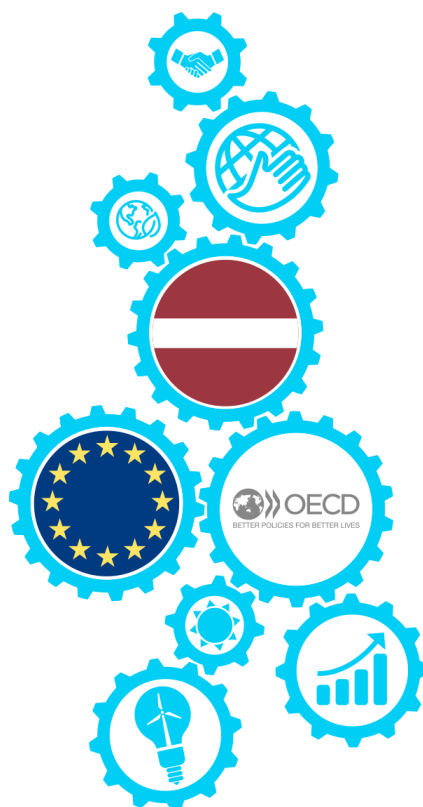


# Supporting employers in promoting skills development in Latvia

Assessing the key barriers and enabling conditions for employers to invest in skills development in Latvia



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# Foreword

The OECD and the Directorate General for Structural Reform Support (DG Reform) are cooperating to provide technical assistance 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, by developing a policy package including financial and non-financial measures. This report is one intermediary output in the framework of the project, and aims to present evidence on the key barriers and enabling conditions for employers to invest in the skills of their employees in Latvia. The evidence gathered in this report can be used by the Latvian authorities to form a clear view of the policy priorities that need to be tackled by the policy package (Chapter 1) and to have a clear understanding of the effectiveness of existing policies (Chapter 2).

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# Executive summary

## Background and objectives

**Providing training opportunities has substantial benefits for enterprises, individuals and society as a whole.** Across European Union (EU) and OECD countries, enterprises play a crucial role in providing training opportunities, as the majority of adult learning happens in the workplace. For employers, training increases labour productivity and profitability and facilitates the adoption of new technologies and work practices (OECD, 2021<sup>[1]</sup>). This translates into higher wages, higher job satisfaction and lower risk of unemployment for their employees, and can lead to positive spill-over effects for society as a whole. For example, improving the basic digital skills of older employees or individuals exposed to a risk of automation, can facilitate the adoption of digital technologies, but also strengthen their labour market attachment more generally.

**The importance of investing in skills development is growing for Latvia.** Developing worker skills can play a crucial role in the recovery from the COVID-19 pandemic, by enabling Latvian companies to increase their participation in global value chains (GVCs) and to thrive in the context of the digital and green transition. Latvia's exports have underperformed in recent decades compared to Estonia, Lithuania and other Central and Eastern European countries due to the country's industrial structure, which is still dominated by low- and medium-low tech firms, along with the persistent rise in real labour costs (OECD, 2022<sup>[2]</sup>). Increasing worker skills can help fuel the export of more complex products, leading to higher economic growth and higher quality jobs. The COVID-19 pandemic has also accelerated the digital transformation, as many work and daily activities have shifted online. Providing training opportunities can help companies and their employees to fully exploit the benefits of digital technologies and innovative work practices.

**In the face of these challenges and opportunities, enterprises in Latvia are lagging behind in the provision of training to their employees.** The provision of training by employers in Latvia remains relatively low. Enterprise investment in continuous vocational training as a percentage of total labour cost in Latvia (0.8%) is the lowest in the EU, well below the average (1.7%) for the EU (OECD, 2019<sup>[3]</sup>). This is one of the key factors behind the limited participation in adult learning in the country. Only 7.4% of Latvian employees reported participating in education and training over a four-week period in 2020, compared to 11.4% on average in the EU, and 21.8% in Estonia.

**Against this background, the OECD and the Directorate General for Structural Reform Support (DG Reform) are cooperating on a project to support employers in promoting skills development.** The project aims to provide technical assistance 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 already foresees the need to introduce such measures, but the regulatory framework describing the eligibility criteria and the implementation procedures will only be introduced by the end of 2022, as a milestone of Latvia's Recovery and Resilience Plan (RRP). The project will enable the Latvian authorities to further improve the regulatory framework, by developing a policy package including financial and non-financial measures to support employers ([link](#)). This will contribute to the implementation of the

reform on the “Development of a sustainable and socially responsible support framework for adult learning” in the RRP (Reform 2.3), which aims to increase adult learning participation and facilitate reaching other targets set in the Education Development Guidelines 2021-2027.

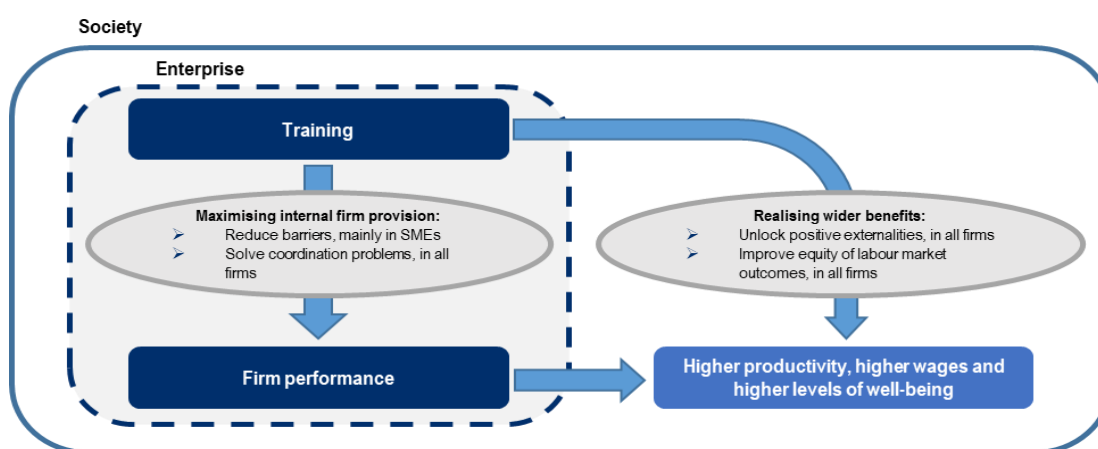
**Developing the policy package requires an understanding of the key barriers and enabling conditions for employers to invest in skills development.** The Latvian authorities need to form a clear view of the policy priorities that need to be tackled by the policy package (see Chapter 1 in the report). If this is not the case, there is a risk that the support provided will be ineffective at increasing investment in skills development by enterprises. The Latvian authorities also need to have a clear understanding of the effectiveness of existing policies (see Chapter 2 in the report). This assessment can provide useful information for the development and implementation of the policy package, for example by showing which instruments might have higher priority and how they could be best tackled.

**To identify the key barriers and enabling conditions, the OECD has conducted a combination of desk and field research.** In the desk research, the OECD has reviewed academic and policy papers both in Latvian and English, analysed in detail Latvian legislation and conducted primary data analysis on internationally comparable datasets and national data sources, including the Labour Force Survey (LFS), the Continuous Vocational Training Survey (CVTS) and the European Company Survey (ECS). To strengthen the evidence base, the OECD has then conducted interviews with a balanced representation of key stakeholders, including policymakers, employer representatives, trade unions and legal experts (see Annex B in the report for a full description).

## Understanding policy priorities

**Latvian authorities can intervene to help maximise the provision and benefits of training by enterprises, and to realise the wider benefits of training.** Enterprises across all OECD countries face a range of barriers and coordination problems in planning and organising training. Policy intervention is warranted to remove barriers or overcome coordination problems leading to higher productivity, higher wages and higher levels of well-being (Figure 1). Policy intervention can also unlock wider benefits of training beyond the individual enterprise, for example by increasing the access to training among vulnerable groups, or by strengthening training on transversal skills, such as communication, basic digital or soft skills. In a context of changing labour markets, transversal skills enable adults to adapt to new work requirements and unexpected changes, or to reorient themselves in a different occupation (OECD, 2021<sup>[4]</sup>).

**Figure 1. Rationale for public intervention through training policies**



Source: OECD (2021<sup>[1]</sup>), Training in Enterprises: New Evidence from 100 Case Studies, <https://dx.doi.org/10.1787/7d63d210-en>.

## ***Overview of training provision in Latvia***

### **Latvian enterprises lag behind in the provision of training in courses, workshops and seminars.**

Latvian companies provide comparatively more on-the-job training, while they lag behind with respect to training in courses, workshops and seminars. According to data from the ECS, on average in the EU, nearly half of enterprises report that they offer training sessions during paid work-time to at least 40% of the workforce. In Latvia, only roughly a third of enterprises do. This is a reason for concern from a policy perspective, because training provided in courses are likely to be higher-quality and crucial to deliver transversal skills. When they do offer training courses, Latvian enterprises tend to rely on short, non-formal programmes, which are less expensive and shorter, but typically only deliver an informal certificate of attendance. This implies that the skills that employees acquire are not easily recognised in the labour market, weakening their ability to fully capture the returns to their participation in training and lowering their incentives to take up learning opportunities.

### **While Latvian firms of all sizes and sectors underperform in providing training, the under-provision is particularly pronounced in micro-enterprises and SMEs.**

Data from the LFS suggest that only 6.6% of employees in Latvian micro-enterprises participate in education and training on a monthly basis, compared to 10.6% of micro-enterprises in the EU as a whole, 17.6% in Estonia and 9.0% in Lithuania. The gap in the prevalence of employee training between SMEs and large Latvian firms is greatest with respect to training courses. According to the CVTS, only 27% of small firms provide training courses in Latvia each year, compared to 56% in the EU; and 50% of medium enterprises provide training in Latvia, compared to 76% in the EU. Companies of all sizes and across sectors which provide training tend to offer shorter training than enterprises in the EU. On average, Latvian enterprises which provide training courses offer fewer hours (5.5 per 1000 hours worked) than enterprises in Estonia (10.8) and in the EU on average (7.9), but more hours than enterprises in Lithuania (4.4).

## ***Policy areas to strengthen investment in skills development in Latvia***

### **Attitudinal, financial, and informational barriers are key to explain why enterprises in Latvia underinvest in employee training.**

Attitudinal barriers are related to the lack of awareness and commitment among firms and their management to skills development. Financial barriers refer to credit and liquidity constraints that prevent firms from organising and covering the costs of employee training. Informational barriers originate from the difficulty in gathering relevant information to organise training opportunities. Companies might lack knowledge about their own skills needs, existing government support programmes, and training opportunities that are available for their employees. Empirical data and information from stakeholders shows that micro-enterprises and SMEs are more affected by these barriers than larger companies, which tend to be more aware of the benefits of training and are more likely to have capacity to organise the training and replace employees during training periods.

### **Latvian companies also experience coordination problems to offer employee training.**

Companies are afraid that competitors will “poach” their employees if they train them, which can be costly, especially for micro-enterprises and SMEs. Coordination among enterprises in Latvia to provide training is relatively weak, in part due to a fragmented stakeholder landscape. For instance, the OECD dataset on collective bargaining suggests that only 54% of employees in Latvia are employed by firms who are members of an employer organisation, which is comparable to neighbouring countries, but below the EU average (66%) (OECD, 2021<sup>[5]</sup>). Furthermore, a lack of coordination between education institutions and enterprises helps explain why employers mainly rely on non-formal education and training programmes. Formal training programmes for adults may not be sufficiently linked to labour market demand, implying that employers prefer to rely on non-formal programmes.

### **Enterprises in Latvia provide little training to vulnerable groups, mainly due to a perceived lack of return.**

According to LFS data, only 3.7% of adults in Latvia above the age of 55, for instance, participated in education and training in 2020, compared to an EU average of 6.3%. Latvian research also indicates



that the population in Latvia with low qualifications, low wages or who are employed in professions at high risk of automation participate in educational activities less often than other groups of the population (Avotniece et al., 2021<sup>[6]</sup>; Pētījumu centrs „SKDS”, 2021<sup>[7]</sup>). In practice, the groups of older and of low-qualified workers may overlap, and both face deteriorating labour market prospects. Stakeholder interviews and Latvian research suggest that the under-provision of training by enterprises for these workers is due to a perceived lack of return to their business (Avotniece et al., 2021<sup>[6]</sup>). There would be wider benefits of labour market equity and resilience, but also with respect to overall productivity and well-being if low-qualified and older workers had more opportunities to up-skill and re-skill. Offering training through employers is particularly suitable to reach them in Latvia, considering that almost two thirds of low-qualified adults are in employment (OECD, 2022<sup>[8]</sup>). Furthermore, LFS data shows that non-Latvian citizens, of which two thirds are Russians, 13% of Belarusians, and 10% Ukrainians, are underrepresented in training. Latvian language courses, which could be provided in the workplace, might help to overcome language barriers of non-Latvian citizens to access further training.

**Enterprises in Latvia also provide few training opportunities on transversal skills.** Latvian enterprises offer less training on general IT skills, management skills and team work skills compared to enterprises in Estonia, Lithuania and across the EU. The share of enterprises providing professional IT skills is instead comparable to the neighbouring countries, and slightly above the EU average. Training on basic digital skills, which are generally low in Latvia, might be particularly beneficial to support the adoption of technology in Latvian enterprises. In Latvia, only 48% of the labour force has basic digital skills, compared to the EU average of 64%. Currently, the severe shortage of digital skills constrains the adoption of digital technologies. Training to improve the digital skills of the workforce would support productivity increases and innovation in Latvian firms (OECD, 2021<sup>[9]</sup>). And while enterprises benefit from high-skilled experts in digital technology, basic digital skills across the workforce are beneficial to support the large-scale adoption, use and adaptation of technology.

## Learning from existing policies

**In principle, Latvian authorities have five main categories of policy instruments at their disposal to develop a policy package that supports employers in promoting skills development** (Table 1. ). Policy makers can set regulatory requirements on specific forms of training, for example health and safety and training to access a specific profession (OECD, 2021<sup>[11]</sup>). Regulatory requirements can help address coordination problems and realise the wider benefits of training. Governments can also rely on non-regulatory and financial measures to lower the cost of training (OECD, 2021<sup>[10]</sup>). Non-regulatory measures include pay-back clauses, the recognition of informal training in subsidised training and job rotation schemes, whereas financial measures comprise of subsidies, vouchers, tax incentives and levy schemes. Regulation and measures to lower the cost of training are typically insufficient on their own to raise participation in training (OECD, 2021<sup>[10]</sup>). Support to build firms' capacity and learning culture, through diagnostic tools, consulting services and coaching and mentoring, is important to overcome attitudinal and informational barriers. Governments can also foster cooperation across companies, and between companies and the public education sector, for example through learning networks and initiatives on industry-science cooperation.

**Table 1. Overview of policy instruments to support training in enterprises and their rationale**

Policy instrument	Type of measures	Instruments available in Latvia	Policy priority to be addressed
Regulatory requirements	Obligation to provide training (e.g. on health and safety) Collective Agreements	Legal obligation to provide training Collective agreements	Solving coordination problems Realising wider benefits of training
Non-regulatory measures to lower the cost of training	Job Rotation schemes Inclusion of informal training in subsidised training Payback clauses	Additional training agreements	Reducing financial barriers Solving coordination problems
Financial measures to lower the cost of training	Subsidies ( e.g. vouchers for training, vouchers for consulting services) Grants Subsidised schemes and support services for training Others: Tax incentives, Levy schemes	Corporate and payroll tax exemption ERDF-funded projects to “Promote the introduction of innovations in enterprises” (SO 1.2.2 of the “Growth and Employment” OP)	Reducing financial barriers Realising wider benefits of training
Support measures to build firms’ capacity and learning culture	Diagnostic tools for skills anticipation and analysis and workforce innovation Competence centres HR support services and counselling, consulting Coaching and mentoring for managers and entrepreneurs Peer-learning	Not currently available in Latvia	Reducing attitudinal barriers Reducing informational barriers
Support measures to promote co-operation among companies and with the public/education sector	Learning networks Industry science cooperation	Not currently available in Latvia	Solving coordination problems

Note: ERDF stands for European Regional Development Fund. SO stands for support objective, whereas OP stands for operational programme. Source: OECD (2021<sup>[1]</sup>), Training in Enterprises: New Evidence from 100 Case Studies, <https://dx.doi.org/10.1787/7d63d210-en>; OECD (2021<sup>[10]</sup>), Incentives for SMEs to Invest in Skills: Lessons from European Good Practices, <https://dx.doi.org/10.1787/1eb16dc7-en>; and desk and field research on Latvia legislation and policy documents.

### ***Evaluating the alignment between policies and policy priorities in Latvia***

**Latvia offers several instruments to support investment in training by employers.** Consistent with other EU and OECD countries, employers in Latvia have legal obligations to provide certain forms of training. Employers are legally obliged to provide and fund training that is “necessary” to perform job-related duties, which includes health and safety training. Employers and employee representatives are also free to sign collective agreements. Furthermore, enterprises in Latvia can sign additional training agreements with their employees and can benefit from corporate and income tax exemptions on training expenditures. The additional training agreements work as a typical payback clause. Employees are liable to pay up to 70% of training expenditures if they leave the firm in the two years following the end of a training programme. The tax exemptions imply that training expenditures are not included in the corporate and payroll tax base. Projects funded via the European Regional Development Fund (ERDF) play a crucial role in supporting enterprises. Since the start of the planning period 2014-2020, under the “Growth and Employment” operational programme (support objective 1.2.2 on “Promoting the introduction of innovations in enterprises), Latvia has delivered a total of 18 projects focused on training. The projects have also benefited from additional funding from the React-EU facility, which will ensure their continuation until the end of 2023. Under these projects, companies receive subsidies for training worth EUR 35.8 mln.

**There is no consolidated information on the take-up of some of the nationally-funded instruments, making it difficult to evaluate their effectiveness.** There is some information on the take-up of regulatory instruments and detailed information on the ERDF-funded projects to support training in enterprises. Most employers seem to be familiar with the legal obligations to train, while collective agreements are not widespread. From 2016 to March 2022, 25 257 employees from 1 566 enterprises participated to the ERDF-funded projects on training. This is equivalent to roughly 0.9% of enterprises in Latvia and 2.9% of the total number of employees. Conversely, there are currently no data on the number of training agreements concluded between employers and employees, or their content, because the information is not centrally gathered by the government. Similarly, there is no centralised information on the take-up of tax incentives. This makes it difficult to evaluate their effectiveness.

**Latvia does not currently have specific measures in place to build firms' capacity and learning culture.** Diagnostic tools, coaching and mentoring programmes could help reduce existing attitudinal and informational barriers, especially among micro-enterprises and SMEs. As of November 2022, two Digital Innovation Hubs will become operational to help companies develop a digitalisation strategy, under the EU's Digital Europe Programme. The hubs will rely on funding from the EU, either directly from its budget (EUR 7 mln) or through the RRP for Latvia (EUR 8 mln) for an initial period of 3 years. The hubs could support enterprises in adoption of digital technologies, contributing to build their capacity and learning culture, but more general measures could also be beneficial.

**Latvia currently lacks measures to promote cooperation among firms and between firms and education institutions.** The Clusters programme funded by the ERDF ("Clusters programme", under the support objective 3.2.1 of the "Growth and Employment" operational programme) is a promising initiative to encourage cooperation in specific sectors, but it currently focuses on export promotion and innovation, rather than training and skills development. The sectoral expert councils bring together experts with the aim to improve the alignment of vocational education and training and higher education with labour market needs, but they mainly focus on initial education. According to stakeholders, the councils could play an important role in promoting cooperation on adult education and training, by improving communication between different stakeholders, and identifying current and future skill demands in their respective sectors. Going forward, the MoES will pilot Skills Funds in three to five sectors, which will pool resources from employers to jointly fund training opportunities, relying on EUR 5.4 mln from the European Social Fund + (ESF+). Establishing the Skills Funds could contribute to fostering cooperation on training and skills development and mitigating poaching concerns.

**Latvia has implemented several initiatives to support the skills development of individuals.** Latvia provides a range of subsidised training programmes and financial and non-regulatory measures to support individuals (Table 2). The State Employment Agency provides support to unemployed individuals and those at risk of becoming unemployed in Latvia through different active labour market policies. It has particular focus on training for these target groups, using a system of vouchers. The State Employment Agency also offers some subsidies to unemployed workers and workers at risk of unemployment for online learning on a course platform. Individuals also benefit from financial and non-regulatory measures. Individuals receive tax deductions on education and training expenditures. These are relatively modest, as tax payers can claim back a total of EUR 120 for education training and health expenditures combined. Employees are entitled to a minimum study leave of 20 working days, although only if they need to take state examinations or defend a thesis. Employees covered by collective agreements can also receive a more generous study leave, and are entitled to some remuneration during the period. More broadly, the Ministry of the Economy (MoE) has implemented a campaign to raise awareness about the importance of lifelong learning among individuals. As in the case of employers, projects funded by the EU through the European Social Fund (ESF) also play an important role in supporting individuals to access training opportunities. A combination of three projects has provided subsidised training opportunities to employees, the unemployed, and older individuals.

**Table 2. Key policy initiatives to support training by individuals in Latvia**

Instrument available in Latvia	Target group	Description of key activities
Study leave	All employees	<ul style="list-style-type: none"> <li>Entitlement to a minimum study leave of 20 working days when taking state examinations or defending a thesis days or a diploma at the end of tertiary education. In collective agreements, employers and employees can agree on further extensions</li> </ul>
Personal income tax exemptions	All individuals	<ul style="list-style-type: none"> <li>Tax deduction on expenditures on education and training, up to a ceiling of EUR 120.</li> </ul>
Public awareness campaign	All individuals	<ul style="list-style-type: none"> <li>Campaign aiming to raise awareness about the importance of lifelong learning among individuals through adverts, brochures and videos, through a budget of EUR 300 thsd.</li> </ul>
Future Skills initiative	Unemployed and employed individuals at risk of unemployment	<ul style="list-style-type: none"> <li>Subsidies for courses on an online learning platform up to a total value of EUR 500. Between September 2021 and February 2022, 350 employed individuals at risk of unemployment participated.</li> </ul>
ESF-funded project on "Improvement of Professional Competence of Employed Persons" (SO 8.4.1 of the "Growth and Employment" OP)	Employed and self-employed	<ul style="list-style-type: none"> <li>Subsidised training programmes for employed or self-employed individuals on their initiative over the 2017-2023 period, funded through the ESF (EUR 46.8 mln). 48,530 individuals have been supported up to June 2021.</li> </ul>
ESF-funded project "Support longer working life" (SO 7.3.2 of the "Growth and Employment" OP)	Older employees	<ul style="list-style-type: none"> <li>Free access to career consulting, non-formal education and mentoring for older individuals (aged 50+) Funding is EUR 1.8 mln over the 2017-2021 period from the ESF. 470 employed adults have received support.</li> </ul>
ESF and State funded project "Support to Education of Unemployed Persons" (SO 7.1.1 of the "Growth and Employment" OP)	Unemployed	<ul style="list-style-type: none"> <li>Monthly grants to employers for offering on-the-job training to job seekers, as part of a larger package to support the training of the unemployed over the 2015-2023 period, funded through the ESF (EUR 83.4 mln) and the State budget (EUR 12.6 mln).</li> </ul>

Note: ESF stands for European Social Fund. SO stands for support objective, whereas OP stands for operational programme. See Annex A for a full description.

Source: *Latvian Labour Law*, <https://likumi.lv/ta/en/en/id/26019-labour-law>; *Personal Income Tax Law*, <https://likumi.lv/ta/en/en/id/56880-on-personal-income-tax>; *Regulation No. 336 of 31 July 2001 of the Cabinet of Ministers - Rules on eligible expenditure on education and medical services*; <https://www.nva.gov.lv/lv/node/244>; and information from field research.

**These initiatives generally complement instruments targeting employers, but some policy synergies could be better exploited.** There is low awareness among employers, in particular micro-enterprises and SMEs, about the ESF-funded project on the "Improvement of Professional Competence of Employed Persons" (support objective 8.4.1 of the "Growth and Employment" operational programme). In principle, employers can fund the participation of their employees to the training programmes offered within the project, by paying the invoice issued by the training provider. This invoice covers the 10% share of the total cost that needs to be paid by the project participants. In practice, few employers, especially micro-enterprises and SMEs, seem to be aware of this possibility. More broadly, subsidising training for older and low-qualified workers through enterprises can increase their participation in training, by improving their motivation and reducing time-related barriers.

**Going forward, Latvia is taking steps to improve digital skills.** Over the planning period 2021-2027, the MoE will implement an investment programme for improving digital skills of employees. Support will be available to fund up to 70% of overall training costs for 4 200 companies, equivalent to 2.4% of all companies in Latvia. The programme will be funded through the RRP (EUR 20 mln under investment 2.3.1.2) and the ERDF (EUR 8.5 mln). The RRP will also contribute to the development of individual learning accounts (ILAs) to foster digital skills (EUR 14.3 mln 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. The investment consists of supporting 3466 adults to acquire digital skills through ILAs. These initiatives should help close the shortages of digital skills that are preventing Latvian companies to adopt new technologies and innovate.

## ***Assessing the effectiveness of existing policies in Latvia***

**Legal obligations to provide training in Latvia seem to work effectively overall, but some aspects could be improved.** The definition of training “necessary” for a job could be made clearer. Many forms of training could be considered as “necessary” to perform job-related duties beyond training on health and safety. This uncertainty can leave room for legal disputes, for example, if new workplace practices or working arrangements are introduced. There is also some disagreement among stakeholders as to whether the legal framework provides sufficient incentives to mitigate poaching concerns. Some stakeholders considered that enabling employers to recover the expenses for “necessary” training could alleviate poaching concerns. Others emphasised that it would be unfair for workers to have to pay for training that they require to perform their job well. This disagreement suggests that achieving a consensus on further changes to the legal framework on poaching concerns could be difficult.

