

**Latvia**

EEO Ad hoc request

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## Assessment of training measures by the Latvian State Employment Agency

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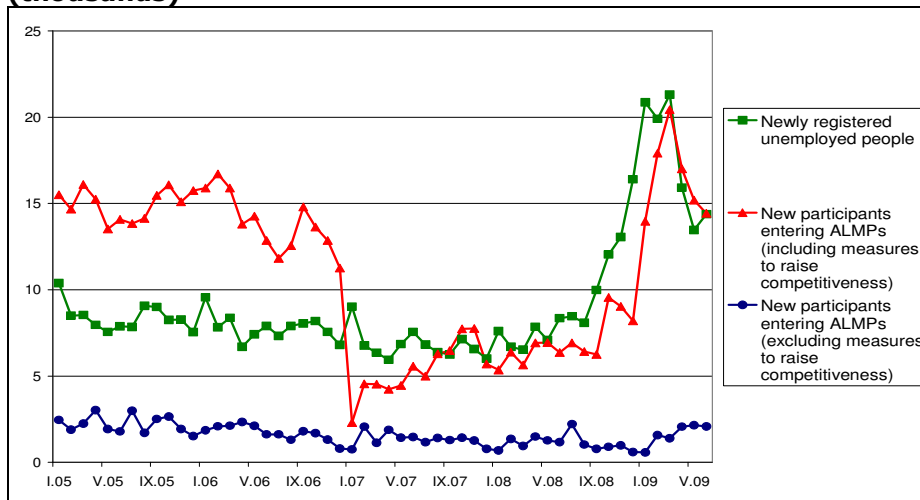
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## 1. Introduction

Unemployment in Latvia as measured by the Labour Force Survey has soared over the last year – from 6.9% in July 2008 to 17.2% in June 2009. In % terms registered unemployment is not quite as high (11.5% in June 2009) but in numbers has also grown rapidly from just over 50,000 in mid-2008 to nearly 130,000 in June 2009). Although, there has been some increase in participation in ALMPs (see Figure 1) this has mainly been in the form of the very short term measures that come under the category of 'measures to raise competitiveness'. Participation in other measures has not kept pace with the growth of the unemployed.

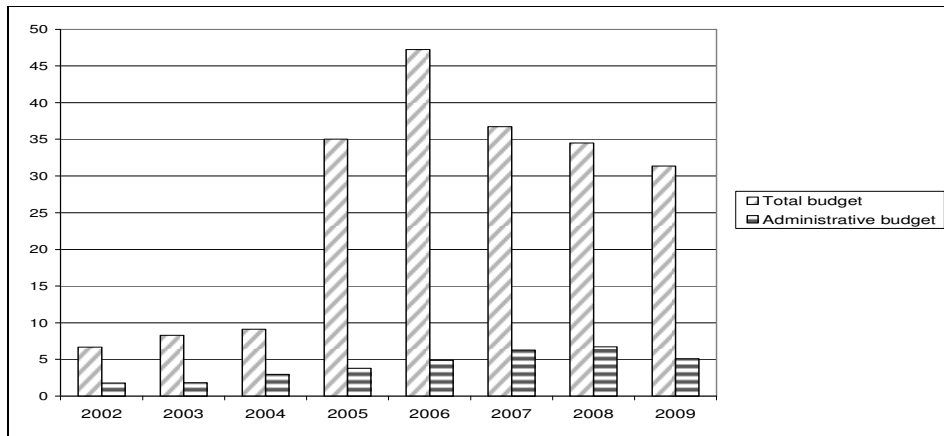
**Figure 1: Newly registered unemployed and new entrants to ALMPs (thousands)**



Source: SEA

Unfortunately, because of the government budget crisis the resources available to the State Employment Agency (SEA) have been hit also. This is shown in Figure 2

**Figure 2: Annual budget of the SEA**



Source: State Employment Agency of Latvia; Latvian State Budget

In particular the SEA has experienced a 24% cut in its operational budget as compared with 2008 and is being forced to work short time as well as to reduce staff numbers and make significant cuts in wages. According to the SEA each of their workers now has a load of 210 registered unemployed as compared with 131 in Lithuania and 156 in Estonia but only 38 and 37 respectively in Belgium and Germany.

In terms of programme funding the emergency community jobs programme, which will replace the current temporary jobs programme will bring an extra 24 million LVL.

