

SOCIAL POLICY IMPLEMENTATION IN LATVIA POST EU ACCESSION¹

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This overview has been prepared at the request of the European Commission Representation in Latvia. The overview was drafted in early 2009 primarily on the basis of legal and statistical information available before the deep downturn in economic development of the country as a result of the global economic crisis. Research on the literature was supplemented by interviews with government officials where appropriate.

Introduction

The 2004 and 2007 European Union enlargements remain a controversial topic. One of the important issues in Central and East European countries is Social policy, which includes social protection and changes in policy implementation.

This paper is a follow up of the very extensive and detailed pre-accession assessment on social protection system in Latvia written by Inara Bite and Valdis Zagorskis on the “Country Study Latvia in the Social Protection Systems...”. The authors’ assessment demonstrated that the main principles and mechanisms of the social protection system are rather employment- centred, not inhabitants-centred and most of social risks are compensated through the social insurance system which is based on insurance records and earnings. The attention in the study was paid to the evidence of neo-liberal ideas and their presence especially in relation to the implementation of pension reform. It was stressed that only limited attempts have been made to use welfare to mitigate social inequalities.¹ As it is indicated in the study, emphasis is set on each individual’s responsibility for creation of his/her social

¹ This study was supported by European Commission Representation in Latvia. The authors are grateful to Liesma Ose for sharing her knowledge and experience.

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security rights. When implementing the funded pension scheme, individuals will, to a large extent, take over the inherent financial risks to this system.

The discussion about the particular model that Latvia follows in the implementation process of Social policy is still debated.

This paper examines Social policy issues in Latvia from the perspective of a New Member State. In particular, the case of Latvia will be examined resulting from the membership in the EU during 2004-2008, when high economic growth combined with natural population decline, labour shortages in some sectors of the economy and out-migration that call for policies to promote human capital development in the country.

The authors reviewed documents and statistical data related to the EU and government of Latvia in the most important areas of the Social policy and social protection, while focussing on evaluating the policy implementation.

EU Social policy framework and models

Framework

Since the EU enlargements of 2004 and 2007 the need to increase economic efficiency of the Union and to bring the economies of the new members up to par with the economies of the old members states has become vital. Accession to the EU has brought rapid and fundamental changes for Central and East European countries. Among major dilemmas that New Member States have been facing was a question about market and social security.

The Lisbon strategy¹¹, as a framework for further development of the EU, set up a requirement to increase employment in Member States. To make the EU “the most competitive and dynamic knowledge-driven economy by 2010” is a challenge not only for Europe’s economic performance, but as well for its social cohesion and solidarity. That challenge is to be understood in a double sense, as a threat to and as an opportunity for social cohesion. Some analysts and politicians depict the role of the state in social protection as unsustainable or even counterproductive in the new global scenario. However, the risk of social exclusion remains. A possible answer to these new challenges is to associate closely the creation of more competitive economies and the struggle for social inclusion.

The EU approach to social inclusion does not consist in assisting the poor, but in helping them out of poverty by ensuring their participation in innovative economic activities. Social inclusion under the Lisbon Strategy, which aims at the modernisation of the European social model, can thus contribute to the economic dynamism of the EU rather than impairing it. The Lisbon Strategy seeks to strengthen the EU’s social cohesion by improving its economic structures and dynamism.

Social policy is increasingly accepted in the European Union as being a productive factor. Building the sustained economic growth necessary for long-term employment creation in the New Member States will require an unprecedented level of political, economic, and social cooperation among governments, business, and individuals

throughout Europe. The most common approach is to consider Social policy of the EU or social dimension of European integration as actions carried out under the Social policy chapter of the EC Treaties. EU Social policy is not interventionist. The subsidiarity principle enshrined by EU Treaties: Rome (1957)^{III}, Single European Act (1986)^{IV}, Maastricht Social Agreement (1992)^V, Amsterdam (1997)^{VI} and Nice (2001)^{VII} means that the European Union competence is restricted to areas where national governments cannot meet policy objectives through their own actions. Strictly, the Social policy is responsibility of the Member States, though social policies are increasingly affected by the EU social agenda. Member States set common goals and promote cooperation, as well as exchange of information with the Open Method of Coordination (OMC), i.e., exchange of experience³. The direct and indirect pressures resulting from the process of market-integration erode the capacity of the national welfare states to pursue autonomous social policies (Aust et al, 2004^{VIII}). Consequently the national policies in Europe can no longer be analysed without reference to the EU.

The EU policy makers strive between conflicting social and economic goals, i.e., high levels of productivity and growth and maximization of social protection, inclusion and cohesion. EU policy is largely regulatory, and the term, 'Social policy' refers to policies affecting the social conditions under which people live. The Lisbon Strategy can be a tool for EU Member States in the process of adapting to the more competitive environment brought by globalisation and this is critically important for the further reform of the European Social Model. Given the diversity that exists, reform can only be addressed at the national level.

The definition of European Social Model was adopted by the Barcelona European Council in March 2002 and it states "The European social model is based on good economic performance, a high level of social protection and education and social dialogue"^{IX}. This definition stresses the necessity to combine social cohesion with good economic performance, and the same time relies on high level of social protection against the risks of life. The challenge to balance economic and social policies is a challenge in particularly for the new EU Member States struggling for economic convergence, as is the case for Latvia.

