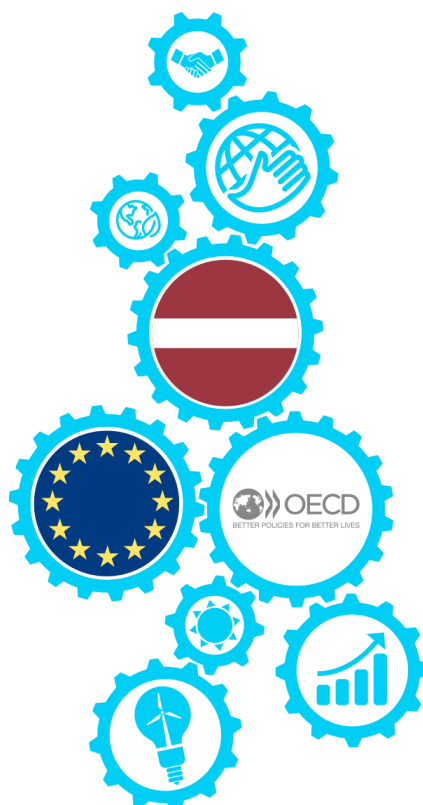


Supporting employers in promoting skills development in Latvia

Report describing the policy package for the regulatory framework to help employers investing in skills



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Foreword

The OECD and the Directorate General for Structural Reform Support (DG Reform) are cooperating to provide technical support to the Latvian Ministry of Education and Science (MoES) as part of the project "Supporting employers in promoting skills development in Latvia". The project will enable the MoES to improve the regulatory framework that supports investment in skills development by employers through the development of a policy package including financial and non-financial measures. This report describes the OECD recommendations for a policy package based on extensive consultations with governmental and non-governmental Latvian stakeholders.

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Executive summary

Background and objectives

In an economic context marked by ongoing recovery from the COVID-19 pandemic, rapid digital transformation, efforts to lower carbon emissions, rising inflationary pressures and an emerging energy crisis due to Russia's war on Ukraine, the importance of investing in skills development is growing. Investment in skills can help economies address these challenges and build a more resilient and innovative economy. Training offered by employers in Latvia, however, is currently among the lowest in the EU. On average in Latvia, enterprises invest 0.6% of total labour costs in training courses, falling far below the EU average of 1.5% (Eurostat, 2020^[1]).

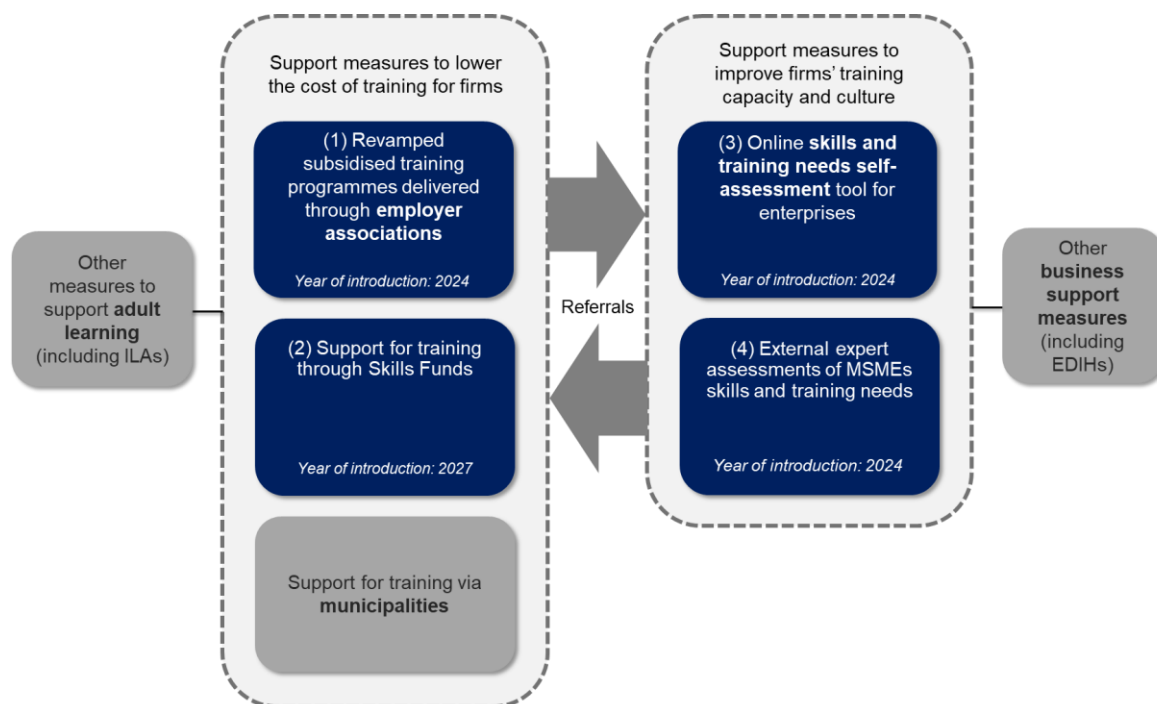
For this reason, the OECD and the Directorate General for Structural Reform Support (DG Reform) are cooperating to provide technical support to the Latvian Ministry of Education and Science (MoES) in the development of support measures for employers to invest in the skills of their employees ([link](#)). The Latvian Law on Education foresees the need to introduce a regulation to support employers in promoting skills development. This is also part of Latvia's Recovery and Resilience Plan (RRP), in particular points 480, 703 and 704. To meet these requirements, the MoES has put together a conceptual draft of the regulation that includes two measures: subsidised training programmes delivered through employer associations - building on the experience of the projects funded by the European Regional Development Fund (ERDF), under the Support Objective 1.2.2 (measures 1.2.2.1 and 1.2.2.3) - as well as support for training via municipalities targeting micro enterprises at the local level. The technical support aims to provide the MoES with a policy package to develop the final regulation by 2023.

To develop the policy package, the OECD organised three working groups involving representatives from employer associations, trade unions, education institutions and government bodies. The scope of the working groups was defined based on evidence collected in two reports and a good practice workshop, which were conducted in the previous stages of the project and are available on the project website ([link](#)). The first working group (WG1) discussed measures to lower the cost of training for enterprises. The second working group (WG2) focused on measures to improve firms' capacity and learning culture, including more tailored one-to-one guidance instruments such as consulting services, coaching, and mentoring. The third working group (WG3) explored how to develop effective coordination between policies related to the skills development of the workforce in Latvia.

This report describes the OECD recommendations for a policy package based on the three working groups with governmental and non-governmental Latvian stakeholders. The recommendations point to the development of four main policy measures, shown in Figure 1: (1) the refinement of the existing subsidised training provided through employer associations; (2) the piloting of Skills Funds; (3) an online tool for enterprises to assess their skills gaps and training needs; and (4) external (outside the enterprise) expert assessments of skills and training gaps of micro-, small and medium-sized enterprises' (MSMEs). Support for training delivered through municipalities is not covered in this project, but developed in parallel by the MoES.

This policy package forms an ecosystem with different entry points for companies and frequent referrals across measures. For example, companies may want to use the self-assessment tool to learn about their skills gaps and training needs, and then be referred to existing subsidised training programmes offered by employer associations, or vice versa. These four measures should also be linked with other initiatives that are currently under development in Latvia, such as the European Digital Innovation Hubs (EDIHs) and the Individual Learning Accounts (ILAs) for the digital skills of individuals. The following sections summarise the suggested policy measures and provide recommendations for their specific design features. Further information is available in the main body of the report.

Figure 1. Ecosystem of proposed measures to support employers in the development of employee skills in Latvia



Measures to lower the cost of training

The cost of training, and the time investment it requires, are a key obstacle for companies to develop their employees' skills in Latvia, but also in other OECD and EU countries (OECD, 2022^[2]; OECD, 2021^[3]). Especially smaller firms may find it difficult to replace workers during training periods, and to finance training up-front. Evidence shows that almost half of Latvian enterprises consider training costs a barrier to training their employees (Eurostat, 2015^[1]; Līce, 2019^[4]). Expanding financial measures to reduce the cost of training for employers may thus help overcome barriers faced by firms, and by MSMEs in particular, and to support employees that are currently less likely to participate in training. Building on in-depth research and based on stakeholder consensus, the proposed policy package features two measures to lower the cost of training: (i) the refinement of existing subsidised training programmes, and (ii) the piloting of Skills Funds.

Refinement of subsidised training programmes

Governments generally face a trade-off between providing support directly, or through intermediaries such as employer associations. Direct support, for instance through a subsidy, can minimise administrative expenditures, but it may result in low uptake among SMEs, who often lack the capacity to find out about support and submit applications. In Latvia, where companies typically face strong attitudinal, informational, and financial barriers to training, support through intermediaries has been found to be more effective (OECD, 2022^[2]). For this reason, as part of Latvia's National Development Plan 2021-2027, the MoES has decided to pursue the current programmes of subsidised training that are implemented through employer associations, and to include them in the first conceptual draft of the regulation. There is strong stakeholder support to continue the current delivery model of subsidised training, but the operating model could benefit from a few adjustments, as described in the first OECD report on key barriers and enabling conditions (OECD, 2022^[2]). These adjustments could be implemented in the short-term, in the next application round for intermediaries in the subsidised training programmes in 2024.

The subsidised training programmes should continue to target all enterprises, the generosity of support should continue varying by size, but the eligibility of sectors should be extended. Micro, small, medium, and large enterprises should continue to be targeted by the subsidised training programmes, within the limits imposed by EU regulations, that is 50% (large), 60% (medium), and 70% (small enterprises) subsidy scheme.

The eligibility of sectors should be widened. Only 'agriculture, forestry and fishing', as well as 'public administration and defence; compulsory social security', 'Education' and 'Human health and social work activities' should be excluded. In the case of budget constraints, the MoES could limit eligibility of companies or sectors according to the sectoral prioritisation outlined in the Latvian Smart Specialisation Strategy (Ministry of Education and Science, 2020^[6]). Employer associations that apply in partnership should receive bonus points in the process of assessment of their application, and there should at most be one association/partnership per sector chosen as intermediaries. Each association/partnership should be selected for a period of at least three years, with the option of renewal for another three years. These features may help to consolidate the system of employer associations in Latvia, increase inclusivity and avoid a fragmentation of intermediaries.

The current list of training areas eligible for financing in the subsidised training programmes from the ERDF regulation has been assessed as relevant and should be maintained. The focus is on technical training, which generally seem to correspond to the demand by employers. However, associations should be able to propose new training areas. This should happen within a training plan to be submitted alongside the application. The plan should be a short, forward-looking, and strategic document that outlines the key training areas that associations intend to focus on. The document should be updated yearly to facilitate coordination on training provision within the steering group. The new training areas should be approved based on whether they fill pressing skills needs in a certain industry and occupation, and according to national investment priorities, for example as set in Latvia's smart specialisation strategy.

To strengthen the participation by MSMEs and companies that are not members of an employer association, there should be an increased focus on awareness-raising and communication activities by intermediaries. A dedicated budget should be put in place for intermediaries to carry out these activities. To clearly prioritise awareness-raising and communication activities, the awareness-raising and communication budget should be based on a separate and more generous budget line beyond the 'de minimis' regulation for the maximum allowable state aid. To keep track of how the funding will be used, associations could be asked to submit a communication strategy when they present their application.

Piloting of the Skills Funds

The MoES is planning to pilot Skills Funds in 3 to 5 sectors with financial support of EUR 5.4 million from the European Social Fund Plus (ESF+). The Skills Funds could contribute to fostering cooperation on training and skills development, mitigating poaching concerns and lowering the costs of training for Latvian enterprises (OECD, 2022^[2]). In general, Skills Funds in other countries are based on a compulsory levy for companies, whereby every firm has to contribute a given share of payroll, or a fixed sum for each employee. The legal basis is either legislation or collective agreements. Stakeholders signalled that a compulsory levy would be difficult to implement in Latvia in the short term, because employers would view the introduction of an additional tax negatively, without a clear understanding of the benefits it can bring. At the same time, establishing Skills Funds in the longer term would be a promising step towards a sustainable funding model for enterprise training support in Latvia. Leveraging on private contributions, the Skills Funds could become independent from EU funding.

The *piloting* of Skills Funds could test an appropriate implementation model for Latvia and potentially prepare the ground for the introduction of a training levy in the medium to long term. Stakeholders emphasised that the piloting of Skills Funds should be subject to careful planning and additional analysis prior to implementation. A consultation process in 2023 should be set up to develop a feasible model of Skills Funds in the Latvian context, to generate trust, target the design of Skills Funds and develop a long-term policy strategy. Such a process could involve employer associations, the relevant ministries, trade unions, and other key actors.

The Skills Funds could coexist but should not overlap with the subsidised training programmes. In each (sub-) sector, there could be at most a Skills Fund *or* a subsidised training programme, operated by an employer association or a partnership of associations with tripartite governance. Trade unions should be part of the governance of Skills Funds, for instance, as a member of their managing board or decision-making bodies. The employer associations or partnerships that are already acting as intermediaries in the subsidised training programmes should be eligible to set-up a Skills Fund in their sector. This means that the timeline for the implementation of the Skills Funds should be aligned with that for the subsidised training programmes. The application round in 2027 seems a feasible date for a first introduction of Skills Funds.

The legal basis for the Skills Funds *pilots* could be collective agreements or ad-hoc partnership agreements among industry partners. Under both options, employers, employer associations and the government would agree to fund the establishment of a Skills Fund in a certain sector. In the case of collective agreements, trade unions would also be involved. The agreement would define an obligation for firms in a specific sector to contribute to a Skills Fund, based on a specified share of payroll, or a fixed sum per employee.

Regardless of the legal basis chosen, additional funding by the EU or the Latvian government during the piloting phase – on top of employer contributions – could contribute to make the Skills Funds attractive for companies and potential intermediaries. However, some key governance features could also be important: to make the Skills Funds attractive vis-à-vis the subsidised training programmes, intermediaries should have more freedom in developing the training and education offer and companies should face lower administrative requirements.

Measures to strengthen enterprises' training capacity and culture

Policy measures to strengthen the training capacity and training culture within enterprises can reduce employers' attitudinal, informational, and other barriers to training. Building enterprises' learning culture and training capacity can raise employers' intrinsic motivations to provide training, which could decrease enterprises' dependence on external and often temporary support (e.g. public subsidies) in the long run (OECD, 2022^[5]).

Based on stakeholder consensus, the policy package proposes two measures to improve the learning culture: (iii) an online tool for enterprises to assess their skills and training gaps; and (iv) external (outside the enterprise) expert assessments of skills and training gaps of MSMEs.

Development of an online tool for enterprises to self-assess their skills and training gaps

Latvia is advised to develop an online tool for enterprises to conduct self-assessments of their skills gaps and training needs, to reduce enterprises' informational and attitudinal barriers to supporting training. This tool should be user-friendly, comprehensive and insightful, and should assess both general and sector-specific skills. It could be based on a tool developed by the OECD for SMEs in Italy ([link](#)). It should not take longer than 20 minutes for users to complete and generate valuable insights into the enterprise's skills gaps and training needs in the form of an assessment report. Remote technical support should be available for users who need assistance using the tool.

The tool should be available to all enterprises free of charge. Access to and use of the online self-assessment tool should not be restricted by the enterprise's employer association membership. The tool should be 100% funded by public financing within the framework of MoES programmes and budget.

The tool should be developed starting in the second semester of 2023 under the oversight of the MoES, in consultation with the Ministry of the Economy (MoE) and employer associations, and made available on existing websites used by enterprises in 2024. Links to the tool should be displayed on the websites and portals of employer associations and the MoES, among others. The same associations or partnerships who have been selected to become intermediaries for the subsidies training programmes should be consulted on the development of the tool.

Provision of external expert assessments of MSMEs' skills and training gaps

To complement the self-assessment tool, Latvia is advised to develop a network of experts who can conduct assessments of MSME's skills gaps and training needs, in consultation with managers within the enterprises. The services rendered should be based on the methodology and questionnaire underlying the online self-assessment tool for skills and training gaps, but go into more detail than the online tool.

