Investing in Concrete... or People?

EU Funds, the Recovery and Resilience Facility and Developing Human Capital in Latvia

Executive Summary in English

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Changing the global economy to the green and digital model will have a significant impact on people's lives, inevitably requiring new skills and retraining. The aim of this research paper is to encourage the Latvian public to think and act, and the public sector to critically assess the strengths and weaknesses of the current system and compare it to best practice in other relevant countries. The financial resources made available by the European Union should be invested in a forward-looking development of Latvia's human capital

The Economists Association was founded in 1994 to promote economic thinking and the long-term development of the economy in Latvia. It is one of the oldest non-governmental organisations in Latvia. The main activities of the Association include economic research, conferences and discussions, and the systematic evaluation of the economic programmes of political parties.

www.ecrparty.eu

This research was organized by the ECR Party, which supports the need for a fair analysis of the EU Single Market, including the labour market and migration.

The European Conservatives and Reformists (ECR) party is Europe's leading Conservative movement. Since being founded in 2009, ECR has become one of Europe's most important political movements, with more than 40 political parties and active representation in the European Parliament, Council of Europe, Committee of Regions and NATO Parliamentary Assembly.

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Introduction

In December 2019, an outbreak of a new virus, later named COVID-19, was recorded in the Chinese city of Wuhan. The virus spread rapidly across the globe and infections started being recorded in European Union (EU) member states in February 2020. Emergency measures to restrict the spread of the virus followed, and European citizens and businesses had to rapidly adapt to a new, remote-working and stay-at-home reality. Many enterprises were forced to suspend, restructure or even end their activities. Some employees saw reduced working hours while others were fired. The pandemic created the world's largest economic crisis since World War II and will undoubtedly leave a lasting impact on the global economy.

- Early economic data for 2020 revealed that GDP in the euro area had shrunk by 6.8% (and by 6.4% in the EU-27) and that it had declined in all EU Member States.[1]
- The European Central Bank forecast in December 2020 that by the end of 2023, EU-27 GDP will reach its pre-crisis level in 2019.[2]

The COVID-19 crisis has had a differentiated impact on sectors and professions across Europe. The largest fall in employment has been among young people, people without a higher education, low-wage earners and the private sector. In Latvia in 2020, for example, the hospitality and travel sectors were hardest hit while employment in information communication technology (ICT), education, and health care sectors was unchanged or even increased.[3] The crisis has clearly increased social inequality risks.

In order to minimize the economic damage caused by the pandemic to the EU economy and to stimulate its recovery, European leaders agreed an ambitious European recovery plan and in February 2021 signed a treaty on the Recovery and Resilience Facility (RRF) with grants and loans of EUR 672.5 billion, which will be available to member states to mitigate the economic and social impact of the pandemic. EU Member States have submitted plans to the European Commission (EC) setting out their investment plans (with the restriction that at least 37% of

[1] European Parliament. 2021. EU Economic Developments and Projections.
[2] European Central Bank. 2021. Eurosystem Staff Macroeconomic Projection. https://ej.uz/ecbpr202012
[3] Oļegs Krasnopjorovs. 2021. Darba tirgus Covid-19 krīzes ēnā. Septiņi fakti. Makroekonomika. https://www.makroekonomika.lv/darba-tirgus-covid-19-krizes-ena-septini-fakti

the plan's budget should be focused on climate objectives and 20% on digitalisation). The development of human capital is also a key priority.

This latter priority is of relevance to Latvia, where human capital development has proved challenging in recent years. The European Commission's 2020 report on demographic change indicated a 16% reduction in the working population in Latvia over the next decade, while average life expectancy will grow by 3 years (meaning that fewer taxpayers will keep more pensioners).[4] In early 2020, the Bank of Latvia pointed out that employment and economic activity were at a record high for Latvia (and above the EU average), unemployment was at its lowest for a decade, but at the same time noted a higher unemployment rate among men older than the average age, as well as poor health indicators and the shortest life expectancy in the EU. At the same time, young people aged between 15 and 19 had high rates of unemployment and few actively sought employment.[5] In 2019, the EC indicated that the level of key digital skills, advanced skills and software skills were well below the EU average – for example, only 48% of the population had basic digital skills (compared to 57% in the EU as a whole).[6]

As a result, the RRF presents a unique opportunity to address existing structural challenges, but also modernise and build the competitiveness of Latvia's human capital, which would also contribute to reducing economic inequalities in the long term.

This report (i) analyses Latvia's labour market and accumulated human capital before and after the COVID-19 pandemic, (ii) describes the concept of a “Good Jobs” economy, (iii) assesses the best practice of other countries in the development and modernisation of human capital, (iv) identifies available RRF and other EU funds for the development of human capital and creation of “Good Jobs” and (v) offers a roadmap for policy-makers for the future development of Latvia’s human capital.

[4] European Commission. 2020. European Commission Report on the Impact of Demographic Change. https://ec.europa.eu/info/sites/info/files/demography_report_2020_n.pdf
[5] Oļegs Krasnopjorovs. 2020. Darbaspēka rezervju anatomija Baltijas valstīs. https://www.makroekonomika.lv/darbaspeka-rezervju-anatomija-baltijas-valstis
[6] European Commission. 2019. Digitālās ekonomikas un sabiedrības indekss (DESI). Latvija. https://ej.uz/desilv19