Following the streamlining of the Social policy, Member States are now charged with translating the common objectives into National Plans for each of the three

³ Since the EU has implemented and Open Method of Coordination (OMC) at the Essen European Council of 1994. The OMC is a new EU level approach that is gaining in importance as an alternative to regulation. It is based on European guidelines national action plans, and national reports using common indicators, and uses EU level evaluations that feed into new policy guidelines. Every year since the Amsterdam's Treaty that formalised employment policy of the EU, the EU has adopted employment policy guidelines. Their specification and implementation is left, however, to the national level so that domestic situation and party political preferences can be taken into considerations. At the same time must present annual reports on how they have dealt with the guidelines, and why they have chosen particular strategies in their national Action Plans. They have to attend European level in regular debates on the national employment policy and this have a harmonising effect on social policies in Europe. The open method of coordination has recently been extended to new fields, including pension reform, social inclusion and education.

areas of Social Inclusion, Pensions and Health and Long-Term Care. These plans, which cover a period of two years, are submitted to the Commission in the form of a National Report on Strategies for Social Protection and Social Inclusion^x.

The social situation in a country can be measured by a wide matrix of different statistical and descriptive indicators. For this purpose the Commission in 2007 has established a tool for monitoring the social situation in its member countries called EU-SILC (Statistics on Income and Living Conditions), which contains internationally comparable data with reduced time lag between collection and publication.⁴ As we perceive the role of this study to be concentrating on the changes in Social policy and associated legislation, we are not presenting the overall statistical picture but rather concentrate on the dynamics of the most important parameters that we consider describe the situation best.

Social models

There is no one European social model. European countries have diverse approaches to Social policy. However, in the context of the European experience of Social policy implementation four major models can be distinguished.

Anglo-Saxon model with domination of free market, followed by the UK and Ireland is based on a more limited collective provision of social protection and more flexible labour markets. This model is more oriented towards individual responsibility and market solutions to social issues. The market and the family are the main providers of people's welfare with little role of national social policies. The state's objective is to ensure basic living standards and help those in need, and to cushion the impact of events that would lead to poverty, such as sickness, old age, or unemployment. Rhineland or Continental model of social welfare supported by France and Germany, as well as some other Central European countries. All of them share several communalities – such as equality, solidarity, non-discrimination, redistribution of resources – and are very distinct from the Anglo-Saxon model. The Continental model entails the provision of social assistance through public insurance-based systems in the Bismarckian tradition. In these countries, the role of the market in the provision of social assistance is limited and employment protection is high. The Mediterranean model combines high legal employment protection with lower levels of unemployment benefits. It also represents high expenditures on pensions. Spending is more concentrated on old-age pensions and the role of social support through the extended family remains important. The Nordic or Scandinavian model is described by high social protection level, high taxes and inclusive labour market emphasising significant investment into social welfare (Sapir 2005).^{x1}

⁴ See http://ec.europa.eu/employment_social/social_inclusion/indicators_en.htm for the latest list of indicators.

Table 1

Social Models in the EU

		Efficiency (Social policy as a productive factor)	
		Low	High
Equity	High	Rhineland / Continental	Nordic
	Low	Mediterranean	Anglo-Saxon

All models involve government interventions to reduce poverty and social exclusion, achieve a fairer distribution of income, provide social insurance and promote equality of opportunity. The basic pillars of all models are pensions, health and long-term care, social protection for the poor or disabled, and the redistributive function of taxation.

As many of the studies in this area show, the process did and does produce mixed results, as well as controversy. This refers both to policies and to Social policy implementation.

The New Member States are in the process to choose their model for development but they may also have their own contribution to make European social model.

Interrelationship between domestic and European social protection dimensions

Social policy was not one of the major issues in the EU. However, in the Treaty of Rome provisions for the European Social Fund and the Economic and Social Committee were included. Moreover, in the 1970s and 80s there were some steps towards the creation of Social policy as one of the policies of the European Community. The crisis in the 1970s and 80s influenced certain civil society movements to launch a campaign to develop Social policy and social inclusion at EU-level. This trend came to a stop when the subsidiarity principle was formally enshrined in the Maastricht Treaty. Now the European Union Social policy has a wide scope of action, which ranges from establishing Europe-wide legislation to promoting non-binding exchanges of information and opinions.

The European Union has no powers to standardise the numerous, in some cases very different systems of social protection in the Member States. Instead, its role is to coordinate these systems to protect the main principles of the Common market function in the area of free movement of people as, for example, to guarantee established rights, e.g. for workers abroad, exchange students and etc. The EU is thus making sure that those exercising their right to freedom of movement are not put at a disadvantage.

The fundamental components of European Social policy are the OMC with exchanges of best practice as well as an orientation of the European Social Fund (ESF) to encourage social inclusion. The ESF and OMC are two instruments for supporting social inclusion efforts by Member States. The ESF was created in 1957 to ensure the solidarity between the Member States.

The OMC formulates common objectives, which all Member States are expected to implement through national measures in the areas of social protection, social inclusion, pensions, health, long-term care and poverty prevention. The overarching objectives of the OMC for social protection and social inclusion are to promote:

- social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- effective and mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion, and with the EU's Sustainable Development Strategy;
- good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.

Social policy in the European Union incorporates labour law, occupational health and safety as well as gender mainstreaming. It also sets standards and objectives in these areas, as well as laying down the principles of anti-discrimination policy.

The requirements for Social policy development in Latvia are determined by the EU common aims in relation to social protection and inclusion following the Open Method of Coordination on Social Protection and Social Inclusion. This helps to create the overall domestic system for Social policy implementation.

Social policy system development process in Latvia before the accession was significantly influenced by programmes and projects implemented by international organisations such as the World Bank, United Nations Development Programme, International Labour Organisation with which the EU has very close cooperation. This provides sustainability of the main principles and measures Social policy set up already before the accession.