The external expert assessments for skills and training gaps should target MSMEs. Large enterprises are less likely to need such a service as they have sufficient HR capacity to diagnose their skills and training gaps through the self-assessment tool. The service should be funded according to standard EU subsidy rates (70% support for micro and small enterprises, and 60% for medium enterprises). In the event of budget constraints, the MoES could limit eligibility for external expert assessments according to the sectoral prioritisation outlined in the Latvian Smart Specialisation Strategy, as for the subsidised training programmes (Ministry of Education and Science, 2020^[6]).

The network of external experts should be set up by employer associations alongside the subsidised training programmes, under the oversight of the MoES. Employer associations should identify and engage external experts with sectoral knowledge and implement this service as an additional eligible activity under the subsidised training programmes, under the oversight of the MoES. There should be one employer association or partnership of associations should per (sub-) sector implementing both the subsidised training programmes and the external expert assessment. The network of experts could be established in the short-term in parallel to the online tool and may become effective after the application round for intermediaries in the subsidised training programmes in 2024.

Mechanisms to ensure coordination

In Latvia, as in all OECD countries, policies for the skills development of the workforce lie at the intersection of education, labour and industrial policies. Strong coordination both between the four measures in the policy package and with other existing or planned policy measures is crucial to ensure policy coherence, realise potential synergies, and maximise the impact of available support. The discussions in the working groups resulted in the development of proposals for two concrete coordination mechanisms: a permanent steering group to coordinate the measures that support enterprises to provide training; and a unified online portal to access information on training opportunities and support.

Creation of a permanent steering group

A permanent steering group could be the main instrument for coordination among the four key measures in the policy package and other measures supporting employers to provide training. It should take leadership on (i) coordination on outreach and awareness-raising activities to companies; (ii) coordination on the implementation of support measures; (iii) exchange of best practices; and (iv) data analysis and monitoring. Potentially, the steering group could become a task force in a reformed Governing Council for Adult Education, which is currently a supervisory body for adult education projects and policy implementation. The MoES is planning to enshrine the Council in the Education Law in the future. Stakeholders suggested that it could increase the membership of employer associations and introduce dedicated taskforces to discuss technical-level issues. Within the context of this reform, the steering group could become a task force reporting to the Council on the measures in the policy package and other support measures that contribute to increase investment by employers in skills development. The steering group could be set up and become operative in the short-term starting in the second semester of 2023 and may need to precede the reform of the Governing Council for Adult Education.

The steering group should meet at least four times a year and include employer associations who may act as intermediaries in the implementation of the policy package, the MoES, the MoE, the Ministry of Welfare (MoW), the Central Funding Agency (CFLA) and municipalities. Some representatives of the Digital Innovation Hubs and Individual Learning Accounts initiatives could be invited, as their participation may prevent an overlap of training subsidies in the area of digital skills. The Ministry of Finance (MoF) and State Revenue Service (SRS) could also join for specific sessions. For example, the MoF and SRS could join to answer some questions on the application of the VAT regulation in the subsidised training programmes, which has caused some confusion among employer associations.

The steering group would benefit from a secretariat to ensure coordination on awareness raising activities, analysis, and the flow of information between members of the steering group. Such a secretariat could be hosted at the State Education Agency (SEA) and be funded through public financing. The secretariat should be lean to minimise public expenditure and be better able to support associations in their activities.

Establishment of a unified online portal

Latvia would benefit from a unified online portal to inform enterprises about the policy measures both within the regulation and beyond. It should increase enterprise access to training information by centralising training offers and support provided by different providers and programmes. The unified portal should build on and bring together information from the various websites that currently list the available support for enterprises. The online portal should host the online tool for the self-assessment of skills and training gaps and offer information about the subsidised training programmes and external expert assessments. The portal should also list all available subsidised training offer for enterprises by skill areas and may be established in 2023.

Overview of measures and suggested policy actions

Bringing these findings together, the roll-out of the policy package hinges on the implementation of several actions across six key measures (see Table 1 below). Implementing these actions together is crucial to ensure that the policy package can be successful in promoting skills development among employers in Latvia.

Table 1. Measures and actions

Measure	Actions
Measures to lower the cost of training	
1. Refinement of subsidised training programmes	The subsidised training programmes should continue to target all enterprises, and the generosity of support should continue to vary by firm size.
	At most one employer association or partnership of associations should be selected for each (sub-) sector and operate for at least three years.
	Associations should submit a training plan along with their application, which specifies which training areas they intend to target and update the plan yearly.
	There should be a dedicated budget for intermediaries to conduct awareness-raising and communication activities.
2. Piloting of the Skills Funds	A broad consultation process should be set up to develop a suitable model for Skills Funds in Latvia in 2023.
	In each (sub-)sector, there should be at most a Skills Fund (or a subsidised training programme), operated by an employer association or a partnership of associations.
	The Skills Funds should have wider autonomy and pose lower administrative requirements, compared to the subsidised training programmes.
Measures to strengthen enterprises' training capacity and culture	
3. Development of an online tool for the self-assessment of skills and training gaps of enterprises	The self-assessment tool should be user-friendly and quick to complete, but also comprehensive and insightful.
	At completion, the tool should generate a report on the enterprise's skills and training gaps and refer them to external experts for advice on available training.
	The tool should be available to all enterprises free of charge.
	The tool should be developed under the oversight of the MoES, in consultation with the MoE and employer associations, and available on an existing website used by enterprises.
4. Provision of external expert assessments of MSME's skills and training gaps	A network of government-funded experts should conduct external assessments of MSME's skills and training gaps in consultation with managers within the enterprises.
	The experts should provide participating MSMEs with a detailed assessment of their skills and training gaps and recommend relevant training.
	The assessments should be funded according to standard EU subsidy rates (70% support for micro and small enterprises, and 60% for medium enterprises).
	The network of external experts should be developed by employer associations along the subsidised training programmes, under the oversight of the MoES.
Mechanisms to ensure coordination	
5. Creation of a permanent steering group	A permanent steering group should be established to coordinate the four key measures in the policy package and other measures supporting employers to provide training.
	The steering group should include representatives of employer associations, MoES, MoE, MoW, municipalities and the CFLA.
	The steering group should be supported by a lean secretariat.
6. Establishment of a unified online platform	There should be a unified online portal to inform enterprises about the policy measures both within policy package and beyond.
	The online portal should host the online tool for the self-assessment of skills and training gaps and offer information about the subsidised training programmes, the Skills Funds, and external expert assessments.

1. Introduction

Background and policy context

In an economic context marked by the ongoing recovery from the COVID-19 pandemic, rapid digital transformation, rising inflationary pressures due to Russia's war on Ukraine, efforts to lower carbon emissions, and an emerging energy crisis, the importance of investing in skills development is growing. For individuals, training has the potential to increase wages and job satisfaction and reduce the risk of unemployment. For companies, it has a positive effect on firm productivity and innovation. Developing worker's skills can therefore help economies to face the current challenges, to exploit the benefits of digital technologies, and build a more resilient workforce.

Despite the important role of enterprises in providing training opportunities, previous OECD research has highlighted that employers in Latvia lag behind in the provision of training to their employees compared to those in other European countries (OECD, 2019^[6]). At the same time, poor access to skills constrains the capacity of Latvian firms to innovate, and to increase their productivity. As noted in the OECD Skills Strategy for Latvia, investment in training by employers in Latvia is currently the lowest in the EU (OECD, 2019^[6]). On average in Latvia, enterprises invest 0.6% of total labour costs in training courses, falling far below the EU average of 1.5% (Eurostat, 2020^[1]). Supporting employers in Latvia in promoting the skills development of their workforce, therefore, is more pressing than ever.

Overview of the project

Against this backdrop, the OECD and the Directorate General for Structural Reform Support (DG Reform) are cooperating to provide technical support to the Latvian Ministry of Education and Science (MoES) in the development of support measures for employers to invest in the skills of their employees. The Latvian Law on Education foresees the need to introduce a regulation to support employers in promoting skills development. This is also part of Latvia's Recovery and Resilience Plan (RRP), in particular points 480, 703 and 704. To meet these requirements, the MoES has put together a conceptual draft of the regulation. The technical support aims to provide the MoES with a policy package to develop the final regulation by 2023 ([link](#)).

To achieve this objective, the OECD has conducted an analysis of key barriers and enabling conditions for employers to invest in skills development in Latvia (EN [link](#), LV [link](#)), and a review of good practices in the EU for supporting employers to promote skills development (EN [link](#), LV [link](#)). The OECD has also organised a public event to promote the project to a wider audience, facilitated a good practices workshop with international experts, and hosted working groups to develop a policy package with key stakeholders in Latvia. This report describes the policy package that has been developed based on the perspectives offered by the Latvian stakeholders in these working groups.

Key barriers and enabling conditions to invest in skills development in Latvia

The first report on key barriers and enabling conditions provides a comprehensive overview of the Latvian policy ecosystem to promote employers' investment in skills development, including existing provisions in

Latvian labour law, tax exemptions for training, and subsidised training programmes. Table 1.1 presents a shortened version of key findings and recommendations. The report draws on a review of existing literature and Latvian legislation, primary data analysis, and interviews with key Latvian stakeholders.

Table 1.1. Key barriers and enabling conditions for employers to invest in skills development

Key findings	Recommendations
1. The under-provision of training is most pronounced in micro-enterprises and small and medium-sized enterprises (MSMEs).	1. Provide tailored support to MSMEs.
2. Latvian enterprises face a range of attitudinal, informational and financial barriers that prevent them from maximising training provision.	2. Introduce measures to build firms' capacity and learning culture.
3. Latvian enterprises face significant coordination problems to offer employee training, both with other enterprises and with education institutions.	3. Introduce measures to promote cooperation to identify skill demands and encourage the pooling of resources.
4. Enterprises provide little training to low-qualified and older employees due to a perceived lack of return to their business.	4. Channel support for training of low-qualified and older employees through enterprises.
5. There is a lack of data and systematic information on the take-up of existing policy instruments:	5. Gather data to assess and monitor the take-up and effectiveness of support measures.
6. There is a lack of clarity in some aspects of legislative framework on training.	6. Define all key aspects of legislation clearly in the policy package.
7. The tax treatment of training expenditures is generous, but higher education and general education programmes are not exempt from payroll taxes.	7. Expand tax exemptions on higher education and general education programmes.
8. The implementation model of ERDF-funded projects on training relying on employer associations works well overall, but coordination, awareness-raising and the participation of micro-enterprises and SMEs could be improved.	8. Involve employer associations in the delivery of policy package, provide resources to raise awareness among enterprises about subsidised training opportunities and minimise administrative burden.

Source: OECD desk and field research, (OECD, 2022^[2])

International good practices to invest in skills development

The second OECD report explored 25 good practices in Europe for supporting employers to promote skills development, to inform and inspire Latvia as it develops its policy package. The report identified different policy instruments in the areas of regulatory requirements, financial measures to lower the cost of training, non-regulatory measures to lower the cost of training, support measures to build employers' capacity and learning culture and support measures to promote cooperation among employers and with the public/education sector. The included good practices are listed below (Table 1.2).

Table 1.2. Overview of identified EU good practices for supporting training in enterprises

Policy instrument	Type of measures	EU good practices
Regulatory requirements	Legislation requiring employer support for training	Training requirement - PRT Legal provisions on training leave – SWE
	Collective agreements and contractual arrangements requiring training	Collective agreements – DNK
Financial measures to lower the cost of training	Subsidies, e.g. Vouchers for training, Vouchers for consulting services, Grants	State co-funding for continuing vocational training – LUX Competence voucher – LTU Investing in Skills – MLT Paid Educational Leave – BEL
	Subsidised training schemes	Joint Purchase Training – FIN DigiABC programme - EST

	Others: Tax incentives, Levy schemes	Income tax deduction – EST Income tax deduction – FIN
Non-regulatory measures to lower the cost of training	Job Rotation schemes	Job rotation scheme – DNK
	Inclusion of informal learning in subsidised training	AFEST (Learning at the workplace) – FRA
Support measures to build employers' capacity and learning culture	Diagnostic tools for skills anticipation and analysis	Regional Skills Fora – IRL Competence Centres – BEL (Wallonia)
	Workplace innovation	Kickstart Digitalisation, INDIGO – SWE Digital Skills Bridge – LUX
	Coaching and mentoring for managers and entrepreneurs	Innovation Norway – NOR SME Manager Academy – POL
	Information on training support	Kompetens.nu, Time to digitalise – SWE Jobsplus – MLT
Support measures to promote cooperation among employers and with the public/education sector	Learning networks	Impulse Training Networks – AUT Skillnet Ireland – IRL
	Enterprise-education co-operation	Mittelstand 4.0 Competence Centres – DEU Training Offices – NOR

Source: OECD (2022^[5]), Good Practices in Europe for Supporting Employers to Promote Skills Development, <https://www.oecd.org/skills/Good-practices-in-Europe-for-supporting-employers-to-promote-skills-development.pdf>

Good practices workshop with international experts

During a virtual workshop organised in May, Latvian stakeholders had the opportunity to discuss the international best practices and their feasibility in the Latvian context. This workshop helped define the scope of the working groups.

Stakeholders in the workshop stressed the importance of measures that lower firms' training cost. In line with the recommendations from the first report on key barriers and enabling conditions, the training programmes operated by employer associations and funded by the European Regional Development Fund (ERDF) (Support Objective 1.2.2, measures 1.2.2.1 and 1.2.2.3) were considered particularly promising. Building on this feedback, the MoES has decided to include these programmes in the conceptual draft of the regulation. The Skillnet model in Ireland was identified as a relevant international example, where training is implemented by sectoral and regional business networks. Consistent with the recommendations from the report on key barriers and enabling conditions, several stakeholders also expressed the view that the tax deductions in Latvia should be expanded to higher education opportunities funded by employers. This change found widespread support by stakeholders and requires a relatively simple adjustment that the MoES has proposed to make independently of the technical support project.

There was also a consensus among stakeholders in the workshop on creating a flexible system that empowers firms and improves their attitudes to training. This was again in line with the findings from the key barriers and enabling conditions report, which identified strong attitudinal barriers in Latvia and a lack of measures to promote a learning culture. Among others, Sweden's various initiatives to build digital capacity (e.g. DigiLift, RoboLift) and Ireland's Skillnet were considered relevant. Both programmes constitute examples of comprehensive approaches, i.e. they provide a range of services, such as intensive coaching/mentoring (e.g. INDIGO) and online learning platforms (e.g. Kompetens.nu). Stakeholders also emphasised the importance of networking and coordination endeavours between the government and employer associations (such as via the steering group) as key to foster enterprises learning culture.

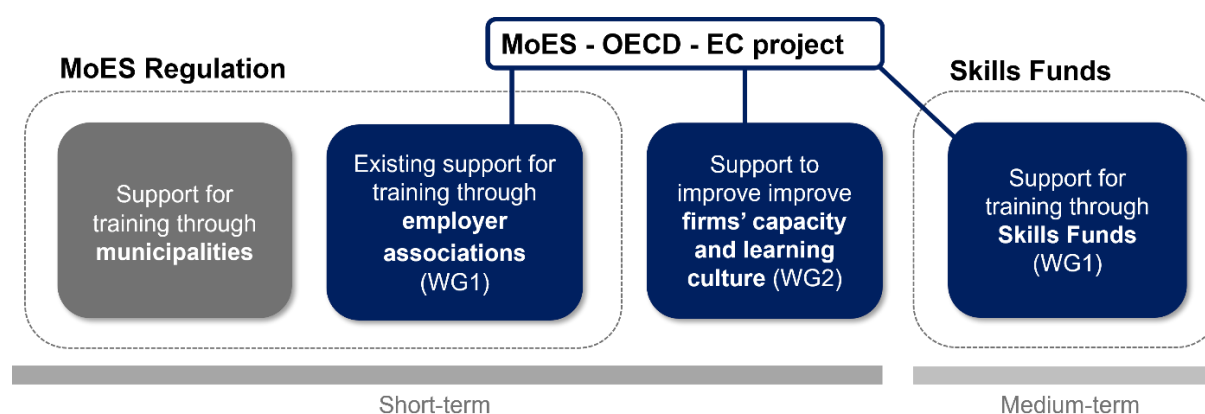
Lastly, the stakeholders expressed some interest in regulatory measures. Some stakeholders appreciated the Portuguese model, with a minimum training requirement for vulnerable workers, but also considered different obstacles to implementing such a requirement in Latvia. A regulatory training requirement would not address financial and capacity barriers to employee training and may even have a negative effect on

firms' perception of the importance of training. This is because employers would continue to perceive training as a legal requirement, rather than an opportunity to improve productivity and job quality.

