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Human Capital

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Foreword

«*My fortune is my people*» wrote one of Latvia's most prominent authors, Rūdolfs Blaumanis, in 1902 in St. Petersburg. These wise words are basically the leitmotiv of this **human development report**. Today's global processes and growing competition have made responsible and well-considered human capital policies a necessity for every country. If Latvia wishes to see itself as a strong, thriving country with an active role in the European economy, it too must take a good look in the mirror and recognize its plusses and minuses.

Our big plus, our success story, is clearly our people – their education, their work experience in times of rapidly changing social and economic conditions, their knowledge and – most important – their readiness to believe in the goals that have been set and in the achievement of these goals.

In this, the ninth consecutive **Report**, Latvia's leading social scientists and researchers have examined different aspects of Latvia's human resources, analyzed the potential of our country's economic activity, identified the problem areas and judged future prospects. This provides a good baseline for future development plans.

But the **Report** alone is not enough. Now, it is up to the government to eliminate the inequalities in regional development that may well become a major obstacle to Latvia's overall development, to give every person living in this country a clear answer to the question: where will he or she receive the social services guaranteed by the state – where will the closest school be located, the closest police precinct, the closest fire-station or cultural centre? We all need answers to these questions. How else will it be possible to curb the outflow of economic migrants motivated by social uncertainty and convince the younger generation that even the boldest ventures are possible in the most remote corners of the country?

An equally serious problem and one that should not be disregarded is the demographic situation. These

reports show that we truly are a part of Europe and that we share one of its current problems – the ageing of the population. In a way, this is logical: young people put education, career and economic stability in first place and, only when these have been achieved, consider the possibility of family and children. This is why we must recognize the value and importance for growth of the country of every single individual. Today, this calls for a competitive education system, one in which every new stage supplements the previous one, in which the final product is a young person able to compete in our modern-day world – a critical thinker, able to judge for himself or herself, and make independent decisions. To create such a system, it is important to find a common denominator for the interests of the public and the private sector.

Only then will we be able to speak of Latvia as a country which has been built on common values and which is ready to rally its forces and achieve great things. The basic value that we all share is democracy, as anchored in the Constitution, and human respect for each other. But where development of the nation is concerned, an invaluable asset is the educated individual. Opportunities for self-realization and a strong personal belief in success are an invaluable investment in the future of our country. They will help us to believe that we can leave our children a better Latvia than the one in which we live today. And, finally, let us keep in mind that Latvia is every single one of us. We all share a responsibility – for our Latvia's present and our Latvia's future. Every single one of us, in our own place and in our own way.



Valdis Zatlers
President of the Republic of Latvia

Foreword

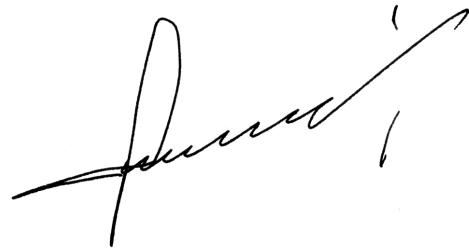
The report on **Human Capital** is the ninth **human development report** in Latvia that examines the social, economic and political aspects of the country's development. It is the second **Report** prepared by the Advanced Social and Political Research Institute (ASPRI) of the University of Latvia. However, the circle of authors is much wider, including researchers from the Liepāja Academy of Pedagogy, Latvian University of Agriculture, Daugavpils University, Vidzeme University College and other institutions. This has made it possible to draw on a rich fund of knowledge on development and implementation of human capital in Latvia and the factors affecting this capital. This is a source of pride.

I would like to stress one of the **Report's** most important insights: to increase Latvia's regional and global competitiveness, the country's human capital must be made more competitive. The most important requirements for this are a good education that is available to all, use of innovative approaches in production, and the use of high technologies. This is why universities and colleges, especially those in Latvia's regions, are important centres of development that promote the generation of new know-how and innovative business ideas in the regions.

The development of human capital must be a joint effort – cooperation affords greater opportunities. An important

form of cooperation is **public-private partnership** (PPP). So far, PPP has been underestimated in Latvia, but as the **Report** shows, it is a successful and extremely promising cooperation model, one that should be considered more by universities and colleges in the future.

I believe that the assessment of Latvia's human capital, the analysis of concrete examples and the public policy recommendations put forward in the **Latvia Human Development Report 2006/2007: Human Capital** will not only be a positive contribution from Latvia's researchers to our nation's policymakers, local governments and NGOs; it will also continue the tradition of previous **Human Development Reports** to serve as a source of ideas and information for students, teachers, scholars and anyone who is concerned about Latvia's future.



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Latvia Human Development Report 2006/2007

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BASIC FACTS ABOUT LATVIA, 2006



Population

Estimated population (millions)	2.3
Annual population growth (%)	-0.6
Population density (persons per km ²)	35.0

Population distribution, %

Rural	32.1
Urban	67.9

Gender distribution, %

Males	46
Females	54

Age distribution, %

0–14	14.3
Working age (males 15–62, females 15–60.5)	64.4
Above working age	21.3

Ethnic distribution, %

Latvians	59.9
Russians	28.3
Belorussians	3.7
Ukrainians	2.5
Poles	2.4
Lithuanians	1.4
Others	1.8

Human Development Index rank

(Global HDR 2007)	45/177
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Adult literacy rate, %	99.8
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Health

Average life expectancy, years	71.3
Males	65.9
Females	76.8
Infant mortality (per 1000 births)	7.6
Number of physicians (per 10,000 inhabitants)	36.5

Economy

GDP (millions of LVL)	11,264.7
GDP per capita (LVL, at average prices in the year 2000)	3,444
Real GDP per capita (ECU, PPP) (previous estimate)	13,300
Real growth of GDP, %	11.9
Unemployment rate, %	6.5

Distribution of employment by sectors, %

Agriculture	11
Industry	28
Services	61

Government expenditures, % of GDP

TOTAL	16.9
of which: Defence	1.5
Education	5.6
Health	3.9
Social Security	9.2

Exchange rate of 1 USD vs. LVL (average)

1 USD	0.5604 LVL
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Land area (km ²)	64.589
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Introduction

In the past 10–15 years, huge changes have taken place in Latvia's economic, social and political structures. Since 1995, Human Development Reports have analyzed whether or not these processes are in the interests of human development. Regional development as seen through the prism of human capability, the topic of the **Latvia Human Development Report 2004/2005: Human Capability in the Regions**, prompted interest in investigating the conditions for the emergence of people able (with the knowledge, skills, talents) and willing (capable, motivated) to take action. How have people in Latvia changed in the course of social and economic transformation? Can the nation's demographic potential sustain continued development of society? Seeking to find answers to these questions, this Report focuses on Latvia's human capital. The purpose of the **Latvia Human Development Report 2006/2007: Human Capital** is to examine the potential for human capital in Latvia and the conditions for development and implementation of this potential.

Human Capital and Human Development

In choosing human capital as the object of analysis, the 2006/2007 **Report** continues the analysis of human development as a broadening of opportunities for human activities and potential that was started with the previous **Report**. The individual and the individual's opportunities for development are the focal point of the human development concept, but the human capital concept sheds light on conditions essential for the individual's economic activities and personal or social welfare. **Human capital is the sum of an individual's abilities and skills, which increases the individual's economic and social potential.** To some extent, human capital coincides with human capability, but the two concepts are not identical. **Human capability** denotes the individual's ability to take advantage of the opportunities for social activity provided by society.

Definitions of human capital usually place emphasis on the individual's education, skills and know-how, which increase an individual's economic productivity. However, the concept is actually much broader. Human capital comprises both technical know-how and social skills. Another, similar concept is also widely used – **human resources**, which denotes the number and percentage of working-age individuals within a society.

The human capital concept concentrates on the economic behaviour of individuals, in particular on the way in which the knowledge and skills accumulated by individuals allow them to increase their productivity and income, thus increasing the productivity and income of society as a whole. Society can reap economic benefits – both individual and collective – from investments in the education and skills of the population. At the same time, many aspects of human capital improve not only the efficiency of an individual's economic performance, but also affect his or her personal and social welfare. The «specific» aspects of human capital can to some degree be distinguished from the «general» aspects. The specific aspects apply to skills and knowledge that are useful only to the employer (and for which the employer is willing to pay), but the general aspects apply to skills (for example, reading and writing skills) that can be put to use in many ways. In a human development context, both aspects – specific and general – are equally important. **Human development is the growth of human capital and the increase in opportunities for implementing such capital.**

Unlike other forms of capital, for example cultural capital (shared values, history, traditions), social capital (social networks that help society to function effectively), which are embodied in the relationships and social networks of individuals, human capital is embodied in the individual. The human capital concept concentrates on the individual agents of social life, but social capital on the relations between these agents and the networks that they form. People cannot be disjoined from their knowledge, skills, health or values, but they can be disjoined from the financial (financial capital) and physical (physical capital) values that they own, use, etc.

Human capital in itself cannot create values, cannot ensure social and economic development, i.e. people do not act in isolation from society. Social institutions and networks determine the motivation of individuals and their opportunities to develop and implement human capital in order to produce goods and services that can be sold (i.e. determine the economic value of human capital). This is precisely why human capital is contextual and why it is difficult to measure its exact value. To evaluate human capital, it is first necessary to establish which skills and abilities are in demand in a concrete social context.

Human capital plays a significant role in stimulation of a country's growth. The competitiveness and welfare of industrial societies was determined by the means of production and other tangible values, but the main

source of welfare and development for knowledge-based societies is human capital. One of the authors of the human capital concept G. Becker puts it this way: «New technological advances clearly are of little value to countries that have very few skilled workers who know how to use them. Economic growth closely depends on the synergies between new knowledge and human capital, which is why large increases in education and training have accompanied major advances in technological knowledge in all countries that have achieved significant economic growth.» (Becker, 2002)

In a human capital context, it is important to understand the interaction between human capital, social capital and social institutions (see Box 0.1).

Human capital, which comprises professional knowledge, social skills, health, motivation, values, attitudes, talents, experience and other qualities, is only one of the factors that affect productivity. The role of human capital in increasing productivity and promoting economic growth can be either direct or indirect. The report «Employment in Europe 2006» shows that human capital can indirectly affect productivity by contributing to the creation and adaptation of new technologies. Social capital – networks through which human capital is created, implemented and remunerated – is also important for productivity. A major role is played by social institutions, which pervade market activities and the lives of people, and provide a framework in which human capital and social capital can produce quite dissimilar results (Côté, 2001).

Human development is a holistic concept, which examines economic, political and cultural development through the prism of fulfilled lives. The human development index (basic education, life expectancy and economic development indicators) only in part illustrates the human development process, in which civic and political rights also play an important role. Economic welfare, human security, improvement of health and education are only means for achieving social welfare centred on fulfilled lives and greater freedom of choice for all. It is precisely for this reason that the central topic of the **Latvia Human Development Report 2006/2007** is **human capital**.

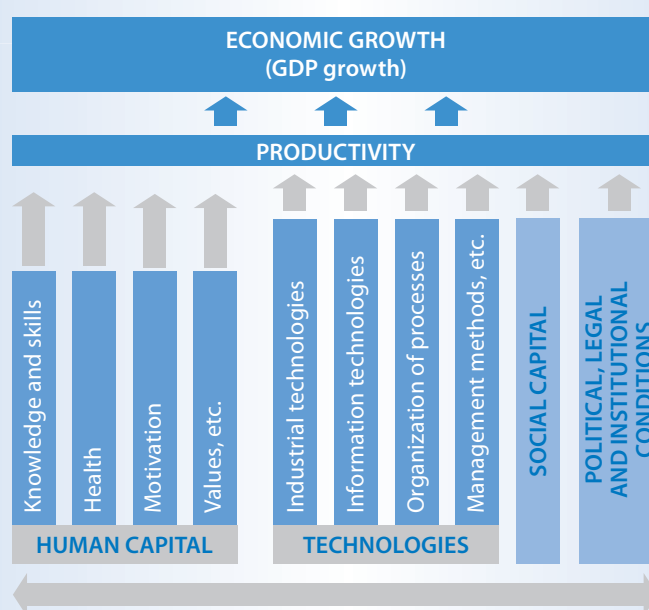
Latvia's Human Capital

The value of human capital is largely determined by opportunities for its implementation. Different political, institutional and legal conditions also mean different opportunities for the implementation of human and social capital.

The truth of this is well illustrated by the changes that could be observed in the Latvian job market after the collapse of the Soviet Union. The new job market called for skills other than those which people had acquired. As the industries that had thrived under socialism collapsed, technicians and engineers were no longer in demand. Instead, there was a huge need for watchmen, entrepreneurs, politicians, civil servants and other professions. In a very short time, the human capital that had been developed

Box
0.1

Interaction between Human Capital, Social Capital and Social Institutions



Author: Inta Mieriņa, 2007.

over decades lost its value, having no application in the new conditions. The failure of the population's human capital – its acquired abilities and skills – to meet the new requirements of the job market was one of the reasons for the poor productivity of the early 1990s. People who had been educated in the days of the Soviet regime were confronted with the need to adjust to new conditions, to undergo retraining and acquire new skills. Under market economy conditions, sectors began to develop in Latvia for which no professionals had previously been trained: business, banking, marketing, advertising, etc. Manpower could not be imported from other countries to make up for the lack of local professionals because Latvia could offer neither stability nor competitive wages. Many long years and many mistakes were needed to adapt the education system to the training of specialists required by the job market. During this time, many people who were educated in Soviet schools «dropped out» of the job market, their qualifications worthless under the new conditions, but scores of new professions created a constant demand for new specialists. Today, many of these people have returned to the job market, but many others have gone abroad looking for jobs or have stayed at home and suffered social decline. For effective use of human capital, a coordinated education, employment and social service system must be created.

«My Fortune is my People,» wrote Latvian author Rūdolfs Blaumanis. The idea that one's people are the greatest of all values expressed the romanticized ideals of the National Awakening. The authors and editors of this **Report** feel that the idea has lost none of its relevance, but has acquired a new social context. «My fortune» is our greatest values, the main point of reference for all that we do, values that change along with changes in our social and economic conditions. «My people» are the population of Latvia, the shapers of the country's future.

Humans are social beings able to express themselves only through the community. In the long term, the welfare of the individual is possible only through the welfare of the whole nation, but the welfare of the nation depends on the input of its individual members. Development of the

nation is the basis for individual development. And in the 21st century, human capital has become the basis for development of the nation (see Box 0.2).

The 20th century has cruelly depleted Latvia's human resources – wars and the wilful acts of political regimes are the reason why population figures at the beginning of the 21st century are about the same as they were at the beginning of the 20th century. Latvia's demographic potential cannot ensure sustainable development. For Latvia's future in the new century, each individual and the nation as a whole are worth their weight in gold. Is this sufficiently clear to national and regional policymakers? Financial and physical capital loses its value if there is no human capital to convert its potential into real value. If there are no humans, there is no human development...

Latvia's National Development Plan (NDP) also anticipates development that is centred on the country's people. This is why, in choosing human capital as the central object of analysis, the **Report** seeks to examine the prerequisite for the existence of any society, the moving force of social relationships and society's greatest value – the human. It is important for our society to define the profile of an able and capable person in our modern-day society – to establish the values, skills, abilities and knowledge that make up Latvia's human capital.

How much is human capital in Latvia worth in the 21st century? Are the government's demographic, family and migration policies aimed at preservation and development of human capital? Do the business community, the government and the local governments know how to attract, employ and increase Latvia's human capital? How effective are the strategies chosen by various economic players for stopping the «demographic gap,» and what are the short- and long-term effects of these strategies? How effectively are public-private partnerships and regional innovation systems, which have proved themselves to be successful instruments for development and implementation of human capital in other countries, applied in Latvia? The **Latvia Human Development Report 2006/2007: Human Capital** seeks answers to these and other questions.

Box 0.2

Latvia's Growth Model: People Come First

The main resources for growth are the wisdom and knowledge of the population, and wise employment thereof; immediate investments are required for development, enhancement and modernization of these resources. The declared goal, as regards growth, is the improvement of different aspects of the quality of life of each and every individual, and this can be achieved through active employment of the knowledge accumulated by the population.

Source: «Latvijas izaugsmes modelis: Cilvēks pirmajā vietā» (2007). Long-term strategy document, approved by the Saeima on October 26, 2005.

Objectives of the Report

Opportunities for development and implementation of human capital are determined by social institutions and networks. In order to assess the potential and the conditions for development and implementation of human capital in Latvia, the **Report**:

- examines human resources and human capital development and implementation trends in Latvia, and compares the situation and processes in the Baltic States and the European Union;
- investigates human capital problems at the regional level; and
- explores the value orientations of Latvia's population in connection with development and implementation of human capital.

The first chapter of the **Report**, **My People**, examines Latvia's human capital and human capital development problems in a global and regional context. To make a country's human capital competitive, it is important to **identify and overcome obstacles and to seek new opportunities for development and implementation of human capital**. To this end, the **Report** analyzes the aspects of human capital development and implementation that have an immediate impact on productivity: motivation, the working environment, relations between employers and employees, employers' strategies for the use of manpower. The development of any society's human capital is largely affected by its human resources. If the percentage of working-age people in a society declines, the living standards of other population groups (small children, young people, pensioners) deteriorate, and there are fewer financial resources for the development of human capital. This is why the **Report** analyzes Latvia's demographic, family and migration policies from a human capital preservation and improvement aspect. Does the government's family policy provide favourable conditions for raising children? The development of human capital is also hugely affected by demographic factors such as health and life expectancy of the population and migration processes. The **Report** pays special attention to the emigration of manpower and to the assessment of various migration policy alternatives. An important instrument for effective mobilization of human resources is education policy. Funding for education and science and the quality of education largely determine the competitiveness of human capital. The **Report** takes a look at experience in Latvia and other countries with public-private partnerships (for example, the Lapmežciems children's playground project, or the Bērzaune library's cultural activities) and draws attention to this new human capital development instrument which is very much underappreciated in Latvia.

The second chapter, **Latvia outside of Rīga**, analyzes how the development and implementation of human capital is affected by unequal opportunities in the country's capital

and its regions. Population density, accessibility and quality of services, and the specific social environment of rural areas and small towns impact the development of human capital. The **Report** examines employment and business opportunities, the working environment and labour relations in areas outside of Rīga.

The **Report** also examines Latvia's experience with regional innovation systems and assesses opportunities for exploitation of the potential, traditions and advantages that are typical for a concrete region. The **Report** makes recommendations for improvement of the business environment and for better utilization of the potential of small towns.

The third chapter, **My Fortune – Ideal vs. Actual Behaviour**, seeks to determine the value orientations of Latvia's population. Attention is focused on the values that could promote and those more likely to impede economic growth and the dynamic development of society. One of the objectives of the **Survey** carried out for this **Report** was to determine which place in the value hierarchy of Latvia's population is occupied by values such as openness to change, orientation toward achievement and self-realization, orientation toward prosperity, toward the common good, etc. For the **Survey**, people were asked to rate not only the importance of different areas of life (such as family, work, religion) and the accordance of different value orientations with their own position (the importance of money, security, a creative approach to life, etc.), they were also asked to rate their own notions of desirable behaviour (for example, in areas such as raising children, paying taxes, etc.)

In this **Report**, the analysis of Latvia's human capital for the first time links together the specific and the general aspects of human capital. Thus, the chapters do not differ by topic, but by scale of analysis. The first chapter looks at Latvia's human capital in a global and regional context; the second chapter, in the context of unequal domestic opportunities. The third chapter examines the value orientations of individuals, which have considerable impact on individual strategies for development and implementation of human capital.

The Report and Latvia's Researchers

The 2006/2007 Report follows the tradition established with the very first Latvia Human Development Report (1995) to examine the human aspect of the country's social, economic and political development. This is now the ninth **Report**. It has been prepared by an independent group of researchers, headed by the Advanced Social and Political Research Institute (ASPRI) of the University of Latvia. The **Reports** were initially published by the United Nations Development Programme (UNDP). Since the end of 2004, responsibility for publication and distribution

of the **Report** has been in the hands of a consortium led by ASPRI in cooperation with the Liepāja Academy of Pedagogy, the Latvian University of Agriculture, Daugavpils University, Vidzeme University College and other partners. On February 22, 2006 at the University of Latvia's Faculty of Social Sciences, ASPRI organized a discussion on the next Human Development Report in which participants analyzed the main conclusions of the 2004/2005 **Report** and presented new ideas for the topic of the 2006/2007 **Report** – human capital. Participants also discussed the possibility of setting up a stable cooperation network of university researchers, with the involvement of students and young researchers, to broaden analysis of the social problems connected with the topics of the **Report** and monitoring efforts to resolve the problems.

Human Development in Latvia and the Millennium Goals

In comparison with many other countries, the human development situation in Latvia is fairly good. In 2006, Latvia ranked 46th in the world. This year's Global Human Development Report published on November 27, 2007, analyzes the impact of global climate change on human development (*Human Development Report 2006/2007. Fighting Climate Change: Human Solidarity in a Divided World*). Latvia's fairly high human development ranking does not allow it to turn a blind eye to global human development problems, because Latvia's future, too, will be affected by global processes. In 2000, world leaders signed the United Nations Millennium Declaration, pledging to do all that they can to achieve the eight Millennium Development Goals, which include issues such as education, public health, sustainable environment, aimed at eradication of poverty and improvement of living standards throughout world. Meeting the

Millennium Development goals and targets is among the priorities of the European Union. Latvia, too, has signed the Declaration, which means that the Millennium Goals are binding for this country (see Box 0.3).

Each country that has signed the Declaration chooses its Millennium Development Goals according to local circumstances and its own pace of development. For Latvia, as for other EU Member States, the Millennium Goals have made the question of **development cooperation** (aid for less developed countries) particularly relevant. One might ask: how can Latvia, a country that has relatively recently undergone radical social and economic changes, a country with very modest living standards in comparison with other EU Member States, help others? Development cooperation does not mean just financial aid. Latvia can share the unique experience that it and other Central and East European countries have acquired in their transformation and democratization processes. But in order to help others, Latvia must first evaluate its national capacity – including its human capital. What are we? What system of values do we represent? What is our experience and what are our achievements? What can we share with others? One of Latvia's Millennium Goal tasks is «Promotion of public understanding and involvement in development cooperation» (Republic of Latvia Ministry of Foreign Affairs, UN Development Programme, 2005). The evaluation of Latvia's human capital in this **Report** is a concrete contribution to fulfilment of this task.

Latvia Human Development Report 2006/2007

It has become tradition to carry out a broad **Survey** for the purposes of the Report (see the section «Survey on Human Capital in Latvia 2007»). This year's **Survey** focuses

Box
0.3

The UN Millennium Development Goals

- 1st goal: Eradicate Extreme Poverty and Hunger
- 2nd goal: Achieve Universal Primary Education
- 3rd goal: Promote Gender Equality and Empower Women
- 4th goal: Reduce Child Mortality
- 5th goal: Improve Maternal Health
- 6th goal: Combat HIV/AIDS, Malaria and other Diseases
- 7th goal: Ensure Environmental Sustainability
- 8th goal: Develop a Global Partnership for Development

Source: <http://www.un.org/millenniumgoals/>

on the values of Latvia's population. In addition to the population survey, several smaller case studies were carried out. These produced the Human Development **Close-ups** – studies that take a closer look at different aspects of development and implementation of human capital. The **Close-ups** provide insight into different human capital problems and ways of resolving them. They are not directly incorporated into the text of the **Report** because the situations that they analyze serve not only as illustrations, but also as examples of good practice in regard to development and implementation of human capital, and supplement more than just one chapter of the **Report**. Latvia's up-and-coming young human development researchers – master's and doctoral students – were involved in preparation of the **Close-ups** and carried out field studies in different parts of Latvia under the guidance of experienced researchers.

Children's drawings have been used in the design of the **Report**. We asked children's art school students to draw pictures of their parents at work and their dreams of the

future. Ties between parents and children are like the links of an unbroken chain that stretches from the past to the future. Quotes from Latvian folklore – folksongs and sayings – from the nation's cultural capital, have been used in some of the sections of the **Report**. The authors of the **Report** saw this wisdom in a present-day context. We acquire our values and our views of the world from our parents and we pass them on to our children, hoping that they will continue what we have begun. Knowledge, skills and abilities make up our human capital – the basis for our human development.

At present, in a situation where **the nation's demographic potential is insufficient for sustainable human development**, creative development and application of each and every individual's human capital is important. Human capital is one of the capital forms (similar to social capital) that is not dependent on economic fluctuations and is guaranteed to generate profits in the future. It is the best legacy that we can pass on to our children. Let us invest in our human capital – our own and that of our children! Let us invest in the future!

Box
0.4

Terms Used in the Report

Human capital – human abilities and skills which increase the potential for economic activity. Human capital partially coincides with capability, yet these terms are not identical. For example, education can increase an individual's ability to compete in the labour market (from the human capital aspect), but at the same time education increases the individual's capability by expanding opportunities for action, self-expression, choice, etc.

Life-activity – an individual's influence on the external physical or social environment or on the individual himself or herself; the activity of an individual in all areas of life.

Capacity – the adequacy of resources in terms of quantity and suitability of personnel, equipment, facilities and finances.

Life-activity opportunities – conditions for individual human activity: education opportunities, health, employment, remuneration, political opportunities, etc.

Sustainable development – development that ensures the fulfilment of current needs without endangering the fulfilment of the needs of future generations; a balanced development of environmental, economic and social systems (economic growth and high quality of life is ensured without concurrent environmental degradation). The term was defined in 1987, in the UN World Commission on Environment and Development Report «Our Common Future.»

Innovation – a creative process in which new scientific, technical, social and cultural ideas or ideas related to other spheres are developed and implemented.

Community – a group of people united by geographic location, some aspect of social identity and/or common motives.

Partnership – long-term co-operation of several social agents (individuals, entrepreneurs, state and local government institutions, non-governmental organizations, etc.) for the achievement of common development goals.

Capability – an individual's social capability is the individual's ability to use the opportunities for social activity offered by society.

Creativity – ability to find unconventional solutions in different situations.

Social capital – characteristics of social interaction and social networks which can be used by individuals or groups to make their activities more efficient.



My People

1

Chapter

INTRODUCTION

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CONCLUSION

My People

Introduction

National, regional and community development are not possible without human capital – a certain critical mass of the population which is not formed merely by quantitatively classified abstract human units. Instead, this critical mass consists of concrete individuals, their plans in life and ability to put these plans into action, their knowledge and skills. To a large extent, the State is responsible for the preservation and re-generation of its human resources, and for the formation and sensible usage of its human capital. A State's demographic, family, education and employment policies shape the basic conditions for its population's life activities.

The goal of this chapter is to examine the trends in human resource development and human capital formation and usage in Latvia, and to compare the situation and processes in the Baltic countries to those in the European Union. We are proud of the people from Latvia who are recognized in the world through their work, but is Latvia not becoming too cramped for the achievement of ambitious goals? Does Latvia know how to attract and make use of its most valuable capital – its people?

What is Happening in the World?

Global development trends

In order for a country to become competitive, its human capital must be able to compete on a global or at least a regional level. In this day and age the global context is

determined by the dynamic relations between the main economic players in the world – the U.S.A, the countries of Asia and the European Union. Regional processes play the largest role in Latvia's development. The European Union's strategic goal for this decade is to become the most competitive, dynamic and knowledge-based economy in the world, which could ensure sustainable economic growth with more and better jobs and with the greatest social cohesion. Therefore, it is important to realize that growth in national statistical indicators in certain areas is only a fraction of the picture. We must be able to provide answers to questions such as: «Are we developing in the right direction?» and «Will we have sufficient perseverance for development?»

Three essential trends can be observed in global economic development. First, over the past 25 years the economy of the European Union Member States (as a whole) has preserved its share of the global economy (see Box 1.1). Second, the U.S. tempo continues to grow. Third, individual Asian countries, particularly China, are demonstrating unprecedented dynamic development, while the average income level in these countries continues to be very low.

According to projections by the «Economist Intelligence Unit» (EIU), the size of China's economy by 2020 will already equal that of the U.S. economy. Furthermore, Asia's share of the joint global gross product, calculated according to standards of purchasing power parity, will have increased from 35% last year to 43% in 2020. According to EIU projections, the U.S. economy will grow by almost 3% per year, while the European Union (EU) will have 2.1% growth (EIU, 2005).

Box
1.1

Share in the World Economy of the most Influential Countries/Regions, %

	1980	1990	2005
EU 25	30.8	31.0	32.0
USA	23.8	25.7	29.5
Japan	9.0	13.4	10.8
China	2.6	1.7	5.3
India	1.5	1.4	1.8

1980 and 1990 data concerning the EU do not take into account GDP data regarding 5 present EU Member States, which at that time did not exist as independent states – Estonia, Latvia, Lithuania, Slovakia and Slovenia.

Source: International Monetary Fund, 2007.

For the most part, Asia's development is based on low labour costs, and the U.S. is the world leader in high technology. For quite some time now the European economy has been unable to compete in terms of labour costs, and Europe continues to fluctuate in its development strategies between global challenges and the customary economic footholds. It is important to note that on many indicators, it is difficult to perceive the European Union as a united whole, as the indicators of individual Member States can differ more than, for instance, European Union and U.S. indicators. This situation is clearly characterized by the «World Economic Forum's» global competitiveness ratings – in these listings in 2006, 15 EU Member States ranked between second (Finland) and forty-seventh (Greece) (World Economic Forum's homepage <http://www.weforum.org/en/index.htm>), which depicts well the irregular makeup of the EU from the perspective of global competitiveness. However, the use of European Union common indicators is not erroneous, as there is a common market in the European Union and Member States have adopted common development strategies with specific tasks to accomplish. In its national development documents Latvia has also accepted imperatives dictated by the information society, and together with other European Union Member States, is striving to meet the goals of the Lisbon Strategy (see, e.g., Latvia's National Development Plan, MRDLG 2006).

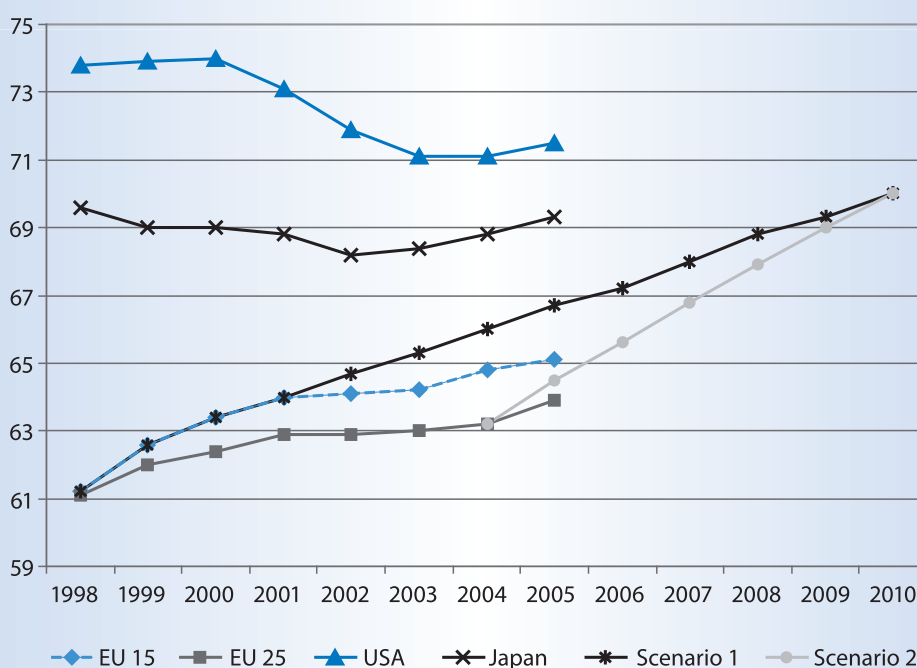
The Lisbon Strategy that was adopted in 2000 could be interpreted as Europe's reply to global challenges. The Strategy also demonstrates Europe's understanding of its long-term problems and efforts to find solutions. However, change in the European Union countries is not swift enough to hope that the Lisbon Strategy goals could be reached with success. For instance, the EU total employment indicator (for the sake of comparison, data concerning only 15 EU Member States have been used here) has increased from 63.4% in 2000 to 65.2% in 2005. Still, this progress is insufficient in order to meet the 70% goal for 2010 (see Box 1.2).

There are substantial differences in productivity between the U.S. and the European Union Member States. According to estimates, in his/her lifetime, a typical American works 40% more than a typical European (Pozen, 2005, p. 9). Due to the lack of a common employment policy in the European Union and a deeply-rooted culture of work and leisure that is distinct from that in the U.S., no rapid changes are expected in this area.

An important factor in human capital development is basing an economy on knowledge and innovation. Innovation is an area where U.S. superiority over the EU becomes apparent – mostly in terms of larger investments in research and development, higher education, expenditures for information and

Box
1.2

Lisbon Strategy Implementation Monitoring (70% employment level in 2010)



Source: The Association of European Chambers of Commerce and Industry Eurochambres data

communication technologies and patents (European Trend Chart on Innovation, 2005), and human capital (European Commission, 2005). However, the EU has better ratings in terms of numbers of graduates in sciences and engineering, business-financed expenditures for research and development, and the employment level in branches of medium-high and high technology (Ulnicāne-Ozoliņa, 2007, p. 196).

Although the European Union generally lags behind the U.S. in innovation, it would be erroneous to follow the U.S. model. In the area of innovation, the European Union is not internally homogeneous. For instance, in some innovation ratings, Sweden and Finland surpass the U.S. (European Trend Chart on Innovation, 2005). Therefore, a more adequate approach for the European Union Member States would be to analyze the experience of the most successful EU Member States, and not to attempt to copy the U.S.

Among Other Nations

Latvian Human Capital in a Global Context

As recently as 2004, Latvian officials were expressing their pride in the low costs of labour in the country. This gave reason for hopes that investors would be interested in opening manufacturing plants in Latvia (Spurdziņš, 2004). Presently, in late 2007, a rather unusual cocktail of possibilities and desires has taken shape: despite a decrease in the birth rate, an increasing number of retirees, discontent that the labour force is leaving the country and worries about the inflow of labour from neighbouring countries, ambitious goals continue to be set for Latvia. Latvia continues to aim to become one of the twenty most prosperous countries in Europe, and in terms of competitiveness – among the top five (Kalvītis, 2006).

Latvia ranks last among the Baltic countries according to many indicators that characterize human capital development, especially in terms of expenditures for research and development, and productivity. Implicitly, this also determines Latvia's low level of competitiveness in comparison with Estonia and Lithuania, and within the European Union (EU) as a whole. In the period between 2000 and 2004 (prior to EU accession) Latvia's ratings were the lowest among the Baltic countries in the largest and most commonly cited indexes of competitiveness. In 2004, Estonia ranked 20th among 125 countries in an index table that measured competitiveness in development, Lithuania placed 36th and Latvia – 44th (Vanags, Leduskrasta, 2005, p. 26). The situation changed somewhat during the following years. Estonia maintained its leading position, although it dropped several notches in the index ratings – 26th place in 2005–2006 and 25th place 2006–2007. In 2005–2006, Lithuania placed 34th in the index, and in 2006–2007 slid down to 40th. In the

2005–2006 index Latvia ranked below both neighbouring countries – 39th, but in the last index in 2006–2007, Latvia overtook Lithuania and ranked 36th (World Economic Forum, 2006, p. 14).

In Europe the lowest productivity indicators are in branches that employ labour with lower qualifications. In Latvia, the added value of a branch is more dependent on the specifics of the company's activities – whether it is based on human resources or on equipment and technology. The December 2005 Report on the Economic Development of Latvia from the Ministry of Economics of the Republic of Latvia (Ministry of Economics, Republic of Latvia, 2005) indicates that the branches with the least added value¹ in Latvia are electricity, gas and water supply, primary branches and construction. The branches with the highest added value are other business services, trade, and the hotel and restaurant industries. Therefore, it is possible to conclude that to a large extent, low productivity in Latvia is determined by **technological** backwardness.

Similar conclusions can also be drawn from *World Economic Forum* data, which show that Latvia has one of the lowest rankings in Europe from the perspective of technological development, business complexity and innovation (Global Competitiveness Report, 2006). Unfortunately, at present there is more public debate on the possibility of attracting labour from other countries than on raising labour productivity and efficiency.

Employees Who Know How to Manage Their Time

The Work Environment

Productivity and results achieved do not merely depend on skills and abilities, but also on the amount of applied effort. Therefore, it is understandable that motivation is often considered to be one of the indicators of human capital. In Latvia, a lack of motivation is one of the chief reasons preventing employees from finding fulfilment at work. Results from the **Survey on Human Capital in Latvia** show that a lack of motivation was mentioned by 10% of employed persons, and most often by persons in the 25–44 age group. The level of motivation and applied effort is dependent largely on the pay level, and in Latvia this is not high. According to the Statistical Office of the European Union the average hourly cost of labour in Latvia in 2005 was 2.77 EUR or 13.1% of the average EU level (Eurostat homepage data). The difference in wages is illustrated well by the fact that according to official statistics of U.S. Department of

¹ Added value – value added for intermediate consumption (purchased raw materials, materials, semi-finished products) during the manufacturing of goods or the provision of services.

Labour and Eurostat, the difference between average wages in Latvia and Germany is the same as between wages in the U.S. and Mexico.

Quite possibly, the subjective perception of one's pay and one's assessment of the mutual relation between one's effort and received wages are even more important than the actual salary level. Results from the survey «Causes and Duration of Unemployment and Social Alienation» (Ministry of Welfare, 2007a) demonstrate that presently the population of Latvia almost unanimously (84%) disagrees that fair wages are paid at Latvian businesses. The results of the **Survey** indicate that 60% of employed persons are discontent with their income and 22% of employed persons are discontent with their work. Simultaneously, as revealed by interviews in several Labour Market Studies (see <http://www.darbatirgus.gov.lv>) carried out by the Ministry of Welfare in 2006, employers consider the demands of employees to be unjustifiably high. Although high inflation and migration possibilities notably increase employee demands, payment is also determined by the employer's inability to pay the desired salary. By using primitive technologies and cheap labour, many businesses in Latvia are capable of existing only in an environment with workers who are willing to work long hours for low wages. Many lack the ability or desire to invest in the use of technology or raising productivity, which would make it possible to improve competitiveness and would offer higher wages. As a result, some employers attempt to degrade the value of their employees by indicating that the latter's education and skill level is not worth the pay demanded. A decrease in the supply of cheap labour in the future will put a portion of businesses in a difficult situation. If an employer is forced to agree to pay an employee a salary that the company is unable to regain, and if the increase in wages substantially exceeds the increase in productivity, the company's competitiveness and sustainability become threatened. However, by looking at the relation between productivity and wages, one can conclude that in general, productivity in Latvia until 2005 has increased faster than wages. Only recently have wages increased rapidly – according to CSB data, between June 2005 and June 2006, the average gross wages of employed persons in Latvia have increased by 22%. In comparison with the wage/productivity relation in other countries, it is reasonable to assume that for now, there is no basis for fear that the rise in productivity in Latvia will not be able to compensate the increase in wages. However, it should be noted that the higher the productivity, the more expensive it becomes to increase each next percent of productivity.

The formation and utilization of human capital is strongly influenced by a society's **values** and **traditions**. The **Survey** shows that 62% of working people in Latvia agree that work plays a very important role in life, and 33% agree that work plays an important role. Although Latvia's population works a great deal, work is often not

intensive. In Latvia the work intensity index, which is characterized by «working at a fast pace» or «working to meet tight deadlines,» is the lowest within the EU² – only 39.5% of working people work very fast and 51% work to meet tight deadlines. Furthermore, in Estonia and Lithuania, and on average within the EU, work intensity between 2000 and 2005 increased, although in Latvia there were no significant changes (European Foundation for the Improvement of Living and Working Conditions, 2007). A variety of reasons might cause low labour intensity in Latvia. First, greater employee autonomy, which is characterized by low management control; second, wages that do not provide a motivation to work intensively; third, fatigue and overwork; fourth, delays in the work process due to obsolete technologies; fifth, a low level of involvement and loyalty to the business (the **Survey** shows that during the past year one third of respondents have considered changing work places.) From the **Survey's** data it is possible to conclude that times of change have degraded the perspective of a certain segment of the working population: in Latvia the least (only 15%) inhabitants feel that it is important to work hard in order to get far in life, while 36% feel that it is important to know the right people. The **Survey** reveals that 39% of the population thinks that dishonesty is very important in order to achieve success (25% replied that it is hard to say whether this is important), and 65% agreed that «honest work won't make you rich.» Such an attitude does not motivate the working population to work intensively and diligently, but instead to «create the appearance» of intensive work.

Growth of labour productivity is also influenced by the **workplace environment and work relations** – the way that work is hierarchically organized, the exchange of information, whether or not employee initiatives and input are listened to and supported, etc.

The **Survey** shows that employees are not complaining about being unable to introduce their own ideas in the workplace, but in reality, such initiatives are not common: only 16% have offered suggestions on how to improve work conditions, 13% have offered input on how to improve the way that work is organized, 6% have offered suggestions on how to improve production technology, 5% have offered input on other ways of rationalizing the work process, but 59% have offered no suggestions. Employed persons in small towns and rural areas are especially passive when it comes to offering suggestions. It can be concluded that the work environment in Latvia is open, geared toward cooperation, and that the way that work is organized does not put up barriers to the use of human capital in the work process. However, employees themselves rarely show initiative. The **Survey** shows that presently, only 22% of employed persons are convinced that showing initiative will boost one's

² Lithuania had the second lowest.

career (49% somewhat agree). It would be advisable for businesses not only to accept this type of input, but also to encourage it in various ways.

In the **Survey** working persons mentioned **fatigue** and **health** problems (respectively, 13% and 8%) as the main reasons that keep them from fulfilling themselves at work.

Due to low wages, the majority of working persons in Latvia have no objections to overtime, as they hope in this way to earn more – in the **Survey** 79% responded affirmatively. The self-esteem of working persons in Latvia is rather low – the **Survey** showed that only 39% of respondents considered themselves to be employees who would be difficult to replace, while 37% were of the opinion that it would be difficult for them to find an equivalent job, and therefore employees often even settle for non-reimbursed overtime (see Box 1.3).

Only relatively recently has the labour shortage in Latvia been considered a problem. In the time period between 1991 and 2004, when 230,000 persons (10% of the population) left the country, no one paid special attention to the possible social and economic consequences. The high level of unemployment offered employers relatively free access to human resources, and the potential problem of a labour shortage was also not reviewed at a State level. The Organization for Economic Cooperation and Development (OECD) expressed one of the first serious warnings to Latvia in 2003, indicating that *«as it will not be possible to compensate the necessary shortage of labour with a rapid rise in immigration or an increased birth rate, it will be increasingly important to regenerate existing human capital and ensure its productive use»* (OECD, 2003a). Accession to the EU, an increased rate of economic growth, and a higher risk of labour emigration – these factors have brought this problem to the attention of both employers and policymakers (see Box 1.4).

Box 1.3

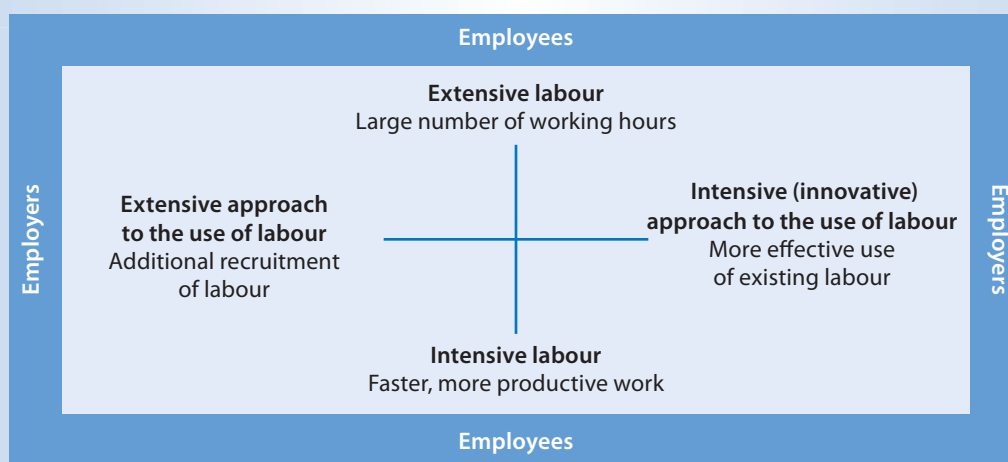
Labour Costs per hour, EUR

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Latvia	–	1.59	1.71	1.85	2.22	2.29	2.39	3.37	2.52	2.77
Lithuania	1.32	1.68	1.95	2.16	2.63	2.76	2.9	3.1	3.22	3.56
Estonia	1.85	2.12	2.42	2.6	2.85	3.22	3.67	4.01	4.24	4.67
EU 25	16.06	16.88	17.24	17.97	19.21	19.64	20.32	20.58	21.14	21.2
EU 15	18.52	19.49	19.85	20.57	21.79	22.33	23.06	23.28	23.96	–

Source: Data from the Statistical Office of the European Union (Eurostat)

Box 1.4

Intensive and Extensive Approaches in Employer-Employee Relations



Author: Inta Mieriņa, 2007.