As a member state Latvia is eligible for the EU Cohesion Funds implementation that is meant to have the major impact on the further development of country's social dimension.

Social protection trends in Latvia 2004 – 2008

Legal framework and institutional dimensions

The legal framework development for the Social policy implementation in Latvia was a long process that coincided with transition to market economy, structural reforms, requirements to fulfil the Copenhagen criteria for the accession to the EU and the urgent need to provide social benefits.

These conflicting trends in the socio-economic system development are reflected in the of the legislative process development. This process was intended to provide a safety net for the future and also affected the framework of the Social policy concept.

Latvian legislation does not give an explicit definition of the term ‘social protection’.^{xii} Nevertheless Latvia has signed several international agreements on human rights, welfare and social protection. The most important documents are the Universal Declaration on Human Rights (UN)^{xiii}, and the European Social Charter (ESC)^{xiv}. The constitution of Latvia (article 109)^{xv} assures that everyone has rights to social security when old or in the case of work inability or unemployment.

The most important legislative documents in specific areas of Social policy are reviewed in the respective sections of the study.

It is important to stress that major legislative steps to develop the social protection system were taken in the pre-accession period. However this process was not always systematic as it was frequently demand driven. For example, such major legislative act as the Law On State Pensions^{xvi} (1996) has been often amended and continues to be so even at present. This increases a risk of diminishing of public confidence towards the stability and sustainability not only to the pension system but to the safety net system in general.

The accession period required to design and implement the National Action Plan for Reduction of Poverty and Social Exclusion (NAP)^{xvii} that was launched in 2004 in line with the Single National Economy Strategy (2004-06)^{xviii}, Joint Memorandum on Social Inclusion (2003)^{xix} and the National Employment Plan (2004)^{xx}. The Ministry of Welfare in Latvia has issued two important strategy documents: the “Conception of the Development of Labour Protection from 2007–2013” and “The Programme for Development of Labour Protection from 2007–2010”.

The Social policy administration is a complex process and requires the active involvement of number of government institutions and agencies the Ministry of Welfare, Ministry of Health, Children and Family Affairs and Integration, State Employment Agency and etc.

Social policy programmes and spending

The most important policy changes and/or instruments that have been implemented after accession will be discussed.

The social benefit system consists of health care, sickness, maternity, family, unemployment, invalidity benefits and old-age pensions. Various additional less popular allowances exist. The basic structure of the benefits has been continued in the after-accession period. The general policy direction has been employment centred, i.e., the social risks are compensated taking into account earlier earnings for which social insurance payments have been made. The individual is seen as responsible for his own security rights. The means-tested benefit allocation is secondary.

In Latvia, social protection expenditure⁵ accounted for 12.2% of GDP in 2006. The ratio of social protection expenditures to GDP has been decreasing over the years,

⁵ Social protection expenditure and receipts are calculated in line with the methodology of the 1996 version of the ESSPROS (European System of Integrated Social Protection Statistics) Manual. Expenditure includes social benefits, administration costs and other expenditure linked to social protection schemes. Social benefits are recorded without deduction of taxes or other compulsory

and since EU accession it has been 12.9% and 12.4% of GDP for 2004 and 2005 respectively. Similarly the ratio has been declining in the other Baltic Countries, and remained quite stable between 27 and 28% of GDP in EU25.

Table 2

**Social protection expenditure (according to ESSPROS classification)
2000-2006, as % of GDP, Latvia and selected EU countries**

	2000	2001	2002	2003	2004	2005	2006
EU27	:	:	:	:	:	27.1	26.9
EU15	26.8	27	27.3	27.7	27.6	27.7	27.5
BE	26.5	27.3	28	29.1	29.3	29.7	30.1
DK	28.9	29.2	29.7	30.9	30.7	30.2	29.1
DE	29.3	29.4	30.1	30.4	29.8	29.7	28.7
EE	14	13.1	12.7	12.6	13	12.7	12.4
IE	13.9	14.9	17.5	17.9	18.2	18.2	18.2
GR	23.5	24.3	24	23.6	23.5	24.3	24.2
ES	20.3	20	20.4	20.6	20.7	21.1	20.9
FR	29.5	29.6	30.4	30.9	31.3	31.4	31.1
IT	24.7	24.9	25.3	25.8	26	26.3	26.6
LV	15.3	14.3	13.9	13.8	12.9	12.4	12.2
LT	15.8	14.7	14	13.5	13.3	13.1	13.2
LU	19.6	20.9	21.6	22.1	22.2	21.7	20.4
NL	26.4	26.5	27.6	28.3	28.3	27.9	29.3
AT	28.4	28.8	29.2	29.7	29.3	28.8	28.5
PT	21.7	22.7	23.7	24.1	24.7	25.4	25.4
FI	25.1	24.9	25.6	26.5	26.6	26.7	26.2
SE	30.1	30.8	31.6	32.5	32	31.5	30.7
UK	26.4	26.8	25.7	25.7	25.9	26.3	26.4

: Data not available Source: Eurostat

The EU27 average continued to mask major disparities between Member States. Social protection expenditure as a percentage of GDP was around 30% in 2006 in Belgium (30.1%), Denmark (29.1%), Germany (28.7%), France (31.1%), the Netherlands (29.3%), Austria (28.5%) and Sweden (30.7%), and below 15% in Latvia (12.2%), Estonia (12.4%) and Lithuania (13.2%). These disparities reflect differences in living standards, but are also indicative of the diversity of national

levies payable by recipients. "Tax benefits" (tax reductions granted to households as part of social protection) are generally excluded.

social protection systems and of the demographic, economic, social and institutional structures specific to each Member State.