The authors of this report were asked by the Latvian desk of DG Employment at the European Commission, in collaboration with the Latvian Ministry of Welfare to:

- make an assessment of the training measures provided by Latvian PES(State Employment Agency), more specifically to assess if the right mix is provided (short/long term; specific/general skills) considering the current situation and future needs;
- identify potential lessons from cross-national experience, considering the current Latvian situation and future needs.

This report starts with a discussion of the current situation in Latvia, including an assessment of training measures and other ALMPs in the context of current and expected labour market developments. Next we provide a summary of useful experiences of OECD countries in addressing structural unemployment. We conclude this report with an evaluation of the issues and a discussion of the possibilities to use these international experiences to improve the labour market outcomes in Latvia.

## **2. Current Situation in Latvia**

This section offers an assessment of the current challenges facing employment policy makers and an evaluation of the policy response.

### *Challenges*

Current challenges include the following:

- i) The rapid emergence of a scale of unemployment not seen in Latvia since the transitional recession of the early 1990s. The current level of registered unemployment is 130,000 and LFS defined jobseekers are more than 190,000. Moreover, since unemployment is a lagging indicator and the economy is now not expected to resume growth until 2011 these numbers can be expected to both grow and persist.
- ii) Unemployment benefit entitlement ceases after 9 months. Since registered unemployment has surged from the end of 2008 this means that very large numbers of unemployed will be coming off unemployment benefit from the autumn of 2009. Such people would be entitled to income support from their local authority but there are doubts about the financial capacity of local authorities to meet these obligations.
- iii) To ensure the provision of high quality training that matches labour market needs both in the current situation and that will meet future needs. The current system is provider driven and is dominated by incumbent providers offering rather traditional training programmes.
- iv) Motivation of the unemployed. There is evidence that people may not put enough effort into studies and job search, especially while they continue to receive unemployment benefit. For example, during the summer there is a tendency to refuse to take on courses as people can live from growing and selling vegetables/fruits. Here the challenge is to create the right incentives

### *Current policy instruments*

The Latvian public employment service entered the recession with a collective experience rooted in the boom of the previous seven years or so. In 2007 and early 2008 unemployment was at historic lows and the main problems were seen as ones increasing the labour supply and of promoting the labour market inclusion of marginalised groups of people. Moreover, during the 2004-2006 structural funds programming period unprecedented amounts of ESF financing

was available so that there was effectively no budget constraint on the provision of active employment measures

Historically, the active labour market measures implemented by the Latvian SEA have taken the following three forms:

i) *Measures to raise competitiveness.* These are short courses, seminars, lectures and consultations offered to the unemployed in areas such as communications skills, networking, negotiation, interview skills, motivation etc. Courses and seminars can be from 5 to 35 hours. These are the measures which always have the largest number of participants. Thus in 2008 just over 70,000 unemployed participated in these measures and in the first half of 2009 nearly 90,000. Of course, an individual will typically participate in several such courses.

ii) *Measures to improve or acquire qualifications.* These are courses in which the unemployed can acquire formal professional qualifications or informal programmes aimed at acquiring skills such as computer skills, driving skills, book-keeping skills. These are much longer programmes of between 150 and 960 hours. In 2008 2,093 people participated in these measures and in the first half of 2009 – nearly 2,786.

iii) *Temporary paid jobs.* These are low skilled jobs for up to 6 months duration which aim to preserve skills and maintain income for unemployed. In 2008 9,983 people participated in temporary paid work and in the first six months of 2009 there were 6,671 new participants.

In addition to these there have been projects aimed at specific target groups – people with disabilities, youth, older workers, former prisoners, women returning to the labour market after maternity leave etc. But the numbers participating have been small. In 2008 there were 1,136 participants and in the first half 2009 only 282 (although 1,525 places are planned for 2009 as a whole).

Other small scale (in terms of numbers) measures include: a programme to support the unemployed to enter self employment or entrepreneurship (270 planned consultations and 80 places for 2009); training in the workplace – this is partly an apprenticeship programme and partly a programme for people to renew lost skills. 400 places have been planned for 2009.

*New initiatives*

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A number of 'new' initiatives have appeared in 2009, partly in response to the crisis. These are: a community works programme; more flexibility in access to training and education programmes; vouchers.

i) *Community jobs*. This is a major emergency measure introduced by the Latvian authorities with the help of the World Bank to deal with the large numbers of unemployed persons expected to come off unemployment benefit from the autumn of 2009 onwards. The aim of the measure is twofold: one is simply to maintain income after unemployment benefit entitlement has ceased and the other is to enable people to maintain and improve their skills through work practice. Each community job is meant to represent a 'new job' and must last for at least two weeks and not more than six months.