Overview of policy context in Latvia

The technical support project is not happening in isolation, but in a rapidly evolving landscape with several concurrent initiatives. With respect to measures that aim to strengthen employers' investment in skills, the MoES has worked on a conceptual draft regulation to meet the requirements of Latvia's RRP. The project between the MoES, the OECD and the EC aims to develop a policy package to refine certain aspects of the regulation and suggest additional policy measures (Figure 1.1). The project has focused on existing support measures for training delivered through employer associations, support measures to improve firms' capacity and learning culture, while the MoES has continued to work in parallel on the support through municipalities. Based on the policy package, the MoES will develop the final regulation in 2023. The project will also provide some suggestions for the piloting of the Skills Funds, which will be introduced after 2024. More broadly, Latvia will continue to invest in digital skills, thanks to the establishment of two European Digital Innovation Hubs (EDIHs), an ad-hoc programme by the Ministry of the Economy (MoE), and Individual Learning Accounts (ILAs), which will be piloted for digital skills of individuals.

Figure 1.1. Working groups and the policy context in Latvia



The conceptual draft of the regulation to promote investment in skills development

Based on Education Law, Art. 14, and Art. 59, the MoES should publish a regulation that supports training in enterprises in any sector, focusing on micro, small and medium enterprises (MSMEs). The introduction of the regulation is also part of the objectives set in Latvia's RRP. A first conceptual draft of the regulation has been presented in a consultation organised by the MoES on 17 August 2022 and has informed the discussions in the working groups that were the basis for the development the policy package. The technical support aims to provide the MoES with a policy package to develop the final regulation by 2023.

The aims of the draft regulation are to support Latvian enterprises to increase competitiveness and productivity through training and to provide better lifelong education and training for employees. The draft includes two policy elements: (i) a new support measure for training through municipalities, targeting micro enterprises active at the local level; and (ii) a continuation of the existing support measures that involve employer associations (Figure 1.1). Employers should be eligible for the proposed training support based on a range of criteria in line with the regulatory framework for state aid. For instance, they would qualify only if they do not have any tax debt. The generosity of support was intended to be compatible with national and EU regulation.

When the conceptual draft of the regulation was discussed in August 2022, stakeholder feedback mainly concerned the role of municipalities. Participants were generally supportive of the role of municipalities in supporting micro enterprises active at the local level, but stressed the importance of ensuring complementarity between support provided by municipalities and the subsidised training programmes. This would help avoid additional complexity for employers about the support that is available to them.

Other initiatives to promote skills development in Latvia

The Latvian government currently plans several other initiatives to foster skills development, as mentioned in the first OECD report (OECD, 2022^[2]). Firstly, the MoES is planning to pilot Skills Funds in three to five sectors, which will pool resources from employers to jointly fund training opportunities, relying on EUR 5.4 million from the European Social Fund Plus (ESF+). Establishing the Skills Funds could contribute to fostering cooperation on training and skills development and mitigating poaching concerns. Skills Funds were discussed in the context of the working groups for this project (see Figure 1.1) and will be covered in Chapter 2.

Secondly, under the EU's Digital Europe Programme, two EDIHs have become operational as of November 2022. The EDIHs rely on EU-funding, either through the structural funds (EUR 7 million) or the Latvian RRP (EUR 8 million) for an initial period of three years. The EDIHs support companies in their digital transformation, through a digital maturity test, a digitalisation and training strategy, and capacity building.

Lastly, over the planning period 2021-2027, the MoE will implement an investment programme to improve the digital skills of employees. Support will be available to fund up to 70% of overall training costs for an estimated 4 200 companies, equivalent to 2.4% of all companies in Latvia. The programme will be funded through the RRP (EUR 20 million under investment 2.3.1.2) and the ERDF (EUR 8.5 million). The RRP will also contribute to the development of Individual Learning Accounts (ILAs), which will be piloted to foster digital skills (EUR 14.3 million under investment 2.3.1.4). The objectives of the investment are to develop and approve the concept of ILAs in order to stimulate adult participation in education, in particular improving digital skills.

Approach for the development of the policy package

Building on this evidence base of the two reports and a good practice workshop, the OECD organised three working groups to support the development of the policy package that met between August and October 2022. The working groups involved 20+ representatives from employer associations, trade unions, education institutions, central and local government (see Annex A). The composition, methodology, and scope of the working groups was chosen to reach consensus on the design of the policy measures and clarify potential implementation challenges.

The first working group (WG1) discussed financial incentives to lower the cost of training for enterprises. It focused on how to deliver subsidies for training programme via employer associations, through the refinement of the current ERDF-funded projects on training, and the piloting of the Skills Funds. The second working group (WG2) focused on measures to improve firms' capacity and learning culture, such as diagnostic tools that help firms make more informed decisions on training and more tailored one-to-one instruments, like consulting services, coaching, and mentoring. WG1 and WG2 each consisted of 4 sessions that covered the eligibility criteria, generosity of support, application process for companies, and the role of intermediaries for each measure. The third working group (WG3) explored how to develop effective coordination across the policies that target the skills development of the workforce. In two sessions, it focused on areas where coordination should take place within and beyond the measures included in the policy package and proposed mechanisms to ensure such coordination is effective (Figure 1.1).

The conclusions from each working group form the basis of the OECD suggestions for the policy package. The following chapters summarise the policy measures and propose specific features for their design. Measures to lower the cost of training (WG1) are discussed in chapter 2, measures to strengthen enterprises' training capacity and culture (WG2) in chapter 3, and mechanisms to ensure coordination (WG3) in chapter 4.

The annexes provide further information on the consultations to develop the policy package, and some important elements for its implementation. Annex A provides an overview of the stakeholders who have participated to the working groups. Annex B presents a financial impact assessment of the policy package, while Annex C offers a summary of potential EU funding sources that the MoES could consider to finance the different measures.

2. Measures to lower the cost of training

Introduction

The report on key barriers and enabling conditions highlighted that the cost of training, and the time investment it requires, are a key obstacle for companies to develop their employees' skills in Latvia. These two barriers are also important in other OECD and EU countries (OECD, 2021^[3]). Especially smaller firms may find it difficult to replace workers during training periods, and to finance training up-front. Evidence shows that almost half of Latvian enterprises consider training costs a barrier to training their employees (Eurostat, 2015^[1]; Līce, 2019^[4]). Expanding financial measures to reduce the cost of training for employers may thus help overcome barriers to training for enterprises, in particular micro, small and medium enterprises (MSMEs). For the purpose of this report, micro enterprises have 9 or fewer employees, small enterprises 10 to 49, medium enterprises 50 to 249, and large enterprises 250 employees or more.

Governments generally face a trade-off between providing support directly, or through intermediaries such as employer associations. Direct support, for instance through a subsidy, can minimise administrative expenditures, but it may result in low uptake among MSMEs, who often lack the capacity to find out about support and submit applications. In practice, countries often rely on a combination of direct support and support through intermediaries (OECD, 2021^[7]). In Latvia, companies typically face attitudinal, informational, and financial barriers, and these barriers are particularly strong for MSMEs. Therefore, intermediaries are useful to raise awareness and support companies administratively in the process of using training subsidies (OECD, 2022^[2]). As part of Latvia's National Development Plan 2021-2027, the MoES will continue the current subsidised training programmes, which are implemented through employer associations. This also received broad support in the consultations with Latvian stakeholders.

Another avenue of support consists in promoting cooperation and partnerships among employers (OECD, 2021^[7]). Sectoral Skills Funds are one example of such an approach. Establishing the Skills Funds could contribute to fostering cooperation on training and skills development among firms operating in the same sector and to mitigating poaching concerns (OECD, 2022^[2]). The planned piloting of sectoral Skills Funds in 3-5 sectors could provide Latvia with valuable experience for financing and running training networks, similar to Skillnet Ireland where funding is based on a national training levy on companies (OECD, 2022^[5]).

The two sections of this chapter cover the refinement of the existing subsidised training programmes and the piloting of the Skills Funds in Latvia, as discussed in WG1. They include proposed actions for the implementation of these policy measures that are supported by the stakeholders that have participated to the working groups.

Refinement of subsidised training programmes

Support for training in enterprises in Latvia has been delivered through projects run by employer associations since 2007, with support from the ERDF and the React-EU facility. In the most recent 2014-2020 funding round, this support was provided through 16 different projects across two streams of the “Growth and Employment” operational programme (SO 1.2.2., measure 1.2.2.1 and 1.2.2.3).

The current model of subsidised training programmes supports technical training that target the skill gaps of employers in a particular sector, for example, in the fields of engineering, production, and processing. The generosity of support decreases with company size: large companies are eligible for a training subsidy of 30-50% of training costs, medium-sized enterprises for 60%, and small and micro enterprises for 70% of training costs. The current delivery model gives substantial responsibility to employer associations, which raise awareness about the programmes, select training topics, procure training providers, and then process applications and administrative documents by companies. Associations send company applications to the Central Finance and Contracting Agency (CFLA), which makes a decision on approval based a range of certain eligibility criteria, which include the requirement that the company does not have outstanding tax debt. Upon receiving documentation that training has taken place, the CFLA pays out the respective subsidy to companies, and compensates employer associations for their activity with a “coordination budget”.

As described in the key barriers and enabling conditions report, this model works well overall and clearly adds value to the Latvian policy ecosystem in the area of employee training. At the same time, several features could be improved, for instance, awareness-raising efforts beyond members of the respective association, and the take-up of subsidised training programmes by MSMEs (OECD, 2022^[2]). Working group 1 (WG1) discussed improvements to the current model in three areas: (i) eligibility and application process for companies; (ii) eligibility and responsibilities of employer associations; and (ii) awareness-raising efforts. These improvements could be implemented in the next application round of intermediaries for the subsidised training programmes in 2024.

Stakeholders in WG1 also voiced two general concerns. Stakeholders stressed that the responsibilities of municipalities in the regulation by the MoES should be clearly defined and made complementary to the current role of employer associations. Furthermore, stakeholders emphasised that lifting the quality of the training and adult education provision in Latvia should be considered a general priority.

Eligibility criteria and application process for companies

Members of WG1 agreed that existing eligibility requirements for subsidised training projects and the application process for companies should be maintained, aside from small adjustments to the generosity of support and the eligible training areas (see below for more information on these proposed adjustments). Notably, all enterprises should continue to be eligible, from micro enterprises to large companies. Second, companies should continue to share the same supporting documents with respect to the previous round of programme implementation with employer associations, which can then forward them to Central Funding Agency (CFLA) for assessment, as required by EU regulations. While relaxing certain eligibility criteria for subsidised training could facilitate access for companies, for instance, the condition for firms not to have operated at a loss in the previous financial year, these cannot be changed due to EU regulations. Third, provided that the eligibility assessment is successful, companies should continue to finance 100% of courses up-front, while receiving a reimbursement of costs once they have provided documentation that training has taken place. Allowing companies to only advance their own contribution in advance, as suggested in the first OECD report on key barriers and enabling conditions (OECD, 2022^[2]), could result in an increased uptake, but might imply additional bureaucracy and increase overall administrative costs.

The generosity of support should remain at 50%, 60% and 70% for large, medium, and small firms respectively, consistent with EU regulations. Currently, large companies are required to allocate more than

1.5% of after-tax profits to long-term investment or R&D to receive the full 50% of training subsidy. Stakeholders suggested that this requirement could be dropped to reduce bureaucracy.

Latvia is advised to target enterprises in all sectors that are eligible to the subsidised training programmes, as particularly smaller enterprises might train their employees at a lowered cost. Four sectors should be excluded, namely the NACE Rev. 2 'Agriculture, forestry and fishing', as well as 'Public administration and defence; compulsory social security', 'Education' and 'Human health and social work activities'. The Latvian Ministry of Agriculture has specific EU-funded support programmes in place that currently cover training in the sector 'agriculture, forestry and fishing', while wood processing would be a subsector of manufacturing that is eligible for training subsidies. Public administration and organisations in the other sectors should independently design the necessary training offer. Previously, other sectors had also been excluded, namely 'real estate activities', 'transportation and storage', 'wholesale and retail trade; repair of motor vehicles and motorcycles', 'construction', 'water supply; sewerage, waste management and remediation activities', 'electricity, gas, steam and air conditioning supply', as well as certain sub-sectors of manufacturing. In case of budget constraints, however, the MoES could limit the eligibility of companies to receive subsidised training according to the sectoral prioritisation of the Latvian Smart Specialisation Strategy (Ministry of Education and Science, 2020^[6]). The Smart Specialisation Strategy focuses on higher added value sectors, those with potential for productivity increases and higher resource efficiency. After the next EU planning round, in principle 'agriculture' could also be included, depending on developments in EU funding.

The current list of training areas eligible for financing in the subsidised training programmes has been assessed as relevant and should be maintained (Table 2.1). However, associations should be able to propose new training areas when submitting their applications to be evaluated by the CFLA. The focus is on technical training, which generally seem to correspond to the demand by employers. Training that is compulsory under Latvian labour law (section 96) (Latvijas Vēstnesis, 2001^[8]), such as health and safety training should continue to be excluded from the subsidy.

Table 2.1. Training areas to be supported in the subsidised training programmes

Training areas that were eligible for financing in the first and second round of project applications in the subsidized training programmes		
Design	Engineering and technology	Marketing
Telematics and logistics	Production and processing	Business Management
Telemecanics and logistics	Construction and Civil Engineering	Quality assurance and management
Project management	Forestry	Catering and hotel commercial activities
Industrial Engineering and Management	Health care services	Hotel management
Programming	Hotel and restaurant services	Tourism management
Physical Sciences	Organisation of International Transport	Tourism and Recreation Organization
Mathematics and Statistics	Environmental protection	Financial Management
Use of computers	Languages	Architecture and Urban Planning
Computer systems, databases and computer networks	Electronic commerce	

Note: Training areas that were excluded are training in areas not included in this list, higher education programmes, training specified in Article 31(2) of Commission Regulation No 651/2014, and driver's courses for the acquisition of categories A1, A, B1, and M. The cabinet regulation defines additional restrictions in some areas, e.g. language training should only target employees in information technology, telecommunications, manufacturing or catering, and some training areas are only available for specific sectors outlined in the Latvian Smart Specialisation Strategy. The 'Forestry' training area is included, even if the 'forestry' sector is not, because it is useful in some sectors beyond 'Forestry' (e.g. wood manufacturing).

Source: Regulation of the Cabinet of Ministers Nr. 617, October 27 (2015^[9]). "Darbības programmas "Izaugsme un nodarbinātība" 1.2.2. specifiskā atbalsta mērķa "Veicināt inovāciju ieviešanu komersantos" 1.2.2.1. pasākuma "Atbalsts nodarbināto apmācībām" un 13.1.6. specifiskā atbalsta mērķa "Atveseļošanas pasākumi ekonomikas nozarē – nodarbināto apmācības (ERAF)" pirmās un otrās projektu iesniegumu atlases kārtas īstenošanas noteikumi", <https://likumi.lv/ta/id/277601>.

The current list of training areas leaves little room for training opportunities for vulnerable workers, a priority identified in the first OECD report on key barriers and enabling conditions. Groups that are less likely to participate in training, such as low-qualified and non-Latvian speakers, should be targeted outside of the subsidised training programmes, for instance, by training programmes that will be delivered through municipalities or the Public Employment Service (PES). According to Latvian legislation, the municipalities have the responsibility to train employed adults, while the PES should focus on the unemployed and individuals at risk of unemployment. The subsidised training programmes target firms rather than individuals, which does not readily allow a focus on specific groups. According to stakeholders, covering these groups within the subsidised training programmes also risks overstressing the capacity of associations and causing a duplication of efforts.

Selection process and responsibilities of intermediaries

Consistent with the current ERDF-funded projects, intermediaries should continue to be selected by the CFLA through a public competition. The CFLA currently assesses the ability of associations to perform the functions of intermediary for training, their methodology to assess the training needs of the sector, their approach to procurement, and suitable quality management, irrespective of their size. The assessment criteria by the CFLA for intermediaries' applications should be published in advance. There should be at most one association or partnership of associations selected per each eligible sector or area of economic activity. Selected associations or partnerships of association should provide support both for subsidised training and for the measures to promote learning culture (see Chapter 3). This would help to consolidate the system of employer association and avoid fragmentation.

