



# **ESPN Thematic Report on Social Investment Latvia 2015**

Feliciana Rajevska  
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Contact: Valdis ZAGORSKIS

E-mail: [Valdis.ZAGORSKIS@ec.europa.eu](mailto:Valdis.ZAGORSKIS@ec.europa.eu)

European Commission  
B-1049 Brussels

EUROPEAN COMMISSION

**EUROPEAN SOCIAL POLICY NETWORK (ESPN)**

# **ESPN Thematic Report on Social Investment**

## **Latvia**

**2015**

***Feliciana Rajevska***

Directorate-General for Employment, Social Affairs and Inclusion

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## Summary

- Social investment is not a central aspect in most of Latvian social policy.
- However, Latvia has taken on board lessons drawn from the economic crisis and steps aimed at reducing income inequality; poverty and social exclusion are emphasized in the policy and budget planning.
- Fiscal consolidation rather than social investment has been the dominant influence since 2009, introducing thresholds for unemployment, sickness, maternity, paternity and parent's benefits in 2010-2014 and freezing pension indexation in 2009-2013.
- Families with dependents have gained most from the policy measures implemented in 2014, and ensuring the availability of pre-school education institutions has become one of the strategic priorities of the country since 2009.
- Life-long learning is one of the most appropriate instruments for social investment. The share of people aged 25-64 involved in life-long learning in Latvia is rather low – only 6.5% (2013). Integrating older workers and those of pre-retirement age into the labour market, of improving their competitiveness and reducing prejudices and stereotypes prevailing in the society becomes all the more topical.
- At the policy planning level the focus is on addressing significant poverty and social exclusion reduction measures, i.e. – the reform of the social security system, the establishment of an adequate minimum income level, the reduction of the tax burden for the recipients of low salaries, and families with children.
- The challenge identified in the Staff Working Document for Latvia that "...the tax wedge on single earners decreased marginally and remains high" is still topical.
- During recent years, priorities in the government's work and in the national budget have moved towards reducing income inequality, allocating additional funding for expanding the range of state material support and social services for families with children, the disabled and other groups of the population at poverty and social exclusion risk.
- However children are still at a greater risk of poverty or social exclusion than the rest of the population in Latvia.
- In many relevant areas -minimum income, social entrepreneurship, inclusive education- work has only been done at the level of policy planning level, therefore risks remain in terms of implementation, the availability of financial resources and the possibility of close cooperation with stakeholders.
- Expenditure on social protection in Latvia is the lowest among the EU28 Member States; moreover, during the last two years it has declined.
- Latvia has the highest proportion of the population with unmet needs for medical examination or treatment in EU28 Member States. Costs of health care services are the main factor restricting accessibility to health care services, which is also recognized by health care policy planners.
- Total funding for labour market policy measures has been increasing rapidly over the past few years, most of it –about 4/5 - being financed from the European Social Fund. Most of the financing is allocated to measures for improving skills, which involves professional training, retraining, and promotion of qualifications, as well as measures to promote competitiveness and career consultations.

## 1 Assessment of overall approach to social investment

This report reviews whether and how social policies in Latvia since 2009 have met the aspirations set out in the 2013 European Commission's Social Investment Package (SIP). We understand social investment policies as those designed to improve human capital and support people's participation in economic and social life, as well as preventive policies to confront new social risk and poverty. Social investment implies policies with a return on investment over the life-cycle.

Depopulation, i.e. the continuous decrease of the population since 1991 in combination with outflow of the workforce and rapid ageing, is the most serious challenge for Latvia's social policy. During the crisis public expenditure cuts were draconian: reducing public employees by 15%, public nominal wages by 15%, and state procurement of goods and services by 25%<sup>1</sup>. In the fall of 2009 a minimum social safety network was introduced in cooperation with the World Bank to improve targeted social support to the most underprivileged members of society. Funding from the European Social Fund was instrumental in mitigating unemployment, facilitating a large temporary works program involving tens of thousands of people.<sup>3</sup> The government adopted the Social Security Network Strategy for the period from October 1, 2009 till December 31, 2012 along with necessary funding<sup>2</sup>.

