortgage Bank*. In 2012, the sale of the first, second, fifth and sixth packages of the Mortgage Bank was successfully completed under the concluded agreements. On April 2, 2013, the CM approved further action regarding the third and fourth commercial package of the Mortgage Bank, but at the same time it was decided to submit to the CM the main

conditions of the agreement for the sale of commercial package 3a of the Mortgage Bank. The expropriation process of the commercial assets of the Mortgage Bank is planned to be completed in the first half of 2013;

- The development financial institution (hereinafter – DFI). The CM approved on October 2, 2012 the *Informative Report on the Establishment of the Single Development Financial Institution and State Support Programmes Implemented in the Form of Financial Instruments* that include guidelines for establishing the DFI. The procurement *Assessment and Consultations for the Establishment of the Single Development Financial Institution* was concluded as well. The contract with the winner of the tender was signed on November 20, 2012, while the assessment of the possible alternative solutions to the DFI establishment was submitted on January 18, 2013 and a number of interinstitutional meetings have been held to discuss the assessment. On April 4, 2013, the CM approved the *Informative Report on the Establishment of the Single Development Financial Institution*, at the same time deciding on the following:
 - o to establish the DFI as a holding company, merging the Mortgage Bank, the Latvian Guarantee Agency, the Rural Development Fund and founding a new leading company of the holding;
 - o to submit for consideration to the CM a complete action plan for the establishment of the DFI holding within four months, including a draft decision on founding of a new enterprise, as well as a plan for the optimisation of the companies within the DFI and the integration of functions;
 - o the Mortgage Bank shall perform all the necessary preparatory and implementation measures to give up the credit institution licence;
 - o not to involve the Latvian Environmental Investment Fund in the DFI;
 - o to appoint the MF as a holder of the DFI capital shares with an obligation to involve representatives from the ME, the MEPRD and the MA in the DFI board, as well as to consider the need to invite an international financial institution to delegate a representative for participation in the DFI Board;
 - o the Advisory Board shall continue working on the assessment and improvement of the state support programmes, as well as provide recommendations on further activities of the single development financial institution, etc.

It is planned to establish the DFI by the end of 2013.

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

According to the sales strategy, the JSC “Citadele banka” is going to be sold at an auction. However, taking into account the situation in the Baltic banking market and the unstable European financial markets, at the end of 2011, the CM took a decision to postpone the sales process of the JSC “Citadele banka”. It is planned to return to the sales process of the JSC “Citadele banka” as soon as the situation in financial markets improves. According to the restructuring plan, the entire JSC “Citadele banka” is expected to be sold by the end of 2014.

A combined sales strategy was applied to the JSC “Parex banka” envisaging not to sell the entire bank, but to take all the necessary steps to increase or maintain the asset value. In 2011, the further activity model of the JSC “Parex banka” was implemented envisaging a change of status of the bank and giving up the credit institution licence. The FCMC board’s meeting of March 15, 2012 took a decision to cancel the licence for credit institution activity issued to the JSC “Parex banka”. On May 8, 2012, after changing the status and the name, the bank started working as a professional management company of problematic assets – JSC “Reverta”. On December 4, 2012,

the CM decided to continue implementing the previously approved sales strategy and to return to the assessment of the implementation progress of the sales strategy in October 2013. According to the restructuring plan approved by the EC, the JSC “Reverta” will continue developing assets, i.e. credit recovery and take-over of collaterals so that the state could recover the maximum of the financing invested in the JSC “Parex banka”. The JSC “Parex banka” will operate until 2017.

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

The aim is to provide a general view on the financial sector and its development tendencies for potential users of financial services, as well as to strengthen supervision of the financial services sector to ensure that financial services are available for consumers and are appropriate to their needs and abilities. In order to achieve the aim, the following measures are being implemented:

- An Internet website “*Customer School*” (www.klientuskola.lv) has been developed and updated on a regular basis by the FCMC, thus informing the society about the services provided by the financial system of Latvia and raising awareness of the main risks. The “*Customer School*” is planned to be transformed into an educational portal, and it is also planned to record annual changes in the public understanding on financial issues by developing the *FCMC Index on Public Knowledge of Finances*;
- As of September 6, 2012, an informative tool *Bank Compass* is available on the FCMC website that allows viewing easy and fast quarterly performance results of the banks of Latvia and their explanations. An analysis of these results may be one of the factors to be taken into account by a client when looking for a possible cooperation with a bank;
- On January 29, 2013, the FCMC joined the international movement *Child and Youth Finance International*, thus committing itself to ensure further coordination of the measures of the *Financial Education Week* in Latvia for children and youth. The first such week proved to be successful and took place on March 18–22, 2013. The FCMC partners in this movement are the MES, the National Centre for Education, the Bank of Latvia, the BA School of Business and Finance, the Association of Commercial Banks of Latvia, the Consumer Rights Protection Centre, Junior Achievement and 7 commercial banks. All participants offered some educational activities and invited everyone to take some tests and use other tools to check their financial knowledge and find out and improve the level of financial knowledge by the use of available informational material every day during this week. During the *Financial Education Week* 40 lectures were given, results of three researches were presented and over 5000 interested persons were involved in internet activities. Representatives of the FCMC management gave lectures in their hometown schools in Liepāja, Rīga and Limbaži, while lectures provided by commercial banks introduced into the key issues of financial know-how and daily banking activities young people from more than 26 other schools in Rīga and other regions of Latvia;
- As from November 1, 2011, a *Non-bank creditor licensing system* has been introduced, thus guaranteeing the existence of financially stable creditors in the market in the long term. The licensing system allows increasing the overall consumer protection level in the non-bank crediting sector, by ensuring that only service providers of stable financial standing are participating in this market, thus reducing the potential risks and improving the overall control and supervision carried out by the responsible authority in the non-bank crediting market.

In order to further ensure consumer protection and awareness of financial services, the relevant laws and regulations are expected to be improved by the end of 2013 by covering the whole crediting sector in one law. At the moment, the measure is at an early preparation stage, as the EU directives on mortgage crediting are being developed. After adopting this directive, the relevant draft legislation will be developed, including legislation to transpose the abovementioned directive in case of its adoption. At the moment, a number of proposals have been developed regarding stricter regulations of crediting advertisements, promotion of responsible lending, as well as interest rate limitations to be forwarded for coordination in the nearest future.

3.2. PROMOTING COMPETITIVENESS

3.2.1. Business Environment and Modernisation of Public Administration

The competition for investments intensifies in the world and the business environment plays a significant role. Latvia has been ranked 25th among 185 countries on the ease of doing business in the World Bank's *Doing Business 2013* report. Latvia has made progress in 8 areas (out of 39), while it has been ranked down in one area (in relation to enforcing contracts). Latvia is ranked 8th among the EU Member States. In comparison with Estonia and Lithuania, Latvia lags behind in such areas as starting a business, construction and registering property, as well as enforcing contracts.

By improving business environment, Latvia fulfils its commitments within the *Euro Plus Pact* (measure 1.5, 2.1 and 2.2), as well as the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow and modernising public administration.

Key policy directions and measures for improving the business environment:

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

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

The progress in improving business environment is fostered by the implementation of the *Annual Action Plan for Improvement of Business Environment* and the main measures in 2012 were:

- *Starting a business* – as of November 29, 2012, electronic registration of enterprises in the Commercial Register on the website www.latvija.lv has been introduced;
- *Protecting investors* – on July 10, 2012, *Amendments to the Commercial Law* came into force with the aim to prevent conflict of interests between the board and council members in concluding transactions;
- *Paying taxes* – as of January 1, 2013, the new *Law on Value Added Tax* came into force incorporating a regulation that reduces the time required to register an enterprise in the register of value added tax (hereinafter – VAT) payers of the State Revenue Service from 10 working days to 5. Functionality of the Electronic Declaration System has been also improved;
- *Dealing with construction permits* – the *Draft Construction Law* has been submitted to the Saeima envisaging reduction of the length of procedures for harmonization of construction to 69 days and 6 procedures (according to the *Doing Business* rating definitions). The adoption of the *Construction Law* in the final reading is planned by the autumn 2013 and it is expected to come into force as of 2014;

- *Registering property* – a regulation for the introduction of one stop shop agency principle in registration of property data and corroboration of the title has been developed. The necessary amendments to several laws related to the regulation is expected to be considered in the CM by April 1, 2013;
- *Developing e-services* – *eKase* (eCash) has been introduced. Entrepreneurs are no longer required to submit a statement as a proof of the paid services, state fees and tax payments.

The aim of the *Annual Action Plan for Improvement of Business Environment for 2013* is to achieve simple and high-quality business services and more e-services. Some of the most important ones envisage the following:

- *In registration of enterprises* – to revise a possibility to register also employees along with the registration of an enterprise in the Commercial Register, continue working on developing of the framework for the implementation of official electronic address;
- To launch the *Construction Information System* (hereinafter – BIS), thus ensuring electronic exchange of construction documentation. The BIS is a guarantee for customers and construction supervisory authorities – local government building authorities, ME will have an access to all the necessary documents and data from state information systems regarding the particular building. The BIS foresees that documents will be in electronic form and the communication between the supervisory authorities, the customer and the construction enterprise will be electronic as well. The development and introduction of the BIS is planned to be completed by September 6, 2013 (project costs constitute LVL 2.1 million, including financing from the European Regional Development Fund (hereinafter – ERDF) – LVL 1.9 million);
- *In registration of real estate* – to introduce electronic registration of real estate;
- To improve the *quality of the work of arbitration courts* – in January 2013, the *Draft Law on Arbitration Courts* and related *Amendments to the Civil Procedure Law* were announced at the meeting of the State Secretaries. The aim of the draft laws is to raise the quality of the work of arbitration courts and restore the public confidence, thus unburdening ordinary civil courts. At the moment, the given draft laws are being coordinated with all interested institutions. The draft laws are planned to be submitted to the CM for consideration in the nearest future.

- ***Reducing labour taxes*** (responsible institution – MF)

The aim is to increase competitiveness of Latvian entrepreneurs by reducing the labour tax burden to the level of other Baltic States.

In 2012, a time schedule for reducing labour taxes was developed for a 3-year period thus ensuring competitive labour costs, promoting economic activity and employment and reducing grey economy in a fiscally neutral manner. This reform foresees to reduce personal income tax rate and raise the non-taxable minimum and tax relief for dependants. On May 24, 2012, the Saeima adopted amendments to the *Law on Personal Income Tax* that envisages a reduction of the personal income tax rate by 5 percentage points within 3 years – from current 25% to 20%.

As of July 1, 2013, the tax relief for a dependant is planned to be LVL 80 per month (instead of the current LVL 70).

Taking into account the fiscal possibilities of the state budget, the development of the draft budget for 2014 is likely to generate debates on increase of the minimum wage, non-taxable minimum of employees and tax relief for dependants.

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

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

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

Until 2013, in the framework of the plan 15 measures have been implemented and the work on the implementation of the remaining measures continues in 2013.

In 2012, two studies were conducted: *Analysis of administrative requirements and assessment of the activities of controlling institutions in the field of health care* and *Exploring possibilities to reduce administrative burden for the private sector in the field of documentation of its activities and storage of documents* (the studies have been implemented within the ESF project *Reducing administrative burden and simplifying administrative procedures*, the total public financing of the project is LVL 1.1 million including the ESF financing – LVL 0.9 million). Based on the outcome of the studies, new plans of measures are going to be developed for reducing the administrative burden, simplifying administrative procedures and improving the quality of public services. Moreover, a website has been developed within the SC where citizens can provide specific proposals for reduction of administrative burden by describing problems and providing solutions;

- Developing e-government and e-services. The measure is aimed at making the public administration procedures more efficient, by ensuring access to public services for citizens and entrepreneurs.

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

The one-stop-shop (hereinafter – OSS) principle is planned to be introduced by 2014. In 2012, introduction of the OSS principle was continued in electronic environment on the single state and local government services website www.latvija.lv, thus ensuring access to 52 e-services and providing information about possibilities to receive more than 2073 state and local government services. In 2012, 11 new e-services were introduced. In 2013, a new version of the website is going to be developed so that every citizen would be able to easily use the available e-services;

- Further optimisation of public institution functions. The measure is aimed at increasing efficiency of public administration by revising their functions. The work on function auditing was started in 2009 and expected to continue until 2014. As a result of the function auditing, centralization of the supporting functions (accounting, human resources and IT) of public administration institutions is carried out, some functions are transferred to other institutions, or liquidation of institutions. In general, the number of employed in public administration and accordingly also government budget expenditures will be reduced in the medium term;

- Reforming management of state capital shares and commercial activity of public persons. The measure is aimed at ensuring more efficient management of state capital shares and commercial activity of public persons according to the principles of good corporate governance, as well as evaluating the necessity for public persons to engage in business. In 2012, the *Draft Concept for Management of State Capital Shares* and

the *Draft Concept for Commercial Activities of Public Persons* has been prepared and supported. It is also planned to align the system for management of state capital shares of public persons (relevant legislation) by the end of 2013.

- ***Improving regulatory basis for employment legal relations, labour security and their application*** (responsible institution – MW)

In order to achieve the defined aim – to ensure preconditions for high-quality jobs, amendments to legislation have been introduced in 2012:

- Amendments in the CM regulations regarding the requirements for competent institutions and competent experts in labour security, as well as the procedure for competence assessment improved the system of labour security services by simplifying the procedure for assessment of competent institutions, as well as specified the requirements for the certification process of competent experts;
- Amendments in the number of CM regulations aimed at reducing the administrative burden in the field of labour security, thus reducing the costs of employers. These amendments addressed such issues as training procedure in labour security issues by reducing the volume of the education programme for labour security experts, as well as specifying and simplifying the requirements for training of labour security experts in hazardous industry companies. Moreover, amendments regarding reduced frequency of measuring the noise at the workplace have been introduced.

In order to continue improving the regulations of employment legal relations and labour security, in cooperation with social partners the following is planned in 2013:

- To develop proposals for amendments in the *Labour Law*. For the purpose of strengthening the flexicurity principles in employment legal relations and improving the quality of business environment, issues regarding conclusion of fixed-term employment contracts and supplementary payments is expected to be revised. The draft law also envisages reducing the administrative burden for employer in the case of collective redundancy (by reducing the time period for announcing the planned collective redundancy to public institutions). In order to foster legal certainty, the issues regarding notice of dismissal, termination of employment legal relations, working hours and breaks and wage are going to be defined more precisely. The draft law will contain also provisions regarding reduction of non-registered employment by providing the controlling institutions with a possibility to instantly obtain information from the employer about concluded employment contracts during inspections, as well as by incorporating a condition that delegates the CM if necessary the power to define those types of commercial activities which impose an obligation on the employer to issue a certificate to an employee when entering into an employment contract, as well as to determine information to be contained in the certificate of an employee and conditions for their issue;
- To improve the procedure for investigating an accident at work by stipulating specific and clear requirements for investigations of different types of accidents at work, thus simplifying the investigation process of accidents for both employers and the State Labour Inspectorate (hereinafter – the SLI) and their understanding of it;
- To supplement the legal framework regarding safety of workers who work at a height by setting clear requirements for work at a height, improving the understanding of employers and workers about the need for protection of workers against the risk of falling from height;
- To introduce new e-services to the SLI with the support of the EU funds. In 2012, the SLI developed 14 e-service prototypes and the SLI is expected to have 16 e-services in 2013.

- **Combating grey economy** (responsible institution – MF)

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

In 2010, the *Plan of Measures for Combating Grey Economy and Ensuring Fair Competition for 2010–2013* (hereinafter – Plan) had been developed. The Plan has been updated and supplemented with new measures several times.