The expenditures on social protection have been steadily increasing since 2000 (see Table 3), reaching 1.4 billion LVL in 2006 (and increasing further thereafter, precise data inaccessible as on the moment of writing). Following the trends in total budget for social security, financing to all categories of social care has been increasing similarly. The two biggest categories in terms of amount of funding were the sickness and health care and old age pensions. The third biggest social budget expenditure was payments for family and childcare, followed by invalidity pensions and unemployment benefits. The basic structure of the expenditures for social security has not changed significantly between 2006 and mid 2008. Even though in nominal terms the social security budgets have been raising the high inflation in the period 2005-2008 has to be mentioned. After mid 2008 with rising unemployment, expenditures on unemployment are raising rapidly.

Table 3

**Social security expenditures in Latvia 2000-2006, Millions LVL
(according to ESSPROS classification)**

	2000	2001	2002	2003	2004	2005	2006
Total expenditure for social security	725.6	746.2	801.1	879.8	960.1	1120.2	1368.2
incl.:							
1. Sickness/health care	118.1	140.6	153.4	194	222.6	279.2	386.8
2. Disablement	55.5	57.4	60.8	62.7	71.8	80.2	96.8
3. Old age	401.8	398.2	423.5	429.8	450.8	511.8	613.3
4. Loss of the breadwinner (survivor)	22.1	20.5	21.8	21.2	22.7	24.6	28.9
5. Family/children	71.8	75.5	79.1	89.4	95.9	118.5	135.2
6. Unemployment	26.7	23.7	23.8	26.3	32	41.4	49.2
7. Dwelling	4.9	4.8	5.3	5	5.6	6.4	8
8. Social exclusion	5	5.3	6.2	7.8	11.2	10.7	10.7
Administrative costs	17.3	16.3	17.4	19.9	20.5	24.8	28.9
Other expenditure	2.4	4	9.7	23.7	26.9	22.6	10.5

Source: CSB electronic databases (table 12-15)

Over the previous years there has been surplus in the social budget (see Table 4) as opposed to the general budget and a debate has existed in the society whether it should be invested in the financial markets to save for the future to prepare for the future accelerating social payment that would come with aging of the society, or alternatively if it should be used for increasing pensions for the current pensioners and social benefit recipients. The increase of social insurance budget is directly dependant of social insurance payments made from earned income. As seen from Table 4, the social insurance budget from 2004 to 2007 at the year-end had a positive balance and had been increasing respectively from 43 million LVL to 322 million LVL.

Table 4

State social insurance budget trends in Latvia 2003-2007, million LVL

Year	2003	2004	2005	2006	2007
Income - total	561.7	652.6	736.5	980.3	1247.7
Expenses - total	562.9	609.9	688.0	798.5	925.6
Fiscal balance	-1.2	42.7	48.5	181.8	322.1

Source: CSB

Evidence suggests that in Europe there is a general tendency for countries with relatively high levels of GDP per head to have a more equal distribution of income (as measured by Gini index), whereas with rapid economic development also the Gini index increases, i.e., the gap between the rich and the poor increases. In Latvia the Gini coefficient is increasing by about 1% every year since 2004 widening social gap in Latvian society. Income is more equally distributed in most EU Member States than in Latvia. The Gini coefficient⁶ in 2004 in EU was 32.7^{xxi}, while in Latvia – 35.5, which compares to US at 35.7.

Regional analysis of Latvia's per capita GDP reveals another cause for concern: increasing regional disparities in personal disposable income. The Gini index measuring inequality in the distribution of per capita disposable income in 2006 was 0.36 compared to a level of 0.30 in 1996.^{xxii}

Important areas of social protection

Pensions

In Latvia the most dramatic reforms of the pension system were carried out before the EU accession, i.e., the transition to the tree tier pension system. Following accession Latvia has continued the improvements and adjustments of the pension system, however without major changes.

⁶ The Gini coefficient is defined as the relationship of cumulative shares of the population arranged according to the level of income, to the cumulative share of the equalized total net income received by them.

Size of all pensions have increased during the previous years (see Table 5) The average old age pension has increased by more than 40 percent in the after-accession period, the invalidity and survivors pensions have increased by almost the same percentage. Though, the living costs have also increased significantly due to inflation – the subsistence wage (*iztikas minimums*) has increased from LVL 99 in 2004 to LVL 133 in 2007 and LVL 160 in 2008.

The old age pensions comprise the majority of all pension payments, and the number of them has been decreasing since 2001 (see Table 5). Comparing the old age pensions with subsistence minimum in Latvia, we see a worrying situation that effectively the welfare of the elderly has not improved. Slightly over 80% of pensioners in Latvia received pensions which are below the subsistence minimum defined by the state, and more than 90% of the old-age pension sizes are below the poverty threshold, expressed in volume of 40% as a level of income replacement of the average labour wage (Volskis 2008)^{xxiii}.

Table 5

Average pensions in Latvia (LVL)

	2001	2002	2003	2004	2005	2006	2007
Average monthly pension	56.98	60.45	62.49	68.83	77.95	92.21	106.23
old age pensions	58.16	62.14	64.34	70.89	80.53	95.95	110.79
invalidity pensions	52.63	53.56	54.64	60.16	66.89	73.63	82.56
survivors pension	45.59	46.14	47.34	51.8	57.4	67.33	76.73
service pensions	61.55	69.69	73.08	78.11	86.95	95.79	111.53
pensions under special regulations	80.65	84.97	89.17	98.88	112.06	125.88	144.25
Subsistence minimum (per person)	86.93	88.76	93.54	98.78	105.48	116.92	132.89
Disparity between old age pension and subsistence wage	(28.17)	(26.62)	(29.20)	(27.89)	(24.95)	(20.97)	(22.10)

Source: CSB

Pension indexation is performed according to the Law “On State Pensions” considering the actual inflation and actual increase in average insurance contributions wage. The system of pension indexation made by Ministry of Welfare foresees to protect pensions from rapid increase of inflation in Latvia because rates applied are even higher than official inflation. However the indexation system has not managed to improve the welfare level of pensioners and it does not solve the problem connected with current low pensions.