Several crucial improvements were made to the national demographic support policy in 2013. Minimum childcare benefits were substantially increased and the duration of their disbursement prolonged. The mandatory tax exemption minimum for dependent children was increased. From 1 September 2013 state support is provided for child care services or the service of private preschools. Life-long learning is among the most appropriate instruments for social investment. The share of people aged 25-64 involved in life-long learning in Latvia was rather low – only 6.5% (2013). The integration of older workers and those of pre-retirement age into the labour market, of improving their competitiveness and reducing prejudices and stereotypes prevailing in the society becomes all the more topical.

On January 1, 2014, the implementation of the Youth Guarantee was started - a set of support measures for unemployed youths<sup>3</sup>. The main target are youths from 15 to 29.

Minimum salary, frozen for 3 years (2011-2013) started to grow in 2014 and continued to do so in 2015. A significant step towards reducing income inequality and poverty has been the approval of the Concept Paper on Defining the Minimum Income Level by the government in October 30, 2014.

To improve the situation of families with children the government, following the decisions taken in 2013, has continued to gradually increase benefits and support measures in such as early childhood education and care, education, allocating additional funding for expanding the range of state financial support and social services for families with children.

Despite the strong fiscal consolidation policy implemented in Latvia, parental benefits to children under the age of 2 were significantly increased in 2013 and 2014 for both working and non-working mothers. The amount of child care benefit for non-working parents was more than doubled in 2012-2014.

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<sup>1</sup> Åslund, A., Dombrovskis, V., (2011) How Latvia Came through the Financial Crisis, Washington, DC: Peterson Institute for International Economics, p.42

<sup>2</sup> This funding illustrated a crucial turn to the state involvement in co-financing social assistance: 50% of GMI (remained valid until December 2012) and 20% of housing benefit (remained valid until April 2012) was refunded to the local governments by the state.

<sup>3</sup> Informatīvais ziņojums "Par jauniešugarantijasīstenošanuLatvijā 2014.-2018.gadā", MK 17.12.2013. prot.Nr.67 92.§

## 2 Assessment of specific policy areas and measures / instruments

The Commission Communication on a Social Investment Package highlighted several important issues, including growing poverty due to the crisis, necessitating the development of an efficient and sustainable social policy. Latvia has set itself the target of reducing by 21% those at risk of poverty and people living in households with very low work intensity (lifting 121,000 people out of the risk of poverty or social exclusion by 2020). Although at risk of poverty or social exclusion rate has been gradually declining in Latvia – from 40.1% in 2011 to 35.1% in 2013, it still remains considerably higher than the EU average (in 2013- 24.4%) and is the fourth highest rate among the EU Member States and the highest rate among the Baltic States (LT-30.8%, EE—23.5% in 2013).<sup>4</sup> Children are at a greater risk of poverty or social exclusion than the rest of the population in Latvia.

### 2.1 Support for early childhood development

#### 2.1.1 Early childhood education and care (ECEC)

Social investments are important for child development and future success. ECEC is seen in part as a social investment. Since 2002 pre-school education in Latvia is compulsory from the age of 5 (till 6 or 7).<sup>5</sup> The coverage of obligatory pre-school age is 93%. 23% of children younger than 3 years were in formal childcare in 2012 (EU-27 28%). The percentage of children in ECEC from 3 years to minimum compulsory school age is 79%, which is also less than the EU average.<sup>6</sup> Since 2009, ensuring pre-school education institution availability has become one of the strategic priorities of the country. The number of children in ECEC has been growing: 82,200 in 2008 and 93,500 in 2013.<sup>7</sup> From 2006 to 2013 there was an increase in ECEC institutions – 60 new municipal and 90 new private institutions.<sup>8</sup>

Local authorities provide equal access to pre-school education for children from the age of 18 months and cover the cost of child education, while parents have to pay for meals and additional educational activities.<sup>9</sup> Availability is ensured by free transport services, ECEC discounts for the poor, low-income and large families and by offering special services.<sup>10</sup> In 2010 Latvia was third in the EU after Belgium and Denmark in total public spending on pre-primary education as a percentage of GDP – 0.85%.<sup>11</sup>

The percentage of children younger than 18 at risk of poverty (AROP) was slowly decreasing from 26.3% in 2009 to 24.3% in 2013, although it is still higher than the EU average (20.3%).<sup>12</sup> The percentage of children younger than 16 in severe material

<sup>4</sup> See Table A.5 in Bouget, D., Frazer, H., Marlier, E., Sabato, S. and Vanhercke, B. (2015), *Social Investment in Europe: A study of national policies*, Annex 3 – Selection of indicators. European Social Policy Network (ESPEN). Brussels: European Commission.