Presently used strategies for compensating the shortage of labour are not sustainable and cannot foster Latvia's competitiveness. In order to make use of human capital effectively, promote growth in productivity and approach the EU level in productivity, competitiveness and wages, changes are necessary in the habits and attitudes of both employers and employees. The National Development Plan (NDP) stresses that in the future it is necessary to shift from extensive recruitment of labour to innovative development geared at making use of internal intellectual resources (an endogenous approach).

What's Happening in My Homeland?

Human Resources

The development of a society's human capital is significantly influenced by its human resources. If the proportion of working-age persons in a society decreases and human resources are not replenished, the circumstances of other groups (children, young people, retirees) may significantly deteriorate, and financial resources for the development of the society's human capital may decrease. There is a risk that the financial situation of the State may become threatened as a result of a slowing economic growth rate and a decrease in the proportion of the working-age population. For instance, if no reforms are undertaken in Latvia, the payment of pensions will no longer require the present 6.4% of GDP, but instead, 8.2% in the year 2050. Health care expenditures will require 6.2% of GDP, instead of the 5.2% that are spent presently. Total expenditures that are connected to the ageing of society could grow from 12.3% of GDP presently to 16.5% in 2050. «Standard & Poor's» anticipates that this situation will significantly increase State budget expenditures, reaching 46% of GDP. Thus, the national debt may increase to 128% of GDP in 2050, and the budget deficit may increase to 10.8% of GDP.

Predictions of this sort lead to the conclusion that the ageing of society and the shortage of labour will become yet another obstacle to reaching the average EU standard of living. Within the EU, resolving this problem remains largely up to the Member States, as there is no united approach in the area of pensions and social assistance. Still, this issue might move to the forefront in the event that Europe encounters some unexpected economic problems. In addition, it is also important to take into account possible changes in the retirement age that would be connected with an increase in average life expectancy.

In Latvia's case, the situation in this area is not unequivocal. Latvia's long-term demographic indicators show that the imminent problems may be even more serious than on average in Europe. According to prognoses, between

2010 and 2030 the number of working age persons in the EU 25 Member States will decrease by 20 million, and after 2025 immigration will no longer be able to compensate for the natural decline in the population (International Organization for Migration, 2005). Latvia will also be affected by the global trend toward an ageing society. The proportion of the middle-age population could grow from 39.5% in 2005 to 50.5% in 2050, and the proportion of inhabitants over 65 could increase to 26.1% in 2050. In this time period, the proportion of working age persons could decrease from 69% to 59%. Furthermore, the total population of Latvia is also expected to decrease. Last year Latvia had a population of 2.3 million, but by 2050 the population could shrink to 1.9 million. «Standard & Poor's» indicates that changes in the society's age structure could influence the country in a variety of ways («Standard & Poor's is urging Latvia to undertake reforms,» LETA.07.07.2006.).

No Brothers, No Sisters

Demographic Processes

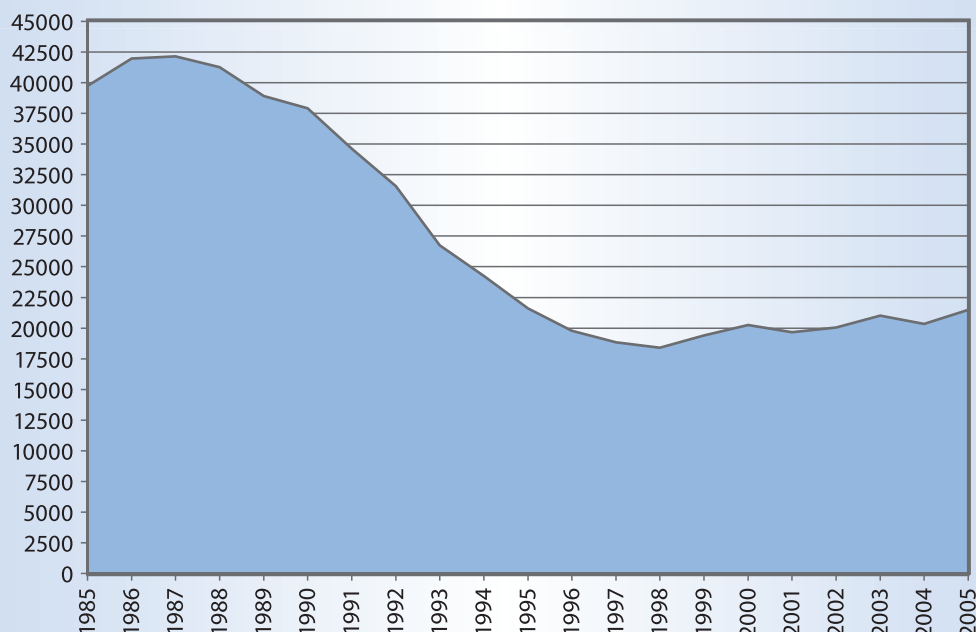
In the middle of the 1990s there was a gradual increase in the number of births in Latvia until the necessary level was reached allowing for repopulation. Over the last decades the largest number of births, 42,135 children, was in 1987. Over the following ten years, from 1988 to 1998, the number of births decreased. 18,410 children were born in 1998, i.e. 56.3% less than in 1987 (CSB, 2006). In the period between 1999 and 2006 the birth rate displayed no consistent upward or downward trend, varying from year to year and slightly exceeding 20,000. Since 1991 the birth rate has been lower than the death rate (see Box 1.5).

According to the Statistical Office of the European Union, at the beginning of 2005 Latvia's population made up 0.5% of the EU 25 population. However, children born in Latvia in 2004 made up 0.4% of the total number of births in the EU 25 Member States (Eurostat, 2006, p. 51). In 2005, on average 10.5 children were born per 1000 inhabitants in all of the 25 EU countries – in Latvia this figure was 9.3. According to this indicator, Latvia ranks 23rd, higher only than Lithuania (8.9) and Germany (8.3). The highest indicators are in Ireland (14.7), France (12.9) and Denmark (11.9).

The population regenerates if on average 2.10–2.15 children are born per woman. Presently, the total fertility rate (average number of children born per woman) is lower in all EU Member States. The lowest total fertility rates in 2005 were in Poland (1.25), Slovakia and Slovenia (1.26) and Lithuania (1.27). In 2005 in Latvia, as in Italy and Hungary, 1.31 children were born on average per woman. The highest indicators were displayed by France (1.94), Ireland (1.88) and Finland (1.80) (Eurostat, 2006).

Box
1.5

Number of Births in Latvia 1985–2005



Source: CSB, 2006

Box
1.6

Total Fertility Rate (mean number of live births per woman) in selected Baltic and Scandinavian Countries from 1995 to 2005

Country	1995	2000	2001	2002	2003	2004	2005
Latvia	1.27	1.24	1.21	1.23	1.29	1.24	1.31
Lithuania	1.55	1.39	1.30	1.24	1.26	1.26	1.27
Estonia	1.38	1.39	1.34	1.37	1.37	1.47	1.50
Denmark	1.80	1.78	1.76	1.72	1.76	1.78	1.78
Finland	1.81	1.73	1.73	1.72	1.77	1.80	1.80
Sweden	1.73	1.54	1.57	1.65	1.71	1.75	1.76
Ireland	1.84	1.88	1.94	1.97	1.98	1.99	1.88

Source: Statistical Office of the European Union (Eurostat)

Indicators that characterize a population’s regeneration have been improving gradually in Latvia since 2005, although the average number of births per woman continues to be lower than the EU average, which in 2004 was 1.46 (CSB, 2006a, p. 126).

In comparison with the Baltic and Scandinavian countries, only Lithuania had a lower total fertility rate than in Latvia (see Box 1.6).

In Latvia there is a gradual rise in the average child-bearing age of women. In 2005 the mother’s average age upon childbirth was 28 years, which is close to the average mother’s age at the end of the 1960s. In comparison with the EU 25 Member States, Latvia and Lithuania have the youngest mothers. The mother’s average age upon childbirth is above 30 in Spain, Italy, the Netherlands, Sweden and Denmark. Compared to 2004, the most distinct fertility rate increase in 2005 could be observed

among women between 30 and 39 years of age. In 2005 65% of newborns had ethnic Latvian mothers.

During the past years the following trends have remained constant: 50–53% of all newborns were the first child in the family, 31–32% were second children, and 10–11% were third children (CSB, 2006a, p. 67). Over the past years the highest birth rates were in the Kurzeme region, especially the district and city of Liepāja. The lowest birth rates were in Daugavpils and the Latgale region in general (CSB, 2006a, p. 76)

In Latvia there is a relatively high birth rate among unmarried women, which can be explained largely by widespread unregistered cohabitation, as most children are registered with paternity. During the past years 55–60% of births were to married mothers, with this figure on the decline. In rural areas more than half of all births are to unmarried women. According to Eurostat data from 2005, among the EU 25 Member States, Latvia ranks 6th with 44.6% of births to unmarried mothers. Higher rates were in Estonia (58.5%), Sweden (55.4%), France (48.4%), Slovenia (46.7%) and Denmark (45.7%). In Cyprus (4.4%) and Greece (5.1%) almost all children are born to married mothers (Eurostat homepage).

The birth rate in Latvia does not allow for population regeneration even in the simplest terms. Over the past years the birth rate has grown somewhat, but the rate of growth is small, and the birth rate is smaller than the death rate. Latvia continues to have one of the lowest birth rates in

Europe. For now, there is no basis for optimism that the situation could improve, as most newborns are first children in the family. From the viewpoint of population regeneration it is important that a sufficient number of families raise two or three children. Presently, those who were born in the 1980s are reaching reproductive age, and this could be a supporting factor toward an increase in the birth rate. However, in order to achieve a significant improvement in birth rate indicators, more effective forms of support are necessary. Support is needed not only through benefits, but there must also be better opportunities for combining child-rearing with professional employment. Specialists predict that in Latvia the population may regenerate to a limited extent, and the total fertility rate could reach 1.57 by 2025 (Zvidriņš, 2006, p. 173).

To a large extent, the low birth rate has had an effect on the proportions of the population's different age groups. There has been a decline in the proportion of children in particular. Latvia is one of the EU countries that has a relatively high proportion of inhabitants who have reached the age of 65 (CSB, 2006a, p. 28). Since 1993 the proportion of inhabitants aged 0–14 has been smaller than the proportion of inhabitants who are past working age. At the beginning of 2006, 14.3% of the population was below working age and 21.3% was past working age. In 1992, these figures were, respectively, 22.8% and 21.4% (CSB, 2006a, p. 22). Among the EU countries Latvia has one of the lowest proportions of inhabitants below working age (0–14 years of age). Only Slovenia (14.4%) and Cyprus (19.2%) have less (see Box 1.7).

Box
1.7

Distribution of the Population by Age in the Baltic and Scandinavian Countries in 1995 and 2005, %

Age group	Year	Latvia	Lithuania	Estonia	Denmark	Finland	Sweden	Ireland
0–14	1995	20.9	21.9	20.9	17.3	19.1	18.9	24.5
	2005	14.8	17.1	16.0*	18.8	17.5	17.6	20.7
15–24	1995	13.5	14.4	13.8	13.5	12.4	12.4	17.4
	2005	15.6	15.4	15.4*	11.0	12.4	12.2	15.5
25–49	1995	33.8	35.0	34.4	37.5	38.6	35.1	33.8
	2005	35.4	36.1	34.7*	35.4	33.5	33.4	37.2
50–64	1995	18.3	16.5	17.6	16.4	15.8	16.1	12.8
	2005	17.6	16.3	17.7*	19.7	20.7	19.6	15.4
65–79	1995	10.6	9.5	10.5	11.4	10.9	12.8	9.0
	2005	13.5	12.3	13.2*	10.9	12.0	11.9	8.5
80+	1995	2.9	2.6	2.8	3.9	3.2	4.6	2.5
	2005	3.0	2.8	3.0*	4.1	3.9	5.4	2.7

* Data from 2004

Source: Statistical Office of the European Union (Eurostat)

In the future the population's ageing process will continue. According to prognoses of specialists from the Centre of Demography of the University of Latvia, in 2021 16.2% of the population will be age 0–14 and 18.6% will be over 65, and there will be a decline in the proportion of the working-age population (see Box 1.8).

Fathers and Mothers

Family Policy

A consistent family policy has been implemented in Latvia since the creation of the Secretariat of the Minister for Special Assignments for Children and Family Affairs in 2003 (which later became the Ministry for Children and Family Affairs). «Stabilization of the demographic situation by increasing support for families with children and diversifying forms of support» became a priority of the Ministry, in addition to continuing work on developing a State family policy action plan (Secretariat of the Minister for Special Assignments for Children and Family Affairs, 2003). A Council for Demographic and Family Issues has been established for consultations and policy coordination. The Council consists of representatives from various ministries, research institutions and non-governmental organizations. In addition to the low birth rate, births to unmarried mothers and the high divorce rate are defined as problems according to the concept and action plan of family policy documents at various levels. As a solution to this problem, these documents propose a return to the patriarchal family model, as opposed to accepting the new model of cohabitation and supporting children that are growing up in untraditional families. These families make up almost half of Latvia's families with children.

The trend in family policy is in conflict with employment and social inclusion policy, as well as preventing discrimination against women, as it promotes the implementation of discriminatory gender roles in families. In the international arena, family policy is regulated by two international instruments which Latvia has ratified – the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) and the Beijing Platform for Action 1995–2005. By accepting these instruments, Latvia has committed itself to improving the position of women and eliminating discrimination against them. Traditional gender roles, where the man adopts the role of the breadwinner and the woman that of the housewife, foster discriminatory men's and women's employment indicators, choices among professions, salaries, and as a result – differentiated material prosperity. The Lisbon Strategy that was adopted by European Union Member States in 2000 aims to boost men's and women's employment indicators. In the Latvian programme, women after maternity leave and women at pre-retirement age are in a social inclusion risk group (Ministry of Economics, Republic of Latvia, 2005a).

The action plan for the implementation of the «State Family Policy» concept called for activity in three areas – increasing the birth grant and the childcare allowance, raising the minimum un-taxable income, creating recreation and development, family support and crisis centres and hindering the influence of violence, erotica and pornography on children. To a large extent, the policy is detached from international obligations in the area of employment and does not sufficiently promote the inclusion of parents in the labour market. Only in 2007, after an order from the Prime Minister, did the Ministry for Children and Family Affairs initiate a programme for

Box
1.8

Quality of Life and Reproduction of Kurzeme and Liepāja Inhabitants

In recent years, the Kurzeme Region has reported the highest birth-rate figures in Latvia. Among Latvia's seven largest cities, Liepāja is the city with the highest birth rate. In 2005, 40.07 children were born in Kurzeme to every 1,000 women of childbearing age. The figure in Liepāja was 42.87 [*Demogrāfija* 2006; 76] In order to analyze the «qualitative composition»¹ of the child population in Latvia and the changes therein that are dependent on the socio-demographic profile of the parents, a group of researchers at the Sociological Research Centre of the Liepāja Academy of Pedagogy carried out a study on the connection between the pathologies of newborns and their parents' socio-demographic characteristics and healthcare habits.² The study was based on the assumption that pregnancies, complications during childbirth, and the pathologies of newborns connected with these factors are affected by the education of the mother, by whether or not she is employed, and by her marital status. A survey was carried out at the maternity ward of the Liepāja Central Hospital. Researchers asked questions about the mothers' age, education, occupation, marital status, place of residence, addictions, the child's father, the pregnancy and the delivery. The state of health of 1,141 newborns delivered between 1990 and 2006 was analyzed on the basis of specific symptoms.

1 The term *qualitative composition* is used in a quality-of-life context: children's quality of life is viewed in context with components of the quality of life of their parents.

2 Markausa, I.M., Medveckis, A., Pavlina, I., Supe, L. «Iedzīvotāju ataudzes kvalitatīvā aspekta pētījums Kurzemē un Liepājā». Liepāja, 2006, p. 81.

the elimination of family violence (Ministry for Children and Family Affairs).

One of the most radical steps in family support policy was the family allowance for childcare until age one, which was supported in 2004 and adopted in 2005. The concept of the allowance was based on Estonian experience and the assumption that a child's arrival in a family decreases the family's standard of living, and therefore, maintaining the family's income would serve as an important factor in favour of family enlargement. The Ministry for Children and Family Affairs refers to these allowances in short as «mother's salaries,» thus indicating the purpose of the allowance as fulfilled by traditional gender roles, although both parents have the legal right to receive this allowance. The new conditions for granting the allowance do not allow the parent who receives the childcare allowance to work and receive income at the same time. In 2005, several mothers contested this restriction in the Constitutional Court, which ruled the restriction as unlawful. The court based its ruling on the assumption that this restriction does not correlate with the family's long-term interests. However, even this allowance does not significantly improve the situation for most families – in June 2005 46.5% of recipients received the minimum allowance – 50 LVL, 16.5% received 56 LVL, and only 2.5% received the maximum amount – 392 LVL.

From 2005 until mid-2007, 14 cases of childcare allowance issues have been contested in the Constitutional Court. This demonstrates that upon adopting the Law on State Social Benefits, there were not enough consultations with the public and the opposition in the Saeima. All of the petitions indicated the disadvantageous position of working parents in the child benefit system.

The debates on procedures for granting childcare allowances put the issue of combining work and family life on the family policy agenda. This issue has been emphasized in formulating gender equality policy, but it has remained removed from family policy priorities. The parents' low income level and the need for a stable income in order to support the family in the long term, as well as low State support for families with children – these were the arguments of the Constitutional Court in ruling on childcare allowance granting procedures and deciding in favour of combining work and family life. The policy in Latvia on combining work and family life was criticized in a shadow report on compliance with the CEDAW (Women's NGOs Network of Latvia, 2004) and this criticism has also been upheld by the CEDAW Commission (CEDAW, 2004). In accordance with its action plan, the Ministry for Children and Family Affairs is continuing to open temporary childcare centres throughout Latvia, which still do not allow parents to return fully to the labour market (Ministry for Children and Family Affairs, 2004).

In 2006 the lack of childcare options became an urgent problem and State assistance for the construction of new

childcare facilities was discussed in the parliament (see, e.g., stenographic records from parliament sessions) and the media. In 2006 the Ministry of Economics submitted to the Cabinet of Ministers a brief concerning an action plan for the construction of new preschool day-care centres. In 2006 the Rīga City Council established a new type of compensation for parents whose children have been waitlisted for a spot at a preschool day-care facility. The situation is aggravated by the shortage of labour, and increasing the options for combining work and family life is being demanded by representatives from labour unions and women's organizations, as well as employers. The lack of preschool day-care facilities creates a grey economy sector in nanny services that employs women who receive no social security and who do not pay taxes. The women's resource centre «Marta» has called attention to the issue of the wage level and tax breaks for nannies, pointing out that parents' limited solvency does not allow for legalizing nanny services. «Marta» has also underscored the socially unjust situation of the parents who have been refused childcare services due to a lack of capacity at existing facilities. The money of all taxpayers is used for the maintenance of preschool day-care centres – including the taxes of these parents.

Another important new element in Latvian family policy is a 10-calendar-day paid (80% of average wages, from which social insurance contributions are calculated) paternity leave. The participation of men in childcare and upbringing is limited by the publicly accepted stereotype of the father's role being solely a provider. Two large public awareness campaigns were organized in order to break these stereotypes – in 2005 the Ministry of Welfare organized the campaign «Why Not?» and in 2006 – «And What Is Your Opinion?» In 2006 the Ministry for Children and Family Affairs participated in the international project «Dad at Home.» The involvement of fathers is hindered not only by stereotypes, but also by institutional obstacles – parents do not have the opportunity to be involved in the care of their child simultaneously, splitting the childcare during one time period, as opposed to alternately. As shown by the debates in case No. 2005–09–01 (see homepage of Constitutional Court), a representative from the Ministry for Children and Family Affairs asserts that the best form of childcare until age one is the presence of the mother, while involvement of the father in childcare while the mother works is considered to be only the second best option. Thus, the involvement of men in combining work and family life continues to be viewed as a problematic issue. This is connected with the popularity of the patriarchal family model and the man's role as a provider not only in society (Ministry for Children and Family Affairs project «Dad at Home», 2006), but also among politicians.

The creation of the State Alimony Guarantee Fund and restrictions that have been placed on parents who fail to pay alimony promote the involvement of both parents in

caring for the child. However, the amount of the alimony is relatively meagre and does not ensure an equal investment in childcare by both parents. Furthermore, according to information from the State Alimony Guarantee Fund, most of the parents who receive alimony through mediation by the Fund are women.

In general, State family policy is geared toward the ideal family model, although the actual family situation indicates that the proportion of children born to unmarried mothers and the number of children growing up without a father is on the rise. These families remain outside the sphere of State support, as family policy sees them as a problem and not as a policy target group. The present policy, raising the tax-exempt minimum per dependent and granting childcare leave to one parent, does not encourage an equivalent investment by both parents in the family and the labour market. The mechanisms for stimulating the birth rate also function on a short-term basis. Funding is increased mostly upon childbirth and the child's first year of life, after which support plummets to the State family benefit of 8 LVL³.

A study on the quality of life in Latvia (Putniņa, 2006) shows a significant gap between ideal and real values in life. An analysis of the data⁴ presented by the qualitative study shows disagreement between ideally projected priorities in life and restrictions that are imposed by actual everyday living. A person's everyday routine is determined by paid labour. The exception is women with children, where the woman's paid job and her private life are subordinated to the needs of the child. This lifestyle rhythm is also accepted by young women, who see their future fulfilment in life in traditional family roles and not in a career. A lack of time and family sustenance needs shift mutual relations in the family to the background. Providing for the family and overtime work are for both genders the most common cause for being absent from the family. At the same time this is a threat to the strength of relations in the family.

A Long Life and Good Health

Health and Life Expectancy of the Population

The Latvian National Development Plan for 2007–2013 places special emphasis on health as one of the basic human values – the foundation for the quality of one's life and personal and family well-being. One of the three components of the UN human development index is life expectancy. The World Health Organization has begun

³ A benefit of 8 LVL is granted for the first child, 9.60 LVL for the second child, 12.80 LVL for the third child, and 14.40 for the fourth and subsequent children.

⁴ The study was based on 75 partially structured interviews that were conducted in 2005, mostly among young people between the ages of 18 and 30 who lived in Riga and small towns.

to make regular calculations that indicate the length of one's healthy life⁵, as well as an international comparison of these indicators.

The amount and quality of health are not easy to measure. Therefore, these comparisons include the population's subjective self-assessment of its health, as well as objective life expectancy figures. According to results from a health survey of all EU Member States and candidate countries, more than 90% of the population in Denmark and Ireland was satisfied with its health. In Sweden, France, Great Britain, Malta and Cyprus this figure was more than 85%. Among the 25 EU Member States Latvia took second to last place with 63%, somewhat lagging behind Portugal, Poland and Estonia, but placing ahead of Hungary, where only 60.5% of the population was satisfied with its health (European Foundation, 2004a, p. 35). In this sense, the population of Latvia has given its state of health a rather critical assessment. The health care system was also given a low evaluation – only 22% of those surveyed in Latvia rated the system as satisfactory, while the average figure in all of the EU Member States was more than half (European Foundation, 2004b, p. 40).

The health self-assessment results closely correlate with the population's life expectancy, which provides a more accurate characterization of the population's vitality and changes thereof. In the second half of the 20th century many developed European countries achieved significant progress in life expectancy, and there are no indications that this progress is about to stop. On the other hand, the countries with transition economies, e.g. Latvia and the other two Baltic countries, have experienced stagnation and even a decrease in life expectancy during this time period (especially during the Soviet period). Particularly interesting for Latvia in the analysis of life expectancy trends is the example of the nearby Northern European country Finland. In 1960 life expectancy for men and women in Latvia and Finland was practically identical. Since then, in Finland life expectancy for both men and women has increased by 0.22 per year. Presently, differences in life expectancy between Finland and Latvia have reached nine years for men, and almost five years for women.

Since a rapid decrease in the beginning of the 1990s, improvements in life expectancy indicators in the Baltic countries are taking place faster than the average in other transition countries. Still, despite these changes, the life expectancy of men (65.6) in Latvia in 2005 exceeds the 1989 level by only 0.3 years. On the other hand, with rare exceptions, women's life expectancy in Latvia since 1996 is increasing yearly, and has once again reached the highest level in the entire post-war period – 77.4 years in 2005 (CSB, 2006a, p. 89).

⁵ The length of one's healthy life is the number of years spent without restrictions on one's mobility and without disability.

According to the latest published international statistical data, life expectancy for men and women in Latvia is among the lowest in the European Union countries (Eurostat, 2006, p. 86). Only in four Council of Europe countries is male life expectancy even lower than in Latvia (Belarus 63.4, Russia 58.8, Moldova 64.5 and Ukraine 62.6). The situation for women is somewhat better. 15 Council of Europe countries have lower life expectancy indicators for women than in Latvia – Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Georgia, Russia, Macedonia, Moldova, Romania, Serbia and Montenegro, Turkey, Ukraine and Hungary (Council of Europe, 2005, p. 105).

Life expectancy changes in Latvia are increasingly influenced by the working-age population's state of health and vitality, especially that of men. Cardiovascular diseases, which are the leading cause of death, have the largest impact on changes in life expectancy. In Latvia cardiovascular diseases are the leading cause in life expectancy changes for women. For men, only external causes of death are a rival cause of death, where heightened mortality is characteristic in youth and middle age. According to data from the Public Health Agency, due to external causes of death (various injuries, accidents, suicides, murders), each year men in Latvia between the ages of 0 and 65 lose a total of 4,500 human life years. This is almost two times more than from cardiovascular diseases and almost five times more than from tumours (PHA, 2004).

At the retirement age the state of health of Latvia's population is also not very favourable. The expected healthy life expectancy in 2005 in Latvia at age 65 was 5.0 for men and 5.4 for women (EHEMU, 2007, p. 3). This comprised 31–32 percent of the total remaining life span, which placed Latvia in a group with the other new EU Member States, but significantly behind Western European and Scandinavian countries.

As in other Central and Eastern European countries (Marmot and Bobak, 2000), the impact of psycho-social stress in Latvia in the first half of the 1990s was the main statistically important factor that explained the increase in mortality (Krumins and Usackis, 2000). Afterwards, leading factors in increased longevity became growth in material well-being, as well as reforms carried out in health care and the financing thereof. At the same time these reforms sharpened social and territorial differentiation in access to health care services (Karaskevica, 2005).

Recent public health surveys demonstrate significant differentiation in the state of health of Latvia's population according to demographic and socio-economic groups (Krūmiņš, 2006, p. 27). Survey results show that women assess their state of health more critically than men, in spite of women's significantly higher life expectancy indicators. Women are better at overcoming various unexpected changes in life, and evidently, this is why

changes in mortality and life expectancy during the period of radical socio-economic reforms were less pronounced for women than for men.

More than city-dwellers, inhabitants of rural areas rated their general state of health as both very good and good, and bad and very bad. Still, differences in vitality have remained in urban and rural areas, although they have practically disappeared in many Northern European and Western European countries. Since the renewal of independence, the life expectancy of city-dwellers has exceeded that of rural inhabitants by one to two years. Mortality is higher in rural areas than cities in all age groups, with the largest differences in the youngest age groups until age 34. Health assessment differences in Latvia are not large by ethnic origin or marital status. Variations are more determined by different levels of urbanization and other structural differences.

The level of educational attainment and whether one is employed or seeking work are factors that contribute to very notable differences in the state of health. The level of education has a large impact on a healthy lifestyle. Among both men and women, smoking and alcohol use is significantly lower with a higher level of education. A higher level of education is connected to a better diet and more physical activity (Villeruša, 2000). Inhabitants with a higher level of education take part in more physical activity and receive greater social support, and this ensures a greater ability to adapt to shifting circumstances in life.

The impact of differences in material welfare (as measured by the level of income) on the self-assessment of health of both men and women in Latvia was greater than the impact of the level of education. The population's economic activity also closely coincides with its state of health. The self-assessment of health of economically inactive inhabitants was lower than that of those who are economically active (Monden, 2004).

Over the past fifteen years regional and socio-economic differences in health and mortality have remained and have even become more distinct. Social changes have affected most of all population groups with the lowest income levels and with lower levels of education. Indicators of the population's state of health are better in the central part of the country around the capital Riga, while a particularly adverse situation exists in Latgale.

Presently, the main unresolved health care problems are the following:

- relatively low State-prescribed fees for health care services, which do not include sufficient expenditures for development and adequate pay for doctors and nurses, which, in turn, encourages patient gifts of gratitude;
- a high portion of personal expenditures in the population's payments for health care services;

- limited access to a variety of health services due to long waits;
- a lack of doctors and medical personnel, especially in rural areas.

Although total public sector expenditures for health care increase every year, their proportion among all expenditures in 2004 had reached only 4%. Latvia's households spend an equivalent portion of their income on health care (CSB, 2006b, p. 28, p. 109). All in all, the concern of the State and the public about health is inadequate. Still, by improving public awareness about healthy lifestyles, improving the accessibility and quality of health care, limiting the spread of addiction to alcohol, tobacco and other substances, achieving greater control of stress factors, and strengthening law and order and the scope of social assistance, it is possible to overcome the extended public health crisis and achieve better life expectancy indicators. This has already been confirmed by the recent experience of other European countries.

Out in the Big World

Migration

Recently, it has often been suggested that Latvia's borders should be opened to foreign manpower, though this suggestion has been controversial. Immigration policy in Europe as a whole, and in Latvia, is full of contradictions, as stances towards immigration are influenced by each country's national socio-political context and by conditions created by the global economy. Another important factor is that within the European Union Latvia is the most negatively disposed country toward immigration (Latvian Institute of International Affairs, 2006). Furthermore, various myths and prejudices are prevalent among the public on this issue. For instance, until recently, it seemed obvious that profit was the motivation behind the migration of the Latvian labour force to Ireland. However, researchers demonstrated that motivations are much more complex and are rooted in employer-employee relations, tax policy, the business climate, etc. (Commission for Strategic Analysis, 2006). Studies carried out by the Bank of Latvia indicate that the first wave of immigration has not yet ended, and one study suggests that over the next ten years approximately 200,000 economically active inhabitants will leave Latvia.

Since the renewal of independence Latvia has experienced all sorts of migration flows: emigration and immigration between nations, including repatriation, domestic trans-regional and rural-urban migration, and daily trips to work or school.

Migration between nations has turned out to be the most dynamic of the migration processes in Latvia. The

resulting population changes in certain time periods have exceeded those created by natural causes. Furthermore, the main **directions** of the flow of migration have often sharply changed along with the legal status of the State. During the period of Soviet occupation 5,000–15,000 immigrants from other former Soviet republics settled in Latvia every year. After the renewal of independence more than one tenth of these people left the country toward the East. Simultaneously, the number of emigrants to Western countries continued to grow. Unfortunately, the number of emigrants to the West is not precisely known. As a result of the free movement of people within the EU, Latvia registers only those emigrants who declare a change in their permanent residence. Most do not do this, as upon departure they are not certain of the length of their absence.

According to data from employer insurance records, approximately 50,000 temporary workers from Latvia have gone to EU Member States alone. After adding their unemployed family members and workers who have found work in other countries – e.g., the U.S., Norway, Russia, etc., – the total number of Latvian migrant workers, students and family members could be estimated at about 100,000. This is approximately 2.3–4.3% of the total population and 3.5–7% of the working-age population.

The amount of long-term migration, which means declaring a change in one's permanent place of residence, significantly lags behind the projected short-term labour migration between countries. Over the first five years of this century, only 17,300 persons or 0.75% of the population has officially left its permanent place of residence in Latvia. At the same time, even fewer people have entered Latvia with the intention of staying – 9,400. Therefore, statistics reflect that during the past five years, less than 0.4% of last year's population has been lost due to long-term migration, or ten times less than the number of Latvia's inhabitants who are temporarily working abroad.

According to several surveys of workers who are now abroad or who have already returned (SAK, 2006; Ministry of Welfare, 2007a), presently, the most common motive for labour migration is the hope of making money – for the livelihood of oneself or one's family, for home repairs or the purchase of a home, for one's education or the education of a child, for the purchase of property or a car, for repaying a loan, etc. For most people making money is not the only concern. The next most frequently mentioned reasons for leaving are the desire to see foreign countries, acquire new experience, learn foreign languages, and enjoy a «normal» life. Most temporary labourers hope to achieve these goals within less than a year, and less often – within two or three years. After less than two years many have already returned to their families, and some have started their own businesses.

An even greater portion of those who are still abroad would be willing to return under certain conditions, which would compensate the factors that contributed to their departure. First and foremost, migrant workers wish to earn as much as abroad or at least half that amount in Latvia; more support for families and children; more respect from employers and the State; less bureaucracy in starting up a business; that people would smile more and be more polite; and that discrimination from the church would be eliminated against homosexuals and female members of the clergy. Upon evaluating the possibilities of meeting these conditions, one can conclude that only the first two require financial investments, and therefore, cannot be implemented in a day or even a year. In order to meet the rest of the conditions, all that is needed is understanding and good will.

As long as these conditions have not been met, the flow of migration will not decrease. In surveys that have been conducted by various organizations a large portion of the population has expressed a **desire to go work** in a Western country. More than a year following Latvia's accession to the EU, people have had time to become familiar with the experience of relatives and acquaintances working abroad. Up to 1/5 of the working-age population can conceive of following their example, and half of them – with a fair degree of certainty (SKDS, 2006; Ministry of Welfare, 2007a). Of course, less than one half have undertaken any activities toward putting this plan into action. Often people have compiled information on work opportunities, and more seldom have there been actual negotiations with a prospective employer, signed contracts and purchased tickets.

Young people have expressed the wish to go abroad more often than older people. The greater mobility of young people who are still in search of their path in life and who are not bound by family ties is characteristic of all migration flows. This explains why the proportion of young people among those who have already left and potential migrant workers is greater than their proportion among the entire working-age population: up till age 30 – 40% and 33%, respectively, age 30 to 39 – 25% and 20% (Ministry of Welfare, 2007a). The composition of potential migrant workers and those who have already left includes mostly people with a general or specialized secondary education. The proportion of women with university diplomas is greater than that of men. A similar distribution according to education also exists among all age groups of the Latvian population. Therefore, assertions that the best and most highly-qualified workers have left the country cannot be confirmed. Despite this, emigration that has already happened and that is still possible creates rather undesirable consequences in a sending country like Latvia.

Along with a drop in the birth rate, there will also be fewer young people who could emigrate to the West. In

this sense, Latvia sharply differs from the traditional Near East and North African sending countries, where a high birth rate ensures a constant renewal of potential labour and potential emigrants. Some of these young people would have difficulties in securing jobs in their homeland and providing subsistence for their large families.

Migrant workers from various countries also come equipped with varying levels of education and qualifications. In this sense, East European emigrants from the new EU Member States significantly surpass migrant workers from less developed countries. Although migrant workers from Latvia initially tend to do less-qualified work, upon improving their language skills, those who stay away longer usually find work that corresponds to their actual qualification level (Ministry of Welfare, 2007a). For this reason, host countries increasingly support a «zero migration» policy toward countries that are not part of the EU, while they favour hosting only highly-qualified specialists.

Undoubtedly, for the host countries, attracting well-trained workers and specialists with no costs for their upbringing until working age or for their education is economically a highly advantageous way of renewing and supplementing human capital. For Latvia and neighbouring countries, however, this creates a loss of human capital and a loss of the means and work that was invested in its creation. Furthermore, long-term demographic consequences can be projected in addition to this loss. As young people leave the country, the number of children born in Latvia respectively decreases, and this means fewer opportunities for human resource renewal. Due to the aforementioned peculiarities of Latvia as a sending country, its migration policy cannot be shaped according to the example of the old EU Member States, which are host countries and are not experiencing the emigration of their own people.

The direct dependence of migration intensity on differences in levels of economic development and social conditions between countries renders **projections** of migration levels and directions less reliable than natural mobility processes that are largely determined by the population's age structure. Therefore, over the past years, while adjusting to circumstances following accession to the EU, migration predictions for Latvia differ sharply. Various methods have been used to project the volumes of individual flows of emigration and immigration (SKDS, 2006) and their total results or the migration balance (CSP, 2006a).

According to the results of various prognoses, in the time period until 2020, the total number of emigrants that exceeds the total number of immigrants (including repatriates), may fluctuate between 14,300 and 55,500 – or on average, 35,000–40,000 between both extremes. The prognoses closest to the mean are broken down according to total losses in various time periods. As most

other prognoses, the version by the Latvian Academy of Sciences' Institute of Economics projects a gradual decline in losses, whereas «Eurostat,» the Statistical Office of the European Union, foresees the maximum volume of losses between the years 2011 and 2015. The latter may be based on changes in the population's age structure, as the numerically large generations that were born in 1986–1987 and shortly thereafter will be at their most mobile age between 2007 and 2015. However, at the same time, the economic prognosis must be taken into account. It is expected that within the EU, Latvia will gradually reach the same standard of living as the present host countries of migrant workers. Thus, the main motive for migration would no longer exist and the mobility of all age groups would respectively decline.

Undoubtedly, **State migration policy** will have an influence on which prognosis will take effect. There are several policy options:

- to continue supporting the free movement of labour between EU countries and limiting immigration of visiting workers from developing countries;
- to ease conditions for attracting immigrants for work in Latvia;
- to create conditions that would decrease labour migration and encourage the repatriation of those who have already left;
- to avert the centripetal predominance in internal migration in order to diminish a further concentration of the country's population in the capital with its characteristically low birth rate.

In order to prevent a further deterioration in the demographic situation and human capital losses, Latvia should take measures to diminish emigration. As demonstrated by an analysis of the causes of emigration and the opinions of Latvia's migratory workers, the following incentive measures should be taken: an increase in wages, more noticeable State support for families with children, an improvement in the attitude of employers and disposition of the State, less bureaucracy involved in starting up a business, regional equalization of economic development and employment opportunities, and supplying information to those who have migrated about job opportunities in Latvia and social insurance conditions upon return. As part of the aforementioned measures for averting population losses require significant funding from the State budget, they could be implemented only over a longer period of time. Therefore, in the short term, businesses in certain fields can expect difficulties in attracting manpower. Thus, intensified pressure can be expected from employers on the State to ease conditions for immigration. The fulfilment of this demand without any restrictions would obstruct growth in labour productivity, would hinder growth in the employment level that has been prescribed by the EU Lisbon Strategy, and would also hamper an increase in wages that is needed for the preservation of

human capital. In order not to permit these undesirable consequences, it would be permissible to ease immigration conditions only for attracting necessary specialists for a period that would be defined in the work contract.

Alongside migration policy initiatives to prevent population losses and hinder replacement with less-qualified manpower from other countries, short-term migrant exchanges with EU countries would be highly recommendable. This would be a way to mutually supplement experience, exchange information and access specialized knowledge for which no training is available in Latvia. This would foster further growth of the State's human capital, where many possibilities remain untapped.

The Latvian government's existing non-intervention policy regarding emigration within the EU and protection of the local labour market against the possible influx of migrant workers from developing countries practically does not require any expenditures from the State budget. On the contrary, employers pay a fee for each visiting worker, and this is one of the reasons why employers are demanding a more liberal immigration policy. In the summer of 2007 the government already discussed a concept for eased conditions that would allow specialists who have training that is not available at Latvian institutions to be invited to Latvia without delay and with the involvement of less bureaucracy. This would cost the State approximately 0.5 million LVL, but would also supply revenue from an increase in taxes paid by the companies as a result of expanded operations and a rise in productivity.

The latter could also be attained by decreasing the emigration of manpower and thus also diminishing the induced shortage of labour. However, the implementation of this migration policy would require a rise in wages in the private as well as the public sectors. This includes the lion's share of human resources that presently receive incommensurably low wages for the necessary qualifications and the fields that are created by these human resources. Needless to say, the results of this labour are vitally needed not only by all sectors of the economy, but also for the sustenance of the State itself, which requires a certain amount of labour-capable inhabitants.

Our neighbouring countries that share a similar history, Lithuania and Estonia, are experiencing migration processes and difficulties in registering migrants similar to those in Latvia. However, the conditions and policies next door are different: they have a higher average wage level, ties are stronger with Estonians working across the border in Finland, and in Lithuania, the government has already discussed an action plan for decreasing emigration and easing conditions for immigration. Clearly, they understand that a loss of manpower, even if partially exchanged for immigrants, costs the State more in the long-term than pay increases in the public sector.

Prompted by Wisdom

Education Policy

Despite the tense situation in human resource regeneration, Latvia still has high potential for providing competitive manpower, and the development of productive, knowledge-intensive manufacturing. Education policy can serve as an instrument for the effective mobilization of human resources. In our day and age education is costly – it requires a significant investment of time and resources on various levels – on the part of the public, employers and the State. Taking into consideration limited resources and labour shortage tendencies, Latvia can no longer afford to prepare specialists who will not have the opportunity, or perhaps the desire, to apply their knowledge by working in their profession. The population also suffers if the education one has obtained turns out to be superfluous or without value in the labour market.

Unfortunately, until now, only a few of the larger Latvian State universities have conducted serious studies on the needs of employers and conducted educational programme planning and adjusted programmes to the labour market. The smaller educational institutions have also carried out individual initiatives (e.g. feedback from former students, discussions with employers), but these initiatives tend to lack coordination and are fragmentary. Private universities basically follow demand. Governmental institutions are not involved in any of these models. Thus far, Latvia has had no united or coordinated system of labour supply and demand. Awareness of the existence of a lack of specialists in certain sectors often comes too late. By preparing specialists in accordance with present demand, the educational system constantly finds itself one step behind.

Presently, there is an emphasis on increasing the proportion of students in natural sciences, medicine and engineering. However, when these specialists graduate from their institutions of learning, will there still be a demand for them? Perhaps there will be a need for specialists in entirely different fields? Nowadays, changes take place so fast that employers, even when asked, usually are unable to foresee the demand for specialists more than half a year or a year in advance. Currently, only Latvia's largest companies, which make up only a small portion of the companies in different sectors, are capable of «placing orders» at educational institutions. Young people have even less understanding of the situation. In this situation the desired results will not be achieved where the supply of education is regulated according to demand (the wishes of young people) or based on employers' projections for the future. The State must take a part in coordinating education and labour markets, and this possibly includes supporting fields that presently are less in demand, but which have potential in the future.

As observed abroad and as shown by certain examples in Latvia, cooperation is possible in the most diverse areas – the supply of internships, consultations concerning the content of academic programmes and the purchase of the necessary literature, financial support for individual students (future employees), support and consultations on the purchase of technical equipment, the organization of training courses requested by employers and contracts for hiring specific specialists. Unfortunately, in Latvia this practice is not widespread and usually comes as an initiative from individual employers or educational institutions. There is no structure coordinating this cooperation. Among the issues to be tackled that are listed by the National Development Plan for 2007–2013 one can find: «*to involve more actively social partners in the development of educational programmes at all levels of education for different population groups in all regions.*» Still, it is necessary to be more precise about defining the institution that will be involved and the mechanisms that will regulate this cooperation.

School Costs Money

Funding for Education

The attitude of the public and the State toward education is reflected by the amount of funding that has been appropriated for this field. The most important indicators are the share of education expenditures within the gross domestic product (GDP) and the State budget (see Box 1.9).

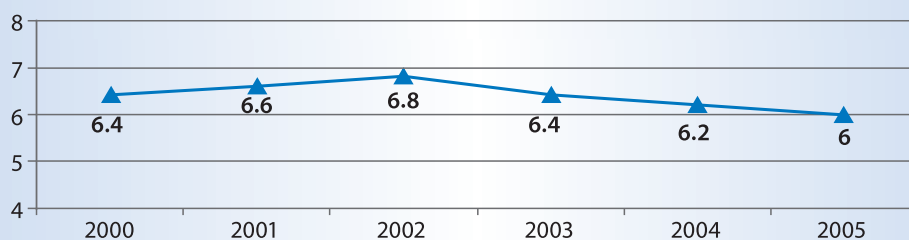
Over the past years, the proportion of expenditures for education as part of GDP has been 6%, with a slight downward trend. This can be explained by the fact that GDP increases more rapidly than State expenditures. Within the European Union (EU), Latvia's indicator is consistent with the EU average (5.9%, 2005). Considering that Latvia's GDP is significantly smaller than that of other EU countries of Latvia's size, and one of the smallest per capita, one can conclude that expenditures in Latvia for education are meagre (see Box 1.10).