Based on the input from stakeholders, three changes would be beneficial to improve the functioning of intermediaries. First, intermediaries should be selected for a period of at least three years, with the option of renewal of another three years. This timeframe is necessary to allow the associations to set-up the required infrastructure and get the project up and running. There should be an assessment after the first three years of operation and if positive, an option of prolonging the collaboration with specific intermediaries for another three years.

Second, applications in partnership between employer associations should receive bonus points. Partnerships could allow smaller employer associations to co-implement a training programme with a partner organisation, would avoid fragmentation in the system of intermediaries, and have the potential to reach more beneficiaries. Such applications based on partnerships would be submitted by the leading partner organisation, while it could be bound by an internal partnership agreement between two or more intermediaries.

Third, applications by employer associations to act as intermediaries in the subsidised training programmes should include a brief document outlining a training strategy for the sector. It should be a short, forward-looking and strategic document that outlines the key training areas that associations intend to focus on, including those that are already eligible, and those which are not. It should be based on a training needs assessment, that is, qualitative consultations or a survey with companies about the demand for training in the respective sector. The new training areas should be approved based on whether they fill a pressing skill need in a certain industry and occupation, and according to investment priorities, for instance, as outlined in Latvia's smart specialisation strategy (Ministry of Education and Science, 2020^[6]).

An update of this document could be produced yearly. It should provide a short overview of training activities in the past year and any proposal for new or different key training areas. These proposals should also draw on the feedback by the external experts conducting the assessment of enterprises skill needs (see chapter 3). The document could be the basis to ensure that associations can coordinate on the provision to avoid overlaps, both within the subsidised training programmes and with other government programmes, for instance, with the ILAs focusing on the digital skills of individuals (see Chapter 4).

Once they are operational, employer associations should continue to have the same responsibilities they have been performing within the current ERDF-funded projects, with some adjustments. They should continue to raise awareness about the programmes; select training courses, identify the training providers; and process applications and administrative documents by companies. However, the coordination budget for intermediaries to run the programme should be revisited. While employer associations have signalled that the coordination budget should be increased to build capacity and support project implementation, other stakeholders maintained that the current EUR 3,000 maximum monthly cap is sufficient. Since the current cap has been in place since 2016, the coordination budget should at least be adjusted to inflation.

Furthermore, the reporting documents intermediaries need to submit about how the coordination budget is used should be simplified as much as possible and should be streamlined under a simplified cost options (“vienkāršotās izmaksas”) model that does not require detailed proofs of each expenditure that has taken place. Under this simplified model, the reimbursement is based on ex-ante estimations of the actual eligible costs, to be paid out as a flat rate or according to standardised unit costs for certain activities (European Commission, 2014^[10]).

Awareness-raising and communication activities

The first OECD report on key barriers and enabling conditions has stressed that, due to limited resources employer organisations mainly target their own members when promoting the subsidised training programmes, as opposed to all firms in their sector or area of economic activity (OECD, 2022^[2]). This is problematic, given the low share of firms that are part of employer organisations in Latvia. Just over half of Latvian employees are working for an enterprise that is member of an employer organisation, which is considerably lower than in other EU countries (OECD, 2022^[2]). There may thus be a general lack of awareness among unrepresented enterprises about subsidised training opportunities.

To address this issue and make the support measures more widely known among employers, a dedicated, independent budget for intermediaries to conduct awareness-raising and communication activities should be introduced. Clearly communicating about the availability and benefits of the subsidised training programmes is crucial to support the participation of MSMEs as well as companies that are not member of an employer association. In principle, this budget could fall under ‘*de minimis* regulation’, which allows employer associations to receive up to EUR 200,000 every three years without having to go through a state-aid procedure under EU regulation. However, making awareness-raising and communication a priority for all intermediaries will likely require a separate and more generous budget line beyond the ‘*de minimis* regulation’, according to the indications by stakeholders.

It also will be necessary to give clear indications about which types of awareness-raising and communication activities by intermediaries can be funded. Intermediaries could be required to present an awareness-raising and communication strategy with a detailed description of activities planned as part of their application. Again, the topic of awareness-raising and communication and associated reporting requirements should be put on the agenda of the steering group (see Chapter 4). Intermediaries could be remunerated for the following list of activities:

- Creation of a website outlining the training offer of association (whose publication should be made compulsory)
- Outreach via email and telephone
- Social media campaigns
- Information events and networking sessions (joint with municipalities, other associations and other actors, such as public employment services)

Policy actions: refining subsidised training programmes

- **The subsidised training programmes should continue to target all enterprises, and the generosity of support should continue to vary by firm size.** Micro, small, medium, and large enterprises should continue to be targeted by the subsidised training programmes, within the limits imposed by EU regulations, that is 50% (large), 60% (medium), and 70% (micro/small enterprises) subsidy scheme.
- **At most one employer association or partnership of associations should be selected for each (sub-) sector and operate for at least three years.** The eligibility of sectors should be extended (only 'agriculture, forestry and fishing' and well as 'public administration and defence; should be excluded). In case of budget constraints, the MoES could limit the eligibility of companies in sectors covered by the Latvian Smart Specialisation Strategy. To avoid fragmentation, associations that apply in partnership should receive bonus points in the assessment of their application, and there should be one association/partnership per sector. Each association/partnership should be selected for a period of at least three years, with the option of renewal for another three years.
- **Associations should submit a training plan along with their application, which specifies which training areas they intend to target and update the plan yearly.** The plan should be a short, forward-looking, and strategic document that outlines the key training areas that associations intend to focus on. The document should be updated yearly to facilitate coordination on training provision within the steering group (see Chapter 4). Associations should be able to propose training from an existing list of eligible training areas (based on the current ERDF regulation) or propose new training areas. In the latter case, the new training areas should be approved based on whether they fill pressing skills need in a certain industry and occupation, and according to investment priorities.
- **There should be a dedicated budget for intermediaries to conduct awareness-raising and communication activities.** To raise the participation of MSMEs and companies that are not member of an employer association, awareness-raising and communication activities should be made a priority. This requires a more generous budget line, independent from the '*de minimis*' regulation on the maximum allowable amount of state aid. To keep track of how the funding will be used, associations could be asked to submit a communication strategy when they present their application.

Piloting of the Skills Funds

The MoES is planning to pilot Skills Funds in three to five sectors, as a key policy instrument to pool resources from employers to jointly fund training opportunities. Examples from other countries, such as Skillnet Ireland, have shown success in stimulating co-operation among employers and in overcoming capacity constraints by supporting a flexible, enterprise-led approach to skills development based on pressing skill needs in a given sector (OECD, 2022^[5]). Skills Funds pool funding through national or sectoral levy, whereby employers contribute a share of payroll - typically between 0.3 and 1% - or a fixed amount per employee. Companies can then access training organised and (partially) financed by Skills Funds. In Latvia, the key benefit of Skills Funds could be greater financial sustainability due to a private-public co-funding model, and improved cooperation across companies, sectors and social partners more generally. Next to lowering the cost of training, Skills Funds may also help reduce fears of enterprises that

their employees will be poached if they invest in their training, as all companies (in a certain sector) will be required to contribute to the Fund.

The piloting of Skills Funds received a lot of support from Latvian stakeholders, who see the need for a funding model of training support measures that is more independent from EU structural funds. In the medium term, a levy paid by companies will increase the overall private investment in employee training, may help overcome poaching concerns by companies, and boost collective training solutions. Skills Funds can build on existing structures and networks established through the subsidies training programmes and involve trade union representatives. At the same time, careful design and planning of Skills Funds pilots will be important to test incentives for intermediaries and companies in Latvia.

Introduction of Skills Funds and relationship with subsidised training programmes

Stakeholders emphasised that Skills Funds should be subject to careful planning and additional analysis prior to implementation. A consultation process in the next year should be set up to develop a suitable model of Skills Funds in the Latvian context. Such a process could involve employer associations, the relevant ministries, trade unions, and other key actors. The consultation may build on analysis of the experiences of employer associations and the demand by companies.

Policy continuity, credibility and trust are necessary conditions for the implementation of Skills Funds. The success of Skills Funds will depend on targeted design and a long-term strategy that can lead to the buy-in of companies and employer associations. A transparent consultation process can help generate sufficient trust among companies, potential intermediaries and trade unions.

As in the case of the subsidised training programmes, there should be at most one fund per sector, operated by an employer association or a partnership of associations. Importantly, the subsidised training programme and the fund should not be present in the same sector at the same time. A parallel set up of both initiatives would create duplication and could make it less attractive for companies to join the Skills Funds. The employer associations or partnerships that are already acting as intermediaries in the subsidised training programmes should be eligible to set up a Skills Fund.

These implies that the timeline for the implementation of the Skills Funds should be aligned with that for the subsidised training programmes. Given the current application cycles and the need for a consultation phase for Skills Funds, the application round in 2027 seems a feasible date for a first introduction of the Skills Funds. Employer associations would apply either to become intermediaries in the subsidised training programmes or to set up a Skills Fund in their sector.

Trade unions should also be involved in the governance of Skills Funds. For instance, they could become a member in their management board or decision-making committees that meet regularly to identify priorities for training. A tripartite governance based on social dialogue is a key aspect of Skills Funds in other countries.

Key design features of Skills Funds

While most of the design choices for Skills Funds in Latvia will have to be taken in the consultation process, during WG1, stakeholders made some important considerations with respect to the legal basis, funding model and governance of Skills Funds in Latvia. These considerations can be a starting point for the consultation process. In general, Skills Funds in other countries are based on a compulsory levy for companies, whereby every firm has to contribute a given share of payroll, or a fixed sum for each employee. The basis for such compulsory levies is either legislation or collective agreements. Stakeholders strongly signalled that a classical compulsory levy would be difficult to implement in Latvia in the short term, because employers would negatively view the introduction of an additional tax, without a clear understanding of the benefits it can bring. The initial *piloting* of Skills Funds should follow a different

approach to prove which implementation model could work best and potentially prepare the ground for the introduction of a training levy in the medium to long term.

Firstly, according to stakeholders, the legal basis for the Skills Funds *pilots* could be collective agreements or ad-hoc partnership agreements among industry and social partners. Under both options, employers, employer associations the government and trade unions would agree to fund the establishment of a Skills Fund in a certain sector. The agreement would define an obligation for firms in a specific sector to contribute to a (sectoral) Skills Fund, based on a specified share of payroll, or a fixed sum per employee. Similar to the subsidised training programmes, employer associations should include a training strategy in their application to operate a Skills Fund. The training strategy should be based on existing skills and training gaps and approved by employers and trade unions in the sector. If the piloting of Skills Funds based on collective or partnership agreements is successful, this could prepare the ground to introduce a legislated training levy in the medium to long term.

Regardless of the legal basis chosen, additional funding by the EU or the Latvian government during the piloting phase – on top of voluntary or compulsory employer contributions – would provide financial incentives for sectoral and industry associations to set up Skills Funds. Yet, according to stakeholders, a flexible and targeted training offer as well as lower administrative requirements could also be attractive for firms. This has implications for the tripartite governance model. Skills Funds, in contrast to the subsidised training programmes, should have wide-ranging autonomy to develop a training and education offer that meets the needs of companies and workers, and should have lower administrative requirements for the use of funding.

Policy actions: piloting Skills Funds

- **A broad consultation process should be set up to develop a suitable model for Skills Funds in Latvia in 2023.** Policy continuity, credibility and trust are necessary conditions for the implementation of Skills Funds. A transparent consultation process can help generate sufficient trust among industry stakeholders to support the introduction Skills Funds in a subset of sectors. This process should involve employer associations, the responsible ministries, trade unions, and other relevant actors.
- **In each (sub-)sector, there should be at most a Skills Fund (or a subsidised training programme), operated by an employer association or a partnership of associations.** The employer associations or partnerships that are already acting as intermediaries in the subsidised training programmes should be eligible to set-up a Skills Fund in their sector. This means that the timeline for the implementation of the Skills Funds should be aligned with that for the subsidised training programmes. The application round in 2027 seems a feasible date for a first introduction of Skills Funds.
- **The Skills Funds should have wider autonomy and pose lower administrative requirements, compared to the subsidised training programmes.** To make the Skills Funds attractive vis-à-vis the subsidies training programmes, they should have more freedom and flexibility in developing the training and education offer. The trade unions should also be involved in the governance of Skills Funds. For instance, they could become a member in their management board or decision-making committees.

3. Measures to strengthen enterprises' training capacity and culture

Introduction

Policy measures to strengthen the training capacity and culture within enterprises can reduce employers' barriers to training, such as the lack of training culture among managers, particularly in MSMEs. Strengthening the learning culture and training capacity can raise employers' intrinsic motivations for training, which could decrease enterprises' dependence on external and often temporary factors (e.g. public subsidies) in the long run (OECD, 2022^[5]). Specific measures to strengthen enterprises' learning culture and training capacity include: i) supporting enterprises' skill assessment and anticipation capacity, ii) promoting innovative and modern workplace practices, iii) fostering enterprises' management and leadership skills, and iv) providing easily accessible information on training support (OECD, 2022^[5]). As the OECD's report on [Good Practices in Europe for Supporting Employers to Promote Skills Development](#) concluded that measures i) and iv) are most relevant for Latvia, these were the focus of WG2 and WG3 discussions, and of this chapter.

Although Latvian stakeholders concurred with the importance of motivating employers to engage in training and providing employers with relevant training information at the good practice workshop in May 2022, Latvia currently has few initiatives in place to improve enterprises' learning culture and capacity for training. This chapter reports the findings from WG2, which discussed two policy measures to support enterprises to assess the skills gaps and training needs: an online tool for the self-assessment of skills and training gaps and external expert assessments of MSME's skills and training gaps.

Development of an online tool for the self-assessment of skills and training gaps for enterprises

Latvian enterprises, particularly MSMEs, face capacity-related barriers to identifying training needs due to personnel/expertise and time constraints. Stakeholders agreed that one policy measure for tackling the lack of capacity to assess enterprises' skills gaps and training needs should take the form of a free online tool for the self-assessment of skills and training gaps, which could be developed during the second semester of 2023.

Latvia has self-assessment tools for individuals and enterprises, but these tools are not specifically designed to comprehensively assess enterprises' skills gaps and training needs. The self-assessment tools for individuals include digital skills assessment tools (e.g. those offered by [the European Commission \(DigSAT\)](#) and [www.latvija.lv](#)), digital skill or personality assessment tools (e.g. those offered by [www.latvija.lv](#), Erasmus+ project, and Public Employment Service), and career opportunity assessment

tools for young people available through the National Education Opportunities database. The self-assessment tools available to enterprises are focused on digital skills (e.g. by LIKTA and EDIHs) and corporate social responsibility (e.g. by an NGO, *InCRS*). However, some stakeholders reported that existing tools for self-assessing digital capacity lack a robust methodology and provide little insight to the user. Latvia's experiences with these tools could inform the development of the new measure, and the steering group (see Chapter 4) could ensure the coherence of the new tool with other existing and planned tools.

Good practices from other EU countries, like Italy and Ireland, can also inform the development of Latvia's own tool for the self-assessment of skills and training gaps. For Italy, the OECD has been developing a free [online self-assessment toolkit for SMEs](#). The self-assessment toolkit is an online questionnaire designed to use basic information about the business, the current skills of its employees, and its prospective skills gaps as reflected in its future business strategy to draw a picture of skills and training gaps. The toolkit's respondents are employers or HR managers and the estimated time to complete the survey is 15-20 minutes. The toolkit was well received, with some minor amendments, by 15 Italian SMEs that participated in the pilot trial (OECD, 2022^[11]). In Ireland, Regional Skills Fora provide enterprises participating in the *Skills for Growth* project with access to a skills audit toolkit. This toolkit allows enterprises to assess skill gaps and learning needs and offers 1:1 workshops for senior managers on how to assess skills gaps and develop a skills plan with the toolkit (OECD, 2022^[5]).