The programme will be implemented jointly by local authorities and the SEA. The local authorities have the obligation of providing a job that is socially worthwhile, while the agency will provide funds to cover the stipend received by the workers, their transportation costs incurred when getting to the workplace, and the equipment and infrastructure necessary for the job. The current programme is due to run from September 2009 to December 2010 and is expected to involve 17,800 unemployed people in 2009 and 17,600 in 2010. The total cost will be 24 million LVL (36 million EUR) with the bulk of the funding coming from the ESF. In practice, this programme will replace the current temporary paid jobs programme, but with a shift in the source of financing from the state budget to the ESF and with bigger planned numbers of participants.

ii) *More flexible access*. Legislation has been introduced to allow access to state-funded training and retraining programmes for people who are not currently out of work but are at a risk of becoming unemployed because of the recession. This introduces a more preventive approach to unemployment, whereby the potentially jobless have an incentive to undertake training while still in work and to look for a new job while studying<sup>1</sup>. This programme is expected to start in September 2009 and to last until December 2013. It has a budget of 10 million LVL (15 million EUR) and will be implemented by the SEA together with educational institutions. It is expected to accommodate 11,000 participants, who will be provided with stipends and training vouchers of up to 500LVL (750 EUR)

iii) *Vouchers*. A 'voucher' system is to be gradually introduced, whereby those who participate in some qualification-raising programmes will now be able to choose the institution where they undergo their education or training, i.e. the

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<sup>1</sup> The amendments to the law also allow a person to finish qualification-raising courses if he or she loses their 'unemployed' status.

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funding is based on the individual whereas hitherto funding has been allocated directly to institutions, who were then the only ones to provide these programmes. The new system will be introduced starting from September. With this change, it is hoped that competition will improve the quality of the skills and knowledge that the unemployed can get and that the private sector will take on some functions formerly performed by the state.

The voucher system will initially be applied in three projects: the first is the one discussed in ii) above for people at risk of unemployment because of global factors; the second is a new lifelong learning initiative for workers over 25 and due to run from 2010 to 2013 with a budget of 5.4 million LVL. It is expected to involve 25,000 people. And the third is an initiative to promote the professional education of people who already have higher education. This programme will start in 2010 and will offer vouchers worth up to 1000 LVL and stipends of 70 LVL for 1500 people for up to 18 months.

The main point of the voucher system is to generate some competition in the market for the provision of education and training for the unemployed, which has for many years been dominated by established traditional providers. Thus it an initiative that make a start on addressing the quality and relevance challenges.

#### *Evaluation of effectiveness*

There has not been much in the way formal evaluation of ALMPs in Latvia. Typically the SEA evaluates using surveys of participants and on the basis of the percentage of programme participants that have been placed in a job after a given period of time. The latter indicator is currently very low with only 13.6% participants of professional qualification measures so far finding a job in 2009, as compared with the normal figure of 60-70%. However, this is the result of cyclical factors and a more sophisticated approach is needed to provide reliable evaluation of the effectiveness of measures.

In fact professional training in Latvia is an area where some serious evaluation has been undertaken. Using a matching function approach on Latvian data from 2004 to 2006 Hazans<sup>2</sup> has shown that involving 11 unemployed in training resulted in one extra job match. Moreover, the training was cost effective.

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<sup>2</sup> In Rungule R, Sņikere S, Hazans M and others (2007), "Bezdarba un sociālās atstumtības iemesli un ilgums" (Unemployment and the causes and duration of social exclusion), ESF National Programme "Labour Market Studies" LR Welfare Ministry. P 138

On community jobs, the 2008 SEA survey of participants in temporary paid jobs revealed that 82 per cent of claimed to be satisfied with the programme and 88 per cent saw benefit in the material rewards the programme offered. However, only 11 per cent of participants believed that it would improve their chances of finding a job in the future, and only 17 per cent valued the practical experience gained.

This suggests that the community jobs programme should be regarded as a straightforward public works programme designed to provide temporary jobs and income support for those who have reached the end of their entitlement to unemployment benefit. Moreover, the income support function should be coordinated with the income benefits provided by local authorities.

A potential problem is that participation in the programme is limited to 6 months in any one year. This may be a sensible provision in normal times to prevent malingering but in the current recessionary circumstances may have to be reconsidered. A further potential problem is that the current planned numbers may not be enough to meet needs as unemployment continues to grow.