The second indicator is also difficult to compare – expenditures for education as a proportion of the State budget. Percentage-wise, Latvia appropriates more funding for education than many other EU countries – education is the second largest figure in budget expenditures (see Box 1.11).

The situation in funding for the sciences is similar. At the end of the 1990s funding for the sciences in Latvia began to significantly lag behind the expenditures of the other Baltic countries. The proportion of the State budget is particularly low in Latvia (see Box 1.12).

Box 1.9

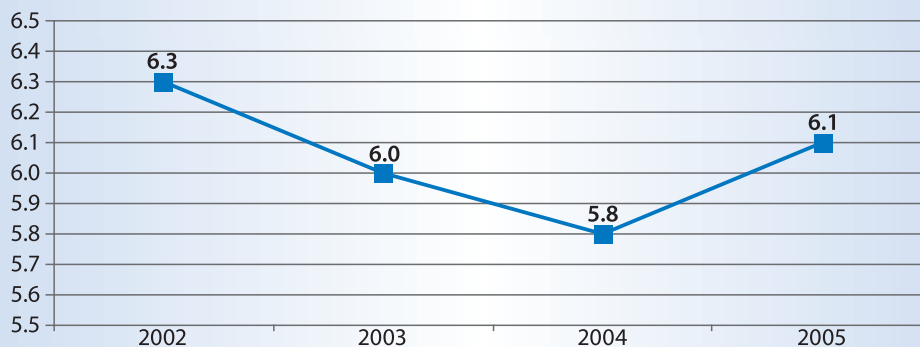
Funding for Education as a Proportion of the Latvian Gross Domestic Product from 2000–2005, %



Source: Ministry for Education and Science, 2006a, p. 129

Box 1.10

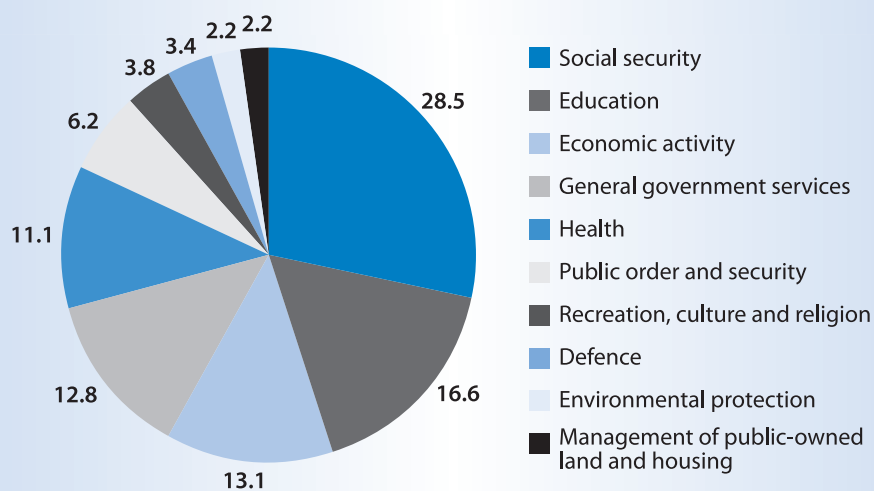
General Public Sector Expenditures for Education as a Proportion of the Latvian Gross Domestic Product from 2002 to 2005, %



Source: Data from the Central Statistical Bureau of Latvia

Box 1.11

General Public Sector Expenditures According to Government Functions in 2004, %



Source: Central Statistical Bureau of Latvia, 2006c, p. 28

The largest part (95%) of financing for education is secured from the State budget. The proportion of financing from the State budget for higher education is different. In Latvia a large portion of schoolchildren continue their studies at universities. (During the 2004/2005 academic year there were 556 university students per 10,000 inhabitants. By comparison, the

EU indicator is significantly smaller – 371 students; in Estonia – 490; in Lithuania – 530; in Finland – 520; in Sweden – 390; and in Germany – 250.) This indicator demonstrates young people's desire to attain a higher education, and also highlights the low prestige of a professional education and the low wages that workers with these qualifications can earn (Ministry of Finance,

Box
1.12

Funding for Science as a Share of GDP, %

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Latvia	0.42	0.38	0.40	0.36	0.44	0.41	0.42	0.38	0.42	0.57
Lithuania	0.50	0.54	0.55	0.50	0.59	0.67	0.66	0.67	0.76	0.76
Estonia	–	–	0.58	0.70	0.61	0.71	0.72	0.79	0.88	0.94*
EU 25**	0.77	1.80	1.8	1.86	1.87	1.88	1.89	1.88	1.85	1.85
EU 15**	0.81	1.84	1.85	1.90	1.92	1.94	1.95	1.93	1.91	1.91

*Approximation

** Eurostat estimate

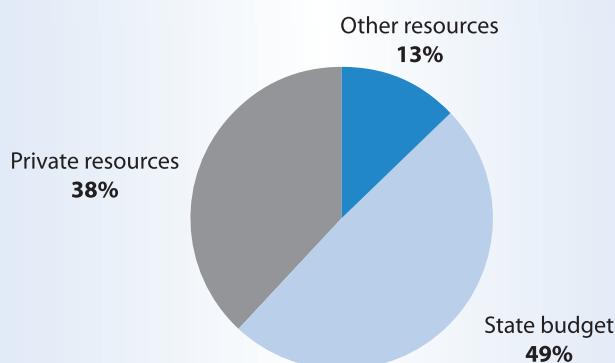
Science Funding in 2004 (% of total funding)

	State funding	Funding from Industry	Foreign Funding	NGO sector and education institutions	Total
Latvia	31.2	46.3	22.5	–	100
Lithuania	63.1	19.9	10.7	6.3	100
Estonia	44.1	36.5	17.0	2.4	100
EU	34.6	54.9	8.2	2.3	100

Source: Eurostat data

Box
1.13

Distribution of Public and Private University and College Funding According to Financial Sources in 2005, %



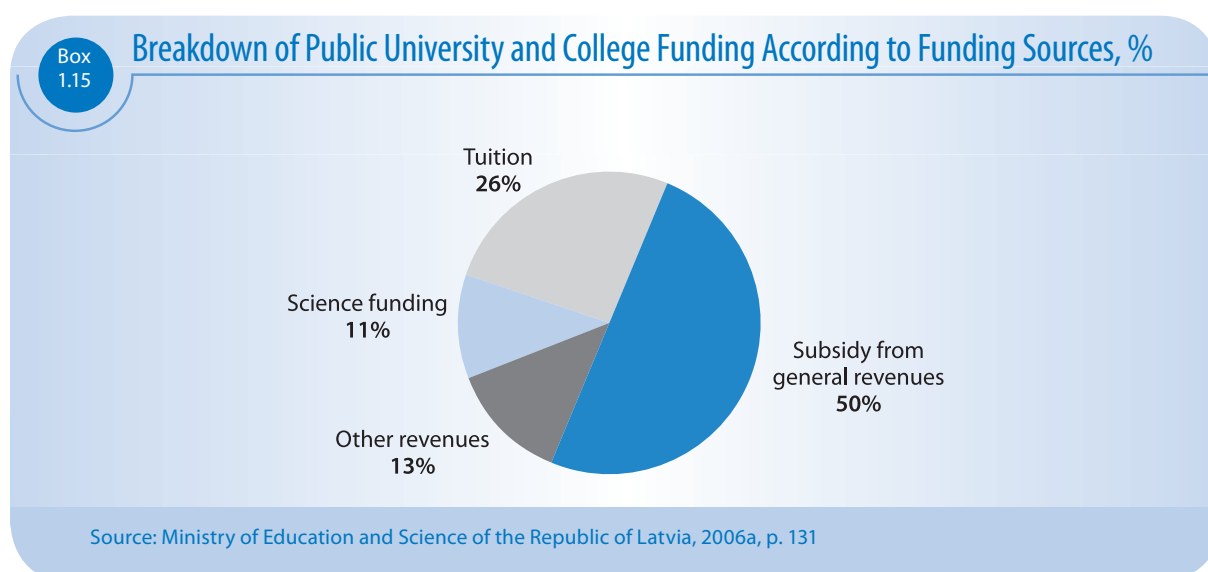
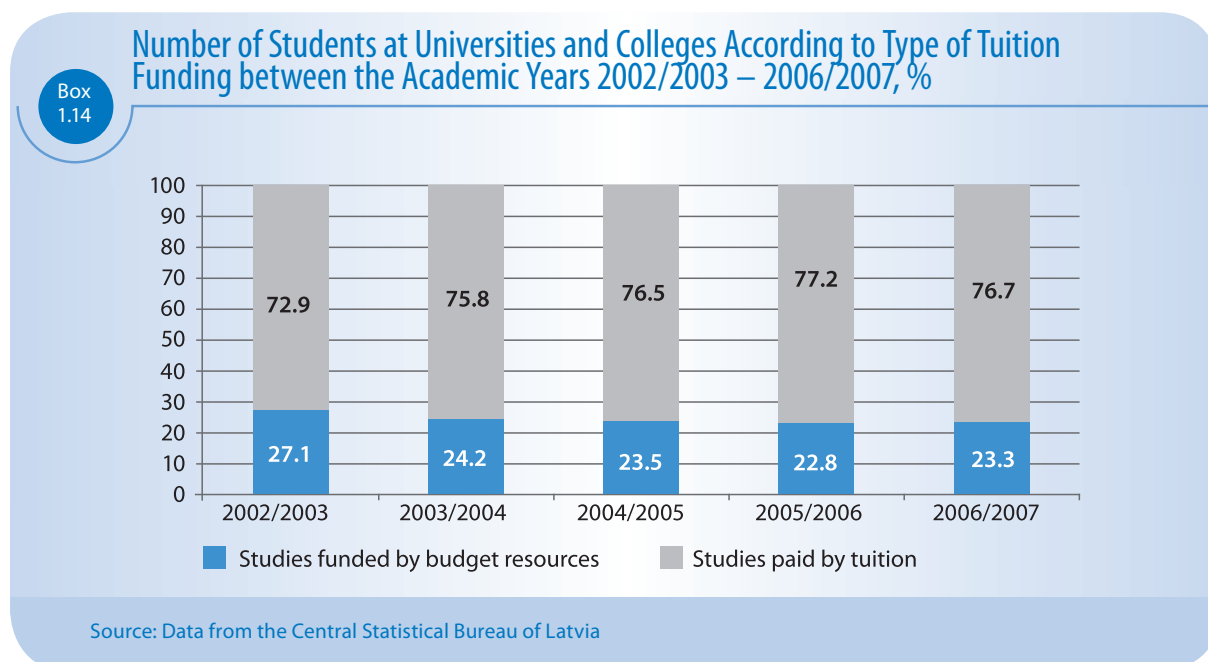
Source: Ministry of Education and Science of the Republic of Latvia, 2006a, p. 131

Republic of Latvia, 2006, pp. 20–21). Taking into account that higher education plays a special role in forming human capital and the development of creative and professional potential, this subdivision of education should be analyzed in more detail.

Total funding for higher education in 2005 was 122.7 million LVL, which made up 1.4% of Latvia’s GDP. A breakdown of the funding by individual financial sources at public and private universities in 2005 shows that from the total sum, 103.6 million LVL (84%) was funding for public universities and colleges, and 19.2 million LVL (16%) went for private universities and colleges (2006 Public Report of the Ministry of Education and Science, 2006, p. 53) (see Box 1.13).

A high proportion of private means in higher education funding is connected with the large number of paying students at universities and colleges. For several years this proportion has been above 75% (see Box 1.14). The rest of the funding is derived from income earned by renting out rooms at public universities and colleges, income from performing scientific work that is not funded by the State budget, and other public university and college sources of revenue.

Students are willing to pay themselves for higher education, as they now realize its importance (see Box 1.15). Inadequate funding from the budget is another reason for the high proportion of paying students. Student loans are available from the State and from individual banks.



Although total funding for higher education increases every year (see Box 1.16), it is still insufficient. The 2006 Report from the Ministry of Education and Science announced that total average funding per student in Latvia is 3–4 times less than the EU average (Ministry of Education and Science of the Republic of Latvia, 2006b, p. 53). Furthermore, growth in total financing for higher education is mostly the result of out-of-budget revenue. The past two years were an exception – starting in 2005 there was significant growth in funding from the State budget.

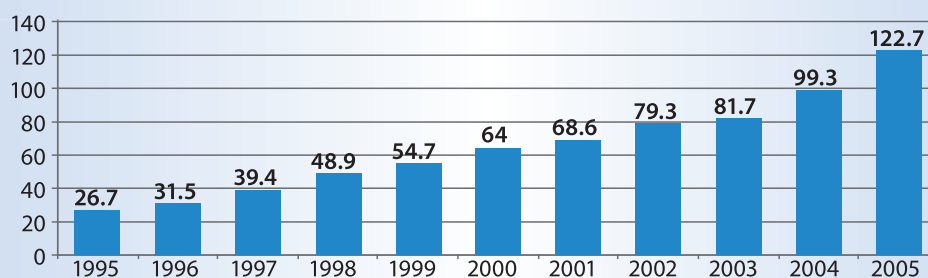
Along with an increase in budget funding from 40.8 million LVL in 2004 to 60.5 million LVL in 2005, there was also a notable increase in the proportion of State budget resources for higher education within the Latvian gross domestic product (see Box 1.17). At the same time, it is clear that between 1995 and 2004 this indicator has steadily decreased. Over the past 4–5 years real funding from the State budget for universities did

not change, and therefore, the increase in funding only covered annual inflation. The Ministry of Education and Science considers the year 2005 a turning point in higher education funding. The increase in funding from out-of-budget sources, especially from the State budget and EU structural funds, has also led to an increase in the proportion of total funding for higher education within the gross domestic product – from 1.2% in 1997 to 1.4% in 2005. This practically corresponds to the EU average (Ministry of Education and Science of the Republic of Latvia, 2006b, p. 53).

Expenditures for education by private individuals in Latvia are very high – as indicated by data from the Statistical Office of the European Communities, in 2004 they formed 0.82% of GDP – by comparison, the figure was 0.48% in Lithuania, and 0.64% in the EU (25). This is largely the result of the fact that the proportion of paying students at universities and colleges has been over 75% for several years.

Box 1.16

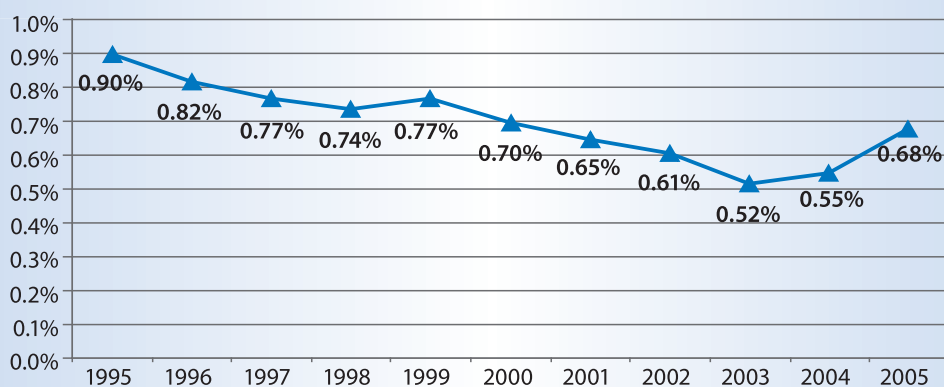
Total Funding for Higher Education from 1995 to 2005, in millions of LVL



Source: Ministry of Education and Science of the Republic of Latvia, 2006a, p. 140

Box 1.17

State Budget Funding for Higher Education as a Proportion of GDP from 1995–2005, %



Source: Ministry of Education and Science, 2006a, p. 145

Some Good Advice

The Quality of Education

The achievements of Latvia's schoolchildren are statistically much lower than average indicators in OECD countries. In comparison with the year 2000, the increase in the average achievements of our students was statistically significant and one of the largest among participating countries (41 in total) in the OECD study on education. However, as shown by the results of the Programme for International Student Assessment, in 2003 Latvia's schoolchildren placed 24th in reading, 28th in mathematics, 26th in natural sciences and 27th in problem solving (OECD, 2004).

The distribution of results indicates that schoolchildren in Latvia have widely varying levels of knowledge, which is the result of many contributing factors. The results vary according to the location of the school – in Rīga, other cities or rural areas. In all academic subjects schoolchildren from rural areas displayed markedly lower achievements than schoolchildren from Rīga and other cities.

The results of all international comparative studies on education over the past 13 years indicate unequal opportunities for obtaining an education of similar quality for schoolchildren in rural areas and cities (especially Rīga). This phenomenon is fairly general, as it manifests itself over a relatively long period of time, over all levels of education (preschool, elementary school, secondary school), in all academic subjects and groups of subjects that have been covered by the studies (mathematics, natural sciences, reading, civics, information science). The schoolchildren themselves are also of the opinion that there are fewer opportunities in rural areas to obtain a quality education, and that the family's socio-economic situation is important in this aspect (Kangro, 2003, p. 235). These factors also affect schoolchildren's access to information technology.

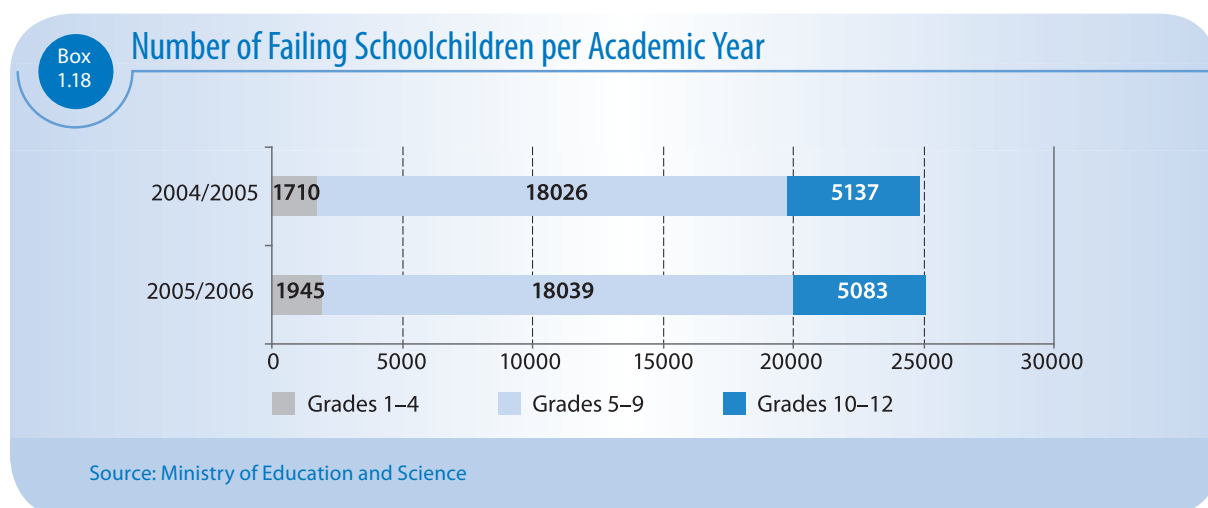
Data from the Ministry of Education and Science shows that 283,947 schoolchildren, or 8.8%, passed on to the next grade with a level of knowledge that does not meet the standards of the given academic subjects, i.e. with unsatisfactory grades. In comparison with the previous year, the number of schoolchildren with unsatisfactory grades has increased by 0.5% (see Box 1.18).

6,555 schoolchildren had to begin the 2005/2006 academic year in the same grade they were in the previous year. 28.8% of these schoolchildren were in preschool and 71.1% were in elementary school (CSB, 2006c, p.40). A large proportion of the repeaters are in first grade. Education specialists explain this with the fact that the children are not sufficiently prepared for school (Viciņa and others, 2004, p. 56). There are also many repeaters between grades 6 and 9. Possibly, this can be explained by the inability to meet the demands of a complicated education programme where the requirements increase for grades 6 through 9 in particular.

Since 2001 the proportion of repeaters has grown significantly, reaching 8.6% of total elementary schoolchildren in the 2005/2006 academic year. The number of schoolchildren who have had to repeat first grade has a tendency to decrease, while the number of repeaters after sixth grade is growing.

In the 2004/2005 academic year 1,965 or 5.9% of the schoolchildren who finished elementary school received only a report card. 27% of secondary school graduates have very poor results on the centralized exams (Ministry of Finance, Republic of Latvia, 2006, p. 9) (see Box 1.20). Over the past two years truancy at schools has increased. In the 2004/2005 academic year 3,589 schoolchildren missed more than 2/3 of class time (see Box 1.19).

Data from Eurostat, the Statistical Office of the European Communities, on the proportion of young people who at an age between 18 and 24 have only an elementary school education and who are not continuing their studies, is



Box
1.19

Number of Truant Schoolchildren per Academic Year

Academic Year	Truant for more than 2/3 of classtime	Truant for 1/3 to 2/3 of classtime	Total
1999/2000	530	951	1481
2000/2001	632	974	1596
2001/2002	742	1224	1966
2002/2003	977	1859	2836
2003/2004	1803	2706	4509
2004/2005	3589	–	3589

Source: Republic of Latvia State Education Inspectorate

Box
1.20

Primary School Graduates per Academic Year

Academic year	Schoolchildren who have finished the 9th grade	Schoolchildren who received a report card upon finishing primary school (% of total primary school graduates)
1999/2000	25,882	2.1
2000/2001	25,966	3.0
2001/2002	31,169	2.0
2002/2003	33,899	2.6
2003/2004	32,090	7.1
2004/2005	33,054	5.9

Source: Data from the Central Statistical Bureau of Latvia

not flattering to Latvia. In 2006 this proportion for young people reached 19%, which is the highest indicator in the Baltic countries (Lithuania – 10.3%, Estonia – 13.2%). According to the education goals that were defined by the European Council in 2004 (Commission of the European Communities, 2004), European Union Member States should strive to increase the proportion of young people who have obtained a secondary education. Thus, Latvia should work towards having 85% of young people up to the age of 22 having a secondary education by the year 2010 (presently the figure is at 71.2%). This means that almost one third of young people have entered the labour market without professional training (Ministry of Finance, Republic of Latvia, 2006, p. 21, 22).

Teach Me How

Education and the Labour Market

The results of the 2007 study «Professional Activities of Graduates of Higher and Professional Institutions

of Learning» show that according to the subjective assessment of university graduates, 58% of respondents felt that their work fully corresponds to their level of education. 28% felt that their work somewhat corresponds to their level of education, and 13% felt that their work completely did not correspond to their level of education. There are significantly fewer instances when the work corresponds to the level of education among graduates of humanitarian and art programmes (corresponds or somewhat corresponds – 53%), programmes in manufacturing and processing (59%) and engineering and technology programmes («Professional Activities of Graduates of Higher and Professional Institutions of Learning», p. 93). The motivation of graduates of professional education institutions to do work that corresponds to their attained education is lower than that of university graduates – only 59% definitely wanted to find work that would correspond to their education. The authors of other studies have come to similar conclusions («The Suitability of Professional and Higher Education Programmes to the Demands of the Labour Market,» Ministry of Welfare, 2007b, p. 85) (see Box 1.21).

Box 1.21

Proportion of Persons Working in a Profession Unrelated to Their Education According to Graduation Periods (2006)

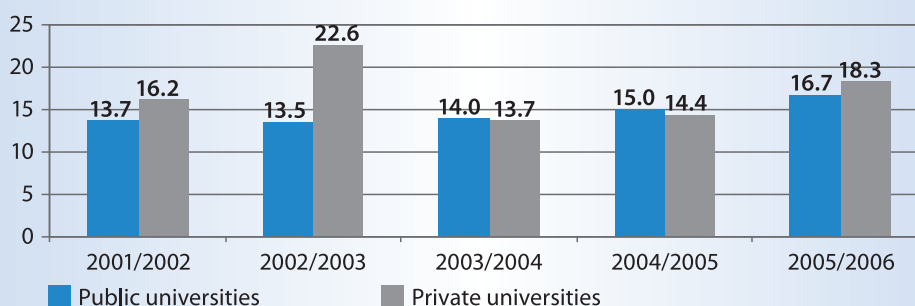
Graduation periods	Proportion of respondents not working in their profession (%)*	Insufficient professional training – main reason for not working in one’s profession (%)
Graduated until 1990	33.9	9.2
Graduated from 1991 to 1995	35.4	10.4
Graduated from 1996 to 2000	31.6	18.2
Graduated from 2001 to 2006	23.2	26.5

* Only respondents who indicated the reason for not working in their profession and the year of graduation;

Source: «Suitability of Professional and Higher Education Programmes to Labour Market Demands,» University of Latvia, 2007

Box 1.22

Expulsion Trend at Public and Private Universities as a Percentage of the Total Number of Students at Educational Institutions between 2001 and 2006



Source: Data from the Ministry of Education and Science of the Republic of Latvia

More often than low wages and family circumstances, respondents in the youngest age group (age 15 to 24) often (21%) indicated insufficient professional training as the reason for not working in a profession connected to their education.

An analysis of available data reveals that the number of expelled students (as a percentage of total students) is on the rise at public and private universities (full-time and part-time students). Furthermore, most often expelled are students who study agriculture, engineering, manufacturing and construction (Ministry of Welfare, 2007c, p. 107) (see Box 1.22, Box 1.23).

Taking into account the high costs of instruction for engineering and manufacturing programmes, the graduates’ low level of involvement in work in their field of specialization and the large number of expelled students, it is doubtful whether the government’s efforts

to increase the number of budget-financed study slots in these programmes is the best way to attract human resources for these programmes.

All Together:

Public-Private Partnerships

The experience of other countries may prove to be very valuable to Latvia as it seeks possibilities for creating and effectively using human capital. Public-Private Partnerships are widely used as an instrument for human capital and community development in Europe. Great Britain is considered a leader in this area, as this form of cooperation has been used there since the turn of the century.

A Public-Private Partnership (hereafter referred to as PPP) is a form of cooperation between the State as the public

Box
1.23

Number of Active and Expelled Students According to Specialization at Public and Private Universities and Colleges during the 2004/2005 Academic Year

No.	Specialization	Proportion of expelled students as a percentage of total students in a thematic group
1.	Social sciences, commerce and law	15.4
2.	Engineering, Manufacturing and Construction	23.8
3.	Education	10.4
4.	Humanities and Art	17.3
5.	Natural Sciences, Mathematics and Information Technology	19.1
6.	Health Care and Social Welfare	12.6
7.	Services	16.6
8.	Agriculture	35.7
	Total at universities	16.2
	of which in Bachelor's programmes	16.7
	Master's and PhD programmes	14.2
	of which – PhD programmes	19.7

Source: Data from the Ministry of Education and Science of the Republic of Latvia

sector on one hand and the private sector on the other. PPP is used in a variety of economic spheres, although most often it is applied to the construction of large infrastructural objects, where the objects built are public goods. However, PPP is not merely an instrument used for the construction of infrastructural objects. All parties involved in the partnership not only discuss their interests, but also try to define common goals and attainable public goods, even though sometimes, initially, the interests of the partners are conflicting. As the capacity of the partners increases, there is growth in employment and welfare, which, in turn, is one of the basic principles of the Monterey Declaration of the United Nations (Braz, 2003, p. 6). Therefore, in a much broader context, PPP is an instrument for the development of human capital, as it promotes cooperation between various interested parties, and this further increases the capacity of each individual partner. Furthermore, cooperation between sectors and various partners is a way of achieving the UN Millennium Development Goals, and one of these goals is to achieve global partnership in promoting and ensuring development (UN, 2000).

The main idea behind PPP is that both the public and the private sectors have unique experience, and the experience of both sectors must be used in order to create new public goods. PPP is an instrument in which private sector representatives are involved in providing a service, and most often, these private sector representatives will be the users of the public good in question. Respectively, PPP partially replaces the traditionally accepted practice

of public policy implementation, where the public sector provides a service, and only afterwards attempts are made to evaluate the suitability of the service to public demands. By using PPP already at the stage of a service's creation and development, it becomes possible to ascertain the suitability of the service, and accordingly, to carry out changes at an early stage of the project. This, in turn, ensures that the partners can reconcile their interests.

PPP is characterized by two aspects:

- risk sharing between both parties involved in the partnership;
- cooperation between interested parties (Koppenjan, 2005, pp. 137–138).

The formation and development of PPP is affected by many factors. Among them one could mention issues of a technical nature that are connected with the problem at hand, as well as political, administrative and human factors. PPP projects usually involve a large number of partners, especially from the public sector. Thus, varying demands of the public agencies and diverging administrative cultures may prevent private actors from involvement in PPP projects. When analyzing political factors one must take into account the electoral cycle, as the construction of large infrastructural objects through PPP may last longer than one electoral cycle, which, in turn, may create a risk of changing priorities.

The use of PPP may also be influenced by prevailing public stereotypes. One of the most common myths that should

be mentioned is that PPP is equivalent to privatization. In Latvia's situation this myth could notably impact the image and use of PPP, as certain public notions have taken root concerning privatization as a corrupt process in which the winners are not the public as a whole, but instead, a certain social group. Taking into account that the partnership is actually a relationship between the State and the community, comparing the partnership to privatization means that feasible cooperation between both parties becomes threatened.

In terms of advantages offered by PPP, one must mention two types of goods. First, there are so-called tangible goods which result from an erected infrastructural object or a provided service. This category may also include goods as saved costs and the economic good that manifests itself as employment and economic growth (British Columbia, Ministry of Municipal Affairs, 1988, pp. 14–15). Second, we can also speak of so-called intangible goods – an exchange of experience and knowledge between the public and the private sectors resulting in human capital development with added value. Here we can also mention potential goods such as risk sharing, where both sectors take responsibility for risks, and more effectively provided services, which can be measured if the achievable goals and service standards are precisely defined.

An exchange of knowledge and experience takes place under PPP auspices not only between both sectors as global players, but it should also be noted that relations change between organizations in the public sector and within each organization. The exchange between organizations in the public sector also includes service culture taken over from the private sector and implemented in the public sector. Furthermore, internal changes in the organizations include the implementation of teamwork in place of the hitherto customary hierarchical bureaucracy. Undoubtedly, although changes like these are difficult to measure in quantitative terms, the long-term benefits are faster implementation and updating of projects and services.

In 2005 the Cabinet of Ministers endorsed the policy planning document «Public-Private Partnership Guidelines for 2006–2009.» Thus, theoretically, a framework has been defined for public policy – an analysis of the situation has been provided (such as it was in 2004–2005), and actions to be taken in order to implement PPP and use it as an instrument for resolving social issues and ensure the provision of individual services have been prescribed. A legal basis has been created, as the Law on Concessions was passed by the Saeima on January 20, 2000. Furthermore, in 2000 supplementary amendments were made in the regulations of the Ministry of Economics and the Investment and Development Agency of Latvia. The Ministry of Economics has become the responsible institution for public-private partnership public policy

implementation, and the Investment and Development Agency of Latvia should promote the use of concessions.

The «Guidelines for Promoting Public-Private Partnerships in Latvia» mostly view the partnership through a risk-transfer prism – to what extent is it possible to transfer risk to the private sector. Thus, for example, the document states that low risk transfer possibilities exist in those PPP types that use service contracts, combined architectural-construction contracts and administrative contracts, but medium risk transfer is possible if concessions are used.

In 2005 several crucial problems were mentioned in the Guidelines that could threaten the implementation and use of PPPs. The problems mentioned were a lack of coordination between institutions that are involved in PPP implementation and coordination, a lack of knowledge on how to use PPPs, and a shortage of pilot projects that could be used as examples of good practice. From the perspective of human capital, the problem of a lack of knowledge can be seen as the critical success factor for PPP usage. If there is no knowledge about how to use something, then the instrument will not be used, regardless of how well it is designed. The most immediate consequences of the lack of knowledge about PPPs is an attitude of rejection and reserve toward PPPs, and a lack of desire to use PPPs without knowing what consequences use of the instrument will provide. In order to increase the public's level of knowledge and understanding about PPPs, the Guidelines called for the creation of a PPP communication strategy, implementation of marketing events, preparation of training and seminar programmes, and the creation of a PPP home page on the Internet. Actually, the planned activities for disseminating knowledge and information were directed toward «passive» PPP promotion, emphasizing that businesspeople themselves must seek information and try to find out what PPP is and how it can be used. The preparation of training seminar programmes also is only part of the potential knowledge dissemination process, as the training process itself is needed in addition to the training programmes. Here it should be emphasized that the aforementioned programmes were intended for educating public sector employees, without including the private sector. In a report from the Ministry of Economics that evaluated what has been accomplished toward implementation of the Guidelines in 2007 it was announced that 37 consultations were given and three seminars were organized in order to improve knowledge and understanding about PPPs (Ministry of Economics of the Republic of Latvia, 2007, p. 6). It seems that this is not enough. Data from the **Survey** show that 16% of respondents had heard of and encountered the PPP concept, but to 71% this concept was foreign. Public sector employees are better informed about PPP advantages. A very small percentage of respondents understand potential PPP advantages, and indicated that business activities would be stimulated by using PPPs

(15%), services would be provided more effectively (16%), and it would be possible to provide services that the State and local governments are unable to provide due to a lack of funding (16%) (see Box 1.24).

Conclusion

Competitiveness has a decisive significance in the modern globalized economy, especially for small countries like Latvia. The assertion that people are the most valuable national resource is often a mere declaration in policy documents. To a large extent, human capital is dependent on external circumstances.

In order for the Latvian economy to change its orientation from resource-intensive, low-added-value production that is based on low-skilled labour to knowledge-

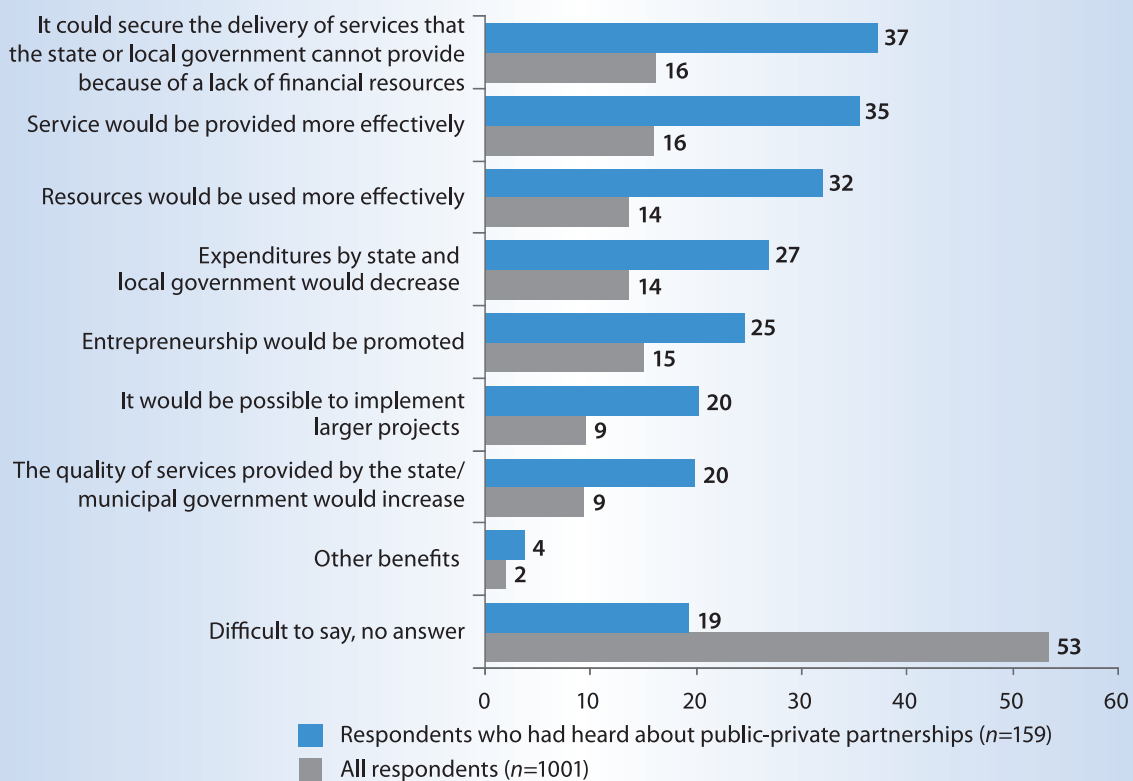
intensive production and export of high-added-value products, it is important to **recognize and overcome obstacles that hinder the creation and implementation of human capital.**

The **Survey** shows that although in Latvia the **work environment is open**, geared toward cooperation, and the organization of labour poses no obstacles to the use of human capital in the labour process, **employees rarely display initiative.** Employees do not always work at full potential, because low wage levels and low levels of awareness do not foster the desire to work more intensively and to their full potential. Employers' **orientation toward the extensive use of manpower** and labour also means that people in Latvia work a lot, but the achieved output is small and does not make it possible to improve competitiveness or employees' wages and quality of life. The strategies currently used for

Box
1.24

Public Attitudes about the Benefits of Public-Private Partnerships (PPP) according to Respondents Level of Knowledge about PPP

Have you ever heard of the term «public-private partnership»?
What do you think, if certain state or municipal services were entrusted to private entrepreneurs, what might the benefits be?



Survey sample: all respondents

Source: Study on Human Capital 2007

compensating the shortage of labour are not sustainable and do not foster Latvia's competitiveness.

If acquired skills are not applicable, they lose their value. Unfortunately, **work that does not correspond to one's attained education** is a problem that is typical in Latvia. Before, this discrepancy was created by structural changes in a transition to a market economy, but now it is the result of overproduction of humanitarian and social science specialists and a shortage of specialists in technical fields. The lack of highly qualified labour with knowledge of the sciences could also critically delay the development and production of innovative technology in the future.

Demographic trends in Latvia and Europe create new challenges for the development of employment. Latvia's long-term demographic indicators show that anticipated problems could be more serious than on average in Europe. In a situation where **it will not be possible to compensate the shortage of labour with rapid immigration or an increased birth rate**, it will be increasingly important to multiply existing human capital and ensure its productive usage.

In Latvia, **family policy is not conducive to combining work and a family**. From the State's macroeconomic point of view, this means unused possibilities for raising

the level of employment; from the public's perspective – better conditions (flexible working hours, State support for balanced participation by both parents in a child's upbringing) would make it possible to combine work and family life more successfully.

Despite the fact that employers in Latvia, compared to employers in other European countries, invest relatively little in their employees' training, employees attempt to compensate this by paying for their own training. Although **State support for education significantly lags behind** the level in many other EU Member States, Latvia has the largest proportion of students in the EU. Despite limited financial possibilities, Latvia's population devotes a significantly larger portion of household income for education expenditures than the inhabitants of many other EU Member States.

The unsuitability of education to labour market demands could slow down the restructuring of the economy and endanger the economy's growth rate in the near future.

Public-Private Partnerships that promote cooperation between various interested parties by increasing each individual partner's abilities is an insufficiently used instrument for the development of human capital and the community in Latvia.



2 Chapter Latvia outside of Rīga

INTRODUCTION

URBAN AND RURAL ALLIANCES FOR SUSTAINABLE DEVELOPMENT

SPATIAL PLANNING FOR ACCESSIBILITY AND QUALITY OF SERVICES

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Latvia outside of Rīga

Introduction

Latvia is a country with a small population and a low population density. Consequently, the conditions for development and implementation of human capital differ greatly between Rīga and the rest of the country. In territories with a low population density it is not easy to ensure optimal functioning of the social infrastructure – an essential condition for the development of human capital. In a situation where only few sectors have been developed and jobs are few, both public and private employers find it difficult to provide opportunities for all members of the community to exercise their creative potential. For this reason, anyone wishing to live in a more remote part of the country may have to rely on his or her own capacity to be sufficiently active, organized and resourceful to come up with an individual means of earning an income, or must be sufficiently flexible to adjust to an employer's requirements and accept a different type of job, take up an entirely new profession, and reconcile social and job-safety demands with local labour market conditions.

The purpose of this section is to examine human capital problems at the regional level, i.e. in the territories of Latvia outside of Rīga. The «regional perspective» comprises an analysis of human capital development in four planning regions (Kurzeme, Latgale, Vidzeme, Zemgale) and statistical regions (with the exception of Rīga and the greater Rīga area).

Urban and Rural Alliances for Sustainable Development

Latvia's population density structure can be divided into four categories of habitation with differing levels of urbanization:

- 1) the city of Rīga,
- 2) Latvia's other «big cities», which in an EU context would more likely be classified as medium-sized towns (Latvia's major cities: Daugavpils, Liepāja, Ventspils, Rēzekne, Jūrmala),
- 3) other towns, including the regional centres that cannot be classified as big cities,
- 4) rural areas.

The population structure of Latvia's rural areas is not represented solely by individual farmsteads; it also includes larger or smaller villages and settlements in which the number of inhabitants can sometimes exceed that of some towns. In view of Latvia's low population density, the greater part of the country's territory (with the exception of Rīga, the greater Rīga area and the major cities) is rural territory. The lifestyle of the urban population prescribes different models of behaviour and different ways of forming personal relationships. Although changes are taking place even in rural communities, life in the city tends to be more dynamic, relationships more perfunctory, with far less attention devoted to casual acquaintances. The capacity for maintenance, development and implementation of human capital varies in different types of populated areas. It is affected not only by opportunities and resources, but also by the predominant models of behaviour and personal relationships.

Urbanization levels, i.e. the percentage of urban inhabitants in Latvia's different regions, can vary greatly: in two regions (Zemgale and Vidzeme), urbanization has not reached even 50%, and the majority of the population lives in the country; urbanization levels are higher in Kurzeme and Latgale, but they are highest in the Rīga region (see Box 2.1).

In accordance with OECD classifications, which are based on criteria such as population density, distribution of

Box
2.1

Urban/Rural Population Distribution in Latvia's Regions (%)

Regions (planning)	Rīga Region	Zemgale Region	Kurzeme Region	Vidzeme Region	Latgale Region
Urban population, %	84.5	49.1	63.6	43.6	68.8
Rural population, %	15.5	50.9	36.4	56.4	31.2

Source: Zanda Kalniņa-Lukaševica, 2007.

population, and the size of cities, Latvia's regions can be divided into the following categories:

- predominantly rural regions: over 50% of the population live in communities in which population density does not exceed 150 per km²;
- regions with substantial rural influence: 15–50% of the population live in small communities, or these regions generally meet the criteria of predominantly rural regions, but have towns with populations of over 200,000, comprising no less than 25% of the region's population; and
- predominantly urban regions: less than 15% of the population live in small communities, or these regions generally meet the criteria of regions with substantial rural influence, but have towns or cities with populations of over 500,000, comprising no less than 25% of the population (OECD, 2005).
- In accordance with these classifications, only Rīga and its surroundings can be characterized as an urban region, the rest of the country is predominantly rural.

Today, considerable changes are taking place in the relationship between cities and rural areas. The flow of human resources, capital, technologies, goods, information and lifestyles between cities and rural areas is growing increasingly intensive and ambivalent. Rural communities can no longer be seen simply as a source of resources (raw materials and human resources) and as a symbol of backwardness. Farming is playing a diminishing role in the economics of rural communities – global competition is increasing, as is the role of new sectors of the economy, such as bio-energy. City dwellers are increasingly seeing the positive aspects of country life (clean air, peace and quiet, an attractive landscape) as important elements of the quality of life. On the other hand, the services provided by cities are becoming increasingly accessible to the rural population. However, the convergence of city and country life also means an escalation of problems that are common to both – a decline in the demographic situation, migration of the labour force, global competition.

One precondition for successful regional development is urban and rural alliances. This requires a re-examination of the role that cities and towns play in territorial development. Depending on their size, regional centres play different roles in attracting and retaining human capital, and their residents have different opportunities for taking advantage of various types of services. As areas of population gravitation, **cities and towns** are an important element in Latvia's population distribution structure. The size of these areas is determined by the size of a town's population, its functions and available services. In Latvia, the **capital city** traditionally has a major impact, attracting people with its job and educational opportunities and broad range of services. The **regional cities**, including the small towns, also play an important role in developing human capital. The services and

educational opportunities provided by these towns are also enjoyed by the surrounding rural population.

