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Abbreviations

AES	Adult Education Survey
ALMP	Active Labour Market Policy
ANM	<i>Atvēršanas un noturības mehānisms</i> Recovery and Resilience Mechanism
CVET	continuing vocational education and training
CVTS	Continuing Vocational Education and Training Survey
DG REFORM	Directorate-General for Structural Reform Support
EDIH	European Digital Innovation Hub
ERDF	European Regional Development Fund
ESF	European Social Fund
ETBS	Education and Training Boards
EU-27	27 European Member States
EUO	Eurostat, UNESCO and OECD
FORTE	Financing of Return to Employment
GDP	gross domestic product
HCDC	Human Capital Development Council
HCDS	Human Capital Development Strategy
ILA	Individual Learning Accounts
ISCED	International Standard Classification of Education
IVET	initial vocational education and training
LFS	Labour Force Survey
NVA	<i>Nodarbinātības valsts aģentūra</i> Public Employment Agency
OECD	Organisation for Economic Co-operation and Development
OPCO	<i>Opérateurs de Compétences (France)</i>
PES	public employment services
PIT	personal income tax
PPS	purchasing parity standard
RRP	Recovery and Resilience Plan
SWOT	strengths, weaknesses, opportunities and threats
TF	Training Funds
TSI	Technical Support Instrument
VIAA	<i>Valsts izglītības attīstības aģentūra</i> State Education Development Agency

Chapter 1. Introduction: Objective, demarcation and methodological approach

1.1. Background and objective of the case study in Latvia

The case study in Latvia is carried out in the context of the broader Cedefop Study on Training Funds in the EU ⁽¹⁾ providing an overview of Training Fund arrangements in Europe, analysing the role these Training Funds play in supporting employer-funded continuing vocational education and training (CVET) and the overarching skills formation system and developing guidelines to support countries in modernising or establishing Training Fund arrangements. Within the framework of this study Training Funds are understood as follows:

Training funds based on levy are **institutions** (organisational arrangements) aiming at **enhancing IVET or CVET in enterprises** and **mutualising** the related **costs** across enterprises, where employers are **mandated** (by law or a binding collective agreement) to **contribute financially** (typically a training levy or a dedicated surplus to the social security contributions) and are eligible for **various forms of support for CVET**, with **collected funds mainly used** for the original purpose (closed funding cycle), with **business interest organisations – or both social partners – having a key influence** on the ways the collected **means are used for supporting IVET/CVET**. Individual employees can be mandated to contribute as well, can be among the beneficiaries and their interest organisations can be involved in a training fund's government.

Going beyond this definition, the operationalisation for the object of research in the current study includes the criterion that support provided for CVET (including employer-provided non-formal education and training) needs to be substantial, when studied against the overall framework of public support for the relevant area of activity. A Training Fund might use the majority of its funds for IVET, but nevertheless also contributing substantially to CVET (e.g. by providing second chance routes to qualification for adults); in such a case, the fund is seen as covered by the operationalisation of the study. Funds which offer an option for supporting CVET, however, where in practice, the support given is negligible ⁽²⁾, fall outside the range of research object studies.

In this context, and supporting the overarching study on training fund arrangements, the case study aimed to provide:

- A description of the country's current arrangements relevant for implementing Training Funds.
- An in-depth analysis of the potential for implementing Training Funds .
- An assessment of strengths and weaknesses of the country's current arrangements relevant for implementing Training Funds, developing suggestions for tackling weaknesses.

⁽¹⁾ Cedefop (forthcoming), Training Funds in the EU

⁽²⁾ As in the case of the former Hungarian training fund, which was mainly a revenue generating mechanism for supporting IVET.

- Country-specific recommendations/roadmaps for establishing Training Funds, based upon 3 scenarios for establishing Training Funds and their advantages, disadvantages, opportunities and threats.

1.2. Case study selection, demarcation and scope

The case study on Latvia provides insights into recent initiatives and developments regarding the establishment of training funds in the country and supports stakeholders in this process. The concept of training funds has increasingly gained attention among policymakers in past years, thereby aiming to address several weaknesses of Latvia's adult learning system. Latvia was a High-Tech Hub of the former Soviet Union attracting large proportion of skilled workers up to 1991, a legacy still visible today. Work organisation in Latvian enterprises follows much more frequently discretionary, learning conducive patterns than, e.g. in Estonia or Lithuania, with limited proportions of firms following a neo-tayloristic creed (Lorenz, 2015). Nevertheless, enterprises in Latvia show a comparatively low level of investments in CVET. The dismantling of state-owned firms had also implied the loss of firm-run training centres, the latter providing both quality CVET and ideology-based, dogmatic insertion, negatively tainting the overall esteem for 'training'. Currently, beyond European Union funding, public spending for CVET and adult learning is overall limited, with no stable long-term source of funding. Direct financial support for adult learning from private sources, as for example from a training fund based on company levy, does not exist in Latvia. The role of the social partners in collective bargaining in general is poorly developed, albeit they increasingly fulfil certain functions in the governance of skill formation. Helping to put in place sectoral training funds could function as potential lever for strengthening industrial relations and for achieving a better match between demand and supply in the field of CVET.

Against the backdrop of previous Organisation for Economic Co-operation and Development (OECD) work in Latvia (OECD, 2019), the Ministry of Education and Science of the Republic of Latvia, the European Commission DG Reform and the OECD have (2021-2023) implemented the technical support project 'Supporting employers in promoting skills development in Latvia'. The project should feed into the national priorities of Latvia to develop a sustainable support system for adult learning. The Latvian Law on Education already foresees such a systematic approach, as a milestone of Latvia's Recovery and Resilience Plan (RRP). The introduction of sectoral training funds has been reflected already within the OECD Skills Strategy project, with sectoral 'Skills Funds' pilots proposed as test cases for the feasibility of such an approach. In line with these developments, (preparations for) training fund pilots in three selected sectors are about to start (as of 2024), enabling this study to complement these initiatives to support Latvia in the establishment of training funds. Latvia's case study is focused on the analysis of the country's initiatives and aims to find country-specific pathways for introducing the training funds, named Skills Funds in the Latvian context.

1.3. Methodological approach

The methodology of the study adopted a multi-faceted approach involving desk research/literature review, interviews, focus group discussion and stakeholder workshop. This mixed-method approach allowed to capture diverse perspectives.

Individual interviews were conducted with the representatives of pivotal institutions responsible for shaping lifelong learning policies, including government agencies, academia, social partners (representing both employers and employees) and training providers. Three sectors were chosen based on their interest in potentially piloting training funds (ICT, construction and hospitality/tourism), for which individuals from sectoral institutions were included as research participants. In the process of participant selection, also a regional focus has been applied, interviewing selected stakeholders from Vidzeme region and Kurzeme region, given the particular interest of these regions in piloting training funds (as identified in early expert interviews). In total, 20 participants were interviewed. Interviewees included those responsible for existing funding arrangements. They provided information on how current funding arrangements work and what possible future changes can be viably implemented if relation to training funds in Latvia.

Additionally, two focus group discussions were conducted to synthesize interview findings, develop scenarios for the potential development of training funds, conduct assessment of training funds functions (see 3.1.) and analyse strengths, weaknesses, opportunities and threats (SWOT) of the scenarios for developing training funds, providing a holistic view of the opportunities and challenges inherent in Latvia's adult learning system.

All interested participants were invited to a concluding stakeholder workshop/feedback event on the drafted scenarios for establishing training funds and the respective draft country-specific policy recommendations/guidelines.

Table 1 below provides an overview of the participants of the interviews, focus groups and the stakeholder workshop that were undertaken during the case study. The table also indicates which topics have been covered by which group of stakeholders.

Table 1. **Overview of number and type of participants for in-depth Latvian case study and the topics for the interview**

Type of respondent; experts from/experts in the field of	Number of participants (Latvia)	Context	Reform needs	Potential of training funds	Discussions on levy-based training funds (input scenarios)	Scenario's (assessment)	Conclusions
National-level							
Skill Formation/Adult Learning Systems (e.g. experts from research and practice)	2	X	X	X			
Governance structures – public & social partner institutions (e.g. ministries, agencies, social partners)	5			X	X		
Existing funding arrangements (e.g. ministries, agencies, social partners, training providers)	4			X	X		

Non-financial complementary/overlapping policies (e.g. ministries, agencies, social partners, training providers)	3			X	X		
Sectoral-level (2 sectors per country)							
Sectoral organizations (social partners, training providers) & experts from research & practice	3 (2x)		Specific challenges	X	X		
Number of participants per country (Latvia)	20						
Focus group discussion 1	3 participants			x	x	x	x
Focus group discussion 2	2 participants			X	x	X	X
Workshop on TF in Latvia	10 participants			X	x	X	x

Source: Cedefop.

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Chapter 2. In-depth situational analysis to potentially establish/modernise training fund(s)

2.1. Introduction

This chapter provides an in-depth analysis of the current arrangements/situation in Latvia in relation to potentially developing and implementing training fund(s). To do so, the Latvian context is explored using three theoretical perspectives that support reasons for developing a levy-based Training Fund model. These theoretical perspectives are briefly presented in the box below.

Box 1. **Theoretical perspectives on reasons for developing a levy-based Training Fund model**

A Reform perspective: A levy-based training fund arrangement might be considered as a way to reform a given framework of governing and supporting employer-provided CVET or CVET initiated by employees. On the one hand, a training fund arrangement might offer an opportunity to add an additional, sustainable funding source based on employer contributions given overall lack of available public financial means for training, thereby alleviating shortcomings in more weakly developed adult learning systems and their specific approaches to supporting employer provided training. On the other hand, a training fund package might work in a more effective and/or efficient manner than the current arrangements, so that overall 'more can be achieved by the same'. 'Reform' might not necessarily imply large-scale expansion of financial means invested. The main emphasis is with testing whether a levy-based training fund design might have significant advantages compared to other arrangement in place, e.g. based on contributions to the unemployment insurance with the public employment service (PES) performing tasks which might be taken over by the new training fund.

A Catching up perspective: The training fund arrangement might be considered as one among other ways to overcome perceived shortcomings in the outcomes of a given adult learning system, and its capacity to elicit higher levels of participation in employer-provided training (and potentially individually initiated CVET). Benchmark exercises might point to a level of performance below the standard of the leading countries or countries which are comparable to the country under study. The training fund arrangement is tested for its capacity to bring about change in the preferred direction. Beyond the question whether a specific design for a training fund would provide a good fit against the backdrop of the established institutions in the country, an exploration is required whether or not other reforms would be more effective or more efficient to reach the desired goals.

Social investment perspective: Levy-based training funds can be considered as institutions which are creating public goods, which are not available without policy intervention, and which have the potential to expand the overall welfare, as measured by economic indicators or indicators on social wellbeing. When properly defined, the social return on investment for creating the related public goods are positive and might be shared

(or distributed) across the parties. Training fund arrangements can support investing in particular areas of national /European importance and act as a lever to achieve broad policy aims. For example, it can broaden the available forms of training provision, adjust the training offers to the differentiated sectoral needs and to improve the quality and to reduce units' costs by eliciting economies of scale. For this perspective, it is less relevant whether or not the overall performance in the field of employer-provided training for individually selected CVET is above or below a benchmark, as the key interest is with the idea that the training fund can generate returns which are worth the efforts and which would be lost in case the institution is not implemented.

Source: Cedefop.

2.2. Reasons for making a levy-based training fund model from a Reform perspective

From a reform perspective, i.e., looking at the public funding for CVET and perceived need to reform supply-side and demand-side funding strategies, a levy-based training fund could mitigate current weakly developed funding frameworks for supporting employers in CVET in Latvia. Currently in Latvia, public funding is mostly provided for formal education opportunities via a supply-side approach. Limited public resources are provided for non-formal adult learning, with private actors covering the lion share of costs (Cedefop, 2020). Demand-side schemes targeted at employers and individuals are provided in a frequently changing manner based on – very substantial – means stemming from EU Structural Funds.

More specifically, the Ministry of Education and Science assumes a key role in developing education policies and regulations (with its National Centre for Education developing curricula and examinations across all educational levels), and the State Education Development Agency (*Valsts izglītības attīstības aģentūra*: VĪAA) under the Ministry of Education and Science implements several programmes in adult learning financed by EU structural funds. The Ministry of Welfare, via its Public Employment Agency (*Nodarbinātības valsts aģentūra*: NVA), is responsible for adult learning of the unemployed, and from 2022 persons at risk of unemployment, including co-funding of employer-provided training. The Ministry of Economy provides support for training to employers, including the implementation of several projects funded by EU structural funds. However, since 2023, the government aims to consolidate all issues related to the retraining of the labour force as well as human capital development issues, including the sufficiency of labour force, under the lead responsibility of the Ministry of Economy (Ministry of Economy, 2023). For this, a Human Capital Development Council (HCDC) under the Minister of Economy has been established to coordinate inter-ministerial cooperation and decision-making among the Ministry of Economy, the Ministry of Education and Science and the Ministry of Welfare. This body decided on the establishment of a lower-level, consolidated commission for the coordination of adult education, the Joint Adult Education Coordination Commission, merging the Adult Education Governance Board chaired by the Ministry of Education and Science and the Training Commission chaired by the Ministry of Welfare to ensure coordinated action to achieve strategic human capital development

objectives in the implementation of measures to support the employed, those at risk of unemployment, the unemployed and jobseekers (Ministry of Economy, 2024).

However, among these stakeholders, projects supporting CVET and adult learning in Latvia are not yet organised in such a way that the funds of the projects implemented are used as efficiently as possible. There are overlaps between the functions of the PES (NVA) and the State Education Development Agency (VIAA) (the latter being the main instrument through which the state provides opportunities for adults to acquire skills needed by the labour market and reduce the risk of unemployment) in planning and organising training, and there are no objective obstacles to these functions being carried out by a single institution. This would lead to savings of at least EUR 3.6 million (State Audit Office, 2023).

Given dependency on funding cycles of structural funds, stable long-term funding of support arrangements is often not secured. Furthermore, also in terms of overall financial means used, investments in CVET are below EU average. Annual public expenditure on vocational education at the upper secondary and post-secondary level ((International Standard Classification of Education (ISCED) 3 and 4) as a per centage of gross domestic product (GDP) remains lower than in the EU-27: 0.43% (EU-27 0.53%) in 2016 and 0.47% (EU-27 0.56%) in 2020 (Eurostat, UNESCO OECD (EUO) data collection on formal education) ⁽³⁾. Annual public expenditure (PPS) per student in vocational upper secondary or post-secondary non-tertiary education (ISCED 3 and 4) in thousands of purchasing parity standard units (PPS) per student enrolled was 5.7 (EU-27 7.4) in 2016 and 7.2 in 2020 (EU-27 8.1) ⁽⁴⁾. Contributions to the unemployment insurance are also used for funding CVET within Active Labour Market Policy (ALMP) and for contributing to the CVET costs of employers. In Latvia, employers contribute 1.4% of their wages to the unemployment insurance (ILO, 2022), which is below average, and no contributions by employees are collected. In total EUR 12 per capita (those aged 25-64) were spent on training within ALMP in 2019, which is also below EU average (European Commission, 2021). Also, private investments by employers in CVET are below EU level. Training expenditure by enterprises on CVT courses as per cent of total labour cost (all enterprises) is below EU average across all size levels and accounted for 0.6% (EU-27 1.5%) in 2020.

