

## National Recovery and Resilience Plan: Latvia

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#### Abstract

Political leaders and civil society representatives, including the social partners, reached agreement on the main elements to be incorporated in Latvia's Recovery and Resilience Plan (RRP). The social partners, however, are not entirely satisfied with the final result. Among other things, they regard it as too fragmented and lacking ambition. Both social and cooperating partners, such as the Free Trade Union Confederation of Latvia, the Employers' Confederation of Latvia and the Latvian Chamber of Commerce and Industry, were brought on board too late, practically when the plan was ready and was about to be approved by the Cabinet of Ministers. The positive thing is the fact that the RRP for each EU Member State had to be prepared based on the recommendations of the European Commission within the framework of the European Semester. While hitherto EC recommendations were merely suggested, their integration in the economic recovery strategy has increased their impact. Moreover, unlike EU Structural Fund financing, the EU financial assistance of the RRF can be directed only to areas in which reforms are planned within the framework of the RRP, with a specific focus on the green transition.

**Keywords:** Recovery and Resilience Facility; Latvia; European Union; Social partners; Country specific recommendations.

### 1. General framework

Latvia is experiencing its worst crisis since the economic crisis of 2008-2009. But this time it is different, because its main cause is not an artificially created bubble, but rather the Covid-19 pandemic and now the war in Ukraine and the subsequent tensions in the supply of natural resources.

In order to repair the economic and social damage caused by the Covid-19 pandemic, to stimulate European recovery, and to protect and create jobs, in summer 2020 the European Commission (EC) proposed to introduce an ambitious European recovery plan. A significant part of European recovery funding is being channelled through the Recovery and Resilience

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Facility (RRF). The purpose of this mechanism is to support reforms and investments, especially related to the green and digital transitions, as well as to reduce the social and economic impact of the crisis. The creation of an EU support instrument on this scale in such a relatively short period is unprecedented.

The Recovery and Resilience Facility entered into force on 19 February 2021 at the European level, which gave the green light to start work on its implementation. It is intended to be used to finance reforms and investments in Member States from the start of the pandemic in February 2020 until 31 December 2026. To be eligible for support from the facility, Member States had to submit their recovery and resilience plans (RRPs) to the European Commission. Each plan outlines reforms and investments to be implemented by the end of 2026, and Member States can receive funding up to a pre-agreed amount. As the European Commission has emphasised, this is not just a recovery plan. It is a unique opportunity to emerge from the pandemic stronger, to change the economy in a positive direction, to create opportunities and jobs in order to have the kind of Europe we want to live in. “We have what it takes to do it”, the European Commission has said.<sup>1</sup>

In Latvia, the plan was developed and prepared under the supervision of the Prime Minister, government ministers and faction leaders in the Saeima (the Parliament of Latvia). Also, the Ministry of Finance coordinated the development of an expert working group and a recovery plan, meeting once a week to discuss each of the topics for action: climate change and sustainability, economic transformation and productivity reform, health care, reducing inequality, the rule of law and digital transformation. The social partners were not involved in these working groups.

However, the social partners and other organised civil society groups have been able to make use of a variety of tools and platforms to intervene in the development and then implementation of the RRP. The main platform for the social partners is the National Tripartite Cooperation Council (hereinafter referred to as the NTSP), nine NTSP Sub-councils and various working and advisory groups coordinated by ministers.

On 28 April 2021, the Cabinet of Ministers approved the Latvian Recovery and Resilience plan.

The Free Trade Union Confederation of Latvia (LBAS) does not have detailed calculations on the precise impact of the planned reforms. When evaluated by the European Commission on a scale from A to C, all criteria received the highest rating with A, except for criterion 2.9. For detailed financial investment plans, Latvia received an assessment of B, indicating that in some cases the information provided was insufficient.<sup>2</sup>

The Latvian RRF plan had to take into account recommendations of the European Commission and several round-tables and talks between Latvian civil servants and the European Commission. It is worth noting that each ministry introduced their own inputs and priorities (albeit in accordance with the Commission recommendations) and the result is

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<sup>1</sup> For more information about *NextGenerationEU* on the European Commission website, see [https://ec.europa.eu/info/strategy/recovery-plan-europe\\_lv](https://ec.europa.eu/info/strategy/recovery-plan-europe_lv).

<sup>2</sup> See [https://ec.europa.eu/info/files/summary-assessment-latvian-recovery-and-resilience-plan\\_en](https://ec.europa.eu/info/files/summary-assessment-latvian-recovery-and-resilience-plan_en).