Spatial Planning for the Accessibility and Quality of Services

Institutionalized educational and job opportunities are preconditions for the development of human capital, but family, community and society at large must be instrumental in encouraging use of these opportunities. Personal choice also plays an important role, but this is influenced by interaction with others, by the **availability** of the resources needed for the development of human capital (public, private and voluntary education, information and other services), by **accessibility** (public transportation, roads, the Internet) and financial resources (is any or all of this affordable).

Population distribution is one of the elements of spatial planning at the local, regional and national levels. In Latvia's planning regions, spatial (territorial) plans have been prepared in recent years, or are currently being drafted, which describe the existing situation, outline spatial development prospects, provide guidelines for regional and local development programmes and territorial plans, and make recommendations for cooperation between national and regional institutions. These plans are being prepared for a period of 20 years, pursuant to the Law on Territorial Planning of 22 May 2002 and Cabinet of Ministers Territorial Planning Regulations for Planning Regions (Regulations No. 236, 5 April 2005). In the drafting process, national long-term, medium-term and short-term policy and planning documents are taken into account to ensure implementation of the plans. The guidelines for the Rīga planning region underline the need for coordinated drafting of development programmes and territorial plans. Overall planning goals must be taken into account when preparing these documents:

- harmonization of social, economic and environmental development;
- improvement of the quality of life; and
- rational use of natural resources.

These are the major components for the development of human capital (Spatial (territorial) plan of the Rīga planning region, 2007). These policy documents relate to the EU shift from a sectoral approach to territorial development, which anticipates greater local and regional government responsibility for rural development and a decoupling of regional welfare from the development of a single sector of the national economy (agriculture). This shift in emphasis is also manifested in the basic principles of the EU Common Agricultural Policy.

In the development of planning regions, particular emphasis is placed on the need to promote the develop-

ment of polycentric population distribution, accessibility, a healthy environment, better services, the growth of economic activity – all of which serve to improve living standards in these regions.

Administrative-territorial reforms can significantly impact territorial statistics. These should not be understood as county statistics. For in-depth territorial analysis, statistics units should be smaller than administrative-territorial units. Currently, statistical data on small towns – which can be either townships and county centres, or individual territorial units (cities with or without rural territories) – can frequently be obtained only from the local governments. This data, which is extremely important for researchers, appears in statistical reports only in the aggregate – as collective regional indicators. Another problem is the fact that CSB data are only available for undivided administrative territories (cities together with their rural territories), which in turn makes it difficult to compare and analyze development indicators (for example, it is difficult to compare the population density of cities and rural territories if, in the case of a city which also has a rural territory, it is impossible to establish how many people actually live in the city proper and how many in the rural territory). At present it is also difficult to analyze GDP structure, because information on the breakdown of added value by form of activity is not available for individual sectors. For example, information on added value according to the NACE classification is available on agriculture, hunting and forestry in the aggregate, but not separately on agriculture. This complicates the analysis of economic and social data for purposes of small-town development planning.

The spatial plan for Latvia's regions defines various levels of regional centres. To make these distinctions, various indicators are applied: status of a populated area, size of the population, range of available services, etc. The criteria recommended in the 2004 draft of the Cabinet of Ministers Regulations on Population Distribution Centres are also frequently applied (Ministry of Regional Development and Local Government, 2004).

Local centres are defined as places which provide a minimum of regularly required services for people living in the vicinity of these centres. County-level centres provide regularly or occasionally required services for the population of the county and are the administrative centres of the local governments. Regional centres provide special services; they are the economic, social and cultural development centres of planning and administrative regions, they make available the services provided by regional administrations, national institutions and district or regional structures. National centres provide special services; they are economic, social and cultural development centres of national importance. National-level centres may also have international importance (Ministry of Regional Development and Local Government, 2004).

For the development of human capital in Latvia's regions, not only the range of services provided by the public and private sectors is important, but also the quality and accessibility of these services. Currently, the accessibility of information and services is influenced by modern technology and the growing mobility of the population.

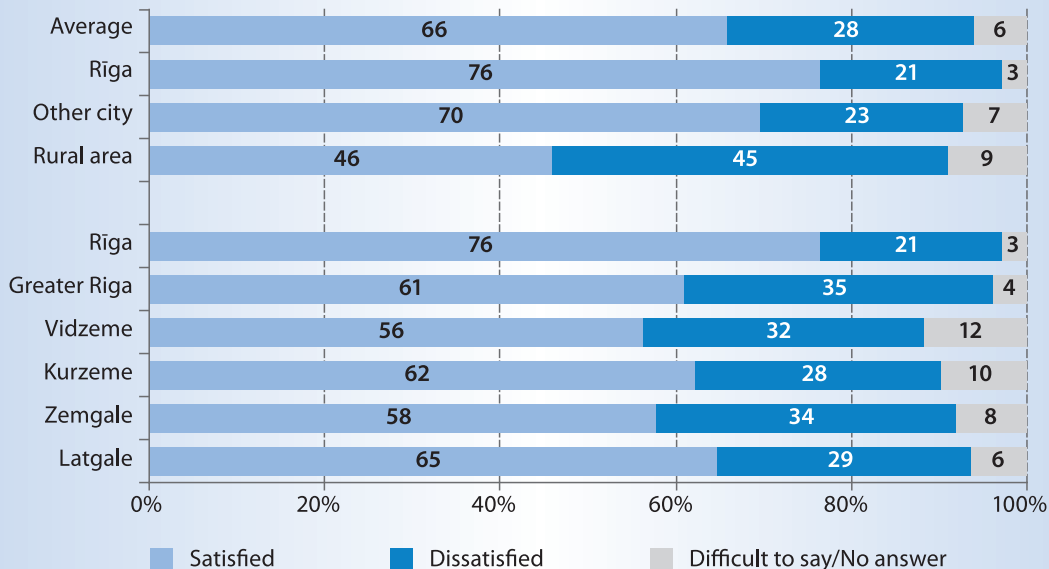
In response to a question in the **Survey** about how easy or difficult it is to reach the nearest big cities, people living in the regions (with the exception of Rīga) most often mention public transportation (12% of respondents from the greater Rīga area, 14% of respondents from Zemgale) as the biggest problem, but the poor condition of the roads is mentioned mainly by those living in Zemgale and Latgale. In Vidzeme and Latgale, the mobility of the population is often limited by a lack of personal transportation. The answers of urban and rural respondents to questions about public transportation and road conditions differ enormously. Twice as many people living in the country as those living in towns or small towns lack a personal means of transportation for getting to the next bigger city or town, which means that this population group cannot take advantage of the services provided there. It should also be kept in mind that the incomes of the rural population are relatively lower than the incomes of the urban population, and that these are generally older people. It is frequently pointed out by older people that transportation is expensive. It would therefore be important to make it easier for this group to travel to the towns. Moving closer to their place of employment is being considered by 16.2% of the rural respondents, but there are many who live in the country and work in the city. Practically all regional planning documents underline the need to make services easier to reach, with a special emphasis on public transportation (see Box 2.2). For example, development of the railroad is listed as a priority for the greater Rīga area. In comparison with other regions, the inhabitants of the greater Rīga area are those most dissatisfied with public transportation (35%). In Latgale, the figure is lower (29%). The reason could be insufficient transportation capacity in Rīga and the fact that new housing developments rising on the outskirts of the capital can be reached only with personal transportation. Public transportation is possibly one of the sectors where public and private partnerships could prove to be successful.

In the assessment of locally available services, there are differences in the answers given in different regions and different levels of populated places. People in Zemgale are most dissatisfied with healthcare services. There is an equal amount of dissatisfaction in small towns and in rural areas. The regional centres have a broader range of medical specialists and hospitals, but small towns often don't even have dentists.

Box 2.2

Satisfaction with Public Transportation Services in Latvia's Regions

Please rate your satisfaction with the local public transportation system!



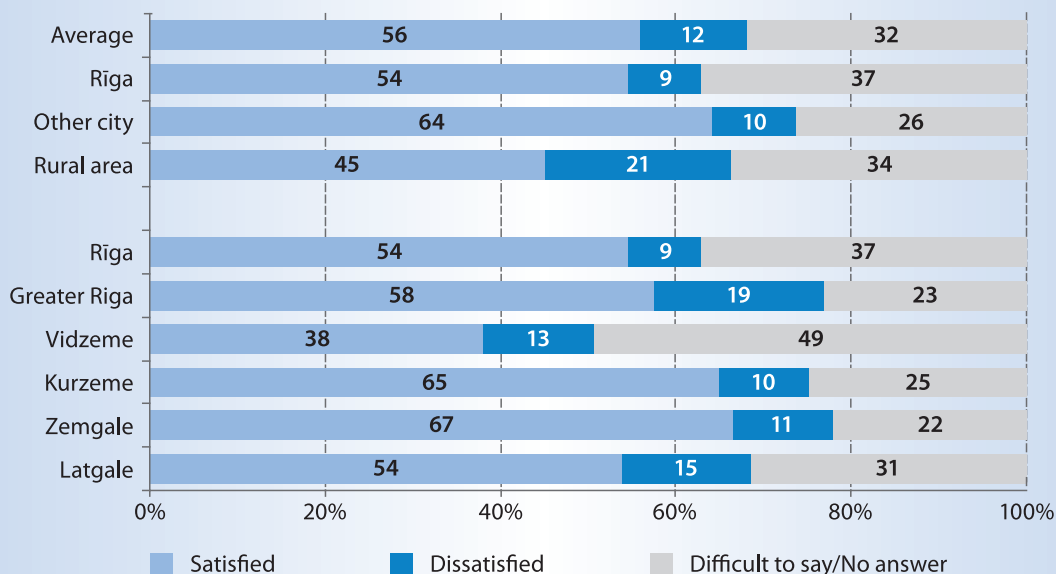
Sample: all respondents, n=1001.

Source: Survey on Human Capital in Latvia 2007

Box 2.3

Satisfaction with Internet Services in Latvia's Regions

Please rate your satisfaction with local Internet services!



Sample: all respondents, n=1001.

Source: Survey on Human Capital in Latvia 2007

Local cultural and recreational opportunities are more highly rated by the regional population than by the inhabitants of Rīga, which testifies to a considerable amount of local activity and initiative at the regional level. The people in Kurzeme are those who are most dissatisfied. The results would possibly be different if the answers of the respondents were broken down into age groups. The rural population and the inhabitants of small towns are less satisfied with their recreational options than those living in Rīga and other big cities, because there is much less to choose from. Here, too, cooperation between local governments, the local business community and the public sector could significantly improve the situation.

Sports activities are rated positively by respondents in the big cities (67%) and other towns (53%). Among the regions, Kurzeme topped the list, but people living in Vidzeme were less satisfied, although their regional centre Valmiera offers an abundance of sports activities.

In regard to educational opportunities, the percentage of discontented respondents is almost twice as high in all cities, towns and rural areas as in Rīga. Most dissatisfied with their educational opportunities are the people in Vidzeme (39%) – nearly two times more so than in Kurzeme. This data tallies with data on one of the ways of receiving information – the Internet (Box 2.3). Only 37% of the people in Vidzeme are satisfied with their Internet connections, as compared to 64% in Kurzeme. The **Survey** again confirms that access to the Internet is a bigger problem in rural areas than in small towns.

Shopping opportunities are seen as unsatisfactory by almost 36% of rural respondents. In cities, the figure is several times lower. Discontent is probably heightened by the fact that bad traffic and the poor quality of roads make it difficult to get to shops. Discontent is even greater with consumer services – in rural areas 72% of the population find the range of available services unsatisfactory. In a regional comparison, the people in Vidzeme are least happy with their services. The **Survey** shows that the regional population would appreciate better consumer services. There could possibly be new business opportunities here. On the other hand, potential service providers would have to reckon with small turnovers and an insufficient number of clients, especially in rural areas. 56% of the respondents in small towns and as many as 72% in rural areas point out that there are few opportunities for entrepreneurship. At the same time, services could probably be significantly upgraded in the small towns that are located in areas of population gravitation. To improve the availability of services and promote business development in areas removed from the big cities, people who start up their own businesses should be encouraged and supported.

In Search of the Good Life

Intraregional mobility

When choosing a place to live, people attach great importance to the chances of finding a well-paid and satisfying job. This is why an examination of human capital development and implementation problems outside of Rīga must include an assessment of job opportunities. The development of rural areas and small towns can be aided by good chances of employment or hampered by enduring problems of unemployment. A vicious circle develops: people start looking for jobs farther away from their homes; eventually, they move away, and territories lose the human capital that is so vital to development – it is usually the most enterprising and energetic who move away.

A typical phenomenon of our times is commuting – a situation in which people travel even extremely long distances to work every day. A study on the geographic mobility of the labour force concludes that in Latvia approximately 144,000 people commute daily to their jobs in other municipalities or townships; close to 64,000 of these commuters live in the greater Rīga area. A breakdown into statistics regions shows that commuters most frequently come from the greater Rīga area, Zemgale and Kurzeme, in that order. There are relatively fewer commuters in Latgale. An analysis of commuters' places of employment shows that a plurality (46%) commute to Rīga.

The most intensive flow of commuter traffic is between the greater Rīga area and Rīga. 70% of the greater Rīga population commutes to the city of Rīga. If commuters from the greater Rīga region travel primarily to Rīga, in other regions commuter traffic is mainly intraregional. In Vidzeme, Kurzeme and Latgale, over 90% of the commuters work in another municipality or township, but in the same region. The location factor plays a role here – people traditionally choose jobs that are close to their homes. The greater the distance from Rīga, the more difficult it is to reach the city, which is why there are fewer commuters from more distant locations. Among the main reasons for commuting are lack of jobs in the area where one lives and better-paid jobs in other areas. The main means of transportation used for travelling to work in another area is the automobile. Others that are mentioned are intercity or shuttle buses and trains. Analysis of the transportation vehicles used by commuters shows that public transportation fails to satisfy commuter needs, and this is why personal automobiles are used (Geographic Mobility of the Labour Force 2007).

Intraregional, daily mobility connected with work, studies or services is typical for areas outside of Rīga. The destination is often a city or town. For sustainable

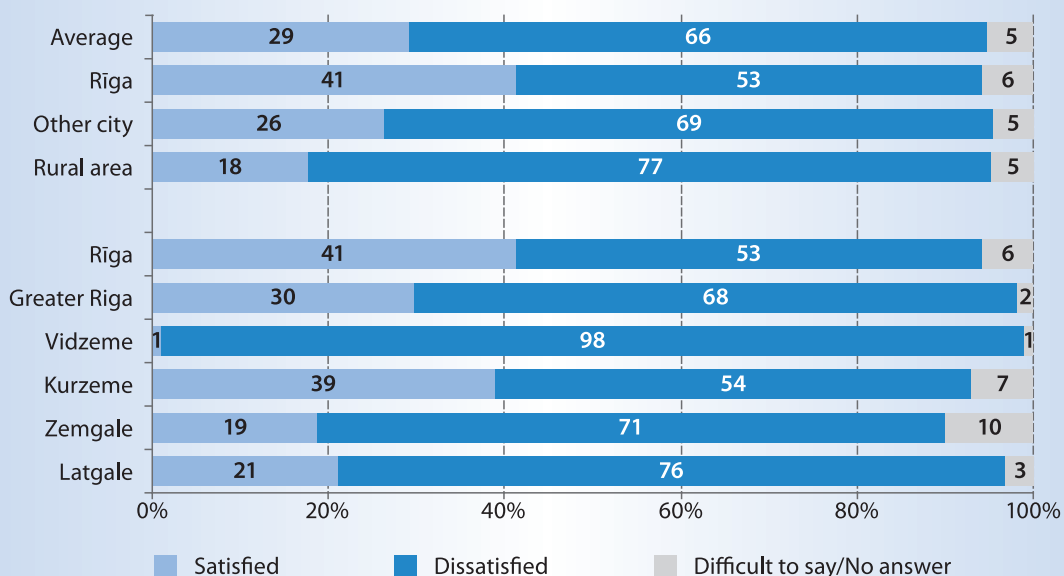
development, it would be important to ensure the availability of jobs and regularly required services not only in the regional centres, but also in the small towns that have traditionally evolved as gravitation centres for the surrounding territory.

Accessibility is not only a question of public transportation, but also of road networks and road quality, which the majority of respondents find unsatisfactory (see Box 2.4). Poor roads make it difficult for people to reach the bigger centres and also prolong the time that must be spent on

Box 2.4

Satisfaction with Road Conditions in Latvia's Regions

Please rate your satisfaction with local road conditions!



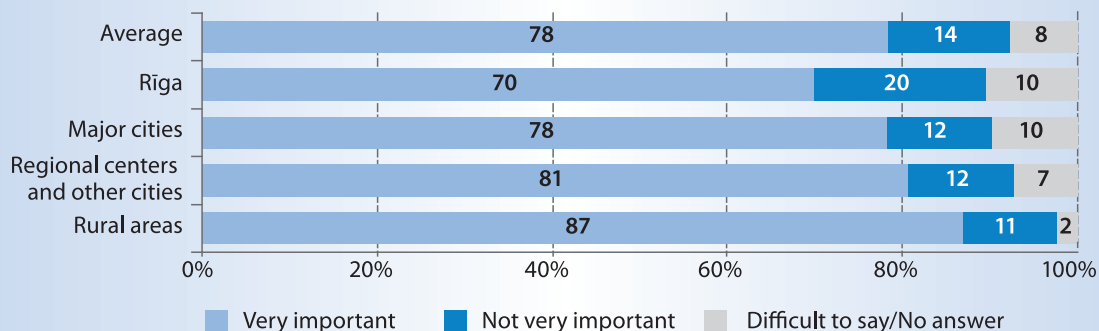
Sample: all respondents, n=1001.

Source: Survey on Human Capital in Latvia 2007

Box 2.5

The Importance of Work in People's Lives – Breakdown by Population Density in Inhabited Areas

Please rate the importance of work in your life!



Sample: all respondents, n = 1001.

Source: Survey on Human Capital in Latvia 2007

the road. Both inter-regional and intraregional accessibility can be improved not only by improving the transportation infrastructure, but also by improving access to the Internet.

A Trade Learned is an Opportunity Gained

Work and employment

Work is an important part of a person's life. Respondents of the **Survey** were asked a number of questions that

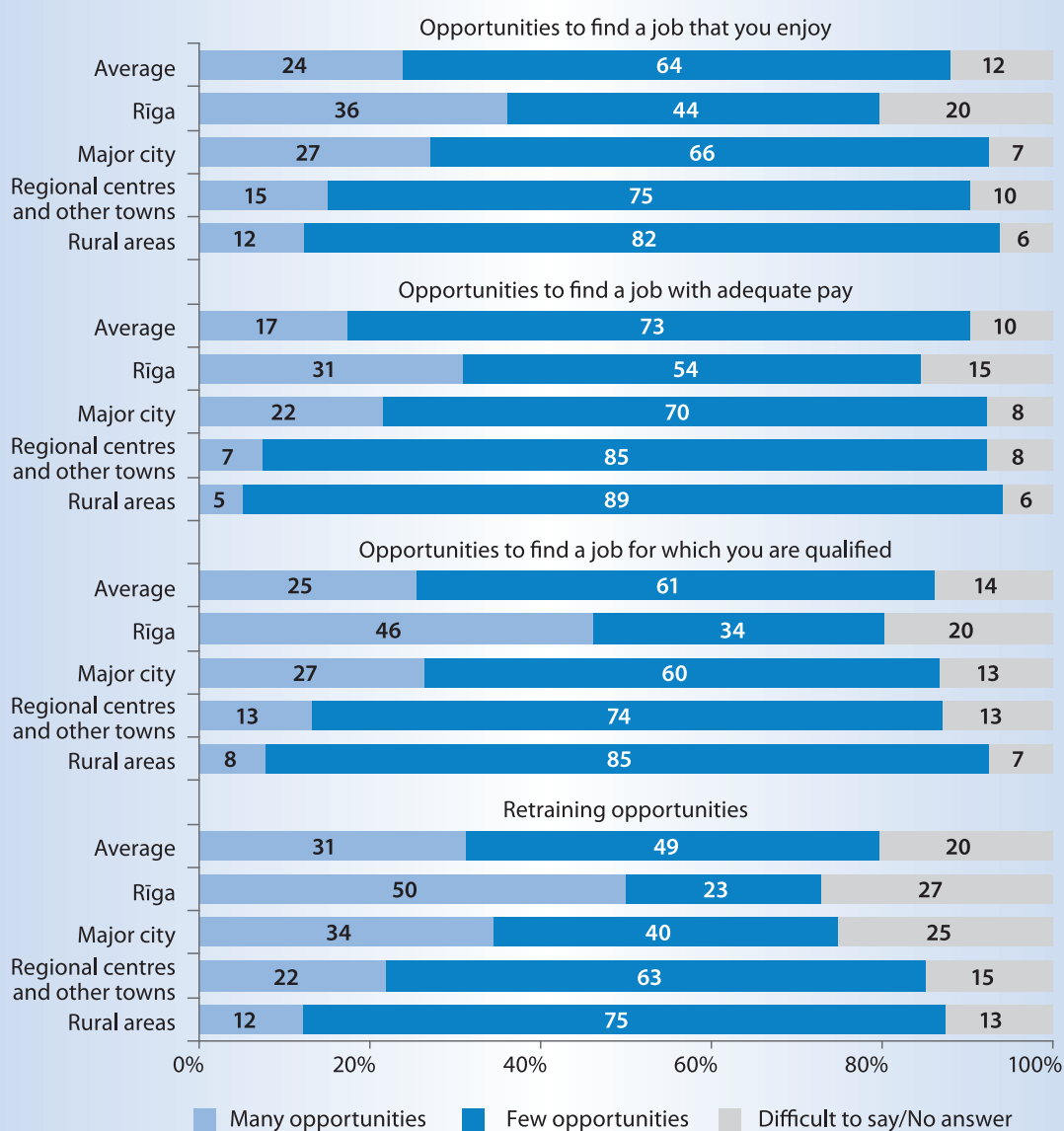
make it possible to take a look at work and employment from a human capital development and implementation perspective. Answers to the question «Please rate the importance of work in your life» show that people in rural areas are more likely to find work «very important,» but in Rīga a much larger percentage of people tend to see it as «not very important» (Box 2.5).

Although in Rīga 70% of the respondents claim that for them work is very important, the differences in the answers given by people in Rīga and those who live elsewhere are considerable. One reason for this could be

Box
2.6

Assessment of Employment Opportunities in Different Populated Areas

How do you generally rate the opportunities in the area where you live?



Sample: all respondents, $n=1001$.

Source: Survey on Human Capital in Latvia 2007

differences in levels of urbanization which can influence value orientation, making work appear less important. Another reason are the differences between Rīga and the rest of the country in chances of finding a job that one enjoys, for which one is qualified, with adequate pay, or in opportunities for retraining (see Box 2.6).

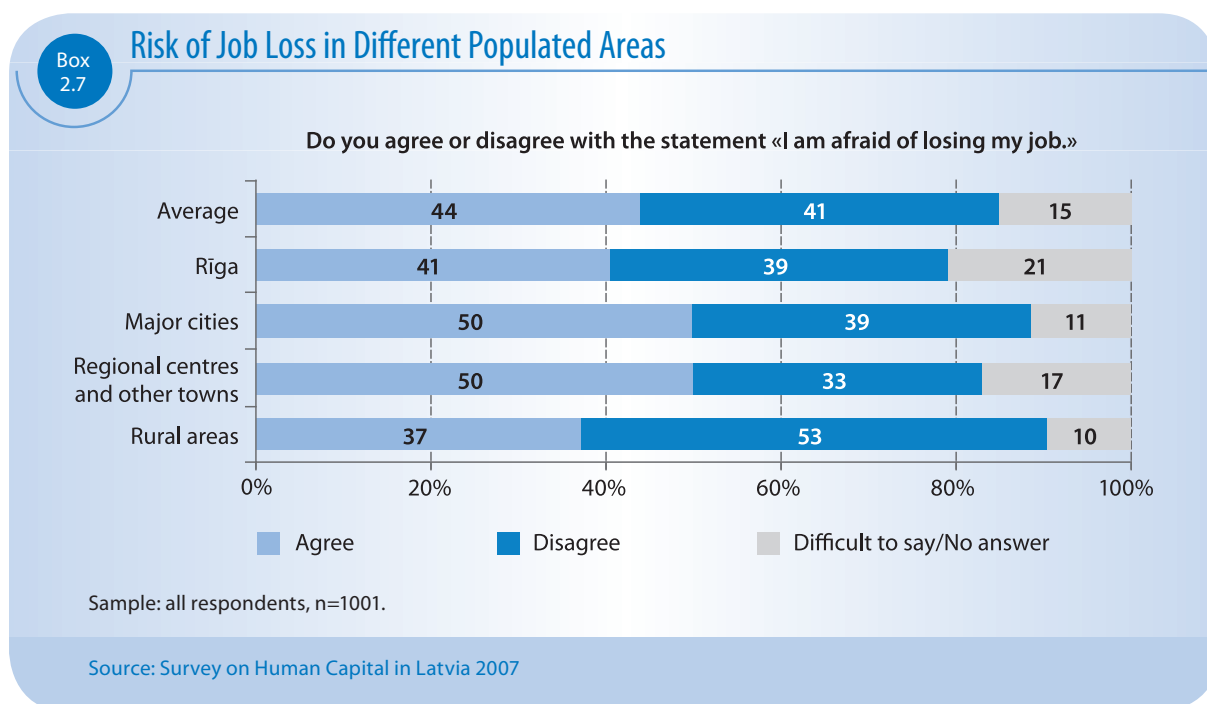
The greatest polarization can be observed in views about the «many» opportunities for finding a job in Rīga that one enjoys, for which one is qualified, with adequate pay, or retraining opportunities. Respondents in Rīga find this much likelier. They see Rīga as the one place in Latvia where it is possible to develop and put to use one’s human capital even in a salaried job. Statistical data also show a concentration of education, administration, science and business activities in Rīga. Rural areas appear to represent the opposite pole: these are places where, to the mind of respondents, the chances of getting a job that one enjoys, for which one is qualified, and with adequate pay are the slightest (see Box 2.6). A shortage of paid employment in rural areas is also evidenced by the fact that respondents in rural areas (85%) tend to agree with the statement that «to make more money, most of my acquaintances are willing to work overtime» (Rīga – 68%, major cities – 69%, other towns – 80%).

If well-paid, skilled jobs are more difficult to find in rural areas, it would seem logical to assume that people living there would have greater fear of losing their jobs. The Survey shows, however, that people living in smaller regional centres and other small towns are most afraid of losing their jobs. In this group, every second respondent claims that «I am afraid of losing my job» (60%). People in the major cities and in Rīga are less afraid of becoming unemployed (56%; 51%), but even less in the places where jobs are

hardest to find – in rural areas (41%). The explanation for this obviously does not lie in the actual chances of finding paid employment in rural areas, but in the objective differences between urban and rural lifestyles: country people are still less dependent on income from paid employment and feel that it will always be possible to make a living even without regular wages. If a respondent is already employed, looking for a new job is considered mostly by people in Rīga and less by those living in the country (see Box 2.7).

No less than four of five respondents in rural areas see «few» chances of finding a job in the country that one enjoys, for which one is qualified, with adequate pay and with retraining opportunities should this be necessary. The more urbanized a place of domicile, the greater the employment and retraining opportunities – the more «pastoral» the location, the fewer the opportunities.

Data for 2007 provided by the National Employment Agency (see Box 2.8) highlights unemployment problems in areas far removed from Rīga and in Latvia’s other big cities. The highest unemployment rate is in regions that are farthest from Rīga and in less urbanized regions. In the Rīga Region, the unemployment rate in May 2007 was 3.7%; in the Kurzeme Region, 5.1%. The average unemployment rate for the whole country was 5.4%. In the Zemgale Region, which is less urbanized, but is closer to Rīga and has the fairly large city of Jelgava, the unemployment rate is 5.5%, the same as in the Vidzeme Region. In Latgale, on the other hand, the lowest unemployment rate is in the cities of Daugavpils (5.2%) and Rēzekne (7.8%), but in the regions surrounding these cities and in the other territorial units, the unemployment rate ranges from 10.9% to 17.4%, resulting in an average of 11.2%. The unemployment rate in the Latgale Region (11.2%) is above the national average



and above that of the EU. In recent years, unemployment has declined in Latgale, but there are still no grounds for speaking of an acute lack of manpower, as is often heard from employers in Rīga and other big cities.

The difference between cities, towns, small towns and rural territories in Latvia lies not only in the size of the population or the geographic location, but also in specific socio-economic features. Analysis of the **Survey** results produced the surprising conclusion that, at a time when many sectors are suffering from lack of manpower

and the press often cites employers who wish to import skilled workers from other countries, employers show little interest in investing resources to improve employee qualifications. In the Rīga Region, 74.8% of employees claim that their employer does not provide regular, compulsory training courses financed by the company.

The situation is better in the other regions, where employers more frequently finance and organize training for employees (Vidzeme – 60.8%; Latgale – 56.3%; Zemgale – 57.5%; Kurzeme – 58.8%). One reason for this

Box
2.8

Real Level of Unemployment * Registered End of August 2007

Latvia's average	5.0
Rīga Region	3.6
Rīga	3.3
Rīga District	4.4
Jūrmalai	4.2
Limbaži District	4.6
Ogre District	4.5
Tukums District	3.6
Kurzeme Region	4.9
Kuldīga District	5.8
Liepāja	4.9
Liepāja District	5.5
Saldus District	4.6
Talsi District	5.1
Ventspils	4.0
Ventspils District	4.4
Latgale Region	10.1
Balvi District	14.7
Daugavpils	4.6
Daugavpils District	10.4
Krāslava District	13.2
Ludza District	15.2
Preiļi District	10.3
Rēzekne	7.3
Rēzekne District	17.1
Vidzeme Region	4.9
Alūksne District	5.7
Cēsis District	4.1
Gulbene District	6.0
Madona District	5.6
Valka District	5.0
Valmiera District	4.2
Zemgale Region	4.8
Aizkraukle District	5.2
Bauska District	3.9
Dobele District	6.7
Jēkabpils District	5.8
Jelgava	4.2
Jelgava District	3.8

*The real level of unemployment was obtained after deducting unemployed persons not available on the job market, who are engaged in long-term employment-related activities (professional training, retraining or in-service training, temporary salaried jobs, activities for specific groups of persons).

Source: National Employment Agency unemployment figures August 2007. http://www.nva.gov.lv/docs/11_46e79b67131499.33070645.jpg Last accessed September 10, 2007.

significant discrepancy between the situation in Rīga and in the other regions is the large share of micro-enterprises (up to 10 employees) in the other regions. Small (up to 49 employees) and medium (up to 249 employees) enterprises are really only found in Rīga, the greater Rīga area and the other major cities. In the rest of Latvia, 90% and more of the active entrepreneurial units are micro-enterprises (Central Statistical Bureau, 2006). There is less bureaucracy in these companies, and the qualifications of the employees are often lower. The small number of employees makes it difficult to draw a strict line between the duties of individual employees – overlapping or exchange of roles can be the order of the day. In small towns, relations between employer and employee are much closer. The employees of micro-enterprises are in daily contact with their employer, inasmuch as the head of the company is frequently not only the boss, but also a co-worker (for example, not only store manager, but also salesperson). Day-to-day contact with subordinates makes it possible for the head of a company to establish a closer professional relationship with employees and

to better understand their conduct and their needs. It is easier for the employer not only to judge the work of his or her employees, but also to improve productivity by providing necessary support (courses, training, time off).

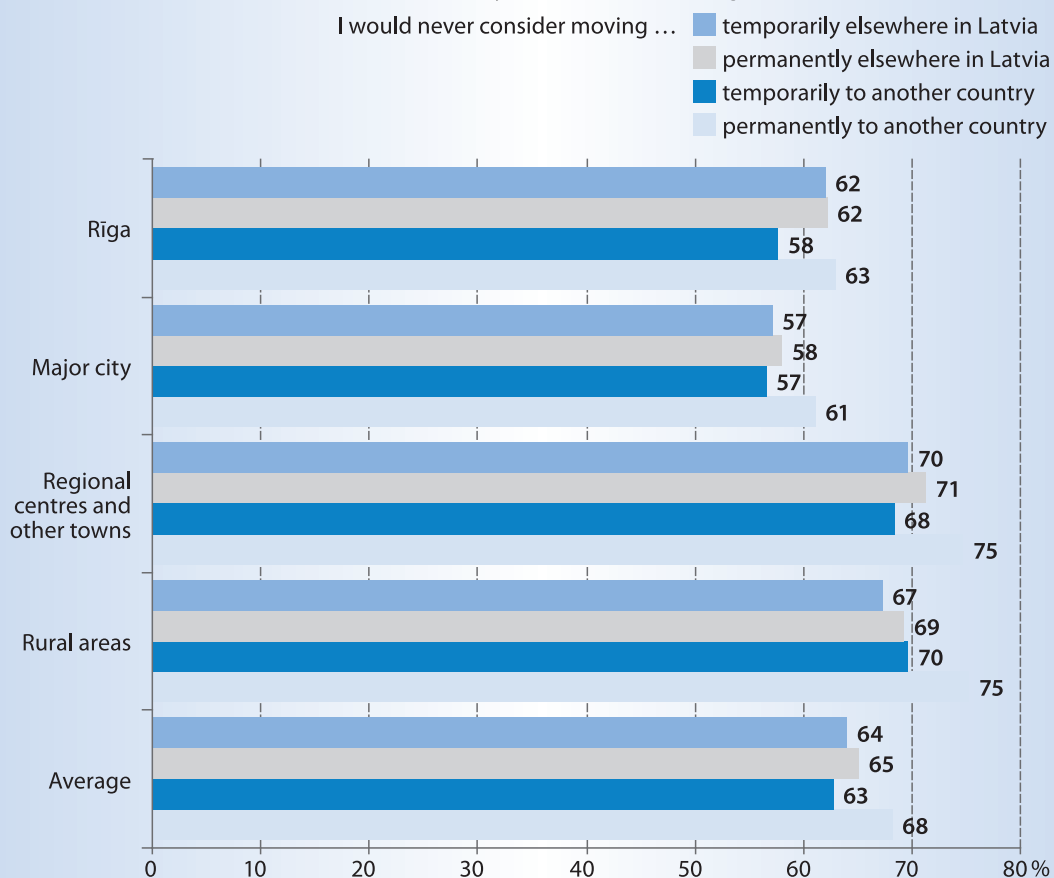
In Rīga, relations between employer and employee are generally the impersonal relations typical for large cities. Employers tend to see employees as a commodity, as something that can be bought and sold and – if need be – imported like energy or spices. Educational opportunities are not the only factor that stimulates or inhibits the development of human capital on the job. It is extremely important for an employee to be able to apply know-how and skills, to receive support for professional advancement. In this aspect, too, employees in Rīga feel less appreciated – the greatest amount of support for their professional advancement was received by employees in Vidzeme (23%) and in Kurzeme (20%).

At the same time, the **Survey** shows that not all employees actively seek to enhance their know-how

Box
2.9

Readiness to Move to another Location: Distribution by Location

What would be the reasons for you to consider moving to another location?



Source: Survey on Human Capital in Latvia 2007

and skills, to improve their general and professional knowledge: 60–70% of the respondents admit that they have done nothing of the sort in the past three years.

Visions of future employment opportunities in areas far removed from the capital city are connected with working from home and telecommuting. Even now, the situation would be greatly improved by better Internet connections and, if not regular public transportation, then at least better roads.

Home is where the Job is

Attraction to one's place of residence

If wages are so low that even basic needs can no longer be met, people understandably tend to move to places

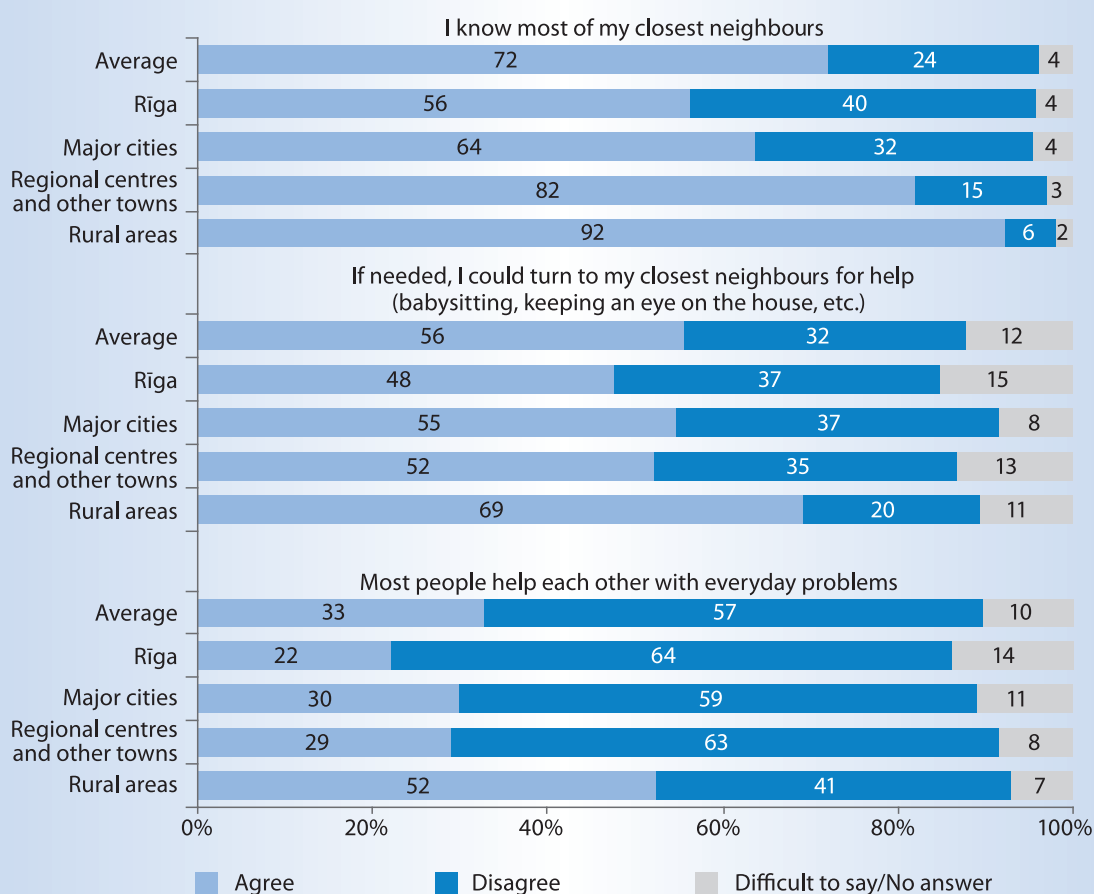
where wages are higher and life is better, where it is possible not only to make ends meet, but to improve one's living standards and enjoy personal development (i.e. improve one's human capital). According to the Central Statistics Bureau of Latvia, in April 2007 the subsistence minimum in Latvia was 129 LVL (<http://www.csb.lv>, last accessed 17 May 2007). This means that those who earn the minimum wage (less than 100 LVL after taxes) risk falling below the subsistence level. The ESF study «Specific Job Market Problems in Latvia and its Regions» (University of Agriculture, 2007) shows that fairly many (over 10%) working people in all of Latvia's regions would change jobs if the opportunity arose (Vidzeme – 14%; Latgale – 13%; Kurzeme – 13%; Zemgale – 11%). Only in the Rīga planning region did the figure remain under 10%.

Just a slightly larger number of respondents from rural areas and small towns claimed they would «never

Box
2.10

Relations with Neighbours in Populated Areas

When thinking about the people in your immediate vicinity (village, housing development), to what extent would you agree with these statements?



Sample: all respondents, n=1001.

Source: Survey on Human Capital in Latvia 2007

consider moving temporarily or permanently elsewhere in Latvia.» Likewise, the idea of moving away from Latvia either temporarily or permanently seemed unacceptable to a greater number of people from rural areas or small towns (see Box 2.9).

Why, despite a shortage of jobs, do people rule out the possibility of moving to another location, even to another area in Latvia? Is it local patriotism, a lack of flexibility in less urbanized territories, or have those doing the study failed to consider aspects of rural or small-town life that make these places attractive regardless of the job situation? Answers to these questions can probably not be provided by a survey, but rather by more comprehensive, in-depth personal interviews. At the beginning of the 20th century, sociologists (for example, Georg Simmel, Louis Wirth) already called attention to significant differences between rural and urban lifestyles, which could explain the reluctance of country people to move to cities. In an urban environment, personal relationships tend to be more rational, impersonal and focused. Country folk possibly set higher store in good relations with neighbours, willingness to help each other, and for this reason do not wish to move away from the place they call home.

People who live in Latvia's rural areas and small towns are more likely to know their closest neighbours (92% and 82%, respectively) than those who live in Rīga and other major cities (56% and 64%, respectively) (see Box 2.10). The people who live in the country are the ones most likely to turn to neighbours for help (69%) and the ones in Rīga least likely (48%). There is a significant difference in the views of the rural population and the population of all other areas about whether or not the majority of people help each other with everyday problems. Over half of the rural respondents (52%) agree with the statement that people help each other, but all others are much less inclined to do so (Rīga – 22%; major cities – 29%; small towns – 28%).

Entrepreneurship

One way of getting a job without relocating is starting a private business. Respondents questioned for the **Survey** were asked to rate the chances of setting up a business in the area where they live. The answers held no surprises for those who associate business opportunities with the rapid economic growth of the big cities and the dynamism of the urban population. Every third person in Rīga (31%) finds that there are «many opportunities for starting a business» in the area where they live, whereas at least two of every three people who live in rural areas (72%) find that chances are «few».

Very few respondents find that starting up a business would present no problems regardless of where they

lived – less than 5%. All other respondents feel that they would either be faced with greater or smaller difficulties, or that it would be impossible to start a business (Rīga – 37%; major cities – 28%; other cities – 42%; rural areas – 43%). It is hard to explain why people in the major cities are more optimistic about business opportunities, but it does suggest that these cities could become service and industrial centres that provide new jobs.

A study commissioned by Latvia's Ministry of Economics, «**Analysis of Business and Self-Employment Opportunities**,» examines how favourable the business environment is for start-up businesses. The percentage of entrepreneurs in Latvia is 2–3 times lower than in the «old» EU Member States: 58% of the working population are employees and only 8% are employers or self-employed. Interviews were conducted with persons who had registered a company or had registered as self-employed persons within the past two years. The results show that the majority of newly founded businesses are service providers. The profiles of the start-up entrepreneurs differ somewhat from those of the self-employed persons. The entrepreneurs are generally 31– to 40-year-old males, 50% with secondary and 50% with higher education and fair to middling academic records, with personal monthly incomes of approximately 300 lats before going into business. The self-employed persons are generally 21– to 30-year-old females, with secondary professional/vocational education and personal monthly incomes of approximately 300 lats. Both groups share the desire to earn 4–5 times more (Ministry of Economics, «Komerccdarbības un pašnodarbinātības uzsākšanas analīze,» June 2006, <http://www.em.gov.lv>, last accessed June 12, 2007).

The Ministry of Economics study concludes that people are prompted to start or legalize their own business not only by difficulties in finding a job, but also by a desire for social security (pensions) and the possibly justified notion that stable profits are possible in the real estate market and that business activities will make it possible to set aside savings for the future. Illegal businesses are hampered not only by the activities of the State Labour Inspectorate and the State Revenue Service, but also by a lack of manpower. This is especially true in Latvia's regions, where interactive social control mechanisms call for caution on the part of those who have not legalized their activities. The authors of the study come to the conclusion that start-up entrepreneurs and self-employed persons most often choose the service industry and traditional business sectors for their business ventures: trade, real estate, the hospitality industry. New entrepreneurs often take advantage of tried and tested business ideas and rarely engage in market research or innovation. Hard work makes up for lack of ideas – these enthusiasts habitually put in far more than 40 hours a week. The biggest impediment to business is frequently corruption and an excessive amount of red tape.

International comparative studies show that the business environment in Latvia is improving from year to year. In the World Bank report *Doing Business in 2006*, which compiles information on the business environment in 155 countries, the assessment of Latvia is fairly positive: Latvia is ranked 26th, ahead of Austria (32nd) and France (44th), but behind its neighbours Lithuania (16th) and Estonia (15th).

Nevertheless, start-up businesses are faced with additional difficulties, which are especially trying for those attempting to start a new business in regions beyond Riga and the greater Riga area. In interviews, employers as well as self-employed persons complain about the high additional costs of having to travel long distances to regional centres to deal with all manner of formalities (tax forms, etc.). The unfinished administrative-territorial reforms create problems in dealing with local governments.