**Collective agreements can increase access to training, but the way forward is unclear.** According to the OECD database on collective bargaining, only 27.1% of employees in Latvia are covered by collective agreements. This is below the OECD average (32.1%) and substantially below coverage for countries with a strong tradition of collective bargaining, such as Sweden (88.0%) and Finland (88.8%). There is no comprehensive information about the content of existing agreements, because employers and employee representatives are not legally bound to publish the text. According to a recent study, collective agreements could increase the access to training, for example by expanding training leave entitlement and provision of second-chance education to low-qualified employees (Žabko, 2020<sup>[11]</sup>). However, according to stakeholders, employers and employer associations are generally reluctant to engage with employee representatives. Some stakeholders mentioned that making legislation more “elastic”, as in Sweden and other Nordic countries, could contribute to raise the coverage of collective agreements. They mean that employers and trade unions should be able to bypass the Law when negotiating working conditions through collective agreements. Yet, this would require a paradigm shift in the legal framework, which currently asserts the primacy of the Labour Law in governing working relationships between employers and employees. Efforts to improve cooperation among employers, for instance through the introduction of the Skills Funds, could contribute to strengthen membership and representativeness of employer associations. This could, over time, help increase their willingness and capacity to negotiate collective agreements.

**The additional training agreements could help mitigate poaching concerns by employers, but it is unclear how effective they could be in increasing participation in training.** There was disagreement among stakeholders about the effectiveness of the legal framework for payback clauses in additional training agreements. Some stakeholders considered that the binding term of two years could be extended and the reimbursement threshold of 70% of training costs could be increased. Others believed that these changes could place employees in a vulnerable position. Evaluating these claims is difficult, due to the lack of centralised information on the take-up of additional training agreements. Stakeholders reported that micro-enterprises and SMEs are less likely to be aware of and rely on additional training agreements than large firms. This is due to attitudinal barriers and capacity constraints. However, international evidence suggests that raising awareness about additional training agreements and tackling the capacity constraints is unlikely to result in a substantial increase in training provision. Additional training agreements are mainly useful for formal education opportunities, which have low uptake in Latvia, and might be less attractive for micro-enterprises and SMEs, the main target group currently underinvesting in training (OECD, 2017<sup>[12]</sup>).

**Higher education and general education programmes are not exempt from payroll taxes.** Reviewing the effectiveness of tax exemptions in detail is not possible, due to the lack of centralised information on expenditures on training. International evidence suggests that few countries provide a more generous tax treatment of training expenditures than Latvia, in the form of tax credits or additional deductions to companies (Torres, 2012<sup>[13]</sup>). In the case of Latvia, the current data limitations would make it difficult to effectively target and monitor further tax incentives. Even setting aside these limitations, some stakeholders have warned that introducing tax credits or additional deductions would go against the

objectives of the recent tax reform, which aimed to simplify the tax structure. However, it might be possible to introduce some tweaks to the existing framework, without increasing complexity. Formal education opportunities are currently subject to payroll taxes. According to stakeholders, this creates a barrier for employers who need to invest in specialised higher education (HE) programmes, e.g. for the ICT sector. It might also pose an obstacle to employers who would like to fund second chance education programmes for low-qualified employees.

**ERDF-funded programmes to support training in enterprises in Latvia have generally been successful in increasing participation in training.** The ERDF-funded projects give substantial responsibility to employer associations, which are in charge of selecting the training areas, overseeing the application process and organising the training. This model draws on lessons from previous EU funding rounds and continues to work well overall, according to the stakeholders consulted during the field research. However, some features of the delivery model could be further improved. The coordination budget set by the national authorities to run the project is judged to be insufficient by stakeholders consulted in the field research. This constrains them from raising awareness, especially beyond their own members. Some stakeholders reported that employer associations were willing to be more active on this front. There is also little coordination and exchange of good practices across employer associations.

**The take-up among small and micro-enterprises for the ERDF-funded programmes that support training in enterprises remains low.** This might depend on the choice of the eligibility criteria, the financing conditions and the bureaucratic requirements. To become eligible, companies are required to record a profit in the year prior to support and to be financially healthy. Companies also need to provide substantial documentation in submitting their application, and to pay for the training upfront. It might be more difficult for micro-enterprises and SMEs to satisfy these conditions and requirements, as they frequently experience capacity constraints.

## Key findings and recommendations

**Latvian authorities could focus on eight recommendations to support employers to promote skills development.** Bringing the key findings together suggests that there are eight recommendations that Latvian authorities will need to consider when developing the policy package (Table 3). Implementing these recommendations is important to ensure that the policy package is successful in promoting skills development among employers. Crucially, the lack of centralised information on additional training agreements and expenditures on training by enterprises makes it difficult to evaluate the effectiveness of these two policy instruments and constrains the evidence base for the development of the policy package.

**Table 3. Key findings and recommendations**

<b>Key findings</b>	<b>Recommendation</b>
<p><b>1. Under-provision of training by micro-enterprises and SMEs:</b> While Latvian firms of all sizes and sectors underperform in providing training, the under-provision is particularly pronounced in micro-enterprises and SMEs.</p>	<p><b>1. Provide tailored support to micro-enterprises and SMEs:</b> The measures in the policy package will need to be tailored to expand training provision in micro-enterprises and SMEs.</p>
<p><b>2. Barriers to training provision:</b> Latvian enterprises face a range of attitudinal, informational and financial barriers that prevent them from maximising training provision. These barriers are stronger for micro-enterprises and SMEs.</p>	<p><b>2. Introduce measures to build firms' capacity and learning culture:</b> Diagnostic tools and support for coaching and mentoring could help reduce attitudinal and informational barriers, especially among micro-enterprises and SMEs. These barriers are not addressed by existing policies. The newly launched Digital Innovation Hubs could support enterprises in adoption of digital technologies, but more general measures could also be beneficial.</p>
<p><b>3. Coordination problems:</b> Latvian enterprises face significant coordination problems to offer employee training, both with other enterprises, through poaching concerns, and with education institutions.</p>	<p><b>3. Introduce measures to promote cooperation:</b> Measures to promote cooperation could help improve communication between different stakeholders, identify current and future skill demands and encourage the pooling of resources. Sectoral expert councils could play an important role in promoting cooperation on adult education and training. The piloting of the Skills Funds is also a promising initiative on this front.</p>
<p><b>4. Under-provision of training to vulnerable groups:</b> Enterprises provide little training to low-qualified and older employees due to a perceived lack of return to their business. These vulnerable groups face deteriorating labour market prospects. Non-Latvian citizens are also under-represented in training.</p>	<p><b>4. Subsidise training for vulnerable groups through enterprises:</b> Channelling support for training of low-qualified and older employees through enterprises could increase their engagement in training, by improving their motivation and reducing time-related barriers. Latvian language courses might facilitate access to further training for non-Latvian citizens.</p>
<p><b>5. Lack of data on take-up of policy instruments:</b> Latvian authorities do not gather systematic information on the take-up of two nationally-funded policy instruments, the additional training agreements and tax exemptions. This makes it difficult to monitor their effectiveness.</p>	<p><b>5. Gather data on take-up of support measures:</b> In developing and implementing the policy package, it will be important to gather comprehensive data to assess and monitor the uptake, functioning and effectiveness of the support measures. More broadly, Latvian authorities should consider gathering centralised information on additional training agreements and tax exemptions.</p>
<p><b>6. Lack of clarity in some aspects of legislative framework on training:</b> Although the legal framework works well overall, the definition of training "necessary" for a job could be made clearer. The uncertainty over the definition of "necessary" training can leave room for legal disputes, which could discourage investment by employers.</p>	<p><b>6. Define all key aspects of legislation clearly:</b> In the policy package, it will be important to define all key aspects of legislation to limit potential uncertainty for beneficiaries.</p>
<p><b>7. Tax treatment of training expenditures:</b> Few countries provide a more generous tax treatment of training expenditures than Latvia. However, training expenditures on higher education and general education programmes are not exempt from payroll taxes.</p>	<p><b>7. Expand tax exemptions on higher education and general education programmes:</b> Making higher education and general education programmes exempt from payroll taxes could incentivise investment in specialised university programmes, e.g. in the ICT sector, or second-chance education for low-qualified employees.</p>
<p><b>8. Effectiveness of the implementation model for ERDF-funded projects on training:</b> The implementation model of ERDF-funded projects on training relying on employer associations works well overall. However, there is little coordination and exchange of good practices, and associations receive insufficient resources to raise awareness about the project, especially beyond their own members. Moreover, strict eligibility criteria, unfavourable financing conditions and burdensome bureaucratic requirements limit the participation of micro-enterprises and SMEs.</p>	<p><b>8. Involve employer associations in the delivery of policy package and minimise administrative burden:</b> Employer associations can play an important role in the delivery of the policy package, but should receive incentives to cooperate and exchange good practices, and should be given sufficient resources to raise awareness about the support measures. To achieve a strong uptake among micro-enterprises and SMEs, it will be important to ensure that the eligibility criteria and financing conditions are not too strict, and the bureaucratic requirements are not too burdensome.</p>

Source: OECD desk and field research

# 1. ■ Understanding policy priorities

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Training has substantial benefits for enterprises, individuals and society as a whole. Government intervention is justified to help maximise the provision of training by enterprises, and to realise the economic and social benefits of training related to greater innovation, productivity, and well-being. This chapter identifies the policy priorities that the Latvian authorities should consider when designing policy measures to promote training by employers. It first provides an overview of current training provision in Latvia and an analysis of which enterprises are underinvesting. Then, it considers which policy areas Latvian authorities should target when designing a policy package to support training provision by employers.

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## Introduction

Empirical research has consistently shown that training has a positive effect on employee productivity and performance, and as a result, firm productivity. Employee training helps companies to boost innovation, and maintain competitiveness. For individuals, it has shown to increase wages and job satisfaction, and to reduce the risk of unemployment (Fialho, Quintini and Vandeweyer, 2019<sup>[14]</sup>; Picchio and van Ours, 2013<sup>[15]</sup>; Schmidpeter and Winter-Ebmer, 2021<sup>[16]</sup>). Across EU and OECD countries, enterprises play a crucial role in providing opportunities for training, as the majority of adult learning happens in the workplace.

Previous OECD research has highlighted, however, that enterprises in Latvia are lagging behind in the provision of training to their employees (OECD, 2019<sup>[3]</sup>). At the same time, poor access to skills constrains the capacity of Latvian firms to innovate, and to increase their productivity growth. As noted in the OECD Skills Strategy for Latvia, investment in training by employers in Latvia is currently the lowest in the EU. On average in Latvia, enterprises invest 0.8% of total labour cost in training courses, falling far below the EU average of 1.7% (Eurostat, 2015<sup>[17]</sup>).

Going forward, the importance of investing in skills is increasing for Latvia. Developing workers' skills can play a crucial role in the recovery from the COVID-19 pandemic, by enabling Latvian companies to increase their participation in global value chains (GVCs), and to thrive in the context of the digital and green transition (OECD, 2022<sup>[2]</sup>). The COVID-19 pandemic has also accelerated the digital transformation, as many work and daily activities have shifted online. Providing training opportunities can help companies and their employees to fully exploit the benefits of digital technologies and innovative work practices.

Against this background, the OECD and Directorate General for Structural Reform Support (DG Reform) are cooperating on a project that aims to enable the Latvian Ministry of Education and Science (MoES) to amend the regulatory framework that incentivises employers to provide training. The regulatory framework will only be introduced by the end of 2022, as a milestone of Latvia's Recovery and Resilience Plan (RRP). The project will enable the Latvian authorities to further improve the regulatory framework, by developing a policy package including financial and non-financial measures. This will contribute to the implementation of the reform on the "Development of a sustainable and socially responsible support framework for adult learning" in the RRP (Reform 2.3), which aims to increase adult learning participation and facilitate reaching other targets set in the Education Development Guidelines 2021-2027.

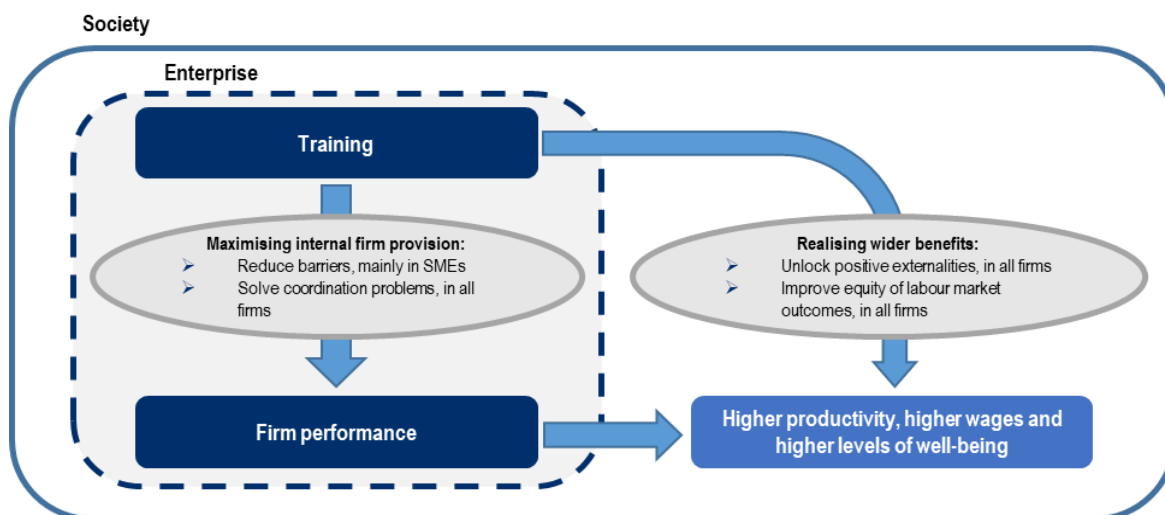
This chapter identifies the policy priorities that the Latvian authorities should consider in the policy package, drawing on desk-research and consultations with Latvian stakeholders, including employer associations, training providers, trade unions, government bodies and legal experts (see Annex B for an overview of the field research). The chapter (i) provides an overview of training provision in Latvia, including an analysis of which enterprises are underinvesting, and (ii) examines which policy areas Latvian authorities should target in the policy package to address this under-provision of training.

Recent OECD research (2021<sup>[11]</sup>) suggests that policy intervention can be warranted to help maximise the provision of training by enterprises, and to realise the economic benefits of training related to greater innovation and productivity (Figure 1.1). Enterprises face a range of barriers and coordination problems in planning and organising training. Policy intervention can help remove these barriers or overcome these coordination problems (Figure 1.1) leading to higher productivity, higher wages and higher levels of well-being.

Policy intervention can also help to realise the wider benefits of training beyond the individual enterprise. First, it can help improve the equity of labour market outcomes by steering training investments towards vulnerable groups. For example, firms could be encouraged to increase training provision for low-skilled workers, employees in occupations at risk of automation, older employees, or employees from a migrant background who generally receive less training than the most high-performing workers.

Second, it can help increase training on transversal skills with positive effects in other areas of economy and society. For example, training on digital skills can foster innovation and also enable individuals to access digital services.

**Figure 1.1. Rationale for public intervention through training policies**



Source: OECD (2021<sup>[11]</sup>), Training in Enterprises: New Evidence from 100 Case Studies, <https://dx.doi.org/10.1787/7d63d210-en>.

## Overview of training provision in Latvia

Understanding how and why firms are currently struggling to foster the skills development of their employees is key to develop effective policy measures. This section analyses the participation in training by employees in Latvia, and shows which types of education and training programmes are most commonly chosen by Latvian enterprises. It also demonstrates which enterprises are underproviding training, with the objective to tailor support measures in the policy package.

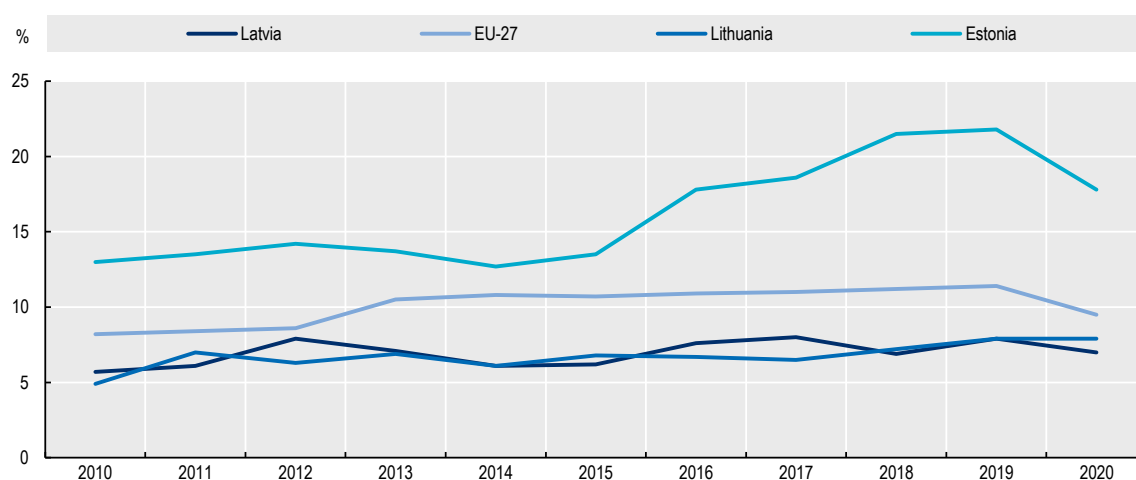
### ***Evidence on training participation in Latvia***

Employees in Latvia lag behind with respect to their participation in education and training compared to employees across the European Union (EU) (Figure 1.2). According to the EU Labour Force Survey (LFS), the percentage of employed persons who participated in education and training in Latvia in 2019 was 7.9%. This is similar to the participation rate in Lithuania but low compared to 11.4% on average in the EU, and 21.8% in Estonia.

The COVID-19 pandemic has disrupted the participation in education and training across the EU. Data from 2020 shows a drop in training participation by employed persons in the EU since the onset of the pandemic, from 11.4% in 2019 to 9.5% on average in 2020. Latvia is no exception: in 2020, the participation rate in training declined to 7.0%, compared to the pre-pandemic level of 7.9% in 2019. Training participation in Estonia was especially affected by the pandemic, as it dropped by 4% between 2019 and 2020. In Lithuania, by contrast, training participation has remained constant at 7.9%.

**Figure 1.2. Participation in education and training of employed persons**

Percentage of employed persons aged 25-64 years who participated in education and training, 2010-2020



Note: Data refers to variable trng\_lfs\_03, which measures the participation rate in formal and non-formal education and training in the four weeks prior to the survey response.

Source: Eurostat (2020<sup>[18]</sup>), European Union Labour Force Survey (LFS), <https://ec.europa.eu/eurostat/web/microdata/european-union-labour-force-survey> (accessed March 28, 2022).

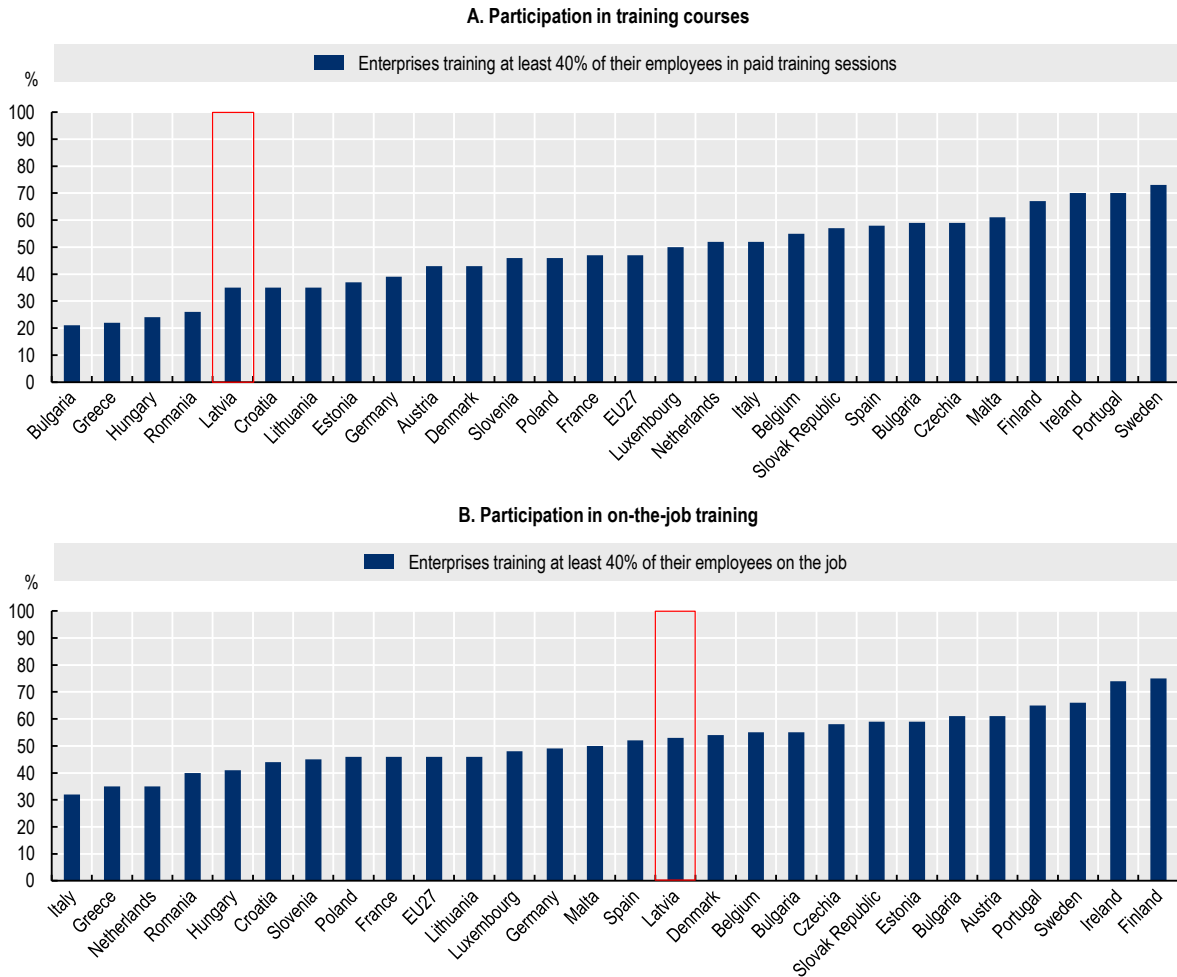
### *Latvian enterprises provide more on-the-job training than the EU average...*

The European Company Survey (ECS) suggests that Latvian companies are more likely to offer on-the-job training, as opposed to courses, workshops and seminars. On average in the EU, nearly half of enterprises report that they offer training sessions during paid work-time to at least 40% of the workforce. In Latvia, only roughly a third of enterprises do. Conversely, 52% of enterprises in Latvia offer on-the-job training to at least 40% of the workforce, compared to 48% in the EU as a whole (Figure 1.3).

On-the-job training is typically offered in-house by companies themselves, while courses, workshops and seminars can be organised internally or may be part of non-formal and formal education and training programmes by an external provider. The under-provision of training courses is a concern from a policy perspective for two reasons (OECD, 2021<sup>[11]</sup>). First, training in courses, workshops and seminars, is crucial to develop transversal skills, such as communication and project management, and IT skills (OECD, 2021<sup>[11]</sup>). These skills are important to increase productivity of employees, they are needed across different enterprises and sectors, and help individuals thrive in the context of the digital transition. Second, training in courses is generally of higher quality. Courses are more likely to have well-defined learning outcomes and to rely on more advanced learning methods, which, according to psychology research, can help participants to retain their new knowledge and skills (Ford, Baldwin and Prasad, 2018<sup>[20]</sup>).

**Figure 1.3. Participation in training courses and on-the-job training**

Percentage of enterprises reporting that they train at least 40% of employees



Note: The graphs show the (a) percentage of employees that participated in training sessions on the establishment premises or at other locations during paid working time, and (b) the percentage of employees that received on-the-job training or other forms of direct instruction in the workplace from more experienced colleagues.

Source: Eurofund (2019<sup>[19]</sup>), European Company Survey (ECS), <https://www.eurofound.europa.eu/surveys/data-visualisation/european-company-survey-data-visualisation> (accessed March, 24, 2022).

### *...and they tend to rely on short, non-formal training*

When they do offer training courses as rather than on-the-job training, Latvian companies most often provide non-formal programmes. Formal education and training for employees, which counts towards a degree or qualification, is less common. The following box provides a definition of these two types of training and of informal learning, in line with the International Standard Classification of Education (ISCED 11).

### Box 1.1. Classification of activities to develop skills

**Formal education and training** is institutionalised, intentional and planned through public organisations and recognised private bodies that belong to the formal education system, such as universities, vocational education and training (VET) institutions, or other accredited educational institutions. Formal education or training leads to a degree or qualification that is recognised by national educational authorities.

**Non-formal education and training** is defined as any institutionalised, intentional and organised/planned learning activity outside the formal education system. It does not lead to a formal qualification, but could lead to a nationally recognised certificate issued by another body (e.g. an employer association) or an informal certificate of attendance. It includes on-the-job training, open or distance education, courses or private lessons, and seminars or workshops.

**Informal learning** relates to typically unstructured, and often unintentional learning activities that do not lead to certification. In a workplace context, according to the OECD PIAAC survey, employees can learn by doing, learn from others and learn to keep up to date with new products and services.

Source: OECD (2011<sup>[21]</sup>), PIAAC Conceptual Framework of the Background Questionnaire Main Survey, [https://www.oecd.org/skills/piaac/PIAAC\(2011\\_11\)MS\\_BQ\\_ConceptualFramework\\_1%20Dec%202011.pdf](https://www.oecd.org/skills/piaac/PIAAC(2011_11)MS_BQ_ConceptualFramework_1%20Dec%202011.pdf); UNESCO (2012<sup>[22]</sup>) International Standard Classification of Education. ISCED 2011, <http://www.uis.unesco.org>.

Table 1.1 lists existing types of education and training programmes in Latvia. While data on the uptake by employers of each type of programme is not centrally documented in Latvia, stakeholders confirmed that the uptake of non-formal education and training is highest, in line with other OECD and EU countries. Among formal programmes, which lead to a professional qualification or degree, are professional development programmes, continuing VET programmes, higher education study courses or modules, and VET modules. Employers do not, or only in very rare cases, seem to sponsor general education programmes, such as second chances education for low skilled workers, or tertiary education.