At the moment, the Plan includes 66 measures, 63 of them have been fully completed by 2013 and 3 of the measures are continued to be implemented. Several important measures have been carried out and implemented in 2012:

- The *Law on Tax Support Measure* was adopted envisaging a single measure for a partial discharge of overdue payment and fine imposed on those taxpayers who will pay the principal debt within a specified time period;
- The CM approved the *Concept for Consolidation and Simplification of the Small Enterprise Tax Payment Regime*. It describes the possible measures to consolidate and simplify the small enterprise tax payment regime and implementation terms of possible solutions;
- A provision was incorporated in the *Law on Taxes and Fees* with an aim to prevent the use of micro-enterprise tax regime for the purpose of tax planning. Further on, transactions will be evaluated in general, despite the fact that each separate transaction does not show any sign of evading tax payments;
- *Amendments to the Latvian Administrative Violations Code* have been prepared envisaging a possibility to impose an additional sanction “forfeiture of rights to hold particular position in commercial companies” on a person – a member of the board for major violations in the field of finance thus prohibiting the person from holding a position in another commercial company;
- *Amendments to the Law on Taxes and Fees* have been adopted granting the State Revenue Service (hereinafter – SRS) a right to terminate economic activities of a tax payer. This regulation is aimed at prohibiting those taxpayers from performing economic activities who commit significant violation of legislation and fail to meet the requirements of tax administration;
- Application of tax payers for the status of participant in the *Enhanced Cooperation Programme* to receive the advantages and reliefs of the programme participants offered by the state. The programme is aimed at promoting closer and efficient cooperation between taxpayers and the tax administration by reducing the administrative burden;
- Restrictions on cash incorporated in the *Law on Taxes and Fees* have been specified. The amendments envisage more efficient control of cash transactions, thus restricting circulation of large amounts of cash and possibility of evasion of tax payments.

The aim of the measures under the Plan has a direct or indirect impact on the government budget revenues, and therefore a part of tasks was envisaged in the Plan with an aim to reduce the administrative burden on entrepreneurs, promote fair competition and support improvement of business environment. One of the measures having a direct impact on the budget revenues in 2012 was the declaration of the property status and disclosure of undeclared income by natural persons. By implementation of this measure, 132 033 declarations of the property status have been submitted to the SRS by December 31, 2012. Personal income tax in the amount of LVL 675.2 thousand has been calculated for previously undeclared income, of which payments in the amount of LVL 672.2 thousand have been made in the budget. The Tax support measure also provided additional government budget revenues. The measure was aimed at unburdening enterprises of tax debts incurred as a result

of the economic crisis. This opportunity regarding the taxes administered by the SRS (personal income tax; corporate income tax; value added tax; excise duty; customs duty; mandatory state social insurance contributions and natural resources tax) has been used by 3285 taxpayers and 6502 taxpayers have used the opportunity regarding real estate tax debts. By February 15, 2013, the SRS administered tax debts in the amount of LVL 803 thousand have been paid.

In 2013, the work on implementation of 3 tasks is being continued:

- Revising possibilities to improve tax payment and accounting system, including a possibility to develop a system where each taxpayer has a single tax account for payment of all taxes and other mandatory state payments, as well as for the receipt of all tax refunds. At the moment, it has been concluded that the single account for tax payments and refunds cannot be implemented in the nearest future due to the significant costs for adjustment of IT systems, as well as complicated harmonization of legislation. Yet, the possibility is being considered to reduce the number of excise duty payment accounts to the minimum, i.e. from the current 58 accounts to 12 accounts (6 accounts – for domestic payments and 6 accounts – payments for imports of goods);
- Preparing guidelines on the key principles for the development of legislation, thus ensuring their gradual simplification. By the resolution of December 28, 2012 the Prime Minister has assigned a task to define simplification of legislation regulating the industry and reduction of the administrative burden as one of the objectives to be achieved in 2013 by the ministries and their subordinated institutions. Thus, the measures of the Plan are expected to be implemented in 2013;
- Envisaging utilisation or disposal of equipment used for production of illicit tobacco products, alcoholic beverages or oil products seized by controlling institutions to reduce the risk of repeated use of this equipment for production of illicit products. The Saeima is considering several draft laws regarding accounting, evaluation, sale, free of charge transfer, destruction and payment of sales revenue of property without an owner to the government budget. The provisions of these draft laws will change the CM draft regulations developed by the MF. In order to ensure efficient public administration and use of administrative resources, the regulation arising out of the draft laws will be included in the prepared draft regulation to be submitted to the CM by June 30, 2013.

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

To strengthen the services market, Latvia has fully implemented the requirements of the *Directive 2006/123/EC* of the European Parliament and of the Council of December 12, 2006 *on services in the internal market* (hereinafter – the *Services Directive*) by adopting and implementing relevant laws and regulations and by carrying out comprehensive screening of national laws regulating the services, as well as by creating a single contact point for administrative procedures.

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

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

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

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

The measures to improve absorption of EU funds implemented in 2012 are related to improvement of management and control system based also on the EU instructions on the required improvements.

The improvements have been made in the field of supervision of delegated functions of institutions involved in the EU funds administration, the assessment of procedures, the financial management (determined national procedure for suspending payments in case of detecting significant deficiencies for a period until the elimination of the relevant deficiencies, as well as improvements in application of financial corrections).

In order to improve the EU funds administration system for the programming period 2014–2020, the *Draft Concept on Implementation of the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund in 2014–2020 in Latvia* has been developed and announced for coordination at the meeting of State Secretaries on February 14, 2013. The Concept is aimed at reaching an agreement on the EU funds implementation system in the programming period 2014–2020 and informing about the measures to be implemented for the purpose of simplifying the EU funds administration system.

In general, the abovementioned measures are linked to the implementation of the flagship initiative *Agenda for new skills and jobs* of the Europe 2020 strategy.

3.2.2. Promoting Productive Investments and Exports

In order to promote structural economic changes in favour of production of goods and services with higher value added, implementation of industrial policy is one of the priorities of Latvian policy. The *Guidelines on the National Industrial Policy for 2014–2020* have been submitted to the government. The key issues identified in the guidelines are related to the macroeconomic challenges affecting the growth of Latvia arising from global and national macroeconomic aspects (development stage and trends of Latvian economy, its structure, impact of global economic forces,) and microeconomic aspects (the identified strategic advantages and key weaknesses or challenges of enterprises). Overcoming the identified macro- and microeconomic challenges is the main task of economic growth-oriented structural policy and appropriate state intervention policy. Access to labour force and qualification issues, development of industrial zones, promotion of access to finance, increase of innovation capacity, promotion of exports and reduction of the costs for energy resources have been identified as the key policy directions. A plan of measures for the next three years has been prepared according to the policy directions.

In 2012, the *Guidelines for Promoting Latvian Exports of Goods and Services and Attracting Foreign Investments for 2014–2020* were developed and the action plan for their implementation will be updated in accordance with the *National Industrial Policy*. The guidelines are aimed at improving competitiveness of Latvian economy in the open product (goods and services) and capital markets.

¹⁵ The “silence means consent” principle is one of the tools fostering modernization of public administration. The principle defines that in case if a responsible institution does not provide the answer on the application for a permit, it shall be considered that the service provider has received the permit and is entitled to start service provision.

The key policy directions and measures for promoting productive investments and exports:

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

The aim is to provide financial support for business start-up and development, to facilitate access to loans and to provide support for risk investments. This policy direction is also linked to the priority of the *Annual Growth Survey 2013* regarding restoring normal lending to the economy.

In order to improve access to financial resources, the following financial instruments were offered to entrepreneurs in 2012:

- Loans for improvement of competitiveness and growth of enterprises, by granting investment and turnover capital loans to enterprises. There are two support programmes providing financing from the EU structural funds.

A programme for enterprises, which have economically reasonable plans for future activities, but cannot access financing of credit institutions due to increased risks (the target group of the programme are enterprises operating in manufacturing). The total amount of the programme is LVL 58.6 million. Until 2013, 63 loan agreements for LVL 46.7 million have been signed with enterprises (including LVL 30.6 million from the ERDF financing). In 2013, the programme expects to pay to enterprises LVL 14.7 million (including LVL 9.6 million from the EU structural funds financing). Within the programme LVL 11 million is still available.

- Mezzanine instrument programme (launched at the end of 2011). The total financing of the EU funds activity is LVL 17.7 million (including the EU funds financing in the amount of LVL 10.6 million). The instrument is aimed at providing long-term financing to enterprises in addition to bank loans to cover all investment project costs for tangible and intangible assets related to establishing a new enterprise, expanding the existing enterprise, diversifying production of an existing enterprise with new additional products or significant change in the general production process. At the moment, 3 applications for mezzanine loans in the amount of LVL 1.14 million have been approved (including the EU funds financing in the amount of LVL 0.68 million). In 2013, mezzanine loans in the amount of LVL 3 million are planned to be granted in 2013, but in 2014 – LVL 5.7 million;
- Individual guarantees for enterprises – two EU structural funds support programmes are being implemented.

The first programme is aimed at ensuring enterprise access to credit resources for business activities in situations where the collateral available to the enterprise is not sufficient to obtain the necessary loan (the target group of the programme are enterprises operating in manufacturing). Until 2013, guarantees in the amount of LVL 77.3 million (100% of the EU funds financing) have been issued to enterprises within the programme. In 2013, guarantees in the amount of LVL 10 million are planned to be issued, while in 2014 – in the amount of LVL 13 million.

The aim of the second programme is to support exporters by bearing the risks related to export transaction and serving as collateral to access financing for export transactions. These are short-term guarantees and programme is 100% financed from the EU funds. Until 2013, guarantees in the amount of LVL 7 million (in 2013 – LVL 2.6 million) have been issued within the programme. In 2013, guarantees in the amount of LVL 2 million are planned to be issued, while in 2014 – in the amount of LVL 2.2 million;

- Seed and start-up capital instrument – seed and start-up capital, as well as venture capital funds co-financed by the EU funds.

Seed and start-up capital funds invest in micro, small and medium-sized enterprises for examination, evaluation and development of the initial concept of a product or business idea, as well as product development and initial marketing. Until 2013, 10 seed capital investments in the amount of LVL 0.84 million, including financing in the amount of LVL 0.77 million from the EU funds and 3 start-up capital investments in the amount of LVL 0.67 million including financing in the amount of LVL 0.4 million from the EU funds have been made. Seed capital investments in the amount of LVL 2 million and start-up capital investments in the amount of LVL 2.7 million are planned to be made from 2013 until 2016.

Venture capital funds are available for micro, small and medium-sized enterprises. Investments are intended for development of products and initial marketing, as well as for growth and expansion of enterprises. Until 2013, 8 venture capital investments have been made in the amount of LVL 5.7 million (including total public financing – LVL 3.8 million, out of which LVL 3.4 million – the EU funds). Investments amounting to LVL 8.2 million are planned to be made from 2013 until 2016.

The *Start Programme* (support for self-employment and business start-ups) has been financed by the EU structural funds since 2009. Participants of the *Start Programme* can receive consultations on development and implementation of a business plan, as well as financial support (loans and grants). Until 2013, loans in the amount of LVL 8.6 million constituting 52.2% of the available financing and LVL 2.4 million constituting 55.6% of the available financing for grants have been issued within the programme;

- Micro loans and grants for micro-sized enterprises to implement business projects.
Small- and medium-sized enterprises have a special micro-crediting programme providing a loan for investments in turnover capital. Financing of the European Investment Bank (LVL 70 million) has been attracted to the implementation of the programme. Until 2013, loan agreements for LVL 31 million have been signed. Within the *Latvian and Swiss Micro-Lending Programme* (launched in September 2011), financial support is intended for investments and turnover capital. The total financing of the loan fund amounts to LVL 4.7 million, out of which LVL 4.3 million is intended for loans (80% of Swiss co-financing) and LVL 0.4 million is intended for grants. By December 31, 2012, a total of 598 micro-loans in the amount of LVL 3.5 million have been granted, and loan agreements for LVL 3.2 million have been signed for 566 loans and grants in the amount of LVL 0.3 million have been issued;
- Support for agricultural, rural and fisheries development.
The financing approved for the implementation of certain investment measures under the *Rural Development Programme* and the *European Fisheries Programme* within the credit fund (LVL 37.1 million, 2011–2013) reached LVL 23.1 million until 2013.
Besides, producers of agricultural products can apply for support for purchase of turnover capital (by the end of 2013 in the amount of LVL 18 million; a total of 754 loans for LVL 24.5 million have been granted from May 5, 2010 until December 31, 2012), as well as funding of the lending programme for the purchase of agricultural land (launched in 2012; the total available financing of the programme is LVL 10 million, out of which LVL 7 million are still available).

By the end of 2013, a *Single Development Financial Institution* is planned to be established. The new financial institution will administer the entire range of products at the same place, thus not only simplifying the access to state support financial instruments, but

also ensuring better understanding of the offered products and faster response to market failures (see Chapter 3.1.2).

In 2013, the work on the following initiatives of financial instruments and state support programmes is being continued:

- Prepared draft amendments to the loan programme for improvement and growth of competitiveness of enterprises thus excluding the possibility for large enterprises to receive the loan, as well as reducing the maximum amount of the loan and in specific cases requiring consent of the commercial bank servicing the enterprise;
- Prepared draft amendments that expand the export credit guarantee programme by letter of credit guarantees;
- Draft proposals on the establishment of micro-loan fund;
- Draft proposals on the accelerator loan instrument;
- Establishment of the Baltic Innovation Fund in cooperation with Latvia, Estonia, Lithuania and the European Investment Fund;
- Development of new venture capital funds, etc.

• ***Attracting foreign direct investments*** (responsible institution – ME)

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

The Investment and Development Agency of Latvia (hereinafter – IDAL) and the Foreign Economic Representative Offices of Latvia provide their services to Latvian enterprises and foreign investors according to the one stop shop principle. The IDAL and the Foreign Economic Representative Offices of Latvia deal with servicing potential and existing investors – provide the necessary information, communicate with the relevant institutions, offer places for implementation of investment projects and appropriate investment incentives. Yet, the Coordination Council for Large and Strategically Important Investment Projects ensures harmonized inter-institutional cooperation for successful implementation of investment projects. It is composed of ministers from interested ministries, as well as the involved representatives from public and municipal institutions, infrastructure enterprises, non-governmental organizations and other experts.

In 2012, the activities for the attraction of FDI were focused on the priority countries by preparing/developing offers for certain sectors and fields and intense wide investor post-servicing.

In 2012, two EU structural funds programmes have been prepared to attract investors – improvement of industrial space and support for creation of new jobs; call for project applications have been announced in the second one.

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

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

- Coordinating foreign economic policy and expanding the network of the Latvian Foreign Economic Representative Offices abroad – three new representative offices were opened in 2012 (in Japan, Norway and China, while the representative office in Belarus will be opened in the first half of 2013), expanded the network of honorary consuls;
- Direct export support services for enterprises – in 2012, 1608 consultations on export-related issues including foreign markets, specific trade requirements and searching for business partners have been provided, as well as 16 seminars on export skills and informative seminars on foreign markets have been organized and 22 sectoral market reports have been prepared. Moreover, 33 trade missions (the number of entrepreneurs – 305) and 61 individual business visits to potential cooperation

partners abroad have been arranged. In 2013, the abovementioned services are planned to be provided in the framework of the available resources;

- Supporting enterprises for implementation of external marketing by fostering integration of enterprises into international supply chains, encouraging Latvian enterprises to participate in international exhibitions and trade missions. In 2012, 496 enterprise applications for the support have been evaluated. In 2013, the number of signed contracts on support depends on enterprise activity and submitted applications.

In 2011, LVL 4.6 million including ERDF financing of LVL 2.7 million have been attracted within these activities. At the moment, LVL 15.2 million including ERDF financing in the amount of LVL 11.1 million are planned for these activities in 2012–2013.

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

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

- Preparing proposals for improvement of the municipal financial system (including considering all possible changes in tax policy) and extension of rights of municipalities to handle their property. The *Concept for Improvement of Finance Balancing System of Local Governments* has been prepared and submitted to the government. Proposals for the right of local governments to handle own property to make local governments more flexible in defining rent for built-up land plots in case of renting the land for construction of industrial object or performing economic activities, by setting specific criteria (conditions) in the binding regulations;
- Improving access to and quality of the services provided by local governments, by introducing the one-stop-shop principle (see the policy direction *Modernizing public administration* in the Chapter 3.2.1), by reducing the administrative burden on entrepreneurs and residents when using local government services;
- Improving and developing transport and environmental infrastructure in local governments (see Chapter 3.2.5. *Transport and Environmental Infrastructure*);
- Improving the state and local government public business infrastructure. Improvement of local government infrastructure is mostly implemented through the EU structural funds financing. By the end of 2012, 36 projects have been implemented. In order to increase possibilities of local governments to develop public business infrastructure, additional state budget financing or overcommitment financing in the amount of LVL 25.7 million has been granted in 2012.