It is ironic that entrepreneurs particularly in rural areas mention a poor work ethic and lack of workers (inability to compete with wages in Ireland) among their main problems. Infrastructure is another problem: poor roads, lack of communications, and limited conveniences. Attention is also called to a general lack of government support for regional development and inadequate access to information in a user-friendly form (Ministry of Economics, 2006).

Cooperation among interested social actors as well as the formation of partnerships could make it easier to start new businesses. Concerted support from the government, local governments and the non-governmental sector would also be helpful. The results of the Ministry of Economics study show that the activities of government and local government structures in promoting business are seen more as neutral and unobstructive and not as actively supportive and friendly. NGO business support centres are unpopular and their efficiency is not rated highly. This could be due to the insufficient capacity and experience of these centres. The national policy planning period 2007–2023 anticipates a number of business promotion measures (<http://www.esfondi.lv/page.php?id=777>, last accessed October 10, 2007), including:

- ESF support for the promotion of economic activity in poorly developed regions: training, counselling and financial support for business beginners;
- ERAF support for the introduction of informative, advisory, financial and innovative products and technologies.

The sorest point in the eyes of start-up entrepreneurs and self-employed persons is the lack of seed capital. Partnerships between private businesses and public institutions would be one way of dealing with this problem. The main obstacle here is a lack of trust – on the part of both the entrepreneurs and the financial institutions that are involved. For example, banks do not always trust the Latvian Guarantee Agency, which

was set up for the purpose of aiding new businesses, and the entrepreneurs themselves are reluctant to take advantage of government or local government co-financing for fear of losing control of the new company (Ministry of Economics, 2000).

Small Towns

The Living Environment in Small Towns

When considering balanced sustainable development in Latvia's regions, a special role could be assigned to the small towns that already are centres or could become such as a result of administrative-territorial reform. The potential of small towns for developing and attracting human capital to the regions has so far been largely neglected. For the rural population, small towns are places where they can develop and put to use their human capital as employers or employees, receive education, healthcare and other services, places from which they can move on to other cities or countries (see Box 2.11).

A small-town environment is somewhere between a rural and an urban environment. In comparison with the big cities, life in a small town is less dynamic and less anonymous. At the same time, many of Latvia's small towns have a long history and distinctive traditions. Small towns have fixed boundaries, a specific number of inhabitants and other socio-economic characteristics that allow them to be seen as a transition from country to city. Various criteria are applied to classify a town as a small town: a town with a population of 2,500 to 20,000 is considered to be a small town (Canada & the World Background, 2004).

In Latvia, in 2006, there were 77 cities/towns with very different population sizes. Among these are 7 major cities and 20 larger towns (regional centres), but the rest can be considered small towns (Self-appraisal of Latvia's local governments, 2006).

Typical for a small town as a place for living and working is that it has a less urbanized environment and far fewer opportunities than the big cities. As a unique sort of *transition* from country to city, it has to some extent the characteristics of both. A clear distinction cannot be made between the influence of formal and informal networks in the social milieu of a small town – a small town has multiple social ties. These formal and informal ties complement each other. Family ties quite often do not affect just the nuclear family, but reach further to more distant relatives.

Employment in a small town can be described as local. A large number of small businesses are orientated toward the local market, local consumption of goods and services. One could say that there are local networks that do not reach beyond town limits: for example, retail stores, beauty salons, libraries, etc. One of the biggest

territorial differences between small towns and rural regions is that a small town is the closest town where one can go shopping or enjoy cultural activities; it is also the closest town where the country folk who have the skills and education to compete with the townfolk can find jobs. The small town is also the closest place where people from nearby townships or counties can look for jobs, but employment opportunities are limited by the number of job offers and the availability of personal or public transportation. An important aspect that attracts people to a specific small town and its vicinity is the availability of services. This is why migration processes are an indicator for how well a small town is able to fulfil its function as a centre for employment and services. Jobs attract people, a lack of jobs promotes migration.

A Latvian University of Agriculture study that was carried out in the summer of 2006 on the objective and subjective factors that attract people to small towns takes a look at work and life in Latvia's small towns. The number of jobs is limited in almost all small towns, and new jobs are not

being created. Almost all respondents claimed that there were not enough jobs. The study highlights the factors that affect employment opportunities in small towns and either attract people or encourage them to go elsewhere. The inhabitants of all of the small towns included in the field study (Ape, Viesīte, Aknīste, Dagda, Pāvilosta, Piltene) named limited employment opportunities as the main problem which directly or indirectly affects the whole situation (see Box 2.12).

Analysis of the views expressed in interviews with small-town local government officials, employers and employees makes it possible to single out the factors that have a direct effect on employment in small towns and surrounding areas (see Box 2.11 inner circle) and the factors that have an indirect effect (see Box 2.11 outer circle).

Despite a lack of government support, small towns and other local centres are seeking untraditional, innovative, social and economic solutions for the attraction and development of human capital.

Box 2.11

Factors Affecting the Living Environment and Employment in Small Towns

«We have a timber processing enterprise which produces only for export... There is also a cranberry farm and freezing plant. Then you have the traditional farming sectors which are having a difficult time coming back, such as livestock raising. We have very little dairy livestock. Well, and we have some sheep herding. Of course, we have state institutions which employ many people. There are many educational institutions – a high school, music and art schools. There is a boarding school, a children's home in Alūksnes district, and of course, a pre-school.» (Gaujiena, municipal employee)



The inner circle shows the factors that have a direct effect on employment opportunities. The outer circle shows the factors that have an indirect effect.

Source: "Objective and subjective factors in the attraction of inhabitants to small towns" (LLU, 2006)

Emergence of Regional Innovation Systems in Latvia

In today's knowledge-based economy, the ability to learn and apply new skills is a crucial factor in the performance of individuals, companies, regions and countries (Lundvall, 2002). Although innovative activities in Latvia are promoted primarily at the national level, in recent years innovation has started to acquire a regional dimension as well. Despite the lack of an integrated and systematic approach to the promotion of innovation in Latvia's regions, an analysis of national and regional policy documents, support instruments and initiatives discloses three main emphases in regard to regional promotion of innovation:

- **business activities** outside of Rīga;
- creation of the **necessary infrastructure** (business incubators, technology parks) for innovation; and
- **regional universities and colleges** as potential regional innovation promoters.

Reflecting awareness that innovation is vitally important for a region's socio-economic growth, during the past decade planners have assigned innovation an increasingly greater role in regional development (Fritch and Stephan, 2005). In the whole world, it has become popular to speak of **regional innovation systems**, in which the emphasis is placed on use of the potential, traditions and advantages typical for a concrete region (Cooke, Heidenreich and Braczyk, 2004). A regional innovation system consists of «interacting knowledge generation and exploitation sub-systems linked to global, national and other regional systems for commercialising new knowledge» (Cooke, 2004, p. 3).

The basis of a regional innovation system is the concentration of businesses, investments, human resources, science and technology typical for a concrete region (see Box 2.12). A regional innovation system is similar to a network that connects private, local government, regional, higher education and other organizations, which interact and supplement each other. An important role in these regional innovation networks

is played by the innovation support infrastructure, which is usually provided by regional scientific institutions and universities, as well as organizations that are still relatively new in Latvia, such as:

- **technology transfer contact points** – these are found in universities and colleges and their purpose is to promote the commercialization of research results through cooperation with business;
- **business and innovation incubators** – these promote the creation of new businesses by helping them with premises, services and business counselling; and
- **technology and industrial parks** – these offer premises, infrastructure and counselling for the operation and development of businesses.

However, in recent years more and more innovative activities and projects are appearing outside of Rīga as well. Regional universities and local governments have launched technology transfer and innovation projects with the help of government and EU funding. Various initiatives supplement each other and, in at least some of the regions, the first signs of an emerging regional innovation system can be observed (see Box 2.12).

Information provided by representatives of the regions and by officials from the Latvian Investment and Development Agency, suggests that innovative activities in Latvia's regions are developing and expanding.

Thus far, regional innovation systems have been more actively developed in the **Zemgale and Kurzeme regions**. These systems are emerging around the big cities of Jelgava and Ventspils. The regional universities – Ventspils University College and the University of Agriculture in Jelgava – are among the driving forces, and the municipal governments also play an active role. Although the main support structures for innovation in these regions are currently located in Jelgava and Ventspils, in their activities they seek to embrace the whole region and even to involve enterprises interested in innovation from other regions. For example, the Kurzeme Technology Transfer Contact Point at Ventspils University College has approached entrepreneurs in towns as far away as Saldus, Talsi, Kuldīga and Liepāja in its search for partners.

Box
2.12

Rīga's Innovation System

Rīga's innovation system can be considered the most advanced regional development system in Latvia. Most of Latvia's R&D and business potential is still concentrated in Rīga, as is financial and human capital. The majority of Latvia's innovative enterprises are located in Rīga and the Rīga District. The necessary infrastructure (research institutes, business incubators, technology parks, etc.) is also found primarily in and around Rīga.

Sources: Central Statistics Bureau of Latvia (2006), Latvian Technological Centre (2006)

Their first initiatives suggest that the innovation systems of the Zemgale and Kurzeme regions will have different orientations based on each region's traditions and available resources. The Zemgale innovation system is more oriented toward the traditional sectors, but the Kurzeme system – toward high technology. Zemgale's orientation toward the traditional sectors is determined by the region's traditions, economic structure and the presence of the University of Agriculture. A number of the region's initial innovative activities involved the production of building materials and food products, and one of the first projects of the University of Agriculture Technology and Knowledge Transfer Centre was dedicated to innovation in bread production. The Ventspils innovation system, on the other hand, is developing with an emphasis on information technology and electronics. These sectors are on the agenda of the Ventspils University College Engineering Research Centre, and a number of the new companies at the Ventspils Business Incubator of Ventspils University College have been founded by the college's Information Technology graduates. In the Ventspils High-Technology Park, the Ventspils Electronics Factory has gone into operation. Although regional innovation systems were initially associated with new technologies (with Silicon Valley as the most prominent example), it should be kept in mind that innovation is important not only in the new, high-technology sectors, but also in traditional sectors. The low-tech and medium-tech sectors (furniture, textiles, food products, etc.) represent the greater part of economic activities even in the developed countries of the West (Hirsch-Kreinsen, Jakobson, Laestadius and Smith, 2003). Even in these countries, there are still huge opportunities for innovation in the technology and design of new products and processes.

Although not as actively as in Zemgale and Kurzeme, a number of initiatives in support of innovation have been launched in **other regions** as well. There are good opportunities for the development of regional innovation systems in **Latgale**, where the town of Līvāni is becoming one of the centres of innovative activities. A number of innovation supporting initiatives are emerging in and around Rēzekne University, and there are good research traditions in the sciences at Daugavpils University. A number of local initiatives have also been launched in the **greater Rīga area**, which suggests that, here, too, there might be chances for innovative business activities that are independent of the capital and typical for Latvia's small towns (Ogre, Tukums, Olaine). The least amount of innovative activity has so far been registered in **Vidzeme**. But even in this region, the situation could improve now that a number of projects have received support for implementation in Valmiera, which could in time become the centre for innovative business activities in the Vidzeme Region.

Innovative activities are a new phenomenon in Latvia's regions and many of them have been launched after 2005.

The main factors that stimulate the development of regional innovation systems are: government support, the initiatives of local governments and regional universities, the activities of the private sector, and exploitation of the former industrial base for innovative activities.

In recent years, there has been a significant increase in the **support pledged and granted by the Latvian government** for innovative activities, including innovative activities in the regions. In a modern society, market mechanisms and capitalistic companies are the main driving force behind innovation and other economic processes, but in cases where the market fails to perform its functions (for example, few private sector investments in innovation because risk and costs are too high), the government must step in to make the necessary corrections (but not to take over or duplicate the activities of the market and the private sector) with public policy instruments (Edquist, 2001). Experience in other countries also shows that in the initial development stages of many regional innovation systems, and even in later stages, financial support from the government can be extremely important (see, for example, Cooke, Heidenreich and Braczyk, 2004). Many innovation support activities, for example, business incubators, may begin generating income only years after they have been launched, which is why in many Western countries they are also dependent on government support.

In this context, it is worth taking a closer look at **the negative experience** of Latvia's first regional initiative – **the Liepāja Business Incubator**. This was created in 1997 by the Liepāja City Council, the Latvian Development Agency and the Liepāja SME Support Centre. The hopes of the founders that the incubator would be self-sustaining were not fulfilled, and in 2001 it was closed down (Pelcmane, 2000 and 2001). The Liepāja Business Incubator is cited as proof that such activities, especially in their early phases, cannot succeed without government support. It is true, however, that other reasons are also quoted for the Liepāja Business Incubator's lack of success. For example, Valdis Avotiņš mentions weaknesses in the business plan and poor financial management (Avotiņš, 2007).

Today, the situation in Latvia is much different from that in which the Liepāja Business Incubator attempted to operate. Government policy recognizes the need for financial support from the government for such initiatives – at least in the early stages. The fact that policymakers recognize the importance of such initiatives in Latvia's regions as well is demonstrated by the support pledged in the government's policy declaration for the creation of knowledge transfer centres in cities with higher education institutions (Liepāja, Ventspils, Jelgava, Valmiera, Rēzekne, Daugavpils) and in Jēkabpils (Declaration on the planned activities of the Cabinet of Ministers, November 7, 2006).

In recent years, the government's pledges of support have been followed up by concrete **financial instruments** for the support of technology transfer contact points, business incubators and innovation centres, and the development of applied research infrastructures. Some of this support has also reached the regions. Three of six subsidized technology transfer contact points have been set up outside of Rīga: at the Latvian University of Agriculture in Jelgava, Ventspils University College and Rēzekne University. Of nine projects that received government support in 2006 for the development of applied research infrastructures, four are being carried out outside of Rīga: laboratory and know-how centres at Ventspils University College, the Latvian University of Agriculture, Rēzekne University and Vidzeme University College. Nine of 11 business incubators and innovation

centres that were granted support by the Ministry of Economics in 2007 will be set up and developed in Rēzekne, Līvāni, Tukums, Valmiera, Ogre, and two each in Ventspils and Jelgava. Rēzekne, Ventspils and Jelgava are seen as potentially important support centres for regional innovation. Admittedly, government-supported projects must supplement and not duplicate each other. The risk of overlapping or duplication is possible, for example, in Jelgava and Ventspils. In these two cities, both the local government and the university are currently setting up business incubators. This can be avoided if each incubator specializes in a different sector of the national economy. It is possible, however, that incubators located within one city may have to be combined. In the future, government support is planned for only one incubator in each city.

Box
2.13

Innovation-supporting Infrastructure Objects and Projects in Latvia's Regions

Zemgale Region

Technology and Knowledge Transfer Center, Latvian University of Agriculture
 Building Product Innovation and Testing Center at the Zemgale Technology Park in Jelgava NP Jelgava Business Park
 ZTP „Valdeka” Business and Technology Incubator, University of Agriculture (subsidized project)
 Jelgava City Council Business Incubator (subsidized project)
 Material Radioactivity and Hygiene Laboratory, University of Agriculture (subsidized project)

Kurzeme Region

Kurzeme Technology Transfer Contact Point, Ventspils University College
 Ventspils Business Incubator, Ventspils University College
 Ventspils University College Engineering Research Center
 Ventspils High-Tehnology Park
 Ventspils City Council Business Incubator (subsidized project)
 Regional Technology Know-How Center, Ventspils University College (subsidized project)

Latgale Region

Līvāni Engineering Technology and Innovation Center
 Environment Technology Transfer Contact Point, Rēzekne University
 Latgale Engineering Technology Cluster (Līvāni, Rēzekne and Daugavpils)
 Academic Park of the Transport and Communications Institute in Latgale
 Rēzekne University Innovation Center (subsidized project)
 Laboratory for testing materials and industrial processes at the Rēzekne University (subsidized project)

Rīga Region (beyond the city of Rīga)

Ogre Business and Innovation Incubator
 Nordic Industrial Park in Olaine
 Tukums Business Incubator (subsidized project)

Vidzeme Region

Madona Business Innovation and Information Center
 Valmiera Business and Innovation Incubator (subsidized project)
 RFID technology application and system development laboratory research complex at the Vidzeme University College (subsidized project)

Source: The table is based on information from the homepages of the regions and the Ministry of Economics on projects that have been carried out in recent years in Latvia's regions and projects (technology transfer contact points, applied research infrastructure, business incubators and innovation centers) that have been granted financial support on a competitive basis by the Ministry of Economics. The information was checked with and supplemented by representatives of the regions.

Regional Universities, Local Governments and the Private Sector

Due to the knowledge, technology and research infrastructures at their disposal, as well as the human resources and the necessary know-how and expertise for dealing with the region's socio-economic issues, **regional universities and colleges** have a central role in regional innovation systems (Charles, 2006). Moreover, it is not always important for regional universities to have state-of-the-art modern technology. For the socio-economic development of a specific region, a university's capacity to prepare the specialists needed in the region, to counsel local businesses and provide access to new knowledge for the region's dominating sectors can be a lot more useful. For example, in many countries, an important role in the development of the country's regions has been played by agricultural universities, which are able to provide the necessary knowledge for new or upgraded products and processes in the traditional sectors. In view of the huge role that universities and colleges play in the promotion of innovations that are important for a region, a lot of attention is paid to the establishment and improvement of regional schools of higher education. In recent years, this can also be said for Latvia. There is currently a serious debate going on about establishing a new university in Jēkabpils in order to stimulate the development of this region (Sporihina, 2007). Existing universities are being upgraded by introducing new study programmes that are in demand in the region and by creating the necessary applied research infrastructures. Many of the new innovation support, technology transfer and business incubation activities are concentrated around the regional universities and colleges.

The **local governments** also have considerable means at their disposal for promoting innovation. Although the majority of the currently over 500 local governments are too small and too weak to seriously consider promotion of innovative businesses in their territory, the local governments of a number of towns and counties, for example, Ogre and Līvāni, are actively working in this direction. In a Latvian context, the activities of the Līvāni County Council could be seen as an example of good practice. Here, the determined efforts of several years are beginning to bear their first fruit. The idea about the need for a business incubator in Līvāni was born back in 2002/2003, during participation in a PHARE project. A technical and economic feasibility assessment for the Līvāni business incubator was prepared in 2003, and in 2004, in collaboration with experts from Germany, the idea was expanded further. In 2006, a building was renovated for the needs of the Līvāni Engineering Technology and Innovation Centre, and at the beginning of 2007, the centre went into operation, renting premises to the first three companies. In addition to rental space, the centre also offers counselling, laboratories, and an Innovation

Demonstration Centre for popularizing science and engineering subjects among high school and university students. Furthermore, the Līvāni County Council together with Rēzekne and Daugavpils universities and private businesses has become involved in creation of the Latgale engineering technology cluster. In the Līvāni case, an important role is played by the fact that this was formerly an industrial town, which means that it had not only the human resources, but also the necessary know-how and experience in the technology sector.

The **private sector** is also involved in the creation of innovation support infrastructures. The most prominent example is the NP Properties company, which builds and develops industrial parks throughout Latvia: in Rīga, Olaine, Jelgava, Salaspils, Rēzekne and Ventspils (www.industrial-park.lv, last accessed on November 5, 2007).

Challenges for the Development of Regional Innovation Systems

Although innovative activities in Latvia's regions are still in the very early stages, it is nevertheless possible to outline a number of **challenges for the creation and development of regional innovation systems**. Among the major challenges are a lack of specialists outside of Rīga, poor understanding of innovation issues, and weak local governments. Admittedly, ways are being sought to meet these challenges.

At present, a big problem for the development of innovative business activities beyond Rīga is the shortage of engineers. Regional officials feel that the problem cannot be solved at the regional branches of Rīga's universities alone, inasmuch as the graduates of these schools often go to work in the capital. For this reason, there are plans to start training engineers in the regions. An engineering study programme has been planned at Ventspils University College. And one of the main reasons for the planned university in Jēkabpils is the need to prepare engineers for work in the regions.

Inasmuch as innovation in Latvia, and especially in the regions, is a relatively new phenomenon, the development of new initiatives is also hampered by a lack of understanding. This is why **information and awareness raising** are extremely important. Such activities must be targeted at local governments and businesses throughout the country. In recent years, an important role has been played by seminars on innovation held in different Latvian cities, with the participation of local and foreign experts. Moreover, the more active local governments have acquainted themselves with the experience of other European countries, for example, Ireland, Great Britain and Germany. Where regional innovation systems are concerned, a broad understanding of innovation

is particularly important – understanding that non-technological innovation in the form of design, marketing, organizational and social innovation, or innovation in the low- and medium-technology and service sectors (for example, tourism) are just as important as technological innovation and high technology.

An important requirement for the development of regional innovation systems is also **strengthening of local governments**. Local government activity will possibly increase after the planned administrative-territorial reform which will produce larger local government areas. Stronger local governments could also devote more attention to long-term development issues, including promotion and support of innovative business ventures. What is also important in regard to local government initiatives in support of innovation is their capacity for cooperation with businesses and universities so as to supplement and not duplicate their efforts. Cooperation between local governments in support of innovation and greater activity on the part of the regional development agencies is also important. The planning regions have disclosed their plans for innovative projects in their development strategies, and the Rīga and Zemgale regions have even prepared special innovative development documents for their regions, but the initial plans should be developed and implemented in the form of concrete activities.

Conclusion

The **Survey** shows that capacity to attract and develop human capital is a key factor for the development of Latvia's regions beyond Rīga. **Population density** affects a region's chances of ensuring an optimal social infrastructure as well as economic and cultural variety. A shortage of human resources is a serious threat for the existence of smaller centres of development – small towns and local centres.

There are differences in the range of **local services available to the public** both at the regional and other levels of populated areas. Easy inter- and intra-regional access plays an important role in development of the regions. Good public transportation systems, good roads and good Internet access greatly improve the chances of the population to enjoy a greater variety and better quality of services. Improvement of the transportation infrastructure and Internet access is therefore essential. To ensure the development of market services in Latvia's regions, it is necessary to employ a variety of support

instruments that stimulate business development outside of the big cities, especially in the service sector.

The **unemployment problem** in small towns and surrounding areas requires a flexible and innovative approach, with cooperation between private businesses, the government and local governments. Insufficient advantage is taken of the opportunities provided by the development of entrepreneurial activity. This not only creates new jobs and sources of income, it also broadens the range of goods and services available to the public. Lack of trust between potential partners – businesses, local governments, government institutions and non-governmental organizations – hinders business development in the regions.

Latvia's **regions are territorial units of differential capacity**, with varying possibilities for attracting human capital. In view of the low population density and declining numbers of inhabitants in the regions, it is extremely important to utilize the potential of development centres. Local governments are well aware of the importance of small towns as county development centres, and their importance is gradually being recognized by the makers of regional policy at the Ministry for Regional Development and Local Government and the State Regional Development Agency. Finding solutions to questions of spatial structure could contribute to the attraction of human capital.

The **development of innovation systems** in Latvia's regions testifies to dynamic changes. Business clusters, with their positive effect on a region's competitiveness and capacity to attract human capital, can also function as regional development agents.

Regional universities and colleges not only provide access to higher education outside of Rīga, but also function as development centres for social and technological innovation. Regional universities have a significant effect on the flow of human capital and development in the regions. Analysis of the regional development process is made difficult by the fact that Central Statistical Bureau data is available only for undivided administrative territories (city together with rural territory), which in turn makes it difficult to compare and analyze indicators for the development of structural elements in the regions (for example, it is difficult to compare the population density of cities if, in the case of a city which also has a rural territory, it is impossible to establish how many people actually live in the city proper and how many in the rural territory).



My Fortune – Ideal vs. Actual Behaviour

3

Chapter

INTRODUCTION

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My Fortune – Ideal vs. Actual Behaviour

Introduction

Values are the foundations upon which our goals in life and our strategies for reaching these goals are built. They are important in our individual lives, as a point of reference for all that we do, and they are important in the life of a nation: every nation must be able to agree on the values that will determine its long-term development. In a human capital context, values are important because in any concrete society they will determine how knowledge and skills are acquired and developed, and whether or not they are put to effective use.

World Values Surveys have come to the conclusion that changes in values are closely connected with socio-economic processes. For example, industrialization has promoted openness to new ideas that support personal initiative and are motivated by success. Economic development goes hand in hand with values that are connected with creativity, autonomy, change and equality (Inglehart, 1990).

What exactly are values? Philosophers use the term «values» to describe the ideal goal and the good to which one should aspire. The word «values» expresses meaningful needs and a certain degree of perfection that has not yet been achieved (Lasmane, Milts, Rubenis, 1993). Sociologists understand the term «values» in a similar way, but pay more attention to the links between values and people's actual behaviour. Values apply to desirable goals – comparable to beliefs, but with an emotional undertone – which orientate people toward achieving what they want. Values serve as standards or criteria for judging actions, people (including oneself), and events. Values are usually arranged in order of importance and form value systems that characterize not only us as individuals, but also society as a whole (Schwartz, 2006).

The dominating value orientations affect not only the pace of a society's economic development, but also the direction. For this reason, it is important to establish what the value orientations of people in Latvia are at present. A better understanding of the current situation can help to predict the direction of development, the problems that may be encountered, and to take the appropriate measures early on. For example, in recent decades, the stress in value systems of Western

societies has been shifting from material welfare and security to quality of life and self-realization. These changes are largely determined by the fact that a large part of today's people have grown up in conditions of economic security unknown to previous generations (Inglehart, 1990). Which values are important to people in Latvia, whose life in the past 15 years cannot be described as life in conditions of unprecedented economic security?

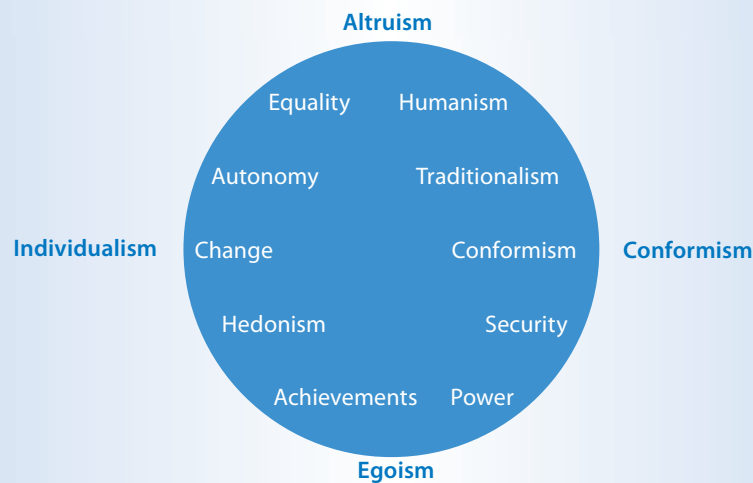
Value Orientation Analysis

Values are usually associated with a desirable goal and action taken to reach this goal. At the same time, it should be kept in mind that there is a discrepancy between declared values and people's actual behaviour. For the **Survey**, people were asked to rate not only the importance of different areas of life (such as family, work, religion) and the accordance of different value orientations with their own position (the importance of money, security, a creative approach to life, etc.), they were also asked to rate their own notions of desirable behaviour (for example, in areas such as raising children, paying taxes, etc.). For the value orientation analysis, these answers were examined in an integrated manner. In their analysis of the **Survey** results, the working group drew on conclusions reached in World Values Surveys (see, for example <http://www.worldvaluessurvey.org>) and the value classification method applied by Schwartz (see Box 3.1).

World Values Surveys show that an individualistic orientation and openness to change (autonomy, risk, creativity, orientation toward achievement) are connected with higher living standards, but orientation to conformism (adherence to traditions and norms, reliance on authorities, security and stability as priorities) can be observed in countries with less developed economies (Inglehart, 1990). In Latvia, too, surveys carried out in Daugavpils show a similar connection: one-third of the residents of Daugavpils who are oriented toward an achievement strategy, voice liberal values and support individualism are economically more successful and have a higher standard of living than those two-thirds of Daugavpils residents who are oriented toward a survival strategy and voice support for values such as security, equality, etc. (Meņšikovs, 2006).

Box
3.1

Schwartz's Circle of Values



Source: Schwartz, 2006

The **Survey** focuses on the values that could spur or impede economic growth and dynamic development of society. The working group wished to determine the connections between an individual's value orientations and the implementation of his or her human capital in economic, cultural and social areas of life. Special attention was paid to views on welfare and the next generation – to qualities that should be passed on to our children.

Openness to Change and Self-Development

One of the objectives of the **Survey** was to determine which place in the value hierarchy of Latvia's population is occupied by values that promote the growth of society and to establish points of reference for personal behaviour. Core values that are typical for economically developed societies are considered to be **openness to change and orientation toward achievement and self-realization**. These values are connected with creativity, research, innovation – and readiness to take risks. They also include orientation toward the individual's autonomy, independence and self-expression.

The **Survey** shows that, in this regard, there is a significant discrepancy between people's notions about desirable behaviour and personal feelings, on the one hand, and their actual behaviour, on the other. Although 63% of the respondents rated **self-improvement and creative self-expression** as important, and 53% felt that innovation is currently an important factor for success in Latvia, people

tend not to act in accordance with these views: survey data show that, in the past year, 80% of the population have not participated in any interest groups, and 61% have not expressed themselves through any creative art form. It should be noted that neither have the majority of respondents demonstrated creative initiative in their jobs: in the past year, 59% have not suggested improvements in management, working conditions or production technologies, nor have they submitted proposals for rationalization. 68% have not sought to improve their professional skills through courses or seminars, 83% have not engaged in any form of learning connected with personal interests or hobbies. It is interesting that relatively little importance is also attributed to these values (creativity and self-improvement) when talking about the qualities that should be passed on to our children: only 18% of the respondents find creativity to be one of the five most important qualities (see Box 3.2).

Analysis of the **Survey** data shows that people in Latvia tend to see self-improvement and creativity more in connection with recreation and hedonism (pursuit of pleasure) than with initiative and creative input into the economy or culture. People in Latvia possibly associate self-improvement and creativity more with their personal lives (interest-related education, entertainment) and tend to separate it from economic activities. This does not encourage optimism about the prospects for economic development, inasmuch as creativity is recognized as a core value in this area.

Which population groups are more oriented toward creativity? The **Survey** reveals that creativity is considered more important by young people, people with secondary

and higher education and higher incomes. Likewise, younger people and people with secondary and higher education tend to attach greater importance to self-improvement. A creative approach to life could be one of the factors that helps land better jobs and pursue higher living standards.

The discrepancy between desirable and actual behaviour can also be observed when talking about **readiness to take risks** as one of the aspects that characterizes openness to change. Over 62% of the respondents find that readiness to take risks is necessary for achieving success in Latvia and agree with the statement «No risk, no gain.» However the **Survey** also shows that few people are actually willing to take risks. An indirect indication of this is the fact that only 29% find that it is better to be an employer than an employee. The majority prefers to avoid the risks and challenges connected with a private business, foregoing opportunities for success in

the private sector. A greater readiness to take risks and accept challenges is shown by younger respondents – more frequently males, people with higher education and higher incomes.

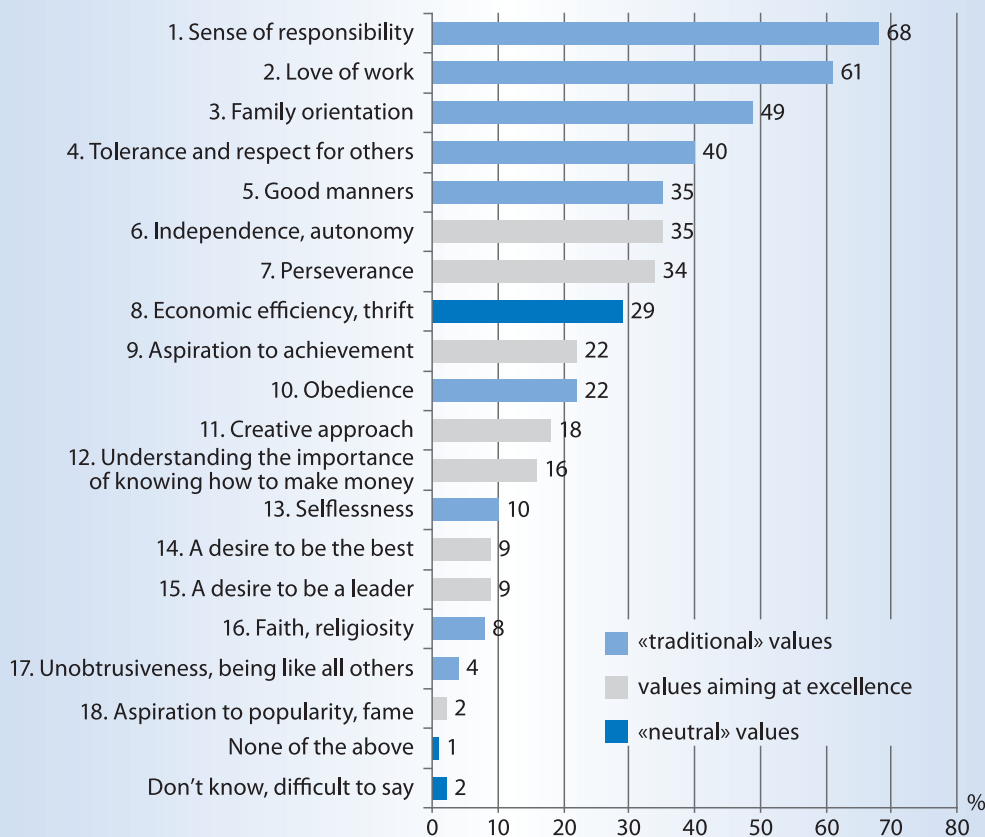
Showing initiative is a demonstration of independent thought and action, which testifies to an individual's **independence and autonomy**. Here, too, there are contradictions in the views of Latvia's population: although 72% of the respondents feel that showing initiative is important for success, only 35% see independence and autonomy as one of the five important qualities that should be instilled in our children (see Box 3.2).

In summary, the **Survey** reveals a discrepancy. On the one hand, the majority of respondents recognize creativity and self-improvement as important values and the importance of taking risks for achieving success; on the other hand, only 20–30% actually live by these values.

Box
3.2

Qualities that would be particularly important for the family to instill in children, 2007 (%)

Which of the following qualities would be particularly important for the family to instill in children?



Sample: all respondents, n=1001. Respondents could choose five answers, which is why the total percentage exceeds 100%.

Source: Survey on Human Capital in Latvia 2007

In regard to the prevalence of these values in society, it can be observed that orientation toward a creative approach and self-improvement, risk and independence is more pronounced among people with higher levels of education and higher incomes, and is typical for young people. It is possible that this kind of value orientation facilitates access to better resources (income, education), but it cannot be ruled out that these values develop in the process: when seeking better education and higher incomes, people tend to become more creative, autonomous, self-reliant – they learn not to be afraid of taking risks.

Orientation toward success and personal achievement, as well as hedonism or the pursuit of pleasure is relevant in an individualistic values context. It is difficult, if not impossible, to achieve anything in life if there is no such desire or if achievement is not considered an important value and desirable goal. Individual growth and achievement add up and impact the development of a local community, a region and, in the long run, the economic development of a whole country. Pleasure and satisfaction with what one has achieved are powerful driving forces in human behaviour.

According to **Survey** data, 78% of the respondents wish to be well-off; 64% wish to be successful and receive acknowledgement from others. At the same time, only 32% are satisfied with their level of income. This suggests a discrepancy between the desired level of prosperity and the actual situation. In the life of the individual, material values have been particularly important at times when there is a real or perceived insufficiency of material resources. The **Survey** shows that people in Latvia are more likely to associate prosperity with conservatism – an orientation toward the stability and security provided by sufficient material resources – and not with power over material resources, personal achievement and financial self-realization.

Although success, prosperity and achievement are recognized as important values, the majority of people do not mention character traits that could help to reach these goals among the five most important qualities that should be passed on to their children. For example, only 34% of the respondents see perseverance as a quality that should be instilled in their children, 22% find ambition to be important, and 15% find that children should be taught to understand the importance of knowing how to make money. Only 9% of the respondents are convinced that children should be raised to be leaders and imbued with a desire to be the best. It is interesting that only 2% see aspiration to fame as one of the five qualities that children should acquire. At the same time, 21% would like to raise their children to be obedient. Life's foundations are laid during childhood. Although from a parents' point of view obedient children are easier to cope with, more in life can probably be expected of

children who have developed the qualities that are still regarded with a certain amount of suspicion in Latvia – orientation toward achievement, leadership, and a knack for making money. Of course, these qualities are not entirely unambiguous. Under certain circumstances they can do more harm than good (for example, success at any price, money as the sole value, etc.). Perhaps what Latvia needs at the moment in regard to these qualities and values are public debate and a search for positive models?

Family and Work

Orientation toward the common good or toward the good of society in general and towards the family in particular are important values for civil society and democracy. **Survey** results show that this is one of the value groups to which people in Latvia attach greatest importance. Orientation toward the common good includes concern for public welfare. The notion that helping others is important and that the well-being of others is extremely important is expressed by 79% of the respondents. It must be added that 69% consider it every person's duty to contribute to public welfare by paying taxes. Concern for the environment and harmony with nature are rated as important by 64% of the respondents.

There is a distinct orientation toward close ties with the people with whom one is in contact on a daily basis, particularly the family. 92% of the respondents feel close ties with the family, 86–90% feel that one should care not only for children, but also for parents, even if this implies a decline in one's own living standards. In this value orientation group, respondents named a sense of responsibility (67%), tolerance and respect for others (40%), and selflessness (10%) among the five most important qualities that should be instilled in children.

Nevertheless, it seems that orientation toward the common good belongs more or less in the category of desirable goals and is fairly abstract. Helpfulness and concern for the well-being of others are directed mainly at a rather close circle of family and friends. Colleagues, neighbours and other members of the local community have only partial access to this circle. This is evidenced by answers to questions about feelings of belonging and cooperation with, for example, people who live in the same neighbourhood. Close ties with these groups are felt by 37% of the respondents, although, on the average, 72% claim to know most of these people personally. 39% frequently help their neighbours, and 55% would turn to their neighbours for help if this were necessary.

A certain amount of dissociation from others and a lack of trust in others can be observed: 40% feel that it is better to start a business alone, without partners. Not

many respondents are involved in public organizations, NGOs, churches, or interest groups. The reasons for this are not just long working hours and a lack of spare time; two important factors are a lack of civic activity and a lack of trust. Other surveys (*Latvia. Human Development Report. Human Capability in the Regions. 2005/2006*) show that people prefer a strategy of caution: on a 10–point scale with 1 as the lowest mark, the average rating was 4.27. It is interesting that 19% chose the lowest mark on the scale (one must be cautious about relationships) and only 1% chose the highest mark (others can be trusted). Distrust of others is a rather stable trend in Latvia – for example, in the 1999 European Values Study, 80% of the respondents in Latvia agreed with the statement that one should be cautious in contacts with others, and only 17% agreed that most people can be trusted. It should be pointed out that these so-called universalistic values, which are characterized by qualities such as tolerance, trust, concern for the welfare and well-being of others, are the values upon which successful cooperation between people is largely based. This, in turn, affects the development of civil society, NGOs and public organizations, different forms of partnerships, the quality of social life and the general climate of a country. For this reason, orientation primarily toward a close circle of persons and dissociation from others, or the refusal to establish broader social ties can be seen as a factor that hinders social, political and economic development.

The next important category is **orientation toward traditional values – security, social standards and traditions**. Traditionally and even now, one of the most important values is the **family**. The absolute majority of respondents consider family to be very important (93%), are close to (92%) and content with (89%) their families. Almost half of the respondents (49%) see an orientation towards the family as one of the most important qualities that children should be imbued with.

Among the traditional values in Latvia is **work** – both as an ideal and as a value that manifests itself in actual behaviour. 78% of the respondents rate work as being very important. Interestingly, the importance of work is more frequently noted by those who are better off than by persons with lower incomes. People in small towns and rural areas note the importance of work somewhat more frequently than those who live in Riga. Men tend to see work as an important aspect of their lives a bit more often than women. Middle-aged persons who must support not only themselves, but children and parents as well, have noted the importance of work more frequently than young people and those who have reached pre-retirement age. Although work is important for welfare and prosperity, it is also a form of self-expression. The results of the survey «The Quality of Life in Latvia» show that people are often happy with their job if it provides opportunities for self-realization, even if the wages are low (Hazans, 2006). The importance of work as a value is

also confirmed by the fact that 61% of the respondents named love of work as one of the five most important qualities that should be instilled in children. This is considered more important by people who live in rural areas and small towns than by those who live in Rīga and other big cities, and by older people more than by younger people. At the same time, even young people rate love of work more highly than creativity as a quality that children should have.

Religion and belief in God are usually counted among the important traditional values. However, as the World Values Survey (www.worldvaluessurvey.org) shows, people in Latvia are more oriented toward secularism than to religion. **Survey** results show religion as a declared value, but reveal a low level of involvement in religious activities. Only 38% of the respondents claim religion to be an important or very important part of their lives, and only 9% name religiosity and belief in God among the five qualities that must be instilled in children. Answers to the question «How often do you spend time with members of your church?» also testify to a lack of active involvement in religious life – only 4% spend time with their congregation almost every week, 10% do so once or twice a month, but 61% never spend any time in a religious community. However, religious activity indirectly identifies religion as a value for those who practice it – people usually try to live by the values that they find truly important.

The importance of family, work and religion has not changed much in recent years when compared with data obtained in the 1999 European Values Survey – only work has somewhat declined in importance (eight years ago, work and family had the same rating – 92% of the respondents rated work as «important» or «very important»).

Respondents mention **traditions** in general as important values and underline the importance of upholding traditions (69%). **Orientation toward social standards** manifests itself in another form as well: people are very much concerned about what others think of them (55%). This tends to be more important for younger people, people who have a good education, and people with higher incomes. It is interesting that people in Rīga and other big cities (where relationships between people are much more impersonal) are more concerned about what others think than people who live in small towns or rural areas. Good manners can also be found among the five important qualities that children should have (35%). Good manners can obviously help in gaining approval in the eyes of others. This suggests that, in Latvia, interest in what others think can also be seen as a motivating factor, one that orientates toward achievement. In the World Values Surveys, this interest is interpreted as a sign of conformism, as opposed to autonomy and independence.

The **Survey** shows **security** as another one of the values important to people in Latvia. Security can be associated not only with a safe and predictable living environment, but also with security in regard to employment (certainty about job prospects, salary increases that keep up with inflation, etc.) and economic security. The statement «It is important for me to live in a safe, stable and predictable environment» finds agreement among 95% of the respondents. This is, interestingly, one of the few questions on which different social groups are in complete agreement. Security and stability together with conformism and orientation toward tradition are considered as conservative values that are associated with extensive economic development strategies. Countries in which there is a distinct orientation toward traditional values and values important for survival are not found among the economically developed countries. In Latvia, this group of values is important for the majority of the population. Is this a factor that slows down economic development?

People in the «old» EU Member States live in conditions of economic security, stability and predictability. In the past 17 years, Latvia has experienced swift and radical political, economic and social changes, which have seriously undermined the stability of people's individual plans for the future. For this reason, security may more likely be a desirable value, an unrealized ideal. Survey data do not provide an answer to the question of whether orientation toward tradition is a declared value or a value that people actually live by. The **Survey** does provide a basis for the suggestion that orientation toward tradition, security and survival could be an impediment to dynamic economic development and the prevalence of achievement strategies in the behaviour patterns of the population. A preference for security and stability as opposed to risk is also corroborated by the fact that 56% of the respondents give priority to salaried employment, which means a decision in favour of stability, be it illusory

(the employer shoulders the risk and the responsibility). This trend becomes apparent in other surveys as well (Bela, Tisenkopfs, 2006). Among the qualities that should be instilled in children (see Box 3.2), thrift (29%) and obedience (22%) were rated as fairly important; in any case, more important than the ambition to achieve success, make money, gain fame or become a leader – an indication of the importance of survival values and, consequently, survival strategies in society.

Analysis of the value orientation trends that can be observed in Latvia leads to the conclusion that these are, for the most part, not geared toward achievement. Preference is given to guaranteed stability.

Working one's Way up

The Implementation of Human Capital in the Economy

The **Survey** also examined opportunities for self-realization in the economy (finding a job, making and spending money), in the social (community life, civil society, NGOs) and cultural sectors, and analyzed how people's actions are determined by their value orientations.