<sup>5</sup> Education Law, 1998, <http://likumi.lv/doc.php?id=507590>

<sup>6</sup> Bouget et al. 2015, Annex 3, Tables A3.1. and A3.2.

<sup>7</sup> CSB, home page, [http://data.csb.gov.lv/pxweb/lv/Sociala/Sociala\\_ikgad\\_izgl/IZ0010.px/?rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0](http://data.csb.gov.lv/pxweb/lv/Sociala/Sociala_ikgad_izgl/IZ0010.px/?rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0)

<sup>8</sup> Lursoft news homepage, <http://blog.lursoft.lv/2014/05/26/Privato-pirmsskolas-izglitibas-iestazu-nozare-Latvija-vel-nav-piesatinata/?link=press/2014/05/26/Privato-pirmsskolas-izglitibas-iestazu-nozare-Latvija-vel-nav-piesatinata>

<sup>9</sup> Education Law, 1998, <http://likumi.lv/doc.php?id=507590>

<sup>10</sup> Reima, K (2014) Preschool children's support policy in Vidzeme region (2009-2013): Case Studies. Bachelor thesis, 122 pages

<sup>11</sup> Europe Commission (2014) Key Data on Early Childhood Education and Care in Europe, [https://www.google.lv/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CCUQFjAA&url=http%3A%2F%2Fec.europa.eu%2Feducation%2Fen%2Fdocuments%2Fkey\\_data\\_series%2F166EN.pdf&ei=3Uy2VL2iK6OiygO0\\_YHYDw&usq=AFQjCNEbVYNOu9oIy6HpOUR4HDXxVnVt5Q&sig2=8soPTg0oM9XHnDSzZXJXqw&bvm=bv.83640239,d.bGQ](https://www.google.lv/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CCUQFjAA&url=http%3A%2F%2Fec.europa.eu%2Feducation%2Fen%2Fdocuments%2Fkey_data_series%2F166EN.pdf&ei=3Uy2VL2iK6OiygO0_YHYDw&usq=AFQjCNEbVYNOu9oIy6HpOUR4HDXxVnVt5Q&sig2=8soPTg0oM9XHnDSzZXJXqw&bvm=bv.83640239,d.bGQ)

<sup>12</sup> Bouget et al. 2015, Annex 3, Table A6.



deprivation was also decreasing – 32.4% in 2011 to 25.4% in 2013, although it is more than twice as high as the EU average (11%).<sup>13</sup> The number of children younger than 18 living in jobless households was decreasing – 12.6% in 2011 to 9.2% in 2013, and is lower than the EU average (9.3%).<sup>14</sup> However persistent risk of poverty is still high and it increased from 12.7% in 2011 to 16.8% in 2012.<sup>15</sup> The number of children younger than 18 in overcrowded households reduced rapidly from 71.7% in 2009 to 53.4% in 2012, but it is still twice as high as the EU average (23.2%).<sup>16</sup>

<b>Poverty risk index according age groups (%)</b>						
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>0–17</b>	26.3	26.3	24.7	24.4	23.4	24.3
<b>18–24</b>	19.4	21	22.3	20.1	19.8	16.9
<b>25–49</b>	19.1	19.9	19.3	18.7	17.4	17.4
<b>50–64</b>	23.9	21	20.9	20.1	20.8	20.5
<b>65+</b>	47.6	17.2	9.1	13.9	17.6	27.6
<b>75+</b>	55.6	16.7	8.6	12	17.4	31.6

Source:

[http://data.csb.gov.lv/pxweb/lv/Sociala/Sociala\\_ikqad\\_monetara\\_nab/?tablelist=true&rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0](http://data.csb.gov.lv/pxweb/lv/Sociala/Sociala_ikqad_monetara_nab/?tablelist=true&rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0)