The procedure for granting and use of target grants for investments in local governments is being developed, where one of the support areas of local governments is improvement of local government infrastructure to promote entrepreneurship.

The NDP2020 envisages investments (LVL 207 million) in implementation of the programme for improvement of state and local government infrastructure (industrial infrastructure connections) to attract large private investments. Within the programme, establishment and restoration, expansion of industrial zones and adapting of public infrastructure for manufacturing will be supported, as well as development of public infrastructure and support for establishment of necessary engineering communication connections in development centres of national and regional significance. The ERDF financing is planned to be attracted to these activities, and local government and private financing is planned to be attracted as co-financing;

- Developing an investment offer of local governments to potential investors. The NDP2020 envisages investments (LVL 1.5 million) in assembly (packaging) and preparation of offers to potential investors (complex proposals), including financial instruments, infrastructure and human resource solutions in order to attract investment projects to industrial and resort territories.

Support in the amount of LVL 5 million (100% ESF financing) will be provided within the EU funds programming period 2007–2013 to attract experts to planning regions, cities, towns and counties, as well as to raise development planning capacity of planning regions and local governments. By the end of 2012, 114 experts have been attracted and development planning capacity has been achieved in 45% of local governments and planning regions.

For the purpose of increasing the role of local governments in promoting entrepreneurship, the Norway Financial Mechanism (2009–2014) in the amount of LVL 0.4 million is going to be used within the programme *Capacity-Building and Institutional Cooperation between Beneficiary State and Norwegian Public Institutions, Local and Regional Authorities*.

In general, the abovementioned measures are linked to the implementation of the flagship initiative *An integrated industrial policy for the globalisation era* of the Europe 2020 strategy.

3.2.3. Innovations, Research and Development

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

Table 2

R&D target's achievement trajectory					
	2008	2009	2010	2011	2020
Total financing for R&D (million LVL)	99.5	59.9	77.0	99.5	331.1
% of GDP	0.62	0.46	0.60	0.7	1.5

In 2011, the total financing for R&D in Latvia was 0.7% of GDP or LVL 99.5 million which is by 22.5% more than in 2010 (LVL 77 million). Analysis of the structure and dynamics of investments in R&D shows that there has been a significant increase in foreign financing in 2011, including the EU structural funds financing – by 50.1% which is 0.36% of GDP or LVL 50.7 million (in 2010 0.2% of GDP or LVL 25.7 million). In 2011, a considerable decrease has been observed in private sector investments in R&D, decreasing by 17.3% in current figures and constituting LVL 24.7 million (in 2010 – LVL 29.9 million) or 0.17% of GDP.

There are the following challenges for increasing the financing for R&D in Latvia:

- A small number of employed in science and research (ageing of scientists, insufficient number of doctoral candidates);
- Underdeveloped scientific and research infrastructure, insufficient number of up-to-date equipped laboratories for implementing technology-oriented projects;
- Weak commercialization potential of research results, poor cooperation between scientific and industrial sectors;
- The business structure of Latvia is composed mainly of small- and medium-sized enterprises with no capacity to invest in R&D and a relatively low high technology sector;
- Insufficient financing from the state budget and private sector.

At the same time, the amount of state budget financing has remained stable in the post-crisis period. In 2013, about LVL 8 million has been granted to state scientific institutions in the form of grants while LVL 7.26 million has been allocated for the financing to be granted

through a tender procedure (state research programmes, fundamental and applied research projects).

To increase the base financing for science, the *Informative Report on Ensuring Gradual Increase of the Base Financing for Science* was developed and submitted to the CM on March 19, 2013. The report offers a number of options to increase the base financing for science, thus fostering the development of Latvian science and research, ensuring fulfilment of international commitments of Latvia and the NRP of Latvia and achievement of the key target under the NDP2020 by gradually increasing the amount of financing for R&D to 1.5% of GDP by 2020. The CM decided to continue working on the assessment of the science sector and calculation of the gradual increase of the state budget financing.

The work on the new *Guidelines on Research, Technology Development and Innovation for 2014–2020* (hereinafter – the guidelines) is being continued and is planned to be approved at the CM by November 1, 2013. At the moment, the working group established by the MES ensures the development of the draft guidelines, including:

- According to the EC guidelines on the development of smart specialisation strategy, including practical suggestions: for the analysis of innovation potential; management of the development process of smart specialisation strategy; preparation of a common development vision; defining priorities; development of an action plan; monitoring and assessment;
 - Taking into account the JASPERS expertise and recommendations;
 - Ensuring exchange of information with the Ministry of Education and Research of Estonia and the Ministry of Education and Science of Lithuania in accordance with the signed Memorandum of Understanding;
 - According to the regulation for the development of policy planning documents, including available and required additional resources for the implementation of the measures under the guidelines, taking into account the achievement of the R&D target defined in the NRP and NDP2020 of Latvia;
 - Based on the results of external assessment of Latvian science and recommendations;
 - Based on the evaluation of the current situation in R&D conducted by the BIRTI association, which contains: a report on the state management, responsibility and involvement system, the key planning documents in the field of science, technology development and innovation; description and comparison of investments in R&D with the EU member states; description and comparison of access to human resources among the EU member states; evaluation of current scientific performance according to the international scientific publications and international patents published on the *Scopus* database among the 10 EU member states in the Eastern Europe.
- Additional expertise is expected to be outsourced for the development of the guidelines.

Key policy directions and measures to increase investments in R&D:

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

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

The following activities are being implemented to increase investments in R&D:

- Contract with the Nordic Council of Ministers has been signed for the purpose of conducting international assessment of scientific institutions in 2013;
- The allocation principles of the state budget resources is planned to be changed, thus promoting concentration of excellence and human resources, fostering cooperation with industry and strengthening national identity;
- 9 national level research centres for concentration and development of science and technologies have been established for the purpose of financing modernisation of

research infrastructure and laboratories and purchase of new equipment (2011–2015), thus modernising 27 national level state research centres in the leading scientific institutions;

- Attraction of human resources to science has been supported by establishing new scientific groups for conducting interdisciplinary research, by engaging doctoral students, new scientists and scientists wishing to return to Latvia, and foreign scientists in scientific work. In 2012, 619 researchers received ESF support and were engaged in the science expressed in a full-time equivalent, i.e. 6.1% of the total number of employed in science and research. In 2013, support is being continued to be provided to scientific groups by organising the second round of project selection in the amount of LVL 9.8 million;
- Ensured joint participation of Latvian entrepreneurs and scientists in programmes fostering cooperation between science and industrial sector and development of new technologies and products (within EUREKA, EUROSTARS, ARTEMIS programmes).

Within the *market-oriented research programme*, scientists and producers have been working in close cooperation to develop new products and technologies, thus receiving financing from the state budget for the research, while producers obtained new competitive product, thus ensuring co-financing in the amount of 30–60% of the total costs. In 2012, contracts on the implementation of three new market-oriented research projects have been signed. The outcome of many market-oriented research projects is a high technology product or service. The intellectual property rights in market-oriented research projects are defined in a joint agreement of both partners. In 2013, a new regulation of the *market-oriented research programme* is planned to be developed.

In 2011, LVL 160 thousand were granted to *market-oriented research programme* from the state budget resources, in 2012 – LVL 110 thousand and in 2013 – LVL 151 thousand. According to the CSB data, in 2011, the total financing for scientific research in the country constituted LVL 99.4 million, thus in 2011 the financing granted to market-oriented research projects constituted 0.16% of the financing granted to the scientific research in the country.

The total public financing in 2012 is LVL 93.6 million, including the EU funds financing of LVL 88.3 million. In 2013, the total public financing for the overall costs of the planned activities is LVL 41.8 million.

The future vision of the state budget financing for science is planned in four key directions:

- Base financing of scientific institutions;
- Participation in the EU and other international programmes, ensuring mobility;
- Financing for fundamental research to be allocated through a tender procedure;
- Maintaining and strengthening capacity to ensure scientific activity.

Base financing of scientific institutions is the direction that is the most financially intensive as it covers both maintenance, reconstruction and modernisation of infrastructure of institutions and the achievement of the defined objectives and tasks, as well as ensuring costs of scientific and research attending staff, including remuneration, and providing co-financing for EU funds and other foreign and international financial instruments and international scientific research projects and other necessary costs.

A major component of scientific activities is international cooperation and participation in the EU and other international programmes, thus not only promoting transnational cooperation, recognition of Latvia and stimulating scientific activities but also serving as a considerable resource for promoting mobility.

The financing to be allocated for fundamental research through a tender procedure is granted within two programmes – state research programmes and fundamental and applied

research (grant) projects through a tender procedure. Each of the programmes has different criteria for evaluation of the projects and mechanisms for granting the financing. For the purpose of ensuring scientific activity, new priority directions for financing the fundamental and applied research projects in 2014–2017 are planned to be approved. According to the new priority directions, a financing procedure will be selected through a tender procedure and ensured for the new state research programmes.

Maintenance and strengthening of scientific activity capacity involves also participation of Latvia in the EU programmes, the funding necessary for activities of the Latvian Council of Science and its expert commissions, as well as activity of the Latvian Academy of Sciences and lifelong grants for emeritus scientists.

The largest increase in budget is expected in two of the abovementioned directions – base financing of scientific institutions and financing to be allocated for fundamental research through a tender procedure.

Within the EU structural funds activities, projects are planned to be approved and implemented in 2013 to provide support for science by promoting creation of new jobs for new and returning scientists, to attract new scientists to research, as well as to finance costs of research work of new scientist groups, foster integration of science and industry and implementation of research results in accordance with the national priority science directions, as well as to improve research and development equipment and create proper infrastructure.

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

The aim is to develop a framework for efficient cooperation between scientists and entrepreneurs, thus improving the research infrastructure and supporting joint research as well as fostering technology transfer. In 2012, the implementation of the EU structural funds programmes *Competence Centres* and *Technology transfer contact points* was continued (see Chapter 2.7). According to the ERDF financing for activities of the supplement to the Operational Programme *Entrepreneurship and Innovations*, LVL 39.3 million of the EU structural funds financing is planned to be invested in implementation of the given activities by the end of 2015, thus possibly attracting co-financing in the amount of LVL 20 million from the private sector.

At the same time, according to the data of February 25, 2013, within the ERDF activity *Development of Scientific Infrastructure* aimed at promoting development of scientific infrastructure, 19 projects are being implemented, including 9 projects within the 1st selection round for development of research centres of national significance (ERDF in the amount of LVL 56.35 million) and 10 projects within the 2nd selection round (ERDF in the amount of LVL 30.48 million). Projects are planned to be implemented by August 31, 2015.

By February 25, 2013, payments in the amount of LVL 30.11 million have been made (including ERDF in the amount of LVL 28.16 million); recipients of the financing received advance payments in the amount of LVL 19.69 million.

Implementation of the 1st selection round projects is planned to result in modernisation of 27 scientific institutions.

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

In order to support innovative enterprises in developing and introducing new products and technologies in production, as well as to increase the number of innovative enterprises, in 2012 project implementation was continued within the EU structural funds programmes “*Development of New Products and Technologies*”, “*Introducing New Products and Technologies in Production*”, “*High Value Added Investments*” and the “*Development Programme of New Products and Technologies by Micro-, Small and Medium-Sized Enterprises*” was launched in 2012. According to the ERDF financing for the activities of the

supplement to the Operational Programme *Entrepreneurship and Innovations*, LVL 124.6 million is planned to be invested in the implementation of the abovementioned activities, thus possibly attracting co-financing in the amount of LVL 143.6 million from the private sector (see Chapter 2.7).

By attracting the Norwegian financial instrument, a new support programme for promotion of “green” production is being implemented since August 20, 2012. A technology incubator will be established within this programme. Within the calls for proposals of the programme “green” enterprises will have access to support in the amount of LVL 7.1 million for development of innovative products and technologies. The total programme financing is LVL 8.8 million and 120 enterprises are expected to be supported within the programme. The technology incubator is likely to start operating in the 3rd quarter of 2013, while calls for proposals are going to be announced in June and September 2013.

Measures to promote innovations, R&D facilitate fulfilment of Latvia’s commitments within the *Euro Plus Pact* (measure 1.2), as well as the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow, as well as implementation of the flagship initiative *Innovation Union* of the Europe 2020 strategy.

3.2.4. Information and Communication Technologies

The aim is to ensure equal access to electronic communications across Latvia, to increase contribution of information and communication technologies (hereinafter – ICT) to the growth and innovation of all sectors of the economy. The activity direction envisages implementation of measures set in the flagship initiative *Digital Agenda for Europe* of the Europe 2020 strategy in Latvia, as well as it is linked to the implementation of the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow.

The *Development Plan for Electronic Government for 2011–2013* approved in 2011 envisages that in 2013 – 73% of all population will use internet on a regular basis, 75% of households will have possibility to connect broadband services and 50% of population will use e-government in 2015.

According to the Eurostat data, 70% (in 2011 – 66%) of Latvian population used internet on a regular basis (at least once a week) in 2012, thus exceeding the average indicator of the EU (69% in the EU on average in 2012). At the beginning of 2012, the number of access lines of broadband internet¹⁶ in Latvia reached 20.4 per 100 persons (at the beginning of 2011 – 19.5), lagging behind from the EU average indicator (27.7 on average in the EU at the beginning of 2012).

According to the data of the *Digital Agenda for Europe*, in January 2012, in 57.5% of the cases internet connection in Latvia using fixed lines ensured data transfer speed ≥ 10 Mbps (mbit/sec), in 15.6% of the cases – data transfer speed from 30 Mbps to 100 Mbps and in 15.4% of the cases – data transfer speed above 100 Mbps (on average in the EU only 15.6% fixed lines had data transfer speed above 30 Mbps in January 2012). Yet, only 29.7% of internet connections provided mobile broadband internet connection in Latvia, thus lagging behind the average EU level by 13.4 percentage points.

In 2013, the *Guidelines for Development of Information Society for 2014–2020* is expected to be prepared to ensure further development of national action policy for information society, electronic government and ICT issues according to the objectives defined in the flagship initiative *Digital Agenda for Europe* of the Europe 2020 strategy.

¹⁶ In Latvia access is recognized as a broadband connection if it is constantly in an on-line mode and the data transmission speed is at least 144 Kbit/s, basic broadband speed is 2 Mbit/s, high-speed broadband – 30 Mbit/s and very high-speed broadband – 100 Mbit/s.

Key policy directions and measures to improve the ICT infrastructure and services:

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

The aim is to ensure equal access to electronic communication services across Latvia. The study on access to next generation networks carried out in 2011 shows that 64% of rural municipalities (~415.5 thousand or 18.6% of population) do not have any access to middle stage extensions of electronic communication services and none of electronic communication enterprises plans to establish it in these territories in the next three years.

In December 2012, the *Concept for Development of the Next Generation Broadband Electronic Communication Networks for 2013–2020* was approved. The concept is developed to select solutions for development of next generation broadband electronic communication networks according to the objectives defined in the Europe 2020 strategy.

Development of the next generation broadband networks is going to ensure fast and quality access to public information and foster demand for e-services (for example, e-government, e-school, e-commerce, e-health, e-work). Development of broadband electronic communication networks is expected to expand the opportunities offered by different mass media, social networks and services in relation to improvement of energy efficiency and public and environmental safety.

At the end of 2012, a number of procurements have been already announced for planning and construction of optical network infrastructure in certain planning regions, as well as a general agreement on providing support services has been signed. In 2013, planning and construction works are expected to be started in these regions.

Development of the next generation broadband networks is implemented based on the EU recommendations and in those geographic areas where there is no efficient competition and no next generation networks would be established in the nearest future without public support (EU funds or state support). The intensity of project implementation will have no negative impact on competition and it will not grant any competitive advantages to any electronic communication enterprise.

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

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

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

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

In 2012 and 2013, it is planned to continue projects for digitalization of cultural content and development of e-services to improve access to infrastructure and content of libraries, museums and archives by introducing new e-services.