**Table 1.1. Existing training and education programmes in Latvia**

Type of programme	Description	Credential	Providers	Uptake
Non - formal education programmes	Short non-formal training and education programmes; up to 160 h long	(Informal) certificate of attendance	197 registered adult non-formal education institutions, educational institutions accredited by IKVD, HEIs, providers licensed by local government.	High
Professional development programmes (formal)	Professional training; at least 160 h long	Professional development certificate	Educational institutions accredited by IKVD, HEIs, VETIs	Medium
Continuing VET programmes (formal)	Formal training to acquire a professional qualification; 480 - 1200 h long	Formal qualification	578 registered professional and continuing development institutions, VETIs, HEIs	Low
Study course or module (formal)	A part of an existing, formal higher education programme; 40-240 h long	Certificate of completion of course or module	HEIs	Low
Module or a set of VET modules (formal)	A part of an existing, formal modular vocational education and training programme; 40 – 400 h long	Certificate of completion of module	VETIs	Low

Note: Higher education institutions (HEIs) include universities, high schools and academies, and colleges. Vocational education and training institutions (VETIs) are accredited by the State Education Quality Service (IKVD) following a 6 year cycle. Professional development programmes may be considered a hybrid form of training. They are only offered by educational institutions that are accredited by IKVD, however, rather than leading to a professional qualification, they aim at complementing existing qualifications.

Source: OECD compilation based on field research.

Non-formal education programmes in Latvia are typically short, and in practice are offered both by accredited and non-accredited providers. Stakeholders reported that from the perspective of employers, accredited non-formal training institutions in Latvia do not necessarily provide higher quality training. One stakeholder, for example, emphasised the following:

*The accreditation of educational institutions does not guarantee the quality. Accredited institutions are not always the best option in terms of quality and return on investment for firms.*

Generally, employers use recommendations from employer associations or contacts in their network to choose among available training programmes, rather than relying on the accreditation of providers as a marker of quality.

Non-formal education programmes typically deliver an informal certificate of attendance, which implies that the skills that employees acquire are not easily recognised by other employers. While non-formal education is linked to substantial wage and productivity returns, this might lower workers' incentives to take up learning opportunities (Fialho, Quintini and Vandeweyer, 2019<sup>[14]</sup>). In the future, micro-credentials are a promising way to make skills acquired through non-formal learning more visible. They are short education programmes offered by higher education institutions, which are expected to be rolled out across the EU as part of the EU Skills Agenda (European Commission, 2020<sup>[23]</sup>).

According to stakeholders consulted during the field research, non-formal types of training might be more appealing to employers due to the shorter time commitment they demand and their lower cost, both with respect to course cost and the work time of employees that is required. However, the preference for non-formal training might also be driven by limitations in the formal education provision. One stakeholder explained the reliance of companies on non-formal training as follows:

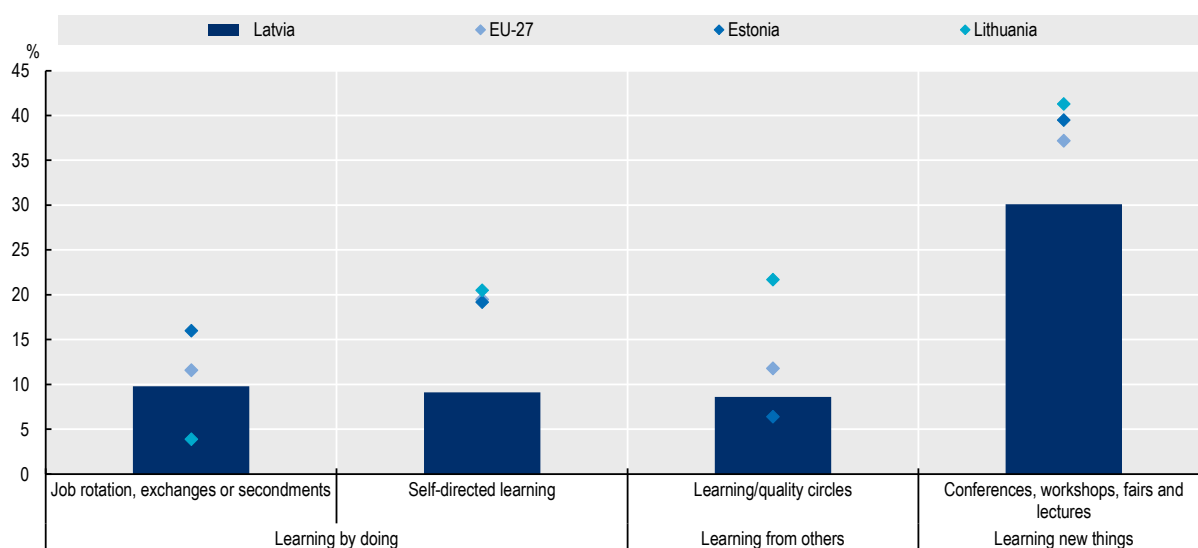
*Courses are more attractive for companies if they are tailored to their need and exclusively designed for them. Few of the most demanded adult education and training programmes lead to a professional certificate or qualification. These programmes are not part of state-recognised training programmes, so there is usually no certificate for employees at the end.*

#### *Informal learning is not common in Latvia*

Informal learning constitutes about 80% of job-related learning at work in the OECD (Fialho, Quintini and Vandeweyer, 2019<sup>[14]</sup>). While difficult to measure, this type of learning leads to significant tangible and intangible benefits, such as higher wages, higher productivity and higher levels of job-satisfaction (OECD, 2021<sup>[11]</sup>). Existing CVTS data measures opportunities for informal learning that can be organised in firms, such as self-directed learning or quality circles (Figure 1.4). Somewhat fewer Latvian companies seem to offer these opportunities for employees than on average in the EU.

## Figure 1.4. Prevalence of informal learning

Percentage of enterprises offering informal learning, by type



Note: Data refers to variable trng\_cvt\_01.

Source: Eurostat (2015<sub>[17]</sub>), Continuing Vocational Training Survey (CVTS), <https://ec.europa.eu/eurostat/web/microdata/continuing-vocational-training-survey> (accessed March 28, 2022).

The lower prevalence of informal learning in Latvia is not surprising, as there is a positive correlation between informal learning and training provision across OECD countries (Fialho, Quintini and Vandeweyer, 2019<sub>[14]</sub>). Countries in which many companies provide formal and non-formal training also tend to offer more opportunities for informal learning at work. However, given its unstructured nature, informal learning depends more heavily on the presence of good working practices and a work culture that are supportive of learning (OECD, 2021<sub>[1]</sub>). In the context of Latvia, overcoming attitudinal barriers to the adoption of innovative work practices might contribute to boost informal learning, as well formal and non-formal training.

### ***Types of enterprises that might need to be supported***

Training provision by enterprises typically varies by size, sector and other company characteristics. In Latvia and elsewhere, large companies may have greater capacity to provide training for their employees than micro-enterprises, small and medium-sized enterprises (SMEs). In Latvia, SMEs employ approximately 79% of the Latvian labour force (OECD, 2020<sub>[24]</sub>).

In the context of this study, and in line with Eurostat's classification, small enterprises are defined as firms with 10-49 employees, and medium-sized enterprises as firms with 50-249 employees. Companies with less than 10 employees are considered micro-enterprises, and companies with more than 250 employees are referred to as large enterprises.

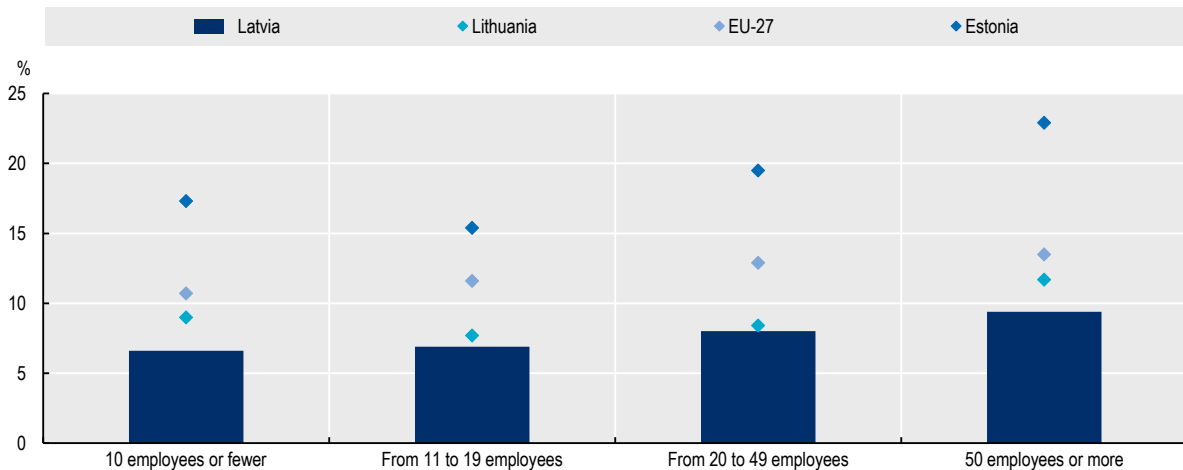
#### *Employees in smaller firms train less than those in larger firms*

Latvian employees who work in smaller firms are less likely to train than those working in larger firms (Figure 1.5). The EU Labour Force Survey (LFS) shows that 6.6% of employees in Latvian micro-enterprises participated in education and training in 2020, while 9.4% of employees in medium-sized and large Latvian firms with 50 or more employees did so. Also in other countries, employees in larger firms

are more likely to train, however, employees in Latvian enterprises across all size classes train less compared to employees in the EU.

**Figure 1.5. Employee participation in education and training by firm size**

Percentage of employees aged 25-64 years who participated in education and training by firm size



Note: Data refers to variable trng\_lfs\_07, which measures the participation rate in formal and non-formal education and training in the four weeks prior to the survey response. Source: Eurostat (2020<sub>[18]</sub>), European Union Labour Force Survey (LFS), <https://ec.europa.eu/eurostat/web/microdata/european-union-labour-force-survey> (accessed March 28, 2022).

While the ECS does not allow to break down data by company size in Latvia, the Continuing Vocational Training Survey (CVTS) shows that Latvian SMEs are lagging behind larger Latvian enterprises with respect to training provision. The difference persists across different types of training and informal learning opportunities, including training courses; job rotation, exchanges or secondments; training at conferences, workshops, trade fairs and lectures; learning/quality circles; and self-directed learning<sup>1</sup>.

The gap in the prevalence of training provision between small and large Latvian enterprises is largest with respect to training courses, which large firms are almost three times as likely to offer (Figure 1.6, Panel A). As mentioned above, training in courses tends to be of higher quality and is important to develop employees' transversal skills.

According to the CVTS, 27% of small firms provide training courses in Latvia, compared to 56% in the EU; and 50% of medium enterprises provide training in Latvia, compared to 76% in the EU. Conversely, the share of large Latvian enterprises providing training courses is closer to the EU average (77% in Latvia vs. 92% in the EU) (Figure 1.6, Panel A).

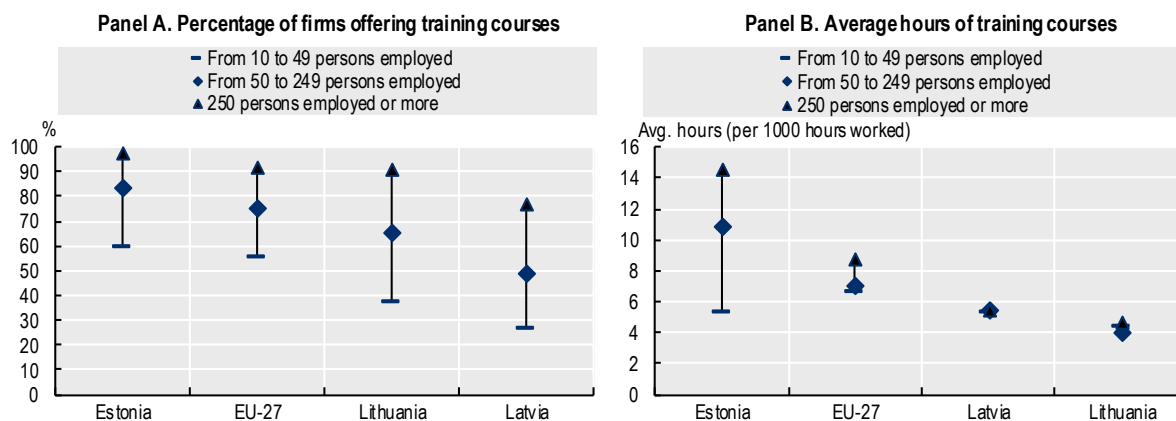
Evidence also shows that enterprises in Latvia which offer training courses to their employees tend to offer fewer hours of training (5.5 per 1000 hours worked) than enterprises in Estonia (10.8) and in the EU on average (7.9), but more hours than enterprises in Lithuania (4.4) (Figure 1.6, Panel B). This also indicates that Latvian companies on average rely on shorter types of training compared to companies across the EU.

In contrast to other countries, however, the training intensity in Latvia differs very little across small, medium and large firms (Figure 1.8, Panel A). This suggests that while SMEs in Latvia are less likely to train their employees, the ones that do so offer types of training that are comparable to the types of training provided by larger Latvian firms.



### Figure 1.6. Prevalence and intensity of training courses by firm size

Percentage of enterprises offering training courses and average hours spent in training courses per 1000 hours worked, by firm size



Note: Data refers to variable trng\_cvt\_01 (Panel A) and trng\_cvt\_22 (Panel B). Panel B shows the average hours spent in training courses per 1000 hours worked in companies which provide training courses to their employees.

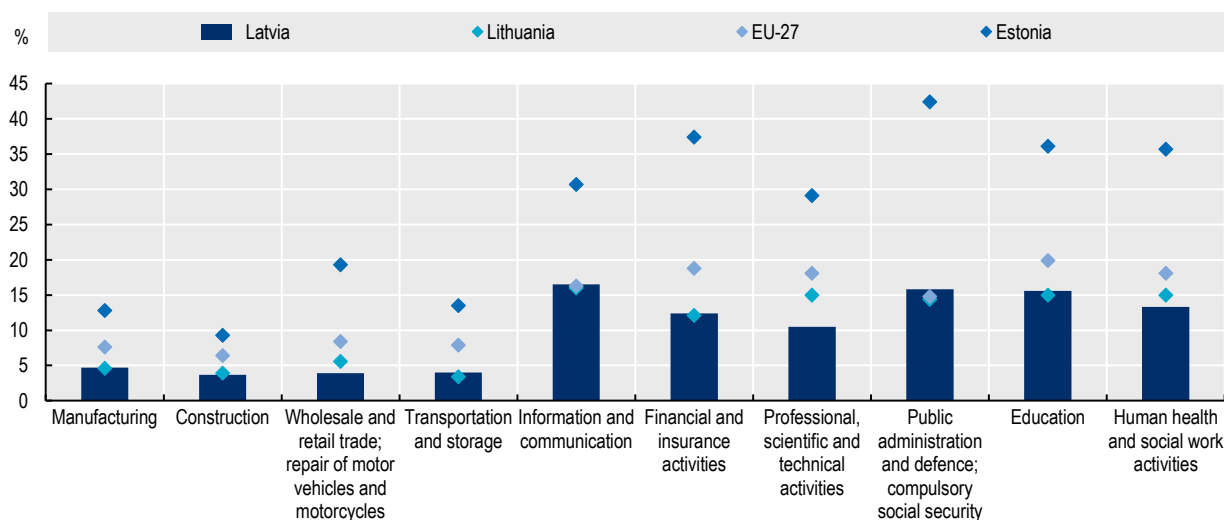
Source: Eurostat (2015<sub>[17]</sub>), Continuing Vocational Training Survey (CVTS), <https://ec.europa.eu/eurostat/web/microdata/continuing-vocational-training-survey> (accessed March 28, 2022).

#### *Latvian enterprises in all sectors are under-providing training*

The LFS shows that Latvian employees across all sectors are less likely to train than employees on average in the EU and neighbouring countries, with the exception of public sector employees (Figure 1.7). Also in other countries, the prevalence of training generally varies across sectors, for instance, training participation in manufacturing and construction is typically lower. Even within these sectoral patterns, however, Latvian companies seem to be lagging behind in EU comparison.

### Figure 1.7. Employee participation in education and training by sector

Percentage of employees aged 25-64 years who participated in education and training by sector



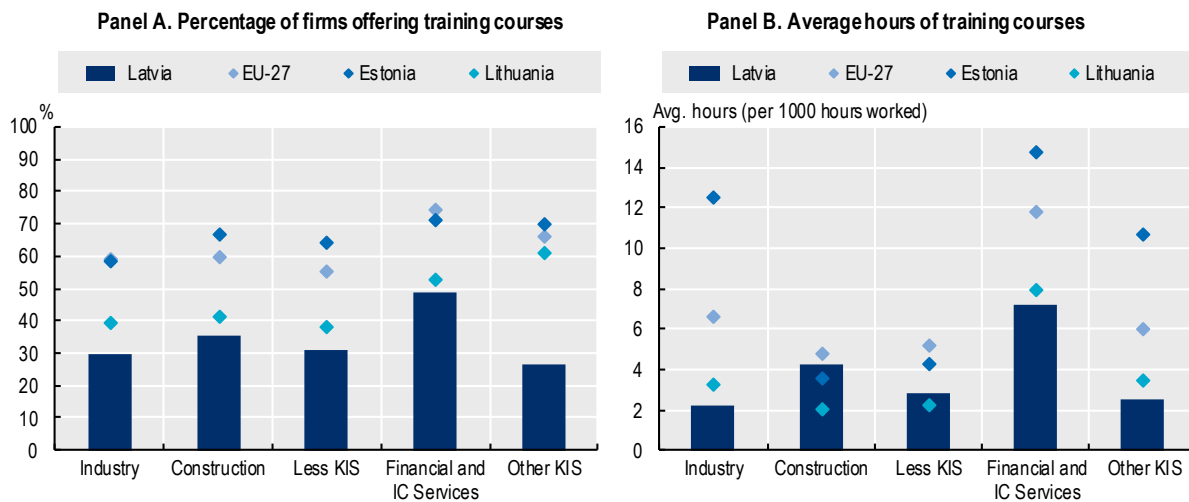
Note: Data refers to variable trng\_lfs\_08, which measures the participation rate in formal and non-formal education and training in the four weeks prior to the survey response. Data is from 2019, and shown only for a subset of sectors due issues of data availability for Latvia.

Source: Eurostat (2019<sup>[25]</sup>), European Union Labour Force Survey (LFS), <https://ec.europa.eu/eurostat/web/microdata/european-union-labour-force-survey> (accessed March 28, 2022).

According to CVTS data, Latvian companies in all sectors underperform in the provision of training courses to employees compared to their counterparts in the EU. Enterprises in other knowledge-intensive sectors (other KIS), such as real estate, professional, scientific, technical and administrative activities, or arts, entertainment and recreation are lagging behind most markedly: only 26% of Latvian enterprises in these sectors offer training courses to their employees, compared to 66% on average in the EU (Figure 1.8, Panel A).

### Figure 1.8. Prevalence and intensity of training courses by sector

Percentage of enterprises offering training courses and average hours spent in training courses per 1000 hours worked, by sector



Note: Data refers to variable trng\_cvt\_01 (Panel A) and trng\_cvt\_22 (Panel B). Less knowledge-intensive sectors (Less KIS) include wholesale and retail trade, transport, accommodation and food service activities. Financial and IC services include information and communication; financial and insurance activities. Other knowledge-intensive sectors (Other KIS) includes real estate activities; professional, scientific and technical activities; administrative and support service activities; arts, entertainment and recreation, and other service activities. Panel B shows the average hours spent in training courses per 1000 hours worked in companies which provide training courses to their employees.

Source: Eurostat (2015<sup>[17]</sup>), Continuing Vocational Training Survey (CVTS), <https://ec.europa.eu/eurostat/web/microdata/continuing-vocational-training-survey> (accessed March 28, 2022).

Enterprises in industry and other knowledge-intensive sectors (other KIS) which offer training courses also underperform markedly with respect to the intensity of training compared to neighbouring countries and the EU as a whole. Enterprises in both sectors, for example, train three times more intensively in the EU, compared to Latvia (Figure 1.8, Panel B). This confirms the “industry” and “other KIS services” sectors could particularly benefit from sector-specific measures policy approach.

To a significant extent, sectoral patterns in training provision reflect differences in the productivity and workforce composition across industries. Closing these gaps will depend on developing sector-specific initiatives, for example in the context of Latvia’s Smart Specialisation Strategy, which defines national and sector-specific priorities for knowledge-based innovation and structural transformation of the economy (OECD, 2021<sup>[26]</sup>). In principle, sector-specific initiatives could be integrated into the regulatory framework.

For instance, the financial incentives could be targeted towards particular sectors or graduates across sectors. However, this would require an in-depth analysis of sectoral specificities and needs.

## Understanding policy priorities: training provision in Latvia

- The participation in employee training is lower in Latvia compared to other EU countries. As elsewhere, training participation in Latvia has dropped during the COVID-19 pandemic.
- Latvian companies provide comparatively more on-the-job training, while they lag behind with respect to training in courses, workshops and seminars. This is a reason for concern from a policy perspective, because training courses, workshops and seminars are likely to be of higher-quality and are crucial to deliver transversal skills.
- In general, short, and non-formal education and training programmes are most demanded by employers in Latvia, likely due to the lower cost and time investment they require. These types of training typically do not lead to a formal skills certification, which might lower workers' incentives to participate.
- While Latvian firms of all sizes and across sectors underperform in the provision of employee training compared to their European counterparts, the under-provision of training is particularly pronounced in micro-enterprises and SMEs. The gap in the prevalence of employee training between SMEs and large Latvian firms is greatest with respect to training courses, which large Latvian firms are almost three times as likely to provide for their employees.
- The intensity of training, measured as the average hours of training courses per 1000 hours worked, is comparatively low in Latvian enterprises, irrespective of firm size. This also means that Latvian companies on average rely on shorter types of training compared to companies across the EU.
- These findings imply that the measures in the policy package to support employer-sponsored training should especially target SMEs and micro-enterprises. For SMEs and micro-enterprises, the focus should be to increase the proportion of enterprises that train. More broadly, Latvian enterprises of all sizes would benefit from an increase in training intensity, that is, types of training that require a larger time investment.

## Policy areas to strengthen investment in skills development in Latvia

The findings of the previous section confirm that policy intervention may be warranted to support the provision of training by enterprises, and to realise wider economic and social benefits (OECD, 2021<sup>[11]</sup>). The following section analyses which policy areas the Latvian authorities should consider in the policy package to maximise these benefits. Conversely, existing policy measures in Latvia are assessed in Chapter 2. As foreshadowed in the introduction, this section discusses the main barriers and cooperation problems that Latvian enterprises experience, and which should be addressed by the policy package. Then, it highlights policy areas the Latvian authorities should target to realise wider benefits of training beyond the individual enterprise.

### ***Reducing attitudinal, financial and informational barriers***

Enterprises typically experience a range of attitudinal, financial, and informational barriers to plan and deliver training (OECD, 2021<sup>[11]</sup>). Attitudinal barriers are related to the lack of motivation and commitment

among firms and their management to skills development. Financial barriers are given in the case of credit and liquidity constraints that prevent firms from organising and covering the costs of employee training. Informational barriers originate from the difficulty in gathering relevant information to organise training opportunities. Companies might lack knowledge about their own skills needs, existing government support programmes, and training opportunities that are available for their employees. Policy intervention can help reduce these barriers.

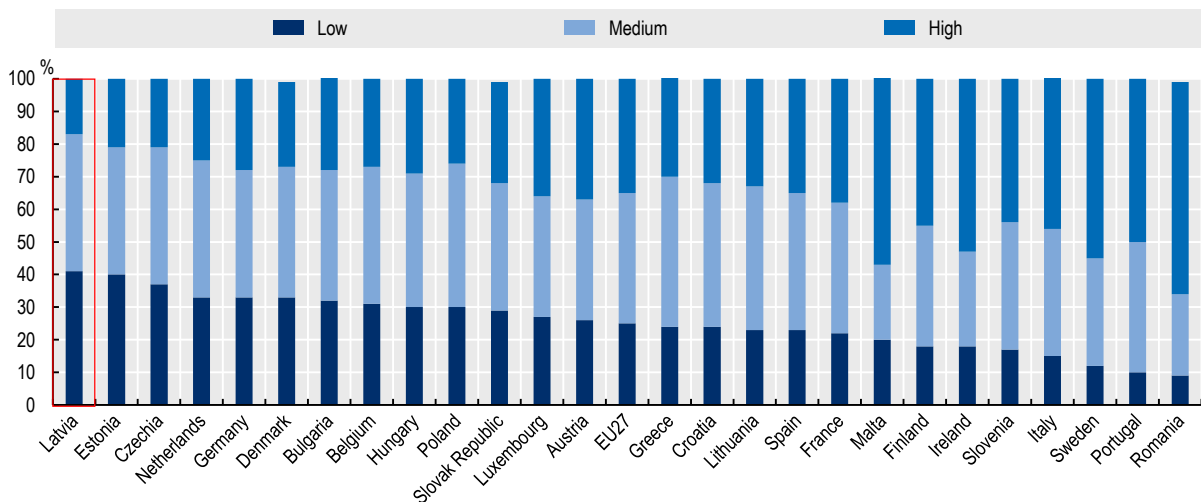
In principle, micro-enterprises and SMEs should be more exposed to financial and informational barriers, and face larger capacity constraints. Micro-enterprises and SMEs typically face higher unit-cost per worker in organising training, because they have fewer employees to train. They might also struggle to gather information on skills to be targeted in training and external training providers.