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an interdepartmental one, where the work of each ministry was assembled under the coordination of the Ministry of Finance.

## 2. The Latvian RRP

The elaboration of the RRP was organised in six areas: climate change and sustainability, digital transformation, economic transformation and productivity reform, health care, reducing inequality, and the rule of law. This is in line with the European Commission guidelines, whereby 20 per cent of RRF funds are to be invested in digitalisation, and 37 per cent in achieving climate goals.<sup>3</sup>

Although the available funding for Latvia was 2.02 billion euros (€), the RRF plan was prepared and submitted for a significantly lower amount, namely €1.65 billion. Later, Latvia changed its financial package, stating – indicatively – that €1.82 billion of funding could be available in the form of grants, of which €1.64 billion are guaranteed, while the remainder of the allocation will be calculated in 2023 based on the economic situation in the EU Member States.

According to the Cabinet of Ministers and the approved plan, most of the resources are planned to be invested in the green economy. Some €676.2 million have been allocated for this, including for improving energy efficiency and reducing emissions in the transport sector, and for greening the transport system of the Riga metropolitan area. The next large investment area is digital transformation: €365.3 million are planned for this, including €128.90 million for the digital transformation of state administration and local governments, and €125.1 million for digitalisation and company innovation.

Significant investments are planned in developing digital skills. For example, almost €95 million, of which €16.5 million is planned for the construction of infrastructure (5G) and “last mile” projects, is planned to be invested in so-called in soft or digital skills. €370 million have been allocated for the reduction of inequality, the largest part of which (€102.3 million) will go to the maintenance of national regional and local roads. An additional €111.61 million are planned for social challenges, which means both a plan to improve the minimum income support system in 2022 and the creation, by 2024, of 259 individual housing units for people with special needs, as well as improvements in the skills of the unemployed, jobseekers, and persons at risk of unemployment.

Of total expenditure, €181.5 million are also planned for the health care system. Almost the entire amount allocated to this sector (€161.9 million) is planned to be used to make available high-quality and cost-effective integrated health care services and the readiness of the health care system to provide services in epidemiological crises. €196 million has been allocated to the priority area of economic transformation and productivity reform. There are

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<sup>3</sup> Sagatavots Latvijas Atveseļošanas un noturības mehānisma plāna projekts (The draft plan of the Latvian Recovery and Resilience Mechanism has been prepared), article on website managed by the Ministry of Finance (on EU Funds), <https://www.esfondi.lv/jaunumi/sagatavots-latvijas-atveselosanas-un-noturibas-mehanisma-plana-projekts>.

two sub-priorities here, namely the promotion of innovation and private investment in R&D (Cluster programme), at €113.50 million, and reform of university management and human resources, at €82.5 million. Finally, €37.0 million have been allocated to promoting the rule of law, including €17.285 million to improve the business environment and reduce the shadow economy. Reform of the Riga and Pierīga public transport system is expected to attract funding from the European Recovery and Resilience Mechanism in the amount of €295 million. The measures to be included in the reform portfolio for the public transport reform of the Riga metropolitan area have been agreed upon by a working group in which the Ministry of Transport, representatives of Riga and the Riga Planning Region and transport industry specialists worked together.

All in all, the investments planned in the Latvian RRP account for one-tenth of the total of about €18 billion available for the national economy in the next seven or eight years.<sup>4</sup> Experts have assessed that there won't be any big breakthrough, however, because "most of these measures are devoted to public administration, to various everyday things, but very little attention is paid to increasing added value, increasing productivity, increasing knowledge".<sup>5</sup> This is also true because the largest sums will end up in the hands of the state administration. Admittedly, deciding how to channel the funds is a political choice. Resources can either be distributed in a large number of areas, but in limited amounts, or can instead be directed towards just two or three priorities, in more substantial amounts. The Latvian government opted for the first option. We have to agree with the experts, namely that the plan is broken up into small parts and more ambitious plans are lacking. However, it is debatable whether to inject less money into individual sectors, but in all areas, or to choose two or three projects in which to invest all available funds. Several experts emphasised that the projects were selected according to the principle "which is easier to administer, not, which would have a higher return". As a result, the RRP is highly fragmented, with funds allocated to a total of 85 objectives, including 24 reforms and 61 investment projects.

### 3. Expert opinion on the Latvian RRP

At the invitation of the Ministry of Finance,<sup>6</sup> in February 2021 the Fiscal Discipline Council (FDP), in cooperation with the Latvian Productivity Council LV PEAK, established an expert panel to conduct an assessment of the Latvia RRP.