Implementation of human capital in the economy is closely connected with an individual's position in the job market and the stability of this position. Almost two-thirds of employed respondents (65%) feel that they are **valuable workers**, and 39% feel that they are **workers who would be hard to replace**. On the other hand, 40% disagree with the statement that they are irreplaceable workers; 16% do not feel that they are valuable workers, but one-fifth (19% and 21%, respectively) find it difficult to rate the importance of their work. It must be added that a little over half (56%) of the respondents who feel that they

Box
3.3

Links between Economic Self-realization and Value Orientation

Respondents who agree with the statement «I feel that I am a **valuable worker**»:

more often agree with the statement:

- It is important for me to be well-off, to have a lot of money and things.
- It is important for me to be successful, to have others acknowledge my achievements.
- It is important for me to be creative, to find a creative form of expression.
- Self-improvement is important or rather important.
- Showing initiative is good for the career.
- Innovation is important for success.

more often disagree with the statement:

- Most of my acquaintances have no long-term career goals.

Source: Survey on Human Capital in Latvia 2007

are valuable workers have claimed that they would be difficult to replace. Analysis of the data shows that people who are sure about their position in the job market and see themselves as valuable workers who would be hard to replace have expressed support for values that are orientated toward change and achievement more often than those who are not sure of themselves (see Box 3.3).

Implementation of human capital in the economy manifests itself not only as chances of finding a good, well-paid job, but also as involvement in bringing about improvements at one's place of employment.

When describing **creative activities at work**, 41% of the employed respondents claimed to have made recommendations to their employer within the past year for: improvements in working conditions (16%), management (13%), production technologies (6%), other (5%). **Survey** results show that employees who feel that they are valuable and hard to replace have made suggestions for improvements much more frequently, but these initiatives were not connected with certainty about their jobs or their chances of finding better jobs. People who have submitted recommendations to their employers about improvements in working conditions and work processes frequently pointed out that, for them, self-improvement was very important or rather important, that it was important for them to be creative and find expression for their creativity, that it was important to teach children creativity. It follows that, where value orientations are concerned, a creative approach is associated with self-realization in the job market, in the economy (see close-up «Entrepreneurship and Social Innovation in Renda»).

An important indicator for material welfare and the implementation of human capital in the economy is **certainty about one's job and the ability to find a new job** should this become necessary. Fairly many (44%) employed persons indicated that they were afraid of losing their job, and only 15% are sure about their job. 37% of the respondents said that it would be difficult for them to find a job as good as the one that they had. It is alarming that fear of losing one's job is directly connected with the conviction that it would be hard to find an equally good job: of those who feared losing their job, two-thirds claimed that it would be difficult to find an equally good job, and half (52%) maintained that finding any kind of new job would be very difficult or impossible. Fear of losing employment is more typical for people for whom prosperity and financial security are important (86%), but taking risks and having adventures that make life more interesting, less important (33%, but in the group that fears losing their jobs – 47%).

Finding any kind of **job** would be difficult for 36% of the respondents, but 12% claimed that it would be impossible. Among those who are currently employed,

4% feel that they could not find a job; among the unemployed, this figure is 30% (among pensioners, 41%). Finding a job would be «no problem» for 15% of employed and 6% of unemployed persons. Two-thirds of the respondents (66%) who see themselves as valuable workers say that they would have little or no problem finding a job, but among those who do not see themselves as valuable workers, less than half give the same answer (45%). **Survey** results show that finding a job would pose little or no problem for respondents who are surrounded by determined people (less frequently agree with the statement «Most of my acquaintances do not have long-term career goals»), people for whom success is important, who want their achievements to be appreciated, who attach importance to what others think, who are willing to take risks, who enjoy adventure, like having a good time and pampering themselves. These results imply that the orientation toward success and enjoying life is also connected with more successful implementation of human capital in the job market.

Difficulties in finding a job are closely connected with difficulties in continuing education: 69% of employed and 87% of unemployed respondents for whom finding a job would be very difficult or impossible speak of difficulties in **continuing education**. Continuing their education is considered complicated or impossible by half of the respondents (25% say this would be very difficult, 25% say it would be impossible). Education and further education have a considerable impact on a person's chances in the job market. Attention should therefore be paid to the **Survey** results that show: people who see themselves as valuable workers (55% of the respondents who see themselves as valuable workers vs. 37% who do not) and who would have little or no problem finding an equally good job (56%) rate their chances of continuing their education more highly than those 42% respondents for whom finding a job would be difficult or impossible. The respondents who would have no problem continuing their education agree more often that success requires readiness to take risks (71% as compared to 58% for whom continuing their education would be a problem) and innovation (61% as compared to 51% for whom continuing their education would be a problem). These people more often find it important to be successful, to have others acknowledge their achievements (74% as compared to 59%); they find adventure and excitement important (54% as compared to 26%) and having a good time (85% as compared to 69%); what others think of them is also important (64% as compared to 49%). In Latvia, education and further education are activities carried out primarily by young people. After the age of 30, the percentage of people who acquire an education rapidly declines (BISS, 2006); this is also evidenced by the value orientations typical for young people.

A person's decision to continue education, attend courses or take advantage of other further education

opportunities indicates a choice in favour of an active and creative life strategy. This is why people were asked to answer the question about involvement in educational activities. According to the **Survey**, in the past three years one-third of the respondents (32%) have attended **courses, seminars or long-term training**. This coincides with the results of other surveys (BISS, 2006; see also the close-up «Lifelong Education in Latvia: Public Involvement in Further Education Activities and Assessment of Education Accessibility» in Chapter 2). Respondents who are employed (42%) attend courses more often than those who are unemployed (13%), which can possibly be explained by the fact that, for the first group, professional improvement is often necessary in order to continue working. Courses are more frequently attended by those who see themselves as valuable workers who would be difficult to replace (48% and 49%, respectively), but less frequently by people who are afraid of losing their jobs (36%). It must be added that more respondents who have attended courses within the past three years also claim to have made suggestions to their employers for improving work conditions and processes (51% as compared to 34% who have not attended courses). This indicates a connection between professional and personal improvement (through courses and other educational activities) and professional initiative. **Survey** results show that those who have attended courses and seminars are more likely to agree with the statement that a show of initiative is career-promoting (82% as compared to 67% who have not attended courses or seminars), and are more likely to be found in the company of others with definite career goals (32% of those who disagree with the statement «Most of my acquaintances do not have long-term career goals» as compared to 18% who agree). Free time and self-improvement are more often important for these people (self-improvement for 82%, free time for 82%) than for those who have not attended courses (self-improvement for 70%, free time for 54%). They are also more likely to attach importance to creativity in children (26% as compared to 14%; see Box 3.4).

The **Survey** indicates that a person's level of education affects value orientations and the implementation of values, particularly in the economic sector. People with higher education are more often convinced that it would be easier for them to find a job or continue their education; they more often feel that they are valuable workers, that they have better chances in the job market; they more often support values that are orientated toward achievement and demonstrate openness to change more often than people with a lower level of education and fewer opportunities in the job market.

Values as Reference Points for Behaviour:

I and Others

No less important is **implementation of human capital in the social sector**. This means an individual's capacity for involvement in the activities of civil society, for self-realization in interaction with other people and government or local government institutions.

An important aspect in a person's life is the need to communicate with different institutions, to stand up for oneself in critical situations. The results of the **Survey** show that almost half of the respondents (44%) feel that they are able to **deal with the formalities** that are required **to receive social assistance**, but one-third (33%) could **defend their interests and rights in court**. However, almost one-quarter of the respondents (24%) indicate that it would be very difficult or even impossible for them to deal with the formalities for receiving social assistance or to defend their interests and rights in court.

Participation in the life of the community, the ability and the desire to influence one's surroundings are also important for the implementation of human capital. According to Schwartz's approach (Schwartz, 2006), this is connected with values such as humanism and equality.

Box
3.4

Links between Further Education and Value Orientation

Respondents who in the past three years have attended courses, seminars or other short-term educational activities and respondents who in the past year have made recommendations to their employer on improvements in working conditions or processes,

more often agree with the statements:

- Self-improvement is very important or rather important.
- Free time is very important or rather important.
- It is important for me to be creative, to find a creative form of expression.
- It is important for the family to instill a creative approach in children.

Source: Survey on Human Capital in Latvia 2007

The part of the **Survey** devoted to **involvement in local affairs** (see Box 3.5) shows that 19% of the respondents feel involved in the life of their municipality or township, but one-third (31%) say that they are not involved in any way whatsoever. One-quarter of the respondents (26%) say that they always vote in local government elections, but only 13% have recently tried to influence local government decisions by writing letters, taking part in public hearings, or submitting recommendations. Respondents are quite critical about their influence on local government decisions that affect people’s lives and the place where they live: only 5% feel that they can strongly or fairly strongly influence local government decisions, but more than half say that they can have little or no influence (53%). More involvement in local government affairs is felt by respondents who have tried to influence decisions (54%) and respondents who feel that there are good chances of influencing local government decisions that apply to the place where they live (49%).

The **Survey** shows that active and organized community life is important for a sense of belonging. More

involvement in local affairs is felt by those who say that **public festivities and other events are regularly held in the local neighbourhood** (40%) and that they attend these events (33%). Similarly, there is a greater feeling of involvement among those who say that they have participated in **tidying up the neighbourhood** (33%), who have pointed out that other members of the local community also take part in tidying and sprucing up the neighbourhood (32%), who feel informed about local government decisions (32%) and public affairs in their municipality or township (32%). These people have also more often than others tried to influence local government decisions that affect their lives.

Personal initiative is also very important. Participation in the activities of non-governmental organizations (NGOs) shows that a person is ready and willing to implement his or her civic rights. 13% of the respondents are involved in the activities of NGOs (79% are not, and 8% chose the answer «difficult to say»), but only 5% say that they participate in the work of an NGO once a month or more often. One-third of the respondents (34%) who have been

Box
3.5

Involvement of the Population in Local Activities

	I feel involved in the life of my community, %
In the past year, I have tried to influence the decisions of my local government (for example, I have taken part in public hearings, written letters, etc.).	54
Public events, festivities are held regularly in my neighbourhood.	40
In the past year, I have taken part in tidying and sprucing up the neighbourhood (for example, public access areas).	33
I attend public festivities and events in my neighbourhood.	33
People take part in tidying and sprucing up the neighbourhood.	32
I generally feel informed about the decisions of the local government.	32
I generally feel informed about public events in my municipality/township.	32
Most people help each other with everyday problems.	31
I help my neighbours with their everyday problems.	26
I always vote in the local government elections.	25
I generally feel informed about what goes on in my immediate vicinity (village, housing development).	25
Most people in my neighbourhood know each other.	23
I know my closest neighbour.	22
If needed, I could turn to my closest neighbours for help (babysitting, keeping an eye on the house, etc.).	22
Average for all respondents	19

Selection: all respondents, n=1001. The table shows the percentage of respondents who fully agree or sooner agree with both statements.

Source: Survey on Human Capital in Latvia 2007

active in an NGO within the past year claim that they feel involved in the life of their municipality or township, which is more than the average in this **Survey**.

Analysis of the value orientations of socially active people shows that those who have said that they feel involved in the life of the community have also said more often that it is important for them to have success and receive acknowledgement from others (72% as compared to the 63% average for all respondents), that the opinions of others are important (67% as compared to 52%), that it is important to show concern for the environment (72% as compared to 61%) and observe traditions (80% as compared to 68%), that self-improvement is important or rather important (73% as compared to 62%), as is creativity (75% as compared to 61%) and religion (45% as compared to 36%).

People's daily social networks, involvement in the life of the «immediate» community can become an important source of social capital and a human capital resource. Respondents rate **relations and cooperation with neighbours** as good: over one-third (39%) help their neighbours with everyday problems, but even more feel they can rely on their neighbours should help be needed with babysitting, keeping an eye on the house, etc. (55%). Relations with neighbours are determined by whether or not most people know the others in their neighbourhood and how closely respondents know their direct neighbours. They are not particularly connected with feelings of belonging or involvement in the life of the municipality or township (involvement in the affairs of their municipality or township is claimed by 26% of the respondents who help their neighbours, 23% of those who say that most people in their neighbourhood know each other, and 22% who know most of their neighbours and would turn to them for help if this were needed – as compared to the average of 19%).

Survey results indicate that people who claim to help their neighbours with everyday problems are more likely to say that it is important to help others, to make sure that everyone is happy (87% as compared to 74%), that traditions are important (74% as compared to 66%), and that religion is very important (44% as compared to 34%).

This suggests that implementation of human capital is more widespread at the community level (family, neighbours, interest groups), but is not closely connected with interest in the affairs of local government. This is more likely to be promoted by participation in NGOs, involvement in local government decision-making, and participation in community activities (clean-up efforts, public events, etc.). The activities of the Lapmežciems women's group (see close-up «Lapmežciems Women for Public Welfare») is a good example of how such people are able to change their environment and improve the quality of life in their community.

I Create

The Implementation of Human Capital in Culture

Another important area for the implementation of human capital is **culture**. Self-realization is possible through creative cultural activities or through the consumption of culture. The **Survey** shows that consumption of culture is rather popular: 18% of the respondents have gone to a theatre or concert at least once a month, 72% have done so at least once a year, but 22% have never done so. Creative involvement in cultural activities is much less popular: 8% of the respondents take part in the activities of amateur art groups at least once a month, 14% do so several times a year, but 80% have never done so. One-fifth of the respondents (19%) engage in individual creative activities (for example, photography, poetry writing, painting, playing an instrument, etc.) at least once a month, but almost two-thirds (61%) never do. Those who take part in the activities of amateur art groups are also those who most often engage in individual creative activities.

Participation in cultural activities is connected with support for values that are orientated toward creativity and self-expression. People who go to theatres and concerts, who participate in amateur art groups or engage in individual creative activities are also those who find free time and self-improvement very important or rather important, for whom creative self-expression, risk, adventure and excitement are important. Respondents who go to theatres and concerts and engage in individual creative activities indicate more frequently that it is important for them to have a good time, to pamper themselves, to be successful and to have their achievements acknowledged by others. Those who go to theatres and concerts and participate in amateur art groups find it important to invest resources in their education, even if this puts a strain on their budget for the moment. Those who attend cultural events also support the view that it is every person's duty to show concern for public welfare, to pay taxes, but those who participate in amateur groups are more likely to see religion as an important part of their lives.

Implementation of human capital in the cultural and social life of a community is illustrated in the account of cultural life in the Bērzaune township (see close-up «The Library as Cultural Centre and Development Resource in Bērzaune»), a good example of the importance of initiative and a creative approach.

Values and Prosperity:

How to Succeed in Life

Material welfare has an important place in every person's life. One of the conditions for successful development

of human capital is consensus within society about the positive value of individual economic initiative and its public benefit. For this reason, special attention was paid during the **Survey** to the place occupied in the value spectrum of people in Latvia by the notion of prosperity.

A person's effective and creative efforts to secure material welfare are important not only for personal comfort and the good feeling of having money to spend, but also for a person's ego, for a person's faith in himself and the ability to assume initiative in other areas of life as well. Faith in their ability to achieve material welfare makes it easier for people to become involved in more fulfilling social relationships not only within their circle of friends, but also in interest groups and non-governmental organizations. On the other hand, lack of faith in the importance of one's economic initiative is often connected with other problems: mutual distrust, physical and mental depression, alcoholism, etc.

It is clear, however, that building up a positive attitude to yearnings for prosperity is by no means an easy task. The **Survey** carried out in Latvia shows that the values and attitudes that spur economic initiative on the part of the individual (such as a readiness to take responsibility, seek creative solutions, find new contacts, etc.) are often typical for people who already have relatively high incomes. So, for example, people with higher incomes much more frequently place emphasis on work as an important value in their lives, have a higher estimation of their communication talents, their readiness to work in a team, to rationally organize their working hours, their precision and their attention to detail. More well-to-do people also attach greater importance to creativity, see a creative approach as a desirable quality, and more frequently underscore the importance of education for success; whereas people with lower incomes often have a low opinion of themselves, and this keeps them from realizing their potential and improving their financial situation. It is precisely for this reason that in efforts to develop human capital more attention should be paid in the future to ways of raising the self-confidence and motivation of population groups with lower incomes. For example, a big effort should be made to change the widespread conviction among these groups that, for them, individual entrepreneurship and private business is something that is almost impossible.

The **Survey** shows that a higher income and faith in one's ability to cope with the material side of life combines with a positive attitude toward other members of society. Prosperity goes hand in hand with the appreciation of ties with colleagues and friends, and with the notion of selflessness as an important value to pass on to our children. People with higher incomes

(over 201 LVL per family member) are three times more likely to admit to this than people with low incomes (under 80 LVL). This confirms the viewpoint that interest in the fate of others, a positive attitude toward fellow people and readiness to become involved requires a certain level of prosperity. This, in turn, gives rise to cautious optimism about involvement as a condition for human capital – an increase in overall welfare can serve as a catalyst for the renaissance of civil society.

In their views about the factors important for success in today's Latvia, roughly 90% of the respondents name a good education, professional knowledge and skills, as well as experience. About 82% are convinced of the importance of hard work, a sense of responsibility, and talent. However, not all of the respondent's views on factors important for welfare and success encourage optimism. As in other Central and East European countries, the view that economic success can only be achieved with criminal methods is still largely typical for society in Latvia. Almost two-thirds (65%) of Latvia's population still believe that honest work cannot lead to prosperity or wealth. Unfortunately, this view prevails in all age groups, including young people. It indicates that the notion of economic success as something connected with immoral and criminal activities is extremely persistent, which, of course, does not encourage people's faith in individual enterprise and free competition. Not all respondents are so explicit in their views about the criminal and immoral origins of any form of wealth – dishonesty as the main quality needed in business is mentioned by relatively few respondents. There is also a widespread view in Latvia that employer-employee relationships based on personal contacts and connections, not free competition and equal opportunities, play the main role in securing economic success. One of the most frequent answers to the question on determinant factors for achieving success in today's Latvia is «personal contacts with the 'right' people» (85%). This is a rather impressive figure if we compare it with the much smaller number of respondents who associate economic success with readiness to take risks (65%). This indicates that economic success is still largely seen not as the result of individual initiative, ingenuity and competitiveness, but as the effect of contacts with the right people and the privileges enjoyed by a small number of chosen persons who have acquired these privileges by dishonest or even criminal means. It is possibly for this reason that many people do not see an economic future for themselves in Latvia and take advantage of the open job markets of the «old» EU Member States. This kind of attitude is, of course, not surprising, in view of Latvia's authoritarian egalitarianism under Soviet rule and its rather contradictory experience with economic liberalization after the renewal of independence. Such notions on how to achieve success certainly do not facilitate society's progress toward a free and dynamic market economy.

Learning from our Fathers, Teaching our Sons

Traits to be Inculcated in Children

We usually want to give our children the best of what we ourselves find important. It is interesting, therefore, to take a closer look at the qualities that respondents in Latvia feel should be instilled in their children (see Box 3.2). Respondents were given 18 qualities to choose from and asked to select the five most important. The four most frequently chosen qualities belong in the value category of universalism and traditionalism: sense of responsibility (67%), love of work (61%), orientation towards the family (49%), tolerance and respect for others (39%). Only one of the qualities in the top five is connected with the values of post-modernism and openness to change – independence and autonomy (35%). The next five qualities in the top 10 can also be included in the traditionalism and conformism values group: good manners (35%), perseverance (34%), economic efficiency and thrift (29%), obedience (22%).

Only one of these belongs to the self-realization values group which attaches importance to orientation toward achievement – aspiration to success (22%). Qualities that are connected with openness to change and self-realization in people's actual behaviour can generally be found in the bottom half of the list: a creative approach (18%), understanding the importance of knowing how to make money (16%), leadership (9%), the desire to be the best (9%), the aspiration to popularity and fame (2%). Only two of the qualities in the bottom half of the list belong in the category of traditional values: selflessness (10%) and faith, religiosity (9%). On the one hand, perhaps it is good that people in Latvia do not feel their children should be orientated toward believing that it is particularly important in life to be the best, to acquire popularity and fame, and that greater value is placed on qualities such as a sense of responsibility, love of work, orientation towards the family, even selflessness. On the other hand, it must – yet again – be repeated and underscored that both the World Values Surveys and this **Survey** show a strong connection between people's value orientations and their level of economic achievement. A sense of

Box
3.6

Qualities that should be Instilled in Children: Opinions in 1999 and 2007

1999	2007
Love of work	Sense of responsibility
Sense of responsibility	Love of work
Good manners	Orientation toward the family
Tolerance and respect for others	Tolerance and respect for others
Independence, autonomy	Independence, autonomy
Economic efficiency, thrift	Good manners
Determination, perseverance	Perseverance
Obedience	Economic efficiency, thrift
Religious beliefs	Aspiration to success
Selflessness	Obedience
Imagination	Creative approach
	Understanding the importance of knowing how to make money
	Selflessness
	Being a leader
	Being the best
	Faith, religiosity
	Unobtrusiveness, being like all others
	Aspiration to popularity, fame

Source: European Values Survey. Baltic Institute of Social Sciences 1999.
See: www.biss.soc.lv.

Source: Survey on Human Capital in Latvia 2007

Note: The data of both surveys cannot be precisely compared (for example, % of respondents), inasmuch as the 2007 survey offered 18 qualities to choose from, but the 1999 survey – only 11. Moreover, in this year's survey, respondents were asked to choose only the five most important qualities, while there is no such information about the 1999 data.

responsibility and perseverance are important for any life strategy. Creativity is much more important for a successful, prosperous life filled with initiative than good manners. A desire to be the best (for example, in one's profession) is more important than obedience.

It must be pointed out that the views of Latvia's population on qualities that should be instilled in children are fairly consistent. Answers given in the European Values Survey carried out in Latvia eight years ago were similar: love of work, sense of responsibility, good manners, tolerance and respect for others, independence and autonomy were among the most frequently chosen answers (BISS, 1999). Imagination was rated 11th in importance and chosen by only 7% of the respondents. In this **Survey**, a creative approach, for which imagination is extremely important, occupies the same 11th place – but in fiercer competition with 17 other qualities and with stricter rules. The importance of obedience and good manners, however, is on the decline (see Box 3.6). We can therefore say that certain progress can be observed in Latvia towards the values of self-expression, individualism and post-modernism.

Conclusion

In Latvia, orientation toward traditional values – family, work and security – is still strongest, both in attitudes and in actual behaviour.

The next most important is the group of values that embraces orientation toward the common good. It is quite pronounced, yet fairly abstract, inasmuch as implementation of human capital is still rather passive in the social sector. Good cooperation can be observed among family members and neighbours, while involvement in the activities of NGOs or in local government affairs is not particularly widespread. Individual success stories (see human capital close-ups) show the important, positive role of wide-ranging social ties and illustrate the role that social activities can play in improving the quality of life, both at the personal and community levels. Dissociation from others, however, and failure to establish wider social ties promote neither the social, nor political, nor economic development of society.

The **Survey** shows that changes in society's system of values are not keeping up with the dynamics of socio-economic processes – although there are positive

examples. Societies with a high level of economic welfare attach importance to values such as openness to change, orientation toward achievement and self-realization. In Latvia, only a little over half of the respondents are orientated toward such modern-day values. Furthermore, there is a definite discrepancy between declared values and people's actual behaviour. For example, over half of the respondents see a creative approach and self-improvement as being important, but less than one-third have become involved in creative activities or continued their education.

Orientation toward values that foster dynamic economic growth is more pronounced among people who are more well-to-do than others and among young people. The **Survey** shows that people who have expressed support for this group of values are much more successful in the job market: they more frequently see themselves as valuable and hard-to-replace workers, and they would have no difficulty in finding a new job should this become necessary.

Orientation toward prosperity, belief in the positive value of individual economic initiative and its public benefit are important for successful implementation of human capital. In Latvia, it is important for people to be well-off, but prosperity is associated more with conservative values – the stability and security guaranteed by money and a job – not with openness to change, risks and self-realization. Economic success is basically associated with education, professional knowledge and skills, as well as experience. Nevertheless, people still believe that the right connections are more important than hard work, responsibility and talent. As in other Central and East European countries, the view that economic success is only possible with criminal methods is still largely typical for society in Latvia. Over half of the people in Latvia believe that honest work cannot lead to wealth.

Analysis of the value orientation of different social groups has led to the conclusion that the trend in Latvia is the same trend that can be observed elsewhere in the world: younger, economically more successful and better educated people are more orientated toward values connected with openness to risk, creativity, personal achievement and self-realization. However, the fact that this group also demonstrates an orientation toward prosperity, recreation and adventure allows the description of one part of Latvia's population as «those who savour life's little pleasures.»



Human Capital Close-ups

HOW A SMALL TOWN DEALT WITH A CRISIS – A SCHOOL BUILDING DESTROYED BY FIRE

EXAMPLES OF COOPERATION IN PROFESSIONAL EDUCATION BETWEEN TRADE SCHOOLS, LOCAL GOVERNMENTS AND EMPLOYERS

CLUSTER DEVELOPMENT IN LATVIA

ENTREPRENEURSHIP AND SOCIAL INNOVATION IN RENDA

LAPMEŽCIEMS WOMEN FOR PUBLIC WELFARE

LIFELONG EDUCATION IN LATVIA: PUBLIC INVOLVEMENT IN FURTHER EDUCATION ACTIVITIES AND ASSESSMENT OF EDUCATION ACCESSIBILITY

THE LIBRARY AS CULTURAL CENTRE AND DEVELOPMENT RESOURCE IN BĒRZAUNE

⊕ How a Small Town Dealt with a Crisis – a School Building Destroyed by Fire



On December 5, 2002, a fire broke out at the Cesvaine Castle in the Madona District, destroying the building that had housed the local high school since 1919. Classrooms for over 500 students and their teachers were located in the castle. The Cesvaine High School is attended not only by local children, but also by children from six surrounding townships.

Immediately after the fire (on December 6, 2002), the Cesvaine local government declared an emergency situation. With huge effort, teaching could be resumed in temporary quarters only a few days after the fire.

The town council decided to build a new school for 630 students. The new school buildings were to be built in two stages. The first stage would be construction of the elementary school, the high school, the gym and the stadium; the second stage, the pre-school and the swimming pool. In 2004, the government allocated 300,000 lats for construction of the new school.¹ A clear lack of political support from the government for construction of the new school could be felt from the very beginning.

¹ Vilnis Špats, chairman of the Cesvaine Town Council. *Latvijas Avīze*, February 27, 2004. Accessed September 19, 2007.

Artis Jurkēvics, advisor to Minister for Education and Science Kārlis Šadurskis, commented the situation as follows: «The project for the new Cesvaine school building was actually included in the list of projects that would not be supported. This means that if the budget is amended and money becomes available, it is possible to return to projects that were initially not supported...»

At a meeting with Cesvaine local government officials, the minister pointed out that construction of the new school could cost approximately two million lats, and that the ministry did not have this kind of money. For this reason, the local government should not simply wait for help from the government, but should seek possible solutions on its own.»²

Despite difficulties, the local government managed to get most of the necessary financing and find a contractor, and construction could begin in March 2006.

...When the capsule with a message for future generations was embedded in the foundations of the new school, Cesvaine's mayor Vilnis Špats said: «This is a historical day

² J. Cīrule, *Jaunā Avīze*, September 19, 2003. Accessed September 19, 2007.

for Cesvaine. No school (with the exception of the boarding school) has been built in Cesvaine for over 100 years...»

In the summer of 2007, representatives of the local government (Cesvaine mayor Vilnis Špats and his deputy Juris Rozenbergs) explained that they acted as they had out of concern for the residents of their town and the surrounding areas.

After the fire, we did all that we could to get a new school building ... So far, taking a big risk, we have spent 2,126,000 lats... In the past, it was said that money should follow the children. Now, the local government has to follow money in the political parties. This is morally unacceptable. If we didn't have a school, we wouldn't have development. Who would come to work in a place that has no school for children?

To explain the urgency of the project, local government officials underlined:

We need money for construction. All our work is concentrated on construction of the school. We are actually quite desperate. If there is no school, the centre will cease to exist.

In accordance with Latvia's legislation (Law on Education, Law on General Education, Law on Local Governments, etc.), the government and local governments must work together to provide schools and schooling. In the Cesvaine case, political collisions – a party shuffle in the government and the Ministry of Education – apparently threw a wrench into the works. Lack of experience with this type of cooperation possibly also played a role.

The school has been built. The LEC construction company has built the school with its own resources, investing over two million lats. It is a beautiful, spacious, modern

school. It is praised by teachers, students and parents. This school will also be accessible to children with special needs. The quality and the costs (4,330,477 lats) are not disputed even by those who see construction of the school as a bad precedent or abuse of office by the local government. The total planning and construction costs are many times lower than the anticipated 150 million lats for the planned National Library in Rīga. This suggests that it is not lack of money in the national budget that has played the main role in judgement of the local government's efforts and allocation of financing.

This project could have become a prime example of **public-private partnership**, with cooperation between the government (Ministry of Education), the local government (Cesvaine Town Council and the Madona District Council, which supported construction of the school) and private partners (the LEC construction company, which is still waiting to receive payment for its work). The interest on arrears is accumulating. The local government still owes the contractor, because the government subsidy covers less than half of the over two million lats spent on the first stage of construction.

The way in which this situation is resolved will reveal the government's true position on education – whether or not it is interested in making education available in regions far removed from the country's capital, whether or not **partnerships** are possible not only between the population and local governments, but also **between the government, local governments and private partners**.

After some hesitation, then Minister of Education Baiba Rivža attended the opening of the new school on September 1, 2007. This could possibly be a first step towards a shift in the government's position.

Source: Survey on Human Capital in Latvia, 2007; Latvian University of Agriculture project «Strategies for the Development of Small Towns as Centres of Employment and Services», 2007.

+ Examples of Cooperation in Professional Education between Trade Schools, Local Governments and Employers



Road construction is a major industrial sector in Latvia. This has encouraged the Smiltene town council to become a partner in a number of important projects. One such project was the «Innovative Road Centre.»¹ The goal was to create a school on the basis of the Smiltene 29th Secondary Vocational School to train qualified road construction and maintenance professionals who could work with the most modern technologies. Such professionals are very much in demand in Latvia's job market. Cooperation between the Smiltene school and the local government is still going on in other projects with similar goals (for example, the «Good Roads – from Theory to Practice» project, which was carried out in 2003 with PHARE funding as part of the national Economic and Social Cohesion Measures Programme).

Interest in cooperation with the 29th Vocational School, which is the only secondary professional education school in Latvia that trains road construction and maintenance specialists, has also been shown by the local 8CBR company, a road and bridge construction company that is well known throughout Latvia and one of the biggest employers in Smiltene. 8CBR works not only in

Smiltene, but also in nearby Cēsis, Valmiera, Balvi, etc. Lack of manpower is frequently a problem. This is why it is important for the company to attract young people through cooperation with educational institutions.

Janis Likans, chairman of the 8CBR board, points out: «Each young person is important. Last year, we visited schools in Valmiera and Smiltene, showed them who we are and what we are. When we meet with young people who have just received their diplomas, or even those still going to school, we try to get them interested in our company. We would like to see them stay here, keep them from going to Rīga, have them settle down here and start families.»

The company is interested not only in providing practical training opportunities for trade school students, but also in supporting students by granting scholarships or paying part of their tuition fees, or financing training trips abroad. Jānis Likans says: «The Technical University has a flood of 'roadies'. They really do want to learn. And we do what we can to support our own. Right now we have contracts with three students. If they don't get a government grant, we pay half of their tuition fees, on the condition that they work for us for three years after graduation. And they are always welcome as apprentices. This year 33 people will be going to Munich. We are taking young people who are

¹ The 2004 Annual Report of the Smiltene Town Council available at <http://www.smiltene.lv/eforms/parskats2004.doc>, accessed September 4, 2007.

training with us to Munich to show them state-of-the-art technologies. There really is a lot to see there.»

A study called «Life goals of young people and their vision of the development of regions in Latvia» shows that many of the respondents from the Smiltene 29th Vocational School who are studying to become builders or road construction mechanics are planning to stay or return to Smiltene, or at least the Vidzeme Region, to work in their professions. This suggests that the cooperation strategy for developing human capital and attracting it to the town of Smiltene is proving to be successful.

Jelgava

Good cooperation has developed between the Jelgava Trade School and the Jelgava Town Council. Director of the school Edīte Bišere explains: *«We are a local government school. We cooperate all the time with employers and local government in the training of our students. We can say only the best about the response from both. Our students come from Jelgava (70–80%), and from Auce and Dobele. The students need this trade school, because the education that they get gives them greater stability and security – they are no longer dependent on just one employer. Employers don't really care what school someone has attended, they want to know whether a person is able and willing to do the job. They can teach such people themselves. But not everyone, only the most gifted ones. The others will need more time and employers won't take this upon themselves. Most students not only want to learn a trade, they also want to get a secondary education. About 25% drop out. These are young people who have previously not done well in school, who are not motivated, or who (about 1/5) live in poor social and economic conditions. These, then, leave school and go to work.»*

Another result of cooperation between school and municipality was the visit of French entrepreneur Bruno Chaperon from Jelgava's twin city of Ruel Malmaison to

the Jelgava Trade School to teach students the secrets of French cuisine. His lectures and training classes were attended by 44 students who are learning to become cooks, confectioners and millers. This cooperation has made it possible for the school to take part in a Leonardo da Vinci Project and will give students the opportunity to do practical training and teachers the opportunity to improve their professional skills in France. And this, in turn, was made possible by cooperation between the two cities and a reciprocal agreement. Furthermore, the Jelgava City Council has provided the necessary funding.²

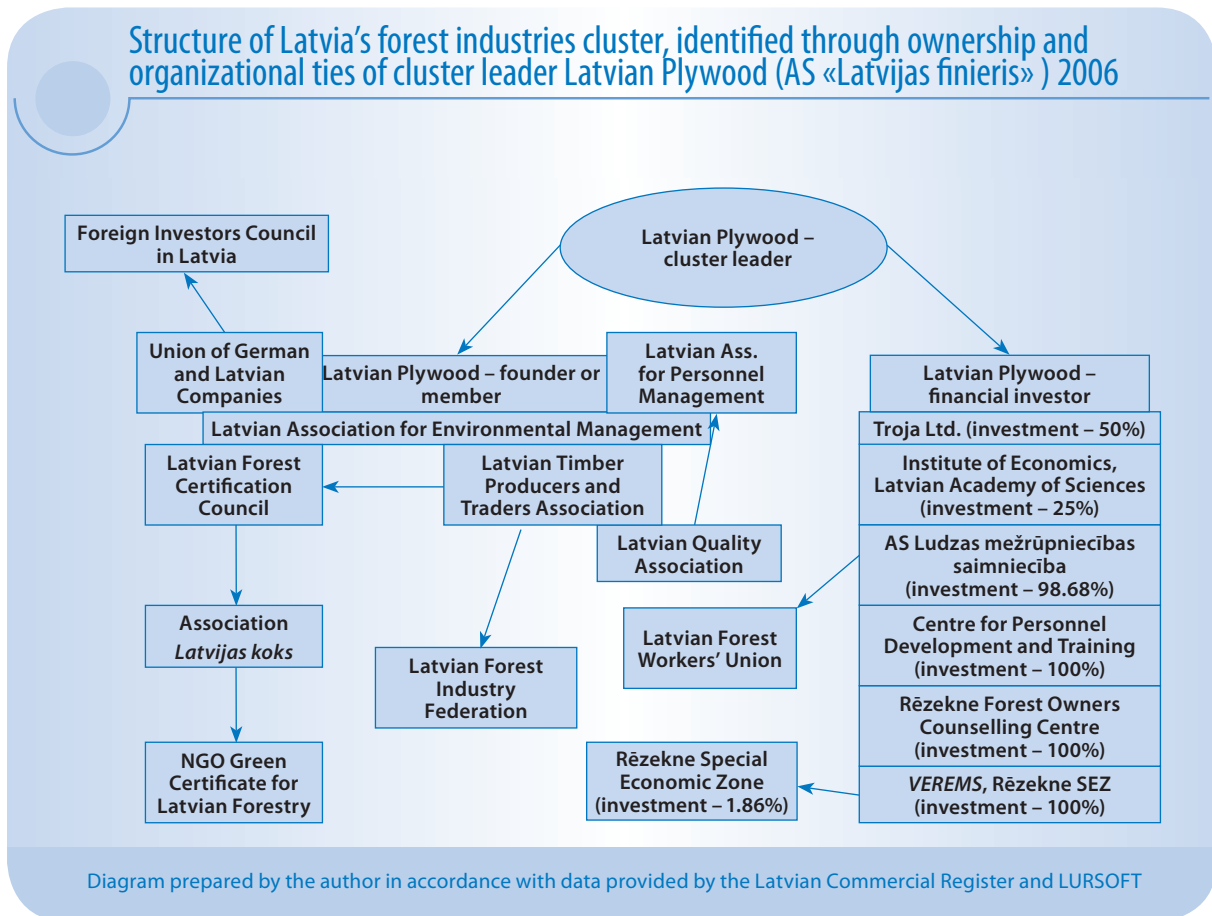
When judging cooperation with private companies, Edīte Bišere says: *«Good training can motivate children to work in their profession. If this is not the case, it is because working conditions are too hard or wages too low. In the past two years, a positive trend is the growing readiness of employers to pay the students doing practical training in their companies. A negative point is the fact that a number of the companies do not insure these students. You cannot get a child interested in a profession only through motivation. Children start working and see whether or not there is a future for them in what they are doing. The reason we have problems with employers is because they initially agreed to cooperation in order to take advantage of the cheap labour, and now they must start thinking differently.»*

The Smiltene and Jelgava examples show that for the development of professional education it is important to coordinate supply not only with job market demand for qualified specialists, but also with the local government's business development plans to ensure that education meets the requirements of regional job markets. Cooperation is extremely important for the implementation of new, sustainable professional education initiatives, for the development and attraction of human capital in Latvia's regions.

² Knusle-Jankevica, I. «Iepazīstina ar franču virtuvi.» *Jelgavas Vēstnesis* No. 21, October 11, 2007.

Source: Survey on Human Capital in Latvia 2007; University of Latvia project «Life goals of young people and their vision of the development of regions in Latvia»

+ Cluster Development in Latvia



Clusters are a form of industrial production or frequently a form of cooperation between scientific and educational businesses and/or public institutions that makes it possible to exploit the potential of specific sectors or territories by combining stages of cooperation into a concerted system. Clusters help to deal with employment, specialization, research and education problems: effort is invested in the creation of a coordination mechanism, producing returns that include the creation, attraction and development of human capital. So why are clusters so little known in Latvia as a way of promoting competitiveness of the regions?

Business clusters appear only when a territory has reached a certain threshold or level of competitiveness, i.e. **the appearance of clusters is more likely to be an indicator and not a factor of a region's competitiveness.** Clusters that currently function in Latvia's economy can be identified with the help of Porter's¹ methodology, using official statistics as the main source of information.

¹ Hernesniemi H., Lammi M., Yla-Anttila P. *Advantage Finland – The Future of Finnish Industries*. ETLA [Research Institute of the Finnish Economy] report on the Finnish cluster study. Helsinki, Taloustieto Oy, 1996, pp. 76–77.

The identification of business clusters is carried out in four steps:

- First, it is necessary to determine the sector of the national economy that shows the best results in world markets, taking into account this sector's share of the country's total exports.
- When the successful product has been identified, it is necessary to locate the companies that manufacture this product. Companies are grouped according to their functional ties. These ties form the framework of the cluster, which develops around the main product.
- Experts judge and decide to what extent the structure of the cluster obtained by this method corresponds to the true situation and make corrections where necessary.
- Following these three steps, information is collected on the identified clusters.

Clusters are the result of cooperation and frequently even partnerships. Collaboration on an equal basis is evolving in Latvia between two independent partners interested in successful cooperation – the Foreign Investors Council in Latvia and cluster leader Latvian Plywood (AS «Latvijas Finieris»). A number of academic and regional partners are also involved: the Institute of Economics of the Latvian Academy of Sciences, the Centre for Personnel

Regional structure of Latvia's forest industries cluster, identified through ownership and organizational ties of cluster leader Latvian Plywood (AS «Latvijas finieris»), 2006 (see Chapter 1.4)

The Rīga Region	The rest of Latvia's territory
Latvian Plywood (Rīga)	Liepāja District Forest Industries Corporation (Liepāja District)
Latvian Association for Environmental Management (Rīga)	AS Ludzas mežrūpniecības saimniecība (Rēzekne District)
Institute of Economics of the Latvian Academy of Sciences (Rīga)	Rēzekne Special Economic Zone (Rēzekne)
Union of German and Latvian Companies (Rīga)	Rēzekne SEZ SIA VEREMS (Rēzekne District)
Latvian Forest Certification Council (Rīga)	Rēzekne Forest Owners Counseling Center Ltd. (Rēzekne)
Latvian Timber Producers' and Traders' Association (Rīga)	Verems 2 Ltd.(Rēzekne District)
Troja Ltd. (Rīga)	Andrupene Nursery Ltd. (Krāslava District)
Foreign Investors Council in Latvia (Rīga)	BĒNES ŠĶELDA Ltd. (Dobele District)
Association <i>Latvijas koks</i> (Rīga)	KSILON Ltd. (Jelgava)
Latvian Forest Industry Federation (Rīga)	
NGO Green Certificate for Latvian Forestry (Rīga District)	
Latvian Quality Association(Rīga)	
Latvian Forest Workers' Union (Rīga)	
Centre for Personnel Development and Training (Rīga)	
Latvian Association for Personnel Management (Rīga)	
DUBULTU ŠĶELDA Ltd. (Jūrmala)	
Industrial Confederation of Latvia (Rīga)	
KAĶU MĀJA Ltd.(Rīga)	
Union of technical safety Experts of Manufacturers of Latvia (Rīga)	
AS Bolderāja (Rīga)	
Skultes kokosta Ltd. (Rīga District)	
Port Milgravis Ltd.(Rīga)	
ASAS Ltd. (Rīga District)	
AS Lindeks (Rīga)	

- Current ties
- Currently no ties or company no longer exists

Table prepared by the author in accordance with data provided by the Latvian Commercial Register and LURSOFT.

Development and Training, the Rēzekne Forest Owners Counselling Centre, VEREMS, Rēzekne SEZ.

Latvian Plywood is, without doubt, the forest industries cluster leader – the biggest wood processing company in Latvia and one of the country's biggest wood and wood-product exporters. As of today, Latvia's forest industries cluster – identified on the basis of its members' ownership and organizational ties – has 19 members, of which eight are commercial enterprises and 11 are public organizations, associations or societies. The members of Latvia's forest industries cluster are affiliated either through ownership ties (control of 1.86% to 100%

of the shares of other cluster members) or through administrative or organizational ties (are members or founders of the public organizations, associations and societies which are members of the cluster). Territorially, Latvia's forest industries cluster is concentrated primarily in Rīga (14 of 19 cluster members are located in Rīga and one in the Rīga District), and very few (four of 19 companies, all of them commercial enterprises) are located elsewhere in Latvia, concentrated in one region – the Rēzekne Region. This means that territorially Latvia's forest industries cluster belongs to a single economic region – the Rīga Region, and only a few production subsidiaries are located outside of the Rīga Region.

Source: Vera Boroņenko, «The Cluster approach in regional development in circumstances of the knowledge society». Daugavpils: Daugavpils University Publishers «Saule», 2007.

⊕ Entrepreneurship and Social Innovation in Renda



In Renda Township in the Kuldīga District, the *Upmaļi* farm, which is run by the Bergmanis family (Māra and Dainis and their three children), is one of the most successful and well-known farms in Latvia. It is, however, not a typical farm. Here, you will see neither cow pastures, nor sheep paddocks, nor wheat fields. Instead, you will see meadows and row upon row of medicinal herbs. The success of the Bergmanis family is based on the lifestyle that they have chosen for themselves and to which they have adapted their entrepreneurial activities. The Bergmanis have created a new type of economic and social enterprise – an environmental health farm.

Twenty years ago, illness forced the Bergmanis family to change their approach to life and to the farming methods learned in the Soviet era. The Bergmanis began to orientate themselves toward organic food products that are free of chemicals and toward traditional or natural healing methods. *Upmaļi* was transformed into an organic farm, and this has proven to be a successful solution both from a personal and from a business point of view. Production was gradually reorganized to meet biodynamic farming standards, which in those days were a novelty in Latvia. *Upmaļi* created services and products that were soon very much in demand. The farm offers tourists green (environmentally friendly) recreation opportunities with an emphasis on traditional healing methods. Herbal saunas and special herbal sauna products became their trademark.