*Attitudinal barriers are crucial in explaining the under-provision of employer-sponsored training in Latvia*

Evidence from cross-country surveys shows that few enterprises in Latvia think training is important. Latvia has the largest share of enterprises reporting that the value of training for the establishment is “low” across the EU (41% compared to the EU average of 25%) (Figure 1.9). This suggests that many employers do not perceive a benefit to training their employees.

**Figure 1.9. Perceived value of training**

Percentage of companies reporting that the value of training for the establishment is high / medium / low



Source: Eurofund (2019<sup>[19]</sup>), European Company Survey (ECS), <https://www.eurofound.europa.eu/surveys/data-visualisation/european-company-survey-data-visualisation> (accessed February 10, 2022).

Stakeholders consulted during the field research confirmed that the negative attitudes of many employers in Latvia hinder the training of their employees. One stakeholder summarised this barrier to training as follows:

*In Latvia, there is a lack of awareness of the impact of investment in employees. Businesses do not have a positive attitude towards training, as they are too focused on day-to-day concerns. A readiness for change is missing.*

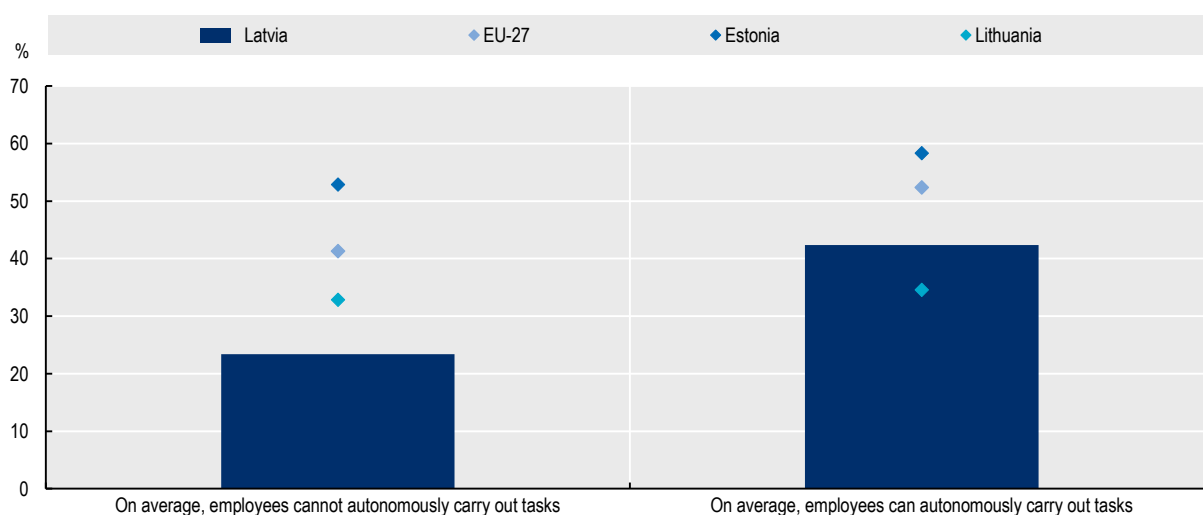
At the same time, stakeholders report that larger companies and those with foreign ownership tend to think more positively of training and consider it useful for their employees. Attitudinal barriers are likely to be stronger for micro-enterprises and SMEs, even if sample size limitations do not allow to test this hypothesis.

Negative attitudes to training are frequently linked to a lack of a learning culture in enterprises, that is, a combination of workplace and management practices that support skills development. Previous OECD research, for example, has highlighted that high-performance workplace practices (HPWP) are conducive to greater productivity, more intensive skills development and better use of skills (OECD, 2016<sup>[27]</sup>). HPWP include work flexibility and autonomy; teamwork and information sharing; and benefits, career progression and performance management.

In Latvia, there seems to be a particularly strong correlation between advanced work practices and the intensity of training (Figure 1.10). Roughly 42% of Latvian enterprises which give some degree of autonomy to workers train at least 40% of employees, compared to 23% of enterprises which do not. In the EU, the proportion of enterprises which train more than 40% of their employees is more similar both groups (41% vs. 52%).

**Figure 1.10. Participation in training courses by degree of workforce autonomy**

Percentage of enterprises reporting that train at least 40% of their employees



Source: Eurofund (2019<sup>[19]</sup>), European Company Survey (ECS), <https://www.eurofound.europa.eu/surveys/data-visualisation/european-company-survey-data-visualisation/>, (accessed February 10, 2022).

Managers and entrepreneurs, in particular those of micro-enterprises and SMEs, play a key role in choosing workplace and management practices that support employee performance and skill development (OECD, 2021<sup>[28]</sup>). To a significant extent, reducing attitudinal barriers will require guiding managers and entrepreneurs in the adoption of workplace and management practices that can foster a learning culture, for example through coaching and mentoring (see Chapter 2). Better management and work practices will also contribute to improve business processes and could lead to faster digital adoption and productivity gains (Bloom et al., 2019<sup>[29]</sup>; Sorbe et al., 2019<sup>[30]</sup>)

#### *Enterprises in Latvia often face financial barriers to provide employee training*

Enterprises report that financial barriers constrain the provision of training. According to the CVTS, the cost of training is a greater obstacle in Latvia than in Estonia and on average in the EU, but less than in

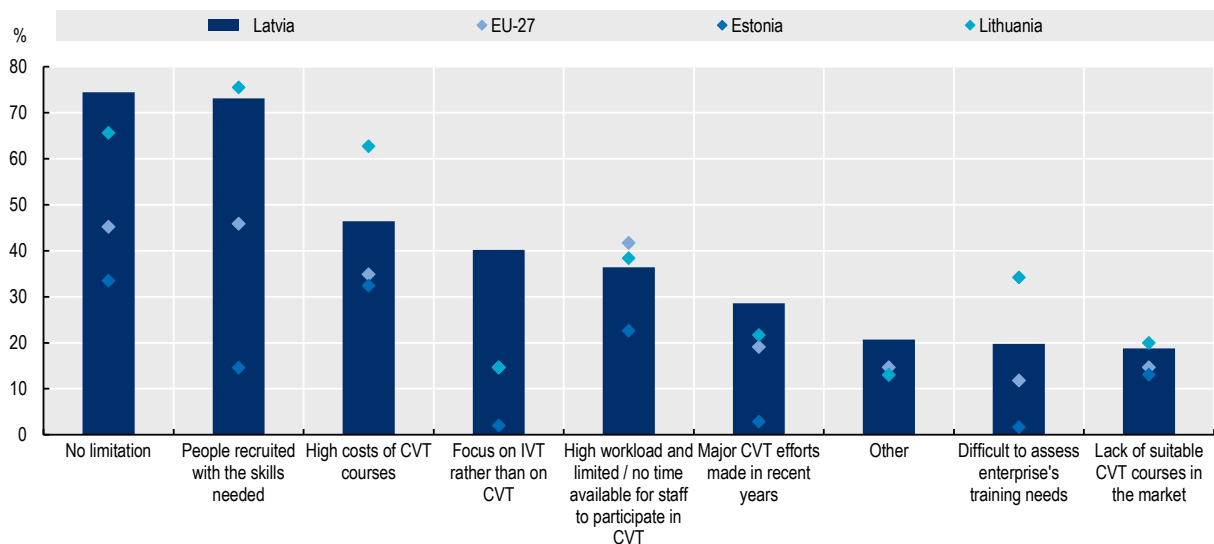
Lithuania. A high cost of training is reported as a barrier to the provision of training by 46% of enterprises in Latvia, 32% in Estonia, 35% across the EU and 63% in Lithuania (Figure 1.11).

The existence of financial barriers to training is confirmed by Latvian research. Līce (2019<sup>[31]</sup>) finds that half of Latvian enterprises (49%) consider excessive training costs a key barrier to training their employees. Employers might prefer providing on-the-job training, e.g. for induction of new employees, over more formalised types of training because it does not entail large costs (Līce, 2019<sup>[31]</sup>).

Stakeholder interviews confirmed that for some companies, especially micro-enterprises and SMEs, the cost of training can be an important barrier to the training of their employees. Several stakeholders mentioned that companies might not see the financial return on employee training, as this depends on the quality of training and whether the employee remains with the company in the long term.

**Figure 1.11. Factors limiting training in enterprises**

Enterprises providing training by factor limiting provision



Note: Data refers to variable trng\_cvtt\_03.

Source: Eurostat (2015<sup>[17]</sup>), Continuing Vocational Training Survey (CVTS), <https://ec.europa.eu/eurostat/web/microdata/continuing-vocational-training-survey>, (accessed February 10, 2022).

### *Informational barriers play a key role in the under-provision of employer-sponsored training*

Informational barriers play a role in to explain the under-provision of employer-sponsored training in Latvia. Interviews with Latvian stakeholders have confirmed that some companies, in particular, micro-enterprises and SMEs, find it difficult to access information about training, existing government-funded training programmes, or potential legal instruments to support training.

According to the CVTS, 19% of employers in Latvia find it difficult to assess their training needs, and this share is higher than in Estonia (2%) and the EU average (12%), but less than in Lithuania (34%) (Figure 1.11). Latvian research confirms this: only 36% of companies indicated that they conduct regular skills mapping in an enterprise survey by the American Chamber of Commerce (AmCham) in Latvia (AmCham Latvia, 2021<sup>[32]</sup>). Similarly, 36% of companies do not conduct any type of skills mapping. However, 27% would like to get more information on how to create a skills matrix suggesting that informational barriers might be reduced with more support for companies to evaluate and anticipate their own training needs, for example through diagnostic tools and self-assessment surveys (see Chapter 2).

Many enterprises in Latvia seem to lack adequate information and advice about available government-funded programmes on training. Research by Avotniece et al. (2021<sup>[6]</sup>) finds that a lack of information and understanding of government support programmes is a barrier for employers to upskill and reskill their employees. The AmCham survey shows that a majority of their respondents report that they do not have information on government-funded training programmes. In addition, almost half of all companies surveyed cited difficulties in finding information as a barrier (AmCham Latvia, 2021<sup>[32]</sup>).

Current efforts to disseminate information and raise awareness about existing policy instruments are fragmented and might be insufficient. Two main online portals in Latvia aim to provide relevant information about employee training for businesses (Box 1.2). According to stakeholders, however, these portals are not yet well-known, and tend to duplicate information rather than complementing each other. The outlook is similar for awareness-raising efforts on specific initiatives. For instance, employer associations and the Latvian Development and Investment Agency (LIAA) provide information to companies about available support for training as part of EU programmes.

### Box 1.2. Online portals for enterprises about government support for training

**Labsoflatvia.com** is a website run by LIAA with information about government support opportunities for enterprises at each stage of the business (idea, development, export). It provides inspirational stories by entrepreneurs and information on various events and networking activities.

**Business.gov.lv** is a state platform for business development. It was developed in 2021 with the aim to promote business development in Latvia. It offers information to existing and future entrepreneurs about various industries, markets, cooperation offers, government support for training through LIAA, LIAA e-services, events, and more.

Source: Labs of Latvia (2022<sup>[33]</sup>), <https://labsoflatvia.com/>; LIAA (2022<sup>[34]</sup>), National Platform for Business Development, <https://business.gov.lv/>.

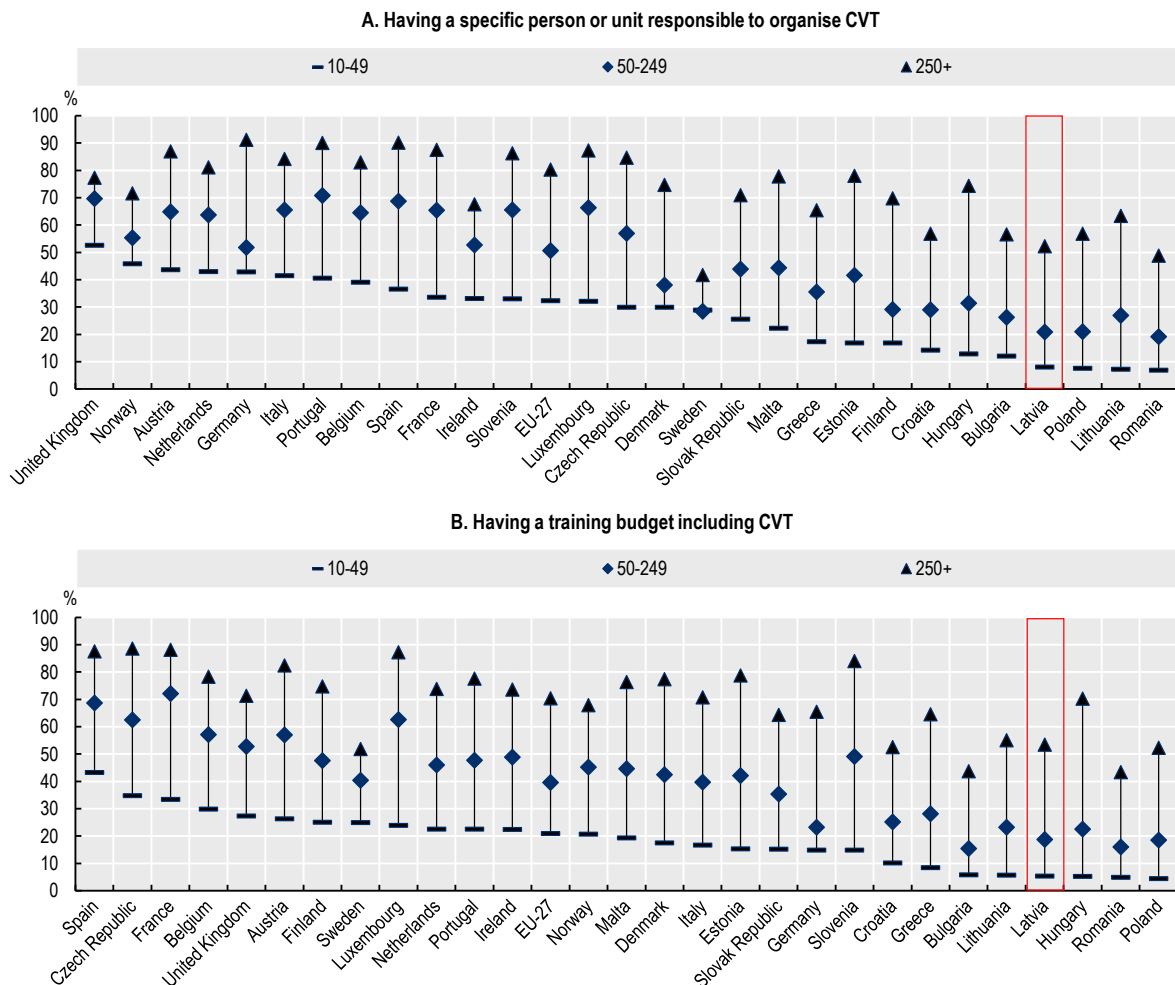
### *Many of the barriers might be driven by capacity constraints*

Many of the existing barriers to enterprise-sponsored training in Latvia are driven by capacity constraints, especially in SMEs. Enterprises frequently lack the internal capacity to identify training needs, organise the training, choose the training provider and temporarily replace employees during training periods. Micro-enterprises and SMEs are particularly likely to face difficulties to free up employees for training, because they are less able to reorganise production and find temporary replacements. Latvian stakeholders interviewed in the context of this research confirmed that for micro-enterprises and SMEs, a lack of capacity is a significant obstacle to employee training. Notably, managers have multiple roles in SMEs and often do not have the resources to organise training for their employees.

Data from the CVTS confirms that existing capacity constraints hamper the provision of training. A high workload and limited time available for staff to train are reported as barriers by firms more often in Latvia than in Estonia, but in line with the EU average and Lithuania (Figure 1.11). At the same time, only one enterprise in 10 has a specific person or unit responsible to organise CVT activities, compared to one enterprise in five in Estonia and one in three in the EU on average. Latvian enterprises are also less likely to have a training budget than enterprises in Estonia, Lithuania and the rest of the EU. Across countries as well as in Latvia, there is a substantial difference between SMEs and large firms: larger firms are more likely to have a training budget, and to have a dedicated person responsible for organising training than smaller firms in all countries. However, Latvian enterprises across all size classes do worse than their counterparts on average in the EU (Figure 1.12).

**Figure 1.12. Decision making processes for training**

Percentage of companies reporting to have a particular process for training



Note: Data refers to variable trng\_cvt\_07s. CVT stands for continuing vocational training.

Source: Eurostat (2015<sub>[17]</sub>), Continuing Vocational Training Survey (CVTS), <https://ec.europa.eu/eurostat/web/microdata/continuing-vocational-training-survey>, (accessed February 10, 2022).

Evidence from Latvian research underlines the existence of capacity constraints of enterprises that hinder training provision: according to Līce (2019<sub>[34]</sub>), half of enterprises (49%) in Latvia indicated that the inability to combine training with work schedules is a key barrier to providing training. A focus group run by Čulkstēna (2021<sub>[35]</sub>) with nine exporting enterprises finds that the main obstacles to employee training is the lack of time and difficulties to combine learning and work.

### **Solving coordination problems**

Besides these barriers, firms also experience problems to coordinate on the provision of employee training. Coordination problems can arise between the firm and its employees, when the two parties fail to find effective arrangements to share the benefits and costs of training. For example, enterprises may underinvest in training because they are concerned that their employees will be poached by competing firms. Enterprises might also be unsuccessful in creating firm-level networks or effectively coordinate with



education institutions and training providers to share resources and knowledge that can facilitate the provision of training.

Coordination problems can contribute to what is described as a low-skill equilibrium in the economics literature, that is, a situation where workers are relatively low skilled and do not train, and companies are relatively unproductive and do not innovate (Acemoglu, 1997<sup>[36]</sup>). If companies can resolve poaching concerns and improve their coordination with other enterprises, this might help overcome an economic equilibrium with low-skilled workers and low-productivity firms. If all enterprises train more, poaching concerns could be mitigated due to a broader availability of skilled workers and a lower likelihood of reciprocal poaching.

#### *Latvian enterprises have poaching concerns*

Stakeholder interviews confirm that Latvian enterprises experience certain difficulties to effectively coordinate on the provision of training with their employees, mainly because they are afraid of their employees being poached by other firms if they do. The official evaluation of the previous round of EU-funded projects on training (Ekonomikas ministrija, 2015<sup>[37]</sup>) concluded that there is a higher risk of employees changing jobs after they have received training. This causes many companies to remain in a low-skill equilibrium, with low productivity and low training propensity. SMEs seem to feel particularly vulnerable to this risk, as losing one employee is potentially very harmful.

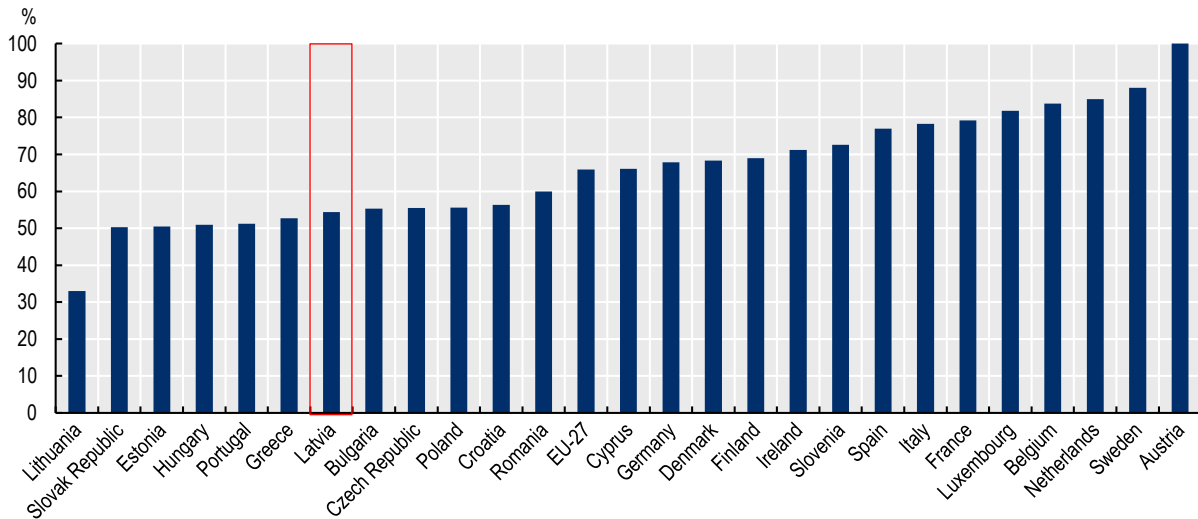
In contrast to poaching concerns, however, training participation could also have the opposite impact and increase employee loyalty and motivation. This effect is reported by project managers in the official evaluation of the previous round of EU-funded projects (Ekonomikas ministrija, 2015<sup>[37]</sup>). The evaluation also finds that training strengthened general competences that could be leveraged both within the company and the industry as a whole. This result suggests that, if companies do start providing training and overcome a low-skill equilibrium, they can exploit the positive benefits of training.

#### *Coordination among firms and with educational institutions could be improved*

Latvian enterprises also experience another type of coordination problems, with respect to the creation of firm-level networks or supply chains to share resources and knowledge that can facilitate the provision of training. Several stakeholders during the field research mentioned a fragmentation in the landscape of employer associations, which could prevent more effective coordination and resource-sharing among enterprises. The OECD dataset on collective bargaining suggests that the density of employer organisations in Latvia is relatively low in comparison to other countries in the EU, but similar to neighbouring countries. In 2018, 54% of employees in Latvia were employed by firms who are members of an employer organisation, which is below average in the EU (Figure 1.13).

**Figure 1.13. Employer organisation density**

Proportion of employees who work for an enterprise that is member of an employer organisation



Note: Data refers to 2018; except in Greece, Romania and France where it refers to 2017; in Lithuania, Bulgaria, and Slovenia where it refers to 2016; in Portugal, Croatia, and Belgium where it refers to 2014; and in Hungary where it refers to 2012. Data for Malta is missing.

Source: OECD (2021<sup>[5]</sup>), OECD/AIAS ICTWSS database, <https://www.oecd.org/employment/ictwss-database.htm> (accessed March 02, 2022).

According to some stakeholders, coordination between education and training institutions, including VET, higher education institutions and training providers, on the one hand, and employers, on the other hand, is rather weak in Latvia. As a result, formal training programmes for adults are not sufficiently linked to labour market demand, as observed by one stakeholder.

*Professional [VET] schools need to be involved as much as possible, sometimes they are not flexible enough to adapt to the skill needs of businesses. For an improved adult education infrastructure, it is key that training centres, professional schools and other providers can react to labour market demand.*

The lack of alignment between education and training institutions with the skill demands of enterprises is likely to help explain some of the low take-up of employee training. Flexibility with respect to the content and form of training may help to overcome this challenge. The development of modular programmes can lower the time investment required for the formal education and training of employees, but needs to be further supported.

Beyond enterprises and education institutions, Latvia could also improve inter-ministerial coordination. As remarked in the OECD Skills Strategy, Latvia could take advantage of further opportunities to strengthen inter-ministerial co-ordination, especially of skills policies, in order to improve policy coherence, effectiveness and efficiency (OECD, 2019<sup>[3]</sup>).

### **Realising wider benefits to training**

As foreshadowed in the introduction, training can bring wider benefits beyond the individual enterprise, such as labour market equity, higher workforce resilience and greater innovation. Despite potential positive effects on the economy and society, companies in Latvia are underinvesting in two main areas: training for low-skilled and older workers, and training on transversal skills, in particular, basic digital skills. Policy interventions in these areas may help to realise the wider benefits of training.

### Latvian enterprises provide little training for vulnerable workers

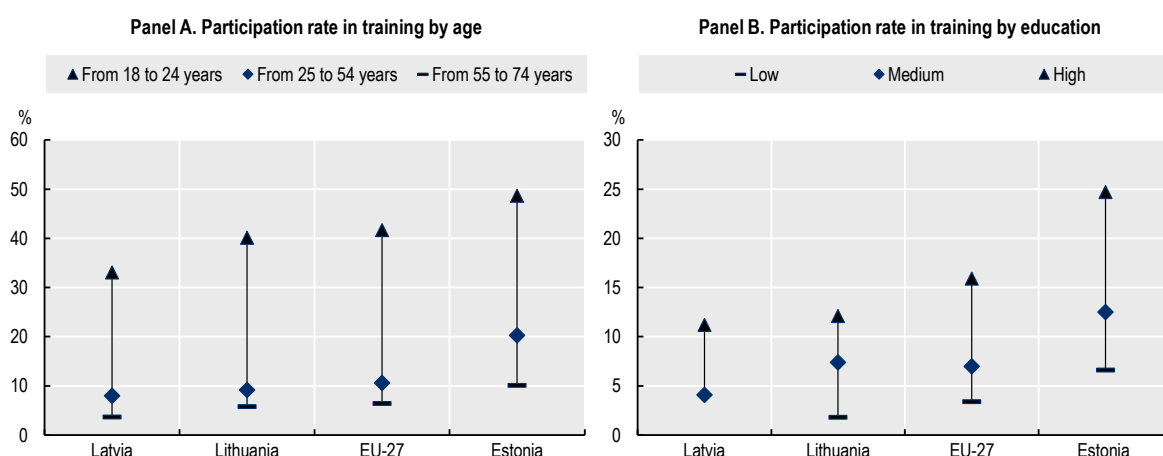
Employees with low levels of education and those who are older are less likely to train, even if these groups face deteriorating labour market prospects. This deepens existing divides in the labour market over time and poses a challenge in a context of rapid labour market change. The demand for the skills of these groups is decreasing, as many jobs that traditionally required low qualifications are exposed to the risk of automation or off-shoring (OECD, 2019<sup>[38]</sup>). This risk is particularly high in Latvia: a study of the Latvian Ministry of Economy (Ozols, 2019<sup>[39]</sup>) notes that low-qualified adults (with general secondary education or less) make up half of the total number of jobseekers in the age group 25-64. The unemployment rate among the population with primary education and lower secondary education is the fifth highest in the EU. The Ministry's labour market forecast also predicts a decrease in demand for low-qualified labour in the medium- and long-term, which places additional importance on supporting training for low-qualified workers.