The 2nd *Stage Concept on the State Unified Library Information System* was developed in 2012 envisaging further development of information system, thus ensuring public access to information and e-services. The *Concept on the National Digital Collection* is being developed in 2013 with an aim to create a model for planning, management and financing of the digitalization process of cultural content to ensure digitalization, maintenance and public access opportunities from 2014 until 2020.

In 2013, the implementation of the ERDF co-funded projects within the *e-health* 1st round will be completed and the implementation of e-health 2nd round projects will be launched. Within the e-health 1st round projects an e-health website, e-booking and e-assignment information system, electronic health record, e-prescription and integration platform solution information systems will be developed and introduced.

- ***Introducing a digital single market*** (responsible institution – MEPRD, MT)

Introduction of a digital single market is aimed at fostering trust in the internet environment, to ensure infrastructure (broadband internet, etc.), as well as to deal with various issues related to cooperation, intellectual property rights, etc.

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

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

In 2012, the *Draft Guidelines for the IT Security Strategy of Latvia for 2013–2018* were developed (to be approved in 2013), based on which further directions have been defined:

- Improving legal framework;
- Increasing human resources and material-technical resources of public and local government institutions;
- Intensifying national and international cooperation;
- Strengthening educational, scientific and social responsibility.

In 2013, the 7th Baltic IT Security Policy Coordination Meeting is planned to be held and the Memorandum of Understanding on IT security with Lithuania and Estonia is planned to be prepared.

In 2012, the financing of CERT.LV has been increased 2.5 times to ensure its higher capacity, in particular, to make it more capable of solving malicious IT security incidents.

In 2011, the regulatory basis for introduction of electronic identity cards in Latvia was approved, and as of April 1, 2012 the electronic identity cards are available in Latvia serving as a personal identity document, a travel document within the EU, and as means of personal electronic identity and authentication for electronic services, as well as means for creating (using) the e-signature.

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

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

The *Development Plan of Electronic Skills for 2011–2013* (hereinafter – the Plan) has been approved in 2011.

By implementing this plan, the Latvian population is expected to improve their ICT user skills, practical skills and e-business user skills – in 2014, only 4% of all population will have

poor computer skills, 27% will have average skills and 21% will have advanced skills, while the number of people using internet banking will reach 52%.

3.2.5. Transport and Environmental Infrastructure

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

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

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

The insufficient carrying capacity of railway lines in certain line sections should also be noted. Therefore, reconstruction of railways, modernisation of communication and alarm system, etc. need significant modernisation projects to increase the carrying capacity with an aim to reach 85 million tonnes per year in 2015.

Freight transit plays a major role in the economy of Latvia, constituting approximately 1/3 of the total export of all types of services. Development of transit fosters also development of other sectors of the economy and supports foreign trade and exports. However, the quality problems of infrastructure described above and the insufficiently developed port infrastructure (insufficient depth of basins, inadequate quality of roads and railway sidings and insufficient capacity in some ports, failure to meet new environmental requirements – electrification of terminals, possibility to bunker ships with gas) and lack of integrated operational mechanism that would help to coordinate interconnection of all means of transport hinders successful development of transit and logistics.

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

The measures described below are linked to the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow, while environmental measures are related to the flagship initiative *Resource Efficient Europe* of the Europe 2020 strategy.

Key policy directions and measures to improve transport and environmental infrastructure:

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

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

The main directions for 2011–2013 are reconstruction and improvement of railway, road, port and air transport infrastructure, as well as development of the International Freight

Logistics and Port Information System. The total public financing in 2011–2013 is LVL 329.9 million, including LVL 109 million in 2011, LVL 101.5 million in 2012 and LVL 119.4 million in 2013.

In 2012, the project *Construction of the Second Railroad with the Length of 52 km Skrīveri–Krustpils (Rīga–Krustpils district)* was continued to be implemented using the co-financing from the Cohesion Fund (hereinafter – CF). The total eligible costs of the project was LVL 65.65 million, including the CF financing in the amount of LVL 46.08 million and the SJSC “Latvijas dzelzceļš” financing in the amount of LVL 19.6 million.

In 2012, roads with the total length of 184.1 km have been reconstructed within the EU funds financed projects.

In 2012, additional financing in the amount of LVL 57 million has been granted to the EU funds financed activities for improvement of main national roads and transit streets. Thus, it was possible to implement 29 EU funds and state budget financed projects for improvement of transit streets, as well as to implement several TEN-T road network improvement projects that previously lacked access to financing.

In 2013, implementation of the largest launched CF projects are planned to be continued – reconstruction and construction of national main roads, construction of the second railroad Skrīveri–Krustpils, development of infrastructure to move port activities of Krievu Sala from the city centre, development of Riga International airport infrastructure, as well as ensure coordination of project selection financed by TEN-T at national level.

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

Regional roads in the country are improved through the ERDF financing. The total public financing for regional roads in 2011 was LVL 39.9 million, including the EU funds financing – LVL 33.9 million, while in 2012 the financing was LVL 28.9 million, including the EU funds financing – LVL 24.6 million and in 2013 – LVL 32.6 million, including the EU funds financing – LVL 27.7 million.

Projects for improving regional roads of the total length of 68 km have been completed in 2012. Overall, the total length of regional roads reconstructed by the end of 2012 within the activity constitutes 249 km. In 2013, projects for improvement of regional roads with the total length of 63 km are expected to be completed.

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

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

In 2012, 137 water management systems were modernized, thus increasing the number of population having access to centralized water management services. It is planned to continue modernisation in 2013, thus ensuring activities of 268 modernised water management systems. Thus, 62.4% of population will receive quality drinking water supply services and 55.9% of population – waste water management services.

Waste management infrastructure has been improved by constructing waste landfills, developing separate waste collection and sorting and performing dump-site re-cultivation. By December 31, 2012, 1064 separate waste collection points, 29 waste sorting sites, 11 composting sites and 15 sorting and reloading centres have been established. In 2013–2014, waste landfill sites are planned to be improved – in total, infrastructure of 9 landfill sites is planned to be improved through the CF support by 2014, as well as to promote development of separate waste collection system by providing support to 20 enterprises and achieve re-cultivation of several dump sites – in 2013, it is planned to re-cultivate 23 household dump sites all over Latvia, while in total by 2014 – 45 dump sites.

To reduce the anthropogenic load, environmental protection infrastructure has been developed also in *Natura 2000* territories by implementing 38 projects in 2012. The number of projects is expected to reach 50 in 2013.

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

The total public financing for the development of environmental infrastructure in 2012 was LVL 67.5 million, including the EU funds financing – LVL 62.7 million, out of which the most – LVL 47.8 million were invested in development of water management. The total public financing for development of environmental infrastructure in 2013 is planned to constitute LVL 77.2 million, including the EU funds financing in the amount of LVL 72.3 million.

3.3. EMPLOYMENT

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

Table 3

Employment target's achievement trajectory (population aged 20–64 years)

	2008	2009	2010	2011*	2012	2020
Number of population (aged 20–64)	1400.3	1403.9	1405.3	1261.1	1257.4	1322.1
Number of employed (aged 20–64)	1061.1	941.9	913.7	836.6	857.3	965.1
Employment rate, %	75.8	67.1	65.0	66.3	68.2	73.0

* Recalculated according to the Population Census 2011

Economic growth observed in the last years has fostered increase in employment, thus reducing the high unemployment rate caused by the crisis. However, rapid increase in employment is not expected in the upcoming years as the growth will rely mainly on the increase in productivity.

Key elements of the employment policy in Latvia:

- Fostering labour demand – promoting economic activities and entrepreneurship, including reduction of labour taxes, combating unregistered employment, indirect and direct state support measures for entrepreneurs, measures to reduce administrative barriers, implementing support measures for micro-enterprises, business incubators, etc. (see Chapter 3.2);
- Strengthening labour supply – improving competitiveness of persons at unemployment risk in the labour market, including improvement of skills to match the labour market demands (vocational continuing education, informal education for unemployed, consultations and professional mobility), lifelong learning measures, consultations on business start-ups, etc.
- Promoting matching of labour supply and demand¹⁷, including improvement of education system, involvement of employers' organizations in improvement of education quality, forecasting consistency of labour demand and supply, educating labour market participants including pupils and students about the labour market and career issues (see Chapter 3.4 on education reforms).

In 2012, Latvia continued and improved the active labour market policy measures to improve labour skills and qualification (measure 2.3 of Latvia's commitments within the *Euro Plus Pact*, see also Chapter 2.3), for example:

- Improving and differentiating the career consultation system according to client groups (youth, disabled persons, long-term unemployed, etc.);
- Improving the job searching system;

¹⁷ The ME prepares an annual report on labour market forecasts based on which the MES and the SEA adjust supply.

- Developing profiling system of the unemployed by involving those persons in financial-intensive measures who cannot find a job without significant financial state support;
- Promoting youth employment and reducing unemployment.

In 2012, LVL 32 million has been spent for the active labour market policy measures. About 41% of the financing has been spent for raising and improving qualification of unemployed, 34% – for organisation of paid temporary public works, 21% – for support of the most disadvantaged unemployed and creation of subsidised jobs, including youth initiatives, 4% – for raising qualification of employed and business initiatives. A total of 83 219 unemployed found a job after participation in active labour market policy measures in 2012, including 23 642 long-term unemployed, of them 18 838.

In order to promote employment and foster labour mobility, the following active labour market policy measures/activities are planned to be implemented in the programming period 2014–2020:

- Training and measures to improve competitiveness of unemployed and job seekers, involving employers as well;
- Subsidised employment measures for the most disadvantaged unemployed;
- Oriented support measures for unemployed youth to obtain first working experience;
- Adult continuing education activities for employed;
- Complex solutions for the elderly (50+) employed to improve skills and maintain working capacity;
- Promotion of social entrepreneurship;
- Regional mobility.

Key policy directions and measures for improvement of labour supply:

• ***Improving training measures for the unemployed*** (responsible institution – MW)

The aim is to improve the quality and efficiency of the process of training the unemployed by improving the training measures in education institutions and at an employer. In order to achieve the aim, the following measures are being implemented:

- Since 2011, the coupon system has been available within the SEA training measures co-financed by the ESF. In 2012, an automatic booking system has been introduced in the SEA website. Particular attention has been paid to training quality throughout the transition process to training with a coupon method;
- As of August 1, 2012, the unemployed and job seekers are subject to an increased responsibility for terminating training without justifying the reason by imposing an obligation to reimburse the grant and tuition fee paid during the training. At the same time, employers are subject to an increased responsibility for hiring and employing the trained unemployed in the respective profession for at least 6 months after completing targeted training at the employer's request. In order to ensure targeted choice of measures, as well as to encourage unemployed to search for a job and return to the labour market as soon as possible, it has been decided that the unemployed may repeatedly qualify for participation in vocational continuing education and professional improvement education programme not earlier than two years after graduating from the previous vocational education programme (previously not earlier than 1 year);
- The amendments of July 24, 2012 to the CM regulations change the implementation conditions of the measure *“Training at Employer”* co-financed by the ESF, by implementing a gradually reducing subsidy mechanism;
- In 2013, the measure *Training of Unemployed in Cooperation with Employers' Organisations and Industry Associations of Employers' Organisations* co-financed by

the ESF will be launched. It is planned to involve 500 persons in this measure by the end of 2013. Conditions of the measure are being developed in cooperation with industry associations and representatives of employers;

- In 2013, training measures of the unemployed and job seekers are planned to be continued by applying a targeted approach to encourage different target groups of unemployed to return to the labour market (profiling system) in order to efficiently and quickly fill in vacancies and offer the best labour market policy measures for each individual.

In 2013, about 23 thousand persons are planned to be involved in training measures. The total public financing was LVL 18.7 million in 2011, including the EU funds financing LVL 13.6 million¹⁸. The total public financing in 2012–2013 (planned) amounts to LVL 22.7 million, including the EU funds financing – LVL 14.7 million.

- ***Implementing support measures to reduce youth unemployment*** (responsible institution – MW, MES)

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

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

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

- In 2012, implementation of the measures “*Work Place for Youth*” and “*Support for Youth Volunteering*” was continued (see also Chapter 2.3). In the 1st quarter of 2013, implementation of the new measure *Youth Workshops* is planned to be launched, where within one measure young people will be able to try hand at different professions. A public procurement procedure has been launched to identify the educational institution entitled to provide this service. It is planned to involve 250 unemployed youth in 2013. In total, 2454 young people have been involved in measures in 2012. The total public financing in 2012 was LVL 0.526 million, including the EU funds financing – LVL 0.241 million. The total public financing in 2013–2014 (planned) amounts to LVL 1.09 million, including the EU funds financing – LVL 0.678 million. In 2013–2014, 3072 young people are going to be involved in measures;
- Since 2010, one-year and one-and-a-half-year vocational education programmes are being implemented using the ESF support to provide an opportunity for the youth, who have chosen not to study at the university after graduating elementary school or secondary school and are unable to integrate in the labour market, thus fostering their integration in the labour market as soon as possible preventing the risk of youth unemployment. The size of a training group and the training field is agreed with employers. In the academic year 2012/2013, 36 vocational education institutions offer the youth an opportunity through the ESF support to obtain 54 different professions in 94 programmes free of charge. In the academic year 2011/2012, 690 students obtained qualification within these programmes and 1210 students were enrolled in

¹⁸ Including financing for short-term programmes to improve competitiveness (career consultations and measures to improve competitiveness).

September 2012. The total public financing was LVL 2.1 million in 2012, including LVL 1.3 million for the implementation of the so called short programmes. Over 85% is going to be covered by the EU funds within this activity;

- Since 2011, within the Latvian and Swiss cooperation programme *Support for the development of youth initiatives in peripheral or disadvantaged regions* youth may attend regular training with an aim to foster their active participation and development of social competences. The sub-programme *European Voluntary Service* of the programme *Youth in Action* offers young people an opportunity to obtain the first working experience through a volunteering in any of the EU member states, as well as to improve their knowledge by participating in experience exchange seminars and intercultural study visits;
- Annual state budget support is provided to youth centres and youth organizations for implementation of informal education programmes for youth with an aim to promote their creativity, entrepreneurship and self-initiative. In 2012, the support for implementation of youth policy amounted to LVL 106 985, out of which LVL 77 367.50 was intended for the support of youth centres and youth organizations. In addition to the annual support, financing in the amount of LVL 91 640 will be allocated in 2013, of which LVL 45 000 is intended for financing associations or foundations oriented towards working with youth, organising camps for children and youth to promote the development of their social skills and active and healthy lifestyle.

Latvia is determined to fully use all available resources within the *Youth Employment Initiative* in the next programming period of the EU structural funds. Already now the MW and the MES is cooperating to develop the *Youth Guarantee* which will cover both education and active labour market policy measures.

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

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

- As of 2012, the paid temporary public work is implemented using the ESF support in improved form as initial activation programme for long-term unemployed. Local governments are entitled to decide which disadvantaged groups of unemployed should be a priority in the measure implemented within the particular territory. 25 out of 119 local governments have approved the binding regulations regarding priority unemployed to be involved in the measure. During the measure, participants have a possibility to search for a job and participate in short-term training measures;
- As of 2013, implementation of the pilot project of the regional mobility programme has been launched. It is planned to involve 350 persons in the programme.

The total public financing for these measures in 2012 was LVL 10.6 million, including the EU funds financing – LVL 10.6 million, the number of involved persons – 31 155 persons. The total public financing in 2013–2014 (planned) amounts to LVL 12.39 million, including the EU funds financing – LVL 12.3 million, the number of involved persons (planned) – 26 050 persons.

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

The aim is to improve the existing working methods in the SEA and to introduce new ones, thus ensuring faster inclusion of the unemployed into the labour market, by offering the

customers timely and quality services and ensuring efficient cooperation with employers. To achieve this aim:

- The impact of labour market policy measures and the efficiency of the SEA services are assessed on a regular basis using the ESF support. The efficiency of active labour market policy measures is assessed also within the World Bank's study *Latvia: Who is Unemployed, Inactive or Needy?* In 2013, the economic potential of population at preretirement age is planned to be assessed, short-term forecasts regarding the most demanded skills and professions in labour market is planned to be prepared and a short-term forecasting model is expected to be developed;
- Career consultation services have been improved and the service quality has been assessed, new career consultation support methodology has been developed and the existing ones have been improved highlighting different target groups of unemployed. In 2013, the informative methodology basis is planned to be updated and improved thus providing the latest information to clients and career consultants about education possibilities in Latvia compatible with the self-directed search methodology available on the SEA website (*Interest tests for youth and adults*);
- The monitoring system of education service providers has been improved and the electronic application system for training has been implemented using the ESF support.