<sup>4</sup> Baranova D., Bogdanova O., Piģēns K., Skribāne I., Šteinbuka I., *Latvijas makroekonomiskās attīstības scenāriju un prognožu novērtējums, lai izvērtētu Eiropas Komisijas pārskatīto energoefektivitātes un atjaunoto energoresursu direktīvu ietekmi* (Latvia's macroeconomic development scenario and forecast assessment to assess the European Commission revised energy efficiency and renewed the impact of energy directives), <https://dspace.lu.lv/dspace/handle/7/56983>.

<sup>5</sup> This is how the plan is described by the head of a major telecommunications company, *Latvijas Atveseļošanas un noturības mehānisma plāns: ieguvumi un riski* (Latvia's Recovery and Resilience Mechanism Plan: Benefits and Risks), article on Latvian public media website, <https://www.lsm.lv/raksts/zinas/ekonomika/latvijas-atveselosanas-un-noturibas-mehanisma-plans-ieguvumi-un-riski.a411504/>.

<sup>6</sup> FM letter No. 5.1 of 8 February 2021, 25/21/720.

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As stated in this study, the objective of the expert panel was to identify the macroeconomic and fiscal impact of the recovery plan and assess the compliance of the included reforms and projects with the tasks and priorities defined in the RRF.

As a result of the assessment, it was concluded that:<sup>7</sup>

– The RRP accounts for approximately 10 per cent of all public funds available to Latvia in the next 7–8 years or 6.7 per cent of 2020 GDP.

– The RRP is fiscally neutral, as RRF funds are included in the budget as EU grants. However, the RRP undeniably has a positive impact on the state budget. The direct fiscal impact is formed when the funds replace other budget funds in order to carry the necessary expenses and promote the growth of Latvia's economy, while simultaneously increasing the tax base and tax revenues. The indirect positive fiscal impact will take effect in the medium term, when investments will result in potential as well as real GDP growth, which in turn increases tax revenues.

– According to a simplified forecast by FDP experts, from 2022 to 2026 the RRP could increase budget revenues by more than 500 million euros.

– The results of the survey show that the majority of experts expect small improvements as a direct result of the reforms. Experts rather expect a positive impact of the RRP on productivity and improving exportability. The components "inequality", "health" and "rule of law" are evaluated most critically. It should be noted that the development of the RRF plan took place in the shadow of the general public fatigue of the Covid-19 crisis. A closer connection of the RRP with other state planning documents is required, especially the National Development Plan for 2021–2027, which "envisages the strategic objectives, priorities and measures for sustainable and balanced development of Latvia for the next seven-year planning period".<sup>8</sup>

– The plan lacks the "big goal" ambitions that would significantly affect Latvia's sustainable economic and social development.

The study evaluated growth rates. Trend and accelerated growth development scenarios were analysed. In the trend scenario, if current trends persist, in the coming years (from 2021 to 2024), GDP growth could reach an average of 3.9 per cent per year, but in the following years, annual economic growth rates will slow down and remain below 2.5 per cent.<sup>9</sup> However, already in March 2022, the Ministry of Finance reduced the forecast to 2.1 per cent, increasing to 2.5 per cent in 2023. Still, as the facts show, Latvia's GDP in the second quarter of this year, according to seasonally and calendar-unadjusted quick assessment data, increased by 2.6 per cent compared with the corresponding period of 2021. On the other hand, in the second quarter of 2022, compared with the previous quarter – the first quarter of 2022, according to seasonally and adjusted data – GDP decreased by 1.4 per cent, which

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<sup>7</sup> Fiskālās disciplīnas padome (Fiscal Discipline Council), *Eiropas Savienības atveseļošanās un noturības mehānisma plāna novērtējums* (Assessment of the European Union Recovery and Resilience Mechanism Plan), 2021, <https://www.fdp.gov.lv/lv/media/2979/download>.

<sup>8</sup> Cross-Sectoral Coordination Centre Republic Latvia. <https://pkc.gov.lv/en/node/573>.

<sup>9</sup> Fiskālās disciplīnas padome (Fiscal Discipline Council), *Eiropas Savienības atveseļošanās un noturības mehānisma plāna novērtējums* (Assessment of the European Union Recovery and Resilience Mechanism Plan), 2021, <https://www.fdp.gov.lv/lv/media/2979/download>.

is a very bad indicator. The largest contribution in both forecasts is based on labour productivity growth.