At the same time, population ageing will require that many adults remain in the workforce for longer, where ensuring a good use of their skills is key. To make longer working careers possible, older people need to have opportunities to develop and update their skills and to work in environments that enhance well-being, health and productivity (OECD, 2019<sup>[40]</sup>). Policy support for the training of vulnerable employees, therefore, should be a priority to realise more equitable and resilient labour markets.

Older workers, and those with lower levels of education are much less likely to participate in education and training in Latvia than their better educated, younger peers (Figure 1.14). This pattern is similar in neighbouring countries and across the EU. In Latvia, however, adults of all age groups and levels of education are less likely to participate in education and training also compared to their European counterparts. The involvement of employers in the education and training of low-qualified and older workers is crucial, given that around two thirds of low-qualified adults in Latvia are in employment (Ozols, 2019<sup>[39]</sup>).

**Figure 1.14. Training participation by age group and education level**

Percentage of adults who participate in education and training



Note: Panel A refers to variable trng\_lfs\_11, and Panel B to variable trng\_lfs\_03, and the participation in formal and non-formal training. A low level of education is defined as less lower secondary education (ISCED levels 0-2), a medium level of education as upper secondary and post-secondary non-tertiary education (ISCED levels 3 and 4) and high level of education as tertiary education (ISCED levels 5-8). Data is missing for adults with low levels of education in Latvia.

Source: Eurostat (2020<sup>[18]</sup>), European Union Labour Force Survey (LFS), <https://ec.europa.eu/eurostat/web/microdata/european-union-labour-force-survey> (accessed March 02, 2022).

Only 3.7% of adults in Latvia above the age of 55, for instance, participated in education and training in 2020 (Figure 1.14). While data on low-qualified adults in Latvia is missing, this group is the least likely to participate in skills development according to OECD PIAAC data (OECD, 2019<sup>[41]</sup>). These results are confirmed by Latvian research. A study by Avotniece et al. (2021<sup>[6]</sup>) finds that the population in Latvia with low qualifications, low wages or who are employed in professions at high risk of automation participate in educational activities less often than other groups of the population.

Avotniece et al. (2021<sup>[6]</sup>) conclude that employers in Latvia are reluctant to invest resources in employee training for these workers, because they may not see the return to their investment, and the benefit for their business. Stakeholders interviewed during the field research confirm this, stating that employees with low level of skills and older workers are less likely to receive employer-sponsored training. Yet, in light of growing skill shortages in certain sectors, stakeholders think that it might become more important and beneficial for employers to retain and upskill low-qualified and older employees in the future.

A large-scale survey of the general population in Latvia indicates that employers invest few of their resources in employee training, and do so particularly little for vulnerable groups. Only 15% of respondents agreed with the statement “Employers in Latvia invest sufficiently in employee training and upskilling”, while 51% disagreed. More negative responses were given by male respondents, those aged 55-64, Russian-speaking adults, adults with low income, and those who are from the Riga and Latgale region (Pētījumu centrs „SKDS“, 2021<sup>[7]</sup>).

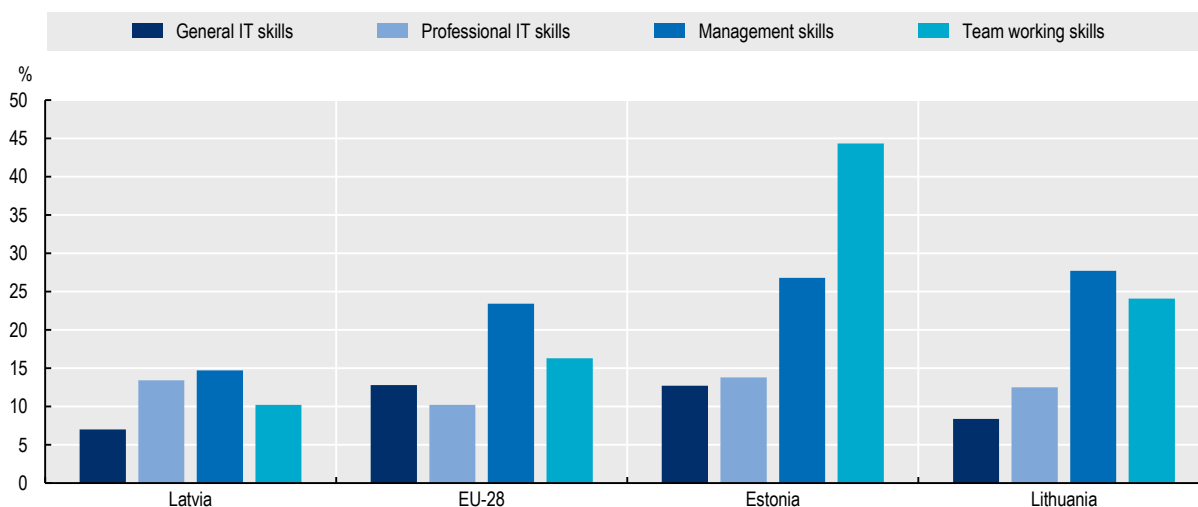
LFS data shows that Latvian residents with foreign citizenship or those who are born in another country are less likely to participate in education and training than Latvian natives. Only 2.7% of adults with foreign citizenship living in Latvia participated in education and training in 2020, compared to 13.3% of Latvian citizens. While there is a similar gap in training participation of citizens compared to non-citizens in other EU-countries, this gap is particularly large in Latvia (Eurostat, 2020<sup>[42]</sup>). By far the largest minority group in Latvia are Russians, who make up two thirds of all non-Latvian residents, followed by around 13% of Belarusians, and 10% Ukrainians (Latvian Office of Citizenship and Migration Affairs, 2022<sup>[43]</sup>). The underrepresentation of non-Latvian citizens in training could be driven by a variety of factors, which deserve further inquiry. While more research is necessary, better access to Latvian language courses might be useful to remove barriers to training participation for foreign citizens living in Latvia, and should be a priority area to increase their participation in employer-sponsored training. These courses could be provided in the workplace to those who are in employment.

### *Latvian enterprises underprovide training on transversal skills*

Across EU countries, a majority of employer-sponsored training courses target technical, practical or job-specific skills, while training on transversal skills is less common (Eurostat, 2015<sup>[17]</sup>). Training on transversal skills, including communication, basic digital or soft skills is important, as these skills are generally needed across different enterprises, industries and work settings. In a context of changing labour markets, transversal skills help adults to adapt to new work requirements and unexpected changes, or to reorient themselves in a different occupation (OECD, 2021<sup>[4]</sup>). Latvian enterprises offer less training on general IT skills, management skills and team work skills compared to enterprises in Estonia, Lithuania and across the EU. The share of enterprises providing professional IT skills is instead comparable to the neighbouring countries, and slightly above the EU average (Figure 1.15).

**Figure 1.15. Skills targeted by enterprises providing training courses**

Percentage of enterprises providing CVT courses, by main skills targeted



Note: Data refers to variable trng\_cvt\_29.

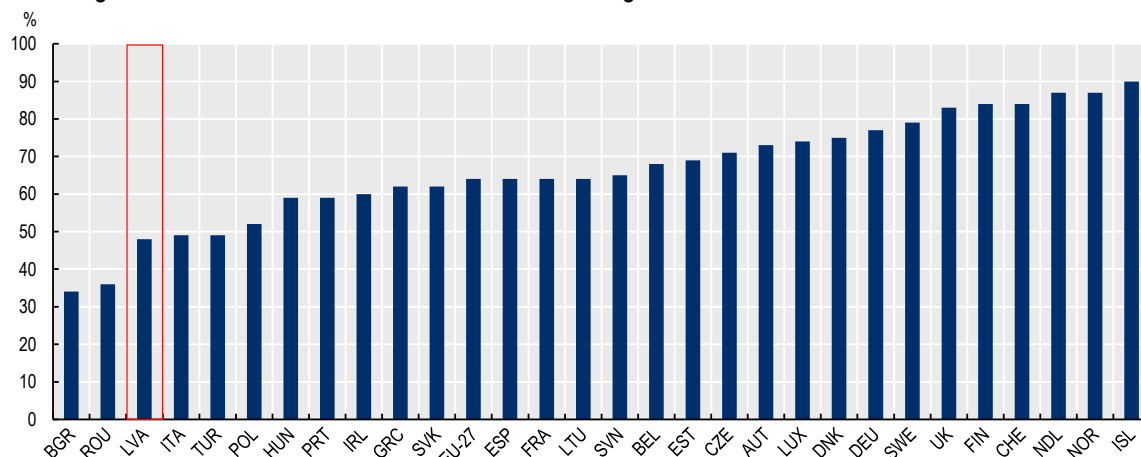
Source: Eurostat (2015<sup>[17]</sup>), Continuing Vocational Training Survey (CVTS), <https://ec.europa.eu/eurostat/web/microdata/continuing-vocational-training-survey> (accessed March, 28, 2022).

Latvian data confirms that the focus of most employee training is on the development of job-specific and technical skills. According to the enterprise survey by the Employers' Confederation of Latvia (LDDK) (Līce, 2019<sup>[31]</sup>), employers most often report to provide training on professional skills (94%), as well as on skills that are specific to the workplace (e.g., specific technologies, methodologies) (93%). Much fewer employers promote training on transversal skills, including communication, basic digital or soft skills.

The lack of employer-sponsored training on basic digital skills is a particular problem from a policy perspective, and coincides with a low level of basic digital skills in the Latvian labour force compared to other EU countries. In Latvia, only 48% of the labour force has basic digital skills, compared to the EU average of 64% (Figure 1.16). This is problematic, as insufficient digital skills currently limit the capacity of Latvian firms to make the best use of available technologies (OECD, 2022<sup>[2]</sup>).

**Figure 1.16. Digital skills of the labour force**

Percentage of the labour force with basic or above basic digital skills



Note: Data refers to indicator isoc\_sk\_dskl\_i.

Source: Eurostat (2019<sup>[44]</sup>), Database digital economy and society (ISOC), <https://ec.europa.eu/eurostat/web/digital-economy-and-society/data/database>, (accessed February 04, 2022).

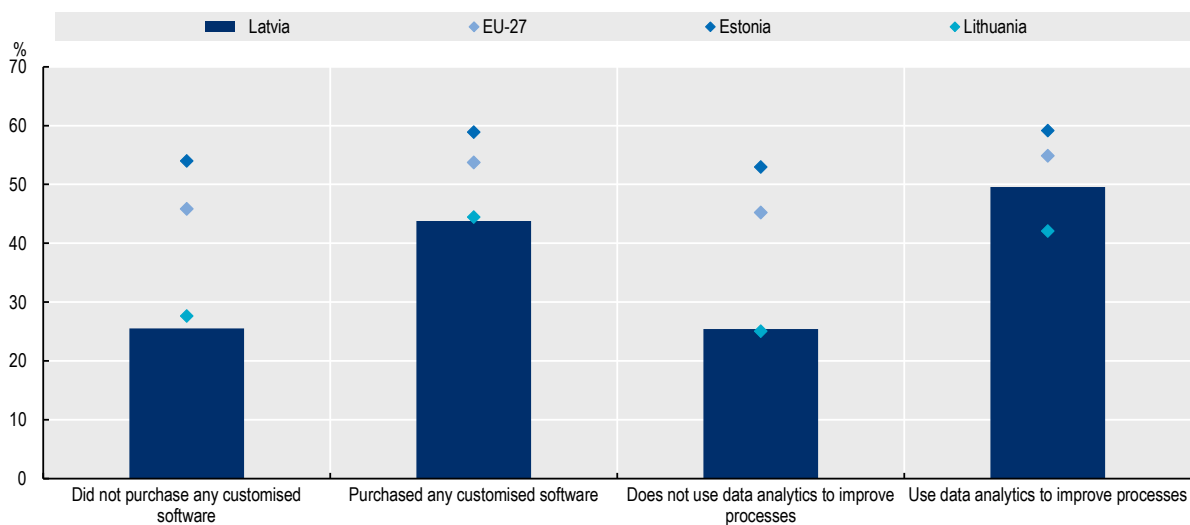
### *Improving basic digital skills could become a driver of innovation in Latvia*

Previous OECD analysis on Latvia finds that training to improve the basic digital skills of the workforce would support the digital transformation of Latvia's economy. Currently, the severe shortage of digital skills constrains the use of digital technologies in corporate activities such as supply chain management, which would boost productivity and innovation in Latvian firms (OECD, 2021<sup>[9]</sup>). And while Latvian enterprises certainly benefit from high-skilled experts in digital technology, basic digital skills across the workforce may be beneficial to support the large-scale adoption, use and adaptation of new technology.

Evidence suggests that there is a link between training provision and the adoption of new technology in enterprises. Enterprises that provide training to their employees are also more likely to have adopted new technology, such as customised software (Figure 1.17). This positive correlation is particularly high in Latvia compared to other countries in the EU. In Latvia, 44% of enterprises which trained a high share of their employees also purchased customised software, compared to 26% of enterprises who did not. In the EU, the proportions are instead more similar across the two groups (46% vs. 54%). Similarly, half of enterprises (50%) who trained their employees also used data analytics to improve their processes, compared to a quarter (25%) of enterprises who did not (Figure 1.17).

### **Figure 1.17. Participation in training courses by degree of technology adoption**

Percentage of enterprises reporting that train at least 40% of their employees



Source: OECD calculations based on Eurofund (2019<sup>[19]</sup>); European Company Survey (ECS) microdata; <https://www.eurofound.europa.eu/surveys/data-visualisation/european-company-survey-data-visualisation>, (accessed March, 24, 2022).

Providing support for the development of basic digital skills through employer-sponsored training could also have a broader economic and societal impact beyond individual enterprises. Adults who lack basic digital skills are currently also excluded from learning opportunities that rely on such skills, for instance, training provided as part of online courses. Equipping low-qualified and older adults with basic digital skills is therefore a key policy priority, as it can boost their confidence and increase their willingness to participate in further training, and more generally, improves adults' inclusion on an increasingly digitalised labour market (OECD, 2021<sup>[4]</sup>).

## Understanding policy priorities: policy areas to strengthen investment in skills development in Latvia

- Attitudinal, financial, and informational barriers are key to explain why enterprises in Latvia underinvest in employee training. Empirical data and information from stakeholders shows that micro-enterprises and SMEs are more affected by these barriers than larger companies, which tend to be more aware of the benefits of training and are more likely to have dedicated units for workforce development.
- Barriers to employer-sponsored training in Latvia are also driven by capacity constraints. Enterprises frequently lack the internal capacity to organise the training, choose a training provider, and replace employees during training periods. Capacity constraints affect micro-enterprises and SMEs more than large firms
- Latvian companies experience coordination problems to offer training. Companies are afraid that competitors will “poach” their employees if they train them, which can be costly, especially for micro-enterprises and SMEs. In addition, cooperation across enterprises in Latvia to provide training is relatively weak, in part due to a fragmented stakeholder landscape. So is the cooperation between education and training institutions and enterprises.
- Individual enterprises provide little training to low-qualified and older workers due to a perceived lack of return. There would be wider benefits of labour market equity and resilience, but also with respect to overall productivity and well-being if these vulnerable groups had more opportunities to up-skill and re-skill.. Offering training through employers is particularly suitable, considering that in Latvia, almost two thirds of low-qualified adults are in employment. Furthermore, Latvian residents with foreign citizenship are less likely to participate in education and training than Latvian natives. Latvian language courses, which could be provided in the workplace, might remove barriers to further training participation for foreign citizens living in Latvia.
- Enterprise training in Latvia focuses on technical and professional skills, rather than transversal skills. Transversal skills, such as communication, basic digital or soft skills, are valuable as they are needed across different enterprises, industries and work settings. Training on basic digital skills, which are generally low in Latvia, might be particularly beneficial to support the adoption of technology in Latvian enterprises.
- These findings imply that a policy package to support employer-sponsored training should address attitudinal, financial, and informational barriers and capacity constraints, particularly in micro-enterprises and SMEs. It is also important to implement measures that help solving coordination problems, for instance, between employers and educational institutions, to unlock the benefits of training provision.
- To increase labour market equity and resilience, a priority area for policy should be training for older and low-qualified workers. In a context of changing skills needs, automation and population ageing, the employment prospects of vulnerable workers are particularly affected and could be improved through employer-sponsored upskilling and reskilling. Moreover, supporting training on basic digital skills might be particularly effective to build an economy in which investment in training is higher, employees are more skilled, and companies are increasingly productive and innovative.

## 2. Learning from existing policies

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International evidence suggests that Latvian authorities can consider five categories of policy instruments to support employers to promote skills development: regulatory requirements, non-regulatory and financial measures to lower the cost of training, support to build firm capacity and learning culture, and measures to promote cooperation. These five categories of instruments do not act in isolation, but coexist with other policies that aim to increase employee participation in training and to improve the quality and labour market relevance of training provision. This chapter assesses existing policies in Latvia to inform the design and implementation of the policy package. It starts by evaluating whether existing policies are in line with the key policy priorities. Then, it assesses their effectiveness.

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## Introduction

Latvian authorities have five main categories of policy instruments at their disposal to develop a policy package that supports employers in investing in skills development (Table 2.1). Policy makers can set regulatory requirements on specific forms of training, for example health and safety and training to access a specific profession (OECD, 2021<sup>[11]</sup>). Regulatory requirements can help address coordination problems and realise the wider benefits of training, for instance, by avoiding a 'race to the bottom' in health and safety standards. Governments can also rely on non-regulatory and financial measures to lower the cost of training (OECD, 2021<sup>[10]</sup>). Non-regulatory measures include pay-back clauses, the recognition of informal training in subsidised training, and job rotation schemes, whereas financial measures comprise subsidies, vouchers, tax incentives and levy schemes.

Regulation and measures to lower the cost of training are typically insufficient on their own to raise participation (OECD, 2021<sup>[10]</sup>). As discussed in Chapter 1, enterprises frequently face attitudinal and informational barriers, which can be overcome by offering measures to build firms' capacity and learning culture. These include both diagnostic tools that help firms make more informed decisions on training and more tailored one-to-one instruments such as consulting services, coaching and mentoring. Support can also be provided through competence centres and includes an element of peer-learning among companies. Lastly, the government can foster cooperation among companies and between companies and the public education sector, for example through learning networks and initiatives on industry-science cooperation.

**Table 2.1. Overview of policy instruments to support training in enterprises**

Policy instrument	Type of measures	Policy priority to be addressed
Regulatory requirements	Obligation to provide training (e.g. on health and safety) Collective Agreements	Solving coordination problems Realising wider benefits of training
Non-regulatory measures to lower the cost of training	Job Rotation schemes Inclusion of informal training in subsidised training Payback clauses	Reducing financial barriers Solving coordination problems
Financial measures to lower the cost of training	Subsidies ( e.g. vouchers for training, vouchers for consulting services) Grants Subsidised schemes and support services for training Others: Tax incentives, Levy schemes	Reducing financial barriers Realising wider benefits of training
Support measures to build firms' capacity and learning culture	Diagnostic tools for skills anticipation and analysis and workforce innovation Competence centres HR support services and counselling, consulting Coaching and mentoring for managers and entrepreneurs Peer-learning	Reducing attitudinal barriers Reducing informational barriers
Support measures to promote co-operation among companies and with the public/education sector	Learning networks Industry science cooperation	Solving coordination problems

Source: OECD (2021<sup>[11]</sup>), Training in Enterprises: New Evidence from 100 Case Studies, <https://dx.doi.org/10.1787/7d63d210-en>; OECD (2021<sup>[10]</sup>), Incentives for SMEs to Invest in Skills: Lessons from European Good Practices, <https://dx.doi.org/10.1787/1eb16dc7-en>.

Instruments that support employers do not act in isolation, but coexist with policies that aim to increase the participation in training by employed individuals and with initiatives to improve the quality and labour market relevance of training opportunities. In developing the policy package, Latvian authorities should align instruments to support employers with other existing policies in these domains to limit overlaps and exploit potential synergies. This chapter aims to assess existing policies in Latvia to inform the design and

implementation of the policy package, drawing on desk research and consultations with Latvian stakeholders, including employer associations, training providers, trade unions, government bodies and legal experts (see Annex B for an overview of the field research). It starts by evaluating whether the policy instruments targeting employers and the other training policies are in line the priorities identified in Chapter 1. Then, it assesses existing instruments targeting employers in detail.

## Evaluation of the alignment between policies and policy priorities in Latvia

### *Policy instruments targeting employers*

A mix of policy instruments to support employers to foster skills development already exist in Latvia (Table 2.2). Consistent with other EU and OECD countries, companies in Latvia are legally obliged to provide some forms of training and can negotiate collective agreements with employee representatives. Most employers seem to be familiar with the legal obligations to train, while collective agreements are not widespread.

Projects funded via the European Regional Development Fund (ERDF) play a crucial role in supporting enterprises. Since the start of the planning period 2014-2020, under the “Growth and Employment” operational programme (support objective 1.2.2 on “Promoting the introduction of innovations in enterprises”), Latvia has delivered a total of 18 projects focused on training. The projects have also benefited from additional funding from the React-EU facility, which will ensure their continuation until the end of 2023. Under these projects, companies receive subsidies for training worth EUR 35.8 mln. From 2014 to March 2022, 25 257 employees from 1 566 enterprises participated in the projects. This is equivalent to roughly 0.9% of enterprises in Latvia and 2.9% of the total number of employees.

**Table 2.2. Key policy instruments to support training in enterprises in Latvia**

Type of instrument	Instrument available in Latvia	Description
Regulatory requirements	Legal obligation to provide training	<ul style="list-style-type: none"> <li>• Obligation for the employer to provide training necessary for the job (Section 96, Paragraph 1 of Labour Law)</li> <li>• Obligation to provide training on health and safety (Labour Protection Law)</li> <li>• Mandatory training in specific professions</li> </ul>
	Collective agreements	<ul style="list-style-type: none"> <li>• Employers and employees can negotiate collective agreements (Section 17 of Labour Law)</li> </ul>
Non-regulatory measures to lower the cost of training	Additional training agreements	<ul style="list-style-type: none"> <li>• Employer and employees can negotiate an additional training agreement, which allows employees to receive training, but compels them to spend up to 2 years in the company after completion, or to reimburse the employer for the training expenditures (Section 96, Paragraph 2-9 of the Labour Law)</li> </ul>
Financial measures to lower the cost of training	Corporate and payroll tax exemption	<ul style="list-style-type: none"> <li>• Expenses on training are exempt from corporate and payroll taxes (Enterprise Income Tax Law and Law on Personal Income Taxes)</li> </ul>
	ERDF-funded projects to “Promote the introduction of innovations in enterprises” (S.O. 1.2.2 of the “Growth and Employment” OP)	<ul style="list-style-type: none"> <li>• A total of 18 projects, run by employer associations and the LIAA, that provide subsidised training programmes to companies for a total budget of 35.8 mln EUR</li> </ul>

Note: ERDF stands for European Regional Development Fund. SO stands for support objective, whereas OP stands for operational programme.

Source: *Latvian Labour Law*, <https://likumi.lv/ta/en/en/id/26019-labour-law>; *Personal Income Tax Law*, <https://likumi.lv/ta/en/en/id/56880-on-personal-income-tax>; *Enterprise Income Tax Law*, <https://likumi.lv/ta/en/en/id/292700-enterprise-income-tax-law>; Regulation No. 365 of 14 June 2016 of the Cabinet of Ministers - Operational Programs for Growth and Employment 1.2.2. specific support objective "Promote innovation", <https://likumi.lv/ta/id/282904-darbibas-programmas-izausgsmu-un-nodarbinatiba-1-2-2-specifiska-atbalsta-merka-veicinat-inovaciju-ieviesanu-komersantos>; and information from field research.

Enterprises in Latvia can also sign additional training agreements with their employees and can benefit from corporate and income tax exemptions on training expenditures. The additional training agreements work as a typical payback clause. Employees are liable to pay up to 70% of training expenditures if they leave the firm in the two years following the end of a training programme. The tax exemptions imply that training expenditures are considered as a cost and not included in the corporate tax base.

There is limited information on the take-up of these two nationally-funded instruments. This makes it difficult to evaluate their effectiveness. There are currently no data on the number of training agreements concluded between employers and employees, or their content, because the information is not centrally gathered by the government. Similarly, there is no information on the take-up of tax incentives. The State Revenue Service (VID) does not have comprehensive data on tax incentives, because the tax legislation does not compel employers to submit expenses related to employee training as a separate entry. VID can only access such information when performing accounting checks in companies. Gathering centralised information on additional training agreements and tax exemptions can enable Latvian authorities to better monitor their effectiveness in the future.

This mix of instruments is in line with some of the policy priorities identified in Chapter 1. The ERDF-funded projects on training and the tax incentives can help companies overcome financial barriers, whereas the additional training agreements can help mitigate poaching concerns. However, Latvia seems to underinvest in measures to build firms' capacity and learning culture, which can help overcome attitudinal and informational barriers, and in measures to promote cooperation, which can solve coordination problems.

### *Few measures help to build firms' capacity and learning culture*

Latvia does not have specific measures in place to build firms' capacity and learning culture. The Prognozes portal (<https://prognozes.em.gov.lv/en>) provides data on labour market trends, but the information is too general. The portal provides data on the evolution of labour market demand and supply across different regions, sectors and occupations. While this information may be useful for education institutions and individuals, it cannot meaningfully support companies to assess their own skills and training needs. International evidence suggests that providing diagnostic tools and self-assessment surveys can help to achieve this objective (OECD, 2021<sub>[10]</sub>). Diagnostic tools and self-assessment surveys can help companies to better understand what skills their employees require to perform their job, whether their management and work practices are fit-for-purpose and whether they require counselling before offering training or applying to the available programmes. These tools can be built with different objectives, helping companies and employers to evaluate their needs with regard to skills and professional development specifically, or within the broader context of workplace innovation or even digital maturity

As described in the section on financial incentives below, the ERDF-funded projects provide some courses on project management and leadership skills. For example, in the mini-MBA project run by the LIAA, senior and middle managers have received a 3-month free business training to improve innovation management and business growth. These courses can help improve attitudes to skills development among managers, by increasing their awareness of the most up-to-date workplace and management practices. However, international evidence suggests that fostering a learning culture requires more tailored support through coaching and mentoring programmes (OECD, 2021<sub>[10]</sub>). Coaching and mentoring programmes provide to managers step-by-step guidance to foster a learning culture, rather than offering more general advice that might be difficult to adapt to their specific circumstances. These insights are consistent with the remarks

of several stakeholders consulted during the field research. One stakeholder, for example, mentioned the importance of providing access to diagnostic tools and “360 degrees evaluations” which could be provided through coaching and mentoring.