## 2.1.2 Family benefits (cash and in-kind)

Despite the strong fiscal consolidation policy implemented in Latvia, parental benefits to children under the age of 2 were significantly increased in 2013 and 2014 for both working and non-working mothers. The amount of child care benefit for non-working parents was more than doubled in 2012-2014: in 2012 it was €71.14 per month until the age of 1, in 2013 the amount was doubled and the duration increased to 1.5 years. Since 2014 the amount is €171. Childcare benefit for the 19-24 months age group remained stable at €42.69. Child birth benefit is €421.17. Family benefit for children older than 2 is €11.38 for each child. For 2015 the sum has been doubled for the second and tripled for the third child.<sup>17</sup> Children receive free meals at school until the 3<sup>rd</sup> grade (since 2014).<sup>18</sup>

Spending on family benefits (per inhabitant) in Latvia reduced from €108.79 in 2008 to €73.27 in 2012.<sup>19</sup> This was due to the fiscal consolidation policy: in 2012 the amount of paternity leave and maternity leave were reduced from 100% to 80% of the beneficiary's average insurance contribution wages, in 2010-2014 the threshold

<sup>13</sup> Bouget et al. 2015, Annex 3, Table A7.

<sup>14</sup> Bouget et al. 2015, Annex 3, Table A8.

<sup>15</sup> Bouget et al. 2015, Annex 3, Table A9.

<sup>16</sup> Bouget et al. 2015, Annex 3, Table A10.

<sup>17</sup> The State Social Insurance Agency, homepage, selection For parents <http://www.vsaa.lv/en/services/parents>

<sup>18</sup> Cabinet Regulations Nr.1206, <http://likumi.lv/doc.php?id=223611>

<sup>19</sup> Bouget et al. 2015, Annex 3, Table A2.

was established for maternity, paternity and parental benefit. Since 2015 there is no threshold for these kinds of benefits.<sup>20</sup>

### 2.1.3 Parenting services

In order to ensure the accessibility of pre-school education for families with children from the age of 1.5 until the age of primary education, families receive monthly financial support from the state and local governments for those children who due to the lack of vacant places are unable to attend municipal pre-school educational institutions and who thus attend private pre-school educational institutions. The maximum amount of support (September 1, 2013- the end of 2015) in the Riga planning region is €228, in other planning regions €142 per month<sup>21</sup>. Families with children may also choose another alternative and receive a child care service (paid babysitter services). In this case the amount of state support per child is capped at €142 per month, while the maximum amount including the co-funding provided by the local government was set at the rate of children attending private kindergartens.<sup>22</sup> There are 9 crisis centres for pregnant women in different regions in Latvia where they can receive support and accommodation.<sup>23</sup> A state guarantee programme to help young families with children buy houses was introduced in January 2015. Normally, the amount of the first mortgage down payment is 25%. For families with 3 children under 18 the state covers 20% up to a maximum of €20,000, and the family has to cover the remaining 5%; for families with 2 children: 15% with a maximum of €15,000; for families with 1 child: 10% up to a maximum of €10,000). The total state guarantee sum within this programme is rather modest (€333,000), for about 200 families in 2015, but it is the first state initiative of this kind.

## 2.2 Supporting parents' labour market participation

### 2.2.1 Child care

In Latvia local authorities provide equal access to pre-school education for children from the age of 1.5 and subsidize the cost of the child's education, but parents have to pay for meals and additional educational activities.<sup>24</sup> Therefore childcare cost as a percentage of the average wage in Latvia is rather low: 10.6% in 2012 (EU average - 23.8%).<sup>25</sup>

Labour law stipulates that a parent (usually the mother) can stay home with a child until the age of 1.5 without losing their previous job.<sup>26</sup> According to the information provided by the Ministry of Welfare, introduction of child-minder services and state support schemes have decreased the number of children on the waiting lists from 7,900 in 2012 to 5,000 at the beginning of 2014. This initiative has facilitated reconciliation of family and working life and increased the well-being of families. Parents are enabled to return to work faster after parental leave and earn income, therefore reducing the potential risk of unemployment and poverty. This measure has proven to be in high demand among employed parents with children for flexible subsidized child-care arrangements (in January 2014 the number state support recipients was approximately 500); the number of registered child-minders over 10 months has increased to 874 and continues to grow). Upon completion of the state

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<sup>20</sup> The State Social Insurance Agency, homepage, selection For parents <http://www.vsaalv/en/services/parents>

<sup>21</sup> Cabinet Regulations Nr.1523 <http://likumi.lv/doc.php?id=263463>

<sup>22</sup> Cabinet Regulations Nr. 1462, <http://likumi.lv/doc.php?id=263207>

<sup>23</sup> Ministry of Welfare, homepage, <http://www.lm.gov.lv/text/1257>

<sup>24</sup> Education Law, 1998, <http://likumi.lv/doc.php?id=507590>

<sup>25</sup> Bouget et al. 2015, Annex 3, Table B.7.