In sum, from a reform perspective, the Latvian context is shaped by low investments in CVET, weak public funding arrangements and significant room for improvement concerning financial support for training companies against the backdrop of a currently high dependence on European Social Fund (ESF) funding. A reform introducing a novel training fund arrangement – albeit depending on the specific institutional design (see different scenarios provided in section), could tackle these weaknesses, creating a sustainable source of long-term funding and potentially clarifying overlaps of responsibilities between different institutions.

⁽³⁾ See [Cedefop. Data visualisation.](#)

⁽⁴⁾ Also Cedefop calculations based upon Eurostat, UOE data collection on formal education.

2.3. Reasons for making a levy-based training fund model from a Catching up perspective

From a catching up perspective, levy-based training fund arrangements can be seen as a way to boost overall participation in adult learning. Latvia was a High Tec Hub of the former Soviet Union attracting large proportion of skilled workers up to 1991, a legacy still visible today. Work organisation in Latvian enterprises follows much more frequently discretionary, learning conducive patterns than, e.g. in Estonia or Lithuania (Lorenz, 2015). Key indicators currently paint a mixed picture on participation in adult learning.

According to the 2022 household based Adult Education Survey (AES) data, 52.2% of all 25-64 year olds participating in non-formal and formal adult learning 12 months prior to the survey, which is above EU-average (Eurostat, 2022a). Also, 59.6% of *employed* adults aged between 25-64 participate in formal and non-formal education and training (EU-27: 53.9%) (Eurostat, 2022b), and 48.6% of employed adults aged between 25-64 participated in *job-related employer-sponsored* non-formal education and training (EU-27: 43.2%) , all placing the country above the EU-27 average. Non-formal learning activities significantly outpace formal learning, with 50.6% (EU-27: 44%) of the population aged 25–64 participating in non-formal learning and 6.3% in formal learning. However, data from the Labour Force Survey (LFS) indicate a weaker performance of the country, compared to AES data. According to LFS, participation of those aged 25-64 in formal and non-formal education and training four weeks prior to the survey accounted for 10.7% in 2022, which is slightly lower than the EU-27 average of 12.8% (Eurostat, 2024c). A similar gap is observable for employed adults in formal and non-formal education and training (13.6 among EU-27, 11.7 in Latvia).

Furthermore, there are still substantial barriers to participate in education and training. In 2016, 24.5% (EU-27 13.4%) of individuals aged 25-64 wanted to participate in education or training but did not do so (Eurostat, 2024b). And 47.8% of respondents of AES 2023 did not participate in any educational activities in the last 12 months (Eurostat, 2024a). The key barriers and challenges preventing participation in adult learning were that the training was not necessary (56.4%) and it could not fit in with work (13%) (Central Statistical Office, 2023).

According to the latest results of the enterprise-based Continuing Vocational Education and Training Survey (CVTS 2020), Latvian firms are more likely to provide any form of CVET than the EU-27 average ('training incidence'), see Table 2. This holds true across all size classes (see the table below). However, as shown in the following, other key indicators of the survey are below average (see Table below for an overview). This below average performance cannot only be explained by firm size. Even though the share of SMEs in Latvia in terms of persons employed is substantially above average in 2023 (Latvia: 77%; EU-27: 65.2%) (Katsinis et al., 2024, p. 947), all size classes – including large companies – perform below EU average. More specifically, companies of all size classes include a significantly smaller share of their employed in CVET courses than in the EU average. In 2020, only 30.7% (EU-27 42.4%) of workers participated in employer-sponsored CVET courses during the reference calendar year (12 months) as a per centage of all staff employed in all enterprises surveyed. In terms of paid working hours spent on CVT courses per employed, there is also a substantial gap to the EU average. Also, enterprises 'training expenditure' is less than half the EU-average.

In sum, novel training fund arrangements could increase awareness of both firms and employees about the importance and benefits of employee training. Training funds could play a role in increasing the share of their employed in CVET courses, increase training intensity (i.e. hours per employed) as well as training expenditure of companies. Contributions to the costs of enterprise training works as an incentive to firms to not miss an advantage made available to them, the latter foreseeably used by one's competitors.

Table 2. **Key Indicators on training in enterprises – CVTS 2020: Latvia and the EU-27**

INDICATOR	Latvia				EU-27			
	10-49 employed	50-249 employed	250 employed or more	Total	10-49 employed	50-249 employed	250 employed or more	Total
'training incidence' Enterprises with training (CVT AND/OR other forms)	96,6	98,2	98,1	96,8	63,5	82,5	92,8	67,4
'training participation' (% of total persons employed)	18	29,6	45,7	30,7	27,5	35	54,5	42,4
'training intensity' Hours per employed (all enterprises)	2,2	3,5	5,3	3,6	5,5	7	13,2	9,6
'training expenditure' % of the Labor Costs (direct, indirect, net contributions)	0,4	0,5	0,8	0,6	1	1,1	1,8	1,5

Source: Eurostat trng_cvt_01s, trng_cvt_12s, trng_cvt_23s, trng_cvt_16s (10.1.2024) – For a discussion of the indicators, see Cedefop 2015 6 Cedefop 2019; CVTS covers only enterprises with 10 and more employed and exclude the sectors agriculture and fishing, public administration, health and education. NB: In 2020, training activities had been negatively affected by the Covid-related lockdowns, in particular in the first half year; the data allow a comparison between countries in 2020, but trends over time are difficult to interpret.

2.4. Reasons for making a levy-based training fund model from a Social investment perspective

From a social investment perspective, levy-based training funds can be considered as institutions that are creating public goods. By adding one strong collective funding source, they can expand overall welfare by investing in particular areas of national and European importance, adjust provision to differentiated sectoral and regional needs, and improve their overall quality and labour market relevance.

For example, training funds could help Latvia in aligning with overall EU policy goals. Labour Force Survey (LFS) data shows that participation in education and training increased from 6.6% in 2020 to 9.7% in 2022, almost meeting the 10 per cent objective for 2024 . Latvia is expecting to reach 12% by 2027, but it is still below the EU's 15 per cent target set by 2020. EU structural funds support Latvia in following up on overarching EU policy goals, however,

face substantial difficulties and no stable long-term funding, with funding frequently being interrupted based upon EU funding cycles.

Concerning a prioritization of adult learning provision according to sectoral and regional labour market needs, labour market forecasts are currently the main tool for determining labour skill demand and identifying potential development trends and risks (State Audit Office, 2023). To a certain extent, training is therefore planned based on labour market needs, however not in a uniform way, but on an institution-by-institution basis, without sufficient discussion with sectoral experts and without taking into account the regional dimension. For example, concerning PES' (NVA) activities for those at risk of unemployment, no in-depth assessment is conducted regarding the necessary and suitable training for these individuals, and no outreach mechanism exists for informing these people beyond the institution's website. In addition, 44% of the participants were trained in educational programmes with no impact on their employability, with a cost of EUR 12.7 million over three years. In the PES (NVA) and State Education Development Agency (VIAA) project training, only 28% of participants had a low level of education, even though this is a priority group for training. Furthermore, a significant part of continuous vocational education programs (55% in the NVA project) were not implemented due to insufficient adult response to these programs. A novel training fund could mitigate these weaknesses. It could create an institutionalized form of interest intermediation to tailor skills supply to the demand of sectors and regions. These could help training providers improve quality and access and ultimately ensure a sufficient provision of courses.

Chapter 3. Reviewing the potential of training funds – four dimensions

3.1. Introduction

To understand the role that Training Funds play in skill formation systems in countries, we refer to **four potential functions of Training Funds**. Depending on a Training Fund's organisational design, single functions might be fulfilled in a pronounced way, respectively might not be part of the objectives of a Training Fund at all. Whether Training Funds perform these functions depends on other institutions established within a countries' Skill Formation and Adult Learning System. Potential key functions of Training Funds are summarised in the following box.

Box 2. Potential key functions of Training Funds

- **Key Function A – Constraining free-riding of employers and incentivising training investments:** They may contribute to a better balance of training investments made across enterprises, by providing incentives for training, and discouraging 'free riding' of companies that do not train but benefit from training activities of other companies, by putting a 'price tag' on remaining 'inactive' in the field of training; the ways the collection mechanisms and the allocation mechanisms are created – including the chosen package out of financial incentives and various other approaches, captured by structural instruments – are key for the function to materialise.
- **Key Function B – Generating public/collective funds dedicated for CVET/skill formation:** They may generate additional funding for training, respectively a range of relevant activities supporting acquisition or development of new skills, allowing for exceeding levels of investments achieved by individual firms on their own, thereby supporting a social investment strategy, where the benefits of higher levels of CVET activities become available for redistribution among the participating parties. Training Funds are further considered for potentially allowing for a more stable, long-term funding of CVET and thereby a for achieving a sustainable investment in skills compared to tax-based or social security contribution based arrangements for public investment in skill formation. The size of the levy and the collection principles are decisive for this function to materialise.
- **Key Function C – Supporting employer-employee collective agreements on rights for training, cost-sharing and rewards for skills/qualifications acquired:** They may support greatly collective bargaining between organised business and labour with regard to employee rights for training (respectively, employer obligations to provide training), cost-sharing arrangements (e.g. with regard to direct costs, paid working time, fringe benefits during participation in training activities) and finally collectively determined rewards for employees for acquiring skills and qualifications. They ways in which the social partners are involved in the governance of the Funds

and the overall approach for relevant agreements on training-related issues determine whether a Fund can play a positive role or not.

- **Key Function D – Interest Intermediation and demand aggregation among employers and supporting tailored, high quality training:** Finally, they might become a vital agent in aggregating the often highly specific training needs of employers within one socioeconomic sector, and supporting – by various means – the development of a tailored, high-quality training offers meeting these needs, while respecting the needs and interests of the participating employees. In short, Training Fund may serve as organisations governing sector specific CVET provision. Whether or not the Training Funds effectively support interest mediation and works as an agent vis-à-vis the training market decides about the degree this function can be delivered.

Source: Authors

3.2. Function 1: Putting a ‘beneficial constraint’ on employers and incentivising training investments

As emphasised by stakeholders consulted, in Latvia, there are existing arrangements constraining and/or incentivizing employers to train, based upon the Labour Law, public support measures, and the tax framework. Concerning beneficial constraints, the Labour Law for example obliges employers to provide training respectively paid working time used for training if it is necessary for the performance of employee’s duties. This obligation is common, for example, in regulated professions where it is already laid down by law ⁽⁵⁾. Furthermore, workers enjoy the legally guaranteed right vis-à-vis their employer to study leave to defend their final thesis or taking state exams. It provides up to 20 days of study leave for programmes leading to a formal qualification (ISCED 6-8) but does not specify who needs to cover which costs (which can be further specified by the employment contract or collective agreement) (Cedefop, 2020; Saeima, 2001).

Incentives provided for employers are rather weakly developed and mostly funded on the basis of frequently interrupted project-based EU funding streams. For example, the scheme ‘Support programmes for skills development for workers and employers,’ under the RRP, provides a framework for targeted access to sector-specific skills development support for employers' growth needs and the right of workers to receive this necessary training to improve their skills, thereby reducing the barrier to access to training, as well as setting the conditions for providing practical sector-specific support ⁽⁶⁾. The objective of the programme is to support employers' needs-based, targeted competence upgrading of employees and the reduction of barriers to access to training, thereby promoting employers' investment in human resources

⁽⁵⁾ See Latvijas Vestnesis, Likums ‘Par reglamentētajām profesijām un profesionālās kvalifikācijas atzīšanu’.

⁽⁶⁾ According to the Cabinet of Ministers regulations issued on June 25, 2024, the proposals promoted by the Ministry of Economy were approved for the European Union Cohesion Policy Programme 2021-2027 under Priority Axis. 4.2 ‘Education, skills, and lifelong learning’ 4.2.4. Specific support objective 4.2.4.1 ‘Promote lifelong learning, in particular by offering flexible skills development and retraining opportunities for all, taking into account entrepreneurial and digital skills, better anticipating change and the need for new skills based on labour market needs, facilitating career transitions, and promoting professional mobility’ (23-TA-958), the rules for the first round of implementation of measure 4.2.4.1 ‘Support for sectoral needs-based adult learning,’ with an eligible funding of EUR 14.5 million (23-TA-958).

and motivating employers to engage their employees to develop additional skills and increase employee productivity. The total funding of the programme is EUR 14.5 million. The programme will cover a total of EUR 14 million and is expected to benefit 464 enterprises and 1 193 employed persons, including the self-employed, by 31 December 2029. In addition, to promote sectoral needs-based training of enterprise employees and digital transformation of enterprises, the programme 'Development of Digital Skills of Enterprises' provides training for the development of digital skills of enterprise employees ⁽⁷⁾. SMEs and large businesses will be able to access support in the form of grants and non-financial support by contacting the European Digital Innovation Centres or business representative organisations. The Recovery and Resilience Mechanism (*Atvesejošanas un noturības mehānisms*: ANM) funding available for investment is EUR 20 million. The support will provide training for 2 521 entrepreneurs (Latvian Government, 2024b).

Finally, there is the tax framework, which may not be sufficient but is gradually being extended. The 'Amendments to the Law 'On Personal Income Tax' ⁽⁸⁾ provide that employer-paid tuition fees for an employee's higher education at state-accredited Latvian educational institutions, educational institutions of European Union Member States, and European Economic Area countries shall not be considered salaried employment income if the higher education is related to the acquisition of skills required by the employer ⁽⁹⁾.

The creation of a new allocation mechanisms including financial incentives for businesses would strengthen the currently weakly developed financial incentives aimed at employers. In addition, as emphasised by stakeholders consulted, another added value of a novel training funds would be to achieve more sustainable and transparent ways of developing skills within sectors or regions. More specifically, a training fund could provide a clear link between raised funding and how it is used for the training provided within the sector, allowing businesses to tailor support for training based on their own needs by including them in the governance of the funds. The creation of a training fund financed via an employer levy would also provide a crucial additional beneficial constraint on employers. It can help balance training investments across enterprises by providing incentives for training and discouraging free-riding of companies that do not train but benefit from the training activities of other companies by putting a 'price tag' on remaining 'inactive' in the field of training. Therefore, a novel training fund based clear advantages to other instruments not relying on a levy-based funding mechanism.

In sum, a novel training fund would limit the discretion of employers in terms of training their employees, while at the same time providing incentives targeted at companies that support training participation.

⁽⁷⁾ On 12 September 2023 the Cabinet of Ministers approved the Ministry of Economy Regulation No.529 'Implementing Rules for Reform 2.3 of Component 2 'Digital Transformation' of the European Union Recovery and Resilience Mechanism Plan and Investment Axis 'Digital Skills' Investment 2.3.1.2.i.

⁽⁸⁾ Ministry of Finance (2024). [Summary of the National Tax Policy Assessment](#)

⁽⁹⁾ Cited from Draft Cabinet of Ministers letter (to the Saeima, Ombudsman or other state institution or official) on the responsible institution in the field of human capital management from 21 February 2024, available [here](#).

3.3. Function 2: Generating additional funding

Current funding sources for CVET and adult learning in Latvia include general taxation, funding generated by social security contributions used for ALMP, funding by EU structural funds and ultimately funding by private sources. Multiple observed indicators (see section 2.2) show that public funding by general taxation, social security contributions as well as private investments by companies in CVET are below EU average in Latvia. Latvia is largely dependent on funding provided via EU structural funds, in particular concerning financial support targeted at employers. One main associated drawback is that structural funds cannot ensure long-term sustainability due to the project-based nature of funding and related breaks in funding periods based upon EU funding cycles.