- **Promoting self-employment and entrepreneurship** (responsible institution – ME, MA, MW)

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

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

- Amendments to the *Commercial Law* prescribing an opportunity to establish a limited liability company with reduced equity capital have promoted registration of 45 518 new limited liability companies in the Register of Enterprises and 66% of them or 30 447 limited liability companies have reduced equity capital (data as of March 31, 2013);
- The introduced *Micro-Enterprise Tax Law* has encouraged registration of 25 069 micro-enterprise taxpayers in the SRS, out of which 15 365 are new enterprises (data as of February 28, 2013). It should be noted that currently micro-enterprises employ over 50 000 people which is more than 12 times more than in 2010, while their average monthly wage is LVL 300;
- Regulation of patent fees has promoted the activity of micro activity – about 5200 registration applications for a patent fee have been registered at the SRS (data as of March 1, 2013), constituting on average 300 patent fee payers per month.

In order to help new enterprises to develop by supporting them at their early stage and providing infrastructure and consultation services, implementation of the programme *Business Incubators* was continued in 2012. Business incubation services were available in all regions of Latvia, more than 20 towns of Latvia. As a result of activities of 9 business incubators in the regions of Latvia and a creative business incubator in Riga, 546 enterprises were supported in 2012, of which 188 were newly admitted enterprises. Incubated enterprises have created (maintained) 1164 jobs. A total of LVL 8.6 million have been spent to provide support services of the business incubators from 2009 until 2012, of which LVL 2.2 million have been paid in 2012, while LVL 2.9 million are planned to be paid in 2013.

In order to boost economic activity of the working age population, including the unemployed who have expressed a wish to start a business or self-employment, as well as to promote development of new enterprises, the programme *Support for Self-Employment and Business Start-Ups* is continued providing complex support, i.e. consultations, training and financing in the form of loans and grants to start own business. The total programme financing is LVL 23 million. The programme is expected to train 1200 start-ups by the end of 2013, while 800 are expected to receive financing (loans and grants). Since the launch of the programme in 2009, 3147 cooperation agreements have been signed with persons interested in the programme, 1657 clients have submitted business plans, 857 start-up projects have been supported for the total amount of loans LVL 9.9 million. 802 projects have received also grants in the amount of LVL 3.4 million. 1624 programme participants have participated in the training for improvement of theoretical and practical knowledge of business and preparation of business plans since 2010.

In May 2012, the CM approved regulations on the *Lending Programme for Purchase of Agricultural Land*. Loans up to LVL 100 thousand are available within the programme for purchase of agricultural land to produce agricultural products and purchase existing buildings on the land if the cadastral value of the building does not exceed 30% of the cadastral value of the land. The total budget of the programme is LVL 10 million and loans are going to be available within the programme until the end of 2013. Practical implementation of the programme was launched in July 2012 and 46 loans in the amount of LVL 1.9 million were granted by the end of 2012.

In general, the abovementioned measures are linked to the priority of the *Annual Growth Survey 2013* to tackle unemployment and the social consequences of the crisis, as well as the implementation of the flagship initiatives *An agenda for new skills and jobs* and *European platform against poverty* of the Europe 2020 strategy.

3.4. EDUCATION

3.4.1. General Education

The target of the NRP of Latvia is to reduce the share of early school leavers (aged 18–24 years) to 13.4% by 2020. Taking into account the progress in achievement of this target so far, it is expected to revise this target and reduce it from 13.4% to 10.0%.

Table 4

Trajectory for decreasing the share of early school leavers

	2008	2009	2010	2011*	2012	2020
Share of early school leavers (%)	15.5	13.9	13.3	11.6	10.5	13.4

* CSB data after recalculation according to the results of the Population Census 2011

Although the education system in Latvia offers sufficiently varied education possibilities and programmes, a part of young people who have started acquiring education encounter different problems in the learning process and drop out of school without acquiring proper education at their age. In 2008, the share of early school leavers aged 18–24 years who have no secondary education and who do not continue acquiring further education was 15.5% which was higher than the EU average (14.9%). However, in 2011, the given indicator has dropped to 11.6% and it is expected that Latvia's target for 2020 (13.4%) will be overachieved in 2012.

The most common reasons for dropping out of school is disadvantaged family and socio-economic conditions, including families with children leaving the country to find a

better job in other countries, as well as lack of systemic career education and consultations, learning difficulties, relatively poor methodology resources of schools.

By maintaining and improving the financing model “money follows the pupil”, it is planned to increase the interest of general education schools, particularly teachers and heads of educational institutions in approaching each pupil individually and in a pedagogically reasonable way, as well as in developing a favourable educational environment to meet the pupils’ needs.

At the same time, by improving (unburdening) the content of education subject standards for the first stage of primary education, namely grade 1–6, the pre-conditions for reducing the study load of students will be developed, thus making the learning process more active. Based on the concept for development of career education (it is being developed at the moment), it is planned to significantly improve and develop the role of career education and consultations in the education process. As an additional solution it is also planned to increase the independence of schools in flexible planning of the study content and process. Optimal planning of holidays is also planned and launched by moving state centralized examination in foreign languages to spring.

In order to reduce the study load of general secondary education students and the stress during examinations in late May and June of the academic year 2012/2013, as well as to increase the number of days between state examinations in general secondary education, a number of amendments have been made to the relevant legislation.

At the same time, in addition to existing international education quality indicators of the OECD, development of common quality indicators has been launched at the national level. The analysis of the indicators – i.e. education quality monitoring system allows obtaining comparable data about strengths and weaknesses of the education process at school level, as well as to streamline and improve the overall education process, to improve state examination database, thus ensuring transparency of academic achievements at every stage of education and following the dynamics of academic success of every student. The education quality monitoring is expected to be implemented in November 2013.

The measures described below refer to the implementation of the flagship initiative *An agenda for new skills and jobs* of the Europe 2020 strategy, as well as implementation of the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow.

Key policy directions and measures to decrease the share of early school leavers:

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

The aim is to ensure access to primary and secondary education, to promote broader involvement of children and youth in the learning process, as well as to ensure accurate accounting of pupils, by introducing a single procedure within the framework of normative regulations stipulating how an education institution should inform parents, municipal or public institutions if a pupil is absent from the education institution without a justified reason, and to ensure support to the youth at risk of social exclusion and teaching support to the youth with learning difficulties.

Since February 2011, the state has established a single procedure stipulating how an education institution should inform parents, local government or public institutions when a pupil is absent from the education institution without a justified reason.

The accounting of children at the mandatory education age has been improved and since the end of 2012, the accounting is ensured by the upgraded *State Education Information System*. In 2012, the number of children on whom local governments do not have information has decreased significantly (2648) compared to 2010 (4484).

In February 2012, the procedure regarding enrolment and discharging of pupils from general education institutions (except boarding-schools and special education institutions) was adopted. The procedure stipulated mandatory support measures for pupils with learning difficulties so that they would repeat a year only in certain cases. In the academic year 2011/2012, the share of pupils repeating a year has decreased from 2.5% to 1.7% compared to the previous academic year.

According to the tasks under the *Action Plan to Implement Reforms in General Education* the following measures are being implemented until 2014:

- Assessment of financial efficiency of special educational institutions according to a common methodology as a result of which it will be possible to revise the financing model of special educational institution network and to develop suitable financing model;
- Providing state paid assistant service to pupils who need special care in educational institutions (at the beginning of the academic year 2012/2013, 190 children have received this service), thus ensuring the inclusive education;
- Developing the description card of the inclusive education processes, as well as criteria and suitable content to match the needs of students with special needs for inclusion in general educational institution;
- In order to prevent discriminatory practice in education, since September 2012 special educational institutions have an opportunity to change the title of educational institution. From September 2012 until March 12, 2013, 23 special educational institutions have taken the opportunity and removed the word “special” from the title of the institution;

Inclusive education is focused on two main target groups – children and youth at risk of exclusion due to their development, abilities or health condition and youth at risk of exclusion due to social conditions. Implementation of EU funds’ activities provides substantial contribution to the development of the support system and measures, as well as the development of proper infrastructure of educational institutions necessary for integration of these young people.

The total public financing in 2012 was LVL 2.6 million, including the EU funds financing in the amount of LVL 2.4 million.

Local governments can continue receiving also grants for catering of pre-school pupils, thus supporting families with children without allocating money directly to them, but providing children with at least one balanced quality meal per day.

As of January 1, 2013, free lunch is provided also to the 2nd grade pupils. So far, free lunch was provided to all the 1st grade pupils. On November 15, 2012, the Saeima adopted the *Law on the State Budget for 2013* allocating LVL 5.7 million to provide free lunch for the 1st and the 2nd grade pupils in 2013.

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

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

Modernization of the study process is carried out as follows:

- By implementing reforms in general education programmes. Educational content for children aged 6–11 years will be improved. The new educational content is expected to be gradually implemented starting with the academic year 2014/2015;

- By developing general education distance learning options and the “second chance” education opportunities. The MES has developed and approved sample educational programmes for general education distance learning and several education institutions offer accredited general education distance learning programmes. These programmes are being implemented;
- Ensuring development of two sets of teaching materials for the interactive board to develop research skills in natural sciences and to promote the joy of reading;
- By updating school library funds, in 2013, the state support to general education schools for purchasing modern teaching materials, including electronic has been increased. At the same time, the regulation is expected to clarify the responsibility of the state, local governments and parents for financing the purchase of learning materials. A plan for providing up-to-date educational literature to school libraries will be developed by June 1, 2014.

3.4.2. Secondary Vocational Education

By 2020, the share of the number of students in vocational education and secondary education is planned to be changed in favour of vocational education from 37/63 (in 2010) to 50/50 (in 2020). As a result of the implemented measures, the given share reached 39/61 in 2011/2012, thus approaching the target for 2020.

The key policy principles for changing the share of the number of students in vocational education and secondary education in favour of vocational education are measures to make general vocational education more attractive, for example, modernisation of infrastructure, quality of education programmes, social security of students, career education measures, cooperation with employers to ensure field practice places and potential jobs, ensuring innovative approach to vocational education, including introduction of working environment-based teaching elements.

In the academic year 2012/2013, 8588 students have been enrolled in vocational education programmes and financed from the government budget and 1182 students are financed from the ESF. On September 1, 2013, students are planned to be enrolled in vocational education programmes financed from both government budget and the ESF. It is planned to enrol 9.5 thousand students in vocational education programmes financed from the government budget. In order to prepare specialists who match the labour market demand, enrolment in specific vocational education programmes will be determined based on the medium- and long-term labour market forecasts, opinion of industry expert councils and coordinated with the Tripartite Cooperation Sub-Council of Vocational Education and Employment.

The total public financing in 2012 within the activity *Promotion of Primary Vocational Education Attraction* for scholarships amounted to LVL 6.2 million per year, including the EU funds financing 85%. At the same time, LVL 2.6 million have been paid for the government budget financed places in vocational education.

The ESF scholarships in the amount of LVL 25 are available for all successful students, while scholarships in the amount of LVL 70 are available for students of short one-year and one-and-a-half-year programmes.

Key policy directions and measures to improve the quality and attraction of vocational education, ensuring its conformity to the labour market requirements:

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

The aim is to improve the quality of vocational education, thus ensuring its conformity to the labour market needs, as well as to foster efficient use of available resources:

- By optimising and differentiating the number and regional location of vocational education institutions (from 65 secondary vocational education institutions in 2012 to 30 institutions in 2015). According to the *Guidelines for the Optimisation of the Network of Vocational Education Institutions in 2010–2015*, 14 vocational education competence centres, 14 vocational specialized education institutions and 2 vocational schools for the acquisition of basic skills are expected to be established;
- According to the amendments to the Article 16 of the *Vocational Education Law* there are the following types of vocational education institutions: vocational elementary school, trade school, vocational secondary school, technical school, college.

Pre-conditions for the change of management of vocational education institutions, including transfer to local governments are being identified.

In order to make it possible for students to acquire vocational education as close to their place of residence as possible, local social partners are actively involved in preparation of the specialists demanded on the labour market. In order for local governments to be able to independently plan consolidation of any type of educational institutions within the administrative territory of a local government, 11 small (300 and less students) vocational education institutions should be transferred to local governments. Thus, students will have a possibility to acquire both general and vocational education programmes, including vocational continuing education and professional improvement education programmes at the same place, ensuring rational and efficient use of infrastructure and training equipment of all types of educational institutions, while keeping the weekly workload of teachers.

By September 1, 2013, 3 state vocational education institutions are planned to be transferred to local governments. Yet, another 8 vocational education institutions are expected to be transferred to local governments by December 31, 2015.

In order to optimise the number and location of vocational education institutions in the regions, the institutions are encouraged to obtain the status of a vocational education competence centre (a vocational education institution complying with the criteria of a centre – the number of students, a wide range of implemented education programmes, cooperation with employers, carries out functions of methodological centre, as well as ensures recognition of knowledge obtained outside formal education, etc.).

The total public financing in 2012 for modernisation of training equipment and improvement of infrastructure of vocational education institutions, as well as implementation of vocational education programmes was LVL 5.8 million, including the co-financing of the ERDF activity in the amount of LVL 5 million and the co-financing of the state budget in the amount of LVL 0.8 million.

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

In 2011, the 12 established sectoral expert councils continue working on development of qualitative and quantitative demand of sectors for labour preparation. Within the ESF project the sector survey for the needs of vocational education was completed in 2012 resulting in the development of sector descriptions and structure of sectoral professional qualifications. Professional standards are being developed and improved for primary professions, as well as the main requirements of professional qualifications for related professions and specialisations are being developed according to the structures of sectoral professional qualifications.

In 2012, in cooperation with social partners, restructuring of the vocational education contents has been launched through the ESF support in accordance with the European Qualifications Framework and using flexible modular education.

The total public financing for development of sectoral qualification system and restructuring of vocational education in 2012 was LVL 5.1 million (100 % EU funds financing). The planned financing in 2013 is LVL 0.8 million and in 2014 – LVL 0.9 million.

In general, the abovementioned measures are linked to the implementation of the flagship initiative *An agenda for new skills and jobs* of the Europe 2020 strategy.

3.4.3. Higher Education

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

Table 5

Tertiary education target's achievement trajectory						
	2008	2009	2010	2011*	2012	2020
Number of population having acquired tertiary education, aged 30–34 years, thousands	42.7	47.3	50.3	47.8	49.2	61.1
Number of population aged 30–34 years	158.3	157.2	155.8	133.2	132.7	177.9
Share, %	27.0	30.1	32.3	35.7	37.0	34-36

* Recalculation according to the Population Census 2011

The number of students in Latvia has been decreasing already for six years. In the academic year 2012/2013 – 94 474 students are studying in the higher education institutions of Latvia, which is by 6% lower than in the previous academic year. In the academic year 2012/2013, the number of students decreased by 28% compared to the academic year 2005/2006, when the number of students in Latvia reached the maximum level. The decreasing number of students over the last four years resulted mainly due to demographic factors (demographic pit), the impact of the economic crisis and economic emigration of the population which witnesses a lower access to higher education due to economic reasons. In the academic year 2012/2013, the number of students studying for state budget financing is 34 854 students or 37% of the total number of students. Based on the medium and long-term labour market forecasts, about 70% of the state funded study positions represent areas of the national priority, producing high value added and high-cost areas – natural sciences, engineering, health care, as well as master and doctoral studies which are important for preparation of both new teaching staff and scientists.

In general, the measures described below are linked to the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow, as well as implementation of the flagship initiatives *An agenda for new skills and jobs* and *Youth on the move* of the Europe 2020 strategy.

Key policy directions and measures to increase the number of population having acquired tertiary education:

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

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

The reform envisages a transition from programme accreditation to accreditation of study fields, inter alia by performing international assessment of study programmes' quality, resource adequacy and sustainability.