Since the days of the National Awakening, the Bergmanis family has been socially and politically active – first in the Popular Front and later in the Environmental Protection Club. This has given them a broad network of social contacts as well as international experience, inasmuch as the Environmental Protection Club and affiliated organizations have succeeded in becoming part of the global green movement. *Upmaļi* increasingly diverges from the traditional farm model and becomes involved in projects concerned with the social environment. The Bergmanis family opens their home and the environment that they have created not only to vacationers, but also to social activities: seminars for farmers and social tourism. At the same time, they continue to educate themselves – they learn English through self-instruction, they broaden their knowledge about the cultivation of herbs and their medicinal qualities.

Experience gained from foreign visitors and trips abroad encouraged Māra and Dainis to establish their own, local network of organic farms. In 2000, Māra became coordinator of the Latvian Environmental Health Farm Project, involving a number of organic farms that produce environmentally friendly products, provide services and exchange information. The environmental health farm network became an internationally recognized social innovation in the business world. The USA non-governmental organization *Ashoka* (www.ashoka.org) granted Māra Bergmane a lifelong

fellowship, acknowledging her environmental health farm as a significant and original social innovation. She is one of 1,800 fellows in the 25-year history of the organization, and the only one from the Baltic States. Māra collaborates with a number of farms in other countries (Estonia, Lithuania, Poland, etc.), which are also interested in the environmental health farm model, thus giving the health farm network an international dimension. Increasing awareness of this farming model in other countries also means that foreign businesses are increasingly aware of the products produced on these farms in Latvia. There are offers of cooperation, but so far all are for the supply of raw materials. With little added value, says Māra, which is not what *Upmaļi* is aiming for.

The mission of the environmental health farm network is not only coordination of production and sales, but also exchange and communication of information and know-how – teaching farmers how to produce products and provide services that are important for people's health. Gradually, doctors, pharmacists and scientists are also involved in the network and provide useful information for the farmers. Typical for the network are the seminars for organic farmers at the *Upmaļi* farm and group trips to organic and traditional farms in other countries organized by Māra.

In their local community, the Bergmanis were the first to leave the Renda kolkhoz and start their own farm. They bought their first equipment, livestock and started to work the land that they regained. In 1990, neither the kolkhoz, nor the neighbours saw this as particularly friendly behavior. At the same time, the family became involved in the social and political life of the township. Even before Dainis became a local deputy and chairman in 2001, the family came up with the idea of Renda as a «green township.» The Renda Township Council accepted the idea and included it in its development plans and visions. The township's main business is tourism, but green ideas are incorporated in the transformation of the Renda elementary school into an eco-school.

The neighbours are also involved in the work of the environmental health farm. Some supply raw materials, for example, medicinal herbs (which means that they

are also engaged in organic farming), others help with farm work or simply support the energetic activities of the Bergmanis family. As business expands, the family also expands its network of suppliers and purchases medicinal herbs from organic farms in other regions of Latvia. At present, they have close cooperation with eight organic farms in different parts of the country. These are farms that obtain plants from the *Upmaļi* farm and are taught how to grow, collect and dry the herbs. This cooperation network has evolved into a social network – the members are not only people who share the same views, the same economic goals and similar farming methods, they are also people who share the same lifestyle and philosophy.

Currently, the main *Upmaļi* business in addition to the environmental health farm is the production of herbal teas. As of July 2007, these can be bought in pharmacies in Latvia. The family also produces herbal toys and pillows, grows organic food, continues to participate in social projects and projects involving natural medicine, and popularizes an environmentally friendly lifestyle.

The success of the Bergmanis family's social innovation – the environmental health farm – is based not only on individual effort, on improvement of knowledge and skills in order to develop new ideas, but also on social experience and networks, on the involvement of others in near and far communities. Another important aspect is networking at the idea level with different environmental protection and green movement organizations. The success of this type of farm is almost guaranteed by the increasing popularity of environmentally friendly lifestyles, but it requires a specific marketing strategy for choosing product distributors to maintain the exclusiveness of the products.

It is interesting that for the Bergmanis family the idea of environmental and health education and life in harmony with nature is much more important than profits from the environmental health farm and the sale of organic products. «*I couldn't even call it our business. It is our lifestyle. And if someone is willing to pay for it, that is naturally very good. But we wouldn't be doing this if it were against our convictions.*» (Māra Bergmane).

Source: Survey on the Human Capital in Latvia 2007

+ Lapmežciems Women for Public Welfare



«We ourselves create the environment around us.»

(Inga Vanaga,
head of Mothers for the Welfare of Children)

In 2006, the question of day-care for pre-school children became a local issue in Lapmežciems – the town's only kindergarten was closed down. At the initiative of the Lapmežciems County Council and with help from the local newspaper, young mothers and other interested persons were summoned to a meeting to seek a solution to the problem. As a result, the organization Mothers for the Welfare of Children was founded at the beginning of 2007, with active participation of nine local Lapmežciems women. The new organization has not only been officially registered; it has also acquired the status of a public benefit NGO, which entitles it to receive donations that donors can deduct from their taxes.

In the fall of 2006, Iveta Meiere, head of a second, older Lapmežciems women's organization *Spridzenes*, took part in a seminar on writing projects and learned about a project competition for informal women's organizations held by *Ieva* women's magazine and the *Merrild* coffee

company. In collaboration with Mothers for the Welfare of Children, a project was drafted for a children's playground in Lapmežciems. Competing against 157 other projects, the playground project was chosen as one of the seven best, which meant partial funding for the playground. Some of the required funds were contributed by the Lapmežciems County Council and the rest were obtained through a Mothers for the Welfare of Children fundraising campaign. Both organizations continued their collaboration during implementation of the project: Mothers for the Welfare of Children was in charge of publicity for the opening celebration and *Spridzenes* was responsible for planting flowers and shrubs.

One of the project's initiators, Iveta Meiere, is a local artist and pottery teacher at the Lapmežciems elementary school. In 1999, together with other active women, she founded the Lapmežciems women's club *Spridzenes*.

Iveta, who had no previous experience with community work, was chosen as head of the club. In time, she became involved in the work of larger NGO associations and became one of the leading activists in her county. Currently, Iveta is also active in the Latvian Association of Rural Women, where she heads the arts and crafts section. It was she who organized the Latvian traditional mitten project for the NATO Summit in 2006. *Spridzenes* main activities are: organization of lectures (on writing projects, on style and fashion, on cuisine, etc.), training of practical skills, cooperation with other women's organizations in Latvia and abroad, participation in handicraft exhibitions, organization of camps, and charity.

«Being entrusted with responsibility greatly changes a person. I was forced to do this and now I enjoy it!» (Iveta Meiere)

Lapmēžciems is an ancient fishing village, a rather closed community. Several decades are needed to become a «local» – one of the main self-identification factors. This could be why most members of the newly founded Mothers for the Welfare of Children are newcomers to the community. There was a similar situation with *Spridzenes*. The local women were initially extremely reserved and only slowly became involved in the activities of the club. And the local men could only gradually be convinced to join in, for example, in wine-tasting events or daytrips.

The Lapmēžciems women find great pleasure in what they have achieved. *«You can see that this playground was very, very much needed. The children would come here even before the playground was officially opened. (...) And the women are enormously proud and happy that we were able to beat so many competitors!»* (Iveta Meiere)

However, Lapmēžciems does not intend to stop there. The children's playground was just the first joint project of the Lapmēžciems women. The mothers' organization

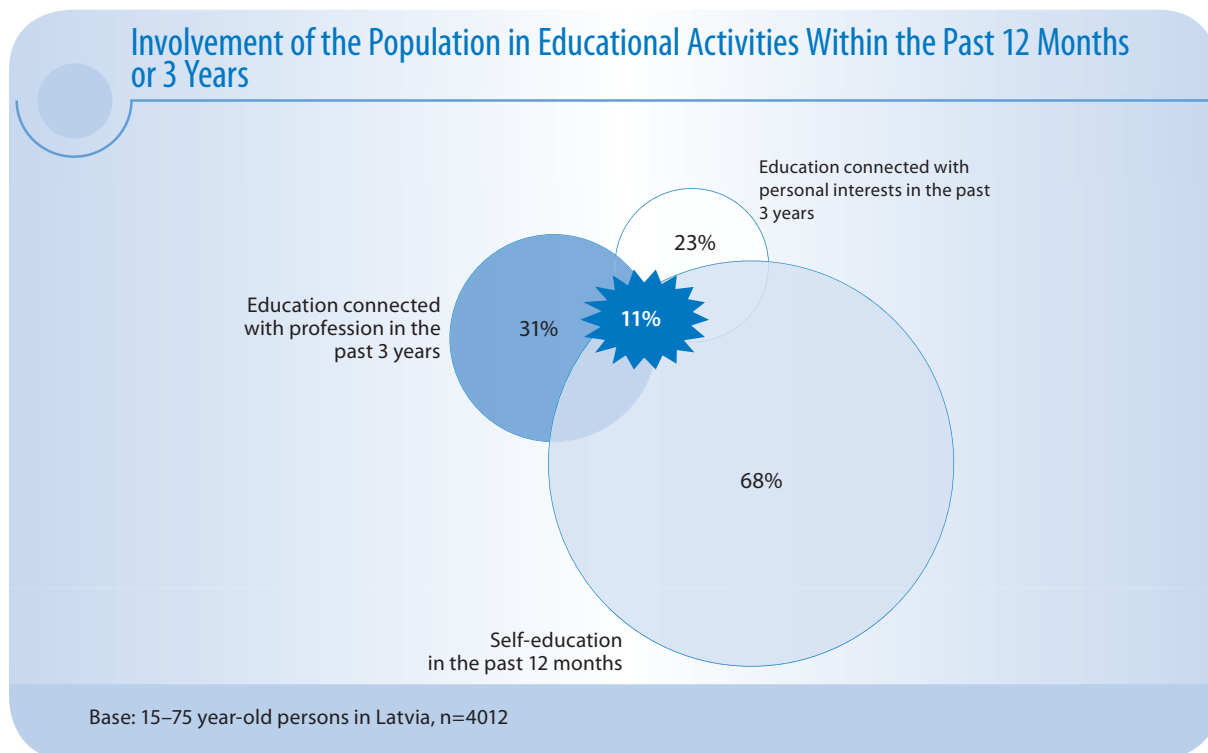
has plans to enlarge the playground and to tackle the kindergarten problem: a project is being prepared for submission to the EU. And *Spridzenes* are planning to change the informal status of their club, to become an official organization and continue what they have started on a larger scale.

The history of how both these organizations came to be shows that people sometimes need just a small push from the sidelines to prompt them into action. A little bit of initial support can encourage future development of active communities. The first push does not require a lot: allocation of premises for meetings, introduction to existing NGOs and their networks, delegation of active members to seminars, or a small amount of co-funding for projects. This was precisely the case with Mothers for the Welfare of Children, and it is a good example of how partnerships can be formed between local initiative groups and the private and public sectors: the government (local government) initiates and supports establishment of a new organization, a more experienced NGO takes the new organization under its wing, sharing experience, knowledge and social contacts. By approaching local businesses directly and popularizing the idea of tax deductible donations, it is also possible to receive support from the private sector.

In the old days, it used to be tradition in Latvia for neighbouring farmers to help each other with work in the fields or raising farm buildings. Nowadays, the same principle can be applied to community efforts to clean up or improve public areas (both physical and social). Neither special funding nor writing of projects was needed for the flower beds around the new Lapmēžciems playground. All it took was an appeal from active local women to mobilize volunteers (Lapmēžciems mothers, grandmothers, fathers), to receive donations (in the form of plants) and acquire know-how (planting was coordinated by an experienced Lapmēžciems hobby gardener).

Source: Survey on the Human Capital in Latvia 2007

+ Lifelong Education in Latvia: Public Involvement in Further Education Activities and Assessment of Education Accessibility¹



Lifelong education comprises all stages of education in a person's life. These include **formal education** (elementary, professional, secondary and higher education attested by an official document), **informal education** (courses, seminars connected with a person's interests, job or profession) and **day-to-day learning**, which is a deliberate, competence-enhancing process that can occur at any time or any place (for example, learning through self-instruction, reading specialized literature, acquisition of new skills, etc.) and is based on a purely personal need or a need arising from external factors to acquire or enhance knowledge and skills.

Further Education Activities of the Population

The results of the survey show that **73% of the respondents were engaged in some form of learning within the past three years.**

Almost one third of the respondents did so **in connection with their job or profession**. The majority in this group took courses connected with teaching (20%), computers and programming (16%), changes in legislation (15%). This indicates that the majority of those who were involved in job-related educational activities were people who require this in order to be able to continue working (e.g., teachers, public officials).

In the past three years, one quarter of the respondents had acquired an **education connected with personal interests, hobbies**. The majority had attended computer courses (26%). Almost as many mentioned foreign language courses (25%) and driving lessons (25%).

The absolute majority – over two thirds of the respondents – claimed to have engaged in some form of **self-instruction** in the past year. Those who had done so had most often used printed educational material (books, magazines) – 53%. The Internet had been used

¹ For the study «Accessibility of life long education and opportunities to acquire an education in Latvia» on the accessibility of lifelong education and educational opportunities in Latvia, interviews were conducted throughout Latvia with 4,012 randomly selected persons aged 15–75. Duration of the study: February – March 2006. Semi-structured interviews were also conducted with 30 experts who are closely involved with the problems of lifelong education in a professional capacity.

by 38%; videocassettes, audiocassettes by 36%, and 25% had visited libraries.

One tenth of the respondents had taken advantage of **all possible educational opportunities** and must be considered as the most active group in regard to education. It is interesting that twice as many respondents claimed that they had **not engaged in any form of learning in the past three years** – 27%.

Opportunities for **education connected with a job, profession, personal interests, or self-instruction** can be **limited** by a person's **level of education, age, level of income, unemployment and lack of motivation**. Neither employers nor other institutions are interested in making big financial investments in the education of **unregistered unemployed persons, young people with poor basic skills, or passive individuals**.

Assessment of Education Accessibility in Latvia's Regions

The study shows that learning opportunities differ from region to region. The best opportunities for **education connected with personal interests and hobbies** are perceived in **Rīga** (73%), in the **Kurzeme Region** (48%) and the **Latgale Region** (44%). The most opportunities for **job-related education** are also seen in **Rīga** (70%), the least in the **Vidzeme Region** (21%) and in the **Greater Rīga Region** (18%).

It must be added that in **Rīga and the major cities** (Daugavpils, Liepāja, Jelgava, Ventspils, Jūrmala, Rēzekne) **learning opportunities connected with either personal interests or a job and profession** are judged as better than those in the regional centres, other towns, villages, settlements and rural areas.

When expounding on the **range and quality of educational opportunities**, the experts point to **regional discrepancies**. There is a much greater variety of choices in Rīga due to a greater variety of available jobs, greater purchasing power of the population and, consequently, greater demand for different types of educational opportunities. According to the experts, there are also regional discrepancies in the distribution of financial resources for lifelong education – most of these resources are concentrated in Rīga.

Cooperation is an important factor for lifelong education. The institutions that provide educational services in the **regions** (professional education schools, universities and colleges, training centres) **cooperate with local governments**, taking into account local government development plans when considering educational projects, and also **with each other**. This is sensible practice, since it promotes closer-to-home accessibility of learning opportunities that meet people's needs and abilities. Cooperation among different institutions is particularly important when planning educational opportunities for specific population groups, for example, young people who have, for whatever reason, dropped out of school, but now wish to get a basic education or learn a profession.

Source: Report «Accessibility of life long education and opportunities to acquire an education in Latvia» (BISS, 2006).

+ The Library as Cultural Centre and Development Resource in Bērzaune



In recent years, almost all of Latvia's libraries have undergone dynamic, positive changes. The Bērzaune library is no exception. The Latvian National Library (LNL) project comprises not only construction of a new library building, but also development of a nationwide library information system, the so-called «Network of Light.» The project was launched in 2002 and envisages that all libraries in Latvia will be provided with computers, software, Internet connections, computer training for library personnel and users to ensure that all people living in Latvia have cost-free access to the Internet, to information resources and databases, regardless of where they live.

Latvia's rural libraries, however, have an even broader range of functions: they are not only important information access points, they are also educational, cultural and social centres. At the beginning of 2007, the Society for Support of the Latvian National Library established an award that it called «Township Librarian – Conveyor of Light» to acknowledge the work of librarians in rural communities who have shown particular initiative in developing their libraries and making them cultural centres that truly are conveyors of light. The award was presented to five librarians – one from each of Latvia's regions. In Vidzeme, the recipient was Bērzaune Township librarian Ineta Zvirgzdiņa, nominated by the Madona District library, which in its nomination described the candidate

as somewhat of a local celebrity: not only librarian, but also deputy of the town council, editor of the newspaper *Bērzaunes Rīts*, and head of the local drama club.¹

Bērzaune Township is beautifully located in the Vidzeme Highlands, at the foot of Gaiziņš Hill. It has a population of 1,843 and 420 of them are library users. The unemployment rate is low. There are several sawmills in the area and prospering farms engaged in non-traditional forms of farming: for example, Raimonds Melderis' farm *Līvi* which raises goats; Dzintra Karavaičuska's rabbit farm *Sveķi*, which is one of the biggest and most modern rabbit farms in Europe; Maija Galiņas farm *Jāniši*, which produces herbs and spices.

There is an active cultural life in Bērzaune, and the library is an important part of this. The township has a community hall with a large auditorium, where many local events take place. Bērzaune has a men's choir, a children's dance group, and the aforementioned drama club headed by Ineta Zvirgzdiņa. The theatre has old traditions in Bērzaune, passed on from generation

¹ Description of Madona District Bērzaune Township librarian Iveta Zvirgzdiņa's many functions in the nomination for the award presented by the Society for Support of the Latvian National Library «Township Librarian – Conveyor of Light.» Unpublished material, January 29, 2007.

to generation. The Bērzaune library has a bountiful collection of plays, which are used by other amateur groups in the district as well.

Despite an abundance of work, rural libraries usually have to make do with only one librarian. A good solution has been found in Bērzaune. For the second year now, as part of the project «Subsidized Employment Measures for Unemployed Disabled Persons,» Matīss Dukaļskis has been employed as assistant to the librarian. Ineta Zvirgzdiņa is very happy with the work of her assistant: «The man is smart, knowledgeable and trustworthy.» Matīss, too, is happy about working in the library. He has a workstation that was set up in cooperation with an occupational therapist, because Matīss has to work with his left hand. One of his achievements: a book write-off record of over 90 pages in calligraphic handwriting.

Ineta Zvirgzdiņa greets us in the welcoming rooms of the Bērzaune library at Gaiziņa Street 7. One of the rooms, boasting a mural by local artist Jānis Simsons, is a reading room and Internet access point. The first library computer was purchased by the township in 2003. Cost-free access to the Internet is actively exploited by the local population. There are queues at each of the computers, one of the reasons why the «Network of Light» computers are so anxiously awaited. Librarian Ineta Zvirgzdiņa has acquired a certificate in the LIKTAS project «Training for Teachers of Computer Skills» and organizes cost-free computer courses at the library. There was huge local interest in these courses: 20 people signed up for the first course, half of them pensioners. «We will probably have another course in the fall since there is interest, and that is good,» says the librarian.

The building that houses the library also has a small hall, where various events are held. The most popular ones have been meetings with writers Monika Zīle, Egīls Lukjanskis and Biruta Eglīte. There are many local people who have become prominent in Latvia, so that each year sees a number of anniversary celebrations and commemorative events. Late last year, there was one such event dedicated to Juris Brežģis, and next year there are plans to organize a conference with participation of the Literature and Folklore Institute to mark the anniversary of Ārons Matīss.

An interesting tradition has been started by the people of Bērzaune themselves: monthly get-togethers at 7 p.m. on the thirteenth day of each month. At these gatherings, interesting people (frequently locals) who have been somewhere on a trip, or who have interesting hobbies or professions, are invited as speakers. The opening of the photo exhibition of Bērzaune local Ivars Ķirps took place in a July 2007 get-together.

The library actively cooperates with the local school. The Bērzaune library is involved in a project financed by the Culture Capital Fund – the «Children's Jury» – in which children take part in different competitions. While other librarians often complain that children no longer read, that they find nothing interesting, Ineta Zvirgzdiņa has a very different opinion of the little people in Bērzaune: «*Very creative children – they read, they write. Perhaps this is because we start working with them at the kindergarten level. Groups of children come to the library together with their teachers: they play, they do jigsaw puzzles, they look at picture books. Here, they have their first hands-on experience with books.*»

Students not only take advantage of what the library has to offer, they also make their own contributions. Project weeks usually involve research on topics connected with Bērzaune Township, for example, on choir traditions in Bērzaune. These materials are then handed over to the library. The library also collects student's essays, poetry, etc.

The same building also houses a farm counselling office, but since this is not open every day, people often turn to the library for help (for example, on questions involving EU acreage subsidies), and the librarian must be knowledgeable about such issues as well.

A lot of help is needed by Bērzaune university students, especially those taking correspondence courses. The «Network of Light» has made it easier for rural libraries to take advantage of the information resources of other libraries. Ineta Zvirgzdiņa says: «*We never say no. We never tell anyone: 'We don't have it.' We suggest alternatives. Several alternatives. If we don't have it, maybe someone else in the district does. And if they don't, we order it from Rīga. People really do take advantage of inter-library exchanges.*» Now, it is possible to check in an electronic catalogue which library has the desired book, order it electronically, and receive it only a few days later.

Ineta Zvirgzdiņa agrees that a country librarian must be a «one-person production,» must do everything, must know everything: «*The librarian must be producer and director, must be well versed in everything from computer technology to livestock farming and horticulture.*» Ineta Zvirgzdiņa is very much involved in the life of the community. And it is difficult to draw a line between what she does as librarian during her working hours and what she does voluntarily. Many of the events and activities that arouse interest in people cannot actually be counted among her official duties and are organized at times that are convenient for people, not necessarily during official working hours. The example of the Bērzaune librarian shows that personal initiative and voluntary effort can do much to activate the social and cultural life of a community – without any great financial resources.

Source: Survey on the Human Capital in Latvia 2007

Conclusion

The purpose of the **Latvia Human Development Report 2006/2007: Human Capital** was to **examine human capital and its potential in Latvia and the conditions for development and implementation of this potential.**

Human capital is the sum of an individual's abilities and skills which increases the individual's economic and social potential. Specific aspects of human capital can to some degree be separated from general aspects. In a human development context, both aspects – specific and general – are equally important. Human development is the growth of human capital and the increase in opportunities for implementation of such capital. For this reason, it is important to determine the knowledge, values, skills and abilities that make up the human capital of Latvia's population.

The main message of the **Report** is that human capital plays a key role in Latvia's growth, which is why the government, local governments, non-governmental organizations and local communities, as well as individuals must concern themselves with the development of human capital and full implementation of its potential.

At present, it is extremely important for Latvia to understand that **the nation's demographic potential is insufficient for sustainable human development** and that government policy and the efforts of local governments, NGOs and communities, must be aimed at the promotion of **fulfilled lives and greater freedom of choice.**

Along with an analysis of human capital problems, the **Report** makes recommendations for concrete courses of action aimed at development and improved implementation of Latvia's human capital.

The first chapter, **My People**, examines Latvia's human capital in a global and regional context. To make a country's human capital competitive at the global or at least the regional level, it is important to identify and overcome obstacles and to seek new opportunities for development and implementation of human capital. To this end, the **Report** analyzes the aspects of human capital development and implementation that have an immediate impact on productivity: **motivation, the working environment, relations between employers and employees, employer strategies for the use of manpower.** Inasmuch as the development of any

society's human capital is largely affected by its human resources, the **Report** analyzes Latvia's **demographic, family and migration policies** from the perspective of preserving and improving human capital.

The **Report** puts forth a number of recommendations:

To increase Latvia's regional and global competitiveness, the country's human capital must become more competitive. The most important requirements for competitiveness are a **good education that is available to all, the application of innovative approaches in production, and the use of high technologies.**

In order to overcome the lasting public health crisis and achieve better life expectancy indicators, **the public must be better informed about healthy lifestyles; the healthcare system must be improved and made more accessible;** alcohol, tobacco and other addictions must be curbed; better control of stress factors must be achieved; the legal system and social support must be improved.

In order to achieve radical improvement in the age structure of the population, radical changes are needed in **demographic and family policy:**

- **It must be made easier to combine family and work.** For the state, this would help to improve macro-economic indicators by increasing employment. For the population, it would provide better conditions for working parents: flexible working hours and government support for the involvement of both parents in raising children would make it easier to combine work and family.
- A government support system **must promote the equal participation of both parents in childcare** and an earlier return to the job market, taking advantage of flexible working hours, by guaranteeing and improving the benefits for parents of small children already provided for in the Labour Law.
- **The law must protect unregistered forms of cohabitation,** particularly if children are involved, by prescribing mutual responsibilities in a partnership. In a situation where almost half of all children are born in unregistered partnerships, these families must be offered other options for legalizing partnerships.
- **Single parents must receive government aid.** The government's Child Support Guarantee Fund provides a considerable amount of support, but does not guarantee equal financial or practical involvement of

both parents in childcare. Single parents have been officially defined as a social marginalization risk group and as such require officially defined support as part of the government's family policy.

- **The government's family policy must take gender equality into account.** Traditional gender roles hinder development of an effective family support policy that takes into account the equal needs of parents.

To prevent further deterioration of the demographic situation and human capital losses, Latvia should **curb emigration**. Means to achieve this would be:

- promotion of higher salaries and wages;
- greater government support for families with children;
- improved attitudes toward employees on the part of employers and government;
- less red tape for start-up businesses;
- promotion of regional economic development and equal employment opportunities in the regions;
- information for those who have left the country about job opportunities in Latvia and social insurance conditions upon return.

Alongside **migration policy** measures to prevent a decline of the population and to replace the labour force with possibly less qualified manpower from other countries, **short-term exchange of migrants with other EU countries should be considered**. This would broaden experience and knowledge about each other and help to acquire skills that are not taught in Latvia.

To effectively use human capital, increase productivity and approach EU levels in regard to productivity, competitiveness and salaries, it is necessary to change the habits and attitudes of both employers and employees: **a transition is necessary from extensive attraction of manpower to innovative development aimed at the use of endogenous intellectual resources**.

The government must assume responsibility for the coordination of education with job market demands, including support in areas that are possibly less in demand at present, but are potentially promising. The current regulation of educational supply in accordance with demand (the wishes of young people) or the estimates of employers is not effective.

Better use should be made of **public-private partnerships**, an effective human capital development instrument that is underappreciated in Latvia.

The second chapter, **Latvia outside of Riga**, analyzes how the development and implementation of human capital is affected by unequal opportunities in the country's capital and its regions.

The development of human capital in Latvia's regions requires **inter- and intra-regional accessibility**. Good public transportation systems, good roads and good Internet access greatly improve the chances of the population to enjoy a greater variety and quality of services.

Support for start-up businesses must come from the government, local governments and the non-governmental sector. New businesses not only increase employment opportunities in a region, they also broaden the range of available services, thus furthering the development and realization of human capital. The **unfinished administrative-territorial reform** creates problems for entrepreneurs in their collaboration with local governments.

In view of the low population density and declining population in Latvia's regions, **greater attention should be paid to the potential of small towns and other development centres** in a human capital context.

Greater advantage should be taken of **regional innovation systems** – new opportunities for exploitation of the potential, traditions and advantages that are typical for a concrete region.

The third chapter, **My Fortune: Ideal vs. Actual Behaviour**, examines the value orientations of Latvia's population. Attention is focused on the values that could foster and those more likely to impede economic growth and the dynamic development of society.

Improvement of the country's economic situation and strengthening of democracy call for measures that can also impact people's value orientations. Society must be brought to embrace **values that further dynamic economic growth** – openness to change and risk, orientation toward success, creativity and self-realization, which are the basis for a more active, more successful and more prosperous life.

Cooperation, openness and trust in others must be increased. These qualities are important both for democracy and for successful economic cooperation.

To increase the economic activity of individuals and opportunities for economic self-realization, **widespread notions about economic success must be changed** – from notions of economic success as something connected with criminal activities and the right connections to notions about the positive value of economic success and achievement.

Our future is being shaped today. Latvia's human capital is the basis for the future growth of our society.

2007 Study of Human Capital in Latvia. Methodology

The 2007 Study Human Capital in Latvia is primarily a questionnaire-based survey, commissioned by the University of Latvia in order to find out the attitudes and opinions of the Latvian population on several issues. The study covered several human capital related issues: quality of life, value orientations, education quality, social and economic activity of the population, individual capabilities and participation in social life, people's attitudes toward their health and health care habits, internal and external migration trends, factors that advance or hinder the development of the living environment, and others.

Sampling

A stratified random sample, calculated on the basis of the Population Register data of the Office of Citizenship and Migration Affairs of the Republic of Latvia about the population of Latvia, was used in the survey. In total, 1001 permanent residents of Latvia, aged 18-74, were surveyed. The composition of the respondents reflects the composition of the adult population of Latvia by gender, age, nationality and place of residence.

110 survey points were selected randomly from the list of all populated areas of Latvia, using the number of inhabitants in the populated areas as the measure of proportionality. The smallest unit was the parish. At each survey point, the interviewer selected not more than ten households in accordance with instructions that specified the route principle and the starting address. In the selected household, a respondent for the survey was selected by the principle of the nearest birthday.

Implementer and Date of the Survey

The marketing and public opinion research centre *SKDS* carried out the survey in April 2007.

Survey Method

The survey was conducted by using the direct (personal) interview method at the place of residence of each respondent. Interviews were carried out in Latvian and Russian according to the respondent's choice.

Each respondent was surveyed about:

- 1) The sense of territorial belonging and sense of belonging to different groups,
- 2) Satisfaction with life in general and some areas thereof,
- 3) Opinions on different value statements,
- 4) Capability of respondents in different situations,
- 5) Assessment of the general economic situation in the country and the economic situation of respondent's household,
- 6) The situation of the respondents' household with respect to loans,
- 7) Level of education, level of skills and educational activities respondent is engaged in,
- 8) Opinions about the system of education in Latvia,
- 9) Economic activity, work-load and intensity of work,
- 10) Length of employment and breaks from employment,
- 11) Need for different skills in employment, professional continuing education activities, and initiatives for improvements in the working place,
- 12) Opinions on the respondent's employment situation and the general employment and entrepreneurship situation in Latvia,
- 13) Health condition and health care habits,
- 14) Family situation and family planning,
- 15) Housing and change of housing,
- 16) Social services available at the place of residence (services related to education, health care, employment, leisure activities etc.) and satisfaction with the quality of the services,
- 17) Factors that advance or hinder capability,
- 18) Respondent's engagement in activities in the local community and municipality, and assessment of one's ability to influence local affairs,
- 19) Frequency of using mass media and accessibility of Internet,
- 20) Social and cultural activities in the respondent's free time,
- 21) Migration intentions, directions and motivation,
- 22) Information respondents have about public-private partnerships and opinions on its effectiveness.

Case studies

To explore in greater depth the creation and implementation of human capital in communities, in

Composition of Respondents and All Population of Latvia from Different Aspects, %

Feature	Proportion of respondents in the selection (%) before weighting	Proportion of respondents in the selection (%) after weighting	Population Register data of the Ministry of the Interior Office of Citizenship and Migration Affairs on January 1, 2005
Total	100.0	100.0	100.0
REGIONAL AFFILIATION			
Rīga	31.2	32.5	32.5
Vidzeme	24.0	24.1	24.1
Kurzeme	13.5	13.2	13.2
Zemgale	15.7	14.5	14.6
Latgale	15.7	15.6	15.6
GENDER			
Males	44.9	46.6	46.6
Females	55.1	53.4	53.4
ETHNICITY			
Latvians	58.4	56.7	56.7
Others	41.6	43.3	43.3
AGE			
18–24	13.2	15.0	15.0
25–34	16.5	18.8	18.8
35–44	17.8	19.0	19.0
45–54	19.1	18.8	18.8
55–74	33.5	28.5	28.5
CITIZENSHIP			
Citizens of Latvia	82.2	82.2	–
Respondents without Latvian citizenship	17.8	17.8	–

addition to the survey several initiatives were researched in Renda, Bērzaune, Lapmežciems and Jelgava.

About the Study

The main goal of the **Study** was to analyze and assess different aspects of human capital in Latvia, to explore the ways it is implemented and applied, and to

indicate the critical factors advancing or hindering its creation. The knowledge of what people find socially and personally important and an understanding of their valueorientations allows researchers to elaborate recommendations for increasing human capital addressed to decision-makers, the media, the non-governmental sector, entrepreneurs and other interested parties. Such information and recommendations are useful for the promotion of sustainable human development in Latvia.

A Brief Survey of the Main Human Development Indicators

«I am convinced that there are only two areas of human social and spiritual activity that determine the vitality of the public at large – public health and public education. In this torrid period of re-evaluation and rebirth of values, both of these areas have acquired an important meaning.»

Ilmārs Lazovskis

The Human Development Index (HDI), a numerical indicator of the quality of life, was developed in 1990. HDI unites the three main dimensions of human development:

- a long and healthy life, expressed as the average life expectancy;
- knowledge, expressed by the adult literacy rate and the proportion of educational institution attendees in the relevant age group;
- an adequate standard of living, expressed as the real Gross Domestic Product per capita in European currency units according to standards of purchasing power parity (PPP USD).

Health and Life Expectancy

Changes in public health can be characterized best by mortality rates, **life expectancy indicators** and self-assessment data concerning the population's state of health.

During the previous decade the lowest life expectancy indicators for newborns were in 1994 – 60.7 years for men

and 72.9 years for women. The average life expectancy of persons born in 2006 is 71.3 years, 65.9 for men and 76.8 for women. In comparison to 2005, this figure for men has increased by 0.3 years, and decreased for women by 0.6 years.

There exists a significant disparity between the life expectancies for men and women in Latvia. The life expectancy for men is 11 years less than that for women. This difference in life expectancy between men and women is almost two times greater than in other EU Member States.

The public health strategy adopted by the Cabinet of Ministers on March 6, 2001, states that by the year 2010 the average life expectancy of newborns in Latvia must approximate the average indicators of EU Member States by 95%.

Statistics on mortality and life expectancy indicate that the average further life expectancy for those who reached the age of 60 in 2006 is 15 years for men and 22 years for women. The average indicators in the European Union are, respectively, 20 and 24 years.

Average Life Expectancy in Various EU Member States, Years

	Year	Men	Women
EU-25	2003	75.1	81.2
Sweden	2005	78.5	82.4
Italy	2003	77.1	82.8
Germany	2005	76.7	82.0
Spain	2005	76.9	83.7
Greece	2005	76.8	81.6
Latvia	2006	65.9	76.8
Lithuania	2005	65.3	77.3
Estonia	2005	67.3	78.2

Source: Statistical Office of the European Union «Eurostat» database «NewCronos»; data of the national statistics organizations.

Mortality has increased again in the last two years. The mortality rate (number of deaths per 1,000 inhabitants) was 13.8 in 2004, but in 2005 and 2006 the mortality rate had increased, respectively, to 14.2 and 14.5 per 1,000 inhabitants. In 2006 mortality exceeded the birthrate by 1.48 times.

The most widespread causes of death have remained constant and reflect those from previous years. The three main causes of death are cardiovascular diseases, tumours and various external causes.

Cardiovascular diseases are the most common cause of death in Latvia, resulting in 18,000 deaths in 2006, or 53.6% of total deaths. Tumours are the second most frequent cause of death. In 2006, 6,100 people died from tumours, i.e. 18.5% of all deaths. Male mortality from tumours is greater than that of women. Various external causes (deliberate self-inflicted injuries, accidents, poisoning, traumas) take third place in causes of death. In 2006 9.8% of all deaths or 3,232 persons died of unnatural causes. Male mortality due to unnatural causes is four times greater than that of women.

Over the past years no significant improvement has been observed in the state of public health.

Despite a decrease in cases of tuberculosis during the past three years, figures remain alarmingly high – in 2006, 49.7 cases per 100,000 inhabitants (53.5 cases per 100,000 in 2005). Men are more often afflicted than women (72.8 cases per 100,000 men and 30.0 cases per 100,000 women).

Over the past years cases of malignant tumours have been on the rise, except last year when the amount of

cases decreased to 396.6 per 100,000 inhabitants from 426.2 cases per 100,000 in 2005.

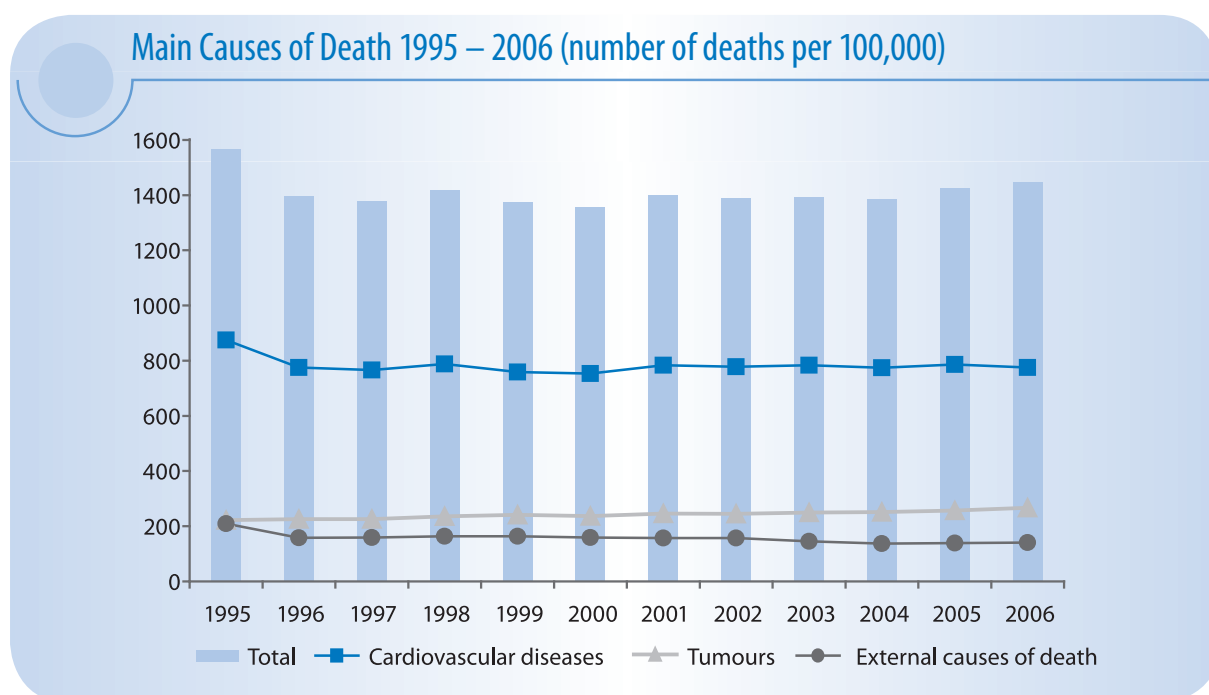
In Europe, Latvia has one of the highest rates of cardiovascular diseases, which is the leading cause of premature death.

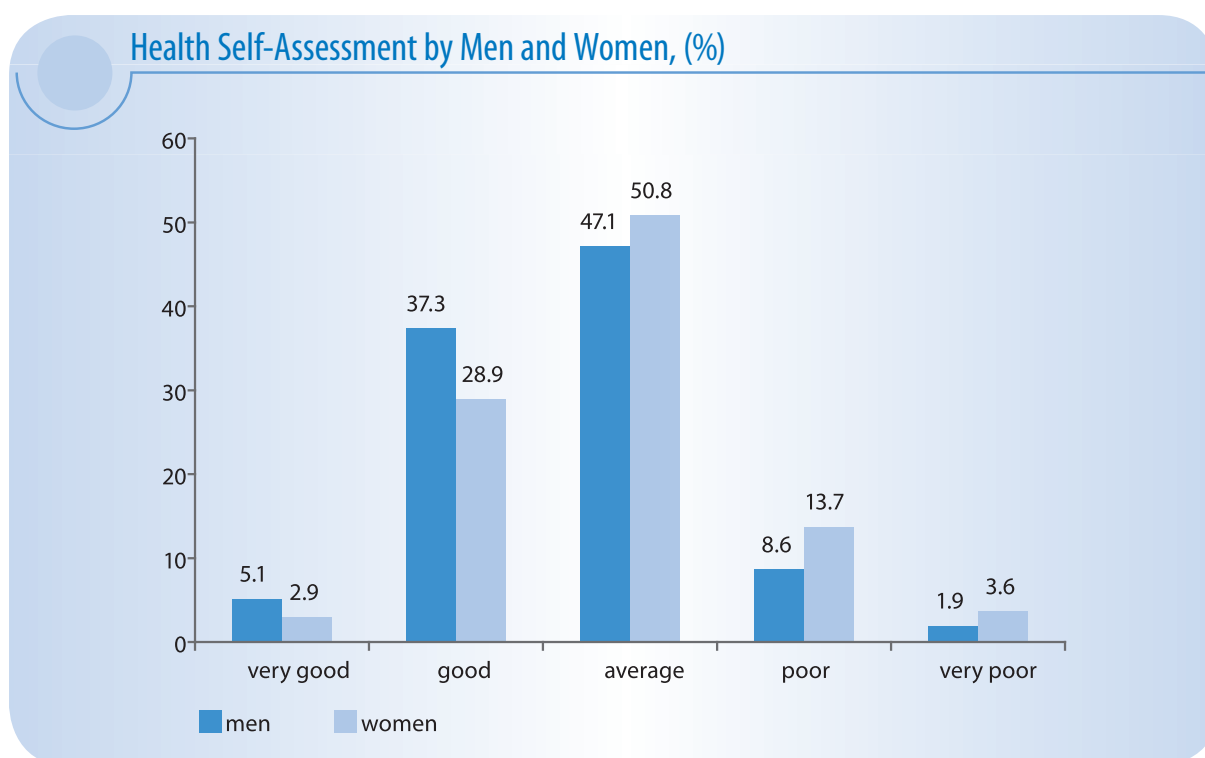
The spread of HIV and AIDS is also alarming. In 2006 the cumulative number of registered HIV cases increased by 9.0% or 299 cases (to 3,631 cases) compared to 2005. Out of these, 447 cases have reached the state of AIDS (394 cases in 2005).

Data from a 2003 health survey carried out by the CSB among the Latvian population indicates that the public rates its state of health mostly as average or good.

Lifelong health is one of the main basic postulates for health policy implementation, which cannot be ensured without public cooperation in health maintenance and protection. An integral precondition for purposeful action is a correct understanding of health and its determining factors. Excess weight, obesity, insufficient physical activity, alcohol and drug use and smoking are all significant factors that influence an individual's health condition. Quality health care reform cannot provide desired results without simultaneously raising the level of public knowledge and awareness on health issues.

During the next three years the main tasks of health care are development of the primary health care system and improving the network of health care providers. One serious problem in the health care system is a shortage of physicians and medical personnel with a secondary medical education. Compared to 2005, the number of





physicians in Latvia in 2006 decreased by 59, and the number of nurses decreased by 75.

Education

The Ministry of Education and Science is continuing to implement the main goal of the education development guidelines: «To ensure each individual the chance to attain a lifelong quality education according to individual interests, abilities and the needs of national economic development.»

This includes the following goals and types of action:

- to increase the quality of general knowledge, values education and life skills acquired during study;
- to ensure a supply of educational opportunities that meets the needs of economic development;
- to increase educational opportunities for various population groups in all regions;

Traditionally, the number of pupils/students in Latvia has been high. For instance, the number of tertiary students per 10,000 inhabitants is one of the highest among EU Member States – 568 students per 10,000 inhabitants in 2006 (compared to an average of 375 in the EU 25 in 2005).

1,008 institutions of general education with a total of 279,900 students started the 2006/2007 academic year. In comparison to the previous year, the number of students decreased by 18,600 or 6.2%.

Over the past years the number of primary education students has continued to decrease. Each year 32,000 children finish their primary education. A third of them

continue their education at vocational schools, 65% go on to basic institutions of secondary education and approximately 5% of young people discontinue their education.