*There should be support for companies to better evaluate their training needs. This could include tools for companies to self-assess and 360 degree evaluations to understand what can be improved. Such instruments are currently not available in Latvia.*

#### *Few measures aim to promote cooperation among firms and with the education sector*

Latvia does not offer measures to promote cooperation on skills development among companies and between companies and the education sector. These measures could solve the cooperation problems that have been discussed in Chapter 1.

There are two EU-funded projects from the “Growth and Employment” operational programme for the planning period 2014-2020 aim to promote cooperation, but they do not focus specifically on training and skills development.

The Competence Centres programme (“Support for development of new products and technologies within competence centres”, under the support objective 1.2.1) aims to promote collaboration between research institutions and companies for the implementation of industrial research, the development of new products and the adoption of new technologies. The programme relies on funding of EUR 63.2 mln from the ERDF, lasting until the end of 2022. Following this date, it will continue through funding from the Resilience and Recovery Plan (RRP) for Latvia, under the initiative “Support for innovation clusters” (investment 5.1.1.2). Enterprises can submit applications to conduct joint projects with education institutions and research centres. Companies receive funding to run projects in cooperation with researchers. This allows them to innovate by developing new processes and new technologies. However, the Centres do not offer substantial opportunities to network and exchange with companies that are facing similar challenges. According to stakeholders consulted during the field research, there is no centralised information on the results achieved by the programme.

The Clusters Programme (“Clusters programme”, under the support objective 3.2.1) goes a step forward in promoting cooperation among companies. The programme provides funding to establish a cluster, which brings together companies, research organisations and educational institutions. To date, a total of fourteen clusters have been formed in areas ranging from Wood Manufacturing to Smart Cities. The programme relies on funding of EUR 6.2 mln from the ERDF, which covers until the end of 2022. After this date, it will be extended through funding from the RRP for Latvia, under the initiative “Support for innovation clusters” (investment 5.1.1.2). In principle, the clusters can foster cooperation in export promotion, product and technology development, exchange of good practices and the identification of the skills and training needs. In practice, they mainly focus on coordinating export promotion initiatives through events, trade fairs and awareness-raising campaigns and product technology development through joint research and development programmes. An in-depth review of their activities by the OECD team suggests that the identification of skills and training needs does not play a substantial roles in any of the Cluster programmes.

Moving beyond EU-funded projects, the Sectoral Expert Councils (SECs) bring together experts with the aim to improve the alignment of vocational education and training (VET) and higher education (HE) with labour market needs. Yet, they only focus on initial education. The SECs are designed to address skills mismatch through strengthening the cooperation between different stakeholders and providing information about current and future skills demand. Their responsibilities include, for instance, to participate in the elaboration of sectoral qualification frameworks and occupational standards, or the licensing and accreditation of VET institutions. The SECs have generally had a positive impact. In a survey of SEC members, 70% of respondents rated the impact of SEC activities on the compliance and quality of vocational education as rather large or very large. The impact of SEC on the decisions of VET institutions has been similarly assessed, with 67% of respondents acknowledging it to be rather large or very large

(Latvijas Darba devēju konfederācija, 2021<sup>[45]</sup>). However, stakeholder interviews suggest that SECs currently focus on initial VET and HE, with little or no activity in the field of adult education and training, even if they are well placed to do so.

Going forward, according to stakeholders, SECs could play an important role in adult education and training. SECs could improve communication between different stakeholders, and identify current and future skill demands in their respective sector, with a focus on the skills development of the workforce. This might help overcome coordination problems between enterprises, and raise awareness in the sector about the value of training.

*Sectoral Expert Councils are in a good position to steer the course of action [in the area of training] in their respective sector, and they have the mandate to do so. They consist of groups of experts who can guide the changes that are needed, and set the direction of change. There are no limitations in terms of the legislation.*

To extend SECs activities to adult education and training, stakeholders mention that the following barriers need to be overcome, in order of importance: (i) the limited resources of SECs, (ii) the lack of institutional capacity of the education and training system, and (iii) a fragmentation of stakeholder representation in certain sectors.

*Some promising initiatives are in the pipeline to foster firms' learning culture and cooperation*

Latvia will launch some promising initiatives to foster a better learning culture in companies and promote cooperation among firms.

Two institutions have been pre-selected to become European Digital Innovation Hubs, under the EU's Digital Europe Programme. The hubs are expected to become operational from November 2022 and will rely on funding from the European Union, either directly from its budget (EUR 7 mln) or through the RRP for Latvia (EUR 8 mln) for an initial period of 3 years. Once operational, they will support companies in their digital transformation, through a three-step process. First, enterprises will take a "Digital Maturity Test", originally developed by the Joint Research Centres, which will be adapted to the Latvian context. Second, a "digital roadmap" will be created, that is, an agreement between the Digital Innovation Hub and the enterprise about the programme of activities. Third, if required, a digitalisation and training strategy will be developed, to support the enterprise in its digital transformation. The Digital Innovation Hubs could support enterprises in the digitalisation process, contributing to build their capacity and learning culture. However, enterprises in Latvia might still benefit from more general coaching and mentoring support that goes beyond digitalisation.

Starting from 2024, the Ministry of Education and Science (MoES) will pilot Skills Funds in three to five sectors, relying on EUR 5.4 mln from the European Social Fund + (ESF+). The Skills Funds will pool resources from employers in a particular sector to jointly fund training opportunities that will promote the efficiency and productivity of the enterprises, attract and upskill employees in accordance to their skill needs, and foster the planning of human resources in companies. The Skills Funds are expected to establish and maintain a system which is based on social dialogue to both develop the skills of existing employees and providing training that is aligned to the needs of national and regional labour market. The Skills Funds could play an important role in promoting cooperation on training and skills development, especially among SMEs, which are currently lagging behind, as discussed in Chapter 1. They could also contribute to mitigate poaching concerns. If employers are jointly funding training opportunities, they should be less concerned about their employees leaving their enterprise, after the training has been provided.

Latvian authorities will also implement several initiatives to improve digital skills, a key policy priority identified in Chapter 1 (Box 2.2). These initiatives will benefit from EU funding.

### Box 2.1. Initiatives to improve digital skills in Latvia

Over the planning period 2021-2027, the Ministry of the Economy (MoE) will implement an EU-funded investment programme to improve the digital skills of employees. Within the programme, support will be available for companies as a grant of up to 70% of overall training costs. The investment programme will be funded through the RRP (EUR 20 mln under investment 2.3.1.2) and the ERDF (EUR 8.5 mln). According to the current planning, it should support roughly 4200 enterprises, equivalent to 2.4% of the total number of enterprises in Latvia. The support will be delivered through both the EDIHs and employer associations and will fund the costs of training on basic, medium and high-level digital skills, and skills in the use of digital tools, software and systems. Support from the ERDF (EUR 22 mln) will also go towards the development of high-level digital skills for economic operators, academics and scientific staff as well as towards specialised training in innovation management for economic operators, academic and scientific staff.

The RRP for Latvia also foresees the development of individual learning accounts (ILAs) to improve digital skills (EUR 14.3 mln 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 to improve digital skills. The investment consists of supporting 3466 adults to acquire digital skills through individual learning accounts. This shall be implemented by making available the best digital learning tools; using specialised solutions for high-quality machine translation and other artificial intelligence technologies, involving education experts in the validation and adaptation of targeted content. The investment shall be implemented by 31 August 2026.

Source: Information from field research

### ***Other training policies***

In line with other EU and OECD countries, Latvia provides a range of subsidised training programmes and financial and non-regulatory measures to support individuals (Table 2.3). These are only described briefly, but more detailed information is available in Annex A. The State Employment Agency provides support to unemployed individuals and those at risk of becoming unemployed in Latvia through different active labour market policies. It has particular focus on training for these target groups, using a system of vouchers. The State Employment Agency also offers some subsidies to unemployed workers and workers at risk of unemployment for online learning on a course platform. Some support is targeted at employers, for instance, the publication of vacancies, access to a database of candidates, arranging interviews, accompanying candidates to job interviews, and organising job fairs. Training measures by the State Employment Agency, such as “Training at the employer” (on-the-job training) and “Training at the employer’s request”, are directly involving employers in the reskilling of unemployed persons.

Individuals in Latvia further benefit from financial and non-regulatory measures that support opportunities for the development of their skills. Individuals receive tax deductions on education and training expenditures. These are relatively modest, as tax payers can claim back a total of EUR 120 for education training and health expenditures combined. Employees are entitled to a minimum study leave of 20 working days, although only if they need to take state examinations or defend a thesis. Yet, as discussed in the section on regulatory requirements below, employees covered by collective agreements can receive a more generous study leave, and are also entitled to some remuneration during the period. More broadly, the MoE has implemented a campaign to raise awareness about the importance of lifelong learning among individuals, which involved advertisements, brochures and videos.

As in the case of employers, projects funded by the EU through the European Social Fund (ESF) also play an important role in supporting individuals to access training opportunities. A combination of three projects provides subsidised training opportunities to employees, the unemployed, and older individuals (Table 2.3).

**Table 2.3. Key policy initiatives to support training by individuals in Latvia**

Instrument available in Latvia	Target group	Description of key activities
Study leave	All employees	<ul style="list-style-type: none"> <li>Entitlement to a minimum study leave of 20 working days when taking state examinations or defending a thesis days or a diploma at the end of tertiary education. In collective agreements, employers and employees can agree on further extensions</li> </ul>
Personal income tax exemptions	All individuals	<ul style="list-style-type: none"> <li>Tax deduction on expenditures on education and training, up to a ceiling of EUR 120.</li> </ul>
Public awareness campaign	All individuals	<ul style="list-style-type: none"> <li>Campaign aiming to raise awareness about the importance of lifelong learning among individuals through adverts, brochures and videos, through a budget of EUR 300 thsd.</li> </ul>
Future Skills initiative	Unemployed and employed individuals at risk of unemployment	<ul style="list-style-type: none"> <li>Subsidies for courses on an online learning platform up to a total value of EUR 500 per person. Between September 2021 and June 2022, 350 employed individuals at risk of unemployment took part.</li> </ul>
ESF-funded project on "Improvement of Professional Competence of Employed Persons" (SO 8.4.1 of the "Growth and Employment" OP)	Employed and self-employed	<ul style="list-style-type: none"> <li>Subsidised training programmes for employed or self-employed individuals on their initiative over the 2017-2023 period, funded through the ESF (EUR 46.8 mln). 48,530 individuals have been supported up to June 2021.</li> </ul>
ESF-funded project "Support longer working life" (SO 7.3.2 of the "Growth and Employment" OP)	Older employees	<ul style="list-style-type: none"> <li>Free access to career consulting, non-formal education and mentoring for older individuals (aged 50+) Funding is EUR 1.8 mln over the 2017-2021 period from the ESF. 470 employed adults have received support.</li> </ul>
ESF and State funded project "Support to Education of Unemployed Persons" (SO 7.1.1 of the "Growth and Employment" OP)	Unemployed	<ul style="list-style-type: none"> <li>Monthly grants to employers for offering on-the-job training to job seekers, as part of a larger package to support the training of the unemployed over the 2015-2023 period, funded through the ESF (EUR 83.4 mln) and the State budget (EUR 12.6 mln).</li> </ul>

Note: ESF stands for European Social Fund. SO stands for support objective, whereas OP stands for operational programme. See Annex A for a full description.

Source: *Latvian Labour Law*, <https://likumi.lv/ta/en/en/id/26019-labour-law>; *Personal Income Tax Law*, <https://likumi.lv/ta/en/en/id/56880-on-personal-income-tax>; *Regulation No. 336 of 31 July 2001 of the Cabinet of Ministers - Rules on eligible expenditure on education and medical services*; <https://www.nva.gov.lv/lv/node/244>; and information from field research.

*Support to individuals complements instruments for employers, but some policy synergies could be better exploited*

These initiatives targeting individuals generally complement the instruments that support employers. The tax deductions, albeit modest, can contribute to reduce financial barriers for the investment in training that is not related to one's current job, which could be useful for individuals to upskill and reskill for new occupations. The campaign launched by the MoE could help improve engagement in training among employees, by raising awareness about the benefits of training. The three EU-funded projects have facilitated access to training to employed individuals outside the workplace and to the unemployed. However, there are two areas where it might be possible to better exploit policy synergies.

First, there is low awareness among employers, in particular micro-enterprises and SMEs, about how the ESF-funded project on the "Improvement of Professional Competence of Employed Persons" (support objective 8.4.1 of the "Growth and Employment" operational programme). In principle, employers can fund the participation of their employees in the training programmes offered within the project by paying the invoice issued by the training provider. This invoice covers the 10% share of the total cost that needs to

be paid by the project participants. In practice, few employers, especially micro-enterprises and SMEs, seem to be aware about this possibility. There was some confusion even among the stakeholders consulted in the field research about whether and how employers could share the cost of participation. Future initiatives targeting employees should provide better information on whether and how employers can fund the training opportunities.

Second, it is possible to subsidise training in the workplace for vulnerable employees, by channelling support through enterprises. As discussed in Chapter 1, it would be important to raise participation in training among low-qualified employees, older employees and employees exposed to a risk of automation. These three groups intersect to a significant extent, as low-qualified employees are also likely to be older and exposed to the risk of automation. Existing initiatives in this respect are limited. The subsidies for online courses and the opportunities offered through the ESF-funded project “Support longer working life” (support objective 7.3.2) are promising, but they have so far only supported few individuals. Expanding access to training for low-qualified individuals by channelling support through employers is important to improve their motivation. Low-qualified learners have often had poor experiences in school, so they can find the idea of returning to classroom-based learning daunting (Windisch, 2015<sub>[46]</sub>). Providing adult learning opportunities in the workplace allows overcoming this negative predisposition. Consistent with this insight, low-qualified workers in Latvia often mention work-related reasons as their motivation to learn. Low-qualified workers surveyed by the Baltic Institute of Social Sciences (2020<sub>[47]</sub>) who are motivated to learn responded that they want to do so in order improve their career opportunities (31%), to obtain a certificate (30%) or to better perform at work (21%). Providing learning opportunities in the workplace can also reduce time-related barriers, because low-qualified employees would not be required to travel to an external training centre or school.

*Latvian authorities should strengthen the labour market relevance and quality of training*

As well as better exploiting synergies between policies to support individuals and instruments targeting employers, Latvian authorities should work to further strengthen the labour market relevance and quality of training.

As discussed in Chapter 1, training provided by Latvian employers is mostly non-formal. To some extent, this reflects the fact that non-formal programmes are shorter and more flexible. However, it is also driven by the lack of alignment between the formal education provision and employer needs. VET and HE institutions have only recently started to offer modular programmes catered to the needs of adult learners. In recent years, for example, significant progress has been achieved in developing modular VET programmes, in part thanks to EU-funded projects. Yet, the uptake of modular VET programmes by employers remains limited and only few higher education programmes are offered in a modular way in Latvia. Progress in this respect could expand the supply of relevant training programmes for employers and enable employees to better capture the returns to their participation in training, by making the skills they gain more visible.

Chapter 1 has also emphasised that employers often rely on non-accredited, non-formal training providers, because they do not perceive that accredited providers offer higher-quality training. Latvian authorities have introduced numerous initiatives that aim to strengthen the accreditation process and the quality of non-formal training. The MoES is planning to introduce more stringent quality criteria for non-formal education and a new regulation for non-formal adult education programmes. More broadly, it will introduce a guide to help municipalities in adult education management and it will launch a pilot for supporting adult learning educators in developing better pedagogical skills. These initiatives could increase investment in skills development by employers, by making it easier to access higher-quality training programmes.



## Lessons for the policy package: alignment between policies and policy priorities in Latvia

- Latvia offers several instruments to support investment by employers in skills development, including regulatory requirements, non-regulatory measures to lower the cost of training, tax exemptions and ERDF-funded programmes providing subsidised training. There is limited information on the take-up of non-regulatory measures and tax exemptions, making it difficult to analyse their effectiveness.
- Latvia does not have specific measures in place to build firms' capacity and learning culture, such as diagnostic tools and support for coaching and mentoring. These measures could help reduce existing attitudinal and informational barriers, especially among micro-enterprises and SMEs (see Chapter 1). The launch of Digital Innovation Hubs in 2022 could support enterprises in the digitalisation process, contributing to build their capacity and learning culture, but more general measures could also be beneficial.
- Latvia does not have significant measures in place to promote cooperation among firms and between firms and education institutions, which could help address coordination problems (see Chapter 1). The cluster programmes are a promising initiative, but they currently focus on export promotion and innovation. The sectoral expert councils bring together experts with the aim to improve the alignment of VET and HE with labour market needs, but they mainly focus on initial education. According to stakeholders, the councils could play an important role in promoting cooperation on adult education and training, by improving communication between different stakeholders, and identifying current and future skill demands in their respective sector. Going forward, establishing the Skills Funds could contribute to fostering cooperation on training and skills development.
- Latvia has implemented several initiatives to support the skills development of individuals. These initiatives generally complement instruments targeting employers. However, there is low awareness among employers, in particular micro-enterprises and SMEs, about the ESF-funded project on the "Improvement of Professional Competence of Employed Persons". More broadly, subsidising training for older and low-qualified workers through enterprises can increase their participation in training (see Chapter 1), by improving their motivation and reducing time-related barriers. To increase investment by employers, Latvian authorities will also need to continue to improve the labour market relevance of formal education programmes, and the accreditation and the quality of non-formal training programmes.
- In developing and implementing the policy package, it will be important to gather comprehensive data to assess and monitor the uptake, functioning and effectiveness of the support measures. Generally, Latvia should consider gathering centralised information on additional training agreements and tax exemptions to better monitor their effectiveness in the future.
- The instruments in the policy package will need to be coherent and reinforce existing measures that aim to support employees and to improve the labour market relevance and quality of training. This means, for example, that financial incentives to support employers need to exploit potential synergies with programmes that support employees.

## Assessment of regulatory requirements in Latvia

Having policy instruments in place to support employers is by itself not sufficient to address the policy priorities identified in Chapter 1. The policy instruments need to be well-designed, successfully implemented and effectively monitored. The following three sections review existing instruments supporting employers in promoting skills development in Latvia. This section assesses regulatory requirements. Regulation sets rules that ‘command and control’ the behaviour of actors, giving a clear indication of what to do and what not to do (OECD, 2021<sup>[1]</sup>). In doing so, it can address co-ordination problems and protect enterprises and employees. However, regulation creates costs for governments and businesses, and may curb competitiveness and growth if ill designed and implemented (OECD, 2021<sup>[1]</sup>).

Regulation can be set either through legislation or collective agreements. For example, many countries regulate that there is a minimum level of training related to health, safety and security in the workplace. This helps to prevent a race to the bottom in safety and security standards (OECD, 2021<sup>[1]</sup>). Similarly, collective bargaining agreements at the firm level can provide a platform for the firm and employees to agree on how to share the benefits of training. On the other hand, collective bargaining agreements at the industry level can help equalise wages across firms, mitigating poaching concerns, while ensuring that workers receive a fair share of the benefits of training.

### ***Legal obligation to provide training***

In line with other OECD and EU countries, employers in Latvia face a legal obligation to provide certain forms of training. According to the Labour Law (Section 96, Paragraph 1), employers are legally required to provide training that is “necessary” to perform job-related duties. Such training refers to any type and form of training that allows the employees to develop the skills and knowledge that are required to perform the job duties indicated in the employment contract.

Crucially, this includes training related to health and safety in the workplace. The Labour Protection Law stipulates that employers have to provide training on health and safety when a new employee joins the company, when the nature of work or working conditions change, and when firms change existing work equipment or introduce new technology. A regulation from the Cabinet of Ministers (Cabinet Regulation No. 749 of 10 August 2010) further specifies that the training of employees in health and safety at work includes introductory training, on-the-job training (initial, repeated, unplanned and goal-oriented), and thematic training on a specific labour protection issue.

These legal obligations apply to most, but not all employers. As in other OECD and EU countries, training requirements for some sectors (e.g. health and social care) and occupations (e.g. teachers) are regulated separately. Employees in the public sector are among those who are subject to a separate regulatory regime. According to the Law on Remuneration of Officials and Employees of State and Local Government, they can receive a reimbursement for expenses of job-relevant higher education and other forms of training (Section 26), and are entitled to their full salary during training (Section 27).

*The legal framework is clear and balanced, but some aspects could be strengthened*

Generally, stakeholders consulted during the field research considered the legal framework around “necessary training” to be balanced and well-understood by enterprises. The legislation unambiguously specifies that “necessary training” should be paid for by the employer and take place during work time. The legislation also indicates that the employer cannot dismiss employees who are absent from work to receive “necessary training”. According to stakeholders, employers, even micro-enterprises and SMEs are generally familiar with the legal obligations and take action to fulfil them. This insight is consistent with evidence from recent OECD research on training in enterprises across the EU, which found that regulatory pressures are one of the key drivers of training provision (OECD, 2021<sup>[1]</sup>).

However, the stakeholders reported that some specific aspects of the legal framework could be strengthened. According to several stakeholders, there is considerable uncertainty about the definition of “necessary training”. Many forms of training could be considered as “necessary” to perform job-related duties beyond training on health and safety. For example, some stakeholders emphasised that the training to operate a certain software (e.g. Microsoft Office) or machinery could be considered essential by employees, but not by employers. According to stakeholders, this uncertainty can leave room for legal disputes, for example, if new workplace practices or working arrangements are introduced.

Some stakeholders also claimed that the legal framework does not sufficiently address poaching concerns, one of the coordination problems discussed in Chapter 1. Employees are free to leave to a competing firm after they have received “necessary training”, potentially leading to a negative return on investment for their employers. This could discourage the adoption of new machines or technologies that require a significant upfront investment in skills development. To alleviate poaching concerns, the Foreign Investor Council of Latvia has proposed to amend the legal framework to allow employers to recover part of the training expenses if employees resign in the three years that follow the provision of any training. The amount of training expenses to be recovered could decrease proportionally with the time that the employee has spent with the employer after the training has been provided (Foreign Investors Council in Latvia, 2020<sup>[48]</sup>). Some stakeholders consulted during the field research felt that this amendment could mitigate poaching concerns, supporting investment in new machines and technologies. Others emphasised that it would be unfair for workers to have to pay for training that they require to perform their job well, regardless of whether they decide to leave the company afterwards. One stakeholder, for example, stated that section of Labour Law could not be “different” from the current formulation. This disagreement suggests that achieving a consensus on further changes to the legal framework on poaching concerns could be difficult.

*Section 1 on the Labour Law could not be different from what it is now: why would we ask employees to pay for a training that they need to perform their job? It does not matter if they decide to leave the company afterwards.*

### **Collective agreements**

The Labour Law allows employers and employees to agree on further measures to support training and skills development in collective agreements (Section 17). Employers and employee representatives can, for example, enter into binding agreements on the provision of training which is not strictly “necessary” to perform job-related duties and future changes in remuneration. As in other OECD and EU countries, collective agreements can be signed both at the sectoral and at the firm-level.

According to the OECD database on collective bargaining, only 27.1% of employees in Latvia are covered by collective agreements. This is below the OECD average (32.1%) and substantially below coverage for countries with a strong tradition of collective bargaining, such as Sweden (88.0%) and Finland (88.8%). Guidelines published from the Ministry of Welfare suggest there are only two sectoral collective agreements, in the railway sector and in the construction sector (Ministry of Welfare, 2020<sup>[49]</sup>). According to stakeholders consulted in the field research, firm-level agreements also remain uncommon in Latvia. Employers and employer associations are typically reluctant to enter in collective agreements, because they are concerned about facing increased scrutiny from trade unions. One stakeholder, for example, reported that employers perceive collective agreements as a “trap”. According to stakeholders, this is true for both smaller and larger enterprises alike.

*Collective agreements are not popular in Latvia. Normally, companies prefer an additional agreement with specific people. Collective agreements are viewed as a “trap”, a tool that protects the employees rather than the employers.*

The low take-up of collective agreements could also reflect the fragmentation of stakeholder representation in Latvia. Recent research by the OECD has underlined that the strength of employer organisations is a

crucial factor affecting collective bargaining coverage (OECD, 2019<sup>[50]</sup>). In all countries where employer associations have high membership rates and high levels of representativeness, collective coverage is high and vice versa. However, as observed in Chapter 1, the landscape of employer association is relatively fragmented in Latvia.

*Increasing coverage could be beneficial, but the way forward is unclear*

Collective agreements in Latvia could play a role in increasing access to training and skills development. There is no comprehensive information about the content of existing agreements, because employers and employee representatives are not legally bound to publish the text. However, a recent study has reviewed collective agreements in eleven large companies in Latvia, which were surveyed anonymously (Žabko, 2020<sup>[11]</sup>).

The study suggests that collective agreements can be instrumental in strengthening training leave arrangements. In ten out of the eleven companies surveyed, employees are entitled to receive paid study leave for general professional development, for a typical duration of 4 weeks. In most cases, employees can keep their salaries in full, and in one company, a bonus is paid, upon completion of the course, corresponding to a one-month salary. Collective agreements could also help expand access to education and training for low-qualified employees. In one enterprise surveyed by the study, the collective agreement includes tailored support for employees who have not completed compulsory education. The employer pays approximately half of tuition fees for a secondary school qualification to be undertaken in evening classes (Žabko, 2020<sup>[11]</sup>).