1. The Labour Market and Human Capital in Contemporary Latvia

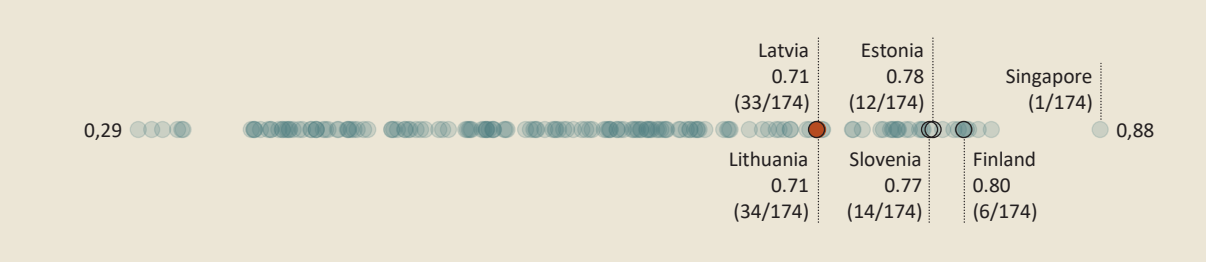
Data from Latvia's Central Statistical Bureau (CSB) reveals that 3.2% of jobs (almost 29,000 jobs), were shed between February 2020 and January 2021. However, the impact of the pandemic on employment has been uneven and has highlighted serious long-term issues and challenges in the Latvian labour market. First, in 2020 the employment rate of young people (-15%) and particularly young women (-20%) decreased relatively faster than other demographic categories. Similarly, working pensioners also suffered high job losses (-9%). The largest fall in employment rates was for people with just a certificate of general secondary education (-10%). On the other hand, the employment of men with higher education (+7%) increased. Finally, employment of people with a gross monthly salary of between EUR 400 and EUR 700 decreased by 15%, while employment rates of those earning above EUR 3000 a month increased by 19%. Second, there are also significant differences between professions and sectors. The number of hours worked in some professions decreased by more than 50% during the COVID-19 pandemic. For example, in the hospitality and catering sector, where economic activity fell significantly due to the constraints of the pandemic, the number of hours worked by waiters and bartenders fell by 78% in December 2020 compared to the previous year. On the other hand, the fall in hours worked by higher-skilled workers (chefs and managers) in the same sector were lower. In contrast, there were also sectors which were not particularly affected by the pandemic. For example, the number of hours worked by ICT managers and senior specialists increased while the hours worked by lower-skilled ICT professionals remained almost unchanged. In general, the pandemic had a much more negative impact on employees whose socio-economic situation was already relatively unfavourable, thereby increasing income inequalities within Latvia.

While there are economic sectors, businesses and professions in Latvia that have significant career prospects, the skills and knowledge of those workers negatively affected by the pandemic does not allow them to take advantage of these opportunities. Indeed, MIT Media Lab researchers have concluded that career skill, knowledge and capacity sets have polarised between one group of professions with essential physical capabilities and another with key

social and cognitive knowledge and skills.[7] As a result, career development and changing professions are mostly *within* these two groups, not *between* them. Although there are well-paid jobs in the physical capacity-based professions, and thus opportunities for career growth, there is far more scope for career development in the socio-cognitive professions and, in any case, the jobs in this group have far higher salaries. Research by the Bank of Latvia indicates that the labour market mismatch (meaning that there are occupations where jobs are scarce and unemployment rates high, and professions with high employment opportunities and low unemployment rates) in Latvia is high and above the EU average.[8]

The World Bank's Human Capital Index, published by the World Bank since 2018, indicates the comparative position of Latvia. The 2020 index, calculated before the pandemic, puts Latvia's indicator at 0.71, which is relatively high in a global context but below the EU-27 average (0.73).[9]

Figure 1.1
World Bank Human Capital Index
Source: World Bank
Note: The index values are between 0 and 1 and the ranking of each country, from the 174 analysed, is in the brackets.



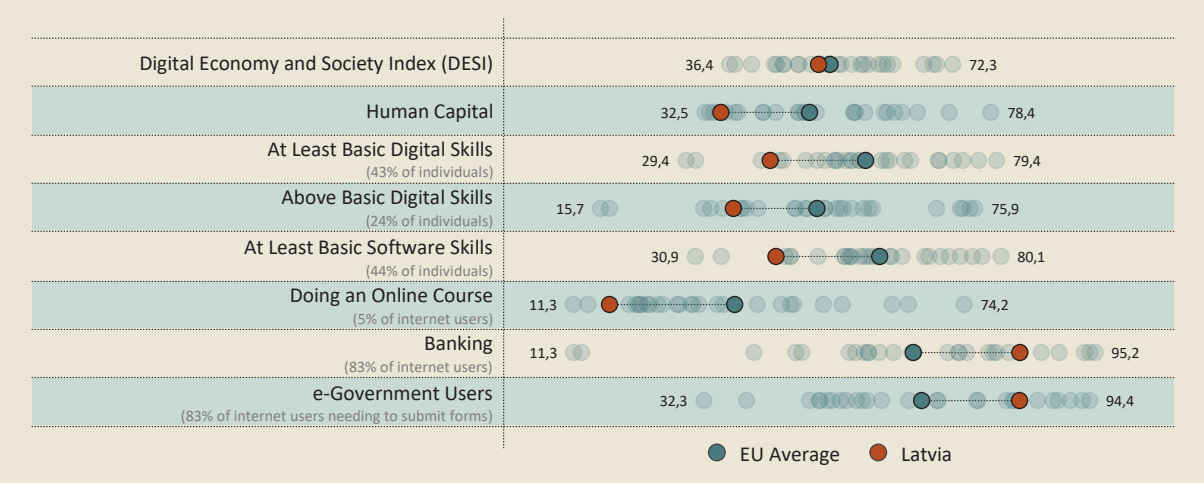
A key future growth area of the global economy is the ICT sector. Indeed, a *McKinsey & Co* report states that the major opportunity to achieve productivity gains up to 2025 lie with increasing levels of digitalization – artificial intelligence, the internet of things, big data.[10] The Covid-19 pandemic has likely accelerated this transition and this will have a significant impact