Indexing ratios are applied to the low amount pensions, which are below 150 LVL as well as those old-age pensions, amount of which is not exceeding a quintuple amount of State social security allowance 225 LVL. Pensions exceeding this amount of 225 LVL are not indexed.

Number of pensioners in Latvia 2001 – 2007

	2001	2002	2003	2004	2005	2006	2007
Number of pension recipients – total	620 947	609 771	598 140	589 598	580 964	568 836	560 878
incl.							
old age pensions	504 796	496 887	487 879	481 683	475 623	472 140	467 165
invalidity pensions	80 547	77 876	75 938	74 603	73 574	66 714	66 028

Source: CSB

To ensure the stability of the pension system in long term in accordance with conception on pension reform and the law on State pensions, the pensioning age for women was gradually increased up to 62 years. The pensioning age for men is 62 years already since January 2003. If the social insurance period exceeds 30 years, i.e., if the person has been working and paid social insurance tax for at least 30 years, he/she can benefit of early pensioning option and retire two years before the stated pensioning age, i.e., from 60 years. Early pensioning will be possible only for another three years until 2012.

A controversial issue in the pension system development was the complete transfer of administrative rights of the state's funded pension funds to the private sector. It has lead to high concentration of financial resources within the private pension plans and investments of these resources abroad, especially the US bonds. As a consequence, these resources are not facilitating development of Latvian national economy, but rather working against the Bank of Latvia intervention policy.

Healthcare

The Latvian health care system has undergone a serious transformation process starting from the 1996 and continuing through the EU accession until now, with the following three strategic directions: (1) movement towards primary and secondary care and increasing access to health care, (2) reform of financing system, and (3) public health promotion (*sabiedrības veselības veicināšana*). The legislative base development to support the strategic directions has not been systematic however, but more demand driven to solve acute problems. The regular changes in the financing scheme does not create stability nor for the recipients of the healthcare, or providers.

The total expenditure on health care in Latvia has increased in nominal terms but has actually decreased relatively to GDP from 6.8% of GDP in 2004 to 5.9% in 2007 (see Table 7), and is well below the EU average (8.8% in 2005). In 2007 general government expenditure on health was 61.1% and private expenditure was 38.9% of total expenditure on health. The relative distribution of health care expenditures has changed in recent years towards more government expenditures and decreasing private expenditures. 9.5% of general government funds were spent on health care in 2007, and the proportion has actually decreased compared to 11.1% in 2004. Private health insurance only covers 2.7% of the private health expenditures.

Table 7

Indicators of Latvian health care system 2000-2006

	2000	2001	2002	2003	2004	2005	2006	2007
Total expenditure on health (THE) as % of GDP	6.0	6.1	6.2	6.1	6.8	6.4	6.0	5.9
External resources on health as % of THE	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2
General government expenditure on health (GGHE) as % of THE	54.7	51.2	51.8	52.4	58.6	60.5	63.2	61.1
Private sector expenditure on health (PvtHE) as % of THE	45.3	48.8	48.2	47.6	41.4	39.5	36.8	38.9
GGHE as % of General government expenditure	8.8	9.0	9.0	9.2	11.1	10.8	10.2	9.5
Social security funds as % of GGHE	86.7	87.1	91.7	95.8	78.7	79.6	90.0	93.1
Prepaid and risk-pooling plans as % of PvtHE	3.2	4.7	5.6	3.2	1.9	2.3	2.7	2.7
Private households' out-of-pocket payment as % of PvtHE	96.8	95.3	94.4	96.8	98.1	97.7	97.3	97.3
Total expenditure on health (mLVL)	285	318	356	389	503	575	679	
General government expenditure on health (mLVL)	156	163	184	204	295	348	429	
Private expenditure on health (mLVL)	129	155	172	185	208	227	250	

Source: WHO, National Health Account Series

The decision makers in health care system have also to face the problems of human resources. Currently, the health care system is lacking middle level medical personnel (nurses) and ageing of the higher medical personnel is observed – 28% of the physicians are in pre-pensioning age (51-61), and another 21% of the physicians are in pension age (62 plus).^{XXIV} Only 76% of the graduates of health care specialists work in the profession connected to their education (medicine or pharmacy) (2005 data), the main reason being low remuneration. This is also the reason for emigration of the young professionals to Western European countries. The Ministry of Health states attempts have been made to adjust study programmes for earlier access to work by young professionals^{XXV}.

The issue of managed migration in the health sector is mentioned by the “Green Paper”^{XXVI} of the European Commission in relation to the study undertaken by the

European Migration Network, which found considerable lack of data. The actions proposed by the “Green Paper”, setting up of systems to monitor flows of health workers, and ensuring the availability and comparability of data on health workers are also essential for the Latvia and a closer cooperation within the EU would be highly desirable. The Green Paper realises that EU health systems have to perform a difficult balancing act, firstly between increasing demands on health services and restricted supply; secondly between the need to respond to peoples health need locally but also to be prepared for major health crises.^{xxvii} It is a particular challenge for Latvia to promote a sustainable health workforce.

