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Progress report of FICIL's recommendations on Labour force

This is a brief summary of FICIL Labour force market working group views on the implementation of our recommendations to the Government of Latvia that were presented to the High Council meeting in 2015. The ultimate aim of these recommendations was to stop or slow-down negative trends in Latvian labour force market have a very negative impact to the economy and its sustainability.

Recommendation

- 1) Centralisation of the economic activity – both human and financial resources, and administrative capacity must be pooled around a significantly smaller number of economic activity centres to build up critical mass, improve efficiency and sustainability of growth. Industrial policy should strive to create level ground for all major regions of Latvia, both correcting for market and government failures.

What has been done/ achieved

Administrative/ regional reforms have not been launched or are very slow despite public position of the Minister for Environment and Regional Development. So, we conclude that there is certain acceptance and understanding, but very little action.

Recommendation

- 2) Educational reform and promotion of innovation – the long term growth potential of a nation's economy and society as a whole is closely correlated to the quality of its education system (the one that helps reducing the structural unemployment risks) and the degree to which the education system includes and supports innovation. We therefore encourage a resolute reform of the education system, to significantly raise the effectiveness and quality of Latvia's vocational training and higher education as well as scientific research. We invite Latvian leaders to seek the definition of a vision for the whole educational system. A vision could have important practical consequences at the time of driving the needed changes and improvements.

Understanding the monumental enterprise ahead, we suggest creating a task force with experience in change and education, which could bring this long plan into action. The task

force should include participants from the private and public sector, from local and international organizations, and from educational players from Latvia and other countries. The education system is to be optimised via smaller number of infrastructure units and improved quality where financing mechanisms foster innovation.

While we support and appreciate the efforts of the Ministry of Education on key issues as the new funding model, salary level of teachers and consolidation of schools' network; we also encourage considering the educational reform from other perspectives: internationalization, inter-cooperation and individualization.

What has been done/ achieved

Ministry of Education has been struggling with its main priority – teachers' compensation system reform. Regional reform in education is going on, and this is a positive trend. Still the focus has mostly been on the Secondary education. Reforming of vocational education is happening but rather slowly. It is very critical to pay more attention to the quality of education – both content and teachers. We have prepared separate position paper for that.

Recommendation

- 3) Extension of productive working life – the retirement age must be increased. Effective access to quality health care must be ensured to reduce the costs of work absenteeism and overall relatively poor health condition as only a healthy workforce can produce sustainable improvement in productivity and living standards. Nation-wide life-long education initiatives should be supported and organisations encouraged keeping senior staff at service for longer time. Similarly the efficient youth employment mechanisms have to be developed. Possible actions involve temporary tax breaks/reductions when hiring youngsters (i.e. first employment) and long term unemployed. Mass jobs must be created as skill levels of those unemployed are fairly low.

What has been done/ achieved

This is the area with the least progress. As Ministry of Health is struggling with its financing model and administrative issues our healthcare initiatives have not been considered. In regard of life-long education we see slow progress which is primarily driven by NGO-s.

Recommendation

- 4) Smart immigration policy – such policy has to be developed to enable attraction of larger scale labour intense investment which would significantly improve the labour supply and the quality of the labour market on one hand, and on the other would facilitate sustainability of Latvia's social welfare system. We suggest to focus on three main areas that would help closing the workforce supply – demand gap in short-to-long term:
 - a. Improving the quality of both professional and academic education system in combination with the establishment of effective funding model would allow bringing in better quality of students who could make significant contribution to the labour market both short-term via internship and terminated employment framework, as well as long-term via offering jobs to the best talent.
 - b. Easing the legal and administrative restrictions for bringing in skilled workforce from countries outside EU and EEA would solve some burning workforce shortages and allow for growth and scaling of existing business activities in different sectors of economy (e.g. production, shared services and outsourcing, ITC, hospitality etc.).
 - c. Facilitated re-emigration and skilled talent attraction programs (incl. tax benefits, scholarships, relocation support, cultural and social integration and adaptation activities etc.) for the industries and jobs with the highest growth potential would create a long term supply of skills and competences.

What has been done/ achieved

This is a very sensitive area as it has been perceived in the context of general asylum seekers crisis and increasing terrorism threats. We would urge government to consider our recommendations in this regard and make respective moves (example – Estonian government is working on regulation that would ease employment of foreign (non-EU) professionals in ITC and general technology start-ups).

Legislation improvement initiatives

In 2015, the Labour (Legal) Work Group of the Foreign Investor's Council (hereinafter referred to as FICIL) has submitted proposals to the Government in respect to amendments to the Labour Law to make the legal framework of the employment in Latvia more favourable for prospective investors, as well as to highlight the current deficiencies in the legal framework of employment encountered by FICIL members and also local companies on daily basis. FICIL has also presented its proposals in respect to amendments to the Labour Law at a meeting of the National Trilateral Cooperation Council on 7 December 2015. Representatives of FICIL have met with representatives of the Ministry of Welfare on several occasions regarding proposals for amendments to the Labour Law.

Based on the contemplated amendments to the Labour Law modifying legal framework of employee posting, upon transposing Directive 2014/67/EU **of the European Parliament and of the Council on the enforcement of Directive 96/71/EC concerning the posting of workers in the framework of the provision of services**, FICIL submitted its proposals in respect to the above amendments to the Ministry of Welfare. Judging from the current wording of the draft amendments the Ministry of Welfare has taken into account FICIL's proposals. It is yet to be seen whether FICIL's proposals shall be accepted by the legislator.