[7] Ahmad Alabdulkareem, Morgan R. Frank, Lijun Sun, Bedoor AlShebli, César Hidalgo, Iyad Rahwan. 2018. Unpacking the polarization of workplace skills. Science Advances. https://doi.org/10.1126/sciadv.aao6030
[8] Oļegs Krasnopjorovs. 2019. Darbaspēka rezervju anatomija Baltijas valstīs: Skats 15 gadu pēc pievienošanās ES. Latvijas Banka. https://datnes.latvijasbanka.lv/diskusijas-materiali/dm_2_2019-lv.pdf
[9] World Bank. 2020. The Human Capital Index 2020 Update: Human Capital in the Time of COVID-19. http://hdl.handle.net/10986/34432
[10] McKinsey Global Institute. 2018. Solving the Productivity Puzzle: The Role of Demand and Promise of Digitization. https://www.mckinsey.com/featured-insights/regions-in-focus/solving-the-productivity-puzzle#

on the labour market.[11] Indeed, the World Economic Forum (WEF) estimates that 50% of the global workforce will require retraining by 2025.[12]

However, the European Commission's Digital Economy and Society Index (DESI) indicates that digital skills in Latvia are comparatively low. There are relatively fewer people in Latvia with basic or advanced digital skills. For example, in 2019, when the last DESI surveys were carried out, only 5% of Latvian Internet users had registered online training courses at least once (compared to 11% in the EU). At the same time, however, the core ICT infrastructure is above the average. Similarly, research by the Organisation for Economic Cooperation and Development (OECD) indicates that Latvia has a deficit of digital and analytical skills but a surplus of endurance, strength and coordination skills.[13]

Figure 1.2
2020 Digital Economy and Society Index (DESI)
Source: European Commission
Note: The index values are between 0 and 100



However, demand for ICT skills is global and there is a risk that reskilled Latvians could be tempted by employment offers abroad. As a result, reskilling needs to be accompanied by the development of a "Good Jobs" economy. This is discussed in more detail in Chapter 2.

[11] McKinsey Global Institute. 2021. The Future of Work after COVID-19. https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19
[12] WEF. 2021. Building a Common Language for Skills at Work: A Global Taxonomy. https://www.weforum.org/reports/building-a-common-language-for-skills-at-work-a-global-taxonomy
[13] OECD. 2017. Getting Skills Right: Skills for Jobs Indicators. https://doi.org/10.1787/9789264277878-en

2. The Theory and Practice of Developing a "Good Jobs" Economy

"Good Jobs" are characterised by a high and stable salary, an inspiring working environment with personal growth opportunities, as well as giving individuals freedom of action to show own-initiative and take on the related responsibility. A "Good Jobs" economy also requires active public policy and cooperation between the state and private enterprises. This calls for a radical new approach from the Latvian public sector, which has only latterly and reluctantly started to invest public resources to achieve social objectives.

"Good Jobs" bring a number of additional benefits to society as a whole. "Good Jobs" reduce the demand for social benefits, facilitate the training process for future generations, reduce healthcare costs and cut crime. Similarly, individuals' satisfaction with life is positively influenced by both their own employment and wider employment rates in their neighbourhood. In contrast, a shortage of "Good Jobs" can have a negative impact on political systems by increasing populism, authoritarianism and xenophobia. Companies are typically unconcerned by these broader additional benefits to society and they consequently invest less in creating "Good Jobs" than would be optimal from the point of view of society.[14]

At the same time it is clear that this calls for a more intensive involvement from the public sector. The public sector must form public-private partnerships and influence company decisions on employment, investment, as well as development and deployment of innovation in order to create new jobs or transform existing ones into "Good Jobs". This calls for a radical new approach from the existing one, which economists at the Bank of Latvia describe as being based on the exploitation of cross-country differences in labour costs.[15] The nature of "Good Jobs" will vary both between industries and at times. Different sectors' capacity to generate "Good Jobs" and their associated additional benefits will also vary. "Good Jobs" are a dynamically defined and transparent set of features that include the economic benefits of jobs, the quality of the working environment, and the opportunities offered by the workplace for employees to show their own-initiative and take responsibility for the results of these initiatives. Moreover, due to the global nature of employment, "God Jobs" also need to be internationally competitive.

[14] Dani Rodrik, Charles Sabel. 2019. Building a Good Jobs Economy. HKS Working Paper. https://j.mp/2G5tnvX
[15] Igors Kasjanovs. 2016. Vai esam gatavi pārkāpt vidēju ienākumu slazdam? https://ej.uz/makro16

Figure 2.1
Main Features of a "Good Jobs" Economy

In terms of the economic benefits dimension of "Good Jobs", Latvia lags behind both the EU average and its immediate neighbours. For example, Latvian households with one adult without children, with incomes well above average Latvian income (167%), compared to the same households in the EU, have an income that is just 54% of the EU-28 average, although Latvia's GDP as a share of the EU-28 average, was 69% in 2019. Latvia is also amongst the EU countries with the lowest share of collective wage agreements (14% compared with an EU average of 61%). The working environment is more difficulty to assess, however Eurostat data shows that in 2019 Latvians worked 38.6 hours on average per week while the EU-28 average was 37 hours. Estonians (38.1) and Lithuanians (38.8) worked for about as long as Latvians but Finns (36.6) slightly less. Eurobarometer surveys show that while Latvians are broadly satifised with the balanve between work and leisure, they are less likely to be offered flextime (47% compared to an EU-28 average of 58%). Another indicator of the scarcity of "Good Jobs" in Latvia comes from a survey of Latvian emigrants and remigrants. When answering a question about the reasons for leaving Latvia, more than 50% of emigrants point to opportunities to earn more abroad, but only 24% to an inability to find work in Latvia. At the same time, nearly 70% of emigrants state that there is the chance of a higher quality of life abroad, including, among other things, career development opportunities.[16]

Finally, a major transformation of individual sectors of the economy will be needed to achieve the greenhouse gas emission reduction target set by the European Green Deal. This should certainly be taken into account when thinking about where to create future "Good Jobs" in Latvia.