Unsolved is the issue of under-the-table/unofficial payments or so called “*aplokšņu algas*” – the payments by patients to doctors for treatment. There are three kinds of the payments: (1) voluntary payments or gratitude for treatment, usually in the form of small gifts after the treatment; (2) demanded unofficial payments, and (3) conducive payments to motivate faster, better and more qualitative attitude. While the first kind of payments are generally not considered objectionable, the second one is illegal and punishable, and the third – inappropriate for ethical reasons. The reason for these kind of transfers is firstly historical, inherited from the routine of the soviet times, secondly, perceptions about the income level of medicine personnel, and thirdly, unethical behaviour of the medicine personnel. The underlying reason however is the chaotic health care system.

The EU accession has promoted discussion on health and safety issues at workplaces as the accession of New Member States has reopened inherent tensions in the EU policy making in health and safety in the workplace as a result of incompatible 2 objectives: the need to ensure broad member state compliance with regulation around agreed minimum standards through active regulatory enforcement and the promotion of voluntary initiatives in the management of work place risks and hazards in order to create “a culture of prevention”. According to the State labour inspectorate the work place in accident situation is summarised in the Table 8.

Table 8

Health and Safety at Work: Work place accidents in Latvia

	2004	2005	2006	2007
Number of workers (millions)	1.018	1.036	1.088	1.119
Workplace accidents	1402	1568	1772	1870
Fatalities	61	56	53	58
Serious injuries	244	275	293	268

Source: State Work Inspection, 2007 report

It is important to note that while the number of fatalities and serious injuries seems to have remained constant between 2004 and 2007, the number of workplace accidents has shown a significant increase (Table 8), considerably in excess to increasing size of the workforce. It is to be hoped that the implementation of the EU twinning project to further the occupational health and safety strategy will lead to the expected results.

According to the European Agency for Safety and Health at work and estimating EU labour forces about 220million, the fatalities rate per million in EU are at 25 as compared with over 50 in Latvia. Taking account of the cost estimations by the Agency of work place accident in the EU (20bln Euros per year- this would represent for Latvia approximately 100 million Euros per ml workers on the average. However, in view in the more than double workplace accident rates in Latvia using fatalities as an indicator, the cost of workplace accidents in Latvia may exceed 200 million Euros. Thus workplace accident represents not only human tragedy, but also major economic burden that must be addressed urgently.

Over the same period of time a sharp increase in the usage of sickness benefits has been observed. The data provided by the State Social Insurance Agency suggest that each year the total number of work incapacity cases as well as their duration increases. The amount spent on sickness benefits by government more than tripled from 2003 to 2007. If in 2003 spending on sickness benefits accounted for 2.5% of total spending on state benefits and pensions, in 2007 it was already 4.5% of total expenditure. The number of paid disability days increased by more than 50% over this period.

In 2006 Ministry of Welfare began to implement EU Twinning project on the further development of the occupational health and safety strategy. The project's main targets are to reduce the number of accidents at work by 3% a year, as of 1009, along with occupational sickness by 3% starting from 2012. The result of the project was also development of the NAP "On Occupational Health and Safety" that was aimed to facilitate the implementation of the national strategy on occupational health and safety.

The EC health strategy adopted in October 2007 and published in the White Paper "Together for Health" put forward a new approach in an enlarged Europe of 27 Member States. The Ministry of Welfare in Latvia has issued two important strategy documents outlining the concept of the development of labour protection from 2007-2013 and "The Programme for Development of Labour Protection from 2007-2010". Enhancing social dialogue at company level and in the field of labour protection is seen as necessary step because social dialogue in SMEs is quite poor in Latvia.

Income Security

Unemployment benefits

High economic growth in the recent years positively affected situation in the labour market in Latvia. Over the period from 2003 to 2007 the employment rate increased by 6.5 percentage points and the unemployment rate decreased by 4.5 percentage points. In 2007 the employment rate in Latvia was higher and unemployment rate was lower than in the EU-27 and EU-15.

Over the previous years, i.e., 2004 – 2007, the unemployment in Latvia has been decreasing rapidly reflecting the high economic growth and (nearly) full employment (see Table 9). The number of average yearly benefit recipients decreased slightly every year after EU accession, following the general trend since 1999. On

contrary the average unemployment benefit and the associated social insurance expenditures gradually increased (Table 9). So, in 2004 the average monthly number of benefit recipients was 39.7 thousand people, but in 2007 – 33.9 thousand. The average unemployment benefit in 2004 was 57 LVL per month, in 2006 it was 79 LVL, in 2007 – 107, but in 2008 – already 147 LVL. The rise in the unemployment benefit is linked to increase of wages in the economy, but also to more legalization of employment (or rather paying social insurance contributions from full salary, reduction of prevalence of “envelope wages”).

Table 9

Unemployment indicators 2002-2007, Latvia

	2002	2003	2004	2005	2006	2007
Registered unemployed (end of the year)	89 735	90 551	90 800	78 482	68 944	52 321
Long term unemployed (more than 1 year)	23 681	23 617	23 209	20 581	15 917	9 393
Unemployment benefit recipients (monthly average in the year)	41 502	38 981	39 681	37 961	34 756	33 854
Average unemployment benefit (LVL) per month	43	51	57	64	79	107

Source: Latvia CSB electronic databases, table 5-29 and VSAA

The allocation of unemployment benefits is regulated by the law “On Insurance in the Case of Unemployment”^{xxviii} in force since January 1, 2000. No recent important changes or amendments were made to this law. The size of the unemployment benefit is calculated taking into account the length of social insurance and the average wage from which the social insurance payments are made, and it is paid for a maximum 9 months out of period of 12 months. The benefit is paid dependent on length of unemployment – the first three months full unemployment benefit is paid, the next three months – 75% of the allocated benefit, and the last three months – 50% of the calculated benefit. The unemployed, registered and receiving benefits are required to fulfil a series of obligations – actively look for work and/or participate in training. Research finds no basis to think that unemployment benefits in the form paid currently would provide negative motivation for employment. Quite the opposite, the receipt of unemployment benefit can positively influence the intensity of job search^{xxix}.

