FOREIGN INVESTORS' COUNCIL IN LATVIA

POSITION PAPER on HUMAN CAPITAL

Position Paper No. 2

FICIL

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EXECUTIVE SUMMARY

Latvia's people are its greatest asset, but demographic decline, persistent skills mismatches, and outdated labour regulation are eroding the foundations of growth and investment. At the start of 2025, the population stood at just 1.9 million, with the lowest annual births in a century (15,500 births in 2024; CSB) and emigration still exceeding arrivals (net migration remained negative in 2024, with 18,300 departures and 13,700 arrivals; CSB). Meanwhile, enrolment in STEM and vocational fields is falling even as demand for such workers rises. This gap poses a threat to long-term productivity and investor confidence.

At the same time, Latvia has important strengths to build on, such as improving the quality of school education, growing awareness of the need for reskilling, and early initiatives in Artificial Intelligence and digitalisation. Despite Human capital development being recognised as a priority in the National Development Plan 2021–2027, *it has not yet been converted into real actions*, and institutional silos and limited industry engagement continue to hinder progress.

These represent a solid foundation for progress, but without making human capital development a political priority, setting clear governance and coordination mechanisms, the impact will be limited.

FICIL therefore outlines four priority recommendations to strengthen Latvia's human capital strategy:

1. **Strengthen strategic governance** by consolidating responsibility for human capital under clear leadership with measurable outcomes;
2. **Align education with labour market needs** through deeper employer involvement, scaling work-based learning, and boosting STEM participation;
3. **Harness Artificial Intelligence for skills and learning** to accelerate requalification and personalise training pathways;
4. **Reform labour law** to balance employee protections with flexibility for employers, ensuring both fairness and competitiveness.

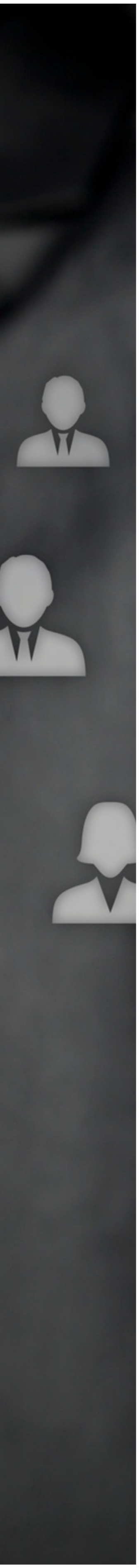

TABLE OF CONTENTS

RECOMMENDATIONS

Strengthen Strategic Human Capital Governance

- Eliminate overlapping institutional functions and assign clear accountability for human capital policy;
- Reassess the role of the Human Capital Development Council (HCDC) and empower it as the single coordinating institution to ensure unified leadership and oversight;
- Develop a comprehensive Human Capital Development Plan anchored in measurable KPIs to track progress and ensure accountability;
- Secure stable funding and mandate cross-ministerial coordination.

Align Education with Labour Market Needs

- Systematically involve employers in education design through mandatory mechanisms and measurable targets;
- Expand work-based learning opportunities, including dual education, apprenticeships, and practical training;
- Align public funding with labour market outcomes to ensure relevance and accountability.

Harness AI for Skills and Learning

- Develop a national programme to integrate AI into requalification and upskilling;
- Pilot innovative AI-driven tools in education and training;
- Establish a governance and KPI framework to track outcomes and ensure accountability.

Labour Act Reform to Match Market Needs

- Update dismissal, overtime pay, and idle time rules to reflect modern labour practices (including exclusion of unjustified protection for trade union members in cases of dismissal and implementation of non-cash remuneration payments as the default approach);
- Enable flexible work arrangements and introduce diverse contract types (regulation for on-call and stand-by regimes, a more flexible approach to concluding fixed-term employment contracts).

RATIONALE FOR RECOMMENDATIONS

STRENGTHEN STRATEGIC HUMAN CAPITAL GOVERNANCE

Eliminate overlapping institutional functions and assign clear accountability

Latvia's human capital governance remains fragmented across ministries and agencies, with overlapping mandates that weaken efficiency and accountability. As a result, decision-making is slow, resources (including financial sources) are used inefficiently, and there is no clear ownership for delivering outcomes. To address this, FICIL recommends consolidating responsibilities and assigning clear leadership to ensure coherent implementation.

Reassess the role of the Human Capital Development Council (HCDC) and empower it as the single coordinating institution to ensure unified leadership and oversight

The Human Capital Development Council (HCDC), chaired by the Minister of Economics and comprising the Ministers of Education & Science, and Welfare, is an important coordination platform. However, its collegiate format and limited mandate have so far proven insufficient to drive coherent implementation and accountability. FICIL therefore recommends critically reassessing whether the HCDC is the most effective governance mechanism, or whether stronger, more centralised leadership is needed. One entity, acting as a centralised coordinating body, would provide unified leadership and oversight across relevant domains, while ensuring a more targeted and efficient use of financial instruments.

Regardless of the governance model, responsibility for implementing the Human Capital Development Strategy must be assigned to a single empowered institution or designated leader with the legal authority and expertise to guarantee accountability, continuity, and impact.