[16] Mihails Hazans. 2016. Atgriešanās Latvijā: remigrantu aptaujas rezultāti. LU Diasporas un migrācijas pētījumu centrs. https://migracija.lv/publikacijas/atgriesanas-latvija/

3. How to develop Human Capital? Best Practices from Northern Europe

European states, particularly those clustered around the Baltic Sea, provide a wealth of experience and best practice in developing human capital. **Finland** ranks at the top of the European Commission's 2020 Digital Economy and Society Index (DESI) in the area of digital skills.[17] Around 76% of the Finnish population have basic digital skills (the EU average is 58%).[18] In surveys conducted by the International Student Assessment Programme (PISA), Finnish pupils' results in reading, math and science are regularly among the highest performers.[19] OECD studies on adult skills also point to a very high level of literacy and numeracy.[20] However, Finland has also been facing increasing shortages of high-skilled labour, particularly in the ICT sector, despite the number of ICT graduates in Finland being above the EU average. Finland tackles these challenges by (1) developing medium- and long-term skills forecasting systems at both regional and national levels *(Osaamisen ennakointifoorumi)*.[21] (2) Finland has a very high level of participation in life-long learning and is further increasing participation through a reform, launched at the end of 2020, that flexibly combines work with training and supporting training in the workplace. (3) Further reforms to vocational education and training programmes to make training more individualised, flexible and better suited to the needs of the labour market through more emphasis on modular rather than degree-related education and to improve the matching of skills to the needs of the labour market.[22] (4) Expanding the *Ohjaamo*, one-stop career support centres for young people and immigrants, which brings together job seekers and employers from the private, public and non-governmental sectors in one place, to create these kinds of centres for low-skilled adults and the long-term unemployed.[23]

[17] European Commission. 2020. Digital Economy and Society Index (DESI) 2020, Country Report Finland. https://ec.europa.eu/digital-single-market/en/scoreboard/finland
[18] European Commission. 2020. Education and Training Monitor 2020, Country Report Finland.
[19] OECD. 2019. PISA 2018 results, where all students can succeed. Volume II https://www.oecd-ilibrary.org/education/pisa-2018-results-volume- ii_b5fd1b8f-en
[20] OECD. 2016. Skills Matter: Further Results from the Survey of Adult Skills, OECD Skills Studies. OECD Publishing.
[21] Kari Nyyssölä. 2019. The Finnish Anticipation System. Finnish National Agency of Education.
[22] European Commission. 2020. Education and Training Monitor 2020, Country Report Finland.
[23] Mikko Valtakari, Robert Arnkil, Juha Eskelinen, Minna Mayer, Juho Nyman, Keimo Sillanpää, Timo Spangar, Tommi Ålander ja Maria Yli-Koski. 2020. Ohjaamot – multidisciplinary cooperation, effectiveness and a cultural change Study on the effectiveness of multidisciplinary cooperation in youth employment services. https://julkaisut.valtioneuvosto.fi/handle/10024/162134

Denmark is also renowned as a regional leader in the development of human capital but has also invested in preparing society for future social risks. One of the main initiatives is increasing investment in pre-primary education in order to ensure that children from all social groups have equal opportunities to develop and succeed when they eventually start school. Children's participation in pre-school education programmes in Denmark is very high. Polls show that all children over 4 years of age,[24] as well as 71% of children under 3,[25] attend pre-primary education classes, the highest rates in the EU. In addition, Denmark has developed an employment rotation scheme that supports businesses by having an unemployed person replace an employee while they take a skills upgrading course.[26] **Sweden** also heavily invests in education and has recently developed the "Teacher lift 2" *(Lärarlyftet 2)* programme aimed at raising teacher qualifications. Schools are offered state grants for teacher training in specially designed higher education courses, thereby enabling teachers to develop their skills and continue to teach at the same time.[27]

Latvia's neighbouring states of **Estonia** and **Lithuania** are also further developing their human capital through various innovative programmes. Estonia is a renowned leader in the ICT field, taking third place in the European Commission's 2020 Digital Economy and Society Index (DESI), in the area of digital skills and 62% of the population have at least basic digital skills.[28] The share of ICT graduates (7.4%) is also higher than the EU average (3.8%) and continues to rise, although entrepreneurs nevertheless highlight the lack of digital skills as one of the main barriers to corporate development and investment (84% of companies).[29] Estonia has recently focused on developing a lifelong learning programme for teachers to ensure that they continue to regularly include digital tasks and homework in the training process. According to OECD data, 74.1% of Estonian teachers indicated that their vocational training programmes

[24] Eurostat. 2020. Share of children between the age of four and the starting age of compulsory education participating in early childhood (pre-primary) education, 2018(%). https://ec.europa.eu/eurostat/statistics-explained/index.php/Early_childhood_and_primary_education_statistics
[25] European Commission. 2019. Key Data on Early Childhood Education and Care in Europe. https://eacea.ec.europa.eu/national-policies/eurydice/sites/default/files/ec0319375enn_0.pdf
[26] Cedefop. 2020. Job Rotation Scheme. https://www.cedefop.europa.eu/en/tools/matching-skills/all-instruments/job-rotation-scheme
[27] Cedefop. 2020. The Teacher's Lift 2. https://www.cedefop.europa.eu/en/tools/matching-skills/all-instruments/teachers-lift-2
[28] European Commission. 2020. Digital Economy and Society Index (DESI) 2020, Country Report Estonia. https://ec.europa.eu/digital-single-market/en/scoreboard/estonia
[29] European Commission. 2020. Education and Training Monitor 2020, Country Report Estonia.

taught digital skills, one of the highest rates in the EU (average 60.4%).[30] Two other important aspects of Estonia's adult education programme are the monitoring and evaluation system that will eventually be implemented in all adult learning programmes and an excellent ICT structure in all Estonian schools. In 2014 Lithuania successfully introduced a new state-subsidized apprenticeship and skills programme with training integrated into the working environment.[31]