The State Employment Agency is the main institution involved with unemployment issues and implementing active labour market policies, including the European Social Fund projects. A special support is granted to unemployed from socially vulnerable groups – persons with disabilities, long-term unemployed, persons with less than general secondary or professional education, elderly (over 50 years), lone people with one or more dependents and ethnic minorities. These activities are co-financed by ESF.

Invalidity

About 5% people of working age in Latvia are people with disabilities. Only 16% of these people work in the labour market. About 3400 people with disabilities (approx. 5% of the total) are registered in State Employment Agency as unemployed. Others are inactive in the labour market.

Statistics shows that the number of people with disabilities (counted as the number of benefit recipients) tends to decrease slowly. The number of disability pension recipients decreases likewise (see Table 6) However, this is explained by overall reduction of population and high mortality in the old-age groups⁷. Upon reaching a certain age a person becomes entitled to receive old-age pension instead of disability pension. Therefore, the number of disability pension recipients decreases faster than the total number of disabled people. The size of the invalidity pensions has increased moderately over the previous years. Though the average level of benefits related to disability, accidents at work or occupational diseases is not very high. Thus, benefits do not create disincentives to look for a job.

Those who are not entitled to receive a state disability pension may apply for the social security state benefit (45 LVL per month). Persons with mobility disabilities may also receive a small allowance to compensate special transportation expenses. In addition a person may receive reimbursement of expenses on medical and professional rehabilitation of total amount not exceeding 1125 LVL per year. In 2007 a new social benefit for the disabled persons with severe physical and functional disability in need of special care was introduced (100 LVL per month).

Currently the Ministry of Welfare prepares ratification of the United Nations Convention "On the Rights of Persons with Disabilities". The Convention was signed on July 18 2008. Its main aims are to reduce stereotypes and ignorance, understanding of the society about capabilities of disabled and their participation in the labour market. It is also intends to ensure disabled to enjoy universal human rights and prohibits discrimination as well as integration of disabled in the society, equal opportunities, respect to development of children with disabilities, and other principles.

The "Law on Invalidity"^{xxx} is currently in Parliament and was approved in the first reading on January 28 2008. The law foresees better prevention of invalidity by offering complex rehabilitation and treatment possibilities for people with threat of invalidity, as well as modernized invalidity determination and rehabilitation. The main aim of the law is therefore to reduce the risk of becoming disabled and for those disabled – to help to reduce the effects.

The people with various forms of invalidity are target groups for active labour market policies, and benefits of various other support measures, especially under European Social Fund support. The activities provide for professional rehabilitation and education, re-qualification, subsidized working places, training with employer. The majority of activities aimed at people with disabilities and special target groups

⁷ More than 20% of people with disabilities are in the age group 55-59.

are relatively new projects, so there are few studies evaluating the effectiveness of these measures.

Family Policy

Family and children

With increasing perception about importance of the family policy, on May 27 2004 the Ministry for Children and Family Affairs was created from the Secretariat of Minister for Special Assignments for Children and Family Affairs to enforce efficient and sustainable state policy for children, family, youth and social integration. On January 2009 the ministry took over also the functions of the Secretariat of the Special Assignment Minister for Social Integration and become the Ministry of Children, Family and Integration Affairs. The establishment of a special ministry is an indication of general policy direction for support to family and respond to demographic downturn projections.

The major development in recent years in the domain of family policy is the increase (in essence – establishment) of child-care benefit (*bērna kopšanas pabalsts* or so called “*māmiņu alga*”). Until 2005 the child-care benefit was established to be 90% of minimum salary, for persons with children below 1.5 years, and 70% for those with children between 1.5 and 3 years, i.e, the benefit was not dependent on the individual social security payments. Starting from January 1 2005 it is established that the benefit for child care till age of 1 year is 70% of the individual’s average salary for what the social insurance payments are paid, but not less than 56 LVL and not exceeding 392 LVL (payable to one of the parents). For persons not employed the benefit is a lump sum of 50LVL per month. Initially the child-care benefit was not compatible with employment, i.e., the person (usually mother) could only receive the benefit if she was not working, but this restriction was contested in the Constitutional Court, which ruled it as unlawful, and from the 1 of March 2006, the restriction was removed. Consequently, the benefit is income based and only partly is seen as a social benefit, but shares the characteristic of family planning instrument. After the age of 1 year the child-care benefit diminishes to 30 LVL and is paid until the child reaches the age of two.