Allowing at risk of unemployment people to participate in training programmes is clearly a desirable move in the direction of flexibility and the voucher scheme which is being phased in represents a genuine innovation for Latvia and if it is not high-jacked by incumbent providers could be just the mechanism for generating a radical improvement in the quality and relevance of the training and educational programmes available to Latvia's unemployed.

### **3. Cross National Experiences with ALMPs**

In this Section we provide a general assessment of the effectiveness of training programmes and the conditions under which their effects can be optimized.

#### *Training programmes are more effective than other ALMPs*

According to research by the OECD, training programmes reduce unemployment significantly. Bassanini & Duval (2006) show that when ALMP expenditures are disaggregated by category (that is, Public employment service and administration; training programmes; youth measures; subsidized employment; and measures for the disabled), only training programmes appear to have a significant impact on unemployment.<sup>3</sup> Training improves the employability of the unemployed and therefore reduces unemployment duration. Moreover participation in a training programme keeps people away from double dipping by doing informal jobs next to receiving benefits. By the way, being assigned to doing community jobs has the same effect.

#### *Social benefits should be larger than costs*

The benefits of these programmes should exceed their costs for society as a whole. At the aggregate level, benefits can be measured by reduced unemployment, lower benefit expenditures, and higher earnings.<sup>4</sup> Training programmes, if well designed and coordinated (see below), and selectively applied, are likely to have benefits that eventually surpass the cost.

#### *Create appropriate incentives for caseworkers*

Public employment services, like the Latvian State Employment Agency, should be inherently motivated to maximize their placement effort. One way to do this is to *benchmark the placement results* of regional public employment agencies, as is done in Australia by Centrelink (see [www.centrelink.gov.au](http://www.centrelink.gov.au)). To make regional placement results comparable, placement rates should take account of differences in the composition of the target population and in regional labour conditions.

#### *Beware of dead weight loss*

Benchmarking placement rates, however, gives regional employment offices an incentive to focus on their best employable clients. "Creaming" yields dead-weight losses in so far as training costs are incurred for those that would

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<sup>3</sup> OECD (2006), *Employment Outlook 2006*, Paris, 217.

<sup>4</sup> OECD (2006), *Employment Outlook 2006*, Paris, 73.

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have found employment without help. Profiling clients helps allocating training courses across clients according to need.

#### *Merge benefit administration and employment services*

Another way to create appropriate incentives for employment service case-workers is to merge the public employment service with the unemployment benefit administration. This makes sense because it provides the insurer of unemployment an instrument to control "damages", *i.e.*, unemployment benefit expenditures. Such a "Centre for Work and Income" operates as a one-stop-shop and improves the service for jobseekers. In the U.K. such centres are integrated parts of the Department of Work and Pensions. In the Netherlands the Public Employment Service (CWI) and the unemployment benefit administration (UWV) are merged as of 2009.

#### *Budget expenditures*

Upon merger the integrated regional offices should get an annual lump sum equal to the budget necessary to cover their expected benefit and re-integration expenditures. The re-integration part of the budget would cover ALMP costs, like training. If a regional office uses the re-integration budget in a cost-effective way it saves on benefit expenditures. The office may keep any savings on the budget. If expenditures are larger than the budget granted the excess is deducted from the next year's budget, unless the office make it plausible that the excess is due to external factors. The macro budget to be distributed across the regional offices should take account of cyclical circumstances. The advantage of budgeting the expenditures of regional benefit-cum-employment offices is that administrators are directly confronted with the financial consequences of their benefit award and re-integration policies.

#### *Outsource reintegration*

Part of the successes of the Dutch approach, and that in the U.K., U.S. and Australia, is outsourcing reintegration of the unemployed to private agencies that specialize in training, schooling, coaching and/or finding employment for a diversity of target groups, such as those lacking command of the national language, those without (recent) work experience, and workers with disabilities. The public authority may use contracts based on the "no-cure (placement), less pay" principle. To warrant the quality of the services provided by private reintegration agencies the public authority should not be obliged contract all reintegration efforts out to private agencies. If it is not satisfied with

the market supply it can do the reintegration itself, or contract only specific services, like training.<sup>5</sup>

**Box 1 Budgeting social assistance expenditures across Dutch municipalities**

In 2004 the Act on Work and Assistance was launched which introduced a lump-sum scheme similar to the one described above. Municipal budgets to fund social assistance benefits are calculated by a regression model that predicts the benefit outlays per non-aged family. This variable is regressed on twelve municipal characteristics variables, such as the number of single parent households, ethnic minorities, low-income households, disability beneficiaries, jobs as a percentage of the population aged 15-65. Social assistance benefit dependency, measured as a percentage of the Dutch population aged 15-65, dropped from 3,1% in 2000, the previous boom year, to 2,5% in 2007 the latest boom year, a 20% reduction. This drop was realized without changing the benefit eligibility rules.