According to the European Commission, the plan should increase Latvia's GDP by 1.3 to 2 per cent in 2026.<sup>10</sup> According to the Commission, the plan focuses on economic growth and the creation of up to 7,000 new jobs. An additional contribution can certainly be expected from improvements in the economies of other countries, amounting perhaps to another 0.5 per cent economic growth.

At the same time, the Ministry of Finance has calculated the cumulative impact of the RRP on the Latvian macro-economy with an investment scenario of €1.65 billion. The cumulative effects of euro-financing on GDP growth are 1.3 percentage points and on employment 0.63 percentage points.<sup>11</sup> On the other hand, in the scenario with €1.963 billion financing (all available funding), the cumulative effect on GDP growth is 1.5 percentage points and on employment 0.77 percentage points.

In addition to inferring and describing the potential benefits of RRP, researchers have also identified critical areas. One of the most significant risks is related to the “overheating” of the construction industry, taking into account the large planned investments in the economy in the next seven to eight years. Researchers recommend changing the investment structure, and investing less in the construction sector.<sup>12</sup> At the moment, the largest part of investment in the RRP structure is focused on infrastructure development – in general, expenditure on infrastructure projects make up 65 per cent of total investments. Investments in human capital make up a relatively small proportion – 10 per cent; a small amount of funds is also planned for research and development – only 5 per cent of total funding. The second risk, according to researchers, is related to the return and quality of the investment.<sup>13</sup> While long-term investment in infrastructure offers high returns, proper planning and management of facilities is essential, which can create risks. Another risk associated with large infrastructure objects is human capital, which is limited both quantitatively and qualitatively, as it may turn out that there is a lack of human capital capacity for the realisation of large projects.

Moreover, also the fact that the RRP does not have a direct impact on reducing inequality is a cause for concern, because the largest investments are planned in infrastructure and not in human capital. While investment in road infrastructure can improve quality of life, including better business at the very beginning, the impact on human capital will have a long-time lag. The European Commission website clearly states that the RRF is a temporary

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<sup>10</sup> [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/latvias-recovery-and-resilience-plan\\_en](https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/latvias-recovery-and-resilience-plan_en).

<sup>11</sup> *Par Latvijas Atveseļošanas un noturības mehānisma plānu* (On the Recovery and Resilience Plan), Ministru kabineta rīkojums Nr. 292 (Order of the Cabinet of Ministers No. 292), <https://likumi.lv/ta/id/322858-par-latvijas-atveselosanas-un-noturibas-mehanismu-planu>.

<sup>12</sup> Fiskālās disciplīnas padome (Fiscal Discipline Council), *Eiropas Savienības atveseļošanās un noturības mehānisma plāna novērtējums* (Assessment of the European Union Recovery and Resilience Mechanism Plan), 2021, <https://www.fdp.gov.lv/lv/media/2979/download>.

<sup>13</sup> *Ibid.*

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recovery tool. This means that RRF's investments should be such that they would make a contribution in the long term, and the Latvian RRP risks falling short in this.

It is also important to note that the reforms envisaged in the Latvian RRP are not and will not be used directly to create new jobs or invest in human capital. For example, the Ministry of Health will continue to implement several projects within the Latvian Recovery and Resilience Mechanism Plan in order to move towards a sustainable, human-centred, comprehensive, high-quality and understandable health care system merely by means of investments in infrastructure.

At the same time, the issue of doctors' salaries has not been resolved, which is insufficient and may lead to a situation in which young doctors and nurses will go to work abroad and there will be no human resources to service infrastructure.

#### **4. The RRP in light of the country-specific recommendations to Latvia.**

The 2020 Commission Country Report on Latvia state that wages in Latvia are approaching the EU average, but the proportion of low-paid workers is still high.<sup>14</sup> The average monthly salary increased by 6.2 per cent in 2019 (8.4 per cent in 2018), reaching 67 per cent of the EU average (according to purchasing power level). Comparing the net disposable household income of minimum wage earners to the at-risk-of-poverty threshold in 2018, the minimum wage did not provide enough income to lift one full-time worker, single parents with a child, nor two earners with two children out of poverty (all earn minimum wage). The purchasing power level net income per person is one of the lowest in the EU. In addition, there is a high risk of poverty among employed persons in Latvia: in 2018 it was 8.1 per cent (7.6 per cent for men and 8.5 per cent for women). This risk is particularly high for older workers (aged over 55) – 10.5 per cent of employed persons were at risk of poverty in 2018, and significantly higher proportions of temporary and part-time workers (30.9 per cent and 22.7 per cent, respectively in 2018). In the 2020 Recommendations, Latvia was asked to reduce the impact of the crisis on employment, including by using a flexible working regime, active labour market measures and skills development.