Likewise, the assessment tool for Latvia would usefully take the form of an online self-assessment tool for skills and training gaps. All enterprises should have free access to the tool to maximise access and use of the tool. The user-friendliness of the tool (including complexity and time to complete), as well as the relevance of the questions and results for users will be critical to the tool's success. To this end, the tool may need to include tailored modules for enterprises in different sectors. A potential starting point for the methodology underlying the assessment tool could be the OECD's work on developing the self-assessment tool for firms in Italy. The online self-assessment tool should be supported with basic, remote technical/user support. As needed, the support provider could refer MSMEs to the more intensive measure – a skills and training gap assessment carried out by an external expert (see the next section).

It is important that the service should deliver a summary report of their results. Enterprises using the tool should also be able to request the advice of an external expert to subsequently help the firm to find relevant subsidised training courses. The experts who are responsible for providing the external assessments of, and the funding arrangement for, this service would be the same as for the “external expert assessments of MSME's skills and training gaps” (see next section).

The online skills and training self-assessment tool should be developed under the oversight of the MoES, in consultation with the Ministry of Economics (MoE) and employer associations. The same associations that have been selected to become intermediaries for the subsidies training programmes (see Chapter 2) should be consulted. The tool should be displayed on the existing websites used by enterprises (see Chapter 4 for more detail). Links to these websites should be displayed on the websites of employer associations and the MoES, among others.

Policy actions: developing an online tool for the self-assessment of skills and training gaps for enterprises

- **The self-assessment tool should be user-friendly and quick to complete, but also comprehensive and insightful.** The online tool should cover both general and sector-specific skills, and therefore include a sector-specific module for each user. It should take no longer than 20 minutes to complete, and basic, remote technical/user support should be available to users who need it.
- **At completion, the tool should generate a report on the enterprise's skills and training gaps and refer them to external experts for advice on available training.** Any enterprise that completes the online self-assessment should receive a summary report of their results. Enterprises should also be notified of the possibility to request the advice of an external expert to subsequently find relevant subsidised training courses. Anonymised results of the tool could be periodically aggregated by the secretariat of the steering group, and shared with employer associations that act as intermediaries in the subsidised training programmes or run a Skills Fund to inform their training strategy and offer.
- **The tool should be available to all enterprises free of charge.** Access to and use of the online self-assessment tool should not be restricted by an enterprises' size, employer association membership or other characteristics.
- **The tool should be developed under the oversight of the MoES, in consultation with the MoE and employer associations, and available on an existing website used by enterprises.** The tool should be 100% funded by the MoES within the framework of its programmes and budget. The websites of employer associations and the MoES, among others, should link to the online tool, and vice versa. The same associations that have been selected to become intermediaries for the subsidies training programmes (see Chapter 2) should be consulted on the development of the tool.

Provision of external expert assessments of MSMEs' skills and training gaps

While the online self-assessment tool is a good and necessary start, many MSMEs will likely require even more personalised support to understand their skills gaps and training needs and find relevant training. Some MSMEs may feel that they lack the time, capacity, and/or knowledge to complete an online tool themselves, and may require an alternative service providing more extensive support.

Currently in Latvia, existing support programmes for enterprises (apart from direct provision of training programmes) are not related to training. Aiming at promoting digitalisation of enterprises, the [Latvian Information technology cluster](#) and [Latvian Digital accelerator](#) run by EDIHs will offer enterprises a variety of advisory services: assistance with developing digital development roadmaps and assessments, consultations and mentoring on digital transformation, and with initial and post-intervention digital maturity tests. The proposed external assessments for enterprises would help MSMEs to assess their skills gaps and training needs, including but not limited to digital skills. The steering group (see Chapter 4) could ensure the coherence of the new measure with existing/planned advisory support for enterprises.

Two international good practices from Ireland and Wallonia, Belgium are useful for informing the design of the measure for Latvia. In Ireland, Regional Skills Fora managers carry out 1:1 in-person assessments of enterprises' current skills and difficulties. The Regional Skills Fora manager starts the process with a

qualitative interview with the employer about their business and skills-related matters. After the interview, the Regional Skills Fora manager updates a database and suggests training and education providers who can deliver the relevant solution. In Wallonia, Belgium, Competence Centres analyse the structural, material, and organisational profile of enterprises, to help identify their skills gaps. Based on the gaps identified, the Centres can develop and provide a customised training programme, if there are no training courses available.

The external expert assessments of MSMEs' skills and training gaps with guidance on finding relevant training could further reduce the capacity-related barriers to training for MSMEs. Large firms in Latvia are less likely to need access to this intensive service. External experts would conduct assessments for MSMEs' skills and training gaps, in consultation with a manager/HR manager in the enterprises, and then provide advice on available relevant training to the enterprises. For coherence with the online tool (described above), the two measures should be based on the same underlying methodology, although external experts would conduct a more in-depth assessment than is possible via the online tool. Finally, it is also important that these external experts have a detailed knowledge of the client enterprise's sector, including knowledge of its sector-specific and transversal skills gaps, in order to ensure the relevance and value of the assessments for users.

Stakeholders discussed different options for funding external assessments for skills and training gaps. Some considered that the service should be free of charge subject to the EU's regulations on '*de minimis*' state aid to reduce financial barriers to MSMEs. However, given the existing financial constraints faced by Latvian authorities, it would be best for the assessment to be funded according to standard EU subsidy rates (up to 70% support for micro and small enterprises and 60% for medium enterprises).

Latvia is advised to target MSMEs in all sectors that are eligible to the subsidised training programmes. In the event of budget constraints, however, the MoES could limit the eligibility of companies to receive external expert assessments according to the sectoral prioritisation outlined in the Latvian Smart Specialisation Strategy. The Strategy describes priority sectors for an "economic transformation towards higher added value and international competitiveness" (Ministry of Education and Science, 2020^[6]).

Employer associations would be relatively well positioned to identify and engage external experts. They have, and know who has, experience and knowledge of skills gaps and training needs within sectors, and are already providing training and skills related services to enterprises in their sectors (SO 1.2.2.1). The network of external experts should therefore be developed by employer associations as an additional eligible activity of the subsidised training programmes, under the oversight of the MoES (see recommendations in Chapter 2). The experts could come from various professions. These could include, for example, training providers with experience evaluating enterprises' training needs, auditors who have conducted skills assessments for enterprises, suppliers who can train enterprises to use critical equipment/technologies, among others. The network of external experts could be established in parallel to developing the online tool for the self-assessment of skills and training gaps for enterprises, and services could become effective after the next application round for intermediaries in the subsidised training programmes in 2024.

External expert assessments will also produce valuable information about existing sectoral skills and training gaps. The results of these assessments should regularly be shared with employer associations in an anonymised way to inform the yearly updates to the training plan (see Chapter 2).

Policy actions: providing external expert assessments of MSMEs' skills and training gaps

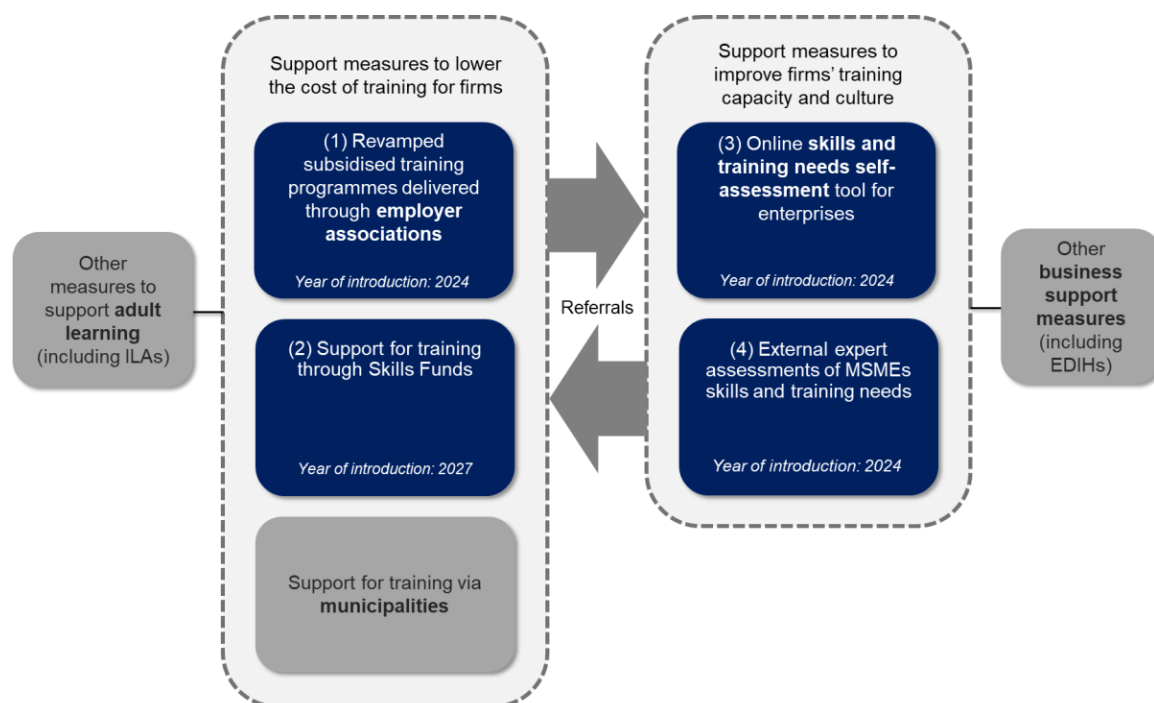
- **A network of government-funded experts should offer external assessments of MSMEs' skills and training gaps in consultation with managers within the enterprises.** The external experts should assess enterprises' skills gaps and training needs and provide guidance on relevant available training for MSMEs. The experts should have deep knowledge of sector-specific skills and transversal skills gaps within at least one sector, as well as knowledge of relevant training opportunities. The methodology they use should be based on the methodology and questionnaire underlying the online self-assessment tool for skills and training gaps but go into more detail than the online tool.
- **The experts should provide participating MSMEs with a detailed assessment of their skills and training gaps and recommend relevant training.** At the end of the assessment, experts should provide the enterprise with a detailed skills and training gaps report, recommend relevant existing or new subsidised training courses the enterprise could provide to its employees, and explain how to access this training. Experts should regularly provide anonymised feedback to employer associations on emerging skills gaps and training needs, to inform associations' training strategy and offer.
- **The assessments should be funded according to standard EU subsidy rates (70% support for micro and small enterprises, and 60% for medium enterprises).** Large enterprises would not need free/subsidised external assessments as they have sufficient HR capacity for diagnosing their skills and training gaps.
- **The network of external experts should be implemented by employer associations alongside the subsidised training programmes, under the oversight of the MoES.** Employer associations should identify and engage external experts with sectoral knowledge, for example training providers, auditors, equipment suppliers, or other experts. Associations should develop the network of external experts as an additional eligible activity of the subsidised training programmes, under the oversight of the MoES. There should be one employer association or partnership of associations per (sub-) sector, to implement the subsidised training programmes, select the external expert(s) and oversee their assessments (see Chapter 2).

4. Mechanisms to ensure coordination

Introduction

The four key measures discussed in chapter 2 and chapter 3 create a comprehensive policy package, which can help enterprises in Latvia improve their training provision (see Figure 4.1). The policy package includes (i) the refinement of the existing subsidised training provided through employer associations; (ii) the piloting of Skills Funds; (iii) an online tool for enterprises to assess their skills and training gaps; and (iv) external expert assessments of skills and training gaps of micro-, small and medium-sized enterprises' (MSMEs). This policy package forms an ecosystem with different entry points for companies and frequent referrals across measures. For example, companies may want to use the online self-assessment tool to learn about their skills and training needs, and then be referred to existing subsidised training programmes offered by employer associations, or vice versa.

Figure 4.1. Ecosystem of support measures in Latvia



A successful roll-out of the policy package requires the implementation of strong coordination mechanisms. In Latvia, as in all OECD countries, policies for the skills development of the workforce lie at the intersection of educational, labour and industrial policies. Strong coordination both within the four measures in the policy package and with other existing or planned policy measures is crucial to ensure policy coherence, realise potential synergies, and maximise the impact of available support. To address these issues, working group 3 (WG3) considered areas where coordination is necessary in the Latvian training and adult learning system. It discussed coordination within the four measures (blue boxes in Figure 4.1), and coordination within the larger ecosystem of support measures in Latvia. The discussions resulted in the development of proposals for two concrete coordination mechanisms: a permanent steering group to coordinate the measures that support enterprises to provide training; and a unified portal to access information on training opportunities and support.

Creation of a permanent steering group

As discussed in the first OECD report on key barriers and enabling conditions, associations implementing the ERDF-funded projects on training are lacking an official forum where to discuss implementation challenges and exchange good practices. Similarly, there is no body or platform where different ministries, associations and municipalities can coordinate on initiatives that aim to support employers to provide training. To address these concerns, a permanent steering group could be created and be operative starting potentially from the second semester of 2023, which should coordinate the implementation of the four key measures in the policy package, as well as other policies that support enterprises to provide training.

Responsibilities

The key areas of activity of the steering group should be (i) coordination on the implementation of support measures that aim to increase employer investment in skills development; (ii) coordination on outreach and awareness-raising activities to companies (even targeted at companies which are not members of an employer association); (iii) exchange of best practices; and (iv) data analysis and monitoring.

First, to facilitate the implementation of support measures for companies, one of the key tasks of the steering group should be to coordinate the activities of employer associations and municipalities. This is an issue that received substantial attention during WG3. The role of municipalities and employer associations should be complementary. There was agreement among stakeholders in WG3 that municipalities should support outreach to local businesses, especially in more rural regions. According to stakeholders, municipalities may have strengths in terms of great engagement and personal connections with local businesses and experience in managing adult learning offers (as opposed to employer associations with only limited contact with micro-sized and rural enterprises). However, there is large variation in the administrative capacity across municipalities and frequently only limited institutional knowledge on business support services. The steering group can provide a framework for municipalities to improve and align their offer with that of employer associations.

The steering group could also coordinate to avoid overlaps in training provision with other government programmes, as well as across employer associations. The MoES may decide to exclude certain training areas from being eligible to be subsidised if this would lead to a significant duplication of effort for the same target group with other available government support measures. In the same vein, the steering group could help avoid duplications of training areas across employer associations and support common procurement of certain general and cross-sectoral training courses.

Second, coordination on outreach and awareness-raising could entail aligning on the methods and channels for outreach, common events to advertise the training programmes and concerted marketing

efforts across different support measures, for instance, in cooperation with other associations, but also municipalities, public employment associations, or the MoES. The coordination of awareness-raising activities could also benefit from a centralised database on enterprises contact details. The rules for sharing data on enterprises should be agreed in the steering group itself, consistent with EU and Latvian privacy rules.

Third, other key tasks of the steering group may be the exchange of best practices across intermediaries. The steering group could create a regular forum for exchange on best practices, where project managers of employer associations can meet to discuss best practices and share experiences on what approaches and solutions have shown good results in the implementation of training programmes, or the outreach and awareness raising efforts.

Fourth and last, data analysis and monitoring should be an activity coordinated by the steering group, with support by the secretariat, in order to measure the impact of measures and identify weaknesses or gaps. Data analysis and monitoring activities will be key to oversee the implementation of the subsidised training programmes and will be covered more in detail in subsequent outputs of this project.

Composition

The steering group should meet at least four times a year and include employer associations who may act as intermediaries in the implementation of the policy package, the MoES, the Ministry of the Economy (MoE), the Ministry of Welfare (MoW), the Central Funding Agency (CFLA) and municipalities. Some representatives of the Digital Innovation Hubs and Individual Learning Accounts initiatives could be invited, as their participation may prevent an overlap of training subsidies in the area of digital skills.

The Ministry of Finance (MoF) and State Revenue Service (SRS) could also join for specific sessions. For example, the MoF and SRS could join to answer some questions on the of application of the VAT regulation in the subsidised training programmes. According to stakeholders, several associations have struggled to understand when and how to treat VAT in the invoices issued to companies.

Generally, it is important to limit the size of the steering group to ensure its efficiency. Choosing one representative only from of each association acting as intermediary or Ministry to participate in the steering group, and 2-3 representatives from municipalities, is preferable to achieve this goal. The emphasis of the steering group should be the support programmes implemented through employer associations – subsidised training programmes, Skills Funds, and external expert assessment.