As agreed by most stakeholders, incentives aiming to increase business' training participation appear insufficient. A new dedicated funding source for training was acknowledged among stakeholders to ensure more sustainable policy development and continuity in skill provision and reduce dependence on European Union funding projects. A novel training fund financed on an employer-levy can be one solution for establishing a new dedicated funding source. At the same time, however, the burden on employers and taxpayers in Latvia is already perceived as high by stakeholders. The introduction of an employer levy could be used as an opportunity to redistribute the current (tax) burden of employers. The potential burden on employer by introducing an additional levy-based fund could be partly offset by reconfiguring respectively reducing (business) taxation in other domains. Apart from establishing a new training fund, new funding sources might be creating by reallocating existing financial resources raised by government (either via general taxation of social security contributions) towards CVET and adult learning, which might however be easily revoked by government in case of changing external conditions or government compositions.

In sum, a novel training fund would allow for more stable, long-term funding of CVET and adult learning in Latvia and thereby achieving a sustainable investment in skills compared to tax-based or social security contribution-based arrangements for public investment in skill formation.

3.4. Function 3: Supporting collective agreements on CVET

Industrial relations in Latvia are characterized by the 'fragmented' industrial relations model, shaped by an employer-oriented power balance (Ebbinghaus & Visser, 1997; European Commission, 2008). As highlighted by consulted stakeholders, one drawback of the Latvian industrial relations systems is the weak culture of collective bargaining. Collective bargaining coverage in Latvia is very low and even decreasing over time (2018: 27.1%; 2006: 34.2%) (OECD & AIAS, 2021). On highlighted exception is the construction sector, agreements of which however do not mention training. Collective agreements are also not extended on a mandatory basis to non-organised employers not part of an association.

In general, stakeholders supported the idea that a novel training fund could be used as a vehicle to revitalize collective bargaining and include regulations regarding CVET learning in collective agreements. Tripartite agreements between government and both social partners for

establishing training funds were seen as a potential building block for further development of bipartite collective bargaining in the sectors, which could then build upon channels of cooperation established and expertise gained while setting up training funds. However, due to the currently low importance of collective bargaining in Latvia, feasibility of creating explicit links between novel training funds and collective bargaining are rather low on the outset. Other mechanisms might be needed to further expand collective agreements on CVET across Latvia.

3.5. Function 4: Reviewing interest mediation/coordination mechanism between aggregated demand and supply of CVET

In countries with a 'fragmented' industrial relations model as Latvia, social partners only rarely fulfil governance functions and usually enjoy no institutionalized, long-term involvement in policy-making, which is often associated with a lack of employer organisation and trade union density (Ebbinghaus & Visser, 1997; European Commission, 2008). Indeed, Latvian trade union density, after a strong drop in the 1990s and 2000s, has largely stabilized on a very low level (11.6% in 2018; 15.2% in 2008). However, the overall picture in Latvia is more nuanced. Even though employer organisation density is comparatively low, it has increased over time (54.4% in 2018; 2008: 47.8%). Furthermore, regarding CVET and adult learning, the social partners are currently involved in the continuous development of qualifications and skills. Latvia is one of the few European countries where the role of the social partner of employers and employees in the skills ecosystem is enshrined in law, as employers' representatives are involved in the whole cycle of education planning and implementation, from participation in policy planning documents to programme design.

11 sectoral expert councils (defined in the Vocational Education Law) are responsible for sectoral cooperation in Latvia's education system, even though they are currently mostly responsible for initial VET and Higher Education (Līce, 2023). These work on a tripartite basis, being governed by government representatives, employer and employee representatives. They aim to promote the relevance of vocational education and training to labour market requirements, its efficiency and quality improvement. Education programmes are developed only based on occupational standards or occupational qualification requirements set by employers. Employers also participate in accreditation and licensing so that programmes can be launched. Employers provide internships as a career development support partner. In vocational education, the closest cooperation is in the implementation of work-based learning and the provision of apprenticeships. Employers' and workers' representatives sit on qualification committees and qualification-examination boards. Consequently, an existing system of interest intermediation is already in place. Furthermore, the state to some extent anticipates the needs of businesses via producing skills intelligence (e.g. activities of the Ministry of Economy and the Central Statistical Office providing an overview on current and future skills demand and supply).

The effectiveness of current arrangements for interest intermediation is however impeded by limited capacity of respectively involved stakeholders, which vary widely according to consulted stakeholders, for example between national-level and sectoral-level social partner

organisations, as well as between the different sectoral organisations. Training funds could improve this status quo, for example by using a certain share of financial resources raised by the fund to offer technical advice and assistance by teams of experts to support social partners representatives involved in the governance of the training fund (see Cedefop Case Study on Training Funds in Spain for an example). Consequently, a novel training fund arrangement could substantially improve Latvia's current mechanisms for interest intermediation, and further develop mechanisms of social partnership in the country.

DRAFT

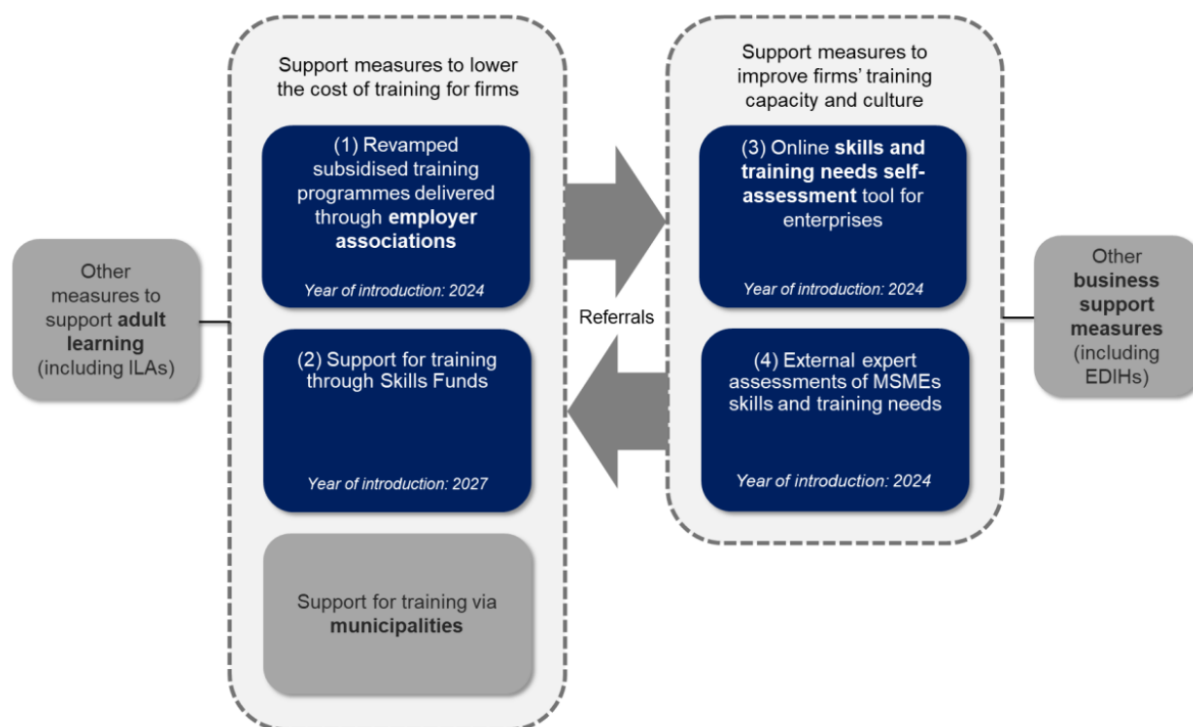
Chapter 4. Experiences with and discussions on levy-based training funds

In past years, discussions on the introduction of a potential training fund have gained momentum in Latvia. Building on stakeholder input from government representatives, trade unions, employers, sectoral training providers, education institutions and academics, the OECD recommended to pilot a shared training fund in certain sectors based upon employer contributions, in order to establish a sustainable funding mechanism for adult learning (OECD, 2019, p. 3). The subsequently developed Education Development Guidelines 2021–2027 of Latvia proposed a sustainable and socially responsible funding system for adult education (Latvian Government, 2021). The guidelines include state budget funding for adult education, state support for employers to improve employee skills, and partnerships between private and non-governmental organizations. The guidelines aim to stimulate employers' investment in employee development through legislative changes and other initiatives. Local authorities play a crucial role in providing education to their citizens. A potential training fund has been identified as one potential mechanism to ensure funding in order to follow up on the guidelines (OECD, 2020).

Following up on this preparatory work, the European Commission funded the European Commission Technical Support Instrument Project 'Supporting employers to promote skills development in Latvia'. Within the frame of this project, the OECD and DG REFORM proposed an ecosystem of support measures for employers to promote employee training (OECD, 2023). The project aimed to help the Ministry of Education and Science develop a new regulatory framework and incentivize employers to up-skill or re-skill their employees (Latvian Government, 2023a, 2024b) and therefore establish a sustainable and socially responsible adult education support system in Latvia (Ministry of Education and Science, 2023). Support for training delivered through municipalities was not covered but developed in parallel by the Ministry of Education and Science. The recommendations point to the development of four main policy measures, shown in Figure 1:

- The refinement of the existing subsidised training provided through employer associations;
- The piloting of Skills Funds;
- An online tool for enterprises to assess their skills gaps and training needs; and
- External (outside the enterprise) expert assessments of skills and training gaps of micro-, small and medium-sized enterprises' (MSMEs).

Figure 1. **Ecosystem of proposed measures to support employers in the development of employee skills in Latvia**



Source: (OECD, 2023)

The policy package aims to create an ecosystem for companies, with Skills Funds and subsidized training programmes (Latvian Government, 2024b) complementing other initiatives like the European Digital Innovation Hubs (EDIHs), as well as various measures targeting individuals (e.g. Individual Learning Accounts (for digital skills) (Latvian Government, 2023a). The publication in particular emphasized that a potential Skills Fund should not overlap with other support programmes for employers to educate their employees (OECD, 2023, p.8). To ensure this, Skills Funds should be introduced only in sectors where the subsidized training programs planned by the Ministry of Economy do not exist.

Three to five pilot projects on skills funds were planned in selected sectors, assessing the effectiveness of the approach in the Latvian context. These projects have the goal to test aspects such as public and private co-investments over time, the model of cooperation between enterprises and workers' organizations, and the effectiveness of the measure in achieving its objectives (OECD, 2023, p. 8).

However, following the negative economic effects of the COVID-19 pandemic and Russia's war in Ukraine, the implementation of the training fund pilot projects was delayed and interest from sectors for implementing the funds declined. Foreseen ESF funds for the programme were reduced towards other actions, and the original plan of piloting between three and five training funds in selected sectors has been reduced to up to three (OECD, 2022b). Latvia adopted Regulations of the Cabinet of Ministers by Q4 2024, foreseeing three pilots implemented by Q2 2026 (Ministry of Finance, 2023b). According to a draft version of Latvia's Human Capital Development Strategy 2024-2027 (as of September 2024) (State Chancellery, 2024), the maximum number of pilot funds to be created is left flexible, depending on demand from sectors with a higher degree of readiness for such a social dialogue-based approach.

Indicative funding of EUR 5.7 million is available for partnerships between employers' and employees' representative bodies and public body as beneficiaries of the Skills Funds in the second round of ESF+ specific objective of support 4.2.4.1 'Support for sectoral needs-based adult learning' (Latvian Government, 2024a). This support is intended for the development of public-private partnership instruments for the establishment of skills funds, including the definition of criteria/conditions for the operational principles of the Skills funds

In 2023, government decisions were taken to consolidate all issues related to the retraining of the labour force as well as human capital development issues, including the sufficiency of labour forces, under the auspices of the Ministry of Economics, in cooperation with the Ministry of Education and Science and the Ministry of Welfare (Ministry of Economy, 2023). The Human Capital Development Council (HCDC), established in 2023 (Latvian Government, 2023b) ⁽¹⁰⁾, should implement coordinated inter-ministerial cooperation and decision-making in planning, designing, implementing, and monitoring the necessary labour market adjustments and promote the development and availability of human resources in line with future labour market demand and structural changes in the economy for the creation of high added value for the benefit of society as a whole. The action plan: The Human Capital Development Strategy (HCDS) 2024–2027 has been under an intensive open discussion involving all ministries, social partners, employer and employee organisations, and other stakeholders until the end of March 2024, which led to the National - High-Level Expert Forum on the HCDS for Latvia's Growth and Prosperity on April 24, 2024, ⁽¹¹⁾ opening the inter-institutional reconsolidation before its approval. This centralization of responsibilities also affects the implementation of a potential future training fund. The Ministry of Education and Science is currently in lead of developing sectoral Skills Funds in Latvia, aligning with the preparatory work of the Ministry carried out in cooperation with the OECD. However, recent centralization of lead responsibilities for human capital development issues under the Ministry of Economy necessitates successful coordination between these Ministries within the Human Capital Development Council for the implementation of the Skills Funds.

⁽¹⁰⁾ Cabinet of Ministers. [Statutes of the Human Capital Development Council](#), adopted on June 6, 2023, entered into force on June 13, 2023.

⁽¹¹⁾ National Information agency LETA [video](#), streamed live on Apr 24, 2024.

Chapter 5. Overall key challenges in the system: why are reforms needed?

The current system of support for adult learning and competence development in Latvia faces significant challenges that necessitate comprehensive reforms. These challenges stem from issues such as the fragmentation and unsustainability of the adult learning system, insufficient long-term strategies, a gap between education and the labour market, and overdependence on EU funds. Addressing these challenges through reforms is crucial to developing a more effective system.

5.1. Current strengths

The desk research and consultations with stakeholders identified the following strengths of the current system:

- a) Social partners are involved in the governance of the skill formation system. In contrast to many other countries with a 'fragmented' industrial relations model, in Latvia, social partners' position in the governance of various parts of the skill formation system is relatively strong and enshrined in law. Tripartite sectoral expert councils are responsible for sectoral cooperation in Latvia's education system (in particular for initial VET and HE).
- b) Human capital development is acknowledged as an important prerequisite for national economic growth and social well-being. The topic has acquired a high priority in the hierarchy of national policies in recent years. A Human Capital Development Council (HCDC) has been established, comprising the Ministers of Economy, Welfare, Education, and Science. In March 2024, a planning document, the Human Capital Development Strategy 2024–2027, was approved in concept.
- c) Participation rates have increased in past years. According to LFS data, Latvia's progress towards EU headline targets is satisfactory, even though participation is still slightly below EU average. However, recent AES data shows above EU average overall participation in adult learning, as well as above average participation of *employed* adults in job-related *employer-sponsored non-formal education and training*.

5.2. Current weaknesses

The desk research and consultations with stakeholders identified the following weaknesses of the current system:

- a) The adult learning system is still fragmented. Cooperation between Ministries is not yet fully effective and institutional divisions remain (e.g. State Employment Agency (NVA) and the State Education Development Agency (VIAA)), often being upheld by the desire to sustain access of responsible institutions to projects based upon EU structural funds.

- b) Weakly developed public funding arrangements with low levels investment in adult learning. Investments by public actors as well as employers in CVET are below EU average. Only limited support instruments are available that incentivize employers to increase their training participation.
- c) A gap between education and the labour market. Current arrangements of interest intermediation are not fully capable of bridging the gap between education provision and needs of the labour market. Training institutions cannot offer learning offers tailored to specific workplace needs. Training and teaching quality is considered as low.
- d) Overdependence on EU funding. Projects funded by structural funds depend on the respective funding cycle, are frequently interrupted and usually lack stability in the long-term. This is exacerbated by the comparatively low financial investments of companies and the state.