These insights are reflected in the 2020 Country-Specific Recommendations, which asked Latvia to provide adequate income support to the groups most affected by the crisis and to strengthen the social safety net. It was also asked to mitigate the employment impact of the crisis, including through flexible working arrangements, active labour market measures and measures to improve skills.<sup>15</sup> These recommendations go in the same direction as the 2019 CSRs, which identified the need to address social exclusion, notably by improving the adequacy of minimum income benefits, minimum old-age pensions and income support for people with disabilities. The 2019 CSRs also demanded an increase in the quality and

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<sup>14</sup> [https://ec.europa.eu/info/system/files/2022-european-semester-country-report-latvia\\_en.pdf](https://ec.europa.eu/info/system/files/2022-european-semester-country-report-latvia_en.pdf).

<sup>15</sup> [https://ec.europa.eu/info/publications/2020-european-semester-country-specific-recommendations-commission-recommendations\\_en](https://ec.europa.eu/info/publications/2020-european-semester-country-specific-recommendations-commission-recommendations_en).

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efficiency of education and training, in particular of low-skilled workers and jobseekers, including by strengthening their participation in vocational education and training and adult learning, and increasing the accessibility, quality and cost-effectiveness of the health-care system.<sup>16</sup>

These CSRs were, at least theoretically, quite important for the elaboration of Latvia's RRP, as the government had to consider them when identifying the reforms and investments to be included in the plan. In general, the RRP addresses the issues identified in the CSRs, although a significant part of it comprises investments in infrastructure, on the assumption that better roads and well developed infrastructure will contribute to human well-being at least indirectly.

## 5. The role of social partners in the elaboration of the RRP

On 12 May 2021, the social partners sent a letter to the European Commission and the European Parliament regarding the Latvian Recovery and Resilience Plan.<sup>17</sup> The letter emphasises that the requirements of European Parliament and Council Regulation 2021/241 were not fully taken into account during the process of approving and submitting the plan, and that only on that basis could the plan be recognised as properly reasoned and valid. The Latvian social partners thus called on the European Commission to take into account their own evaluation of the RRP.

The social partners emphasised that the regulation establishing the Recovery and Resilience Facility stipulates that any Member State that wants to receive funding should submit its vision, after discussing it with the social partners, among other things.

In their letter, the social partners expressed the criticism that the document submitted to the European Commission for evaluation did not include their latest proposals, which were considered at the meeting of the National Tripartite Cooperation Council held on 27 April 2021 under the leadership of the Prime Minister.<sup>18</sup> Both the Employers' Confederation of Latvia (LDDK) and LBAS presented their vision for the RRP, but the government ministers did not have time to familiarise themselves with it. In his address to the media, the president of LBAS expressed the opinion that the social partners had been included in the discussions on the RRP – albeit late in the process – only because they had exerted pressure. As a result of such trade union pressure, a number of positive decisions were reached, including important solutions related to the security of the electricity market and cheaper costs in the future, as well as increased funding for the development of digital skills. Latvia's social partners received a reply from the Executive Vice-President of the European Commission Valdis Dombrovskis, in which he expressed his support for them. This eventually helped to

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<sup>16</sup> [https://ec.europa.eu/info/publications/2019-european-semester-country-specific-recommendations-commission-recommendations\\_lv](https://ec.europa.eu/info/publications/2019-european-semester-country-specific-recommendations-commission-recommendations_lv).

<sup>17</sup> <https://lddk.lv/atjaunosanas-un-noturibas-mehanisms/>.

<sup>18</sup> *Ibid.*



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achieve the inclusion in the RRP of several social partner proposals. In the letter sent to the NTSP, based on the NTSP agenda on 27 April, it was emphasised that LDDK conceptually supports the RRP on condition that a series of proposals were taken into account or solutions found from other financial sources. LDDK's proposals were very specific and related to all RRP priorities, for example providing support for higher level digital skills development programmes at a company's request.<sup>19</sup>

### **5.1. The view of Latvia's trade union confederation**

In the following section, this report will address in more detail the shortcomings of the Latvian RRP from a trade union perspective.

As already mentioned, the social partners were not really involved in the development of the RRP. Their involvement was mostly formal and not all their proposals were taken into account.