<sup>26</sup> Work Law, <http://likumi.lv/doc.php?id=26019>

financial support programme in 2015 it is planned that state and municipal support will be provided on a permanent basis within the modified framework.

### 2.2.2 Long-term care

In Latvia long term care spending has increased significantly since 2007 from 0.14% of GDP to 0.65% of GDP in 2010.<sup>27</sup> For the purpose of the *Law on Social Services and Social Assistance*, social services comprise social care, social rehabilitation, vocational rehabilitation services and provision of technical aids. In compliance with the law, services needed for a person shall be first provided at the place of residence or as close as possible to it. Only if the scope of the services to be provided at the place of residence is not sufficient, is social care and social rehabilitation provided at a long-term care and social rehabilitation institution (institutional care).

The analysis of the provision of social services reveals problems such as the prevalence of institutional care and essential differences between regions as regards provision of services. In compliance with summaries of national statistical data and information collected by MoW, as of 1<sup>st</sup> January 2013 there were 13,040 persons in institutional care and 9,739 persons receiving home care in 2012.

Deinstitutionalization is an important goal for the provision of services to people with mental disorders and children. Regional deinstitutionalization plans will be drafted by the end of 2016, based on the assessment of individual needs, which will then be followed by establishing a society based service infrastructure. An implementation plan was developed in October 2014. The average waiting time for a place in nursing homes for adults with mental disorders is 2 years. Furthermore, it has been observed that the waiting time continues to increase, because in 2013 it was around 1–1.5 years. Furthermore, it should be pointed out that the number of people with this kind of disability has been gradually increasing since 2007.<sup>28</sup>

In 2012 there were 82 municipal nursing homes for the elderly (in Latvia these institutions are called "social care services" with 5,647 clients living there. As a rule nursing homes for the elderly are run by local municipalities. There are several private and NGO elderly homes. Municipalities often pay for services within them subject to means-testing of clients and negotiated prices with the institutions. Formal social home care is provided by municipal social services, NGOs, charities, private entities (agencies) and individuals. Some municipalities also offer other types of home support for the elderly such as security buttons, delivery of warm meals, laundry and assistant services. Most of the services were provided by municipal social workers. A range of social services to be provided for each living territory is not defined in any regulatory enactment or planning document. The range of social services available to a person in the particular municipality depends on the financial state of the municipality, available infrastructure, skills for implementation of investment projects and, to a great extent, on the priorities defined by municipal policy makers which are not always justified on the basis of the objective needs of people.

The government has started addressing a significant problem and has declared its intention of deinstitutionalising social care institutions for children. The Law on Social Services and Social Assistance as well as the Law on Protection of the Rights of

<sup>27</sup> Bouget et al. 2015, Annex 3, Table B.2 and Lipszyc, Sail, Xavier (2012) Long-term care: Need, use and expenditure in the EU-27, [https://www.google.lv/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CCUQFjAA&url=http%3A%2F%2Fec.europa.eu%2Fecconomy\\_finance%2Fpublications%2Feconomic\\_paper%2F2012%2Fpdf%2Fecp469\\_en.pdf&ei=OD-2VNng5o87JA5jHgNAJ&usq=AFOjCNFNT14H\\_4OxgTXx89hHaBZ4W8HbQQ&sig2=m\\_53z4dXGbody0vZbOsKYg&bvm=bv.83640239,d.bGQ](https://www.google.lv/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CCUQFjAA&url=http%3A%2F%2Fec.europa.eu%2Fecconomy_finance%2Fpublications%2Feconomic_paper%2F2012%2Fpdf%2Fecp469_en.pdf&ei=OD-2VNng5o87JA5jHgNAJ&usq=AFOjCNFNT14H_4OxgTXx89hHaBZ4W8HbQQ&sig2=m_53z4dXGbody0vZbOsKYg&bvm=bv.83640239,d.bGQ)