5.3. Opportunities

The desk research and consultations with stakeholders identified the following opportunities for the current system:

- a) Existing institutional building blocks for the introduction of training funds. Even though training funds do not exist yet in Latvia, several institutional building blocks can be used for setting up such arrangements. On the side of national-level public actors, lead responsibilities for human capital development policy have recently been centralized within the Ministry of Economy, with the Human Capital Development Council (HCDC) that could act as a coordinating body for the implementation of a fund. On the side of social partners, sectoral expert councils could be used respectively adapted or expanded as a foundation for building sectoral Skills Funds.
- b) Previous projects (OECD) have created a certain level of consensus on the establishment of training funds. Given prior consultations and recommendations as part of the OECD's activities and the Technical Support Instrument project, as well as subsequent inclusion of Skills Funds Pilots in Latvia's ESF operational programme and RRF plan, the concept of training funds is accepted as a suitable mechanism for establishing a stable funding source for adult learning in Latvia.
- c) Funding has been earmarked for the Skills Funds pilot projects. With the inclusion of pilot projects for establishing Skills Funds in the ESF operational programme and RRF plan, public (co-)funding has been made available to ease introduction of novel training fund arrangements, facilitating their conceptual development and implementation.
- d) Considerable potential for expanding the role of municipalities. Given the 2023 reform of the municipalities' law, their responsibilities include access to vocational education, special interest education and adult education and to support economic activity. Stakeholders have emphasized that the potential of municipalities should be further exploited, potentially adding a new funding source to allow municipalities to better follow up on these responsibilities.

5.4. Threats

The desk research and consultations with stakeholders identified the following threats for the current system:

- a) Heavy dependence on a large number of small and medium-sized enterprises. As many other European countries, Latvia has a large share of small and medium-sized enterprises (>98%). SMEs have higher barriers for participating in adult learning. At the same time, an increased employer contributions (e.g. via a levy) could overburden specifically small companies.
- b) Complementarity of arrangements need to be ensured: Even though financial support incentivizing companies to train their workforce are comparatively weakly developed in Latvia, complementarity with arrangements that exist need to be ensured. This for example concerns existing subsidized training programmes for companies.
- c) Sufficient employer co-financing needs to be ensured: Albeit co-funding by EU structural funds can help in establishing new funding arrangements, their long-term sustainability can only be ensured based upon national-level sources. One way of achieving such sustainability can be co-funding by employers (e.g. via levy-based training funds).

5.5. Overall system performance and potential for a levy-based training fund system

All in all, the current adult learning system in Latvia was found to underperform in terms of overall investment levels (including public actors as well as employers), weakly developed funding arrangements targeting employers, a large dependency on EU structural funds, and a low responsiveness of available training offers to the specific needs of companies. A new levy-based training fund system, where employers contribute a per centage of their payroll to a dedicated training fund, could address these challenges. Novel Training Fund arrangements could increase awareness among firms about the importance and benefits of investing in employee training and increasing the share and overall hours of their employed in CVET courses.

Contributions to the costs of enterprise training provided by a training fund work as an incentive to firms to not miss an advantage made available to them, the latter foreseeably used by competitors. It could ensure a steady and predictable flow of funds dedicated to training, reducing dependency on EU structural funds and therefore fluctuating budgets and project-based thinking. Finally, a novel Training Fund could improve interest intermediation in Latvia to tailor skills supply to the demand of sectors and regions by involving employers in the governance of a novel training fund. This could help improve quality and access of training offers. Moreover, it could also strengthen wider social partnership arrangements (e.g. collective bargaining agreements), building upon channels of cooperation established and expertise gained in the course of setting up training funds.

Chapter 6. Scenarios for establishing training fund(s)

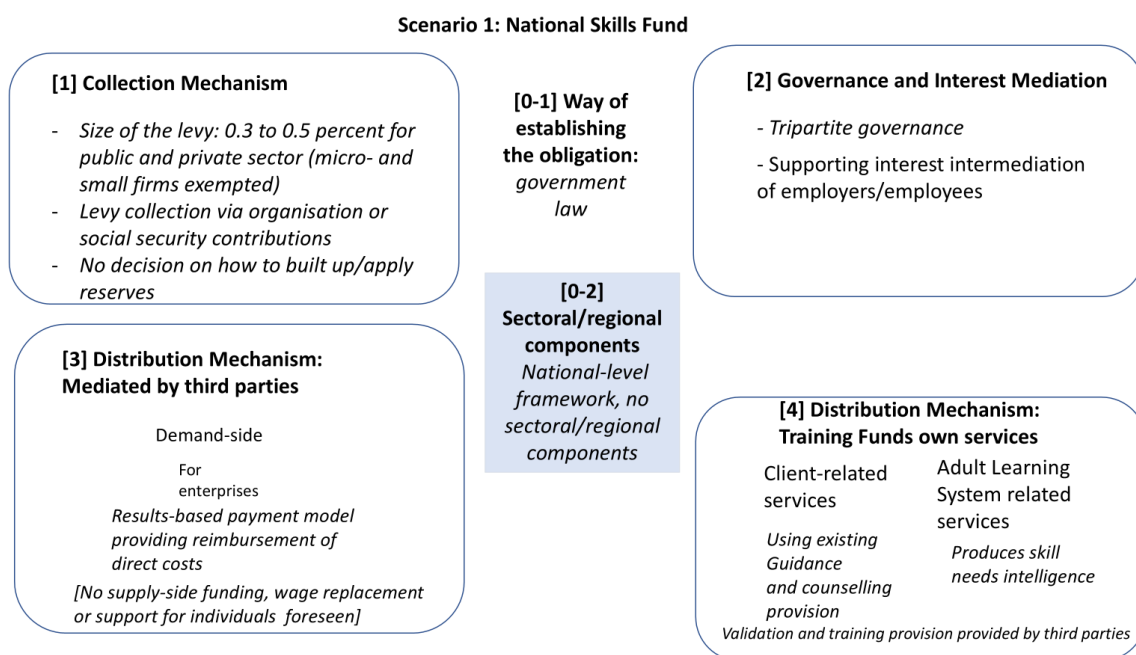
6.1. Introduction

This section presents and discusses three developed scenarios for establishing or significantly modernising training funds in Latvia. These scenarios have been developed based on interviews and focus groups with national stakeholders and an analysis of success factors from other EU countries where training funds play a significant role. Each scenario was elaborated with respect to its scope, institutional arrangements, interplay with existing instruments, and strengths, weaknesses, opportunities, and threats.

6.2. Scenario 1 National Skills Fund

Figure 2 provides a summative overview of the scenario. Each of the elements is discussed in detail in the sections below.

Figure 2. Overview of scenario 1



Source: Cedefop

6.2.1. Scope, demarcation and purpose of the envisaged training fund

This scenario consists of the introduction of a national level 'National Skills Fund', building on input gathered from stakeholders. As the current government's strategy foresees a centralization of competences for retraining of the labour force as well as human capital development issues within the Ministry of Economy, the Ministry would lead the respective legislative process, in coordination with the Human Capital Development Council (HCDC)

established in 2023 by the Ministry of Economy, including representatives and experts from the Ministry of Economy, the Ministry of Welfare, and the Ministry of Education and Science. The newly created National Skills Fund would subsequently oversee expanding opportunities for lifelong retraining and upskilling by financially supporting IVET and CVET (re-qualifications, upskilling and reskilling), and ALMP. In principle, the fund could be financed via an employer levy and/or government general taxation.

Funding via government taxation – which does not align with Cedefop’s definition of *levy-based* training funds - emerged as the preferred option for a national-level fund in the stakeholder consultations. In this case, resources raised by *existing* employer taxes would be redirected towards a new skills fund. Overall, stakeholder’s preferences against a *levy-based* national training fund shows stakeholders’ scepticism towards the extent to which employer integration at national-level could lead to successful interest intermediation between employers. This would in turn cast doubts on the legitimacy of an employer levy. These potential drawbacks of a levy-based variant could however be mitigated by designing interest intermediation among employers based upon lessons learned from other countries with well-functioning national-level funds: Cyprus, Ireland and Spain (Section 6.5). For example, involvement of sectoral expert councils in identifying the needs of businesses could be assessed. Furthermore, the potential burden on employers by introducing an additional levy-based fund could be partly offset by a reconfiguring (business) taxation and/or social security contributions.

Currently, the Ministry of Economy is carrying out an assessment of the most effective implementation of a performance-based instrument for supporting up-skilling and re-skilling of workers, with a view to carrying out a national level re-skilling/ up-skilling programme based on both labour market projections and target indicators ⁽¹²⁾. According to consulted stakeholders, future support by a national-level training fund could be delivered via such a newly designed performance-based support instrument. This could ensure that workers are trained in skills demanded by the labour market, and that the state pays for concrete training results achieved, measured over a number of years (performance-based payment model).

6.2.2. Institutional arrangements needed for the training fund

In this scenario, the institutional arrangements of the fund would be designed as follows:

[0-1] Way of establishing the obligation

The National Skills Fund would be introduced via formal law, more specifically based upon legislation included in the Adult Learning Law or Regulations of the Cabinet of Ministers on Adult Learning. The government is providing the elaboration and adoption of the Adult Learning Law defining the results-based payment model. Employers would be obliged to provide CVET to their employee up to the point where defined results are achieved. For meeting these obligations, they are granted an entitlement to draw on resources from the fund.

[0-2] With/Without sectoral/regional differentiation or components

⁽¹²⁾ See the Government Action Plan for the Implementation of the Declaration on the Intended Actions of the Cabinet of Ministers of 20th of January 2024, available [here](#).

The National Skills Fund would be based upon a national-level framework for all elements of the training fund arrangements, including administration, governance and allocation of collected financial resources (see Scenario 2 and 3 for sectoral and regional frameworks). In general, the state would need to anticipate the needs of the sectors within national level decision making processes via producing its own skills intelligence (see below).

[1] Collection Mechanism:

The fund could be financed via an employer levy or general taxation, albeit the latter option has been identified as the preferred one for a national-level fund (due to low involvement of employers in governance, see above). The proposed size of a potential levy would be 0.5%, which would approximate to contributions sized around EUR 85 million per year (estimations based upon Latvian gross wages for 2023 according to Eurostat) in case that private and public sector organisation need to contribute to the fund. To ease introduction and potential adjust other employer contributions in the process, the levy could initially be at a lower height (e.g. 0.3 per cent, raising approximately EUR 50.7 million per year) to be increased over the course of a number of years. In these initial years, lower contributions by employers could also be set off by an initial contribution out of government budget. Micro and small enterprises (with one to ten employees) could also be exempted from the levy payment. The levy collection could either be carried out by the newly created skills fund itself, or via using a dedicated part of social security contributions. The potential burden on employers by introducing an additional levy-based fund could be partly offset by a reconfiguring (business) taxation and/or social security contributions.

No specific considerations have been made by stakeholders about the extent to which training funds might be entitled to build up reserves. Building reserves can decouple available funding for training from fluctuations in business cycles, as tax income (or alternatively levy-based income) allocated to the training fund could be lower during economic recessions while the need for training will be higher in exactly these periods. Alternatively, the national government could offset higher funding needs in times of economic recessions on an ad-hoc basis but could be impeded by political and budgetary constraints. The final goal should be to secure long-term funding of training activities, so that a continuous development can be guaranteed and the option to invest more in times of needs despite lower levy income during the same period.

[2] Governance and Interest Intermediation

In this scenario, a tripartite governance structure for the decision-making processes would be set up. The stakeholders' roles and responsibilities in its governance would be defined as follows:

- a) *Government:* Veto rights within the decision-making body of the training fund, control of the day-to-day workings of the organisations
- b) *Employers:* would be involved in the governance of the fund; employers would be represented via the business interest organisations and would have equal number of votes as the employee representatives.
- c) *Employees:* Trade unions would participate in all decision-making bodies with equal number of votes as the employers.

Specific consideration needs to be made how to determine the business interest organisations and trade unions to be represented. Stakeholders highlighted that the National Skills Fund could integrate the Human Capital Development Council (HCDC) established in 2023 by the Ministry of Economy into the overall governance architecture of the national-level training fund (Latvian Government, 2023b), for example by establishing a permanent working group responsible for the fund. Its tasks would include identifying and approving adult learning needs. It would include representatives and experts from the Ministry of Economy, the Ministry of Welfare, the Ministry of Education and Science, the Employers' Confederation of Latvia, the Free Trade Union Confederation of Latvia, and other relevant institutions, associations, and foundations and therefore also act as a high-level body of interest intermediation. The governance body's goal would be to ensure coordinated cooperation and management among these institutions in the realm of adult learning to achieve strategic human capital development.

No specific considerations have been made by stakeholders to support interest mediation between organised business and trade unions with regard to CVET. However, for reaching its full potential, training funds depend on the full participation of organised business and labour in their governance structures. Social partners could consequently be supported by an internal team of experts who provide technical advice and assistance in the development of their functions, and draft reports on the issues that are to be addressed in the governing bodies (see Cedefop Case Study on Training Funds in Spain for an example). Furthermore, involvement of sectoral expert councils in identifying the needs of businesses could be assessed to optimize interest intermediation.

[3] Distribution Mechanism: Mediated by third parties

The training fund would provide support via a new performance-based support instrument ⁽¹³⁾ for upskilling and retraining workers in skills demand of the labour market, which would ensure that the state pays for concrete training results achieved, measured over a number of years (results-based payment model) (Latvian Government, 2024b). According to stakeholders from the Ministry of Economy, a performance-based support instrument for up-skilling and re-skilling workers is currently already being developed by the international company Financing of Return to Employment (FORTE). The financing model would see employers taking on the risk and financing the cost of training, while the Latvian government would pay 70 to 90% of the participant's personal income tax (PIT) increase for each successful participant for three full years, which is the key metric and circle. Access to the instrument would be provided mainly to employers. The employer would apply for support to the beneficiary according to its particular skills needs respectively the (re-)training needs of its employees. Employees would however be able to apply to their employers to receive the opportunity to apply to the support instrument (Latvian Government, 2024b).

⁽¹³⁾ Within the framework of the CoM Regulation (in elaboration process), support will be provided for sectoral needs-based adult learning related to the development of general or professional competences required for the employees' job tasks, through various learning activities or formal or non-formal education; the training will be provided through associations representing enterprises in the sector as beneficiaries selected by the Cooperation Authority according to the criteria laid down in these Com Regulations and in the selection rules; the employer will apply for support to the beneficiary according to the need for the acquisition or improvement of skills, professional qualification development or retraining of its employees, based on the identified training needs. The employee also will have the right to apply to the employer (small (micro), small, medium and large enterprises registered in the Republic of Latvia, and self-employed persons) for the opportunity to apply to the beneficiary for training to improve or retrain professional qualifications. Training is provided in face-to-face, online or hybrid formats.

A pilot project in the ICT sector is planned, which would involve around 500 people at a cost of around EUR 5 000 per participant. One group is to be trained for an average of 4-6 months, and the training focuses on high-level technical skills in addition to the general professional and confidence-building skills of the participant. Participants will receive financial and non-financial support, including job search, to reduce financial and non-financial (e.g. motivational) barriers to adult learning. 80% of participants per training group are foreseen to successfully undertake training and examinations.