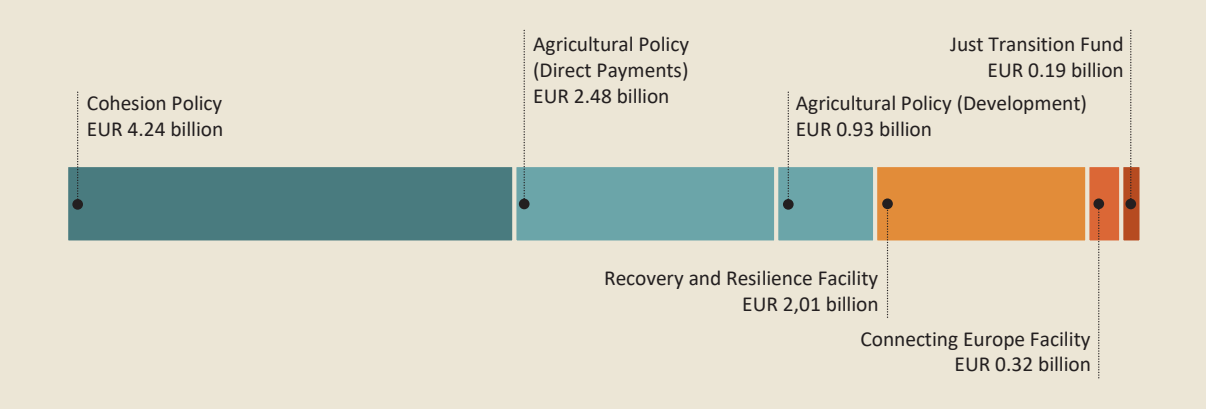
4. Funding Human Capital: The EU Budget and *NextGenerationEU*

The EU's long-term budget and the *NextGenerationEU* instrument combines to make up a €1.8 trillion stimulus package to aid EU countries in their recovery from the negative impact of the Covid-19 pandemic as well as to support the transition to a greener, more digital and more sustainable economic model. This is the largest stimulus package ever funded by the EU budget.

Latvia will receive EUR 10.6 billion in grants from the EU's multiannual budget for 2021-2027 and *NextGenerationEU* programmes as well as an additional EUR 2,5 billion in the form of a loan. The EU's multiannual budget for 2021-2027 and *NextGenerationEU* programmes represent around a third of Latvia's annual GDP (EUR 30 billion) and means that Latvia is among the biggest beneficiaries of the European economic recovery package. These funds will form the basis for financing the development of human capital and creating "Good Jobs" in Latvia.

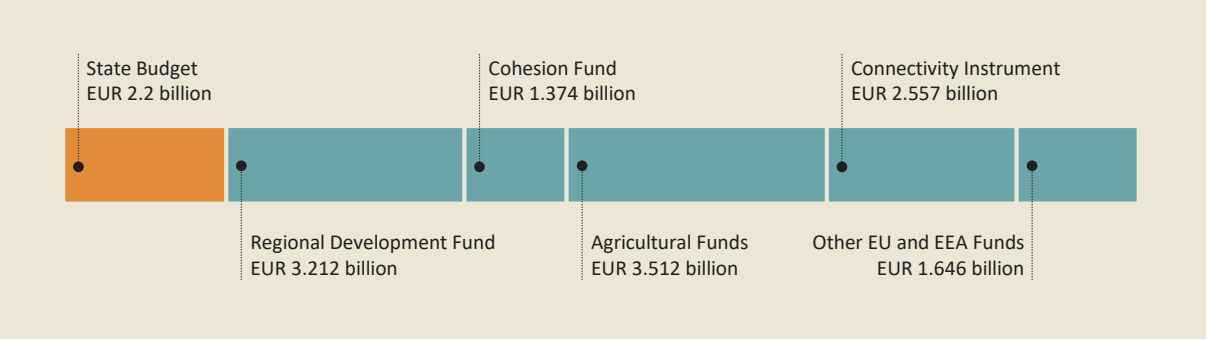
[30] OECD. 2018. Teaching and Learning International Survey, Country Report Estonia.
[31] Cedefop.2020. Apprenticeship and qualification improvement at a work place. https://ej.uz/cedefl20

Figure 4.1
Available EU Funds for Latvia 2021-2027
Source: Ministry of Finance, Latvia



The Latvian National Development Plan 2027 (NAP 2027) structures the spending of EU funds for the 2021-2027 period.[32] NAP 2027's proposed budget is EUR 14.5 billion, of which only EUR 2.2 billion comes from the national budget. The largest funds come from EU regional development and cohesion funds – EUR 4.6 billion and the Agricultural Funds – EUR 3.5 billion.

Figure 4.2
Summary of the National Development Plan 2027
Source: National Development Plan 2027



NAP 2027 sets out four strategic objectives that define key policies and investment lines for national development:

- equal opportunities
- productivity and income
- social trust
- regional development.