Nevertheless, it is unclear what the Latvian authorities could do to increase the coverage of collective agreements. Some stakeholders mentioned that legislation should become more “elastic”, as in Sweden and other Nordic countries. This means that employers and trade unions should be able to directly negotiate working conditions through collective agreements, bypassing the conditions set by the Labour Law. This approach is difficult to pursue, at least in the short-term, because it would require a paradigm shift in the legislative framework, which currently asserts the primacy of the Labour Law in governing working relationships between employers and employees. More broadly, efforts to improve cooperation among employers, for example through the introduction of the Skills Funds, could contribute to strengthen membership and representativeness of employer associations. This could, over time, help increase their willingness and capacity to negotiate collective agreements.

## Lessons for the policy package: regulatory instruments in Latvia

- Regulation can address co-ordination problems and protect enterprises and employees, but creates costs for governments and businesses and may curb competitiveness and growth, if ill designed and implemented. Virtually all countries in the OECD and EU have regulatory requirements on certain types of training. In Latvia, employers are legally obliged to provide and fund training that is “necessary” to perform job-related duties, which includes health and safety training. Employers and employees are also free to sign collective agreements.
- Legal obligations to provide training in Latvia seem to work effectively overall. However, the definition of training that is “necessary” for a job could be made clearer. There is also some disagreement among stakeholders consulted in the field research as to whether the legal framework provides sufficient incentives to mitigate poaching concerns (see Chapter 1). Some stakeholders considered that enabling employers to recover the expenses for “necessary”

training could alleviate poaching concerns. Others emphasised that it would be unfair for workers to have to pay for training that they require to perform their job well. This disagreement suggests that achieving a consensus on further changes to the legal framework on poaching concerns could be difficult.

- Collective agreements can increase access to training, but their coverage in Latvia is limited. There is no comprehensive information about the content of existing agreements, because employers and employee representatives are not legally bound to publish the text. A recent review suggests that collective agreements can be instrumental in strengthening training leave arrangements and expanding access to education and training for low-qualified employees.
- However, according to stakeholders, employers and employer associations are generally reluctant to engage with trade unions or employee representatives. Some stakeholders mentioned that making legislation more “elastic” could contribute to raise the coverage of collective agreements. This would require a paradigm shift in the legal framework.
- In the policy package, it will be important to define all key aspects of legislation to limit potential uncertainty for beneficiaries. Moreover, it will be crucial to ensure that the instruments chosen have the support of all stakeholders involved. Trying to increase the uptake of collective agreements, for example, could be challenging in the short-term.

## Assessment of non-regulatory measures in Latvia

Non-regulatory measures can complement and expand regulatory requirements, by providing a set of contractual arrangements and procedures that help to lower the cost of training for employers (OECD, 2021<sup>[10]</sup>). As mentioned in the evaluation section, in Latvia, employers and employees can sign an additional agreement on training, which works as payback clause. This section aims to review in detail the effectiveness of additional training agreements. Payback clauses are the most widespread non-regulatory measures among OECD and EU countries, but their use is generally limited. They make employees liable for some or all of the costs of their training if they leave their employer within a pre-defined period. This helps reduce poaching concerns, as employers can be reassured that if employees leave the firm, they will be able to recover some or all of the investment made in their skills development.

Other non-regulatory measures, which are currently not available in Latvia, comprise of the inclusion of informal training in subsidised training, and job rotation. These mechanisms are less common among OECD and EU countries. The inclusion of informal training in subsidised training consists of procedures that allow employers to certify and use informal training within the existing support infrastructure. It can contribute to reducing financial barriers, by enabling employers to rely on internal training provision, as opposed to external training providers, which may be more costly. Job rotation schemes include measures that enable the rotation of employees across companies, for example, to substitute someone who is undergoing training. This helps companies reduce financial and time-related barriers.

### ***Additional training agreements***

In line with other OECD and EU countries, the Labour Law in Latvia offers employers and employees the possibility to sign an additional training agreement (Section 96, paragraph 2-9). As in other payback clauses schemes, the employer can agree to fund a training course which is not “necessary” to perform job-related duties. In return for this financial contribution, employees need to commit not leave the firm for a binding period. If they do leave the firm before the end of the binding period, they are fired due to a significant breach of the employment contract, or they are unable to complete the training programme, they will be required to reimburse part of the training expenditures.

The Labour Law sets specific requirements for the duration of the binding period and the proportion of training expenditures employers can recover. The binding period cannot exceed two years from the date of the completion of the training course and employers can only recover up to 70% of the total training expenditures.

*There was disagreement among stakeholders about the effectiveness of the legal framework*

Stakeholders consulted during the field research disagreed about the effectiveness of the specific requirements on the binding period and the reimbursement threshold. Some stakeholders mentioned that the term of two years might be too short and should be extended. Employers might take longer to recover their investment on highly specialised training, such as for software tools or applications. However, others felt that extending the term beyond two years could put some employees in a vulnerable position when negotiating the agreement. Similarly, some stakeholders considered that the reimbursement threshold was too low and should be removed. Others believed that removing the threshold would increase the likelihood that employers are able to persuade employees to sign an agreement which is not financially convenient for them. One stakeholder, for example, claimed that the employee would always be the “weaker party” in the negotiations.

*The employee would always be a weaker party in an employment agreement. Employers are playing a leading role in driving the process leading to the agreement, because the employees are always afraid of losing their job.*

These views reflect substantial differences in the evaluation of the bargaining power in negotiations over additional training agreements. Some stakeholders viewed employers and employees as equal parties that are working to achieve a mutually beneficial arrangement. Others emphasised that employers have greater bargaining power, because employees might be concerned to lose their job while discussing the conditions of the agreement.

*Take-up is lower among SMEs, but in line with international evidence*

Evaluating these claims is difficult, due to the lack of centralised information on the take-up of additional training agreements. The stakeholders consulted during the field research reported that awareness and use of additional training agreements is substantially lower among micro-enterprises and SMEs. According to all stakeholders, micro-enterprises and SMEs are not generally aware about the possibility to negotiate training agreements, whereas large enterprises are more likely to know about them and to sign them with their employees.

The main reason seems to be rooted in attitudinal barriers, which were discussed in Chapter 1. Companies have a “reactive” approach to labour legislation: they only look into it, once a specific problem arises. There is some publicly available information on additional training agreements, but companies do not access it, because they do not view investment in training as a priority. For example, a publicly available commentary has reviewed and explained how to make an effective use of different legal instruments (Liepiņa et al., 2020<sup>[51]</sup>). Even if enterprises have a more proactive attitude towards legislation and training, as discussed in Chapter 1, capacity constraints might make it difficult for them to negotiate and finalise the agreement. To address these constraints, some stakeholders mentioned that it would be possible to offer publicly available template agreements that companies could download and fill.

However, it is unlikely that raising awareness among micro-enterprises and SMEs about the additional training agreements will result in a substantial increase in training provision. Payback clauses are typically well-suited for employees enrolling in formal education and training programmes, because they have a clear market price (OECD, 2017<sup>[12]</sup>). Conversely, they are less useful for employees engaging in more informal types of learning, which are more common in Latvia, as discussed in Chapter 1. As a result,

payback clauses are also less suitable for micro-enterprises and SMEs, because they are generally less likely to invest in expensive employee training with longer duration (OECD, 2017<sup>[12]</sup>). Yet, Chapter 1 has emphasised that they are currently the main target group which underprovides training.

## Lessons for the policy package: non-regulatory measures in Latvia

- Non-regulatory measures to lower the cost of training, by solving coordination problems and reducing financial barriers for companies. Among non-regulatory measures, payback clauses are common across EU and OECD countries, but their use is not widespread. The subsidisation of informal training and job-rotation programmes are less common.
- In Latvia, employers and employees can sign an additional training agreement, which works as a payback clause. The additional training agreements can help mitigate poaching concerns by employers (see Chapter 1), at least with respect to supplementary training that is not strictly necessary to perform job-related duties.
- There was disagreement among stakeholders about the effectiveness of the legal framework for additional training agreements. Some stakeholders consulted in the field research considered that the binding term of two years could be extended and the reimbursement threshold of 70% of training costs could be increased. Others believed that these changes could place employees in a vulnerable position. Evaluating these claims is difficult, due to the lack of centralised information on the take-up of additional training agreements.
- Stakeholders reported that micro-enterprises and SMEs are less likely to be aware of and rely on additional training agreements than large firms. This is due to attitudinal barriers and capacity constraints. One solution to overcome the capacity constraints might be to offer pre-filled templates to companies.
- Based on international evidence, raising awareness about additional training agreements and tackling the capacity constraints that prevent companies from adopting them is unlikely to result in a substantial increase in training provision. Additional training agreements are mainly useful for formal education opportunities, which have low uptake in Latvia (see Chapter 1), and might be less attractive for micro-enterprises and SMEs, the main target group currently underinvesting in training (see Chapter 1).

## Assessment of financial measures in Latvia

This final section reviews financial measures that aim to strengthen investment in training by employers in Latvia. Financial incentives include a range of measures that can be used to reduce the direct and indirect costs of training for enterprises (OECD, 2021<sup>[10]</sup>). Among financial measures, direct subsidies are very common in EU and OECD countries. Other financial instruments include tax incentives and training levies that are often used as a way to pool resources together across companies and earmark them for training expenditure. Tax incentives are present in most EU countries, whereas training levies are less common (OECD, 2021<sup>[10]</sup>). A certain level of consensus has been reached on principles of good practice that should guide the design and use of financial incentives for investments in skills (Box 2.2). For example, it is important to minimise the administrative burden and actively involve social partners.

### Box 2.2. Good practices in the implementation of financial incentives for investment in skills

Previous OECD research has identified a set of principles that can positively influence the design and implementation of financial incentives meant to steer training and investment in skills, including:

- Minimise administrative burdens, as complicated procedures negatively affect the take up of financial incentives;
- Design systems that are simple and easily adaptable to new and emerging skills, for example by allowing measures to be tailored at sectoral and/or regional level;
- Involve social partners;
- Complement financial incentives with support measures that can increase their effectiveness;
- Ensure monitoring and evaluation.

Source: OECD (2021<sup>[10]</sup>), *Incentives for SMEs to Invest in Skills: Lessons from European Good Practices*, Getting Skills Right, OECD Publishing, Paris, <https://dx.doi.org/10.1787/1eb16dc7-en>; OECD (2017<sup>[12]</sup>), *Training in Enterprises: New Evidence from 100 Case Studies*, Getting Skills Right, OECD Publishing, Paris, <https://dx.doi.org/10.1787/7d63d210-en>.

Depending on their design, financial incentives can solve different policy priorities that have been identified in Chapter 1. On the one hand, financial incentives could decrease financial barriers for companies, for example if the government offers a voucher to purchase training services. Alternatively, they could help realise the wider benefits of training, if the government subsidises training for certain groups of workers (e.g. low-qualified or older workers).

### **Corporate and payroll tax exemptions**

Training expenditures by employers in Latvia are generally exempt from corporate and payroll taxes (i.e. personal income taxes and the corresponding social security contributions). According to the Enterprise Tax Law, expenditures on training required for employment are considered as operating expenses and are not included in the corporate tax base (Section 4).

Similarly, the Law on Personal Income Tax stipulates that training expenditures by the employers, rather than being considered a payment to employees, may be considered an operational expense and be exempt from payroll tax (Section 8). A Cabinet Office Regulation (No. 899 of 21 September 2010) further specifies that the exemption from payroll taxes applies to three types of training expenditures:

- training in the skills and knowledge “necessary” to perform job-related duties (as per Section 96 of the Labour Law);
- professional qualifications of employees in courses and seminars; and
- education necessary for certain public officials.

*The exemptions are in line with OECD practices, but formal education is subject to payroll tax*

The lack of centralised information on expenditures on training does not make it possible to review the take-up and effectiveness of tax exemptions in detail. Yet, the approach taken by Latvia for the tax treatment of training expenditures is generally consistent with that adopted by other OECD and EU countries. Few countries provide a more generous tax treatment of training expenditures, in the form of tax credits or additional deductions (Torres, 2012<sup>[13]</sup>). An OECD study has reviewed the tax treatment of training expenses across member countries. In all countries, except for Luxembourg, training expenses



were deductible from business income (Torres, 2012<sup>[13]</sup>). Only Austria, Chile, Japan and Spain offer tax credits. In Austria, for example, employers received a 6% tax credit on training expenditures, while in Spain enterprises received a 5% tax credit, but only for training for the adoption of new ICT technologies. The reason is likely to be that tax incentives are generally found to be difficult to monitor and have a high deadweight loss, i.e. to fund training that would have happened even without the tax incentive (OECD, 2017<sup>[12]</sup>). Tax authorities typically lack the capacity and the expertise to verify the type of education and training that is purchased through tax incentives. Tax measures are also harder to target and could often end up favouring large enterprises that have better access to education and training in Latvia (OECD, 2017<sup>[12]</sup>).

In the case of Latvia, the current data limitations would make it difficult to effectively target and monitor further tax incentives. Even setting aside these limitations, some stakeholders have warned about introducing tax credits or additional deductions. The corporate tax system has recently undergone a major reform, which took inspiration from the Estonian model. The reform aimed to simplify the tax structure, which was difficult to navigate, especially for micro-enterprises and SMEs. Introducing further tax incentives would go against the objectives of the recent tax reform, as pointed out by one stakeholder.

*There is currently one tax rate on dividends and non-business expenditures at 25%. If you introduce tax credits, the system becomes more complex and that is why the system was changed in the first place. Other tools could be more fit for purpose, for example some training projects delivered by a government agency.*

However, several stakeholders highlighted that the tax system could be tweaked to strengthen incentives for employers to invest in formal education programmes. Currently, higher education opportunities and general education programmes are subject to payroll taxes. As remarked in a position paper by the Foreign Investor Council of Latvia, if an employer wishes to cover the employee's expenses for obtaining a higher education or a general secondary education qualification, these payments will be treated as an employee's income and subject to payroll taxes (Foreign Investors Council in Latvia, 2020<sup>[48]</sup>).

According to several stakeholders, paying payroll taxes on higher education expenditures limits employers' investment in highly specialised technical programmes offered by universities, which could be important for rapidly advancing industries such as ICT. Going forward, it might also prevent Latvian enterprises from accessing the micro credentials offered by higher education institutions building on the EU Skills Agenda (European Commission, 2020<sup>[23]</sup>). More broadly, paying payroll taxes on general education could constrain employers from investing in second-chance programmes for low-qualified employees, who are among the priority groups identified in Chapter 1.

### **ERDF-funded projects to support training in enterprises**

EU support to training in enterprises is delivered through projects run by employer associations and the Latvian Development and Investment Agency (LIAA) across two streams of the "Growth and Employment" operational programme (Table 2.4). The streams have been financed via the ERDF, as part of the 2014-2020 funding round, but have also benefited from additional funding from the React-EU facility, which will ensure their continuation until the end of 2023. The first stream on "Support for employee training" (support objective 1.2.2, measure 1.2.2.1) accounts for almost three quarters of the total funding. Companies can access subsidised training programmes offered in 14 projects run by employer associations, which aim to increase labour productivity, promote product innovation and foster the adoption of new technologies. The training programmes cover topics such as industrial engineering and management, computer science and production and processing. The extent of support decreases with company size. Micro-enterprises and SMEs typically have 70% and 60% of training expenditures covered, whereas large firms have 30% to 50%.

**Table 2.4. ERDF-funded projects to support training in enterprises in the 2014-2020 funding period in Latvia**

Stream	Project provider	Funding	Participants	Support provided	Main skills and knowledge areas targeted
"Support for employee training" (SO 1.2.2, measure 1.2.2.1)	Employer associations	23.9 mln	18 281 employees from 1000 enterprises	<ul style="list-style-type: none"> <li>• Access to subsidised training programmes delivered within 14 projects by employer associations (typically covering 30%-50% of costs for large firms, 60% for medium and 70% for small and micro).</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial Engineering and Management</li> <li>• Engineering and Technology</li> <li>• Computer Science</li> <li>• Production and processing</li> </ul>
"Support for ICT and non-technological training, as well as training to attract investors" (SO 1.2.2, measure 1.2.2.3)	Employer associations	4.0 mln	6 695 employees from 562 enterprises	<ul style="list-style-type: none"> <li>• Access to subsidised training programmes (covering between 50% and 70% of total costs) delivered within two projects by employer associations.</li> </ul>	<ul style="list-style-type: none"> <li>• Business and project management</li> <li>• Product, process, marketing or organisational innovation</li> <li>• Digital technologies</li> </ul>
	LIAA	7.9 mln	281 employees from 4 enterprises	<ul style="list-style-type: none"> <li>• Subsidies for foreign companies that invest EUR 1 mln and create at least 15 new jobs as a result of a training project (covering between 50% to 60% of costs)</li> <li>• Subsidies for companies to organise best practice training activities in-house</li> <li>• Access to subsidised training programmes organised by LIAA</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial Engineering and Management</li> <li>• Computer Science</li> <li>• Innovation management skills</li> </ul>

Note: ERDF stands for European Regional Development Fund. SO stands for support objective. The SO in the table is part of the "Growth and Employment" Operational Programme. Funding refers to the total funding allocated. Participants refers to the total number of participants as of March 2022. The projects in the table have also benefited from additional funding from the React-EU facility, which will ensure their continuation until the end of 2023.

Source: Regulation No. 365 of 14 June 2016 of the Cabinet of Ministers - Operational Programs for Growth and Employment 1.2.2. specific support objective "Promote innovation, <https://likumi.lv/ta/id/282904-darbibas-programmas-izaugsme-un-nodarbinatiba-1-2-2-specifiska-atbalsta-merka-veicinat-inovaciju-ieviesanu-komersantos>; information from field research.

The second stream on "Support for ICT and non-technological training, as well as training to attract investors" (support objective 1.2.2, measure 1.2.2.3) aims to increase the production of high-value-added products, promote non-technological innovation and encourage foreign companies to invest in Latvia. The stream includes two projects from employer associations and one project from the LIAA. The two projects run by the employer associations follow a similar model to those delivered under the first stream. Companies can apply to subsidised training programmes offered by the associations, which typically cover between 50% and 70% of training expenditures, depending on their size.

The project run by the LIAA includes three distinct activities. Under the first activity, foreign investors receive a subsidy, if they deliver a training project that leads to the creation of at least 15 new jobs and invest at least EUR 1 mln. Due to administrative delays, the second and third activity only started in early 2021. The second activity provides support to conduct training in-house, whereas the final activity offers subsidised training programmes, as in the projects delivered by the employer associations. Under this final activity, LIAA also delivers "Mini-MBA" courses to senior and middle-management to strengthen their innovation management skills. The course has already been piloted and approximately 100 individuals have already completed the programme.

EU funding to support training in enterprises will also continue in the 2021-2027 funding round. The ERDF will support innovative entrepreneurship in SMEs with EUR 86 mln. Actions will include among others

training seminars and master classes, high-level courses, and high-level experience exchange sessions for foreign professionals. More broadly, the measure will also support technological incubators, international business partners programme, technology transfer and aid to exporting companies. An additional EUR 12.5 mln from the ESF+ will go towards employer-commissioned employee training and to promote business productivity and strategic business HR development and planning. The measures will promote public-private partnerships, attract and educate the labour force in line with the needs of enterprises in the sector, and promote strategic development as well as planning of human resources in companies.

*The delivery model of the projects gives substantial responsibility to employer associations*

According to stakeholders consulted during the field research, the delivery model of the ERDF-funded projects grants substantial freedom to the employer associations in planning and organising the training courses. The associations are able to decide on the topics of the training programmes in cooperation with members and other potential beneficiaries. Following the selection of the training topics, they organise a public procurement process and choose the training providers to be involved in the delivery of the training programmes.

Once the providers have been selected, companies can submit their applications. The associations send the application and their internal evaluation to the Central Finance and Contracting Agency (CFLA) to assess whether the company is eligible for funding, which provides a decision after 20 working days. If the application is successful, the associations identify the right training provider, schedule the training and issues an invoice to companies to cover training costs. Once per quarter, the associations then report to the CFLA on the training activities implemented. After approving the reports, CFLA allocates the part of the co-financing that the association returns to the companies.

Associations implement the delivery model through a variety of approaches (Box 2.3). For example, applications are submitted either by email or through a portal.

### **Box 2.3. Models used by employer associations in ERDF-funded projects on training**

The project delivered by the ICT association of Latvia (LIKTA) provides training programmes to foster digital skills, the digitalisation of internal processes and digital tools for production and service development. To participate in the training programmes, companies can choose training programmes from a menu of different modules directly from a portal, where they submit all the relevant background information and choose a training course. Following the approval process, LIKTA puts them in touch with the training provider, who runs schedules the training dates and delivers the training. The portal had been considered to be a good practice in the evaluation on the previous round of EU-funded projects run by the MoE (Ekonomikas ministrija, 2015<sup>[37]</sup>).

The project delivered by the Latvian Chamber of Commerce and Industry (LTRK) focuses instead on programmes to foster product, process, marketing or organizational innovation. To participate to the training programmes. Companies write an email, asking to receive support for a training activity. The LTRK evaluates whether the request is eligible for support. Following the application process, the LTRK identifies the best training provider, then the training is conducted.

Source: information from field research.

The project run by the LIAA follows a different delivery model. Following consultations with the MoE and the CFLA, the LIAA issues an open call, specifying the support offered. Companies are required to respond to the open call, presenting a written application. The LIAA evaluates the applications based on pre-

determined criteria and verifies with the CFLA whether the request is eligible for support. Depending on the activity, then companies either conduct the training and receive a reimbursement upon completion, or they join the training courses offered by LIAA. Unlike for the projects run by the employer associations, the companies are required to submit progress and final reports. The LIAA can only reimburse the training costs after the reports have been approved by the CFLA.

*The delivery model draws heavily on lessons from the previous EU funding period*

The delivery model draws heavily on the lessons learnt from the 2007-2013 round of EU funding. A detailed description of these projects and an evaluation from the MoE (Ekonomikas ministrija, 2015<sup>[37]</sup>) is available in Annex A. The evaluation offered two key insights that shaped the design of support programmes in the current funding round. First, the delivery model involving employer associations was successful. Employer associations acted as a valuable intermediary to support the identification of skill needs and to lower the administrative burden. Second, the financing criteria failed to secure sufficient participation among small and micro companies, which were underrepresented among the beneficiaries. In order to increase uptake among small and micro-enterprises, in the current funding round, the intensity of support provided to large enterprises was reduced from 60% of training expenditures to rates ranging between 30% and 50%.

*The delivery model continues to work well overall...*

According to the stakeholders consulted during the field research, the delivery model involving employer associations continues to work well. The stakeholders emphasised the importance of an employer-centred delivery model that takes into account the training needs of companies. One stakeholder, for example, remarked that ensuring that “employers are heard” is key. The associations were instrumental make this possible. Consistent with the official evaluation of the previous funding round, stakeholders reported that employer associations play an important intermediary role in identifying the needs of companies and then help minimise the administrative burden.

*The key to the success of the project is to ensure that employers (and their needs) are heard. Employers know what kind of technologies they will implement, and what kind of product they want to offer in the market. Companies should define topics themselves to avoid the situation when “state officials know better what companies need to learn” and design the programme accordingly.*

Generally, the associations were also able to deliver high-quality training programmes. Some associations interviewed by the OECD conduct surveys to assess the satisfaction of the companies and the trainees with the course. The results are typically positive, with most participants reporting high levels of satisfaction. The reasons is likely to be that associations are able to choose learning methods and training providers that can cater to the needs of the companies. Stakeholders emphasised three features in training programmes that worked well. First, programmes with short duration are important to encourage the participation of micro-enterprises and SMEs, which face greater capacity constraints, as discussed in Chapter 1. Second, trainers with some previous industry experience were highly valued by companies, as they can provide more hands-on knowledge. Third, small groups that encourage peer learning and focus on practical problems encountered in the workplace increase engagement in training, in line with the previous OECD research (OECD, 2021<sup>[1]</sup>).

Overall, the programmes were successful in increasing participation in training. Stakeholders emphasised that the programmes enabled companies to increase the intensity of training. One stakeholder remarked, for instance, that the programmes allowed doing more and faster.

*Thanks to the EU-funded projects [supporting training in enterprises], more can be done and faster. More companies and more diverse companies can be reached. More courses and more expensive courses can be bought.*

However, the training programmes played a differentiated role in driving the propensity to train of micro-enterprises, SMEs, and large firms. According to stakeholders, most micro-enterprises and SMEs would not have provided the training if the project had not been conducted. The results are more mixed for large companies. Most stakeholders reported that large enterprises would have provided the training anyway. Yet, they also emphasised that having mixed training groups with micro-enterprises, SMEs, and large companies is valuable to facilitate networking and peer-learning.

Evaluating the delivery model of the LIAA project is more difficult, because the two most substantial activity have only started at the beginning of 2022. Stakeholders consulted during the field research noted that LIAA is subject to more intensive bureaucratic requirements. As a government agency, LIAA is required to select training providers in advance and then issue an open call. According to stakeholders, this means that they are less able to react to the needs of companies. It also takes a long time to prepare the open calls, because approval by both the MoE and the CFLA is required. This helps explain the delay in starting the second and the third activity. According to stakeholders, a change in procurement procedures (e.g. through a general service agreement procurement, which allows some more flexibility) could help improve the delivery model for LIAA.

*...but some features could be improved*

Although the delivery model involving employer associations works well overall, two key features could be improved. The first and most important area is awareness-raising. Employer associations are active and creative in promoting the project through a variety of channels, but they mainly target their existing members. For example, the Latvian Hotel and Restaurant Association (LVRA) reaches out directly to companies through calls and informal meetings, which seem to have proved very effective. The LVRA also sends emails and newsletters and discusses the opportunities during their annual member conference. The Association of Mechanical Engineering and Metalworking Industries (MASOC) disseminates information about the project through the website and emails to members. Twice a month, MASOC also organises a “Members breakfast” in which participants are informed about recent news and receive information about the availability of training programmes.