Public and private training providers would provide sectoral needs-based adult learning related to the development of general or professional competences required for the employees' job tasks, through various learning activities including formal or non-formal education. The State Education Quality Service would be responsible for accreditation and quality assurance. Education programmes can be designed to provide a range of skills needed in the labour market, and the number of learners can be increased as needed. The Ministry of Economy emphasises that the successful implementation of the results-based support instrument in Latvia is expected to retrain around 10 500 lower-skilled employees by 2027, with at least 500 ICT specialists in the pilot project already in 2024 but requires a common vision of the parties involved as well as technical support in the conclusion of a mutual agreement. Consultation with the Ministry of Finance on the model and functioning of the refund and on the exchange of information in the disbursement process (in the context of private data processing), as well as on other legally binding issues, would be important in the process of preparing the agreement.

Beyond providing contributions to the direct costs (tuition fees in particular) to employers, stakeholders have emphasized that training funds could also provide support instruments directly targeting individuals (e.g. individual learning accounts, as for example in France or certain sectors of the Netherlands) or providing wage replacement payments either to the employer (in case that that training took place during paid working hours) or to the employee (in case, that wage payment is temporarily disrupted or reduced) (as for example in Denmark). While training funds can in principle offer such support – thereby further reducing barriers to adult learning - this would necessitate comparatively high amounts of financial resources to be raised (in particular in case of wage replacement payments). To ease introduction of the fund, it is suggested to start with a limited range of provided service, while assessing a gradual expansion over time.

[4] Distribution Mechanism: Training Funds own services

The National Skills Fund would use skills intelligence activities provided by other public actors (e.g. Ministry of Economy) to anticipate the needs of the sectors within national level decision making processes. This aligns with current plans and activities of the Ministry of Economy and the Central Statistical Office to expand skills intelligence activities by linking various administrative datasets for providing a better overview on current and future skills demand and supply ⁽¹⁴⁾. The National Skills Fund could employ dedicated personnel to provide certain own supplementary services (e.g. guidance for employees and counselling/consulting services for

employers), draw on services of other public institutions, or fund third parties to fulfil these functions (e.g. private or public adult learning providers).

6.2.3. Interplay with existing financial and non-financial instruments and arrangements

Stakeholders from the Ministry of Economy have pointed out that coordination of a new training fund with the broader adult learning and CVET system, in particular the Sectoral Expert Councils on human capital development issues (e.g. in the definition of the required skills and occupational standards, participation in the examination process, quality control of education, etc.) and other government policies (e.g. digitisation activities of the Ministry of Environmental Protection and Regional Development or the investment of the State Chancellery in human capital development through the School of Public Administration, etc.) is of essential importance.

The National Skills Fund's new performance-based funding model would need to complement or replace existing financial and non-financial instruments, therefore needing to avoid duplication and ensure cohesive integration. On the one hand, the training fund would be built upon existing supply-side funding of formal educational opportunities for adults in Latvia (Cedefop, 2020). On the other hand, the training fund would expand opportunities for non-formal adult learning in Latvia, for which support is relatively scarce and funded mostly via EU Structural Funds. For example, several projects under the European Regional Development Fund (ERDF) provide subsidies for training companies (OECD, 2022b). In particular, subsidized training programmes target companies aiming to fill skill gaps in a particular sector, with the level of support provided varying according to firm size (between 30 and 70% of training costs per company) (OECD, 2022a).

Latvia's Public Employment Services provides several measures (co-funded by EU Structural Funds) directly addressing employers⁽¹⁵⁾ as well as employees (unemployed, job seekers, and adults at risk of unemployment)⁽¹⁶⁾. Furthermore, there are plans to pilot Individual Learning Accounts in Latvia, in particular to improve digital skills. Support by a new training fund would consequently need to be designed in a way to avoid overlaps with these support instruments, each catering to clearly defined and delineated target groups respectively activities eligible for support and therefore covering a specific support gap in the overall adult learning and CVET system (see the example of Germany in Unterweger and Hefler, forthcoming), or replace them without creating new gaps in support.

Support provided would also be complementary to newly reformed tax regulations affecting employer-sponsored training. The 'Amendments to the Law 'On Personal Income Tax' provide that employer-paid tuition fees for an employee's higher education at state-accredited Latvian educational institutions, educational institutions of European Union Member States, and European Economic Area countries shall not be considered salaried employment income if the higher education is related to the acquisition of skills required by the employer.¹⁷

⁽¹⁵⁾ PES (February 8, 2024). [Training new employees](#)

⁽¹⁶⁾ PES (March 21, 2024). [Support for job seeking and lifelong learning](#).

⁽¹⁷⁾ Cited from Draft Cabinet of Ministers letter (to the Saeima, Ombudsman or other state institution or official) on the responsible institution in the field of human capital management from 21 February 2024, available [here](#).

6.2.4. Reflection on how the scenario responds to the four functions

Scenario 1 responds to the following functions:

Function 1: Putting a 'beneficial constraint' on employers and incentivizing training investments

In Latvia, employers are currently incentivized through the Labour Law, public support measures, and the tax framework. The Labour Law mandates employers to provide necessary training for their employees. Public support measures, such as European Union funds, support employers through sectoral associations. The tax framework, which may not be sufficient but is gradually being extended, allows employers to exempt training expenses from tax if they pay for their employees' training.

The scenario would include the creation of a new allocation mechanisms including financial incentives for businesses, which could further incentivize training investments. The creation of a training fund financed via an employer levy would provide a crucial addition by a introducing a beneficial constraint on employers, however stakeholders have rather preferred a variant funded fully by general taxation in this scenario (see further above).

Function 2: Generating additional funding

The burden on employers and taxpayers in Latvia is already perceived as high by stakeholders, while at the same time, incentives aiming to increase business' training participation appear insufficient. The training fund foreseen in this scenario could offer a potential mechanism for redistributing the current (tax) burden of employers and allocating existing financial resources raised by government towards new means. The potential burden on employer by introducing an additional levy-based fund could be partly offset by reconfiguring business taxation in other domains. However, as stakeholders have preferred a variant funded fully by general taxation, resources raised by existing employer taxes could also be redirected towards a new skills fund.

Function 3: Supporting collective agreements on CVET

The scenario would not be connected to collective agreements.

Function 4: Reviewing the interest mediation and coordination mechanism between aggregated demand and supply of CVET

In Latvia, the role of social partners, employers' and employees' representatives, is already enshrined in law, with employers' representatives involved in the cycle of education planning and implementation. To a certain extent, the introduction of a national-level training fund could further strengthen interest mediation, albeit potentially to a smaller extent than the sectoral or regional variants of training funds in Scenario 2 and 3 (see further below). The national-level training fund would include social partners in the decision-making processes, integrating the Human Capital Development Council (HCDC) established in 2023 by the Ministry of Economy into the overall governance architecture of the national-level training fund, identifying and approving adult learning needs. However, in general, the state would anticipate the needs of the sectors within national level decision making processes via producing its own skills intelligence (e.g. activities of the Ministry of Economy and the Central Statistical Office providing an overview on current and future skills demand and supply, see above)

6.2.5. Strengths, weaknesses (advantages and disadvantages), opportunities and threats

Strengths

- a) The government's financial contributions to the fund could incentivize training participation.
- a) A national (cross-sectoral) training fund could also cover retraining, which might not be offered by sectoral training arrangements, and potentially increase inter-sectoral mobility.
- b) A national-level fund would clearly align with current government's strategy on the centralization of competences for retraining of the labour force as well as human capital development issues within the Ministry of Economy and could reduce current overlaps of responsibilities.

Weaknesses

- a) The introduction of a national-level training fund would necessitate a challenging process to agree on the funding approach. Specific considerations would need to be made on the amount of funding provided from taxation (potentially redirecting resources raised by *existing* employer taxes), from social security contributions, and potentially form a novel additional training levy (the latter of which appears to be particularly challenging given scepticism by stakeholders).
- b) A national-level approach might have difficulties in identifying sectoral skills needs, with potential limited cooperation with industry (apart from inclusion in overall high-level governance body at national-level). The idea of sectoral skills development—the link between employers and employees at sectoral level and their joint ownership for skills development—would not be considered.
- c) In case no levy would be implemented, employers' motivation to contribute their own resources to training would be lost (i.e. shift of costs to the public sector).

Opportunities

- a) National-level funds financed also by general taxation could provide stronger incentives for individually selected adult learning, linking skills development to individual growth (self-confidence, learning motivation, career, better job and salary, etc.), compared to purely levy-based sectoral funds that more strongly cater to needs of businesses.
- b) The introduction of national-level funds can offer an opportunity for redistributing the current (tax) burden of employers, allocating existing financial resources raised by government towards new means.

Threats

- a) Introducing a training/skill fund on a national level demands substantial efforts and financial means on the side of all involved stakeholders, which could prove to be

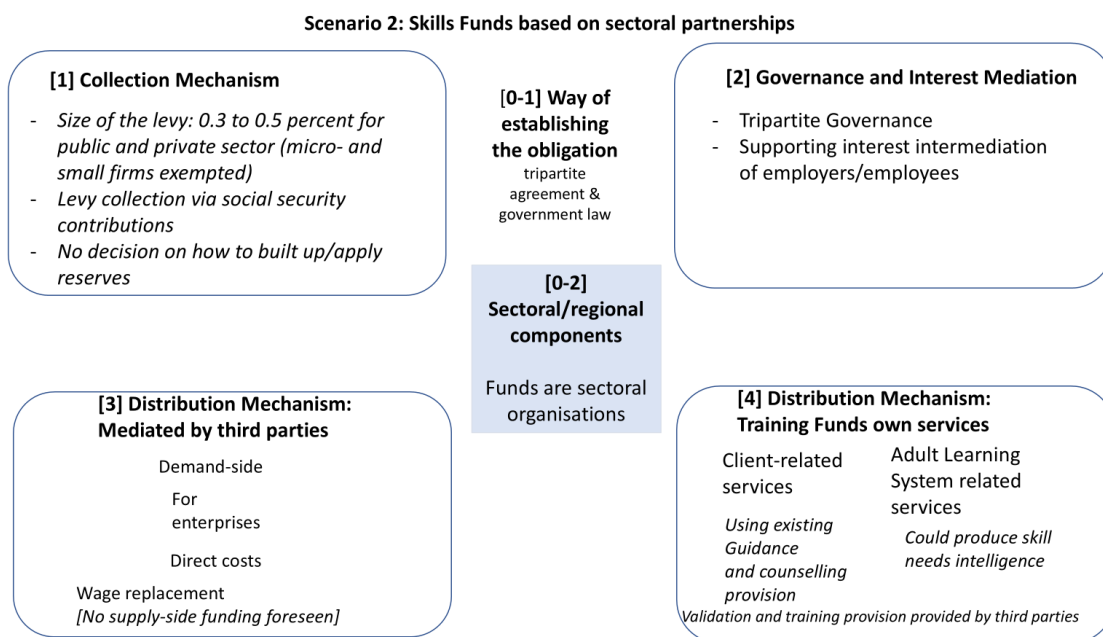
infeasible if the structural balance of the general government budget is not ensured in accordance with the EU regulation ⁽¹⁸⁾.

- b) Centralization will not work in case there is no public contribution to the funds in accordance the national budget for 2024 and the budgetary framework for 2024, 2025 and 2026.
- c) It remains unclear in how far those most in need of training would benefit from a national training fund based on performance-based funding.

6.3. Scenario 2 Skills Funds based on sectoral partnerships

Figure 3 provides a summative overview of the scenario. Each of the elements is discussed in detail in the sections below.

Figure 3. Overview of scenario 2



Source: Cedefop.

⁽¹⁸⁾ European System of Accounts methodology established with Regulation (EU) No 549/2013 of the European Parliament and of the Council of May 21, 2013 on the European system of national and regional accounts in the European Union (hereinafter the European system of national and regional accounts in the European Union), -0.5 percent of the gross domestic product in 2024, -0.5 percent of the gross domestic product in 2025, and -0.5 percent of the gross domestic product in 2026.

Scope, demarcation and purpose of the envisaged training fund

This scenario consists of the introduction of Skills Funds based upon sectoral and inter-sectoral partnerships. Already in past years, Sectoral Skills Funds have been considered in Latvia as a potential solution for increasing training participation of companies (OECD, 2019, 2020). The Ministry of Education and Science subsequently led a Technical Support Instrument (TSI) project on 'Supporting employers in promoting skills development in Latvia' co-funded by the EU and implemented by the OECD jointly with the European Commission's Directorate General for Structural Reform Support, which recommended to introduce Sectoral Skills Funds based on an employer-levy (OECD, 2022b). Sectoral Skills Funds have consequently been included as a pilot project and as a policy experiment in a limited number of sectors to assess their suitability for the Latvian context within the countries ESF operational programme for 2021–2027 and also in the Latvian recovery and resilience plan. Building on these prior activities, the Ministry of Education and Science has been selected as the responsible lead stakeholder for Sectoral Skills Funds, in coordination with the Ministry of Economy which is responsible for development of economic sectors in Latvia and has been assigned the task to evaluate potential for skills funds in the sectors. As of May 2024, no final choice has been made concerning the choice of sectors for the pilot. Initial funding from EU structural funds would be used alongside financial resources raised via an employer-levy, easing the introduction of sectoral training funds by enabling a lower level of levy in the fund's initial phases and/or alleviating the financial burden associated with the initial establishment of the funds.

Sectoral Skills Funds in Latvia could build upon institutions of the adult learning system. High-level coordination between the Ministries of Education and Science, the Ministry of Economy and the social partners in designing and implementing the framework for training funds can be facilitated by the recently introduced Human Capital Development Council (HCDC) established in 2023, for example by establishing a particular working group responsible for the fund. For day-to-day involvement of social partners, Sectoral Skills Funds can build upon the 11 sectoral expert councils responsible for sectoral cooperation in Latvia's education and training system. Even though they are currently mostly responsible for initial VET and higher education, by expanding their functions, they could act as a building block for the governance framework of the sectoral training funds.

Stakeholders' consultations have shown that the ICT, construction and hospitality sector might be particularly suited to pilot such training funds, due to their – in comparative perspective - relatively established tradition of tripartite cooperation and/or available sectoral intelligence on future skills needs (albeit with variations between sectors). The sectoral funds would have the goal to enhance IVET and CVET in enterprises and share the related costs between involved parties (mutualisation), with funding based upon an employer levy. The funds would be based upon tripartite agreements between government, employer and employee representatives in the respective sectors ⁽¹⁹⁾. Employer and employee

⁽¹⁹⁾ Bipartite agreements/collective bargaining agreements between social partners (without the state) would most likely be unrealistic given the low importance of collective bargaining agreements in the Latvian context (see sections further above), necessitating a stronger role of the state. A similar approach can be found in France, where the relevant sectoral organisations (Opérateurs de Compétences: OPCOs) are set up by agreements between the social partners and approved by the state.

representatives as well as government representatives (in case of financial contributions by government and/or EU Structural Funds) would subsequently be involved in the governance of the training funds, influencing how collected means are used for supporting IVET and CVET.

6.3.1. Institutional arrangements needed for the training fund

In this scenario, the institutional arrangements of the fund would be designed as follows:

[0-1] Way of establishing the obligation

The Skills Funds based on sectoral and inter-sectoral partnerships would be established via tripartite agreements at sectoral level. Employers would be mandated by government law (as in case of Italy or France) to pay a levy (dedicated surplus to the social security contributions).

[0-2] With/Without sectoral/regional differentiation or components

A national-level framework would establish a legal basis. Sectoral organisations composed of government representatives, employers and employees would oversee administering the funds and allocating the collected financial resources.