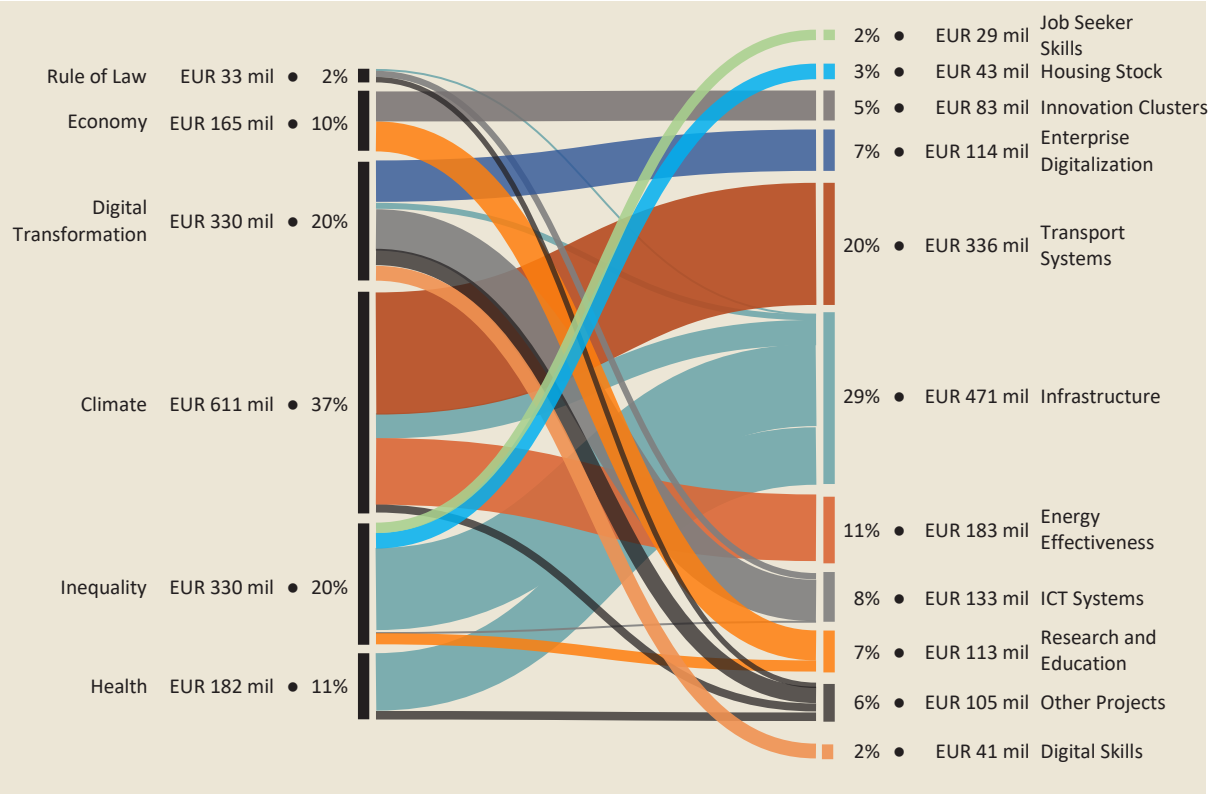
[32] Pārresoru koordinācijas centrs. 2020. Latvijas Nacionālais attīstības plāns 2027. https://www.pkc.gov.lv/sites/default/files/inline-files/NAP2027_apstiprin%C4%81ts%20Saeim%C4%81_1.pdf

The first two objectives are certainly connected to the development of human capital. However, a deeper analysis of the NAP 2027's spending plans indicates that there is a greater focus on continuing to invest in infrastructure rather than human capital, although 1.1 billion EUR is intended for the education sector, including a digital excellence strategy (100 million EUR) aimed at creating a world class higher education IT centre combining the strengths of three Latvian higher education institutions – the University of Latvia, Riga Technical University and the Riga Business School.

The Recovery and Resilience Facility aims to support reforms and investment, particularly those related to the transition to the green and digital economy as well as to mitigate the social and economic impacts of the pandemic. Latvia will receive almost 2 billion EUR in grants and up to EUR 2.5 billion loans from the facility.[33] Latvia presented its plan for spending €1.65 billion in February 2021. The RRF plan is based on six directions proposed by the European Commission: Climate change and sustainability (37%), tackling inequalities (20%), Digital transformation (20%), Health (11%), Economic transformation and productivity reform (10%), Rule of law (2%). Figure 4.3 visualizes Latvia's RRF spending plans with planned projects divided according to their investment profile. 60% of the RRF funds are being invested into infrastructure, energy efficiency and transport systems. EUR 580 million is being directed to investments in digitalisation, science, innovation and human capital projects, representing 35% of the total funding RRF project spending. Latvia will also have access to React-EU funds and funding of EUR 193 million is planned for the transition of people and businesses from a carbon-intensive economy to a greener economic model.

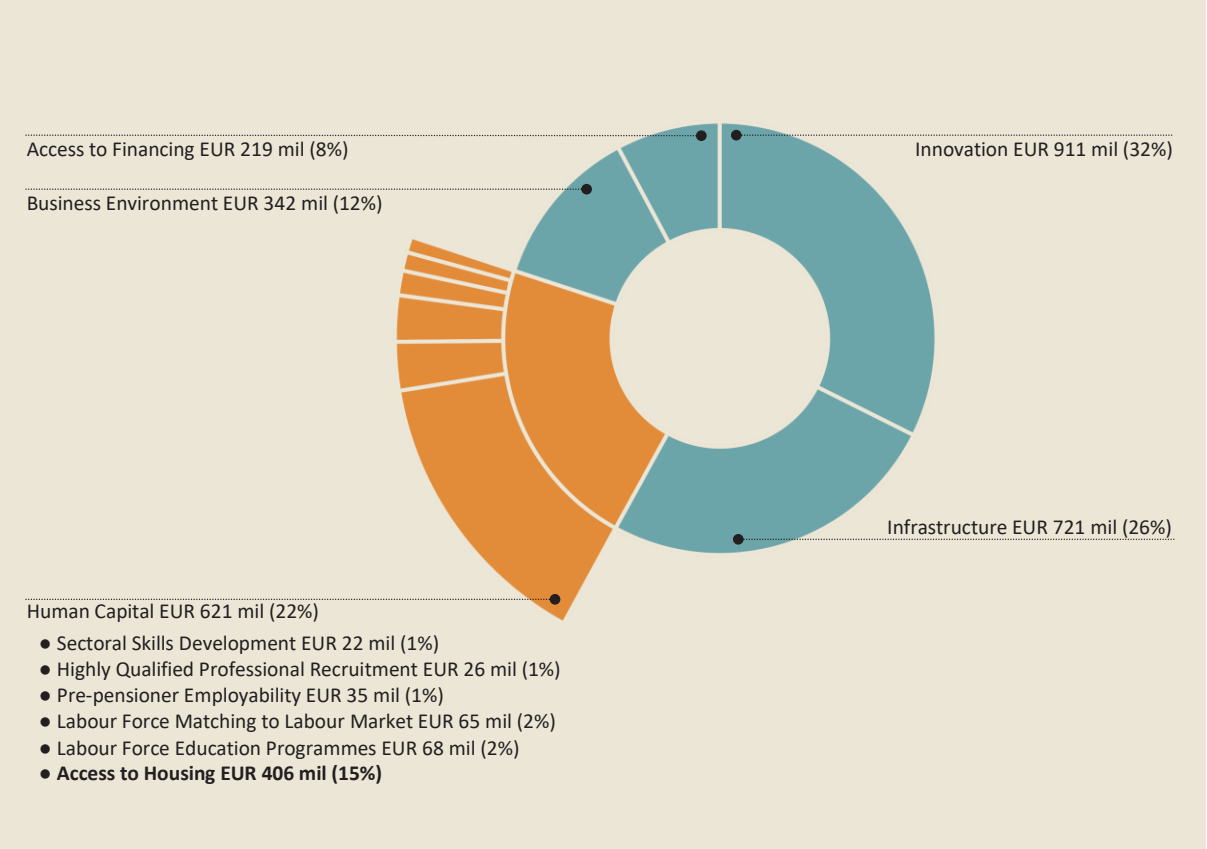
[33] LR Finanšu ministrija. 2021. Eiropas Savienības Atveseļošanas un noturības mehānisma plāns Latvija (projekts) 2021-2026. https://www.esfondi.lv/atveselosanas-un-noturibas-mehanisms