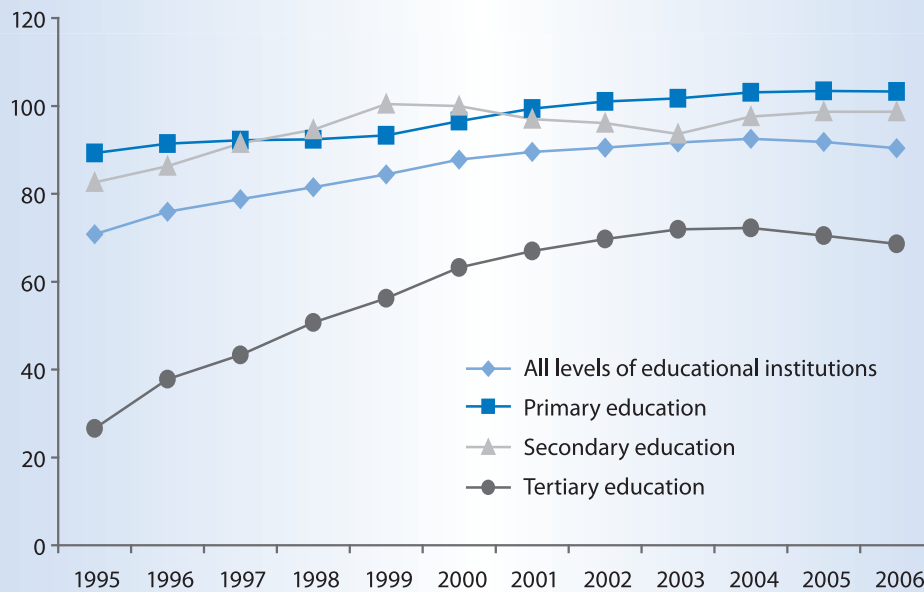
The following general secondary education programmes were implemented during the 2006/2007 academic year at daytime and evening secondary schools:

- 530 General education programmes,
- 241 Mathematics, natural sciences and technical programmes,
- 197 Programmes in humanities and social sciences,
- 128 Professionally oriented programmes,
- 6 Special general secondary education programmes,
- 14 General remedial secondary education programmes.

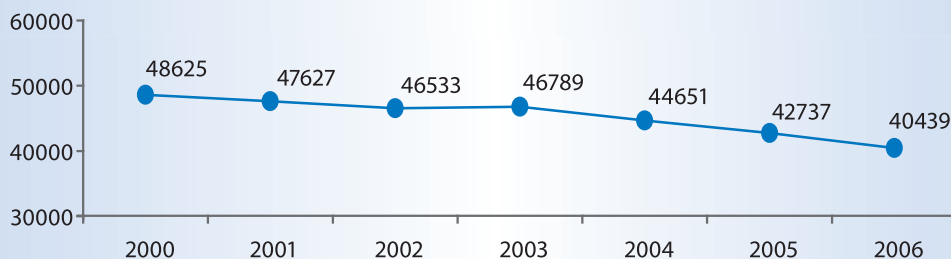
During the last academic year 68,317 students attended secondary schools, 2,448 students less than during the previous year. Approximately $\frac{3}{4}$ of all secondary school graduates go on to tertiary educational institutions right after graduation.

Funded by the European Social Fund, the national programme «Improvement of Secondary Education Instruction in Mathematics, Natural Sciences and Technologies» was implemented in the 2005/2006 academic year. The aim of the programme is to improve the quality of instruction in the aforementioned areas 1) in order to prepare knowledgeable and competitive young people upon their secondary education graduation, 2) to create preconditions for national development in science- and technology-intensive branches, 3) to

Education Indicators, %



Enrolment Trends at Vocational Schools (2000–2006)



promote educational development in the European Union according to the basic positions of the Lisbon strategy.

63 special educational institutions were operating during the 2006/2007 academic year, of which 43 catered to mentally disabled children and 20 focused on children with other special needs. 3% of all schoolchildren are enrolled in special schools. In 2006, 33,000 LVL were apportioned in order to facilitate the integration of children with special needs into general education institutions. Financial support has been received by 17 general education institutions. 114 general education institutions implemented special education programmes. 1,473 schoolchildren with special needs, i.e. 0.55% of all schoolchildren, have been integrated in these educational institutions.

40,400 students attained a vocational education at 108 educational institutions in the 2006/2007 academic year. It should be noted that the number of students

at vocational education institutions is decreasing with every year. In comparison with 2000, the number has decreased by more than 8,000.

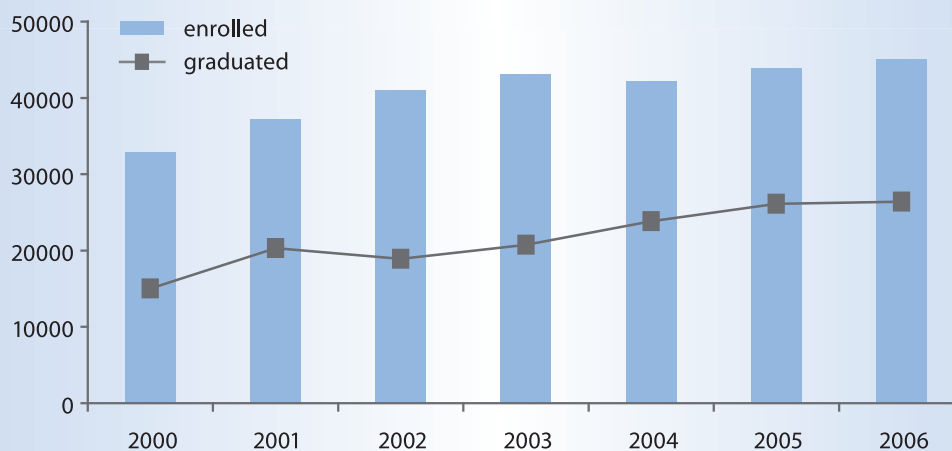
One fifth of all vocational school graduates go on to tertiary schools in the year of graduation.

One negative trend is the notably large number of expelled pupils. 16% of pupils were expelled in 2005. The main reasons for expulsion were truancy and insufficient grades.

The market economy, which imposes new demands on professional qualifications, is developing more rapidly than the supply of adequate vocational and higher education programmes. The distribution of students according to thematic areas of study does not meet the needs of the economy and changes in the job market.

Regional councils for vocational education and employment have been created in Kurzeme, Zemgale, Vidzeme

Enrolment and Graduation Trend of Students at Universities and Colleges (2000–2006)



Funding for Education

	Percent of the State budget	Percent of GDP
2000	16.9	6.8
2001	18.3	6.9
2002	18.5	6.5
2003	17.5	6.1
2004	16.5	5.8
2005	17.3	6.1
2006	15.6	5.6

and Latgale in order to strengthen cooperation between educational institutions and employers in the area of vocational education. This cooperation is part of the European Social Fund national programme «Development of a united methodology for improving the quality of vocational education and the involvement and training of social partners.»

Higher education in Latvia can be obtained at 60 institutions of higher education – 34 universities (19 state and 15 private institutions) and 26 colleges (18 state colleges and 8 privately founded colleges). During the 2006/2007 academic year 129,497 students were enrolled at universities and colleges, which amounts to 1,628 students less than during the previous academic year. 26,414 students graduated last year with an academic degree or qualification. A comparison of enrolment and graduation figures indicates that approximately 25–30% of students do not finish their studies.

Among the most popular areas of study are information and communication sciences (29.2), management studies and business administration (8.7) and economics (8.5).

In 2006 financing for higher education included increased aid for higher enrolment capacity in areas that are important to national development – 395 more spots in engineering and natural sciences. Enrolment capacity has also been raised for interpreters and translators at EU institutions and lawyer-linguists.

In order to implement the requirements of the Lisbon strategy, Latvia, along with other EU Member States, must contribute to the promotion of lifelong education. Unfortunately, there is no lifelong education system in Latvia that would provide people with an opportunity to adapt to conditions in the changing labour market. The country's uneven socio-economic development produces unequal opportunities for people living in rural and urban areas to obtain quality education, and thus join the labour market.

Financing is one of the cornerstones of education. The financial sources of Latvia's educational institutions are the State budget, local government budgets, funding from natural and legal persons, and foreign assistance. Total financing for education is increasing every year. However, despite this increase, the proportion of GDP for education continues to decline.

Economic Indicators

Dynamics of the Gross Domestic Product

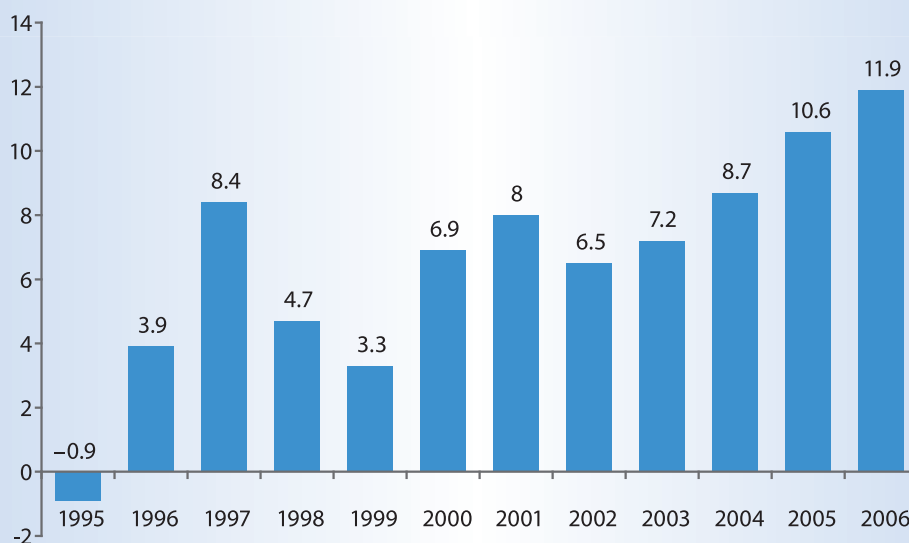
The essence of the Gross Domestic Product (GDP) is the added value from economic activity that has been created over a certain period of time in all sectors of the economy. Rapid economic growth has been observed in Latvia for several years now. Since 2004 GDP has increased annually on average by 10.4%, and 11.9% in 2006.

GDP growth in this period has been facilitated by an increase of 17.4% in trade, 17.6% in business services, 9.3% in transport and communications, 6.2% in the processing industry and 6.8% in construction.

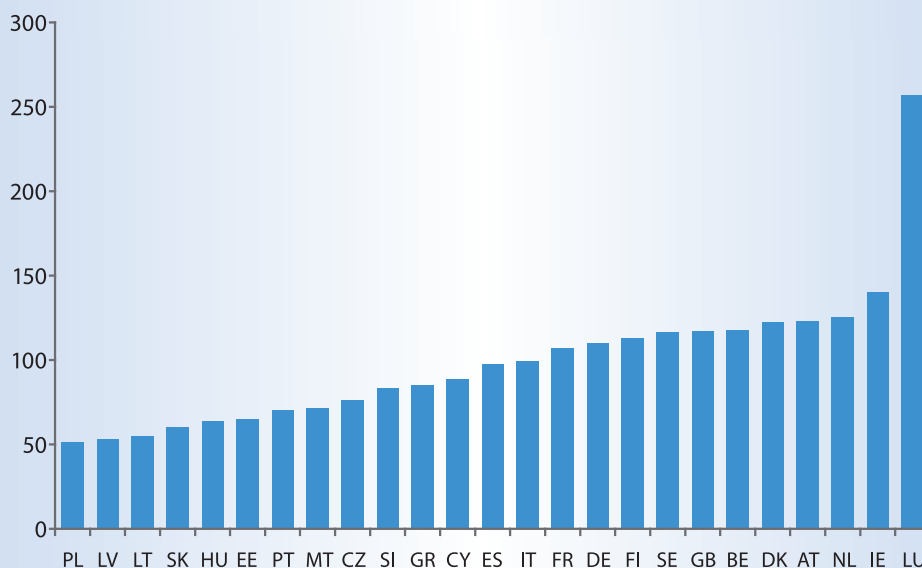
These high rates of growth are ensured mostly by a steady growth of domestic demand. Private consumption in 2006 exceeded the level in 2005 by 20%.

In actual prices GDP in 2006 was 11,264.7 million LVL. GDP per capita in 2006 in Latvia, calculated in purchasing power

Growth of Gross Domestic Product (in 2000 prices), %



Gross Domestic Product per Capita according to PPP 2006 (preliminary assessment) (EU-25 =100)



Gross Domestic Product in Statistical Regions in 2005

	GDP as percent of total amount	GDP per capita, LVL	GDP as percent of the national average
Rīga	57.3	7114	180.7
Rīga Region	11.1	2743	69.7
Vidzeme	6.2	2309	58.6
Kurzeme	10.7	3118	79.2
Zemgale	7.0	2192	55.7
Latgale	7.6	1910	48.5

units and according to a preliminary Eurostat assessment, was 53.3% of the average ES-25 level or 7002 EUR. This is one of the lowest indicators among the EU-25 Member States. In comparison with 2005, it was possible to decrease the difference from the average EU level by 4.7%.

Pronounced social and economic development disparities exist between the regions in Latvia. More than half of Latvia's Gross Domestic Product is made in Rīga.

Income Distribution

Public income is increasing in the country along with economic growth. In 2005, average disposable income per household member reached 110 LVL, an increase of 9.0% in comparison with figures from 2004. More rapid growth in disposable income was observed in rural households – 11%. The largest portion (65%) of all disposable income came from wages, and almost one fourth – from social transfers.

Significant differences continue to exist between the regions, especially between Rīga and the other regions. In 2005 disposable income was 32.5% greater in the Rīga region than the average disposable income in the country. In Latgale this figure was the lowest at 80 LVL per household member per month.

Income levels vary among different socio-economic groups. Entrepreneurs and households of the self-employed have a higher income level – an average of 168.26 LVL per household member per month in 2005, followed by paid employees (118.54), self-employed farmers (96.57), households of retirees (77.40) and households with no regular source of income (46.24).

Notable income differences exist between different types of households. The highest income level is among childless couples (137.79), and the lowest level is among single-parent families with children (87.82).

In 2006, the average gross monthly salary of persons employed in the national economy was 302 LVL, of which

216 LVL was the net salary. Average employee earnings have increased over the past years. In comparison to 2005, the average gross monthly salary in 2006 of persons employed in the national economy increased by 22.8%. An assessment of actual changes in wages, i.e. by taking into account the inflation rate, puts the increase at only 16%.

In comparison with survey results from 2004, household self-assessments of living standards have become more positive. 59.1% (56.6% in 2004) of households feel that they are neither rich nor poor, and 26.2% (27.2% in 2004) replied that they are not poor, but rather on the brink of poverty.

Employment and Unemployment

Economic growth and an active employment policy have had a positive impact on the situation in the labour market and have promoted growth in the level of employment. In comparison to 2000, the employment level in 2006 has increased by 11%.

In 2006, 1,088,000 inhabitants were employed in the national economy, or 60.1% of the total population age 15–74 (51.4% men and 48.6% women). In 2006 there was an increase in the number of employed persons and also an increase in the proportion of employed persons among the total population. Last year the majority (61%) of those employed in the national economy worked in the service sector, followed by 28% in industry and 11% in agriculture.

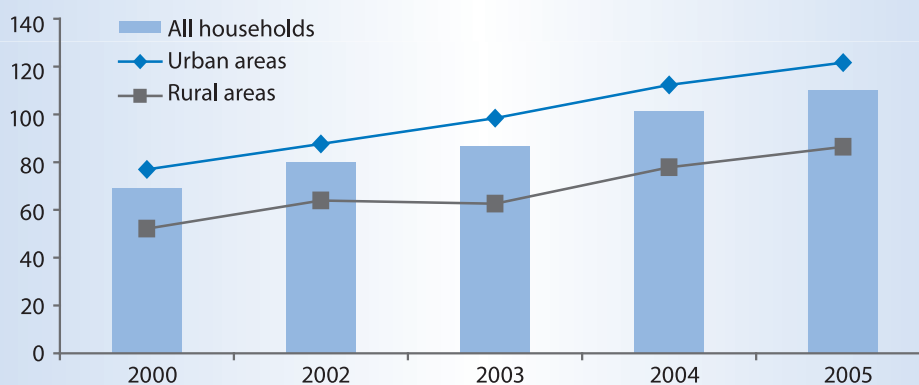
An increase in the proportion of women in the labour market can be observed in Latvia, which may be explained by economic factors, as families often have difficulties making ends meet with only one salary. The proportion of women in the labour market increased in 2006 to 55% (from 52.1% in 2005). The economic activity of women in Latvia exceeds average EU indicators.

Labour Force Survey data indicate that in 2006 there were 79,900 job seekers or 6.8% of the economically

active population. In comparison with 2005, the number of job seekers has diminished (in 2004 this figure was 99,100). Almost two fifths (37.8%) were long-term job seekers. Layoffs due to a reduction in the number of employees were mentioned as the most common reason for unemployment. Rapid economic growth fostered

the creation of jobs and a decrease in the number of job seekers in Latvia's regions as well. The most notable decreases have been in Kurzeme (3.3%) and the vicinity of Riga (3%), while in other regions the decrease was around 2%. The highest unemployment level continues to exist in Latgale.

Disposable Income 2000–2005 (LVL per household member per month)



Disposable Income in the Regions in 2004 and 2005 (LVL per household member per month)

	2004	2005
All households	101.23	110.30
Kurzeme	89.88	92.56
Zemgale	89.66	100.14
Latgale	67.20	79.58
Vidzeme	83.34	88.38
Rīga	135.24	146.12
Rīga Region	102.77	108.87

Source: Data from Household Budget Survey

Average Annual Economically Active Population (in thousands)

	Economically active population,	Including	
		employed	job seekers
1996	1196	949	247
2000	1100	941	159
2001	1107	962	145
2002	1123	989	135
2003	1126	1007	119
2004	1136	1018	119
2005	1135	1036	99
2006	1167	1088	80

Statistical Appendix

The statistical tables in this Appendix have been prepared in accordance with United Nations Development Programme (UNDP) indicators. The information included in the tables characterizes human development and shows how people have been able to use economic achievements to improve their lives. The tables reflect the most significant indicators that characterize social processes, e.g. health, education, the environment, employment, etc. Information has been compiled from the Central Statistical Bureau of Latvia (CSB), and if necessary, additional data has been obtained from ministries, institutions and international organizations.

The statistical information shown in the tables has been obtained in accordance with international methodologies. Data obtained from sample surveys conducted by the CSB and other institutions has also been used.

In some cases, the data published for prior periods has been revised. In some tables the data for 2006 pertains to the previous period and may be adjusted in the next publication. For example, a previous estimate has been used for 2006 real GDP per capita expressed in European currency units according to standards of purchasing

power parity. In future publications data may be revised on government expenditures for health and education in 2006.

In order to approximate the methodology of the most significant macroeconomic calculations to the demands of the European accounting system, in the third quarter of 2005 GDP values were changed in actual and relative values for the years 2000 to 2005. Therefore, the data for 2000 to 2005 cannot be compared to the previous period.

Information from the Statistical Office of the European Union has been used in publishing data on the «income ratio between the richest 20% and the poorest 20% of inhabitants.» This was aligned with data from the survey «Community Statistics on Income and Living Conditions.»

The Labour Force Survey was used as the source of information regarding employment. Therefore, all relevant indicators from 1996 onward have changed accordingly. Similarly, changes have been made to the calculations where information has been used from the 2000 population census.

Human Development Index: Latvia

	Life expectancy at birth, years	Adult literacy rate, %	Proportion of people attending educational institutions of all levels	Real GDP per capita, PPP European currency units	Life expectancy index	Education index	GDP index	Human development index
1999	70.4	99.8	84.4	6616	0.76	0.95	0.70	0.803
2000	70.7	99.8	87.8	7000	0.76	0.96	0.71	0.809
2001	70.7	99.8	89.5	7600	0.76	0.97	0.72	0.816
2002	71.1	99.8	90.5	8300	0.77	0.97	0.75	0.825
2003	71.4	99.8	91.7	9000	0.77	0.97	0.75	0.830
2004	72.1	99.8	92.5	9900	0.79	0.97	0.76	0.840
2005	71.8	99.8	91.8	11400	0.78	0.97	0.79	0.847
2006	71.3	99.8	90.4	13300	0.77	0.96	0.82	0.849

Human Development

	Life expectancy at birth, years	Maternal mortality per 100,000 live births (number of cases)	Number of inhabitants per physician	Enrolment at all level educational institutions, % of inhabitants, age 7–23	Enrolment at tertiary educational institutions, % of inhabitants age 19–23		Real GDP per capita, in European currency units according to standards of purchasing power parity	GDP per capita, USD
					Total	Women		
1995	66.7	37	294	70.8	26.6	...	4300 ¹	1993
1996	69.3	40 (8)	283	75.9	37.8	45.5	4700 ²	2311
1997	70.0	42 (8)	288	78.8	43.3	51.7	5200 ²	2569
1998	69.9	43 (8)	301	81.5	50.7	63.5	5720 ³	2793
1999	70.4	41 (8)	296	84.4	56.2	72.7	6070 ³	3049
2000	70.7	25 (5)	291	87.8	63.2	79.6	7000 ⁴	3304
2001	70.7	25 (5)	303	89.5	67.0	84.0	7600 ⁴	3529
2002	71.1	5 (1)	294	90.5	69.7	87.8	8300 ⁵	3984
2003	71.4	14 (3)	294	91.7	71.9	91.3	9000 ⁵	4815
2004	72.1	10 (2)	287	92.5	72.2	93.1	9900 ⁵	5952
2005	71.8	5 (1)	278	91.8	70.5	90.9	11400 ⁵	6970
2006	71.3	14 (3)	274	90.4	68.6	89.3	13300 ⁶	8791

¹ Statistics in Focus. Economy and Finance. Theme 2–XX/1999. National Accounts. Gross Domestic Product. First results for 1998. Eurostat. The GDP of the Candidate Countries 14/03/2000.

² Statistics in Focus. Economy and Finance. Theme 41/2002. Eurostat. GDP of the Candidate Countries – 2001.

³ Statistics in Focus. Economy and Finance. Theme 2–20/2003.

⁴ Data from the European Union Internet home page «Economy and Finance» and «Eurostat news release 75/2005,» 03.06.2005.

⁵ Data from the European Union Internet home page «Economy and Finance» 19.06.2007.

⁶ Prior assessment.

Human Distress

	Unemployment rate, % of economically active inhabitants	Adults age 15 and older with incomplete secondary education, %	Income ratio between the richest 20% and the poorest 20% of inhabitants ³	Annual inflation rate compared to the previous year, %	Number of deaths in traffic accidents per 100,000 inhabitants	Divorces, % of marriages	Children born to unmarried mothers, %	Number of suicides per 100,000 inhabitants	
								Men	Women
1995	6.6	39.6 ¹	...	125.0	25	70.6	29.9	72.0	14.9
1996	7.2	39.6 ¹	...	117.6	22	62.8	33.1	65.3	13.4
1997	7.0	39.6 ¹	...	108.4	22	63.0	34.8	62.8	13.9
1998	9.2	39.6 ¹	...	104.7	26	64.4	37.1	61.0	12.5
1999	9.1	39.6 ¹	...	102.4	25	63.9	39.1	53.9	13.3
2000	7.8	34.9 ²	5.5	102.6	25	66.6	40.3	56.5	11.9
2001	7.7	34.9 ²	...	102.5	22	62.0	42.1	52.2	11.2
2002	8.5	34.9 ²	...	101.9	22	61.1	43.1	48.5	11.9
2003	8.6	34.9 ²	...	102.9	21	48.3	44.2	45.1	9.7
2004	8.5	34.9 ²	...	106.2	22	50.8	45.3	42.8	8.5
2005	7.4	34.9 ²	6.7	106.7	19	50.6	44.6	42.0	9.6
2006	6.5	34.9 ²	...	106.5	18	49.6	43.4	38.7	6.6

¹ Latvian population census of 1989.

² Latvian population census of 2000.

³ Data from the European Union Statistics Office home page «Population and social conditions» 20.07.2007.

Human Distress (continued)

	Sulphur (SO ₂) emissions from stationary sources, kg per capita	Nitrogen (NO _x) emissions from stationary sources, kg per capita
1995	15.3	3.2
1996	18.3	3.5
1997	13.9	3.9
1998	13.2	3.8
1999	9.8	3.4
2000	5.1	3.5
2001	3.8	3.7
2002	3.3	4.0
2003	2.6	4.4
2004	2.0	3.8
2005	1.4	4.2
2006	0.9	4.6

Gender Differences (% women in relation to men)

	Life expectancy at birth	Number of inhabitants (end of the year)	Secondary education enrolment	Secondary education graduates	Tertiary education enrolment (students age 19–23)	Employed ¹	Unemployed	Overall salaries in the country
1995	120.3	116.9	108.0	120.1	155.2	...	109.7	78.3
1996	118.3	117.0	103.5	...	149.7	92.0	120.8	78.5
1997	118.2	117.0	101.8	132.1	145.1	94.8	146.2	79.7
1998	117.9	117.0	101.0	124.1	146.4	92.7	141.1	79.3
1999	117.4	117.1	99.7	122.3	157.4	92.6	134.6	80.0
2000	117.0	117.1	98.1	100.3	152.5	96.2	136.1	78.6
2001	117.6	117.2	98.0	113.8	142.1	97.8	134.6	80.2
2002	117.4	117.3	97.1	111.7	138.8	96.0	142.2	81.5
2003	116.7	117.1	98.0	101.4	140.0	94.8	140.9	83.5
2004	115.1	117.0	100.5	111.0	144.3	95.0	143.6	84.4
2005	118.0	117.0	102.2	111.3	145.8	94.0	149.3	81.9
2006	116.6	117.1	104.0	109.4	152.7	94.5	155.7	82.4

¹ Labour Force Survey. Persons age 15 and older 1996–2001, and age 15 to 74 from 2002 onward.

Status of Women

	Life expectancy at birth, years	Average age at first marriage	Maternal mortality rate per 100,000 live births (number of cases)		Secondary education enrolment, % of women age 11–18	Secondary education graduates, % of women age 18	Tertiary education enrolment % of women age 19–23	Proportion of women among the employed, % ¹	Proportion of women among managers and specialists, % ¹	Proportion of women among members of the parliament %
1995	73.1	23.3	37	...	...	...	...	...	...	8 ²
1996	75.6	23.7	40	8	84.3	...	45.5	47.9	60.5	8 ²
1997	75.9	24.1	42	8	85.9	85.4	51.7	48.7	60.5	8 ²
1998	75.5	24.5	43	8	85.8	86.4	63.5	48.1	59.1	17 ³
1999	76.2	24.7	41	8	86.9	91.4	72.7	48.1	58.4	17 ³
2000	76.0	24.9	25	5	88.2	87.6	79.6	49.0	57.7	17 ³
2001	76.6	24.9	25	5	89.0	96.1	84.0	49.4	59.1	17 ³
2002	76.8	25.4	5	1	88.9	98.5	87.8	49.0	57.6	18 ⁴
2003	76.9	25.4	14	3	90.5	82.2	91.3	48.7	57.5	18 ⁴
2004	77.2	25.6	10	2	88.9	81.1	93.1	48.7	57.5	18 ⁴
2005	77.4	26.0	5	1	92.4	77.1	90.9	48.4	58.5	18 ⁴
2006	76.8	26.3	14	3	92.1	83.2	89.3	48.6	58.1	19 ⁵

¹ Labour Force Survey. Persons age 15 and older 1996–2001, and age 15 to 74 from 2002 onward.

² Results of the *Saeima* elections from 30 September 1995.

³ Results of the *Saeima* elections from 3 October 1998.

⁴ Results of the *Saeima* elections from 5 October 2002.

⁵ Results of the *Saeima* elections from 9 October 2006.

Demographic Profile

	Population in millions (end of year)	Annual population growth rate, %	Total fertility rate	Proportion of dependants, %	Proportion of population age 60 and over, % (end of year)	Life expectancy at age 60 (additional years)	
						Men	Women
1995	2.5	-1.2	1.27	43.1	19.3	14.2	19.3
1996	2.4	-1.0	1.18	42.3	19.7	14.8	21.2
1997	2.4	-1.0	1.13	42.2	20.1	14.2	21.3
1998	2.4	-0.9	1.11	41.0	20.5	14.3	20.9
1999	2.4	-0.7	1.18	40.6	21.0	14.1	21.5
2000	2.4	-0.7	1.24	41.1	21.5	14.8	21.3
2001	2.3	-0.8	1.21	39.7	21.9	15.4	21.5
2002	2.3	-0.6	1.23	39.2	22.1	15.1	21.8
2003	2.3	-0.5	1.29	37.6	22.1	15.1	21.5
2004	2.3	-0.6	1.24	37.2	22.2	15.9	21.6
2005	2.3	-0.5	1.31	36.1	22.1	15.0	21.8
2006	2.3	-0.6	1.35	35.6	22.1	15.0	21.5

Health

	Death from cardiovascular diseases, % of all deaths	Death from malignant tumours, % of all deaths	Registered alcohol consumption, litres per adult ¹	Number of inhabitants per physician	State expenditures on health, % of total State expenditures	State expenditures on health, % of GDP
1995	55.8	14.1	9.1	294	9.7	4.0
1996	55.5	16.0	8.4	283	9.9	3.9
1997	55.5	16.3	8.4	288	9.9	3.8
1998	55.5	16.4	8.9	301	9.4	4.1
1999	55.2	17.1	8.8	296	9.1	4.1
2000	55.5	17.3	8.4	291	8.9	3.6
2001	55.9	17.4	7.8	303	9.1	3.6
2002	56.0	17.4	8.5	294	9.0	4.0
2003	56.1	17.9	9.4	294	9.2	4.1
2004	55.9	18.2	8.9	287	11.0	4.0
2005	55.1	18.0	8.7	278	10.8	3.7
2006	53.6	18.2	9.5	274	10.8	3.9

¹ Average alcohol consumption per adult inhabitant measured in absolute alcohol.

Education

	Enrolment at educational institutions of all levels, % of population age 7–23	Enrolment at primary schools, % of population age 7–15	Enrolment at secondary schools, % of population age 16–18	Enrolment at tertiary educational institutions, % of population age 19–23	Expenditures on tertiary education, % of all education expenditures	Total average expenditures per student at public tertiary educational institutions, LVL	State expenditures on education % of total State expenditures	Total State expenditures on education, % of GDP
1995	70.8	89.3	82.6	26.6	16.3	...	17.0	6.9
1996	75.9	91.4	86.3	37.8	18.7	...	14.6	5.8
1997	78.8	92.2	91.5	43.3	18.5	...	14.6	5.7
1998	81.5	92.4	94.6	50.7	19.7	...	15.7	6.9
1999	84.4	93.3	100.4	56.2	20.8	...	15.1	6.8
2000	87.8	96.5	100.0	63.2	22.7	970	16.9	6.8
2001	89.5	99.4	97.0	67.0	23.4	950	18.3	6.9
2002	90.5	101.0	96.1	69.7	24.1	1014	18.5	6.3
2003	91.7	101.7	93.6	71.9	24.6	1004	17.5	6.0
2004	92.5	103.1	97.6	72.2	25.5	1173	16.5	5.8
2005	91.2	103.4	98.7	70.5	...	1657	17.3	6.1
2006	90.4	103.3	98.7	68.6	...	...	15.6	5.6

Human Intellectual Potential

	Scientists and technicians per 1000 inhabitants	Total expenditures on research and development, % of GDP	Secondary education graduates, % of inhabitants age 18	Tertiary education graduates, % of inhabitants age 23	Science graduates, % of all graduates of tertiary educational institutions
1995	2.1	0.52	74.9	21.7	...
1996	1.9	0.46	71.6	28.2	...
1997	1.8	0.43	73.6	30.9	0.3
1998	1.8	0.45	76.4	32.2	0.5
1999	1.8	0.40	81.2	33.2	0.5
2000	2.3	0.45	85.6	47.9	0.3
2001	2.3	0.41	88.7	64.2	0.2
2002	2.3	0.42	80.2	58.9	0.3
2003	2.1	0.38	76.2	63.0	0.3
2004	2.9	0.42	76.0	71.2	0.4
2005	2.4	0.56	77.9	75.4	0.4
2006	...	0.67	82.5	71.1	0.4

Employment

	Employed, % of total population ¹	Distribution of employed, % of total number of employed ¹			Income growth among employed inhabitants, %	Length of work week, hours ¹
		Agriculture	Industry	Services		
1995	...	...	...	...	25	...
1996	48.3	17	27	56	10	40.1
1997	50.6	21	26	53	22	41.2
1998	50.5	19	27	54	11	41.0
1999	49.6	17	26	57	6	41.2
2000	48.2	15	26	59	6	41.4
2001	49.2	15	26	59	7	41.3
2002	54.4	15	26	59	9	40.1
2003	55.4	14	27	59	11	40.0
2004	56.1	13	27	60	9	39.4
2005	57.1	12	26	62	16	40.0
2006	60.1	11	28	61	23	39.7

¹ Labour Force Survey. Persons age 15 and older 1996–2001, and age 15 to 74 from 2002 onward.

Unemployment (end of year)

	Number of unemployed, in thousands	Unemployment rate, %		Unemployed youth age 15–24, % of total unemployed persons	Payment of unemployment benefits, % of total State expenditures	Percentage of long-term unemployed (more than 12 months)
		Total	Women			
1995	83.2	6.6	7.0	20.2	1.7	25.5
1996	90.8	7.2	8.1	20.0	1.1	31.2
1997	84.9	7.0	8.5	18.1	1.1	38.1
1998	111.4	9.2	11.0	16.4	1.6	26.3
1999	109.5	9.1	10.7	14.8	1.6	31.1
2000	93.3	7.8	9.2	14.8	1.2	29.0
2001	91.6	7.7	9.0	14.6	1.0	26.6
2002	89.7	8.5	10.5	13.9	1.1	26.4
2003	90.6	8.6	10.5	13.2	1.1	26.1
2004	90.8	8.5	9.6	12.8	1.0	25.6
2005	78.5	7.4	8.8	14.0	1.2	26.2
2006	68.9	6.5	7.7	14.0	1.1	23.1

Defence Expenditures and Expenditure Disbalance

	Expenditures on defence, % of GDP	Expenditures on defence, % of total expenditures on education and health
1995	1.0	9.1
1996	0.8	7.7
1997	0.7	7.4
1998	1.0	9.4
1999	1.0	8.9
2000	0.9	9.1
2001	1.0	9.6
2002	1.2	12.1
2003	1.1	13.4
2004	1.3	13.3
2005	1.2	13.9
2006	1.5	15.7

Natural Resources

	Area, thousands of sq. km	Population density, population per sq. km (end of year)	Arable land, % of total area	Forests, % of total area	Reclaimed land, % of arable land	Internal renewable water resources per capita, in thousands of cubic metres	Annual water consumption per capita, in cubic metres
1995	64.6	38.2	39.3	44.6	...	8.0	183.3
1996	64.6	37.9	39.0	44.3	62.0	5.3	174.4
1997	64.6	37.5	39.0	44.9	62.0	8.1	166.1
1998	64.6	37.1	38.7	44.2	62.8	10.9	161.9
1999	64.6	36.9	38.5	44.2	62.9	9.6	143.2
2000	64.6	36.6	38.5	44.2	62.9	7.7	126.2
2001	64.6	36.3	38.5	44.4	62.9	8.6	126.3
2002	64.6	36.1	38.4	44.5	62.9	...	127.6
2003	64.6	35.9	38.3	44.5	63.0	...	121.9
2004	64.6	35.7	38.2	44.9	63.1	...	113.9
2005	64.6	36.0	38.3	45.2	63.1	...	118.8
2006	64.6	35.0	38.1	45.4	63.3	...	103.8

National Income Indicators

	Gross Domestic Product (GDP), in millions of LVL	Agricultural production, % of GDP	Industrial production, % of GDP	Services, % of GDP	Private consumption, % of GDP	Development of domestic gross equity, % of GDP	Tax revenues, % of GDP	State expenditures, % of GDP	Exports, % of GDP	Imports, % of GDP
1995	2615.1	9	30	61	63.5	13.6	33.2	24.4	42.7	44.9
1996	3129.2	8	28	64	68.5	16.4	31.2	21.6	46.8	54.3
1997	3631.9	5	29	66	67.4	16.9	33.1	20.8	46.8	54.7
1998	3971.2	4	28	68	64.9	24.7	36.3	23.5	47.2	59.6
1999	4265.0	4	25	71	63.1	23.0	34.3	22.7	40.4	49.6
2000	4750.8	4	24	72	62.5	24.2	31.6	20.8	41.6	48.7
2001	5219.9	4	23	72	62.6	24.9	30.2	20.5	41.6	51.1
2002	5758.3	4	23	73	62.1	23.8	30.8	21.0	40.9	50.6
2003	6392.8	4	22	74	62.4	24.4	28.2	21.4	42.1	54.6
2004	7434.5	4	22	73	62.9	27.4	27.6	19.5	44.0	59.6
2005	9059.1	4	22	75	62.5	30.6	28.1	17.4	47.8	62.2
2006	11264.7	4	21	75	62.5	34.4	29.3	16.9	44.2	64.4

Economic Development Trends

	Annual GDP growth rate (in comparative prices from the year 2000), %	Annual GDP growth rate per capita (in comparative prices from the year 2000), %	Annual inflation rate, % compared to previous year	Annual export growth rate, % of GDP (in actual prices)	Budget surplus or deficit, % of GDP (in actual prices)
1995	-0.9	0.5	125.0	6.3	-3.1
1996	3.9	5.0	117.6	13.4	-1.4
1997	8.4	9.4	108.4	7.4	1.2
1998	4.7	5.7	104.7	4.8	0.1
1999	3.3	4.1	102.4	-3.3	-4.0
2000	6.9	7.7	102.6	6.0	-2.8
2001	8.0	8.9	102.5	4.0	-2.1
2002	6.5	7.2	101.9	3.5	-2.3
2003	7.2	7.8	102.9	5.8	-1.6
2004	8.7	9.3	106.2	9.1	-1.1
2005	10.6	11.2	106.7	14.3	-1.2
2006	11.9	12.5	106.5	7.1	-0.3

Violence and Crime*

	Prison inmates per 100,000 inhabitants	Juveniles, % of convicted criminals	Reported number of rapes per 100,000 inhabitants	Drug-related crimes per 100,000 inhabitants	Premeditated homicides or attempted homicides a year by men per 100,000 males	Reported number of rapes per 100,000 females
1995	255.2	10.8	6.4	10.9	18.2	11.8
1996	253.7	11.9	5.3	14.7	18.4	9.8
1997	256.4	13.1	4.9	17.6	15.6	9.1
1998	242.7	13.0	3.4	16.1	16.7	6.4
1999	216.4	14.0	4.2	21.4	14.5	7.8
2000	209.4	14.2	5.6	27.6	12.0	10.5
2001	201.7	13.8	5.1	35.2	15.6	9.5
2002	199.0	14.2	4.5	27.0	13.4	8.7
2003	213.6	13.5	5.3	43.0	18.7	9.8
2004	215.5	13.5	13.8 ¹	49.8	14.5	25.6 ¹
2005	206.5	12.5	11.0	45.6	5.3	20.4
2006	208.5	12.5	5.4	43.6	6.1	9.9

¹ January-July 2004, additional episodes of criminal offence were registered separately in one criminal case of rape.

* A Criminal Procedure Law took effect 1 October 2005, which included the introduction of a new Criminal Offence Registration System. Therefore, data collected after this date cannot be compared to previous data.

Prosperity, Poverty and Social Expenditures

	Real GDP per capita, in European currency units, according to standards of purchasing power parity ¹	Industrial added value, % of GDP	Income ratio between the richest 20% and the poorest 20% of inhabitants ⁷	State expenditures for social security, % of GDP	State expenditures for education, % of GDP	State expenditures for health, of GDP
1995	4300 ¹	30	...	15.1	6.9	4.0
1996	4700 ²	28	...	14.8	5.8	3.9
1997	5200 ²	29	...	14.0	5.7	3.8
1998	5720 ³	28	...	15.0	6.9	4.1
1999	6070 ³	25	...	16.1	6.8	4.1
2000	7000 ⁴	24	5.5	13.1	6.8	3.6
2001	7600 ⁴	23	...	11.9	6.9	3.6
2002	8300 ⁵	23	...	11.4	6.3	4.0
2003	9000 ⁵	22	...	10.7	6.0	4.1
2004	9900 ⁵	22	...	10.0	5.8	4.0
2005	11400 ⁵	22	6.7	9.8	6.1	3.7
2006	13300 ⁶	21	...	9.2	5.6	3.9

¹ Statistics in Focus. Economy and Finance. Theme 2-XX/1999. National Accounts. Gross Domestic Product. First results for 1998. Eurostat.

² Statistics in Focus. Economy and Finance. Theme 41/2002. National Accounts. Eurostat.

³ Statistics in Focus. Economy and Finance. Theme 2-20/2003.

⁴ Data from the European Union home page «Economy and Finance» and «Eurostat news release 75/2005» 03.06.2005.

⁵ Data from the European Union home page «Economy and Finance» 19.06.2007.

⁶ Prior assessment.

⁷ Data from the Statistical Office of the European Union home page «Population and social conditions» 20.07.2007.

Communications

	Cinema visits per capita	Museum visits per capita	Daily newspaper copies per 100 inhabitants	Book titles published per 100,000 inhabitants	Automobiles per 100 inhabitants
1995	0.4	0.5	12.4	79.2	13.4
1996	0.4	0.5	9.2	80.0	15.5
1997	0.5	0.6	13.2	95.4	17.8
1998	0.6	0.6	12.6	107.7	20.1
1999	0.6	0.6	12.4	110.9	22.1
2000	0.6	0.6	8.3	107.3	23.5
2001	0.5	0.7	9.0	107.4	25.0
2002	0.5	0.7	9.4	108.1	26.6
2003	0.5	0.7	10.8	112.0	28.0
2004	0.7	0.8	10.9	112.0	29.7
2005	0.7	0.9	11.3	103.1	32.4
2006	0.9	0.9	10.8	106.1	36.0

Urbanization

	Urban inhabitants, % of total population (end of year)	Annual urban population growth rate	Population in largest cities, % of all urban inhabitants (end of year)	Population in cities with more than 40,000 inhabitants, % of all urban inhabitants (end of year)
1995	68.6	-1.4	72.7	49.9
1996	68.6	-1.0	72.5	49.7
1997	68.6	-1.0	72.4	49.6
1998	68.5	-1.0	72.2	47.8
1999	68.1	-1.3	72.4	47.7
2000	68.0	-0.9	72.4	47.5
2001	67.9	-0.9	72.3	47.5
2002	67.8	-0.7	72.2	47.3
2003	67.8	-0.5	72.2	47.4
2004	68.0	-0.4	72.2	47.4
2005	68.0	-0.5	72.2	47.4
2006	67.9	-0.6	72.1	47.4

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Boxes in Introduction:

Box 0.2, Ilgtermiņa konceptuālais dokuments «Latvijas izaugsmes modelis: cilvēks pirmajā vietā» (Saeima, 2005); Box 0.3, Information from the Homepage of Ministry of the Foreign Affairs, Available at <http://www.mfa.gov.lv/lv/ano/Latvija-ANO/tukstosgade/> (Last Accessed 29.10.2007)

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Internet Resources in Chapter 1:

- US Department of Labor – <http://www.bls.gov/>
- Statistical Bureau of Europe Eurostat – <http://epp.eurostat.ec.europa.eu/>
- The Association of European Chambers of Commerce and Industry (Eurochambres) – <http://www.eurochambres.be/>
- World Economic Forum – www.weforum.org
- International Monetary Fund – www.imf.org
- The Administration of the Maintenance Guarantee Fund – <http://www.ugf.gov.lv>

Boxes in Chapter 1:

Box 1.1 International Monetary Fund, 2007; Box 1.2 Data of the Association of European Chambers of Commerce and Industry (Eurochambres); Boxes 1.3, 1.6, 1.7, 1.12 Data of Statistical Bureau of Europe Eurostat; Boxes 1.4, 1.5, 1.10, 1.20 Data of Central Statistical Bureau of Latvia, 2006; Box 1.8. Report «Iedzīvotāju ataudzes kvalitatīvā aspekta pētījums Kurzemē un Liepājā», 2006; Boxes 1.9, 1.13, 1.15 – 1.17 Data of Ministry of Science and Education, 2006a; Box 1.11 Data of the Central Statistical Bureau of Latvia, 2006c; Box 1.14, Data of Central Statistical Bureau of Latvia, 2007; Boxes 1.18, 1.22, 1.23 Data of the Ministry of Science and Education; Box 1.19 Data of the State Education Inspectorate; Box 1.21 «Profesionālās un augstākās izglītības programmu atbilstība darba tirgus prasībām», LU, 2007; Box 1.24 Survey on Human Capital 2007.

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Boxes in Chapter 3:

Box 3.1 Schwartz, Shalom H. 2006; Box 3.2–3.5 Pētījums par cilvēkkapitālu Latvijā 2007; Box 3.6 Survey on Human Capital 2007, Baltic Institute of Social Sciences, 1999.

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