A separate budget for reintegration is granted to the municipalities, based on the number of registered jobseekers.

*Individualize training programmes*

Moreover, participation in ALMPs of those that are awarded an ALMP must be obligatory for the reasons mentioned above. The effectiveness of training programmes can be enhanced by allowing clients to compose their reintegration programme in consultation with a caseworker from the public authority.

Such "individual reintegration agreements" (*Individuele Re-integratie Overeenkomst, IRO*) were introduced in the Netherlands in 2004. They offer unemployment and disability benefit recipients the opportunity to buy training, coaching and mediation services from a set of certified suppliers. The caseworker determines the size of the budget available for the client and contracts the suppliers preferred by the client. According to an evaluation study of the Dutch IRO programme an IRO costs on average 30% more than a standard programme to which a client is allocated irrespective of his or her preferences. But the placement rate of IRO clients is also about 30% higher than among those who are allocated to a reintegration agency by the public authority.<sup>7</sup> The IRO scheme is a great success: of ten reintegration programmes granted six have the form of an IRO.

The U.K. New Deal schemes work in a similar way.<sup>8</sup>

<sup>5</sup> See Ludo Struyven and Geert Steurs, (2005) "Design and redesign of a quasi-market for the reintegration of jobseekers: empirical evidence from Australia and the Netherlands", *Journal of European Social Policy*, Vol. 15, No. 3, 211-229.

<sup>6</sup> OECD (2006), *Employment Outlook 2006*, Paris, 63-66.

<sup>7</sup> Carlien Schrijvershof, Claartje Thijs, Krista Visscher and Leo Aarts, *Eindevaluatie IRO*, The Hague, APE, 2008.

<sup>8</sup> See [www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices](http://www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices)

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Something similar may be achieved by offering vouchers with a value according to individual need. The voucher can be used to select a preferred provider of a training course. Apart from creating a competitive market for training providers it allows jobseekers, or those at risk of becoming unemployed with freedom to choose their preferred provider.

## **4. Conclusions**

Latvia's most urgent employment problems are the result of a major external cyclical shock. Active labour market measures are not really the appropriate instrument with which to address such a macroeconomic shock.

Thus the community jobs programme, while clearly necessary as a medium term income support measure, has minimal training content and is not a substitute for real training. Nevertheless, for a variety of reasons some job is better than no job in the context of income support. A possible problem with the current community jobs plan is simply that the planned scale which is now up to 50,000 participants over 2009/10 at a cost of up to 55 million LVL may still not be enough.

The experience of other countries outlined in the previous section has identified a number of rules and practices about the organisation and delivery of training that could be adopted by the Latvian public employment service in the medium term to deliver a more effective transition of the unemployed into jobs. We are fully aware that these rules only partly, if at all, address the current urgent unemployment problem. This problem, however, is the result of an external cyclical shock that will fade out eventually. The purpose of this contribution has been to suggest a number of principles of design that may help to reduce unemployment structurally. It should be noted that the countries who apply these principles all have below average unemployment rates. The current crisis may offer an opportunity to structurally improve the current design and operation of the Latvian benefit schemes and the State Employment Agency.

Given the limited resources of the SEA integration of this agency with the benefit administration could yield important savings. Apart from that, caseworkers at the SEA should be able to combine current and potential future market needs, as expressed by the business community, with the capacities and preferences of their unemployed clients regarding skill improvement. Investment in skill improvement could be the answer to the current disastrous labour market situation. To that end caseworkers should be well informed about the price-quality conditions and track records of those supplying training and schooling in order to allocate clients adequately across training organizations. A public certification agency to warrant quality would be very useful. Participation in training must be obligatory and dropping out should be sanctioned by cutting benefits. All of this requires close monitoring of the process and results of allocation across and participation in training courses. But all this can only be realized if caseworkers would have command over much larger budgets.

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We believe that the recession can be used as an opportunity to upgrade the skills of the workforce. This of course requires the availability of high quality and market relevant training programmes, including perhaps a shift towards more general as opposed to specific skills. The introduction of vouchers certainly represents a start to modernise training in Latvia and to make it more relevant. However, without adequate monitoring and quality assurance vouchers by themselves may have only a limited impact.

It is rather clear that adoption of some of these principles will require more, not less, resources allocated to the SEA. Regrettably, all the signs are that this is unlikely to happen.