Figure 4.3
RFF Spending Plans Latvia (million EUR and %)
Source: RRF Plan, Latvia



Latvia has also developed a National Industrial Policy (NIP 2027) which lays out the key steps and objectives that need to be undertaken in order to implement structural economic changes in order to shift the Latvian economy towards the more knowledge-intensive exports of goods and services. NIP 2027 complements the objectives set by NAP 2027, and a number of projects under the plan will overlap with NAP 2027 and RRF plans. The NIP budget for 2021-2027 is planned at €2.8 billion, 90% of which is from the EU funds. The key NIP aim is to increase exports to EUR 22 billion in 2023 and then EUR 27 billion in 2027 with the sub-objective of increasing the amount of expenditure for R & D activities to EUR 300 million in 2023 and EUR 600 million in 2027. While the biggest share of planned NIP spending is on innovation (32%) and infrastructure (26%), some 22% is also envisaged on developing human capital (see Figure 4.4). However, a deeper analysis of the human capital dimension indicates that two-thirds of the human capital spending plans are actually intended for access to housing projects.

Figure 4.4
National Industrial Policy 2027 spending plans (million EUR and %)
Source: National Industrial Policy 2027



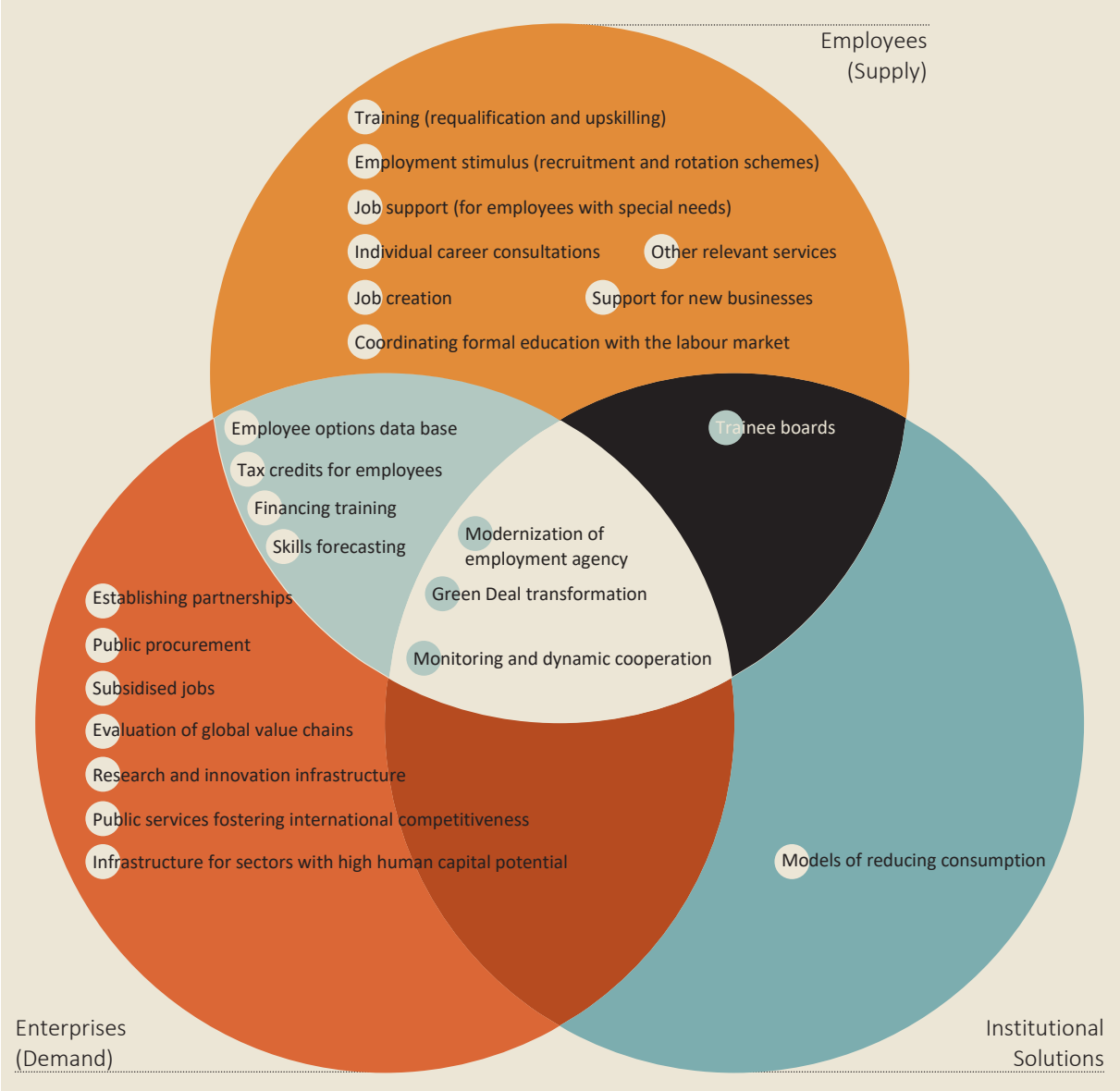
This brief overview of Latvia's 2021-2027 investment plans indicates that while there is significant funding available for human capital development in Latvia, the bulk of spending remains focused on infrastructure development projects.