<sup>28</sup> Ministry of Welfare (October of 2014), « Paaugstināt kvalitatīvu institucionāli aprūpēto alternatīvu sociālo pakalpojumu dzīvesvietā un ģimeniskā videi pietuvināt pakalpojumu pieejamību personām ar invaliditāti un bērniem. » pasākuma « sākotnējais novērtējums »

Children prescribes that orphans and children deprived of parental care must be provided with care in a family environment – with a guardian or in a foster family – and only if it is not possible should care be provided at a care institution., The current practice shows that still too many children are placed in social care institutions for children<sup>29</sup>.

### 2.2.3 Maternal/paternal/parental leave schemes

There are no official data on the expenditure on maternal, paternal and parental leave schemes. Although from 2008 to 2012 there was a reduction in spending on family benefits in € per inhabitant, given the stable increase in family support policies and the lifting of all restrictions on the amount of benefit from 2015, improvement can be expected. The family support system is rather sophisticated in Latvia. Working parents are offered maternity leave (112-140 days), paternity leave (10 days during the first 2 months) benefits and parental benefits (up to 18 months).<sup>30</sup>

Parents have to make a choice about the benefit duration, which then determines the benefit amount: either 60% of the beneficiary's average insurance contribution wage (70% before 30 September 2014) for 1 year or 43.75% of the beneficiary's average wage for 1.5 years. In addition, from October 2014, working parents who continue to work and are not on parental leave can receive 30% of the benefit.<sup>31</sup> Parents in Latvia receive tax relief for dependent children, the amount of which increased significantly from €89.64 in 2010 to €165 in 2014.

Involuntary part-time employment in Latvia as a percentage of total part-time employment is reducing from 48.2% in 2009 to 40.7% in 2013, but is still higher than the EU average and in neighbouring countries.<sup>32</sup> Only 3.2% mentioned looking after children or being incapacitated as the main reason for part-time employment, which is much lower than the EU average of 22.1%.<sup>33</sup>

There are no clear indicators of the impact of parenthood on employment. In the age group 15 to 64 years the employment rate for women increased from 59% in 2010 to 63.4% in 2013. The same happened to men's employment rate – from 57.9% in 2010 to 66.8% in 2013.<sup>34</sup> Like in other European states, childcare service availability more directly affects the employment of women, because women are still the primary family caregivers in European families.<sup>35</sup>

## 2.3 Policy measures to address social and labour market exclusion

The employment target for Latvia set by the National Reform Programme for 2020 is 73%. In 2013 this indicator for Latvia was 69.7%, i.e., 1.6 percentage points higher than in 2012 (68.1%). The unemployment rate in Latvia has declined from 16.2% in 2011 to 8.1% in the 3<sup>rd</sup> quarter of 2014.<sup>36</sup>

<sup>29</sup> 2014 the draft Concept Paper on the Improvement of Adoption and Out-of-family Care Systems, p.23

<sup>30</sup> The State Social Insurance Agency, <http://www.vsaalv/en/services/parents>

<sup>31</sup> The State Social Insurance Agency, homepage, selection For parents <http://www.vsaalv/en/services/parents>

<sup>32</sup> Bouget et al. 2015, Annex 3, Table B.4.

<sup>33</sup> Bouget et al. 2015, Annex 3, Table B.5.

<sup>34</sup> CSB, home page,

[http://data.csb.gov.lv/pxweb/lv/Sociala/Sociala\\_ikgad\\_nodarb/?tablelist=true&rxid=cdeb978c-22b0-416a-aacc-aa650d3e2ce0](http://data.csb.gov.lv/pxweb/lv/Sociala/Sociala_ikgad_nodarb/?tablelist=true&rxid=cdeb978c-22b0-416a-aacc-aa650d3e2ce0)

<sup>35</sup> Ghysels, J., Lancker, W. V. (2011) The unequal benefits of activation: an analysis of the social distribution of family policy among families with young children. Journal of European Social Policy 21: 472. Retrieved: 11.10.2013. Available: Sage publications.