[1] Collection Mechanism

The proposed size of the levy would be 0.5%, which would approximate to contributions sized around EUR 85 million per year (estimations based upon Latvian gross wages for 2023 according to Eurostat). To ease introduction, the levy could initially be at a lower level (e.g. 0.3%, raising approximately EUR 50.7 million per year) to be increased over the course of a number of years. In these initial years, lower contributions by employers could be offset by an initial contribution out of government budget and/or ESF co-funding. The potential burden on employers by introducing an additional levy-based fund could also be partly offset by a reconfiguring (business) taxation and/or social security contributions. Micro and small enterprises (between one and ten employees) could also be exempted from the levy payment.

No specific considerations have been made by stakeholders about the extent to which training funds might be entitled to build up reserves. In principle, such building reserves has the advantage of decoupling the available funding for training from fluctuations in business cycles, as levy-generated income will be lower during economic recessions while the need for training will be higher in exactly these periods (see Cedefop Case Study on Training Funds in Denmark). Alternatively, the levy might be adjusted in line of the past demand for support, where increased training participation during a recession can be covered by increased contributions after the economy has recovered. The final goal should be to secure long-term funding of training activities, so that a continuous development can be guaranteed and the option to invest more in times of needs despite lower levy income during the same period.

[2] Governance and Interest Intermediation:

In each sector, a respective organization administering and allocating the funds would need to be set-up. These can build on and expand upon the existing 11 sectoral expert councils (defined in the Vocational Education Law) responsible for sectoral cooperation in Latvia's education system which could act as a building block for the training funds (Līce, 2023). These already work on a tripartite basis, being governed by government representatives, employer and employee representatives. They aim to promote the relevance of vocational education and training to labour market requirements, its efficiency and quality improvement.

In this scenario, the roles and responsibilities of the involved stakeholders would be defined as follows:

- *Government:* The government would be responsible for collecting the levy (dedicated surplus to the social security contributions) and for stimulating and supporting the development and collaboration of sectoral/inter-sectoral partnerships. As long as the Sectoral Training Funds would be co-funded by government and/or EU structural funds, government should hold equal one-third representation vis-à-vis social partners or minority/veto rights within the decision making body of the training fund. The specific selection of government representatives could consider the source of government co-funding (e.g. Ministries' budgets, responsibilities for EU Structural Funds, etc.). In case Sectoral Training Funds are at one point financed solely by the levy, government's position could be changed into an 'observer role' without voting rights.
- *Employers:* Sectoral employer organisations would be involved in the governance of the funds; and would have the majority of voters or equal number of votes as the employee representatives. Business interest organizations have a key influence on the ways the collected means are used for supporting IVET and CVET.
- *Employee:* Sectoral trade unions would participate in decision-making bodies, would have either the equal number of votes as the employers or hold a minority position.

Specific consideration needs to be made to determine the business interest organisations and trade unions to be represented. The government together with peak-level employer associations and trade unions can fulfil a central role in the process of selecting sectors respectively sectoral social partner organisations, for example via the Human Capital Development Council (HCDC). No specific considerations have been made by stakeholders to support interest mediation of sectoral social partners. Where necessary, a small share of financial resources raised by the fund could also be used to offer technical advice and assistance by teams of experts to social partners to support them in fulfilling their governance functions (see Cedefop Case Study on Training Funds in Spain for an example).

[3] Distribution Mechanism: Mediated by third parties

Training providers provide quality work-based IVET and CVET for qualification, upskilling and reskilling at levels corresponding to involved parties consolidated demand. Competence and Examination Centres ensure certification and validation of skills acquired in formal, non-formal and informal IVET and CVET. Employers would be eligible for various forms of support for IVET/CVET. Funding could in principle be allocated via demand- and/or supply-side mechanisms.

Beyond providing contributions to the direct costs (tuition fees in particular) to employers, stakeholders have emphasized that training funds could also provide support instruments directly targeting individuals (e.g. individual learning accounts, as for example in France or certain sectors of the Netherlands) or providing wage replacement payments either to the employer (in case that that training took place during paid working hours) or to the employee (in case, that wage payment is temporarily disrupted or reduced) (as for example in Denmark). While this could in principle further reduce barriers to participate in adult learning, it would

necessitate comparatively high amounts of financial resources to be raised (in particular in case of wage replacement payments). To ease introduction of the fund, it is suggested to start with a limited range of provided service, however assessing a gradual expansion over time.

[4] Distribution Mechanism: Training Funds own services

The Sectoral Skills Funds could either fund certain own supplementary services (guidance for employees and counselling/consulting services for employers), fund third parties (e.g. private or public adult learning providers) to fulfil these functions, or rely on existing services provided by public actors (e.g. skills intelligence by the Ministry of Economy) or existing activities of sectoral social partner organisations. No specific further services were discussed in the scenario.

6.3.2. Interplay with existing financial and non-financial instruments and arrangements

Sectoral Skills Funds should complement the existing financial and non-financial instruments or replace these ⁽²⁰⁾. On the one hand, the training fund would built upon existing supply-side funding of formal educational opportunities for adults in Latvia. On the other hand, the training fund would expand opportunities for non-formal adult learning in Latvia, for which support is relatively scarce and funded mostly via EU Structural Funds. For example, several projects under the ERDF provide subsidies for training companies (OECD, 2022a). In particular, subsidized training programmes target companies aiming to fill skill gaps in a particular sector, with the level of support provided varying according to firm size (between 30 and 70% of training costs per company). As already highlighted, *either* a Sectoral Training Fund *or* a subsidized training programme should be made available per sector, in order to avoid overlaps in support (OECD, 2022b).

Also Latvia's Public Employment Services provides several measures (co-funded by EU Structural Funds) directly addressing employers as well as employees. Furthermore, there are plans to pilot Individual Learning Accounts in Latvia, in particular to improve digital skills (OECD, 2022a). Support by a new training fund would consequently need to be designed in a way to avoid overlaps with these support instruments, each catering to clearly defined and delineated target groups respectively activities eligible for support and therefore covering a specific support gap in the overall adult learning and CVET system (see the example of Germany in Unterweger and Hefler, forthcoming), or replace them without creating new gaps in support.

6.3.3. Reflection on how the scenario responds to the four functions

Scenario 2 responds to all four functions:

Function 1: Putting a 'beneficial constraint' on employers and incentivizing training investments

In Latvia, employers are currently incentivized through the Labour Law, public support measures, and the tax framework. The Labour Law mandates employers to provide necessary

⁽²⁰⁾ Financial: work-based IVET State budget financing; individual learning accounts; de minimis support for employers; EU-fund based co-funding, etc. Non-financial: PES [free services for employers](#); PES [free services for unemployed and job seekers](#); etc.

training for their employees. Public support measures, such as European Union funds, support employers through sectoral associations. The tax framework, which may not be sufficient but is gradually being extended, allows employers to exempt training expenses from tax if they pay for their employees' training.

A mandatory levy funding the sectoral training funds can help balance training investments across enterprises by providing incentives for training and discouraging free-riding. A sectoral approach to Skills Funds – with support for training provided closely connected to the skills needs of businesses in the respective sector based upon social partner involvement in the governance of the funds - can provide the necessary legitimacy of such an additional employer levy. The creation of a new allocation mechanisms including financial incentives for businesses would in turn which further incentivize training investments.

Function 2: Generating additional funding

A skill fund could generate additional funding for training and allow for more stable, long-term funding of CVET and sustainable investments in skills compared to tax-based or social security contribution-based arrangements. The potential burden on employers by introducing an additional levy-based fund could be partly offset by reconfiguring business taxation in other domains and/or by initial co-funding from EU structural funds (as foreseen in the recent ESF+ operational programme).

Function 3: Supporting collective agreements on CVET

The Sectoral Skills Funds would not be directly connected to collective wage bargaining agreements, which are of minor importance in Latvia, they would instead be based upon dedicated tripartite agreements between government and sectoral social partners. The system of involvement depends on the capacity of social partners, including sectoral expert councils in the sectors. However, the establishment of Sectoral Skills Funds can be considered as a first step in further strengthening sectoral social dialogue in Latvia. Potential future bargaining between organised business and labour (e.g. regarding employee rights for training, cost-sharing arrangements, and collectively determined rewards for employees for acquiring skills and qualifications) might be able to build upon cooperation created under the Sectoral Skills Funds.

Function 4: Reviewing the interest intermediation and coordination mechanism between aggregated demand and supply of CVET

Employer and employee representatives would be involved in the governance of the sectoral training funds, therefore deciding on how raised resources are used based upon sector-specific skill needs. This would in turn provide the necessary legitimacy for introducing the employer-levy. The scenario therefore has the potential to support interest mediation and coordination between aggregated demand and supply of CVET.

6.3.4. Strengths, weaknesses (advantages and disadvantages), opportunities and threats)

Strengths

- a) The scenario builds upon previous discussions, policy recommendations and is currently foreseen in government policy for implementation, being supported by a relatively broad range of stakeholders (including enterprises and employers).
- b) The Sectoral Funds allow for tailored solutions according to sectoral needs. The sectoral funds can provide a mechanism for considering industry input, ensuring quality of qualifications and flexibility of training lengths. Employer representatives themselves decide on the use of resources.
- c) The Employer levy constitutes a stable funding source (self-financing).
- d) Public funds could be initially provided to support creation of the funds (government funds and/or ESF+)

Weaknesses

- Self-organisation capacities vary from sector to sector.
- Setting the degree of autonomy of sectoral funds vis-à-vis the state needs can prove to be challenging.
- Implementing the scenario could be impeded by dispersed responsibilities across involved ministries, necessitating substantial coordinative effort on the side of all stakeholders.

Opportunities

- a) Additional, complementary incentives from the state could be granted to particularly disadvantaged individuals.
- b) Implementation necessitates cooperation among employers to set up partnership, which could increase their long-term engagement.
- c) The introduction of sectoral training funds could be based upon a reconfiguration of existing taxes respectively social security contributions on employers and employees, thereby partly offsetting the new training levy on employers.

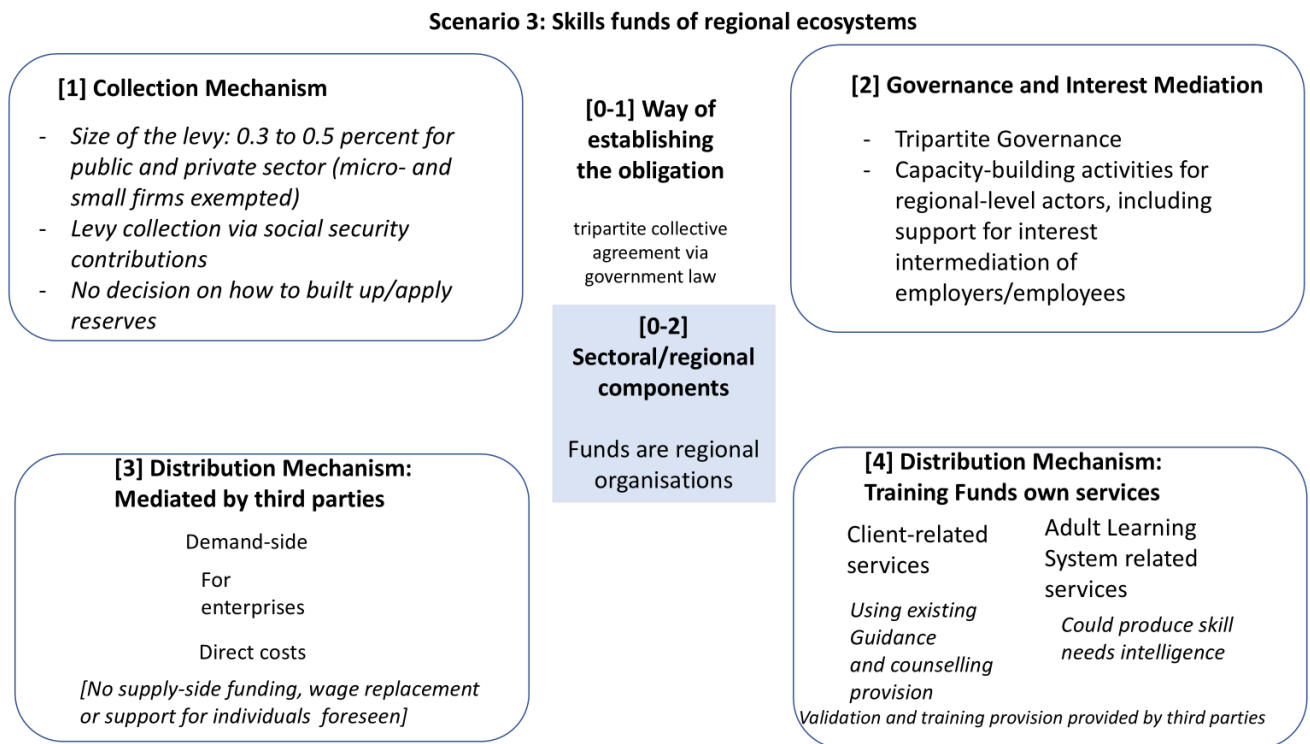
Threats

- a) Sectoral funds could lead to relatively complex arrangements for companies and individuals, with varying levels of support and administrative arrangements according to economic sector.
- b) It remains unclear how inter-sectoral cooperation could work, which should ideally allow for labour mobility and rotation across the sectors, and which might be opposed by sectoral employer associations.

6.4. Scenario 3 Skills Funds of local and regional ecosystems

Figure 4 provides a summative overview of the scenario. Each of the elements is discussed in detail in the sections below.

Figure 4. **Overview of scenario 3**



Source: Authors

6.4.1. Scope, demarcation and purpose of the envisaged training fund

This scenario foresees the introduction of Skills Funds based upon local (municipal) ecosystems and/or regional ecosystems (spanning multiple municipalities), building on input gathered by stakeholders during the course of this project. The Ministry of Education and Science and/or the Ministry of Economy could lead the respective process for introducing the overall legal framework enabling municipalities to create training funds. Coordination across government could be achieved with the Human Capital Development Council (HCDC) (including the Ministries of Education and Science, the Ministry of Economy and the Ministry of Welfare), for example establishing a permanent working group responsible for the fund, which would however benefit from the inclusion of representatives from the Ministry of Smart Administration and Regional Development and the Latvian Association of Local and Regional Governments.

In accordance with new Municipalities law ⁽²¹⁾, since 2023 autonomic functions of municipalities among others are to care for people's education, including access to compulsory education and access to pre-school education, secondary education, vocational education, special interest education and adult education, and to promote and support economic activity in the municipality's administrative territory (Article 4.1). *Local* Skills Funds may build upon this

⁽²¹⁾ See the [Law on local government](#), adopted on 20-10-2022 and entered into force on 01-01-2023.

reform, with the national government delegating the municipalities the function to create training funds in accordance with the Municipalities law providing financing for this new function.

However, given the relatively small size of Latvia's municipalities and potential synergies across municipalities within a certain larger region, skills funds could also be based upon *regional* ecosystems that span multiple municipalities, as for example delineated by the respective five 'planning regions' defined in Latvia's Regional Development Law ⁽²²⁾. After implementation of a framework for skills funds, regional-level actors – for example the respective Planning Region Development Councils (including representatives of multiple municipalities) together with regional social partner organisations - could decide on setting up and administering their own training funds.