In 2012, measures for transition to the new external quality assessment system of higher education (by implementing accreditation of study fields) have been implemented. Legal framework of the model for accreditation of study fields has been prepared – regulations for accreditation of higher education institutions, colleges and study fields have been approved, envisaging that the MES or its authorized institution will organise accreditation process of study fields of higher education institutions and colleges in 2013, as well as the regulations of licensing of study programmes have been approved envisaging that the MES itself is allowed to perform functions of the authorized accreditation institution, the price list of accreditation and licensing services has been updated and the composition of the Accreditation Commission of Studies has been approved.

As of 2014, higher education institutions are expected to be allowed to select any of the European accreditation authorities entered in the EQAR for accreditation purposes. At the same time, a possibility to establish a national accreditation institution in accordance with the EQAR criteria is being considered.

Taking into account the abovementioned decisions, the contract will be not concluded with the German higher education quality assessment agency ASIIN e.V. within the framework of the tender on the assessment of higher education institutions, colleges and study fields organized by the MES.

In order to assess the quality of higher education study programmes, adequacy and sustainability of resources, the implementation of the ESF project *Assessment of higher education programmes and proposals on improving quality* has been continued in 2012. International experts have assessed 857 programmes in 29 study fields and submitted recommendations to higher education policy makers, heads of higher education institutions and study programme directors to improve the quality and efficiency of higher education. As a result of the assessment of study programmes, expert recommendations for further improvement, enhancement, development, consolidation, closing of study programmes and promotion of international competitiveness, as well as efficient use of resources and financing from the state budget are going to be prepared by July 2013. Recommendations for improvement of the assessment and accreditation process of study programmes and improvement of the legal system are also planned to be prepared.

Based on the evaluation of the Final Report submitted by the implementers of the ESF project *Assessment of higher education programmes and proposals on improving quality*, as well as taking into account the opinion of the Council of Higher Education regarding reduced number of higher education institutions, proposals for optimisation and consolidation of spatial structure of higher education institutions are going to be prepared.

In order to increase the role of employers in development of vocational higher education study programmes, defining study results and assessment of conformity of the programmes, as well as involvement in examination of study results, etc., on November 9, 2012, the MES and the Employers' Confederation of Latvia signed a Memorandum of Cooperation on efficient and open cooperation in planning and implementing reforms of higher education and science. The Memorandum envisages priority allocation of the state financing to the most competitive study programmes demanded by employers. To ensure bigger public and employers' involvement in important decision-making process in higher education institution, a number of proposals for amendments to the *Law on Higher Education Institutions* have been prepared envisaging establishment of a new decision-making body in the higher education institutions – the board of a higher education institution. It might take over the duty of senate to adopt and amend the constitution, as well as the obligation of constitutional assembly to appoint and dismiss the rector.

In order to ensure matching between study programmes and demands of the economy and economic development interests of Latvia, the work on restructuring measures of higher education sectors has been launched with an aim to change the share of the number of students according to the medium and long-term labour market forecasts, by changing gradually the division of state budget financed study positions taking into account also the lack of experts in the sectors of national priority.

The *Draft Action Plan for Implementation of Higher Education and Science Reforms for 2013–2014* has been prepared, incorporating measures to be implemented as soon as possible to ensure quality, internationally competitive and science-based higher education that is being implemented by efficiently managed institutions with consolidated resources.

The work on the *Guidelines for Development of Education for 2014–2020* has been launched. The guidelines will include a range of higher education development issues. The guidelines are planned to be submitted to the CM at the end of June 2013.

The total public financing in 2012 is LVL 0.6 million, including the EU funds financing in the amount of LVL 0.6 million. The total public financing in 2012–2013 is LVL 0.74 million, including the EU funds financing in the amount of LVL 0.74 million.

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

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

In 2012, infrastructure of 14 higher education institutions has been modernised, which is 45% of the total number of higher education institutions (31) implementing priority programmes. The material-technical base is still being improved in higher education institutions to make it possible for students to obtain knowledge and skills according to the changing labour market requirements.

By the 4th quarter of 2012, the implementation of all planned ERDF projects of higher education institutions have been launched. By the end of 2012, 14 higher education institutions have implemented their ERDF projects, while 17 higher education institutions continue modernizing rooms and equipment within the projects.

The total public financing in 2012 is LVL 15.6 million, including the EU funds financing in the amount of LVL 14.3 million. The total public financing in 2012–2013 is LVL 34.5 million, including the EU funds financing in the amount of LVL 31.7 million.

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

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

In order to support socially disadvantaged students and to make the higher education more accessible, amendments to the regulations regarding the procedure for granting scholarships have been developed and introduced, stipulating that in the case if two or more students have presented equal achievements and scientific results, the scholarship shall be first granted to those students, who conform to the set criteria, which means that social, family and financial conditions of the student will be considered.

In 2012, the preparatory work has been done to develop a fundamentally new model of financing for higher education institutions based on the detailed analysis and assessment of international experts (see Chapter 2.7).

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

The aim is to increase the share of highly qualified professionals in the priority fields of the labour market (natural sciences, mathematics, IT, engineering, health care, environmental sciences and creative industries), by evaluating the efficiency of master and doctoral studies on a regular basis and by developing new innovative study programmes, as well as by granting scholarships to students. It is planned that on average 700 master students and 200 doctoral students annually will be prepared with the ESF support.

In 2012 – 1773 doctoral students have received the ESF support, i.e. about 70% of the total number of doctoral students. In 2012, 267 new science doctors have obtained a scientific degree in Latvian higher education institutions, out of them 233 or 87% have received the ESF support, which is by 34 less than in 2011. The drop may be explained by the crisis consequences when the state budget financing for higher education was reduced significantly. The rapid increase in the number of doctors by 2011 (the academic year 2009/2010 – 174, the academic year 2011/2012 – 297) was related to the EU structural fund support for master and doctoral studies.

The total public financing in 2012 was LVL 6.9 million, including the EU funds financing in the amount of LVL 6.3 million. The total public financing in 2012–2013 was LVL 9.4 million, including the EU funds financing in the amount of LVL 8.7 million.

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

At the beginning of the academic year 2012/2013, there were 3505 foreign students from 81 countries studying in higher education institutions of Latvia constituting 3.7% of the total number of students and is by 29% or 789 students more than in the previous academic year. The forecasts for the share of foreign students in Latvia to reach 3% of the total number of students in 2013 have already been reached.

In 2012, measures were implemented to simplify attraction of foreign students in the higher education institutions, for example, by granting higher education institutions legal rights to develop and implement study programmes jointly with higher education institutions of other countries and to issue joint certificates, as well as to offer foreign students the possibility to receive state budget scholarship for studies. In 2012 – 58 scholarships have been granted for studies and research and 30 scholarships have been granted for summer schools within the available financing.

Measures to promote exports of higher education were implemented on a regular basis. In 2012, the Department for promotion of higher education exportability established in the Academic Information Centre has provided support in the form of information and consultations to higher education institutions for participation in international education exhibitions and international mobility networks, as well as the State Education Development Agency maintains the online website www.studyinlatvia.lv which contains information on the Latvian higher education institutions programmes for foreign students, as well as practical information about studies, scholarships and residence permits, etc. With the national higher education stand *Study in Latvia*, the higher education institutions of Latvia participated in the international education exhibitions in China, India, Turkey and Kazakhstan. A research on possible higher education export market has been conducted and regional directions of exports for the planned exhibitions have been developed in cooperation with higher education institutions.

In order to increase international competitiveness of Latvian higher education and simplify attraction of foreign students and academic staff, including from outside the EU, a range of amendments is going to be introduced to legislation with an aim to eliminate obstacles to attraction of foreign academic staff and students to higher education, including the requirements for language in academic environment, receipt of permanent residence

permit and obtaining the status of a permanent resident of the EU and the state fee for examination of the official language proficiency.

3.4.4. Lifelong Learning

The aim is to ensure that 15% of the population (aged 25–64 years) would be continuously involved in the learning process by 2020. The *Guidelines for Lifelong Learning Policy for 2007–2013* envisage that 12.5% of adult population in Latvia is involved in the education measures in 2013. In 2012, adult involvement in the education process has increased reaching 7%. However, the achievement of Latvia still lags behind the average indicator of Europe – 8.9% and lags behind substantially from those European countries that have already reached the target of the Europe 2020 strategy (for example, in 2011, 25% of Slovak adults were involved in the education measures, while in Switzerland – 29.9%).

The EC noted that the economic crisis has highlighted the significant role of adult education in the achievement of the Europe 2020 strategy targets¹⁹. Support for adult participation in various education measures has a direct impact on the achievement of employment target as it reduces the structural unemployment risk.

Table 6

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

	2008	2009	2010	2011	2012	2020
Share, %	6.8	5.3	5.0	5.1*	7.0	15.0

* Recalculation according to the Population Census 2011

In order to achieve this aim, it is necessary to make lifelong learning accessible for anyone irrespective of age, gender, previous education, place of residence, income level, ethnic identity, functional disorders, etc., as well as to develop high quality adult education supply and a harmonized system of laws and regulations and efficient resource (including finances) management.

The measures described below are linked to the implementation of the flagship initiative *An agenda for new skills and jobs* of the Europe 2020 strategy, as well as implementation of the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow and tackling unemployment and the social consequences of the crisis.

Key policy directions and measures to implement the lifelong learning principle:

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

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

In 2012–2013, it is planned to ensure development of the primary vocational education qualifications system within the ESF project. After revision of the system, amendments to regulations will be made to ensure a transition to the 8-level qualification system.

¹⁹ Council Resolution on a renewed European agenda for adult learning (November 2011).

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

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

In 2011, the procedure for obtaining professional qualification that conforms to professional competence of the first, second or third professional qualification level if the person has obtained the knowledge during lifetime or through informal education. Professional competence is being assessed by taking a professional qualification examination according to the procedure for centralized professional qualification examinations specified in the relevant laws and regulations. At the moment, delegation contracts have been signed with 36 vocational education institutions. Professional competence obtained outside formal education can be assessed for more than 100 professional qualifications.

In order to appropiate assessment of knowledge obtained outside the formal education system, in 2011–2012, 80 people were given an opportunity to assess their knowledge and skills free of charge and to obtain appropriate professional qualification in the case of successful examination within the ESF project *Development of a sectoral qualifications system and increasing the efficiency and quality of vocational education*, thus reaching the expected result-based indicator.

By the end of 2012, 398 persons have received the certificate of professional qualification based on the experience gained during lifetime or in informal education programmes. At the beginning of 2013, 45 persons have obtained the assessment of knowledge and skills obtained outside the formal education and professional qualification in such professions as car mechanics, accountant, electrician, etc.

Along with expanding the opportunities to recognize knowledge obtained outside the formal education system, a procedure for recognition of study outcomes (higher education) of previous education and professional experience has been developed and approved by the CM on January 10, 2012.

From spring 2012 to spring 2013, the National Library of Latvia in cooperation with the National Centre for Education Contents have been implementing the EC Lifelong Learning programme's project *Integrated Recognition System of Informal Education Results: Development of National Cooperation Network (Val-Net)* within the framework of which a sustainable information exchange and cooperation network is planned to be created at a national level. Several activities oriented towards development of cooperation between different institutions, identification of possible problems and development of proposals for solving those problems are being implemented within the project. Conclusions drawn during the project and examples of good practice of recognising knowledge and skills obtained outside the formal education system are compiled in a book.

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

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

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

At the beginning of the academic year 2012/2013, there were 25 evening (shift) schools, including two correspondence secondary schools and two distance learning secondary schools, and 69 evening classes and part-time consultation points within the full-time schools across Latvia.

For the purpose of supporting evening schools, *Amendments to the General Education Law* were adopted in 2011 defining the role and tasks of evening schools in adult education at

the same time giving a possibility for evening schools to implement also adult informal education programmes, thus expanding the education programme options and availability.

In order to ensure the second chance education, 41 education programmes for evening (shift) and correspondence education, as well as 65 vocational continuing education programmes to be implemented after full or partial acquisition of primary education programme were licensed. In order to maintain and improve the achieved results, the previously launched measures will be continued in 2013 and 2014.

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

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

The ESF support programme *Support to employee training for improving competitiveness of enterprises – support to training in partnerships* is being implemented to promote direct participation of enterprises in raising qualification of the labour force. The programme is implemented by industry associations. By the end of 2012, 13 projects for the total amount of LVL 1.7 million were completed and implementation of 16 projects for the total financing of LVL 14.5 million were continued. At the same time, in 2012 the programme continued providing support for improving skills in ICT area where the total financing constituted LVL 1.12 million and overall 5000 persons were expected to be trained. By the end of 2012 – 17 408 persons have been trained within the programme (the first and the second selection round). In 2012, LVL 11.3 million has been paid for the programme's implementation, while LVL 6.3 million is expected to be paid in 2013.

In 2012, 6067 employed persons participated in the SEA lifelong learning measures, including 2460 new involved persons. In 2013, the programme is planned to involve 6282 persons. The total EU funds financing in 2012 was LVL 0.85 million. In 2013, the planned financing for this measure constitute LVL 1.07 million.

In order to improve the quality of the measure and ensure a closer link to the labour market demands and trends, a range of amendments to the legal framework were made in 2012, envisaging approval of lifelong learning programmes in a commission specifically established for this purpose, thus preventing the risk that persons at the risk of unemployment would acquire education programmes that are not directly linked to the labour market demands.

In 2014, complex solutions are planned to be developed to improve skills and maintain working capacity of elderly (50+) employed persons, including consultations for employers in the field of improving working conditions and improving working capacity and working skills of elderly employed persons, as well as in certain cases – adjustment of workplaces.

3.5. FIGHTING POVERTY, DEMOGRAPHIC CHALLENGES AND HEALTH PROTECTION

3.5.1. Reducing the Poverty Level

The target of the NRP of Latvia is to reduce the share of people at-risk-of-poverty to 21% by 2020 or to prevent the risk of poverty or social exclusion for 121 thousand people.

Poverty reduction target's achievement trajectory

	2008	2009	2010	2011	2020
Share of persons at-risk-of-poverty (%)	25.7	21.3	19.1	19.4	21.0 (or by lifting 121 000 people out of the risk of poverty)

2011 was the first year when household disposable income started growing again after economic recession – in 2011, the income increased by 6.8% and reached LVL 213 per household member monthly. The main factor affecting the increase in income in 2011 was the rise in wages. Income from paid work per household member in 2011 increased by 10% and income of self-employed persons – by 45%, calculated per household member, reaching the highest level since 2004.

Economically active residents benefited the most from the growing economy in 2011 as their income grew following the rate of economic growth (like in the pre-crisis period), as a result of it the poverty risk rate decreased. Income of persons living close to the at-risk-of-poverty threshold grew slower than the average income level. They were exposed to a high risk of getting under the poverty risk threshold. This largely applied to recipients of small pensions and other individuals with low income, particularly families with children. In 2011, the poverty risk rate increased, reaching 19.4%. In 2011, every fifth resident was exposed to the poverty risk and the total number of these people reached 394.5 thousand. Economic growth and increasing employment have a positive impact on the poverty risk of employed persons. The poverty risk rate of employed persons has dropped from 9.4% in 2010 to 8.8% in 2011. Yet, the given rate has increased for retired persons from 11% to 16%, as well as single-parent families – from 39% to 43%.

The key priorities in reducing poverty and social exclusion are the increase in income from paid work, highlighting families with children as a special target group. These measures comply with the priority of the *Annual Growth Survey 2013* to tackle unemployment and the social consequences of the crisis, facilitate the achievement of employment, poverty and social exclusion targets of the Europe 2020 strategy and the implementation of the flagship initiative *European platform against poverty*.

Key policy directions and measures to reduce the poverty level:

• **Reducing income inequality** (responsible institutions – MF, MW)

The aim is to reduce the tax burden on the economically active population and population groups at high risk of poverty (especially families with children and people with low income) and to facilitate their ability to provide for themselves and to escape poverty. As of January 1, 2013:

- The minimum amount of parents' benefit and the amount of childcare benefit from the birth of a child to the age of one and a half year are increased – in both cases the benefit is LVL 100;
- Real estate tax relief is applied to large families (three and more children aged up to 18 years) reducing the amount of real estate tax by 50% of the calculated tax but not more than LVL 300 for residential buildings and land belonging to them.