The focus on members only in awareness-raising efforts is problematic, given the high fragmentation in stakeholder membership. To a significant extent, it depends on the funding model. According to stakeholders, associations receive limited resources to run the project and raise awareness among potential beneficiaries. This means that they mainly rely on existing communication channels and contacts. Stakeholders reported that associations generally receive a budget of EUR 3 000 per month to manage the project (the so-called “coordination budget”), which includes all direct costs and indirect costs. Its size has been determined by decisions and calculations made by the Latvian authorities. It seems that associations have to invest most, if not all, of this budget to process everyday requests from companies, which leaves little scope to raise awareness beyond existing members. Some stakeholders reported that employer associations were willing to be more active on this front. To meet this need, the national authorities have recently made amendments to the national regulation to enable associations working on stream “Support for employee training” (support objective 1.2.2, measure 1.2.2.1) to spend up to EUR 200 000 on awareness-raising initiatives over a period of 3 years, drawing on React-EU funding. However, some stakeholders reported that the procurement process proved difficult to complete, leaving association without the necessary funding.

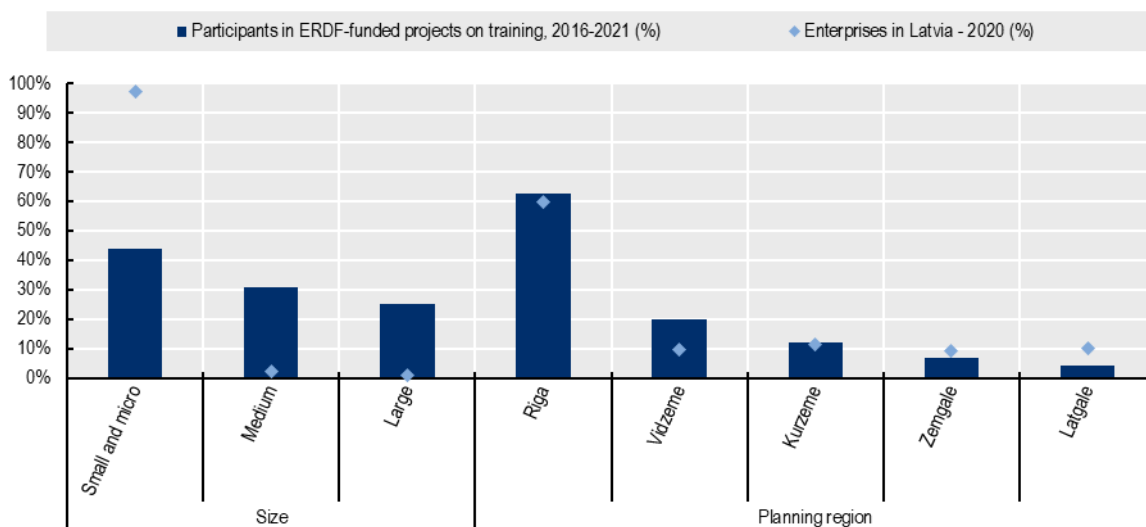
The second area is the coordination and exchange of good practices. Some stakeholders emphasise that often the associations (and the LIAA) compete to attract companies. This is likely because the current design of the programme gives them little incentive to cooperate. Similarly, there are no mechanisms for institutionalised exchange. Some stakeholders noted that there should be ongoing feedback, even within the planning period. Once per year, for example, all project providers could take part in a survey about issues and needs within the implementation of the programme.

### *Medium and large companies are still over-represented among beneficiaries*

In spite of the changes made to the intensity of support and the refinements to the delivery model, there has been no improvement in the engagement of small and micro-enterprises in the projects (Figure 2.1). If anything, the proportion of small and micro-enterprises supported seems to have fallen compared to the previous funding round (from 60% to 44%), whereas the proportion of large companies supported has increased (from 10.5% to 25.1%). The regional variation in support seems to mirror more closely the distribution of enterprises across the country. Enterprises in the Latgale region seem to be slightly under-represented, whereas enterprises in the Vidzeme region are slightly over-represented. However, it is difficult to draw definite conclusions on whether this allocation of support is effective.

**Figure 2.1. Take-up of ERDF-funded projects on training in 2016-2021 in Latvia**

Enterprises participating in ERDF-funded projects on training in 2016-2021, compared to business population



Note: ERDF stands for European Regional Development Fund. The figures show participation in the projects "Support for employee training" (support objective 1.2.2, measure 1.2.2.1) and "Support for ICT and non-technological training, as well as training to attract investors" (support objective 1.2.2, measure 1.2.2.3) run by employer associations within the "Growth and Employment" operational programme. The projects have also benefited from additional funding from the React-EU facility, which will ensure their continuation until the end of 2023.

Source: Data from the Ministry for the Economy and National Statistics Office of Latvia.

### *The administrative procedures limit take-up among micro firms and SMEs*

The low uptake among micro and small enterprises likely depends on the eligibility criteria, the financing conditions and the bureaucratic requirements. According to stakeholders, the eligibility criteria are more difficult to meet for micro-enterprises and SMEs in general. Companies need to have operated without losses in the previous financial year and need to prove that they are not a "firm in difficulty", i.e. that the entity that has not lost more than half of its subscribed share capital due to accumulated losses. Smaller companies have more volatile cash flows and a lower share of capital, implying that they are more likely to operate a loss in any given year or to become a "firm in difficulty". These requirements have become especially problematic during the COVID-19 crisis, where smaller companies have suffered the most.

Provided that they fulfil the eligibility criteria, companies then need to provide cash upfront as collateral. After the training is successfully conducted, they then receive the money back (subtracting the payment they are required to make towards the programme). Typically, the reimbursement happens 4-6 months after the training has ended. Micro-enterprises and SMEs are more likely to be liquidity-constrained, so

they are less likely to be able to provide cash upfront, as observed by one stakeholder during the field research.

*Having to pay the training fees upfront was a challenge for smaller companies, and might have been a barrier to their training participation. Companies receive the reimbursement at the end of each quarter, when they as an association write their regular reports. So on average, the reimbursement is paid after three months.*

Companies also perceive administrative requirements to be high. This likely has a stronger impact for micro-enterprises and SMEs, who have fewer resources and capacity to engage with lengthy administrative procedures. One stakeholder, for example, has emphasised that this perception might deter companies from participating to the project.

*Some companies are not participating because the process is perceived to be highly bureaucratic. There has been no downward trend in bureaucracy over time and it is hard to understand whether it comes from national authorities or EU rules.*

Companies effectively do need to submit substantial documentation, while preparing their application, including balance sheets, an official SME declaration (if applicable) and a proof ownership structure. Some stakeholders suggested that these administrative requirements could be relaxed. For instance, it might be sufficient for companies to prove that they can give the money back, in case their employees do not complete the training courses.

## Lessons for the policy package: financial measures in Latvia

- Financial incentives include direct subsidies, tax incentives and training levies. They are useful to reduce financial barriers faced by enterprises and realise the wider benefits of training (see Chapter 1). Direct subsidies and tax incentives are common across EU and OECD countries, whereas training levies are less common. Latvia offers tax incentives and direct subsidies through ERDF-funded projects run by employer associations and the LIAA.
- In Latvia, training expenditures are currently exempt both from corporate tax and payroll taxes. Reviewing the take-up and effectiveness of tax exemptions in detail is not possible, due to the lack of centralised data on expenditures on training. However, evidence gathered from stakeholders suggest that it may be possible to introduce some tweaks to the existing system. Higher education and general education programmes are currently subject to payroll taxes. According to stakeholders, this creates a barrier for employers who need to invest in highly specialised technical programmes offered by universities, e.g. for the ICT sector. It might also pose an obstacle for employers who would like to fund second chance education programmes for low-qualified employees, one of the priority groups identified in Chapter 1.
- ERDF-funded projects to support training in enterprises in Latvia give substantial responsibility to employer associations, which are in charge of selecting the training areas, overseeing the application process and organising the training. This model draws on lessons from previous EU funding rounds and continues to work well overall, according to the stakeholders consulted during the field research.
- However, the take-up of ERDF-funded projects remains low among small and micro-enterprises. This might depend on the choice of the eligibility criteria, the financing conditions and the administrative requirements.
- Some features of the delivery model could be further improved. The coordination budget set by the national authorities to run the project is judged to be insufficient by stakeholders consulted

in the field research. This constrains them from raising awareness, especially beyond their own members. There is also little coordination and exchange of good practices among both the associations and associations and the LIAA.

- Employer associations can play an important role in the delivery of the policy package. However, associations should receive incentives to cooperate and exchange good practices and should be given sufficient resources to raise awareness about the support measures. To achieve a strong uptake among micro-enterprises and SMEs, it will be important to ensure that the eligibility criteria and financing conditions are not too strict, and the bureaucratic procedures are not too burdensome.



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# Annex A. Further information on policy initiatives in Latvia

## Overview of policy initiatives to support training by individuals

**Table A.1. Overview of policy initiatives to support training by individuals in Latvia**

Instrument available in Latvia	Target group	Description
Study leave	All employees	Employees have the right for a study leave of 20 working days when taking state examinations or defending a thesis or a diploma at the end of tertiary education. Employers must grant the study leave, but can decide whether to maintain or suspend the payment of remuneration (Section 157, paragraph 2 of the Labour Law). In collective agreements, employers and employees can agree on further extensions to duration, scope and payment of remunerations.
Personal income tax exemptions	All individuals	Expenditures on education and training can be deducted from individuals' annual taxable income. The limit of eligible expenses per year is 600 euros, but not more than 50% of the annual taxable income (Sections 9-10, Personal Income Tax Law).
Public awareness campaign	All individuals	The campaign involved several activities, through a budget of EUR 300 thsd: <ul style="list-style-type: none"> <li>• Advertisements on commercial TV and radio channels, as well as national TV, radio.</li> <li>• Articles, interviews with employees and employers in the most popular news portal <a href="http://www.delfi.lv">www.delfi.lv</a> (both in LV and RU) which provided good results in terms of readability.</li> <li>• There were also short videos with people who changed occupation published on <a href="http://delfi.lv">delfi.lv</a> and on social media which were quite popular.</li> <li>• A paper brochure - guidance on what and where to learn, distributed through Public Employment Services and the Ministry of Education and Sciences.</li> </ul>
Future Skills initiative	Unemployed and employed individuals at risk of unemployment	Under the initiative, individuals receive up to EUR 500 to complete courses on an online learning platform. Individuals can receive the funding after the certificate of completion has been received. A total of 695 individuals have started training courses between September 2021 and February 2022, including 350 employed individuals at risk of unemployment.

ESF-funded project on "Improvement of Professional Competence of Employed Persons" (SO 8.4.1 of the "Growth and Employment" OP)	Employed and self-employed	The programme targets employed adults aged 25+, including self-employed, employed pensioners, and individuals on parental leave. Individuals are eligible to funding for 90% of their training expenses (both formal VET and non-formal training), and can also receive career counselling. The project is implemented by the State Education Development Agency (VIAA) with a total funding of EUR 46.8 mln available over the 2017-2023 period, provided by the ESF. Until June 2021, 1,277 educational programs were offered, reaching 48,530 individuals. The individuals apply directly via tenders published several times per year.
ESF and State funded project "Support to Education of Unemployed Persons" (SO 7.1. 1 of the "Growth and Employment" OP)	Unemployed	The policy programme aims to promote the employability of the unemployed through training. The project is implemented by the State Employment Agency over the 2015-2023 period. It is funded through the ESF (EUR 83.4 mln) and the State budget (EUR 12.6 mln). Participants have access to courses, seminars, and lectures, including e-learning modules on financial literacy, preparation for job interview and job search strategy, or online courses on digital skills development. Employers receive a monthly grant for offering on-the-job training to a job seeker who has not been employed by the particular employer at least 12 months.
ESF-funded project "Support longer working life" (SO 7.3.2 of the "Growth and Employment" OP)	Older employees	The policy programme "Support longer working life" (SO 7.3.2. "To prolong the retention and employment of older workers") aimed to prolong working careers and strengthen the skills of older employees (50+). The project was implemented by the State Employment Agency and received funding of EUR 1.8 mln over the 2017-2021 period from the ESF. It included a public awareness campaign, career consulting activities, non-formal education, mentoring, workplace adjustments and advice to 470 employed adults have received support.

Note: ESF stands for European Social Fund. SO stands for support objective, whereas OP stands for operational programme.

Source: *Latvian Labour Law*, <https://likumi.lv/ta/en/en/id/26019-labour-law>; *Personal Income Tax Law*, <https://likumi.lv/ta/en/en/id/56880-on-personal-income-tax>; *Regulation No. 336 of 31 July 2001 of the Cabinet of Ministers - Rules on eligible expenditure on education and medical services*; <https://www.nva.gov.lv/lv/node/244>; and information from field research.

## Overview of EU-funded projects on training in the previous funding round

In the previous EU funding round covering the 2007-2013 period, support was provided through the ESF along two separate streams of the "Human Resources and Employment" operational programme. The first stream on "Supporting training in organised partnerships" (support objective 1.3.1, measure 1.3.1.1.1) featured a delivery model similar to the current funding period. Employer associations were responsible for organising subsidised training programmes, which were delivered in three separate rounds. Under the second stream on "Supporting individually organised training of enterprises" (support objective 1.3.1, measure 1.3.1.1.4), subsidies were provided directly to companies.

**Table A.2. ESF-funded projects to support training in enterprises in the 2007-2013 funding round in Latvia**

Stream	Funding	Participants	Type of support	Main skills and knowledge areas targeted
"Support for training organized in partnerships" (SO 1.3.1, measure 1.3.1.1.1)	32.3mln EUR	44 155 employees involved in training across both stream combined	<ul style="list-style-type: none"> <li>Access to subsidised training programmes delivered by employer associations.</li> <li>Subsidies covered between 35% and 80% of total costs. Typically,</li> </ul>	<ul style="list-style-type: none"> <li>Computer training</li> <li>Production Engineering and Management</li> </ul>

			coverage was 60% for large firms, 70% for medium and 80% for small and micro.	<ul style="list-style-type: none"> <li>• Production and Processing</li> </ul>
"Support for individually organized training of enterprises" (SO 1.3.1, measure 1.3.1.1.4)	2.8mIn EUR		<ul style="list-style-type: none"> <li>• Direct access to grants in the range of EUR 42.686-214.285 to employers and associations of self-employed.</li> </ul>	<ul style="list-style-type: none"> <li>• Computer training</li> <li>• Bookkeeping</li> <li>• Management and marketing</li> <li>• Foreign languages</li> <li>• Law</li> <li>• Quality Management</li> </ul>

Note: ESF stands for European Regional Development Fund. SO stands for support objective. Both SOs come from the "Human Resources and Employment" operational programme. Funding refers in this case to the total funding that was actually spent.

Source: Ministry of the Economy (2015<sub>[37]</sub>), 1.2.2.specifiskā atbalsta mērķa "Veicināt inovāciju ieviešanu komersantos" [Preliminary Output of the Specific Objective 1.2.2 "To promote innovation in enterprises"], <https://www.em.gov.lv/lv/media/10098/download>; Monitoring indicators achieved under the operational programme "Human Resources and Employment" of the 2007-2013 EU funding round, <https://www.esfondi.lv/es-fondu-uzraudzibas-raditaju-progress>; and information from field research.

The activity under the second stream was cancelled in 2010, because training provided through employer associations under the first stream was more accessible and effective for enterprises, in particular for SMEs (Ekonomikas ministrija, 2015<sub>[37]</sub>). According to the final evaluation by the MoE, employer associations acted as a valuable intermediary to support the identification of skill needs and to lower the administrative burden. Consistent with the analysis in Chapter 1, large enterprises were found to be better able to identify the training needs of their employees and plan and implement training activities. Employer associations played a crucial role in supporting micro-enterprises and SMEs. Associations were able to identify the common needs of the industry and to guide entrepreneurs to learn topics that are necessary and topical for the development of the industry. They also helped micro-enterprises and SMEs to complete the application process, as they often lacked administrative capacity and knowledge to do so autonomously.

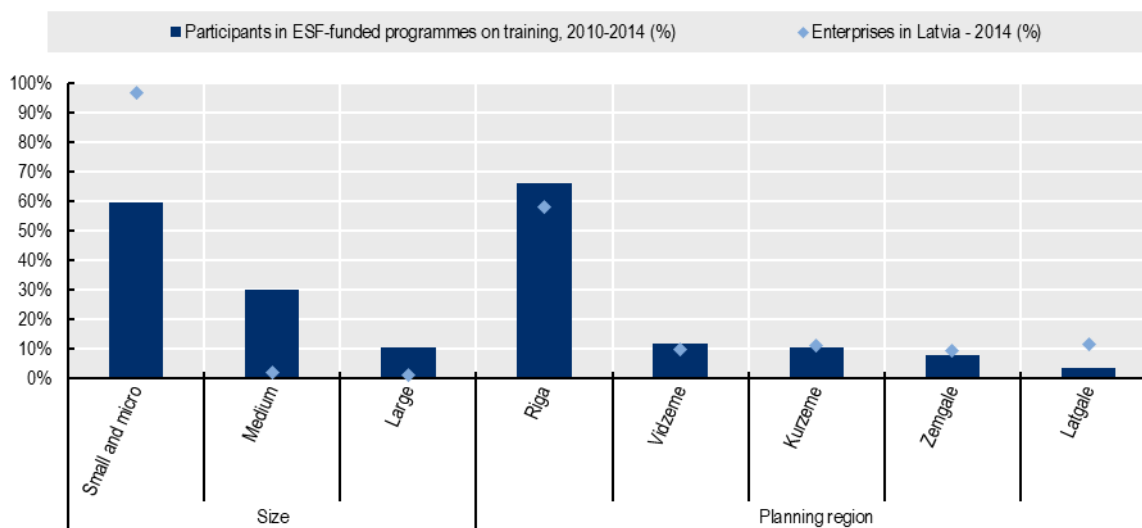
The final evaluation also offered some conclusions on how to strengthen the delivery model (Ekonomikas ministrija, 2015<sub>[37]</sub>). The financing criteria for the first stream on "Supporting training in organised partnerships" (support objective 1.3.1, measure 1.3.1.1.1) failed to secure sufficient participation among small and micro companies. Small and micro-enterprises accounted for 60% of supported enterprises in the training programmes in the second round, but they represented 97% of all businesses in Latvia (Figure A.1).

Medium and large enterprises also dominated in terms of the share of total funding (71%) and the number of participants, as 20% of the number of participants were from 10 enterprises. In order to increase uptake among small and micro-enterprises, in the current funding round, the intensity of support provided to large enterprises was reduced from 60% of training expenditures to rates ranging between 30% and 50%.

The training areas were defined in advance and were found to be too broad for the needs of companies, which frequently required highly specialised training. To reflect this finding in the current funding round, employer associations and the LIAA were given more freedom to co-define training areas with potential beneficiaries at the beginning of the project. The requirements on the attendance of training courses were also judged to be too rigid. According to the regulations, each training provider had to train employees from at least three enterprises in each training session. Respecting this requirement often proved difficult, because companies frequently requested highly specialised training. As a result, this requirement was not included for the regulations in the current funding round.

## Figure A.2. Take-up of ESF-funded projects supporting training in enterprises in 2010-2014 in Latvia

Enterprises participating in ESF-funded projects on training organised in partnerships in 2010-2014, compared to business population



Note: ESF stands for European Social Fund. The data refer to the projects financed under the stream "Support for training organised in partnerships" (support objective 1.3.1, measure 1.3.1.1.1) of the "Human Resources and Employment" operational programme.

Source: Ministry of the Economy (2015<sup>[37]</sup>), 1.2.2.specifiskā atbalsta mērķa "Veicināt inovāciju ieviešanu komersantos" [Preliminary Output of the Specific Objective 1.2.2 "To promote innovation in enterprises"], <https://www.em.gov.lv/lv/media/10098/download>; National Statistics Office of Latvia; and information from field research.



## Annex B. Overview of field research

To help inform the development of the new policy measures, the OECD conducted field research in the form of qualitative interviews with key Latvian stakeholders. The aim of the field research was to gather a balanced representation of stakeholder perspectives to better understand key barriers and enablers of investment in skills development by employers in Latvia. The OECD has engaged with representatives from eighteen institutions, including employer associations, training providers, trade unions, government bodies and legal experts, as described in the table below.

**Table B.1. List of stakeholders consulted during the field research**

Number	Stakeholder organisation	Type of organisation	Main evidence area
1	Association "Institute of Corporate Sustainability and Responsibility" (InCSR)	Employer association	Understanding policy priorities
2	Training center „BUTS“	Training Provider	Understanding policy priorities
3	Liepāja State Technical School	Training Provider	Understanding policy priorities
4	Business Union of Latvia (Latvijas Biznesa savienība, LBS)	Employer association (SMEs)	Understanding policy priorities
5	Riga Business Association (Rīgas Uzņēmēju Biedrība, RUB)	Employer association (SMEs)	Understanding policy priorities
6	Free Trade Union Confederation of Latvia (Latvijas Brīvo arodbiedrību savienība, LBAS)	Trade Union	Effectiveness of current legislation
7	American Chamber of Commerce in Latvia (AmCham)	Employer association	Effectiveness of current legislation
8	Latvian Ministry of Finance, Tax Department	Government Ministry	Effectiveness of current legislation
9	BDO Law	Law Firm with expertise on labour law	Effectiveness of current legislation
10	Association of Hotels and Restaurants of Latvia (Latvijas Viesnīcu un restorānu asociācija, LVRA)	Employer association	Effectiveness of existing government programmes
11	Association of Mechanical Engineering and Metalworking Industries of Latvia (Mašīnbūves un metālapstrādes Rūpniecības Asociācija, MASOC)	Employer association	Effectiveness of existing government programmes
12	Association of Business Service Leaders (ABSL Latvia)	Employer association	Effectiveness of existing government programmes
13	Latvian Information and Communication Technology Association (Latvijas informācijas un komunikācijas tehnoloģijas (ikt) asociācija, LIKTA)	Employer association	Effectiveness of existing government programmes
14	Latvian Chamber of Commerce and Industry (Latvijas Tirdzniecības un rūpniecības kamera, LTRK)	Employer association	Effectiveness of existing government programmes
15	Investment and Development Agency of Latvia (Latvijas Investīciju un attīstības aģentūra, LIAA)	Government Agency	Effectiveness of existing government programmes
16	Ministry of Economy, Sectoral Policy Department	Government Ministry	Effectiveness of existing government programmes
17	Wood Industry Sectoral Expert Council	Sectoral Expert Council	Effectiveness of existing government programmes
18	Sectoral Expert Council on Agriculture and Food Industry	Sectoral Expert Council	Effectiveness of existing government programmes

Depending on the specific expertise of Latvian stakeholders, the OECD gathered evidence on (i) the barriers that prevent employers from investing in skills development, with a view to understand the policy priorities for the Latvian Authorities; (ii) the strengths and weaknesses of current legislation on training; (iii) the existing government programmes to support training and skills development in enterprises. The list of questions covered in the field research is available below.

## Questions covered in the field research

### *Understanding policy priorities*

Q1) Enterprises in Latvia lag behind those in other European countries in the provision of training in courses, workshops and seminars. This under-provision is stronger in micro-enterprises and SMEs. What are the main barriers that drive this under-provision?

Q2) Are existing government programmes doing enough to enable enterprises to overcome these barriers? If not, why?

Q3) Are employers and their associations doing enough to overcome these barriers? If not, why not?

Q4) Enterprises in Latvia provide little training to older and lower-skilled employees. What are the main reasons that drive this under-provision? Which incentives or support measures would employers need to provide training to these groups?

Q5) Enterprises in Latvia provide little training on transversal skills (i.e. literacy and numeracy, foreign languages, project management, teamwork and digital skills). What are the reasons for the under-provision of training on these types of skills? Which incentives or support measures would employers need to provide training on these skills?

Q6) In your view, which existing policy instruments are taken up the most to increase the provision of training? Why have these instruments been successful?

Q7) Can Latvian authorities, employers and their associations take any concrete steps to strengthen the provision of training in enterprises? If so, what should these steps be? For instance:

- How can existing instruments in support of enterprises be improved?
- What kind of instruments would be useful, that are not there?
- How can be employers be better motivated in the future?

### *Effectiveness of current legislation*

Q1) In your view, what are the general strengths and weaknesses of the legislative framework with respect to training?

Q2) Is the Labour Law effective in supporting employer-sponsored training? If so, why? If not, why not?

Q3) What is the take-up of additional training agreements? Does their design incentivise training from the perspective of employers as well as employees? Why is this the case (or not)?

Q4) Do collective bargaining agreements incentivise employer-sponsored training? If so, why? If not, why not?

Q5) Does existing tax legislation (i.e. the exemption of training expenses from payroll taxation) promote employer-sponsored training? If so, yes? If not, why not?

Q6) In your view, could legislation be strengthened going forward? If so, how?

### ***Effectiveness of existing government programmes***

*For each government programme focusing on supporting employers in providing training, the OECD gathered the following information, which was used to (i) describe each programme in detail, and (ii) assess the effectiveness of each programme, with a view to inform the design of the policy package.*

Q1) What were the aims, objectives and target groups of the programme?

Q2) What was delivered and how, as part of the programme? For example:

- What are the activities being conducted?
- How could beneficiaries find information about support?
- How could beneficiaries apply for or receive the support provided?

Q3) What were the key results achieved by this programme? By results, we mean the tangible outputs that the programme achieved, for example the number of training programmes delivered.

Q4) What did you think works well and works less well in this programme? For instance:

- Did you experience any challenges with any of the activities?
- Were there any of the activities that were more particularly successful? If so, why?

Q5) What helped the programme achieve its objective? In other words, what were the key enablers?

Q6) What hindered the success of the programme? In other words, what were the main barriers?

Q7) Referring to the results achieved by the programme, do you think the same results could have been achieved in other ways if the programme had not occurred? Why is this the case (or not)?

Q8) In your view, what are the key lessons that should be drawn from this programme to deliver future support programmes for the enterprises?

### **Note**

<sup>1</sup> An exception is guided-on-the-job training, where Latvian firms of all sizes seem to do much better than firms across the EU, however, this is linked to legal obligations for companies to provide training that is “necessary” to perform job-related duties (see Chapter 2).