<sup>36</sup> CSB, homepage, selection Database :

[http://data.csb.gov.lv/pxweb/en/Sociala/Sociala\\_ikgad\\_nodarb/?tablelist=true&rxid=a79839fe-11ba-4ecd-8cc3-4035692c5fc8](http://data.csb.gov.lv/pxweb/en/Sociala/Sociala_ikgad_nodarb/?tablelist=true&rxid=a79839fe-11ba-4ecd-8cc3-4035692c5fc8)

A disturbing trend is the gradual growth of the average length of the unemployment period for the long-term unemployed – if at the end of 2013 the average unemployment period was 1,022 days then by the end of August, 2014, it had reached 1,048 days (~ 2.9 years). According to the report of the Employment State Agency, since 2012 there has been evidence of a decrease in the number of the unemployed with the unemployment period of 1-3 years and an increase in the number of the unemployed with the unemployment period of 3 and more years.

### **2.3.1 Unemployment benefits**

Spending on all social protection benefits to the unemployed as a share of GDP is very low in Latvia – 0.5% in 2012 as against an EU average of 1.5%.<sup>37</sup> The duration of unemployment benefit is only nine months and the amount is related to the length of work experience. For those with working experience of more than 30 years the level of benefit is 60% of the salary, while for those with work experience of less than 10 years the amount of the benefit is only 50%. The amount of the benefit is gradually decreased each 3 months: 100% for first 3 months, 75% for 4-6 months, 50% for 7-9 months. This is a way to stimulate an unemployed person to be actively searching for work. Therefore even in 2009 when the employment rate was above 18%, the % of the GDP spent on unemployment benefits was rather low – 1.6%.

### **2.3.2 Minimum income**

Specific to Latvia is that the poverty or the minimum income thresholds defined in regulatory enactments are not justified and are not related to the indicators describing the situation of population. There is a high level of inequality: the income of the wealthiest population exceeds the income of the poorest people by 6.5 times. The poverty risk threshold indicator is used for statistical purposes and for the comparison with other EU Member States, but it is not binding in the national legislation.

Since 2003, the Guaranteed minimum income (GMI) level has been an indicator established through compromise and negotiations between the Ministry of Welfare and representatives of the municipalities. It does not reflect the living standards of the population, but rather describes the position of local governments and their ability to provide support to the poorest population. A significant step towards reducing income inequality and poverty was the approval of the Concept Paper on “Defining the Minimum Income Level” by the government in October 2014 in which the Ministry of Welfare suggested a new methodology for establishing the minimum income level and proposed that in future this should be linked to the following parameters: 1) labour taxation, to increase the income of employees on low wages; 2) social assistance, to increase support to the poorest population; 3) state social benefits, to provide support to groups of the population that are exposed to higher social risks; 4) minimum state pension, to improve the situation of pensioners with minimum benefits; 5) unemployment benefit, to provide adequate support to those who have lost their jobs. The suggested reforms are based on the results and main findings of World Bank (2013) research that addresses the post-crisis policy options.

The government has approved that the new minimum income level in Latvia should be set at 40% of the national median equalized disposable income. In addition to this threshold, the government plans to develop a new minimum consumer basket of goods and services for different types of households and areas. The basket will serve as an analytical tool in social policy development.

This is an interesting development in the Latvian welfare system because it will set a unified threshold for planning financial support for different social risk groups in a

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<sup>37</sup> Bouget et al. 2015, Annex 3, Table C.1.

comprehensive way. Despite general support to this policy initiative and the high priority given by the policy agenda to poverty reduction, municipalities have expressed some concerns about the introduction of the minimum income level. The main risks relate to the limitations of the national budget and the financial resources allocated to support social policy.

In order to develop the action plan for the implementation of the new minimum income level, the Ministry of Welfare has established a working group with a focus on social assistance, state social benefits, minimum pensions, unemployment benefits and activation measures. The government envisages that the draft law establishing the new minimum income level will be submitted to the Cabinet of Ministers by July 2015. The introduction of the new GMI and other benefits (including minimum pension) is scheduled to be introduced gradually as of 2017.

### **2.3.3 Active labour market policies**

One of the CSR expressed for Latvia in 2014 was to increase coverage of active labour market policies, as well as to make progress in the employability of young people, including by putting in place outreach measures for non-registered youth not in employment, education or training.