In 2013 and 2014 it is planned:

- Taking into account the fiscal possibilities of the state budget, to consider a possibility to introduce a differentiated non-taxable minimum of people with low wages during the development of the draft budget for 2014 with an aim to balance the labour tax burden between the people with low wages and people with medium and high wages, as well as to raise the tax allowance for dependent persons;

- To resume indexation of pensions in 2014;
- To revise the state support for persons with congenital or acquired disability by revising the principle for defining the amount of benefit for persons with disability since childhood and persons with disability acquired after reaching the age of 18 years and who reasonably cannot work and make social insurance payments, as well as to provide proposals for the necessary amendments to the regulation.

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

The aim is to foster social inclusion of the most disadvantaged groups of the population. In order to achieve the aim, active labour market policy measures are being implemented, among them also measures for certain groups of people by employing the most disadvantaged people in state co-financed workplaces.

For the achievement of the aim, the following is planned in 2013 and 2014 in addition to the measures described in the Chapter 2.3 and 3.3:

- To improve cooperation between social services of local governments and the SEA by working on identification of priority groups of unemployed to be involved in active labour market measures;
- To prepare proposals for promoting social entrepreneurship in Latvia.

The total public financing for these measures in 2012 was LVL 4.7 million, including the EU funds financing – LVL 2.3 million (788 persons involved). The total planned public financing in 2013–2014 – LVL 6.7 million, including the EU funds financing – LVL 2 million (2158 persons involved).

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

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

In 2011, the *Guidelines of National Identity and Society Integration for 2012–2018* were approved providing measures to strengthen civil society and develop different forms of participation, to limit any type of discrimination, development and implementation of a third country citizen policy and measures for implementing Roma integration.

3.5.2. Demographic Challenges and Health Protection

Negative demographic changes are observed in Latvia – decrease and ageing of the population and a relatively high death rate. According to the Population Census 2011, the number of Latvian population as of March 1, 2011 was 2.07 million. Since the last Population Census 2000, the number of population has decreased by 307 thousand or by 13%. The reason for the decrease of the population is determined by the natural movement of people and international migration – by 115 thousand and 192 thousand people, respectively. The rapid ageing of population is a particularly critical problem – the number and share of children decreases and the number and share of elderly people increases.

In order to facilitate the link to the Latvian diaspora abroad and encourage Latvian people to return to the fatherland, a working group for the development of the return migration support measure plan was established in August 2012 with an aim to identify the

existing and develop new targeted measures to create a favourable environment of return migration. In 2013, the work on development of certain return migration support measures to be included in the *Return migration support measure plan for 2013–2016* is being continued.

In order to solve demographic issues, the Demographic Affairs Council has been established which focused on the following important issues in 2012: liquidation of queues for pre-school education institutions of local governments, a set of measures to improve mother's and child's health, particularly parents' reproductive health and prevention of abortions, as well as different support measures to reduce the costs of families or increase the income in both the short-term and the long-term. In 2012, the CM approved the *Plan for Improvement of Mother's and Child's Health for 2012–2014* and the *Action Plan for Implementation of the State Family Policy Guidelines for 2011–2017*. One of the main measures involves an increase in financial support for economically active families, for example, raising personal income tax relief for dependants. It is also planned to prepare proposals for a complex approach to solving family housing issues. The action plan also defines a number of measures to ensure access to pre-school education institutions for children aged one and a half years. In 2013, the principle "money follows the pupil" is planned to be introduced in pre-school education institutions. The plan also envisages implementation of support measures to treat infertility.

In order to improve birth rate indirectly through financial instruments, amendments to the *Law on Real Estate Tax* came into force on January 1, 2013 envisaging application of real estate tax relief in the amount of 50% (but not more than LVL 300) for residential buildings and land belonging to them to persons with three or more children up to the age of 18 years living at the same declared place of residence.

Since 2013, the state funded mandatory social insurance payments for parents taking care of a child up to the age of one and a half years²⁰ have been doubled and the maximum amount or the "ceiling" of maternity benefit, paternity benefit and parents' benefit has been doubled as well²¹.

In order to support parents at the time, when the development child needs constant presence of parents, the childcare benefit and the minimum amount of parents' benefit have been increased. As of January 1, 2013 the childcare benefit for socially uninsured persons from the birth of the child to the age of one year is LVL 100 (instead of LVL 50 previously). The minimum amount parents' benefit paid to socially insured persons from the birth of the child to the age of one year is also LVL 100 (instead of LVL 63 previously). Yet, the amount of childcare benefit for both parents for children aged one year to one and a half year has been raised from LVL 30 to LVL 100. In case of giving birth to twins or more children during one delivery, an additional payment shall be paid to the parents' or childcare benefit, and the amount of the additional payment has been also raised to LVL 100 per month.

Despite the fact that a number of public health indicators in Latvia lags far behind the average EU indicators, they are improving gradually. For instance, Latvia had the second highest standardised death rate in the EU in 2010 and compared to 2001 it has decreased by 17%.²² The average life expectancy at birth in Latvia was one of the lowest in the EU and reached 92% of the EU average in 2010. Yet, it was improving gradually and reached the age of 74 years in 2011.

Among the cause of lost years of potential life are diseases of the circulatory system, malignant tumours, external causes (mostly suicides and traffic accidents).

²⁰ 20% of LVL 100, until 31.12.2012 – 20% of LVL 50

²¹ LVL 23.02 per day + 50% of the amount exceeding LVL 23.02 per day. Until 31.12.2012 – LVL 11.51 per day + 50% of the amount exceeding LVL 11.51 per day

²² Eurostat data: Causes of death – Standardised death rate (per 100 000 inhabitants) (Annual Data), data accessed on 20.02.2013.

In order to improve access to health care services for all citizens, health care of chronic patients and timely diagnostics of diseases, the measure to involve second nurse in family doctor offices was continued in 2012. Since 2013, a new quality assessment system of family doctors and extra payment to family doctors for timely detected malignant tumours has been implemented. The development of day-care hospitals and home care services was continued by improving their availability and expanding the range of services. For example, since 2012 the range of home care services includes medical rehabilitation services for stroke patients after being hospitalized and for children receiving palliative care. In order to improve efficiency of in-patient health care institutions and foster efficient use of state budget resources for health care, the development of patient observation or monitoring services in hospitals was launched in 2012 – since 2012, an additional payment is paid to university and multi-profile hospitals for patient observation, i.e. for treatment and observation at emergency department up to 24 hours. The target indicators of Latvia for improving public health are reflected in the Table 8.

Table 8

Lost years of potential life target's achievement trajectory						
	2008	2009	2010	2011	2015	2020
Lost years of potential life per 100 000 people (aged up to 65 years)	7043	6494	6476	6140	5990	5300

Key policy directions and measures to deal with demographic and health care challenges:

- ***Improving birth rate and social protection measures directed towards families with children*** (responsible institutions – MW, MEPRD, MJ)

The aim is to ensure and improve the state and municipal support to families with children, as well as to encourage parent participation in the labour market. In order to achieve the target, the following measures are planned in 2013–2014, in addition to the already implemented measures to support and protect families with children:

- To revise personal income tax relief for dependents, considering a possibility to raise the relief; to revise the current conditions for payment of parents' benefit and childcare benefit with an aim to provide state support for improving birth rate and support for families with children;
- To liquidate queues for pre-school education institutions of local governments starting from 2014. The government budget for 2013 allocates co-financing for local governments as of September 1 to cover costs of parents for private service providers in case a local government cannot ensure a place for children aged one and a half year to four years (incl.) in queue for local government kindergarten. As of 2014, it is planned to improve availability of pre-school education service for children with disability. The MEPRD is responsible for the ERDF activity *Development of Infrastructure of Pre-School Education Institutions in National and Regional Development Centres* in the framework of which 44 projects were completed by December 31, 2012, while 7 projects are being implemented, including 14 pre-school education institutions have been constructed or expanded and 58 pre-school education institutions have been renovated or improved, creating 2730 new places for children in pre-school education institutions. The ERDF financing available for this activity is LVL 32.3 million, including the financing of overcommitment;
- To develop social work and social services in local governments;
- Providing psychologist consultations to adopters, grove families, guardians, host families, families with children in a crisis situation, children left without parental care,

as well as by organizing different support groups, to develop services similar to family environment for children in out-of-family care.

- ***Measures to improve health of mother and child*** (responsible institution – MH)

The year 2012 was announced as the Year of Mother's and Child's Health in Latvia. The *Plan for Improvement of Mother's and Child's Health for 2012–2015* has been developed envisaging certain measures to improve the care for pregnant women and new-borns, infertility treatment and cross-sectoral cooperation in the reproductive health sector. As regards infertility treatment, the plan envisages reimbursing costs of diagnostic tests for infertility, medical insemination procedures/manipulations and infertility treatment medicine from the state budget resources.

- ***Developing a quality and efficient health care services system, reducing the risk factors of diseases, eliminating the impact of traumatism and environmental risks on public health*** (responsible institution – MH)

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

In order to achieve the aim, the following is planned in 2013 and 2014:

- To prepare and implement a mandatory state health insurance model with an aim to develop a sustainable financial system of health care, thus reaching the health care government budget in the amount of 4.5% of GDP by 2020;
- To improve access, quality and follow-up of primary health care, particularly for persons with chronic diseases and to increase the role of primary health care in promoting health and early diagnostics of diseases;
- To continue development of outpatient services, including day-care hospitals in order to improve access to these services and to promote efficient use of health care resources;
- To implement measures to improve efficiency of inpatient health care by continuing development of diagnosis-related group payment model and launching its implementation in inpatient health care;
- To implement measures to promote health and prevention of diseases, for example, reduce the consumption of alcoholic beverages, to decrease morbidity of population with diseases that can be regulated by vaccination.

3.6. ENERGY AND CLIMATE CHANGE

The economic crisis has significantly changed the situation in the energy sector. In order to plan sustainable long-term development of the energy sector and to achieve the energy targets set in the NRP of Latvia, the vision of sustainable energy policy is being defined by developing the informative report *Long-Term Energy Strategy of Latvia 2030 – Competitive Energy for Society* (hereinafter – Strategy). This document will set long-term directions of action for safe energy supply, competitiveness, energy efficiency and use of renewable energy (hereinafter – RE). At the same time, the existing state support mechanisms for energy production from renewable energy resources (hereinafter – the RER) are being assessed and revised.

In general, the measures described below are linked to the priority of the *Annual Growth Survey 2013* for promoting growth and competitiveness for today and tomorrow, and to the implementation of the flagship initiative *Resource Efficient Europe* of the Europe 2020 strategy.

3.6.1. Fostering Energy Efficiency

The aim of the Directive 2012/27/EU of the European Parliament and of the Council of October 25, 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (hereinafter – Directive 2012/27/EU) is to promote energy efficiency and ensure the achievement of the key energy efficiency target of 20% and lay the foundation for further improvement of energy efficiency. The requirements of the directive shall be transposed into national legislation by June 5, 2014, while certain requirements are subject to other deadlines, for example, the national indicative energy efficiency target should be notified by April 30, 2013. According to the directive, Member States shall apply an integrated approach to use the entire energy saving potential, including savings in energy supply and final consumption sectors.

So far, Latvia has submitted two national energy efficiency action plans to the EC in accordance with the requirements of the 2006/32/EC. In 2011, the *Second Energy Efficiency Action Plan of the Republic of Latvia for 2011–2013* (hereinafter – the Plan) was approved incorporating also the assessment of the progress of the *First Energy Efficiency Action Plan of the Republic of Latvia for 2007–2010*. Since the CSB adjusted data on the fuel consumption in the transport sector for 2009 at the end of 2011, it was necessary to recalculate energy savings in the transport sector. The adjusted calculated energy savings in the transport sector for 2009 are 1331 GWh instead of 2680 GWh. Thus, the total energy savings in final consumption sectors in 2010 have dropped from 3418 GWh (12.3 PJ) to 2069 GWh (7.4 PJ). According to the Article 3 of the Directive 2012/27/EU, the absolute savings of primary energy in 2020 are 0.670 Mtoe (28 PJ), envisaging energy savings in multi-apartment residential buildings, local government and public institution buildings, energy savings in industry, services sector and transport, as well as energy savings in centralized heating supply systems. In general, the implementation of energy efficiency measures is going to promote a transition to energy-efficient economy and increase competitiveness of industry and other sectors.

The assessment of energy savings was based on the GDP forecasts until 2020 envisaging changes in energy demand, the current energy policy that sets indicative RER policy targets for 2020 and energy efficiency policy until 2016, as well as the measures under the NDP2020 for development of the energy sector.

Latvia is moving towards the set target to achieve energy savings in the amount of 0.670 Mtoe in 2020 (the total energy savings in both the final consumption and transformation sector), as according to the latest statistical data the gross domestic energy consumption has been decreased from 4.6 Mtoe in 2008 to 4.25 Mtoe in 2011, and implementation of energy efficiency measures has an important role in decreasing energy consumption by 0.35 Mtoe.

Table 9

Energy efficiency target's achievement trajectory

2008	2009	2010	2020
Gross domestic energy consumption	Gross domestic energy consumption	Gross domestic energy consumption	Primary energy savings
4.6 Mtoe	4.3 Mtoe	4.54 Mtoe	0.670 Mtoe*

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

Low energy efficiency causes the risk of decreased energy security, sustainability and competitiveness, while raising this level is the fastest and the most cost-efficient way to reduce the risks, at the same time creating additional jobs and fostering growth. The heat supply in buildings and the transport sector have the highest potential for achieving energy savings through state support instruments.

In 2012, the new *Law on Energy Performance of Buildings* was adopted transposing the requirements of the recast directive 2010/31/EU on the energy performance of buildings and introducing new provisions regarding increased requirements for energy efficiency, energy certification of state-owned buildings and certain parts of buildings, rights and obligations of building owners, and tasks to promote construction of nearly zero-energy buildings.

In 2013 and 2014, it is planned to develop further support mechanisms for improving energy performance of buildings, particularly in multi-apartment sectors where a higher return is expected.

In 2013, the minimum requirements of energy performance of buildings (construction elements of external building envelopes and engineering systems of buildings) are expected to be revised, and requirements for construction of nearly zero-energy buildings are planned to be set and the comparable assessment system of energy performance of buildings is expected to be developed. The minimum requirements of energy performance of buildings are going to be defined to achieve the optimal and cost-efficient balance between financial investments and the energy costs saved during the building lifecycle. As regards construction of nearly zero-energy buildings, the requirements are expected to be defined to ensure cost efficiency during the building lifecycle.

Key policy directions and measures to increase energy efficiency:

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

The aim of the measure is to improve energy performance of multi-apartment residential buildings to ensure sustainable housing and efficient use of energy resources.

The total available EU funds financing in 2007–2013 for improvement of the insulation of multi-apartment building is LVL 47.8 million. Additional financing of overcommitments in the amount of LVL 15 million has been granted in 2012. As of February 2013, 701 contracts for LVL 42.6 million have been signed, out of which 161 projects in the amount of LVL 7.1 million have been completed. For the purpose of promoting the activity, a wide information campaign has been carried out thus encouraging apartment owners to get involved in management of the common property and improvement of the insulation of buildings.

The total available EU funds financing for the improvement measures of insulation of social residential buildings is LVL 4.9 million. As of February 2013, 56 contracts for LVL 4.3 million have been signed, out of which 34 projects in the amount of LVL 2.2 million have been completed.

In 2013, information measures on the available support for multi-apartment insulation of buildings is planned to be continued, as well as new types of potential instruments and support mechanisms are planned to be developed for increasing energy efficiency in residential buildings.

Improvement of energy performance of buildings plays a major role in the achievement of energy efficiency targets defined in the EU and policy documents of Latvia. Investments in housing insulations have been efficient because the analysis of data on completed projects shows that the average heat energy savings after renovation comprise 42% with the average eligible costs in the amount of LVL 37.61 per one square meter of the total area of residential building. The average return period of investments in these projects is approximately 14.28 years.

According to the Regulation (EC) No 1080/2006 of the European Parliament and of the Council of July 5, 2006, the threshold of costs for improvement of energy efficiency and use of renewable energy in existing housing must not exceed 4% of the total ERDF financing granted to the EU member state. Latvia has nearly reached the threshold (LVL 67.7 million) by allocating LVL 67.6 million to housing insulation. Additional financing may be allocated to

the measures for improvement of energy efficiency if the given 4% limit would be cancelled in the regulation of the period 2007–2013.