Governance

The steering group would benefit from a secretariat to ensure coordination on awareness raising activities, analysis, and the flow of information between members of the steering group. Such a secretariat could be hosted at the State Education Agency (SEA) and be funded through central financing. The secretariat should be lean to minimise public expenditure and be better able to support associations in their activities.

Potentially, the steering group could become a task force in a reformed Governing Council for Adult Education. The Council is currently a supervisory body for adult education projects and policy implementation, which will be enshrined in Education Law in the future. Stakeholders in WG3 considered that it could be reformed, by increasing the membership of employer associations and introducing dedicated taskforces to discuss technical-level issues. Within the context of this reform, the steering group could become a task force reporting to the Council on the implementation of the subsidised training programmes, external training needs assessment, and other support measures that contribute to increase investment by employers in skills development. Even before the reform takes place, the steering group could become a “pilot task force” to support the implementation of the measures in the policy package and the consultation on the Skills Funds. The steering group could be set up and be operative in the second semester of 2023 and thus may need to precede the reform of the Governing Council for Adult Education.

Policy actions: creating a permanent steering group

- **A permanent steering group should be established coordinate the four key measures in the policy package and other measures supporting employers to provide training.** It should meet at least four times a year and take leadership on (i) coordination on the implementation of support measures; (ii) coordination on outreach and awareness-raising activities to companies ; (iii) exchange of best practices; and (iv) data analysis and monitoring. Potentially, the steering group could become a task force in a reformed Adult Learning Council.
- **The steering group should include representatives of employer associations, MoES, MoE, MoW, municipalities and the CFLA.** To ensure efficient decision-making, it should consist of only one representative of each employer association acting as intermediary or Ministry, and only 2-3 representatives of municipalities. Some representatives of the Digital Innovation Hubs and Individual Learning Accounts initiatives could be invited, as their participation may prevent an overlap of training subsidies in the area of digital skills. The MoF or SRS could be invited for specific sessions.
- **The steering group should be supported by a lean secretariat.** The secretariat should ensure coordination, analysis, and the flow of information. It could be hosted at the State Education Agency and funded through central financing.

Establishment of a unified online platform

The importance of more accessible and centralised online information on training opportunities and support, in order to strengthen training capacity and culture in enterprises, was a recurring theme throughout the working groups. In Latvia, enterprises and those who support them (e.g. municipal advisors, employer associations) often have difficulty navigating dispersed information on training available from different providers and under different programmes.

During WG3 stakeholders concurred that information about the financial and non-financial policy measures agreed in the previous working groups should be centralised on an existing platform, together with information on business support and adult learning measures. Existing portals should be used and built on to advertise training support for companies, including the subsidised training programmes, the online self-assessment tool for enterprises, and external expert assessments. Latvia already has existing portals and websites targeting enterprises, although awareness and uptake by enterprises has often been limited (OECD, 2022^[2]), such as:

- <https://business.gov.lv/> - the state platform for business development which offers information to entrepreneurs about various industries, markets, cooperation offers, government support for training through LIAA, LIAA e-services, events, and more. Information on subsidised training (to lower the cost of training and improve enterprises' learning culture) could potentially be displayed here.
- <https://latvija.lv> - the state service platform that targets private persons and entrepreneurs (login with citizen's smart ID)
- <https://macibas.mana.latvija.lv/> - an e-learning platform developed as part of the "Do it digitally" program of the Ministry of Environmental Protection and Regional Development
- <https://labsoflatvia.com/en/support> - a website run by LIAA with information about government support opportunities for enterprises at each stage of the business (idea, development, export)

Stakeholders agreed on the benefits of consolidating information on training and related support in a single portal, and one of those existing portals could be a starting point. However, stakeholders did not agree exactly which one would be best placed to host this information. This could be decided by the MoES, or discussed by the steering group. Ideally, the portal can be established in the short-term as of 2023.

Policy actions: establishing a unified online portal

- **There should be a unified online portal to inform enterprises about the policy measures both within the policy package and beyond.** The portal should increase enterprise access to training information by centralising training offers and support provided by different providers and programmes. The portal should build on the existing websites that provide information to enterprises.
- **The online portal should host the online tool for the self-assessment of skills and training gaps and offer information about the subsidised training programmes, the Skills Funds, and external expert assessments.** The portal should list all available subsidised training offer for enterprises by skill areas.

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Annex A. Participants to the working groups

Representatives of the following institutions have participated in at least one of the three working groups that the OECD organised.

Table A.1. Participants to the working groups

Institution	Latvian name
Employers' Confederation of Latvia (LDDK)	Latvijas Darba devēju konfederācija (LDDK)
Free Trade Union Confederation of Latvia (LBAS)	Latvijas Brīvo Arodbiedrību Savienība (LBAS)
Ministry of Economy	Ekonomikas ministrija
Ministry of Welfare	Labklājības ministrija
Central Finance and Contracting Agency (CFLA)	Centrālā finanšu un līgumu aģentūra (CFLA)
Investment and Development Agency of Latvia (LIAA)	Latvijas Investīciju un attīstības aģentūra (LIAA)
Latvian Chamber of Commerce and Industry (LTRK)	Latvijas Tirdzniecības un rūpniecības kamera (LTRK)
Riga Business Association (RUB)	Rīgas Uzņēmēju Biedrība (RUB)
Latvian Information and Communication Technology Association (LIKTA)	Latvijas Informācijas un komunikācijas tehnoloģijas asociācija (LIKTA)
Liepāja State Technical School	Liepājas Valsts tehnikums
Jelgava municipality	Jelgavas pašvaldība
Sigulda municipality	Siguldas pašvaldība
State Employment Agency	Nodarbinātības valsts aģentūra
Business Union of Latvia (LBS)	Latvijas Biznesa savienība (LBS)
Latvian Electrical Engineering and Electronics Industry Association (LETERA)	Latvijas Elektrotehnikas un elektronikas rūpniecības asociācija
Latvian Forest Industry Federation	Latvijas Kokrūpniecības federācija
European Digital Innovation Hub in Latvia	Eiropas Digitālās inovācijas centrs (EDIC)
Digital Accelerator of Latvia	Latvijas Digitālais Akselerators

Annex B. Financial impact assessment for the policy package

Objectives of the financial impact assessment

Implementing the policy package presented in this report will require the Ministry of Education and Science (MoES) to submit a financial impact assessment. Regulation No 617 of the Cabinet of Ministers of Latvia lays out the requirements for an initial impact assessment for policy measures that are funded or co-funded by Latvia State Budget (Regulation of the Cabinet of Ministers, 2021^[14]). The regulation states that policy measures should address the impact of the project on the state budget and budgets of municipalities (#14.3); and include an assessment of administrative costs (#16).

To support the MoES in this process, the OECD has estimated the cost of introducing the measures in the policy package over the 2024-2027 period. In agreement with the MoES, the OECD has focused the exercise on the following policy measures:

- The **revamped subsidised training programmes** currently provided through employer associations (Measure 1 for the purpose of this Annex)
- The **online tool** for enterprises to assess their skills gaps and training needs (Measure 2 for the purpose of this Annex)
- The external **expert assessments** of skills and training gaps of MSMEs (Measure 3 for the purpose of this Annex)
- The operation of the **steering group** (Measure 4 for the purpose of this Annex)

In agreement with the MoES, the OECD has also calculated the size of a training levy on the eligible companies that would enable Latvian authorities to fund the policy package. The introduction of a levy would increase the overall sustainability of the system, by gathering some funds directly from employers for the provision of training. This annex summarises the main results of the costing exercise, under the assumptions made by the OECD. The MoES has also been provided with a supplementary Excel file that can be used to adjust assumptions in the light of changing policy circumstances and financing requirements.

Methodology

Overall structure for the costing exercise

The financial impact assessment for the four measures is implemented according to the guidelines included in Latvia's State Chancellery Methodological guide (Smiltena and Bloma, 2014^[15]). To provide regulatory impact assessment for the measures 1-4, the OECD has adopted a process consistent with steps 1-6 out of the process as suggested in the guide, including (i) identification of the problem, (ii) identification of the target, (iii) identification of possible solutions for the achievement of the objective; (iv) analysis of possible solutions; (v) taking a decision on the most appropriate solution for achieving the policy objective; and (vi) coordination with involved stakeholders.

There is still some uncertainty about the available funding (see Annex C) for the different components of the policy package and their implementation. In light of this uncertainty and in agreement with the Latvian authorities, the OECD has relied on two different scenarios for the costing.

Importantly, current ESF+ funding only covers measure 1 for Scenario 1. Measure 4 should be financed from the central budget to ensure the sustainability of the system, under both scenarios.

Scenario 1

As in the previous ERDF planning round for projects under the support objectives 1.2.2.1 and 1.2.2.2, enterprises from six NACE sectors are eligible to receive support: 'C - Manufacturing', 'I - Accommodation and food services', 'J - Information and Communication', 'K - Financial and insurance activities', 'M - Professional, Scientific and Technical activities', and 'N - Administrative and Support Service Activities'. Together, they account for 28% of total employment in Latvia, as of 2021.

A total of thirteen associations/partnerships are involved in the policy package as intermediaries. One association/partnership operates as an intermediary for each of the eight subsectors in the 'C – Manufacturing' industry, in particular: 'Woodworking', 'Mechanical engineering and metalworking', 'Manufacture of electrical and optical equipment', 'Chemical industry', 'Food and beverage production', 'Production of non-metallic minerals'; 'Light industry', and 'Paper production and printing'. Then, one association/partnership operates as the intermediary for each of the remaining five NACE sector.

Scenario 2

As recommended in Chapter 2, support is expanded to the following NACE sectors: 'B – Mining and quarrying', 'D – Electricity, gas, steam and air conditioning supply', 'E – Water supply, sewerage, waste management and remediation activities', 'F – Construction', 'G – Wholesale and retail trade, repair of motor vehicles and motorcycles', 'H Transportation and storage', 'L – Real estate activities', 'R – Arts, entertainment and recreation, and 'S – Other service activities'. Adding these industries means that the measures would cover 70% of total employment in Latvia, as of 2021. Under this scenario, an additional six intermediaries are introduced, for a total of nineteen associations/partnerships acting as intermediaries.

To ensure efficiency in the delivery of the policy measures, a separate association/partnership could operate for NACE sectors D, E, F, G, H and R, whereas enterprises from 'L – Real estate activities' could be clustered with firms from 'K – Financial and insurance activities'. Enterprises from the 'B – Mining and quarrying' sector could be served by the eight associations in 'B – Manufacturing', while enterprises from 'S – Other service sectors' firms could be served by the eleven associations covering the service sectors.

Cost categories

For each of the two scenarios, the OECD has calculated the costs of implementing the policy package for the following cost categories:

- **Direct subsidies to enterprises:** these are funds that are directly transferred to enterprises under measures 1 and 3 above
- **Coordination budget for employer associations:** these are the funds needed by associations to run the programme across measures 1, 3 and 4
- **Awareness-raising budget:** these are the funds needed to raise awareness about the policy initiatives, which are only computed for measure 1
- **Impact on public administration budget:** these are the resources required by the public administration to implement and monitor the policy package, under all the measures

- **Technical development:** these are the funds necessary to develop and maintain the online tool developed within measure 2

The OECD has first calculated yearly costs for 2024 and has then applied a 2% inflation rate to derive cost estimates for 2025 and 2026, in line with projections from Latvia's Ministry of Finance. There is some uncertainty on how inflation will evolve over the medium term. For the purpose of this exercise, the OECD has assumed that the inflation rate will return to the European Central Bank target in 2025, drawing on the projections from Latvia's Ministry of Finance in December 2022 (Ministry of Finance of the Republic of Latvia, 2022^[16]).

Potential approaches for costing assessment

There are three main approaches to conduct a costing exercise. Their advantages and disadvantages are summarised in Table B.1. The top-down (parametric cost estimation) approach focuses on identifying the high-level activities first and is typically used in the initial project phases. It provides a top-level project description and shows how all project parameters influence the overall project cost. It is widely used both in private sector and in the public sector. Conversely, the bottom-up (engineering cost estimation) approach aims to estimate the cost of each project component, combining the results to achieve the total project cost. Compared to other approaches, it is more time consuming to implement, but provides more precise estimates of both labor, material, overhead and other costs. The analogy approach compares the existing project with previously implemented similar projects and calculates the existing project costs drawing on data from the previous projects.

Table B.1. Advantages, disadvantages, and data requirements of different approaches

Approach	Advantages	Disadvantages	Data requirements
Top-down	Does not require detailed information about the project and thus is easier to apply in early stages. Is relatively fast to implement and has a clear focus on the project activities.	By using this technique, some detailed elements might be missed, thus providing less accurate estimates.	Information on the overall project structure, and project management approach.
Bottom-up	Method is rather flexible. Provides reliable estimation and detailed information on each component.	Might be difficult to use and requires time and other resources to be implemented Requires good understanding of the project components.	Data on the scope of work, activities implemented within the project.
Analogy	Usually deals with problems that have been identified previously in other projects, thus providing with the opportunity to learn from previous practices. Allows identifying high risk cases and find appropriate, timely solutions, drawing on the previous knowledge Draws on previous, actual experience and knowledge.	Depends on the accuracy of data of previous projects. Requires substantial information from the previous projects. In some situations, similar, comparable projects might not exist.	Historic or market data on similar projects.

Source: OECD analysis

Approach to the costing exercise and data sources

The OECD combined all three approaches for the costing of measures 1, 2, 3 and 4, drawing on a wide range of data and information sources (see Table B.2).

The MoES provided indications on the number of employees and enterprises to be supported within measure 1 and measure 3, which formed the basis for the estimation of the direct subsidies and the calibration of the other costing parameters. These numbers were discussed and refined over three virtual meetings. The MoES also shared information on the salary level of civil servants for the public administration expenses. For measure 4, for instance, the MoES indicated that the civil servants in charge of the secretariat should have a mid-career profile (e.g. 5-10 years of experience), while the policy makers sitting on the steering group should be more senior (e.g. Director-level with 10-15 years of experience).

To estimate the direct subsidies, the OECD also required information on the cost of the training activities under measure 1 and the cost of the expert assessment under measure 3. The cost of training activities was estimated with data from the Continuous Vocational Training Survey (CVTS). For the cost of expert assessments under measure 3, the OECD contacted industry experts with substantial experience in advising Latvian enterprises on how to improve skills development practices.

Table B.2. Overview of data and information sources

Cost category	Approach	Data sources
Direct subsidies	Top-down	MoES, CFLA, Industry experts and CVTS
Public administration	Mix of top-down and analogy	MoES, CFLA
Coordination budget	Mix of bottom-up and analogy	Industry associations, MoES and CFLA
Awareness-raising budget	Bottom-up	Industry associations
Technical development	Mix of bottom-up and analogy	Industry experts, industry associations and previous OECD project

Source: OECD analysis

To derive the coordination budget and the awareness-raising budget, the OECD has drawn on the information provided by five industry associations that were involved in the latest round of the subsidised training programmes: the Latvian Chamber of Commerce and Industry (LCCI), Latvian Electrical Engineering and Electronics Industry Association (LETERA), Latvian Information and Communications Technology Association (LIKTA), the Association of Mechanical Engineering and Metalworking Industries of Latvia (MASOC), and Association of Hotels and Restaurants of Latvia (AHRL). Associations were first asked to fill in an online questionnaire form, with questions on the following items:

- **Time required for the implementation of the policy measures:** including identifying training needs, organising procurement, processing applications, and monitoring for measure 1; organising procurement, processing applications and monitoring for measure 3; and taking part in the coordination efforts within measures 2 and 4.
- **Salary of coordination managers:** monthly gross salary/hourly rate for the project coordinator and full-time equivalent employees needed to implement the policy measures.
- **Office equipment cost:** including IT costs and other utilities.
- **Resources needed for awareness-raising:** time invested in awareness-raising activities and cost of organising events and campaign.

Once the questionnaire forms were received, follow up telephone interviews were organised with three industry associations (LCCI, LETERA and LIKTA) to clarify the information.

For the technical development expenditures, the OECD has drawn on its previous experience with a profiling tool to assess the skills of individuals ([link](#)). To complement these estimates, the OECD contacted two industry experts that were suggested by industry association LETERA and approached LIKTA.