5. A Brief Guide to Developing Human Capital and Generating "Good Jobs" in Latvia

The move towards creating a "Good Jobs" economy in today's closely interlinked world demands a more active role from the public sector. On the one hand, the public sector needs to focus on connecting and coordinating potentially interested partners (productive companies and their suppliers, employees, training institutions, etc.), and on the other hand, public players should focus on the discovery or transfer of new knowledge in the domestic market, as well as with experimenting with the introduction and adaptation of various incentives. The public sector should seek to create solutions on both the supply side (potential employees and their human capital) and on the demand side (productive and potentially

transformable companies and their production models) as well as influence the habits of society. As a result, the accumulation of human capital and the development of the associated "Good Jobs" economy in Latvia include policies for employees, businesses and society as a whole and these are summarised in the Venn chart in Figure 5.1.

Figure 5.1
Public Policy for Developing "Good Jobs" and Human Capital



Two important policy approaches can be particularly highlighted. First, the role of the State Employment Agency (*Nodarbinātības Valsts Aģentūra, NVA*) could be significantly expanded.

Its current mandate is to focus on finding work for the unemployed.[34] However, the role of the NVA has the scope to increase significantly as the need for training and retraining increases. The NVA has a wide network of branches (25) throughout Latvia and has launched a number of important employment-enhancing projects (e.g. improving the labour market forecasting and monitoring system, financing subsidized jobs for disadvantaged people, supporting measures for the long-term unemployed, integration of former prisoners into society and the labour market, measures to preserve the workability of older workers etc). Nevertheless, the the main target group are the unemployed and job seekers. In contrast, the Danish Agency for Labour Market and Recruitment *(Styrelsen for arbejdsmarked og rekruttering (STAR))*, has a broader mission that tries to ensure that as many people as possible are employed or involved in training.[35] Employment policy is decentralised local governments play a key role in managing the 94 employment centres. It also hosts national and regional consultative employment councils representing public players, companies and social partners. STAR is an important player in the process of establishing and monitoring employment policies. The NVA's approach is less ambitious, largely for financial reasons.[36]

A broader mandate for the NVA would situate it as the centre of a lifelong learning system that works with both the unemployed and those in employment, undertaking tasks such as pairing trainees and training institutions, offering individual career counselling and an integrated set of services, focusing on community groups whose competitive opportunities in the labour market are limited as well as a host of related services such as funding scholarships, childcare, housing, transport and healthcare costs, tackling alcoholism and domestic violence and so on. This will increase the share of completed training courses and job offers (which should also be monitored). The NVA could also experiment with the introduction of other active labour market policy measures such as the Danish rotation scheme. The NVA could also co-ordinate training and retraining into the daily lives of any employee. The NVA could also create partnerships with companies that would commit to creating or transforming existing jobs to “Good Jobs” and offer a variety of services such as funding training, subsidising jobs,

[34] NVA. 2018. Nodarbinātības valsts aģentūras darbības stratēģija 2017.-2019. gadam. https://www.nva.gov.lv/lv/media/778/download
[35] STAR. 2018. STAR’s Strategy 2018-2021. https://www.star.dk/media/7669/strategy_star.pdf
[36] NVA. 2020. 2019. gada publiskais pārskats. https://www.nva.gov.lv/lv/media/2998/download

free access to publicly funded research infrastructure, tax credits for start-ups, as well stimulating businesses through public procurement. For this process to work effectively, reliable data and a monitoring system are needed, starting with the development of a medium- and long-term skills forecasting system.

Second, the green deal chosen by the EU will bring significant changes to a number of economic sectors and will result in changes in employment patterns and new opportunities for creating "Good Jobs". Many employees will need to fundamentally change and upgrade their skills and knowledge. Similarly, others will have to retrain and relocate to other professions and sectors. This industrial transformation is also an opportunity. For example, the RRF plan foresees EUR 295.5 million of investment in the greening of the Riga metropolitan area transport system, which includes the development of a new electric infrastructure. Both high-speed power charging stations and an electric public transport fleet will be constructed. "Good Jobs" associated with the green transformation will be in both the development and production of green solutions designed for both local and EU needs and several Latvian businesses and institutions are well-placed to benefit from this process. The Environment Protection and Heat Systems Institute of Riga Technical University works in the field of energy and environmental science and conducts scientific studies and creates new services and products, the production of which can potentially be expanded in Latvia.[37] It identifies the energy efficiency potential of industrial companies and implements energy efficiency measures to realise this potential. Public procurement could also help to develop domestic technological solutions related to the green deal that could be implemented both locally and internationally. For example, a local container machine developer *WinGo Deposit*, has developed a potentially commercially viable solution that could also be exported and utilized elsewhere in Europe.[38]

There are a whole host of other policy options available to Latvia's policy-makers with the aim of developing human capital and the accompanying "Good Jobs" economy. The Nordic countries and neighbouring Estonia have introduced a number of "best practices" that could

[37] VASSI. 2021. Projekti un pētījumi. https://videszinatne.rtu.lv/zinatne/projekti-un-petijumi/aktivie/
[38] Par iepakojumu depozīta operatora izvēles konkursu skatīt LSM. 29.12.2020. Iepakojumu depozīta sistēmu uztic veidot un pārvaldīt dzērienu ražotājiem. https://ej.uz/lsmdep

be adapted to Latvia and financing for these initiatives is potentially available from EU resources. It simply requires political will to gradually shift from financing infrastructure development to growing human capital and creating a “Good Jobs” economy.