Develop a comprehensive Human Capital Development Plan anchored in measurable KPIs to track progress and ensure accountability

Existing strategies often lack measurable outcomes, which makes progress difficult to evaluate and weakens accountability. FICIL therefore recommends introducing a comprehensive Human Capital Development Plan underpinned by a KPI framework, with indicators such as graduate employability, skills alignment, and employer satisfaction. A transparent monitoring system would provide evidence-based guidance for investment decisions and enable policymakers to adjust measures in line with actual results.

Secure stable funding and mandate cross-ministerial coordination

Human capital policies in Latvia remain heavily reliant on EU funds, which creates risks for continuity once the programming periods end, as sustainable national financing has not been secured[1]. At the same time, coordination between ministries is weak, with overlapping responsibilities, fragmented initiatives, and a lack of clear ownership, which hinders effective implementation. To address these challenges, FICIL emphasises the importance of establishing stable and predictable domestic funding and mandating genuine cross-ministerial cooperation.

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1 According to the European Commission's 2023 Country Report for Latvia and the OECD Skills Strategy Latvia (2020), Latvia remains heavily reliant on EU Structural Funds to finance education, training, and upskilling programmes, while national budget allocations are comparatively limited.

Only with adequate resources and strong coordination can Latvia ensure long-term continuity, deliver policies effectively, and strengthen the skills base needed for future competitiveness.

ALIGN EDUCATION WITH LABOUR MARKET NEEDS

Systematically involve employers in education design through mandatory mechanisms and measurable targets

Latvia continues to face a structural mismatch between educational outputs and labour market demand[2]. While many students choose popular fields such as medicine, psychology, and law, there are persistent shortages in engineering, IT, and other STEM professions. This imbalance is not just a temporary trend but a structural, long-term risk for the Latvian economy. FICIL recommends making employer participation in curriculum and programme design a formal requirement. Industry should play a stronger role in guiding young people towards sectors with high demand. Setting measurable targets for co-developed or employer-endorsed programmes would help ensure that education remains aligned with labour market needs, rather than short-term trends or student preferences.

Expand work-based learning opportunities, including dual education, apprenticeships, and practical training

Work-based learning is one of the most effective tools for reducing skills gaps and improving graduate employability. Expanding dual education systems, apprenticeships, and structured practical training would allow students to gain hands-on experience while studying, helping them make informed career choices and ensuring smoother transitions into the workforce.

At the same time, more students must be actively encouraged to pursue vocational training and STEM-related fields through targeted outreach, career guidance, and incentives. FICIL stresses that these programmes must be scaled nationally, not left to isolated pilots, to create real impact across the economy.

Align public funding with labour market outcomes to ensure relevance and accountability

Public funding for education should be directed towards programmes that deliver measurable labour market results. Funding should be linked to clear outcomes, including graduate employability, skills alignment, and employer satisfaction. This would strengthen accountability, reduce inefficiencies, and channel resources into fields critical for Latvia's competitiveness and long-term growth, such as the digital economy, green economy, and STEM professions.

HARNESS AI FOR SKILLS AND LEARNING

Develop a national programme to integrate AI into requalification and upskilling

Artificial intelligence is reshaping productivity, work, and the skills needed for competitiveness. For Latvia, integrating AI into education and requalification systems is not optional but essential to offset demographic decline and a shrinking workforce. AI is one of the few tools capable of driving economic growth despite labour shortages in both the public and private sectors. FICIL proposes launching a national programme for AI integration in education and upskilling, ensuring that reforms are coordinated, adequately funded, and embedded into national policy.

2 The OECD Skills Strategy Latvia (2020) highlights persistent skills imbalances, noting shortages in STEM and healthcare fields and an oversupply in others. The Ministry of Economics' Labour Market Forecasts 2020–2030 further projects that current patterns in education provision risk widening mismatches between qualifications and labour market needs.

This would align Latvia with international best practice, position Latvia among the leading EU countries in digital skills and AI literacy, and provide a strategic foundation for scaling innovative learning models.

Pilot innovative AI-driven tools in education and training

AI-enabled tools can personalise learning, adapt content to industry needs, and identify skill gaps more effectively. FICIL recommends piloting these tools in vocational training, higher education, and adult requalification programmes, with outcomes measured against clear targets. Examples of expected benefits include higher completion rates in reskilling programmes, faster acquisition of priority skills, and improved graduate employability. These pilots would demonstrate impact, build confidence, and guide broader rollout.

Establish a governance and KPI framework to track outcomes and ensure accountability

The success of AI adoption depends on clear governance and measurable results. FICIL suggests defining institutional roles to avoid fragmentation and introducing KPIs to track the number and impact of AI-based learning solutions. Indicators should cover employability, uptake of reskilling opportunities, and the cost-effectiveness of programmes. A transparent monitoring framework would ensure accountability, enable adjustments, and maximise the return on investment in AI-enabled learning. To support this, alignment with EU guidelines on AI regulation is essential to create a safe and trustworthy environment for innovation, while ensuring that Latvian businesses and workers benefit from rapid technological progress.