Qualitative social dialogue, especially at the sectoral level, helps determine the minimum wage appropriate to the sector, which takes into account the nature of the sector, workforce qualifications and productivity, thus ensuring the adequacy of wages and mitigating the risks of poverty for employees. Collective agreements thus raise the level of remuneration and the income of employees above the subsistence minimum, reduce the shadow economy and promote fair and just competition among companies, preventing the pursuit of lower prices, as well as contributing to revenues in the state, municipal and social budgets. Latvia is already politically and practically committed to promoting the negotiation of collective agreements and, together with the social partners, is trying to increase the coverage of collective agreements. Investments are needed to continue to promote collective bargaining, namely by developing a supportive legislative framework, following the experience of successful EU countries. Consequently, LBAS (of which the author is a member), called for the RRP to include reform and investment directions for reducing inequality among the low paid, and for measures to promote sectoral social dialogue and sectoral collective bargaining.

The Latvian trade unions' role in the development of the recovery strategy can be described as proactive. At the request of the social partners, discussions on RRP in Latvia were included in the agenda of the National Tripartite Cooperation Council (NTSP) on 18 December 2020. After the issue had been raised at the NTSP level, the Ministry of Finance invited the social partners to a discussion on the elaboration of the future plan on 14 January 2021.

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<sup>19</sup> The unions' requests included the following: increase funding and implement cooperation with the private sector for technologically neutral solutions for the development of digital infrastructure (5G, availability of broadband connections) for the provision of high-performance high-speed connectivity to all educational institutions, which are the main socio-economic drivers, and 87 per cent of households; or, in the section on climate adaptation measures (mitigation of and adaptation to climate change and biological diversity), maintain forestry support measures with funding for increasing the resilience and value of forest ecosystems in the amount of at least €22 million or by providing adequate funding from the Rural Development Programme.

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In order to promote social partner awareness and involvement in the creation of the RRP, the social partners insisted that this issue should be considered at the NTSP, which was held on 29 January 2021. Indeed, the whole agenda of the NTSP was dedicated to the RRP. Due to time constraints the participants agreed to take note of the proposed plan, adopting a timetable and further cooperation on possible future improvements. After the NTSP meeting, the social partners sent a joint letter to the European Economic and Social Committee on the progress of the discussions with the state representatives, stressing that the social partners' involvement had been very limited. Employers identified significant deficiencies and shortcomings in the draft RRP of 20 January 2021 and decided that the draft plan should be adjusted and improved.

During the NTSP meeting, LBAS identified some shortcomings and problems related to Latvian RRP. One was the lack of coherence between the initiatives and reforms planned under the RRF, with funding from the state budget and EU structural funds. The same applies to the inconsistency between the proposals of the Latvian ministries, the goals set by the European RRF and its expected impact.

Regarding component No. 2 on "Digital transformation", LBAS drew attention to the fact that the reform and investment direction 2.3. The description of "Digital skills" is not clear in relation to which tools and activities should be subject to upskilling.

In addition, when promoting reforms, namely the digitalisation and digital transformation of public and private services, it is important not only to consider skills, but also the availability of digital tools for all members of society. A certain part of society, such as pensioners, long-term unemployed, persons at risk of poverty, cannot afford the computers or smartphones they need to use all public and public services in the digital environment. Therefore, in order to promote digitalisation and the digital use of public and private services, the trade unions called for a plan to include measures to provide individuals with digital tools.

In addition, LBAS draws attention to the fact that Latvia has suffered from large-scale economic emigration during and since the global financial crisis. Before Covid-19 and the state of emergency, including the imposition of lockdowns, there was a marked increase in labour shortages, closely related to this high level of emigration. Population decline has slowed only in the past couple of years. Latvia cannot allow a repetition of this trend.

In order to prevent a lack of quality workers, according to the trade unions, it is necessary to promote the creation of quality jobs. Quality workplaces are characterised by decent wages that prevent poverty; a working environment that is safe and healthy; and opportunities for development. Global practice has shown that the most effective mechanism for achieving such goals is social dialogue and employee participation in company decision-making. For the reasons mentioned, an active state support policy is needed for the restoration and strengthening of the traditions of social dialogue.

Regarding component no. 5 "Transformation of the economy, productivity reform" the trade unions believe that the RRP should be supplemented with proposals on the legal regulation of the economic activities and employees of individual service providers and people working in the platform economy, paying attention to the prevention of insecure employment and the challenges of regulating labour relations. Mechanisms are needed to

prevent the deliberately incorrect classification of workers as “self-employed” (bogus self-employment).