One region or a small number of municipalities could be chosen to pilot skills funds, based upon willingness and capacities of respective local and regional actors. The selection of the appropriate location(s) could be informed by the Human Capital Development Council, peak-level social partner organisations as well as the Ministry of Smart Administration and Regional Development and the Latvian Association of Local and Regional Governments ⁽²³⁾. The central government could however take the initiative and set certain incentives for municipalities and social partners to set up regional respective local skills funds. In particular, initial funding from EU structural funds and/or government contributions could be used alongside financial resources raised via an employer-levy, easing the introduction of training funds by enabling a lower height of the levy in the fund's initial phases and/or alleviating the financial burden associated with the initial establishment of the funds. The additional amount of EU structural funds could also mitigate differences between economically stronger and weaker regions, the latter of which receive a higher level of resources by EU structural funds.

The local and regional funds would have the goal to enhance IVET and CVET in enterprises and share the related costs between involved parties (mutualisation), with funding based upon an employer levy. In line with the kind of fund, local and regional representatives, employer and employee representatives would be involved in the governance of the training funds, influencing how collected means are used for supporting IVET and CVET.

6.4.2. Institutional arrangements needed for the training fund

In this scenario, the institutional arrangements of the fund would be designed as follows:

[0-1] Way of establishing the obligation

The framework for setting up Skills Funds of local and regional ecosystems and the obligation to pay the levy (e.g. dedicated surplus to social security contributions) would be introduced via formal law.

[0-2] With/Without sectoral/regional differentiation or components

⁽²²⁾ See for example [Latvia Fact Sheet 2](#) of Vidzeme Planning Region Sustainable Development Strategy 2030 or the website of the [Ministry of Smart Administration and Regional Development of the Republic of Latvia](#)

⁽²³⁾ As suggested by national and sectoral experts consulted in current study, for example the Vidzeme region could be chosen as such a pilot region.

A national-level framework would establish legal basis. In line with the fund kind, local and regional organisations would be in charge of administrating the funds and allocating the collected financial resources. One region or a small number of municipalities could be selected to pilot such a fund.

[1] Collection Mechanism:

The proposed size of the levy would be 0.5%, which would approximate to contributions sized around EUR 85 million per year (estimations based upon Latvian gross wages for 2023 according to Eurostat). In order to ease introduction and potential adjust other employer contributions in the process, the levy could initially be at a lower level (e.g. 0.3%, raising approximately EUR 50.7 million per year) to be increased over the years. In these initial years, lower contributions by employers could also be set off by an initial contribution out of government budget, municipal budget and/or ESF+ co-funding. Micro and small enterprises (with one to ten employees) could also be exempted from the levy payment. The levy collection could be carried out by using a dedicated part of social security contributions.

No specific considerations have been made by stakeholders about the extent to which training funds might be entitled to build up reserves. In principle, such building reserves has the advantage of decoupling the available funding for training from fluctuations in business cycles, as levy-generated income will be lower during economic recessions while the need for training will be higher in exactly these periods (see Cedefop Case Study on Training Funds in Denmark). Alternatively, the levy might be adjusted in line of the past demand for support, where increased training participation during a recession can be covered by increased contributions after the economy has recovered. The final goal should be to secure long term funding of training activities, so that a continuous development can be guaranteed and the option to invest more in times of needs despite lower levy income during the same period.

[2] Governance and Interest Intermediation:

The respective municipalities and regions would need to set up a new organization administrating and allocating the funds. These would work on a tripartite basis, being governed by representatives respectively of the municipality or region, employer representatives and employee representatives at regional level. The roles and responsibilities of the stakeholders involved in its governance would be defined as follows:

- a) *National-level government:* The national government would be responsible to collect the levy (e.g. dedicated surplus to the social security contributions) and distribute it to Skills Funds and to stimulate and support the development and collaboration of Regional Skills Funds.
- b) *Municipalities/Regions:* Would be involved in the decision-making body of the training fund. As long as the Municipal or Regional Training Funds are co-funded by national-government, national-level actors should hold equal 1/3 representation vis-à-vis social partners or minority/veto rights within the decision-making body of the training fund. In case Regional Training Funds are at one point financed solely by the levy, this position could be changed into an 'observer role' without voting rights. Similarly, as long as EU structural funds are used to support the Skills Funds, public actors should remain involved in the governance of the funds.

- c) *Employers*: Municipal or respectively regional-level employer organisations would be involved in the governance of the funds and would have the majority of voters or equal number of votes as the employee representatives. Business interest organizations have a key influence on the ways the collected means are used for supporting IVET and CVET.
- d) *Employee*: Municipal or respectively regional trade unions would participate in decision-making bodies, would have either the equal number of votes as the employers or hold a minority position. Trade unions are representing employees.

Specific consideration needs to be made how to determine the business interest organisations and trade unions to be represented. These could be made jointly by the Human Capital Development Council (HCDC), the Ministry of Smart Administration and Regional Development, peak-level social partner organisations, municipalities and the Planning Region Development Council of the respective region. Stakeholders consulted during the project emphasized that local or respectively regional-level actors might lack the capacities to implement such Local or Regional Skills Funds. It will consequently be essential to offer support for capacity-building. A certain share of financial resources raised by the fund could be used to offer technical advice and assistance by teams of experts to support them in fulfilling their governance functions (see Cedefop Case Study on Training Funds in Spain for an example).

[3] Distribution Mechanism: Mediated by third parties

Public and private training providers would provide quality work-based IVET and CVET for qualification, upskilling, and reskilling at levels corresponding to involved parties' consolidated demand. Employers would be eligible for various forms of support for IVET/CVET. Funding could in principle be allocated via demand- and/or supply-side mechanisms.

Beyond providing contributions to the direct costs (tuition fees in particular) to employers, stakeholders have emphasized that training funds could also provide support instruments directly targeting individuals (e.g. individual learning accounts, as for example in France or certain sectors of the Netherlands) or providing wage replacement payments either to the employer (in case that that training took place during paid working hours) or to the employee (in case, that wage payment is temporarily disrupted or reduced) (as for example in Denmark). While training funds can in principle offer such support – thereby further reducing barriers to adult learning - this would necessitate comparatively high amounts of financial resources to be raised (in particular in case of wage replacement payments). To ease introduction of the fund, it is suggested to start with a limited range of provided service, while assessing a gradual expansion over time.

[4] Distribution Mechanism: Training Funds own services

The local and regional Skills Funds could either fund certain own supplementary services (guidance for employees and counselling/consulting services for employers), fund third parties (e.g. private or public adult learning providers) to fulfil these functions, or rely on existing services provided by public actors (e.g. skills intelligence by the Ministry of Economy) or existing activities of social partner organisations. No specific further services were discussed in the scenario.

6.4.3. Interplay with existing financial and non-financial instruments and arrangements

Sectoral Skills Funds should complement the existing financial and non-financial instruments or replace these. On the one hand, the training fund would be built upon existing supply-side funding of formal educational opportunities for adults in Latvia (Cedefop, 2020). On the other hand, the training fund would expand opportunities for non-formal adult learning in Latvia, for which support is relatively scarce and funded mostly via EU Structural Funds. For example, several projects under the European Regional Development Fund (ERDF) provide subsidies for training companies (OECD, 2022a).

In the context, it could prove challenging to coordinate subsidized training programmes (funded by ERDF means) that are organized on a sectoral level with the support provided by Regional Skills Funds. Subsidized training programmes target companies aiming to fill skill gaps in a particular sector, with the level of support provided varying according to firm size (between 30 and 70% of training costs per company) (OECD, 2022b). Consequently, to prevent duplication of efforts, eligibility criteria for support of subsidized training would potentially need to be amended (e.g. by restricting access to sectoral subsidized training programmes to companies that cannot receive support via Local and Regional Training Funds)

Also, Latvia's Public Employment Services provides several measures (co-funded by EU Structural Funds) directly addressing employers as well as employees. Furthermore, there are plans to pilot Individual Learning Accounts in Latvia, in particular to improve digital skills (OECD, 2022a). Support by a new training fund would consequently need to be designed in a way to avoid overlaps with these support instruments, each catering to clearly defined and delineated target groups respectively activities eligible for support and therefore covering a specific support gap in the overall adult learning and CVET system (see the example of Germany in Unterweger and Hefler, forthcoming), or replace them without creating new gaps in support.

6.4.4. Reflection on how the scenario responds to the four functions

Scenario 3 responds to all four functions:

Function 1: Putting a 'beneficial constraint' on employers and incentivizing training investments

In Latvia, employers are currently incentivized through the Labour Law, public support measures, and the tax framework. The Labour Law mandates employers to provide necessary training for their employees. Public support measures, such as European Union funds, support employers through sectoral associations. The tax framework, which may not be sufficient but is gradually being extended, allows employers to exempt training expenses from tax if they pay for their employees' training.

Similar to Sectoral Training Funds, a mandatory levy funding the Local or Regional Training Funds can help balance training investments across enterprises by providing incentives for training and discouraging free-riding. A local/regional approach to Skills Funds – with support for training provided closely connected to the skills needs of the region based on regional social partner involvement in the governance of the funds - can provide the necessary legitimacy of such an additional employer levy. The creation of a new allocation

mechanisms including financial incentives for businesses would in turn which further incentivize training investments.

Function 2: Generating additional funding

A skill fund could generate additional funding for training and allow for more stable, long-term funding of CVET and sustainable investments in skills compared to tax-based or social security contribution-based arrangements. The potential burden on employers by introducing an additional levy-based fund could be partly offset by reconfiguring business taxation in other domains and/or by initial co-funding from EU structural funds (as foreseen in the recent ESF+ operational programme).

Function 3: Supporting collective agreements on CVET

The local and regional relations system in Latvia is not widely used for supporting the uptake of CVET, with little coverage of collective bargaining allocating the benefits for all. The development of Municipal and Regional Skills Fund pilot projects based on a tripartite bases could act as a building block for further strengthening the local and regional relations system, with future bargaining and collective agreements building upon cooperation created under the Municipal and Regional Skills Funds (e.g. regarding employee rights for training, cost-sharing arrangements, and collectively determined rewards for employees for acquiring skills and qualifications). Certain municipalities could be selected to pilot such funds, in particular, Cesis city, Valmiera city, Liepaja city, etc., and Vidzeme region as suggested by national and sectoral experts consulted in current study.

Function 4: Reviewing the interest mediation and coordination mechanism between aggregated demand and supply of CVET

Municipal and Regional Skills Funds can serve as organisations strengthening the role of social partners, and in particular employers, into the governance of municipal or respectively regional CVET and adult learning arrangements, for example deciding on how raised resources are used based upon municipality or region-specific skill needs. This would in turn provide the necessary legitimacy for introducing the employer-levy. The scenario therefore has the potential to support interest mediation and coordination between aggregated demand and supply of CVET.

6.4.5. Strengths, weaknesses (advantages and disadvantages), opportunities and threats

Strengths

- a) The scenario could provide a linkage with regional development policy, helping to revitalize Latvia's countryside by relocating businesses to less developed in municipalities and regions.
- b) The concept of Local/Regional Skills Funds is broadly supported by regional authorities.
- c) Municipal and Regional Skills Funds could foster collaboration among municipal and regional-level public actors and social partners.

- d) Municipal and Regional Skills Funds would consider the spatial dimension of labour and skills demand and job creation.

Weaknesses

- a) The implementation of Municipal and Regional Skills Funds could necessitate considerable capacity-building activities for municipal and regional-level actors
- b) Small municipalities or economically less developed regions might be overburdened by this approach and less likely to engage in the creation of a Regional Skills Fund, in contrast to larger regions (e.g. Riga).

Opportunities

- a) Municipal and Regional Skills Funds could alleviate 'brain-drain' and skills shortages in rural areas.
- b) Municipal and Regional Skills Funds could incentivize job-creation and economic development in rural areas.
- c) Co-funding via EU structural funds could lead to more even economic growth across the country, with economically weaker municipalities and regions receiving higher shares of EU funding.

Threats

- a) Economic inequality across municipalities and regions might lead to varying levels of financial resources raised by the levy, and consequently different levels of support for employers, which might be reinforced in case the Local or Regional Skills Funds are co-funded by the municipal budgets and/or without support by EU structural funds.
- b) Coordinating sectoral subsidized training programmes (funded by EDRF) with support provided by Regional Skills Funds could prove to be challenging.

6.5. Favourability of scenarios based upon stakeholders' assessment and international evidence

Based on the information gathered in desk research, the interviews and focus group discussions, the country expert, in consultation with the international core team assessed the favourability of the three identified and developed scenarios.

6.5.1. Scenario 1: National Skills Fund

Existing training fund arrangements across the EU can provide useful lessons learned for assessing the favourability of Scenario 1. National-level frameworks of systemic importance, as in Cyprus, Ireland and Spain have the benefits of being able to constrain free-riding of employers while at the same time providing an equal level of support across the whole country and generating a stable and sustainable funding line for CVET across all sector and regions.

They do not depend on interlinkages with the industrial relations system and the approach to collective bargaining, as they can be introduced solely based upon government law and can therefore be particularly suitable for countries where industrial relations arrangements are less developed. Nonetheless, national-level funds can also include social partners in their governance, enabling them to tailor their offers to employer and employee needs. For example, as illustrated in the case of Spain, social partners are involved in the governance board of the fund, supported by an internal team of experts who provide technical advice and assistance on the issues that are to be addressed in the governing bodies.

Also in Cyprus, interest aggregation is achieved via the training fund's tripartite governance structure, with business interest organisations and trade unions represented. However, it usually proves very difficult to achieve interest intermediation in national-level frameworks and therefore aggregate the often highly specific training needs of employers within one socioeconomic sector and supporting – by various means – the development of a tailored, high-quality training offers meeting these needs, while equally responding to the needs and interests of the participating employees. For example, in Ireland, involved government departments decide on how much of the funds should spread across the various lines of action. The ways by which this divisions are made are perceived as lacking both the desirable level of transparency and the involvement of other stakeholders. Neither business interest organisations nor trade unions are involved in the governance of the training fund.

This broadly aligns with stakeholders' opinions voiced during this project. Scenario 1 builds upon multiple current initiatives in Latvia (e.g. the development of performance-based funding) and aligns with plans to centralize competences for skills policies within the Ministry of Economy. However, the introduction of a national-level training fund would necessitate a challenging process to agree on the funding approach. Most importantly, stakeholders consulted during this project voiced strong scepticism towards implementing a national-level fund based upon an employer levy. This indicates stakeholders' scepticism towards the extent to which employer integration at national level could lead to successful interest intermediation between employers, casting doubts on the legitimacy of an employer levy. Funding via government taxation – which does not align with Cedefop's definition of *levy-based* training funds - emerged as the preferred option for a national-level fund in the stakeholder consultations. In this case, resources raised by *existing* employer taxes would be redirected towards a new skills fund.

In sum, while the favourability of the scenario is positively influenced by the multiple currently ongoing initiatives in Latvia that interlink with such a potential national-level training fund, stakeholders' strong opposition against levy-based funding can be considered as a major drawback. Consequently, the implementation of Scenario 1 needs to be considered less favourable compared to other assessed Scenarios.