LABOUR ACT REFORM TO MATCH MARKET NEEDS

Labour Act reform has been a recurring concern for FICIL. In previous years, we highlighted issues such as procedures for granting sick leave and conducting mandatory health checks, which remain relevant in the context of labour shortages and the government's commitments to review sick leave compensation. This year, as the government advances amendments to the Labour Act, FICIL underlines the need for broader structural modernisation that eliminates outdated provisions and aligns Latvia's employment framework with international standards.

Update dismissal, overtime pay, and idle time rules

While reforms to idle-time regulation are welcome, dismissal protections for trade union members remain disproportionate, and overtime pay regulations are unnecessarily complex and detrimental to market competitiveness. The relatively rigid regulation concerning the conclusion of fixed-term employment contracts and the termination of employment relationships raises concerns about the flexibility and alignment with the demands of the modern labour market. It is necessary to introduce non-cash remuneration payments as the primary method of remuneration, not only to meet the demands of the contemporary world but also to reduce the risks associated with the shadow economy.

Unless these provisions are modernised, Latvia risks locking in inefficiencies that reduce competitiveness and slow adaptation to changing labour market conditions.

Enable flexible work arrangements and diverse contracts

FICIL welcomes the introduction of progressive measures such as the option to mutually agree on a four-day workweek. To further expand participation in the labour market, especially for students, parents, and seasonal workers, Latvia should also allow greater flexibility through diverse contract types and reevaluate its approach to termination of employment relationships. The relatively rigid regulation concerning the conclusion of fixed-term employment contracts and the termination of employment relationships raises concerns about the flexibility and alignment with the demands of the modern labour market. A modern framework that supports flexibility while safeguarding core protections would encourage broader labour market participation and increase adaptability across sectors.

Introduce clearer boundaries to the regulation of collective bargaining frameworks

Clarifying the validity and termination of collective agreements is a step in the right direction. However, excessively long withdrawal periods risk slowing necessary adjustments and weakening responsiveness to economic change. FICIL recommends a more agile approach to agreement cycles, supported by a framework that fosters constructive sectoral bargaining. Stronger, more explicit collective-bargaining rules would reduce conflict, increase predictability, and enhance trust between social partners.

In addition to the priority reforms outlined above, FICIL also considers several other proposals for amendments to the Labour Act important for consideration. These are presented in Appendix I. While not discussed in detail in this paper, FICIL endorses these proposals as part of a broader effort to modernise Latvia’s employment framework and strengthen competitiveness.

APPENDIX I

PROPOSALS FOR AMENDMENTS TO THE LABOUR ACT

PROPOSAL 1

Validity of Collective Agreements

FICIL welcomes the proposal to clarify the expiration of collective agreements, allowing either party to withdraw after two years with six months' notice. However, the two-year period before withdrawal rights take effect is excessively long and risks undermining the efficiency of negotiations. In line with discussions at the Human Capital Development Council, shorter and more dynamic cycles would better reflect labour market changes and strengthen social dialogue.

PROPOSAL 2

Idle Time

FICIL supports the revised framework that permits employers to reduce pay to 70% after five consecutive days, provided that the minimum wage is maintained. This balance is further supported by granting employees the right to terminate their contract without notice and receive severance, ensuring that flexibility does not come at the expense of fairness.

PROPOSAL 3

Flexible Four-Day Workweek

Allowing employers and employees to mutually agree on a four-day workweek within standard working time is a progressive step that reflects modern labour market practices. This flexibility will support the diverse needs of employees while enabling businesses to adapt to changing conditions.

PROPOSAL 4

Dismissal of Trade Union Members (Article 110)

The current regulation requiring trade union consent prior to dismissalof union-affiliated employees creates unequal treatment between union and non-union workers and undermines the credibility of collective representation. It also raises constitutional concerns under Article 102 (freedom of association) and has led to litigation lasting up to three years. FICIL recommends revising dismissal protections to restore balance, accountability, and constructive social dialogue.

PROPOSAL 5

Overtime Compensation Standards

The existing regulation links reduced overtime pay to the conclusion of a general agreement, which has proven ineffective. Employers are often required to raise salaries significantly by at least 50% above the minimum wage to qualify, creating disproportionate burdens. FICIL recommends introducing a universal overtime pay rate of 50% across all sectors, without requiring a general or collective agreement. This would simplify administration, ensure equal treatment, and strengthen Latvia's competitiveness.

PROPOSAL 6

Remuneration Payments via Non-Cash Transactions

In today's world, non-cash transactions are not only a matter of convenience—they are a critical tool in combating the shadow economy. Therefore, the current regulation in the Labour Law, which designates cash payments as the primary method of remuneration disbursement, is not only outdated but also contributes to increased risks of informal economic activity.

One of the government's key priorities is combating the shadow economy. In light of this, it remains unacceptable that the Labour Law does not yet provide for non-cash remuneration as the primary method of payment. Aligning remuneration payment practices with modern standards is essential for transparency, accountability, and national competitiveness.

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