The Central Finance and Contracting Agency (CFLA) and the Ministry of the Economy (MoE) shared the data on the number of participants and other information on the subsidised training projects run by employer associations under the support objectives 1.2.2.1 and 1.2.2.3 of the previous ERDF funding round, which were useful to inform several assumptions throughout, especially for the direct subsidies and the coordination budget.

Results of financial impact assessment

The overall cost of the policy package amounts to approximately EUR 2.5mn per year under Scenario 1. The lion's share of total funding comes from the subsidised training programmes (measure 1) and the expert assessments (measure 3). Operating the steering group (measure 4) and implementing the online tool (measure 2) make up for approximately 5% of the total funding over the period. The online tool has a different cost profile from the other measures, because it implies a large fixed cost in the first year for the development of the tool, followed by relatively low yearly maintenance costs for the next two years.

Table B.3. Results of costing exercise for Scenario 1

	2024	2025	2026	Total
Total	€ 2,522,633	€ 2,573,086	€ 2,624,547	€ 7,720,266
Measure 1	€ 1,966,869	€ 2,006,206	€ 2,046,331	€ 6,019,406
Measure 2	€ 174,613	€ 6,120	€ 6,242	€ 186,975
Measure 3	€ 310,480	€ 316,690	€ 323,023	€ 950,193
Measure 4	€ 70,671	€ 72,084	€ 73,526	€ 216,281

Source: OECD analysis

Extending the policy package to all sectors covered under Scenario 2 would lead to a total expenditure per year of approximately EUR 4.8mn. These estimates are sensitive to several assumptions, which are discussed in detail in the following sections for the different measures.

Table B.4. Results of costing exercise for Scenario 2

	2024	2025	2026	Total
Total	€ 4,783,802	€ 4,879,478	€ 4,977,067	€ 14,640,347
Measure 1	€ 3,922,128	€ 4,000,571	€ 4,080,582	€ 12,003,282
Measure 2	€ 196,539	€ 6,120	€ 6,242	€ 208,902
Measure 3	€ 571,800	€ 583,236	€ 594,901	€ 1,749,937
Measure 4	€ 93,334	€ 95,201	€ 97,105	€ 285,639

Source: OECD analysis

Subsidised training programmes (Measure 1)

The bulk of yearly cost estimates for Scenario 1 come from the direct subsidies to enterprises and the coordination budget (see Table B.5).

Table B.5. Detailed yearly cost estimates for Scenario 1, Measure1

Category	Cost	Key assumptions
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Direct subsidies	€ 1,090,732	Target 3015 employees per year from 969 enterprises with an average training expenditure of EUR 537 and an average intensity of support of 67%.
Coordination budget	€ 522,737	13 associations, on average 1 FTE coordination manager per association with a monthly FTE salary of EUR 3,500, dedicating 90% of their time to measure 1.
Awareness-raising budget	€ 312,000	13 associations, EUR 2,000 EUR per month per association for organising awareness-raising activities.
Public administration	€ 41,400	1.5 FTEs to be based at the CFLA, with a monthly FTE salary of EUR 2,300

Source: OECD analysis

Estimating the direct subsidies requires making assumptions on the number of employees supported the average training expenditures and the intensity of support. The MoES has indicated that the subsidised training programmes should target 3,015 employees per year within Scenario 1. This is roughly equivalent to 1% of employees working in these sectors and would allow Latvian enterprises to cover approximately 10% of the gap in training provision with respect to the EU as a whole.¹

To estimate the average training expenditures, the OECD has used data from the CVTS for 2021. The OECD has assumed that the subsidised training programmes would offer training opportunities with costs in line with the EU average. Enterprises in the EU spend on average EUR 537 per participant, compared to EUR 137 per participant in Latvia². As described in the Output 2 report, this likely reflects the fact that training in Latvia has frequently low quality. Assuming that average training expenditures are aligned with the EU average (EUR 537) can help ensure that the training offered within the programme has good quality, with content and hours consistent with the rest of the EU.

Calibrating the coordination budget requires knowing how many enterprises and how many employees per enterprise should be supported. This estimate informs the total number of applications that associations and the public administration should process. The OECD has estimated an average of 3.1 employees per enterprise. Detailed information on these assumptions is available in the accompanying Excel spreadsheet provided to the MoES. In brief, the OECD has assumed the following:

- 452 micro enterprises, each training 1 employee on average
- 324 small enterprises, each training 2.8 employees on average, equivalent to half of total training needs for enterprises in Scenario 1, according to data from the CVTS
- 131 medium enterprises, each training 6.9 employees on average, equivalent to half of total training needs for enterprises in Scenario 1, according to the CVTS
- 62 large enterprises, each training 12.1 employees on average, equivalent to half of total training needs for enterprises in Scenario 1, according to the CVTS

Overall, this implies that 15% of employees that participate in training will come from micro enterprises, 30% from small, 30% from medium and 25% from large enterprises. These participation rates are consistent with those in the projects from the previous ERDF funding round. Micro enterprises receive less support overall, because they will also benefit from the training programmes organised by municipalities

¹ According to the CVTS, enterprises in Latvia trained 26.5% of their employees, compared to 37.7% in the EU as a whole. To close this gap in sectors covered under Scenario 1, Latvian enterprises would need to provide training to nearly 30,000 employees.

² The CVTS asks companies to specify the costs for continuing vocational training (CVT) courses, making a distinction between direct costs and participants' labour costs. For the purpose of this costing exercise, the OECD has focused on direct costs, as the subsidised training programmes do not provide reimbursements for the labour costs. The direct costs include fees and payments for CVT courses; travel and subsistence payments related to CVT courses; the costs of internal trainers for CVT courses; and the costs for training centres, training rooms and teaching materials. The data are publicly available on the [Eurostat website](#).

(see Chapter 1). Large enterprises receive less support than small or micro, because they face fewer barriers to organise and fund training, as discussed in the output 2 report. For similar reasons, they also receive support for a comparatively lower number of employees.

For the coordination budget, the OECD has assumed one full-time equivalent (FTE) coordination manager for each association with a FTE salary of EUR 3,500. The employer associations during the consultations suggested that the salary of the coordination manager should be EUR 4,000 but did not provide sufficient reasons to justify such value. In the absence of this information, the OECD has assumed that the original EUR 3,000 salary should be at least adjusted to the latest inflationary pressures in 2022, which leads approximately to EUR 3,500 per month. Coordination managers should spend 90% of their time (equivalent to EUR 3151) on measure 1. The remaining 10% (equivalent to EUR 349) will be allocated to the steering group activities under measure 4. Table B.6 provides with more detailed information on the pay and time allocation for the coordination managers.

In practice, according to a number of representatives of industry associations during the consultations, some associations have supported more beneficiaries in the last round and are also likely to do so as the programme continues. Rather than allocating the same amount to all associations or partnerships involved, the MoES should distribute funding based on expected or actual activity. For example, the MoES could ask associations to indicate precise targets at the tendering stage and adjust the funding calculations accordingly. The targets should reflect the overall policy objectives that are set by MoES and MoE (proportion of training in particular industries, number of companies to be trained in various industries, members vs non-members of associations to be reached, etc.) as well as industries that are represented by each association.

Table B.6. Basic assumptions on the allocation of time for measure 1 activities: coordination managers

Basic assumptions on pay and hours	Value
Total FTE Pay for coordination manager	3,500
Number of working days in one year	218
Hours per day	8
Implied hourly pay	24
Total Annual hours	1,744
Time spent for procurement and monitoring	
Annual hours for monitoring (5 hours per week on average)	235
Annual hours on procurement (2 processes per year, each taking 2 working weeks, with 1 week for selection, consultations and preparation, and 1 week for organising and managing the procurement process)	320
Annual hours for identifying training needs (2 working weeks for year)	80
Hours for networking and coordination with members/non-members (1 day per week)	376
Time spent for applications	
Hours per application	6
Success rate	80.0%
Company applications per association on average	93
Total hours per year for applications	559
Total number of hours per year taken for each coordination manager	
Total hours for measure 1	1,570
<i>Proportion of FTE for measure 1</i>	<i>90.0%</i>
Total hours for measure 4	174
<i>Proportion of FTE for measure 4</i>	<i>10.0%</i>

Source: OECD analysis

The marketing budget is estimated to be EUR 2,000 per month per association. This amount covers all measures and includes all the awareness raising activities, including events, marketing campaigns, employing or outsourcing marketing experts and other initiatives. Targets and activities for awareness-raising that should be conducted with these funds, are to be agreed in the steering group (see Chapter 4).

The public administration budget is determined by the number of employees required to review applications and process payments. The OECD has assumed that 1.5 FTE employees will be required, based at the CFLA.

Extending the support to all sectors under Scenario 2 roughly doubles financing needs (see Table B.7). Most of the increase is driven by the direct subsidies category, which almost triple. To support 1% of employees as in Scenario 1 with similar assumptions on training intensity, the programmes would need to provide training to 7,371 employees. As for scenario 1, the OECD had to calibrate how many enterprises and how many employees per enterprise should be supported. Detailed information on these assumptions is available in the accompanying Excel spreadsheet provided to the MoES. In brief, following similar assumptions to Scenario 1, the OECD has assumed the following:

- 1,098 micro enterprises, each training 1 employee on average
- 823 small enterprises, each training 2.7 employees on average, equivalent to half of total training needs for enterprises in Scenario 2, according to data from the CVTS
- 333 medium enterprises, each training 6.6 employees on average, equivalent to half of total training needs for enterprises in Scenario 2, according to data from the CVTS
- 159 large enterprises, each training 11.5 employees on average on average, equivalent to half of total training needs for enterprises in Scenario 2, according to data from the CVTS

Table B.7. Detailed yearly cost estimates for Scenario 2, Measure 1

Category	Cost	Key assumptions
Direct subsidies	€ 2,644,454	Target 7,317 employees per year from 2,413 enterprises with an average training expenditure of EUR 537 and an average intensity of support of 67%.
Coordination budget	€ 766,474	As in Scenario 1, but with 19 associations
Awareness-raising budget	€ 456,000	As in Scenario 1, but with 19 associations
Public administration	€ 55,200	As in Scenario 1, but with 2 FTEs to be based at the CFLA

Source: OECD analysis

The coordination and awareness-raising categories grow less steeply, because the unit cost of providing support go down as the number of beneficiaries increases. For example, associations spend a similar amount of time on procurement processes, monitoring and the identification training needs, whether they each support 140 or 90 companies each.

For the public administration budget, the OECD has assumed that 2.0 FTE employees will be required, with respect to 1.5 FTEs as under Scenario 1.

Steering group (Measure 4)

The introduction of the steering group only has implications for the coordination budget of associations and the public administration (see Table B.8). The OECD has assumed that 10% of the salary of the coordination managers will be required to prepare for and participate to the quarterly steering group with policy makers and a monthly coordination meeting with all associations involved in the policy package.

Roughly 85% of the public administration budget goes towards the salary of a half-time FTE employee that will be in charge of the secretariat. The remainder is necessary to finance the participation of senior representatives from the MoES, the MoE, the Ministry of Welfare and two municipalities to the quarterly steering group. As described in Chapter 4, municipalities should take part to better coordinate their activities on adult learning with those of the employer associations.

Table B.8. Detailed yearly cost estimates for Scenario 1, Measure 4

Category	Cost	Key assumptions
Coordination budget	€ 54,463	13 representatives from associations with monthly FTE salary of EUR 3,500 and spending 10% of their yearly time to prepare and participate to the quarterly steering group and monthly coordination meetings
Public administration	€ 16,208	0.5 FTEs with a monthly FTE salary of EUR 2,300 to organise the quarterly steering group, monthly coordination meetings, monitoring the programmes and ensure coordination with associations 5 senior representatives from MOES, MoE, MoW and two municipalities with a monthly FTE salary of EUR 3,500, spending 20 hours annually to prepare and participate to the quarterly steering group

Source: OECD analysis

The financing needs are similar for Scenario 2 (see Table B.9). The main difference is that the salary from nineteen, as opposed to thirteen coordination managers will need to be financed, given the greater number of intermediaries involved.

Table B.9. Detailed yearly cost estimates for Scenario 2, Measure 4

Category	Cost	Key assumptions
Coordination budget	€ 77,126	As in Scenario 1, but with 19 associations representatives as opposed to 13
Public administration	€ 16,208	As in scenario 1

Source: OECD analysis

Online self-assessment tool (Measure 2)

Based on the information provided by industry experts and a previous project by the OECD, the technical development of the tool should not exceed EUR 165k. The tool could be completed for EUR 95k, but the extended budget would allow to make use of more advanced data management functionalities, which could be useful for monitoring. Importantly, this covers the IT cost, the development of the content, and the production of training materials.

Table B.10. Fixed and operating cost estimates for Scenario 1, Measure 2

Category	Cost	Key assumptions
Fixed cost		
Technical development	€ 165,413	Includes EUR 155,413 for the development of the website and content, EUR 5,000 for development of a short promotional video, and EUR 5,000 for development of long video to explain usage of the tool.
Public administration	€ 9,200	1/3 FTE mid career civil servant, with a monthly FTE salary of EUR 2,300
Yearly maintenance cost		
Technical maintenance	€ 6,000	EUR 500 per month for ad-hoc queries/ interventions

Source: OECD analysis

The introduction of the tool should not have an impact on the awareness-raising expenditures or the coordination budget for associations. Associations will be able to use the budget under measure 1 to raise awareness about both the subsidised training programmes and the online tool. Similarly, associations can provide feedback on the development of the tool as part of the time budgeted under measure 4.

However, a civil servant should spend roughly one-third of their time to coordinate the development of the website and the content with a FTE salary of EUR 2,300. The critical assumptions for the allocation of the civil servant's time are summarised in Table B.11. Expenses related to the coordination of the yearly maintenance are not included in these tasks and should be coordinated by the half-time employee leading the secretariat established under measure 4.

Table B.11. Basic assumption on time spent for measure 2 activities: civil servant

Basic assumptions on time allocation	Hours
Annual hours on procurement (two procurement processes, one for the development of the website and one for the content, each taking 4 working weeks, as in Measure 1)	320
Interaction with technical developers (10 iterations, lasting 4 hours each)	40
Interaction with content developers (10 iterations, lasting 4 hours each)	40
Interaction with developers to gather feedback on pilot version and develop final version (10 iterations, lasting 4 hours each)	40
Other hours for internal and external coordination (1 working day per month)	96
Total hours	536
<i>Proportion with respect to FTE</i>	30.7%

Source: OECD analysis

Extending the tool to all sectors under Scenario 2 does not change the total expenditures substantially (see Table B.12). The only difference as compared to Table B.10 is that the technical development of the tool will have higher costs, because of the fixed cost of developing more sector-specific modules.

Table B.12. Detailed yearly cost estimates for Scenario 2, Measure 2

Category	Cost	Key assumptions
Fixed cost		
Technical development	€ 187,339	As in Scenario 1, but with EUR 177,339 for development of main tool
Public administration	€ 9,200	As in Scenario 1
Yearly maintenance cost		
Technical maintenance	€ 6,000	As in Scenario 1

Source: OECD analysis

Expert assessments (Measure 3)

To identify a target number of enterprises for this measure, the OECD has proposed to use the CVTS data on the proportion of enterprises reporting difficulties in assessing training needs. Currently, 43% of enterprises in Latvia experience difficulties in assessing training needs on average, compared to 25% of enterprises in the EU as a whole. The MoES has agreed with this approach.

Part of this gap will be closed through measure 2 above. Bearing this in mind, the MoES has proposed to aim to close a quarter of the gap for small and medium enterprises, and roughly 1/20 for micro enterprises over a 3-year period. The rationale is that micro enterprises have fewer employees and improving their ability to deliver training would generate lower social returns. Based on these policy objectives, the OECD has estimated that the measures should target 184 enterprises (138 micro, 29 small and 17 medium) per year.

The detailed yearly cost estimates to deliver these policy objectives are provided in Table B.13.