6.5.2. Scenario 2: Sectoral Skills Funds

Several training fund arrangements across the EU entail a sectoral dimension. In France, Italy, Denmark, Belgium and the Netherlands, approaches of applying the means collected are aligned with the specific sectoral needs and allow for effective interest intermediation. This is a considerable strength and aligns with stakeholders' considerations for implementing Training

Funds in Latvia. It can also substantially contribute to the legitimacy of a levy among employers, with employers themselves being responsible on how collected means are used by involving sectoral social partner organisations in the governance of the training funds. Given prior consultations and recommendations as part of the OECD's activities and the Technical Support Instrument project, as well as subsequent inclusion of Sectoral Skills Funds Pilots Latvia's ESF operational programme and RRF plan, it is clear that Scenario 2 currently enjoys the highest level of support among relevant stakeholders in Latvia. Consequently, Scenario 2 must be regarded as most favourable out of the three Scenarios.

Nonetheless, any future implementation process of Sectoral Training Funds in Latvia should consider potential drawbacks of such arrangements. For example, not for all economic sectors training funds might be agreed and/or vastly different levels of support might be provided according to sector, as is the case in Belgium and the Netherlands. This can result into a considerable level of disadvantage for employees working in sectors where training funds are missing or weakly developed. Consequently, a certain degree of willingness and capacity of sectoral (employer) organisations is a prerequisite, which might necessitate support for interest intermediation by government. Moreover, sectoral training funds show a tendency in underinvesting in general skills (valuable across sectors) and in supporting CVET preparing for cross-sectoral mobility, which might need to be achieved by other complementary arrangements outside of Sectoral Training Funds. Finally, the coordination of policies across sectoral funds – including the inter-professional funds in Italy – pose a particular challenge, calling for a dedicated coordination mechanism, which is often missing. This can include coordination of policies across sectoral funds or coordination between government policies and the training funds.

6.5.3. Scenario 3: Skills Funds of local and regional ecosystems

Albeit there exist no municipal or respectively regionally organised training fund arrangements of systemic importance in the EU, the case of Ireland shows how a training fund based upon national-level government law can lead to regionally tailored delivery of support. In Ireland, the involved national-level government departments decide on how much of the gathered funds should spread across the various lines of action, with various existing organisations then responsible for putting into action the funding received, including Education and Training Boards (ETBs) and SkillsNet, both of which have relevant regional dimensions. The 16 ETBs focus primarily on supporting individuals with only a few activities for employers. The ETBs as the principal providers of adult learning deliver training provision either directly or via a network of contracted training or community education and training providers in response to the needs of their respective regions. SkillsNet focuses on support for employers by combining a regional and sectoral approach. Each SkillsNet Business Network collaborates to address skills needs within their sector, region, or a combination of both. They work with business owners and managers to develop bespoke upskilling solutions for their business and to provide relevant upskilling where and when it's needed.

Not only can Local and Regional Skills Funds support training in accordance with business' specific needs in a municipality and/or region, but they could also be used as a tool to achieve more balanced economic growth across the country. As stakeholders in Latvia have emphasized, balanced economic growth across the country depends on having access to

sufficiently skilled labour. Jobs and job prospects being concentrated in Latvia's most economically active municipalities and regions show uneven local and regional growth. Municipalities and regions with low levels of skilled labour might attract substantially less investments – and consequently in turn employment possibilities. Co-funding municipalities and regional Skills Funds by EU structural funds and/or central government, with economically weaker municipalities and regions receiving higher levels of support, could offer an opportunity to mitigate such local and regional differences.

However, at the same time, local- and regional-level actors, including social partners, in economically less developed municipalities and regions might be overburdened by this approach and less likely to engage in the creation of a Local and Regional Skills Fund. Local and regional Skills Funds would consequently necessitate considerable capacity-building activities to be effective. Furthermore, economic inequality across municipalities and regions might lead to varying levels of financial resources raised by the levy, and consequently different levels of support valuable for employers in case this cannot be mitigated by co-funding via EU structural fund and/or the central government. Finally, same as for sectoral training funds, the coordination of policies across multiple local and regional funds can pose a particular challenge, calling for a dedicated coordination mechanism, which is often missing. This can include a lack of coordination of policies across local and regional funds or a lack of coordination between government policies and the local and regional training funds. In the worst case, failed cooperation can lead to unproductive competition arrangements.

In sum, given the substantial capacity-building efforts necessary for introduction of Scenario 3, and the preparatory effort already undertaken for implementation of Scenario 2, the implementation of Local and Regional Training Funds has to be considered less favourable compared to Sectoral Training Funds. However, in the medium term, this scenario could be taken up for further assessment as a substitute for Scenario 2 in case the latter proves to be unsuccessful.

6.5.4. Summary of stakeholder positions

All stakeholder groups, who have participated in a focus group discussion and workshop, were united in assessing the favourability of all three scenarios and their alignment with broader labour market reforms and EU policies:

- a) Employer associations prefer either Scenario 1 (in case no levy is implemented) or Scenario 2 (based on a levy, due to potentially stronger employer involvement in the governance of the sectoral funds)
- b) Trade unions favour Scenario 2 and support Scenario 3, emphasizing that collaboration among responsible actors is most feasible in Scenario 2, while Scenario 3 has particular advantages regarding its spatial perspective on labour markets and job creation.
- c) The Ministry of Education and Science prefers scenarios based upon an employer levy and tripartite agreements, favouring Scenario 2 and supporting Scenario 3. They particularly highlighted the need to mitigate long-term dependence on EU structural funds, and emphasized the importance of increasing employer

contributions given the benefits of an educated workforce for both the whole country as well as the individual company.

- d) The Ministry of Economy favours Scenario 1 as a centralized, long-term performance-based funding mechanism of a sustainable adult learning system.

In conclusion, Scenario 2 is the most favourable and realistic scenario. Scenario 3 presents valuable alternative that considers a spatial perspective on labour markets and job creation but necessitates substantial capacity-building among regional-level actors, which could be taken up for further assessment as a substitute for Scenario 2 in case the latter proves to be unsuccessful. Scenario 1, while innovative and aligning with other currently planned or discussed reforms, requires substantial public funding in case no levy is implemented, and has certain drawbacks concerning the possible extent of social partner involvement at the national level. While scenario 2 is suggesting a sectoral training fund model, international experience shows that government law is required for establishing the framework conditions (see box 3).

Box 3. International examples of sectoral training funds implemented via government law

Opérateurs de Compétences (OPCO) - France

France has the most comprehensive, complex and frequently reformed framework of a levy-based training fund in the EU-27, being of vital importance for the French skill formation system. Employers have to pay a levy (0.55% of the payroll for micro enterprises, 1% for all larger enterprises) which is centrally collected (since 2022) and redistributed to one of (since 2019) 11 OPCAs, with each enterprise assigned by law to one OPCA. The OPCAs receive also funding from other sources (national, regional, PES). Key instruments introduced based on the levy include (a) contributions to the costs of enterprises' training plans, (b) the (reformed) individual learning account, (c) schemes supporting the changes of occupation (d) the funding for educational leave. The OPCAs play also a key role in organising the training supply on sectoral level and they offer a broad variety of other instruments targeting enterprises (e.g. counselling/consulting services for designing training plans, new approaches for workplace integrated training) and for individuals (guidance, validation of prior learning). It is important to note that beyond the training levy, enterprises pay a levy for supporting initial VET /apprenticeships (in general 0.68% of the payroll), with enterprises providing IVET receiving an exemption from a smaller part of their contributions. Since the latest reform in 2019, the apprenticeship levy is also channelled to the OPCAs. In total, levies collected for CVET and IVET exceeded EUR 10 billion in 2019. The next phase of the review will focus on two specific OPCA. Cedefop review of training fund arrangements in France covers two examples of OPCA. OPCA of the construction sector was included (Constructys) for its activity in terms of training and relevance against larger societal changes such as the green transition. In addition, the review includes the OPCA on local enterprises (*entreprises de proximité*). This OPCA operates cross-sectionally (covering 54 different sectors) and allows a more in-depth understanding of adult learning policy across different sectors.

Inter-professional Training Funds (Italy)

In Italy, the system of Inter-professional training funds (*Fondi Paritetici Interprofessionali per la formazione continua*) has been introduced since 2000, with the previously established

surplus for funding training paid as a part of the contribution to the unemployment insurance made available to new forms of social partner-led (organised employers and trade unions) training funds. Training funds enjoy considerable levels of autonomy yet are overseen by the Ministry of Labour and Social Policies. Training funds had been introduced as one way to enhance social dialog on training. By June 2023, 19 training funds are active, with employers free to choose a training fund according to their preferences. All enterprises are mandated to contribute 0.30% of their wage bill for training as part of their social security contributions. Training funds receive the training levy for their members, with levies (about one quarter of all levies) of enterprises non joining any fund (more than three quarters) staying with the PES. Training funds partly reimburse members for their re-incurred training costs within the limits of the contributions made ('individual account' mechanism), but also fund specific projects, irrespective of the contributions made ('collective account' mechanism), using a highly complex system of calls, with one call totally different from each other. The monitoring of Funds' calls, strategies and main activities is under responsibility of National Institute for Public Policies Analysis (since 2019 till June 2023) within the framework of the national official surveys on CVT (see case study of Italy for more details). The setting up of the system with training funds competing for members and the strong role of the social partners having created a specific Fund gives the Italian case its unique features in Europe. With about EUR 591 million of funding in 2021, the Inter-professional Funds represent one out four major funding lines for training in Italy, together with funding for formal adult learning, the training activities for the unemployed, and funding frameworks for non-formal adult learning, the latter with high levels of support by the ESF. The largest training fund in terms of available resources and joining companies is Fondimpresa. While it is open to companies of all sizes and sectors, more than 98% of registered companies belong to the SMEs and about 30% to the manufacturing sector. Another very large and innovative fund is For.Te., targeted at companies operating in the tertiary sector, which plays a very important role in the Italian economy.

Source: Cedefop Case studies on Italy and France



Chapter 7. Country specific recommendations for policymakers

This case study on establishing training funds in Latvia has presented an in-depth analysis of the country's current arrangements relevant for introducing training funds, including the extent to which the functions of a potential training fund arrangement are currently met and what space is available for a training fund designed to fill gaps still existing in the Latvia's CVET and adult learning system. It furthermore presented a set of distinct scenarios for implementing training funds. While each analysed scenario shows unique strengths, weaknesses, opportunities and threats associated with them, the analysis of the scenarios also provided more general lessons to be learned for implementing training funds in Latvia. This section, based on the above assessment of scenarios, consequently, formulates overarching country-specific recommendations for policymakers and other relevant stakeholders in relation to establishing Training Funds in Latvia. It is recommended that any future reform introducing Training Funds should consider the following aspects:

Ensure effective coordination across government. CVET and adult learning touch the responsibilities of multiple ministries in Latvia, in particular considering the Ministry of Economy, the Ministry of Education, and the Ministry of Welfare. For any of the observed scenarios, coordination across government (as for example via the Human Capital Development Council) needs to be ensured to deliver effective solutions. For sectoral (Scenario 2) and local-regional (Scenario 3) variants of training funds, requirements for effective coordination are even higher due to the necessity of involving sectoral, and local and regional level stakeholders in respective coordination bodies.

Take measures to ease the introduction of a training levy for businesses. A mandatory levy will contribute to a better balance of training investments made across enterprises by providing incentives for training and discouraging 'free riding' of companies that do not train, benefiting the training activities of companies while putting a 'price tag' on remaining 'inactive' in the field of training. The proposed size of a levy would be 0.5%, which would approximate to contributions sized around EUR 85 million per year (estimations based upon Latvian gross wages for 2023 according to Eurostat) in case that private and public sector organisation need to contribute to the fund ⁽²⁴⁾. To ease introduction, the levy could initially be at a lower height (e.g. 0.3%, raising approximately EUR 50.7 million per year) to be increased over the course of a number of years. In these initial years, lower contributions by employers could also be set off by an initial contribution out of government budget and/or EU structural funds. Furthermore, the potential burden on employers by introducing an additional levy-based fund could be partly offset by reconfiguring (business) taxation and/or social security contributions. Furthermore, micro and small enterprises (one to ten employees) could be exempted from the levy payment.

Ensure expansion of training fund arrangements across Latvia. Current plans for implementing training funds in Latvia foresee the introduction of pilot training funds. Such an approach has the advantages of testing the suitability of training funds within the particular

⁽²⁴⁾ Estimating the funding mobilised – Based on estimated gross wages – National Accounts Source: Eurostat - nama_10_gdp – (Version 20.05.2024) Latvia EUR 250 000 in million - current prices 200 000.

Latvian context, if the pilots are accompanied by monitoring and evaluation mechanisms to measure outcomes, assess their effectiveness, impact, and alignment with broader skills development objectives. Such pilots can also be co-funded by EU-structural funds, as currently foreseen under Latvia's RRF plan, thereby easing their introduction and enabling initially lower levels of levies. However, as emphasized by stakeholders consulted during this project, a rare window of opportunity might be missed if the total number of training funds to be introduced as pilot projects remains limited. Latvia should actively pursue a roll-out of the concept across the whole country. A considerable disadvantage could arise for employees working in sectors or regions where training funds are missing. Already in the pilot phase, any interest voiced by sectors with a higher degree of readiness for training funds should be considered. This recommendation has already been considered in the draft version of Latvia's Human Capital Development Strategy 2024-2027 (as of September 2024) (State Chancellery, 2024).

Build complementary arrangements. Training funds are not a golden bullet – each of the three discussed scenarios show unique strengths and weaknesses, which might need to be mitigated by other complementary arrangements. For example, a review of training funds across the EU has shown that sectoral training funds have a tendency in underinvesting in generic skills (valuable across sectors) and in supporting CVET preparing for cross-sectoral mobility. Furthermore, the extent to which they can consider specific local and regional needs might be limited. In contrast, national-level training funds might have difficulties in identifying sectoral skills needs, with potential limited cooperation with industry. Other (sets of) instruments might be needed to alleviate these shortcomings. More generally, training funds can also rely on certain quality services in CVET and adult learning that are already provided by other stakeholders (e.g. guidance, validation, skills intelligence, training provision).

Focus on support targeting employers, but assess gradual expansion of provided support over time (including support for individuals). Stakeholders have emphasized that training funds could also provide support instruments directly targeting individuals or providing wage replacement payments either to the employer (in case that that training took place during paid working hours) or to the employee (in case, that wage payment is temporarily disrupted or reduced). International examples (e.g. in Denmark, Netherlands and France) show that training funds can in principle offer such support – thereby further reducing barriers to adult learning. However, this would necessitate comparatively high amounts of financial resources to be raised (in particular in case of wage replacement payments). To ease introduction of the fund, it is suggested to start with a limited range of provided service, while assessing a gradual expansion over time.

Ensure effective interest intermediation. Training Funds are most effective if they align skills supply with demand. This ensures the relevance of provided support for both business as well as the economy. An effective way of achieving this is giving governance responsibilities to those stakeholders that are informed best about skills needs, i.e. sectoral and/or regional representatives, in particular employer associations and trade unions. Public actors on the national- or municipal-level should only be included in the Training Fund's governance if national- respectively municipal-level funding is used for financing the training funds. If this is not the case, public actors might be better positioned to take on an 'observer role' without voting rights in the respective governance bodies.

Provide support for interest intermediation. A certain degree of willingness and capacity of social partner organisations and/or local or regional stakeholders is a prerequisite for effective interest intermediation. Stakeholders consulted during the project emphasized that these stakeholders might currently lack the capacities for meaningful involvement into the governance of a training fund. The government should consequently take actions to strengthen the capacity of these actors to fulfil certain actions in the field of CVET and adult learning governance. A certain share of financial resources raised by the fund could be used to offer technical advice and assistance by teams of experts to support them in fulfilling their governance functions (see Cedefop Case Study on Training Funds in Spain for an example (box 3)).

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