The total funding for labour market policy measures has been increasing rapidly over the past few years, most of it –about 4/5 - is financing from the European Social Fund. Most of the financing is granted for the measures of improving skills, which involve professional training, retraining, and promotion of qualifications, measures to promote competitiveness and career consultations. In 2013, according to data from the Ministry of Economy, a total of 51% of financing granted to active labour market measures was used for these purposes. A significant part of the financing has also been granted for paid temporary work and subsidized employment: 30% and 14% respectively were used during this period. The rest is used for measures to promote lifelong learning, measures for business or self-employment start-ups, and measures to promote regional mobility of people employed by sales force. Overall, more than a half of the funding is spent on training-oriented measures – professional training, retraining and informal education; in-company training; lifelong learning options for employed people. A training oriented measure, the Training Programme for Involvement of Adults in Lifelong Learning was launched in 2010. The target group includes employed and self-employed people (except civil servants) who have reached the age of 45, but have not reached the age for granting the state old age pension (in certain cases, people aged 25 to 44). Given the changes in the labour market, a number of new active labour market measures were launched in 2013: Promotion of Regional Mobility of People Employed by Economic Operators, Practical Training of the Unemployed in Priority Sectors, Youth Workshops. Youth Workshop is aimed at encouraging unemployed youngsters aged 15 to 24 years. The measure gives them an opportunity to try their hand at three vocational education programmes, being engaged in each education programme for three weeks in order to get an insight into its specific nature. In 2014 Latvia began the implementation of the EC initiative Youth Guarantee. The management is based on a partnership approach between the Ministry of Welfare and the Ministry of Education and Science involving a broad range of partners: employers, NGOs, municipalities, youth organizations, trade unions confederation. The roadmap includes more than 40,000 participants in 2014-2020 with a budget of €67 million. There were already 13.500 participants in this program on 30.09.2014. In the National Reform Programme of Latvia for the Implementation of the Europe 2020 Strategy the goal has been to provide lifelong learning to ensure that 15% of the population (aged 25-64 years) are continuously involved in educational progress in 2020.

Long-term unemployment as a share of total unemployment declined from 54.5% in 2011 to 48.6% in 2013, but it is still rather high, and higher than the EU average

(47.2%).<sup>38</sup> The issue of integrating people of the pre-retirement age into the labour market, of improving their competitiveness and reducing prejudices and stereotypes prevailing in the society still remain paramount.

Active labour market policy expenditure was rather high in 2010 – 0.511% of GDP, but decreased in 2012 – 0.186% of GDP.<sup>39</sup> Additional funding for crisis social safety net measures for long-term unemployed was in force during 2010-2012. The participation rate in education and training for those aged between 25 and 64 is constantly lower in Latvia than in the EU (5.1% in 2010, 6.9% in 2012 and 6.5% in 2013 as against 9.2%, 9.1% and 10.5% in the EU). Latvia has defined as a goal for 2020 that 15% of adults above 25 should be involved in lifelong learning programmes.

Labour costs in Latvia are among the lowest in the EU. In 2013 labour costs per employed were 38% of the EU average, while productivity was 45% of the EU average<sup>40</sup>. Thus equalization of wages in conditions of free movement of labour force is becoming a serious challenge for Latvia which has lost 15% of its labour force since 2008 due to out-migration<sup>41</sup>.

### **2.3.4 Social services**

Those relevant to social investment are covered elsewhere in this report.

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<sup>38</sup> Bouget et al. 2015, Annex 3, Table C.8.

<sup>39</sup> Bouget et al. 2015, Annex 3, Table C.3.

<sup>40</sup> [https://www.em.gov.lv/files/tautsaimniecibas\\_attistiba/2014-12-15\\_13\\_05\\_56\\_2014\\_june\\_eng.pdf](https://www.em.gov.lv/files/tautsaimniecibas_attistiba/2014-12-15_13_05_56_2014_june_eng.pdf)

<sup>41</sup> <http://rus.delfi.lv/news/daily/latvia/minfin-lyudi-pokidayut-latviyu-nado-povyshat-minimalnuyu-zarplatu.d?id=45809165#ixzz3XAZVMqX0>