Table B.13. Detailed yearly cost estimates for Scenario 1, Measure 3

Category	Cost	Key assumptions
Direct subsidies	€ 101,680	184 enterprises receiving an assessment worth EUR 800 on average, with an intensity of support of 69%
Coordination budget	€ 195,000	13 associations, on average 0.5 FTE coordination manager assistant per association with a monthly FTE salary of EUR 2,500.
Public administration	€ 13,800	0.5 FTEs with a monthly FTE salary of EUR 2,300

Source: OECD analysis

The implementation of measure 3 requires an increase in the coordination budget. An extra 0.5 FTE with a lower monthly gross salary EUR 2,500 is needed on average for each of the thirteen associations involved. Table B.14 provides an overview of the key assumptions on the pay and allocation of time of these “assistant coordination managers”.

As in the case of the coordination managers in measure 1 (see Table B.5), the OECD has estimated an average cost per association, assuming that 0.5 FTE assistant coordination manager will be, on average, employed by each association. As for measure 1, the MoES can better calibrate these allocations during the tendering process to reflect the extent of their activities, rather than providing the same budget to all associations.

As for measure 2, the introduction of the tool should not have an impact on the awareness-raising expenditures. Associations will be able to use the budget under measure 1 to raise awareness about the expert assessments on top of the subsidised training programmes and the online tool.

Table B.14. Basic assumptions on pay and hours, and time spent for measure 3 activities: assistant coordination managers

Basic assumptions on pay and hours	Value
Total FTE pay for coordination manager	2,500
Number of working days in one year	218
Hours per day	8
Implied hourly pay	17
Total annual hours	1744
Time spent for procurement and monitoring	
Annual hours for monitoring (5 hours per week on average)	235
Annual hours for one procurement process (one procurement process, as in measure 1)	160
Hours for networking and coordination with members/non-members (one half-day per week)	188
Time spent for applications	
Hours per application	6
Success rate	80%

Company applications per association on average	18
Total hours per year	106
Total number of hours per year taken for 1 FTE	
Total hours for measure 3	849
<i>Proportion of FTE</i>	48.7%

Source: OECD analysis

The public administration budget is determined by the number of employees required to review applications and process payments. The OECD has assumed that 0.5 FTE employees will be required.

As in measure 1, moving from Scenario 1 to Scenario 2 leads to a substantial increase in the direct subsidies. Applying the same assumptions discussed for Scenario 1 implies that 469 enterprises, as opposed to 184 will need to receive support (see Table B.15). The coordination budget and the public administration costs also increase, reflecting a larger number of associations and more resources to review applications and process payments.

Table B.15. Detailed yearly cost estimates for Scenario 2, Measure 3

Category	Cost	Key assumptions
Direct subsidies	€ 259,200	As in Scenario 1, but with 469 enterprises
Coordination budget	€ 285,000	As in Scenario 1, but with 19 intermediaries
Public administration	€ 27,600	1 FTE with a monthly FTE salary of EUR 2,300

Source: OECD analysis

Financing the measures via a training levy

As discussed in Chapter 2, stakeholders signalled that a compulsory levy would be difficult to implement in Latvia in the short term. However, introducing a training levy would be important to improve the sustainability of funding for skills development in enterprises in the long term. It would create common funding pool that could be earmarked for initiatives that aim to improve upskilling and reskilling of employees.

To help inform policy discussions on the issue, the OECD has estimated the size of a training levy that would enable the MoES to finance the policy package (see Table B.16). The levy could be a compulsory tax paid by companies who are eligible for the policy measures, based on their total gross wage bill. Under scenario 1, the policy package would need to be financed via a levy of 0.78%, while under scenario 2, the levy would amount to 0.68%. These figures are broadly consistent with some international examples, as contributions typically vary between 0.3 and 1%. In Ireland, for example, employers are required to pay 0.7% of their total payroll. Conversely, in Italy employers and workers jointly pay 0.3%.

Table B.16. Estimates of training levy to fund policy package

Category	Scenario 1	Scenario 2
Cost of policy package in 2024	€ 2,522,633	€ 4,783,802
Regular gross wages in 2021	€ 323,166,800	€ 702,833,700
Implied size of the levy	0.78%	0.68%

Note: The regular gross wages in the sector are estimated by multiplying average regular gross wages by the total employment.
Source: OECD analysis, using data from the Official Statistics Portal of Latvia and Eurostar.

Annex C. EU funding options

Objectives of review

There is still some uncertainty with regards to the funding of the policy package. The revamped subsidised training programmes (see Chapter 2) will be financed within the 2021-2027 EU structural funds round under the Support Objective 4.2.4 (measure 4.2.4.1), thanks to ESF+ financing. Funding for the other measures is yet to be secured. Against this background, the OECD has conducted a review of potential EU funding sources that can support the implementation of the policy package.

The Latvian authorities have stressed the importance of creating a sustainable system. For this reason, this review focuses only on the online self-assessment tool and the expert assessment (see Chapter 3). The steering group (see Chapter 4) should be financed from the central budget to ensure continuity in coordination over skills development policies in enterprises. EU funding could cover the set-up costs related to the technical development of the online self-assessment tool (including a pilot version), project management and a stakeholder engagement exercise to validate the design. Conversely, the Latvian government could cover the yearly maintenance costs. For the expert assessment, EU funding could help build up a network of experts through employer associations. It would need to cover the subsidies to enterprises and the project management costs for employer associations.

To gather information on the funding sources, the OECD conducted desk research and liaised with six policy officers from three different directorates at the EC (ECFIN, EMPL, and CNECT), and three policy officers from Latvia's Ministry of Education and Science (MoES) and Ministry of the Economy (MoE). The list in the table below shows an overview of the potential sources of EU funding for the online tool and the expert assessments. The remainder of the annex provides some information on the eligibility requirements and the nature of the application process.

Table C.1. Overview of potential funding sources

Source	Applicable policy measure
ESF+ funding for upskilling and reskilling of adults	Online self-assessment tool and expert assessments
EU funding for the digital transformation	Online self-assessment tool and expert assessments
Erasmus+	Online self-assessment tool
Digital Europe	Online self-assessment tool
Invest EU	Online self-assessment tool and expert assessments

Source: OECD analysis

ESF+ funding for upskilling and reskilling of adults in Latvia

The [European Social Fund +](#) (ESF+) is the European Union's main instrument for investing in people. With a total budget of EUR 99.3 billion for the period 2021-2027, the fund provides a contribution to the EU's employment, social, education and skills policies, including structural reforms in these areas.

In total, Latvia receives EUR 1.2 billion from the ESF+ in the programming period 2021-2027, according to a Partnership Agreement with investment priorities, specific objectives, and concrete actions. A share

of this investment is targeted at the upskilling and reskilling of adults (see Table C.2). The Ministry of MoES is directly responsible for the design and oversight of these initiatives.

Table C.2. ESF+ in Latvia to upskills and reskill adults in the period 2021-2027

Initiative	Description	Allocated funding	EU funding stream
Development and piloting of Skills Funds	Creation and piloting of concept of skills funds in selected sectors and/or companies	EUR 6.8mn	Measure 4.2.4.1 of operational programme
Revamped subsidised training projects	Support for sectoral associations to act as intermediaries and subsidies for the provision of training to employees	EUR 14.7.0mn	Measure 4.2.4.1 of operational programme
Support for adult learning based on the individual needs of adults	Support for training activities by employed individuals through assessment of professional competences, continuing vocational education programmes and other non-formal training opportunities	EUR 34.6mn	Measure 4.2.4.2 of operational programme
Digital skills development	Training of digital agents, who will then act as ambassadors to inspire other individuals to effectively used digital technologies	EUR 3.8mn	Measure 4.2.4.3 of operational programme

Source: documents provided by MoES

The ESF+ is a shared management programme, meaning the Member States and the Commissions take part in implementation and monitoring of the Fund. According to information from policy officers at the EC, in principle the MoES could consider reducing the allocations to other measures fund the policy package (see Annex B for an estimate of the costs of the different measures). This would require the MoES to perform an initial assessment on compliance of these activities with the objectives of the programme and an assessment of the feasibility of costs. Based on the initiative of the MoES and upon receiving additional information, the EC can conclude on their eligibility.

EU funding for the digital transformation in Latvia

The MoE will implement a comprehensive programme to foster the digitalisation of Latvian enterprises, bringing together funding from the European Regional Development Fund (ERDF), the Recovery Resilience Plan (RRP) and the ESF+. Within this programme, two initiatives aim to foster digital skills and skills required to foster digitalisation in Latvian enterprises (see Table C.2). Some of the funding from these two initiatives could potentially be reallocated to finance the online tool and the expert assessments.

Table C.3. EU funding for the digital transformation in Latvia

Initiative	Description	Allocated funding	EU funding stream
Support for the creation of European Digital Innovation Hubs	Development and implementation of a digital maturity test and digital roadmap; and provision of digital transformation mentoring for enterprises	EUR 18mn	RRP and ESF+
Developing digital skills for companies	Provision of training to improve basic digital skills, high-level digital management skills and skills for using digital technologies; provision of consultancy services related to training	EUR 30mn	RRP and ERDF

Source: information provided by MoE

Under the first initiative, two European Digital Innovation Hubs (EDIHs) will help enterprises in their digital transformation. The EDIHs will develop a “Digital Maturity Test”, building on an EU-wide template put together by the Joint Research Centre. Enterprises will take the test, which will form the basis for a “Digital roadmap”, an agreement between the EDIH and the enterprise about the programme of activities to foster digitalisation. If required, the enterprises will also be supported in implementing the actions from the roadmap through mentoring and ad-hoc consultations.

Under the second initiative, enterprises will be able to access a wide range of training to improve digital skills of their employees, high-level digital management skills and skills for using digital technologies, such as different software packages and systems. The training opportunities will include open online courses on international learning platforms and face to face session. If required, enterprises will be able to access consultancy services for better choosing the training opportunities.

In the consultations with the OECD, the MOE expressed an interest in exploiting synergies between these two initiatives to support the digital transformation, the online self-assessment tool and the expert assessment in the policy package. Both initiatives to support the digital transformation are open for amendments, and some of the funding could be redirected towards the online tool and/or the expert assessment. As for the ESF+ above, this would require an initial assessment by the Latvian authorities and the approval from the EC.

Exploiting the synergies might be especially valuable in the case of the online tool and the digital maturity test. The test and the tool could be jointly procured and developed by the same provider to minimise costs, and then hosted on the same enterprise-faced website. In case of two different procurement processes, they could still have similar design and interface, and have shared user support.

Erasmus+

[Erasmus+](#) is the European Union’s Programme to offer mobility and cooperation opportunities in higher education, vocational education and training, school education, adult education, youth, and sport. It has an estimated budget of EUR 26.2 billion for the 2021-2027 programme, with a strong focus on social inclusion, the green and digital transitions, and promoting young people’s participation in democratic life. Erasmus+ supports priorities and activities set out in the European Education Area, Digital Education Action Plan and the European Skills Agenda

Among the funding opportunities are activities to support (1) the learning mobility of individuals, (2) cooperation among organisations and institutions, and (3) support for policy reform ([link](#)). Actions implemented under priority area (2) are relevant for the policy measures in Latvia, in particular the opportunities under “[Partnerships for Cooperation](#)”. Partnerships for cooperation are transnational projects designed to develop and share innovative practices and promote cooperation, peer learning and exchanges of experiences in the fields of education, training, and youth. There are two types of partnerships for cooperation:

- **[Cooperation partnerships](#)**: Any public or private coordinating organisation from an EU member state can apply on behalf of all participating organisations. Cooperation partnerships must involve at least two participating organisations from another EU member state, or third country associated to the programme. Legally Latvian MoES would be eligible to apply as a coordinating organisation, however, EC officials have indicated that in practice this is more often local authorities such as municipalities, chambers of commerce, or large employer associations. The project length is between 12 and 36 months. Funding is provided in a single lump sum of the total grant amount; either EUR 120 000 EUR, EUR 250 000 EUR, or EUR 400 000 EUR.
- **[Small-scale partnerships](#)**: These partnership aims to reduce entry barriers to the programme for organisations with smaller organisational capacity. Eligibility is the same as for cooperation

partnerships, however, it only requires a minimum of two organisations from two different EU member states to be associated to the programme. The project length is between 6 and 24 months. Funding is provided in a single lump sum of the total grant amount, either EUR 30 000 or EUR 60 000.

Applications for both types of partnerships need to be addressed at the responsible National Agency in Latvia, the State Education Development Agency (VIAA). The exchanges with the EC have suggested that applications are typically submitted by local authorities, employer associations or education institutions, and that Erasmus+ would be most suitable to financing the online tool, as it does not involve any direct subsidies to enterprises, which would be required for the expert assessment.

In Latvia's circumstances, the application for the online tool could be submitted by a consortium of Latvian employer associations and/or municipalities. Importantly, eligibility under Erasmus+ would require submitting the application in partnership with similar institutions in at least another EU member state.

Project partners could also include universities or training centres in Latvia and the rest of the EU. Particularly relevant partners may be found within the European associations for vocational training, including:

- [EfVET](#) - European Forum for Vocational Education and Training
- [EVTA](#) - European Vocational Training Association
- [EVBB](#) - European Association of Institutes for Vocational Training
- [EPALE](#) - Community of European VET practitioners

Applicants have to submit their grant application by 22 March for projects starting in fall of the same year and by October 04 for projects starting at the beginning of the following year. For both “cooperation partnerships” and “small-scale partnerships”, there is no maximum number of organisations that can participate in one partnership. The Erasmus+ website provides an overview of projects that have received funding in the past.

Digital Europe

The [Digital Europe Programme \(DIGITAL\)](#) is an EU funding programme focused on bringing digital technology to businesses, citizens and public administrations. The programme also targets upskilling of the workforce with regard to these advanced digital technologies. It supports industry, small and medium-sized enterprises (SMEs), and public administrations in their digital transformation with a reinforced network of European Digital Innovation Hubs ([link](#)).

Digital Europe Programme is implemented by means of multiannual work programmes. There will be four independent work programmes in the first two years of implementation with a focus on five key capacity areas: supercomputing, artificial intelligence, cybersecurity, advanced digital skills, and ensuring a wide use of digital technologies across the economy and society.

Funding is provided to public and private sector organisations in the form of grants, typically with 50% co-investment rate. The grant takes the form of a budget-based mixed actual cost grant (i.e. a grant based on actual costs incurred, but which may also include other forms of funding, such as unit costs or contributions, flat-rate costs or contributions, lump sum costs or contributions or financing not linked to costs). Specific eligibility conditions for each budget category is defined in the [General Model Grant Agreement](#) and covers direct costs (e.g., personnel costs, subcontracting costs, purchase costs, and other) and indirect costs.

In Latvia's circumstances, Digital Europe could help finance the development of the online tool, under the capacity area on the wide use of digital technologies. There are currently no open calls for tender related

to this area, but the MoES could continue to monitor the [relevant portal](#), in case other funding sources for the tool prove not to be available.

Invest EU

The [InvestEU Programme](#) brings together several EU financial instruments currently available to support investment in the EU, simplifying EU funding for investment projects in Europe. The Programme supports sustainable investment, innovation and job creation in Europe. The InvestEU Fund aims to trigger more than EUR 372 billion over the period 2021-27, combining the European Fund for Strategic Investments and 13 other EU financial instruments. “Social investment and skills” is one of the four investment areas.

The main implementing and advisory partners are the [European Investment Bank \(EIB\)](#) and the [European Investment Fund \(EIF\)](#). In the area of education and skills, the EIB provides technical and financial advice throughout the project lifecycle, and capacity building services including support for intermediaries. The EIF offers different financial products, including guarantee products, equity products, and climate and infrastructure funds. Another important implementing and advisory partner is the [European Bank for Reconstruction and Development \(EBRD\)](#), which has a geographical focus on Bulgaria, Croatia, Czechia, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. Under the InvestEU Advisory Hub, the EBRD also provides project advisory, capacity building and market development activities to support investments.

The [InvestEU Advisory Hub](#) provides technical assistance and advice in the preparation of investment projects. Project promoters can request this support through a central entry point, following a step-by-step guide ([link](#)). In the Latvian circumstances, Invest EU could potentially be useful to fund both the online tool and the expert assessments. As for Erasmus+, the beneficiaries and applicants should ideally be companies and employer associations, or municipalities. Beneficiaries would apply for funding through loans, investments and guarantees with a local financial institution that acts as an intermediary ([link](#)). The decision to provide EU financing will be made by the intermediary, who also decides on the financing conditions. Thanks to the EU support, the local financial institutions can provide additional financing.