Working on platforms offers a number of labour market opportunities; such work can be easily accessible and flexible. However, adequate measures must be taken to ensure decent working conditions for platform employees. The employment and social framework must also apply to the platform economy and its employees, many of whom are young people. Given the transnational nature of the digital economy, clear regulation is needed to address the many regulatory challenges associated with working on platforms and to determine how to establish the existence of an employment relationship.

Concerning the direction of reforms and investments component 6.3 “Smart, good and innovative management” foresees measures for building smart and innovative management by improving the performance of public administration to meet society’s needs with easy-to-use public services. LBAS has drawn attention to the fact, however, that if public administration is to be improved, in addition to the development of employees’ capacity and skills, the sector’s low wages must be raised. This is not covered by the RRP. Low wages make working in the public administration unattractive, encouraging the most talented employees to go to work in the private sector. Therefore, higher wages are indispensable in order to attract and retain talent in the state administration, which in turn can promote more innovative and professional services.

Regarding component No. 6 “the rule of law”, LBAS calls for more attention to be paid to the shadow economy, which again is not considered adequately in the RRP. The latest data show that the shadow economy accounted for 26.6 per cent of GDP in 2021, an increase on 2020.<sup>20</sup> Simply put, this means that unreported income accounted for 26.6 per cent of GDP, or €8.74 billion. On the other hand, across Europe the shadow economy is on a downward trend. According to data from Professor Fr. Schneider, the share of the shadow economy has been decreasing, even though the rate of decrease has been much slower in recent years.<sup>21</sup>

The largest component of the shadow economy – 46.2 per cent – was illegal employment. Traditionally, the largest part of the shadow economy is the construction sector; in 2021, it accounted for 31.2 per cent.<sup>22</sup> As for the reasons for the flourishing of the shadow economy (especially in construction), research conducted by A. Saukas and T. Putniņš provides an in-depth answer. The most important reason is dissatisfaction with taxation. This includes the tax system, the procurement process, wages and the application of legislation. Other factors include the competence of the authorities, their capacity and willingness to get involved in solving problems, workers’ lack of motivation, increased competition and a small market, as well as too high a tax burden. LBAS emphasises that, taking into account successful global practices in reducing the shadow economy, the key mechanism is social dialogue and

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<sup>20</sup> Sauka A., Putniņš T., *Shadow Economy Index 2009–2021*, 2022, <https://www.sseriga.edu/12-ikgadeja-enu-ekonomikas-konference>.

<sup>21</sup> Official Gazette of the Republic of Latvia “Latvijas Vēstnesis”, *Shadow economy restriction plan for the year 2021/2022*, <https://www.vestnesis.lv/op/2022/60.9>.

<sup>22</sup> Sauka A., Putniņš T., nt. (20).

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employee participation in developing the working environment and decision-making. Therefore, referring to what has already been said in the section on reducing inequality, the RRP must include reforms that promote the negotiation of collective agreements, creating an appropriate legislative framework and incentives, following the experience of the most successful EU countries.<sup>23</sup> LBAS has found success mainly in achieving greater support for the electricity company and additional funding for digital skills training in RRP.

Several factors hinder the development of skills, including those analysed in detail in the OECD document *Skills Strategy Latvia* and also included in the RRP.<sup>24</sup> One is the undeveloped culture of lifelong learning, workers' lack of motivation to engage in learning, especially among those with low skills (more than one in three adults did not and did not want to participate in learning over a 12-month period). Employers often do not provide paid training time, even though effective use of skills in companies is also essential. LBAS sees the need for an individual approach to the involvement of adults in education, in which trade unions ("educational ambassadors" in companies) have a role to play. Mass learning schemes may not yield the hoped-for effects because learning should be targeted. The social partners therefore advocate the creation of skills funds, so that employers and employees can agree on the type and content of training required and take responsibility. Also important is to review legal acts regulating labour relations and adult education, in order to promote understanding of the importance of learning culture and involvement in adult education on the part of both employees and employers. LBAS acknowledges the RRP's aim of improving the accessibility and quality of adult education, even though the overall funds (€12.1 million) are deemed insufficient.