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

The aim is to provide financial support to projects for increasing energy efficiency in public and industrial buildings in order to reduce greenhouse gas emissions (hereinafter – GHG). Complex solutions are supported within the measure – reduction of heat energy and electricity consumption, as well as efficient energy supply of buildings. The total climate change financial instrument's (hereinafter – CCFI) financing in 2010–2013 for the implementation of the measure is LVL 75.5 million.

In 2011, the implementation of projects for improving energy efficiency in public buildings was launched for the total financing of LVL 72.2 million, including the CCFI financing – LVL 23.3 million and the EU funds financing – LVL 35.9 million. Within the call for projects, complex solutions for increasing energy efficiency of buildings, as well as construction and reconstruction of low energy consumption buildings are supported. Measures to improve energy performance of buildings have been implemented in 350 public buildings.

In order to provide complex solutions for increasing energy efficiency in the industrial enterprises, projects for the total public financing of LVL 2.02 million (CCFI financing) have been implemented and contracts for the amount of LVL 7.87 million have been signed by the end of 2011. The implementation of the project was completed by the end of 2012. In total, 28 projects to improve energy performance of industrial buildings for the total CCFI financing of LVL 4.3 million have been implemented in 2012.

In 2013, 33 CCFI funded projects (LVL 4.87 million) are expected to be implemented within the CCFI tender *Complex Solutions for Reducing Greenhouse Gas Emissions*, making investments in technological industrial equipment and improvement of energy performance of industrial buildings.

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

The aim is to provide financial support to municipalities to introduce such lighting infrastructure that allows reducing the current electric energy consumption and thus also the GHG emissions. In 2012, 22 projects for the total CCFI financing of LVL 2.4 million have been implemented.

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

The aim of increasing the efficiency of centralized heat supply systems is to increase efficiency of heat energy production considerably, to reduce heat energy losses in transmission and distribution systems and to promote replacement of fossil fuels with renewable or other types of fuels.

The implementation of measures continues to improve energy efficiency of heat supply systems. The total EU funds financing in 2007–2013 is LVL 55.3 million. As of February 2013, 67 contracts for the CF financing of LVL 40.3 million have been signed, out of which 20 projects for the CF financing of LVL 8.4 million have been completed.

3.6.2. Increasing the Share of Renewable Energy

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

Table 10

	2009	2010	2011	2020
Share of renewable energy (%)	34.3	32.5	33.1	40.0

Table 11

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

	2005	2010	2011	2015	2020
Heating and cooling	42.7	43.8	44.67	48.6	53.4
Electricity	44.9	42.1	44.7	51.4	59.8
Transport	1.34	3.3	4.8	4.6	10.0

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

The measures to be implemented and the expected outcomes of broader use of renewable energy are closely related to the progress of promoting energy efficiency, particularly, the energy efficiency target for 2020, which is defined in the new energy efficiency directive.²³ Latvia still has a high energy saving potential in all final energy consumption sectors. Due to technology development trends and global challenges not only to energy but also to other industrial sectors Latvia and a number of other member states are actively revising their support mechanisms for production of renewable energy by making them more flexible and economically reasonable.

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

A number of projects have been implemented within the CCFI resulting in an increased use of RER in production of heat energy and electricity for enterprises and local governments. In total, 49 projects have been implemented, including in 2012 – 44 projects.

At least 1563 projects have been implemented within the CCFI funded tender *Use of Renewable Energy Resources in Household Sector*: 209 projects have been completed in 2011 and 1354 projects have been completed in 2012. The total CCFI financing is LVL 7.9 million.

Data on actual volumes of heat energy and electricity will be available in the period from 2013 until 2018.

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

Key policy directions and measures to increase the share of renewable energy:

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

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

In 2012, a range of measures have been carried out to adjust the legal basis. The necessary amendments to laws and regulations have been made to improve the existing

²³ Directive 2012/27/EU of the European Parliament and of the Council of October 25, 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.

support system, simultaneously introducing also additional control mechanisms, for example, incorporating an important requirement that data on sold useful (efficiently used) heat energy contained in the annual report on cogeneration power plants submitted by electricity producers must be approved by an accredited auditor. There are also provisions to ensure that enterprises fulfil their tax obligations towards the state and employees, as well as ensure conformity to the laws regulating construction in power plants. Since the support may not be economically unreasonable and unlimited in terms of time, the legislation provides a restriction on the support period for existing recipient of support for 10 years in cogeneration power plants with installed electric capacity below 4 MW and 15 years in cogeneration power plants with installed electric capacity exceeding 4 MW, as well as the possibility for producers to qualify for sale of electricity within mandatory procurement and obtaining rights to receive guaranteed payment for installed electric capacity has been suspended until January 1, 2006.

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

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

In total, 10 contracts on development of cogeneration plants using RER for the entire amount of available CF financing of LVL 21.3 million have been signed by February 2013. Within the implementation of projects, the expected installed capacity is 36 MW_{el} and heat capacity 105 MW.

For the construction of biomass cogeneration plants in 2011, the CCFI financing in the amount of LVL 8.4 has been allocated. In 2012, 6 new biomass cogeneration plants with the total installed heat capacity 15.05 MW and electric capacity 4.6 MW have been constructed, while in 2013, these plants are expected to be connected to distribution networks. The CCFI financing is LVL 4.7 million.

In 2011 and 2012, the implementation of projects continued, thus ensuring technology transition from fossil to RER. The total CCFI financing of the measure was LVL 6.3 million, while 2 projects for the total CCFI financing of LVL 0.06 million were completed in 2011 and 22 projects for the CCFI financing of LVL 2.6 million were completed in 2012.

In 2011, the CCFI financing of LVL 25.6 million was allocated to the implementation of technologies using renewable energy resources for production of heat energy and electricity, as well as in ensuring a transition from technologies using fossil energy resources to technologies using renewable resources. In 2012, the implementation of 25 projects for the CCFI financing of LVL 3.5 million were fully completed, while final documentation of another nearly completed 19 projects for the CCFI financing of LVL 8.7 million is being considered. The remaining projects are planned to be fully completed in the first half of 2013.

In 2011 in the household sector, 1135 contracts have been signed on purchase and installation of technology equipment for the production of micro-generation heat energy or electric energy in residential buildings for the total CCFI financing – LVL 4.1 million. By the end of 2011, 209 projects for the CCFI financing of LVL 0.6 million have been completed. In 2012, 1354 projects were implemented in the household sector.

The total public financing of LVL 141.9 million (including the EU funds financing – LVL 93.5 million and the CCFI financing – LVL 42.8 million) is available in 2011–2013 for support to energy production from agricultural and forest biomass if the produced energy is intended for the use mainly outside the farm. Until March 2012, projects for the public financing of LVL 18.5 million have been implemented. Applications for the public financing of LVL 47.8 million have been approved. The total number of supported farms is expected to exceed 80 farms.

In 2011, the regulatory framework has been amended to ensure stricter regulation regarding the use of agricultural residues for receiving the support from the sub-measure *Energy production from agricultural and forest biomass* of the Rural Development Programme for 2007–2013. A condition has been introduced providing that at least 30% of all raw materials must be animal by-products or derived products. Moreover, a condition has been introduced providing that the beneficiary must be able to produce at least 70% of the total raw materials for energy production in his/her farm. As of March 1, 2013, 67 projects for the total eligible costs of LVL 55.3 million have been approved, out of which LVL 28.7 million have been paid within the sub-measure *Energy production from agricultural and forest biomass* (biogas) of the Rural Development Programme for 2007–2013. New rounds are not planned within this measure and the last round for the project applications was in 2012.

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

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

In order to ensure efficient use of state resources and to help the state to achieve the binding target – the share of energy produced from RER in the entire transport must be at least 10% of final energy consumption in transport in 2020 (see Table 11), the *Informative Report on Situation in Production of Biofuel* has been developed in 2012 to provide information about the progress on achievement of the key targets of the programme *Production and Use of Biofuel in Latvia (2003–2010)* (ensuring the necessary raw material for production of biofuel by the use of agricultural land of Latvia, promoting production of biofuel and use of biofuel in Latvia) and the development of biofuel sector so far. The informative report concluded that the demand is mostly stimulated by consumption-related policy instruments, and therefore the use of biofuel should be promoted by different indirect support measures. Taking into account the abovementioned, within the measure to promote biofuel consumption in 2013, it is planned to keep the mandatory biofuel addition, to continue applying the reduced excise tax rates to biofuels and biofuel blends with fossil fuel containing at least 30% biofuel, as well as to increase availability of biofuels to all consumers.

3.6.3. Reducing Greenhouse Gas Emissions

Latvia's target is to limit the total national GHG emissions so that in 2020 they would not exceed 12.19 Mt CO₂ equivalent. This target includes fulfilment of other international commitments. The target of GHG emissions excludes emissions caused by the forestry and its attraction.

Table 12

Greenhouse gas emissions target's achievement trajectory

	2008	2009	2010	2015	2020
GHG emissions, Mt CO ₂ equivalent	11.7	11.0	12.1	12.4	12.2
GHG emissions in non-ETS sectors (% compared to 2005)	8.0	8.0	8.0	13.0	17.0

According to the initial results of the GHG Inventory Report of 2012²⁴ the total GHG emissions of Latvia in 2010 were 12.1 Mt CO₂ equivalent. Most of emissions were caused by energy (43%), transport (27%) and agriculture (19%) sectors. In comparison with 2009, the

²⁴ UN Framework Conventions on Climate Change on website: http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/6598.php.

total GHG emissions of Latvia have increased by 10%. The increase in emissions in the ETS sector was determined by the increased fuel consumption in the transformation sector (centralized heat supply systems) due to cold winter conditions, launch of a new electricity production block, as well as increasing production capacity of the largest cement factory. The increase in emissions in the non-ETS sectors in 2010 was by 6.5% higher than in 2005 (trajectory achievement), in 2011 it was by 3.8% higher than in 2005 (trajectory achievement). Yet, in the short-term, the increase in emissions in the non-ETS sectors in 2010 (4.3%) compared to 2009 was determined at approximately equal shares by the increase in transport emissions, agricultural emissions and small central heating system emissions.

Overall in 2010, the total emissions of the country were within the expected trajectory of achievement of GHG emissions target. According to the initial results of the GHG Inventory Report of 2013²⁵, the total GHG emissions of Latvia in 2011 were 11.5 Mt CO₂ equivalent, which is by 5.1% lower than in 2010. The decrease in emissions in 2011 was observed in almost all sectors, except industrial processes where emissions increased by 20% compared to 2010. Therefore, it should be noted that emissions might increase faster in the coming years due to the growing manufacturing and economic recovery from the crisis. Thus, the overall national GHG emissions target may have to be revised and accordingly increased in the coming years.

When assessing the possibilities of Latvia to stay within determined GHG emissions of +17% in the non-ETS sector, the planned intensification of agricultural land should be taken into consideration.

Key policy directions and measures to limit GHG emissions:

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

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

The measures to reduce the non-ETS sector emissions are mainly supported by the CCFI programmes and implementation of projects within these programmes has been launched only in 2010. The planned emissions reduction policy and measures must be continued by assessing and measuring the actual emissions reduction achieved therein.

- **Research, innovations, informing society** (responsible institution – MEPRD)

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

In order to transfer GHG reducing products and technologies in Latvia, 11 projects for the total CCFI financing of LVL 0.5 million have been implemented since 2011. Within the completed projects, two equipment prototypes have been developed for waste water cooling and conducting the produced heat to water heating, thus achieving the estimated heat energy savings of 345 MWh per year in a 108-apartment residential building and 124 MWh per year in a 40-apartment residential building. Furthermore, an efficient technology has been developed for burning low-emission non-fossil fuel using water electrolysis product as a catalyst, energy efficient solar panel has been developed, as well as gasification technology has been developed suitable for biomass with a high ash content, a low-emission non-fossil combustion technology has been developed and a solar energy presentation project for reduction of GHG emissions in hazardous waste processing company has been prepared.

²⁵ Website of the European Environment Agency: http://cdr.eionet.europa.eu/lv/eu/ghgmm/envuo_rq.

In 2012–2013, the CCFI financing in the amount of LVL 2.7 million will be available for development of GHG emissions reducing technologies, including implementation of pilot projects. The CCFI co-financing will be granted for development and presentation of innovative products or technologies if such a product or technology has GHG reduction potential or it can be practically used, as well as for national and international experience and knowledge technology transfer by implementing pilot projects to show how innovative GHG emissions reducing technologies operate in practice.

Since 2011, 17 projects have been implemented to increase public awareness of the meaning and possibilities of GHG emissions reduction. Mass media have prepared publications, radio and TV shows, unions and professional associations have developed educational programmes and hosted seminars for different target groups. The total CCFI financing in 2011 was LVL 0.20 million, in 2012 – LVL 0.26 million.

4. USE OF STRUCTURAL FUNDS

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

To achieve the Europe 2020 strategy targets, financing in the amount of LVL 1.10 billion is planned to be allocated in the programming period 2007–2013, including the ERDF and the CF financing in the amount of LVL 1.03 billion for measures complying with the following Europe 2020 strategy targets:

- Employment – public financing in the amount of LVL 287.04 million, including the ERDF and the CF financing in the amount of LVL 257.65 million;
- Investments in R&D – public financing in the amount of LVL 320.04 million, including the ERDF financing in the amount of LVL 318.01 million;
- Education – public financing in the amount of LVL 196.67 million, including the ERDF financing in the amount of LVL 176.02 million;
- Social inclusion – public financing in the amount of LVL 168.41 million, including the ERDF financing in the amount of LVL 153.66 million;
- Energy and climate change – public financing in the amount of LVL 130.92 million, including the ERDF and the CF financing in the amount of LVL 129.31 million.

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

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

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

To achieve the Europe 2020 strategy targets, public financing in the amount of LVL 429.42 million is allocated for measures complying with the following Europe 2020 strategy targets:

- Employment – public financing in the amount of LVL 224.26 million;
- R&D – public financing in the amount of LVL 0.97 million;
- Education – public financing in the amount of LVL 99.11 million.

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

- Employment and R&D – public financing in the amount of LVL 44.74 million;
- Employment and education – public financing in the amount of LVL 13.96 million;
- Employment and social inclusion – public financing in the amount of LVL 36.26 million;
- Education and social inclusion – public financing in the amount of LVL 10.12 million.

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

According to the EC regulations proposal, the CM has determined the thematic allocation of the EU Cohesion policy funds financing for the programming period 2014–2020. Thematic objectives link the Cohesion policy to the Europe 2020 strategy.

The allocation of financing is based on the priorities, directions of activity, tasks and their indicative amount of financing under the NDP2020. The NDP2020 is closely linked to

the NRP of Latvia. Taking into account the growth rate and needs of the economy of Latvia, investments are planned in all thematic objectives.

Table 13

Indicative allocation of the EU Cohesion policy funds financing

Allocation according to the NDP2020*			
No.	Thematic objective	Proportional allocation, %	Indicative allocation of financing, LVL
1.	Strengthening research, technology and innovation	7.77	246 150 000
2.	Improving availability, use and quality of ICT	4.72	149 400 000
3.	Improving competitiveness of small- and medium-sized enterprises	7.21	228 287 500
4.	Supporting transition to low carbon economy in all sectors	9.81	310 667 500
5.	Promoting adaption to climate change, risk prevention and management	1.72	54 400 000
6.	Protecting environment and promoting resource efficiency	8.89	281 547 500
7.	Promoting sustainable transport and preventing shortcomings in the main network infrastructure	35.22	1 115 387 500
8.	Fostering employment and supporting labour mobility	3.93	124 463 000
9.	Fostering social inclusion and fighting poverty	9.35	296 087 500
10.	Investing in education, skills and lifelong learning	8.55	270 698 000
11.	Improving institutional capacity and efficient public administration	0.58	18 245 000
12.	Technical assistance	2.25	71 248 086
TOTAL		100.00	3 166 581 586

* Allocation of the EU funds financing – in the amount of LVL 3.09 billion according to the NDP2020, including Technical assistance for the administration of the EU funds in the amount of 2.25%.