As regards the investment direction "Improving the skills of the unemployed and jobseekers" LBAS believes that it overlaps with the planned investments from the EU Structural Funds in the next planning period:

To increase the competitiveness of the unemployed, jobseekers and persons at risk of unemployment and in response to the transformation of the labour market and the need to adapt to the current situation in the labour market, including by improving the knowledge and skills necessary for the labour market of the unemployed, jobseekers and persons at risk of unemployment.<sup>25</sup>

Although active employment policy measures have a positive effect on job creation, too much focus on training the unemployed rather than other forms of employment support, as well as the long-term unemployed can create challenges. In addition, LBAS draws attention to the fact that in order for the planned active employment policy measures to achieve results,

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<sup>23</sup> LBAS *pozīcija par Latvijas Atveseļošanas un noturības plāna projektu* (LBAS's position on the Latvian Recovery and Resilience Plan project), <https://arodbiedribas.lv/news/lbas-pozicija-par-latvijas-atveselosanas-un-noturibas-plana-projektu/>.

<sup>24</sup> OECD, *OECD Skills Strategy Latvia*, 2019, <https://www.oecd.org/latvia/oecd-skills-strategy-latvia-74fe3bf8-en.htm>.

<sup>25</sup> Social Protection and Labour Market Policy Guidelines for 2021–2027.

it is essential to focus on their quality, as well as their reach in the context of poor regional mobility.

Finally, in LBAS' opinion, the RRP does not take sufficient note of workers with low skills and qualifications, taking into account that Latvia cannot base the entire growth of the national economy on a highly educated workforce. Having said that, highly qualified workers should be offered skills improvement measures to boost labour productivity.

## 5.2. The Employers Confederation of Latvia

On 1 February 2021, the Confederation of Employers of Latvia sent a letter to all the highest institutions of the state administration regarding the draft of Latvia's Recovery and Resilience Plan, as it stood at the beginning of 2021. In its letter, LDDK (Employers' Confederation of Latvia) stated that it had identified significant shortcomings in the draft plan and believed that it should be corrected and improved. LDDK complained that the bulk of RRF funding – 82 per cent – would be invested in the public sector and only 18 per cent in the private sector (companies, households).

In order to improve the Latvian RRP, LDDK proposed the following:

1. focusing public investments on measures that promote innovation, productivity and exportability, which will ensure transformation, resilience and growth;
2. ensuring that at least 70 per cent of the business financing provided for in the plan is used to:
  - 2.1. ensure mutual demarcation both within the framework of the RRF project and with various other funding sources (for example, the European Social Fund);
  - 2.2. reduce planned expenditure on management and administrative capacity;
  - 2.3. exclude spending from the state budget;
  - 2.4. ensure coherence with the current EU and national state support regulations.
3. Under the guidance of the Ministry of Finance (MoF), prepare and submit to the social partners the further development of the RRP and the content of and schedule for inter-ministerial and social partner consultations, taking into account the proposals previously submitted by the social partners. Baltic employers' organisations have prepared a statement calling on the European Commission to monitor the use of NextGenerationEU funds more strictly.

The employers have focused mainly on supporting exports, arguing that this makes the biggest contribution to the national economy. The Employers' Confederation of Latvia are rather unsatisfied with the results of the RRP process, which was too formal and many recommendations were not taken into account. According to the employers, the RRP should focus more on measures for the recovery and resilience of the national economy, while the main result seems to have been that it will strengthen the capacity of ministries. In the opinion of the employers, most of the foreseen measures do not adequately satisfy the established priorities. This is specifically the case in relation to the goal of reducing inequality,

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as well as promoting economic transformation and productivity growth, and fostering the digital transformation.

## 6. Conclusion

The social partners are urging the government to improve consultation processes and ensure their involvement in all planning procedures in order to ensure full support, recovery, stabilisation and growth.

LBAS emphasises that there is no adequate procedure for the RRP's implementation. A comparison can be made with the European Semester process, which is a well organised procedure in which each party has a clear role, with a fixed timetable for its activities, for which the European Commission Representation in Latvia is responsible.

Moreover, in the opinion of the trade unions, investment in social security, such as unemployment protection, household support and extensions of different payments/contributions will make it possible to maintain consumption levels, in turn stimulating economic recovery. The social partners insist that remote working support schemes have to be developed. The trade unions think that the RRP does not sufficiently include investments in skills improvement, whether low-skilled or high-level non-digital skills. The unions believe that in the fight against the shadow economy, attention should also be paid to "envelope wages". Trade unions and social dialogue play an important role in strengthening the role of collective agreements in companies not involved in the shadow economy.

In the opinion of the social partners, especially LBAS, the RRP focuses too little on the social dimension and problem-solving. We can assume that investments in roads and infrastructure will contribute to the development of the national economy, but what about those who want to live a decent life already today?

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