As a consequence of the changes in legislative regulations since 2002 average child-care benefit in LVL in nominal terms has increased, but the number of recipients of the benefit has decreased (see Table 10). In the statistics of benefit recipients a mix of two effects can be seen – first, as a result of the reduction of length of benefit receiving period the number of benefit recipients has been decreasing, and secondly, the policy has had an effect of stimulating families to have another child, which peaked in 2007. As a result in 2007 the number of child-care benefits increased, and the average size of benefits rose to 88 LVL, but in 2008 dropped again sharply when the benefits for children born in 2007 dropped to 30 LVL (after reaching age of one). The policy effect of ‘mothers’ salaries’ is to be evaluated separately. However, seems that it has not been sustainable. Support is increased mostly upon childbirth, and during the child’s first year of life, after which the support falls to 8 LVL - the

State family benefit. (A benefit of 8 LVL is granted for the first child, 9, 60 LVL for the second, 12, 80 LVL for the third child, and 14, 40 LVL for the fourth and subsequent children).^{xxx1}

Table 10

Number and amount of child care benefits in Latvia 2003 – 2008

	2002	2003	2004	2005	2006	2007	2008
Average child-care benefit, LVL per month	20.36	19.49	20.13	52.01	68.88	88.13	33.17
Number of child-care benefits paid	46664	45975	44709	38874	35842	40367	28747
Increase/decrease in number of benefits in comparison to previous year	-	-689	-1266	-5835	-3032	4525	-11620

Source: VSAA electronic tables, www.vsaa.gov.lv

After the age of one due to economic reasons the parents are forced to return to work, but this decision is hindered by insufficient access to child-care outside families – kindergartens and pre-school education institutions (Vanags, 2007). With the increase of number of children, there is excess demand for kindergarten places observed in the latest years, especially in biggest cities. The parents are forced to choose private baby-minders that are expensive, or take care of the children themselves by choosing part time employment or staying outside the employment at all. The economic situation of these families is troublesome and they are often at poverty risk, especially the lone parent families and parents with lower level of education. The lack of preschool day-care centres has been discussed at different levels of state administration. Several local authorities have stepped in by building or renovating kindergartens, or for example, Riga City Council established a compensation of LVL 50 for parents whose children have been waitlisted for a spot at a preschool day-care facility, or co-finances with LVL30 fee in private day-care centres.

It should be stressed and made clear that child support has and is only available for relatively short period (earlier 3 and now 2 years) and thus does not produce real family support – since after this age social support, for example, such as subsidised day care and centres and kindergartens are very limited.

Survivors

Pensions for loss of breadwinner or survivor's pension is another social support to be mentioned. The pension is paid to persons whose breadwinner died – children below 18 years, siblings and grandchildren if they do not have parents, and disabled persons if they became disabled before the age of 18. The pension can be paid up to age 24 if the person studies in secondary or professional education institutions or higher education institutions full time. The pension is calculated taking into account the breadwinners estimated old-age pension.

This is a clear social security payment. The number of recipients of the survivor's pensions has decreased over the previous years from 26332 in 2004 to 22119 in 2007. The lower number of recipients is not connected to any policy changes however. No important changes in the respective domain have happened after the EU accession.

Poverty and social exclusion

Despite the fact that social exclusion and poverty per se was not recognised as a major problem in Latvia for a long time, the country has achieved considerable progress in reducing poverty and social exclusion before the accession to the European Union.

Cooperation of the Ministry of Welfare with the World Bank, UNDP, International Labour Organisation and respective institutions of the EU played an important role in setting up the system of social transfers. Most of the legislative steps to develop the system have been taken in the pre-accession period. In 2000 the National Poverty Reduction Strategy was approved by the Cabinet of Ministers and a Concept of Provision of Guaranteed Minimum Income level to Needy Persons (GMI)⁸ was defined. A legal framework for the policy implementation was established through the enactment of laws "On Municipalities"^{xxxii} (2003) and "On Social Services"^{xxxiii} (2003). This provided a legal basis for the National Social Insurance System and its administration by the State Social Insurance Agency that has 33 territorial divisions. Social services provided by the state are implemented by the Social Assistance Fund. As a part of Latvia's participation in the EU social inclusion process, the National Action Plan for Reduction of Poverty and Social Exclusion (NAP) was launched in 2004 in line with the Single National Economy Strategy (2004-06) and the National Employment Plan (2004). The NAP applies the set of the Laeken European Council income poverty indicators (2001) to monitor the progress in reducing poverty and social exclusion. Latvia also followed the EU Social Protection Committee Report (2006) on indicators to be used in the context of the streamlined OMC on social protection and social inclusion with focus on social cohesion, interaction with the Lisbon strategy growth and jobs objectives and three strand portfolios for social inclusion, pension, health and long-term care.

The social assistance to reduce poverty as compared to the EU is considerably lower (see the Annex 1) and trends indicate the deterioration of the situation. In the EU -27 through social assistance the at-risk-of-poverty rate is reduced from 26 to 16 % while in Latvia in 2004 the reduction was from 26 to 19% and in 2007 from 27 to 21%.

In the "Laeken Poverty Indicators" to monitor progress in the fight against poverty and social exclusion, the income threshold used to measure poverty was fixed at 60 percent of the national median income in each member state. This is similar to the

⁸ GMI was defined as a benefit in cash or in kind which should be provided to families or single persons, who have not enough income due to objective conditions and who are recognized as poor. This benefit should ensure the guaranteed level of the minimum income to each member of family.

concept of the EU Regional and Cohesion policies. The absolute poverty line defined by the World Bank^{xxxiv} is not relevant to this context. Regional disparities remain very significant with the factor of almost 2 to 1 (comparing Riga with the rural areas). The social support provided by municipalities is given to individuals whose income is even below that defined as a poverty line defined by the World Bank. Since the income in the country has raised the number of people receiving social support from the municipalities has been reduced by 2/3 between 2004 and 2007- from 74700 to 26800 people.^{xxxv}

Unfortunately social exclusion and poverty are not sufficiently recognized in the country.

Social policy beyond 2009 – expected implications: what is to come?

Purposely, in this paper the authors have avoided describing and analysing Social policy situation in the last quarter of 2008 and beginning of the year 2009. The very unpredictable economic and state budget situation puts under pressure Social policy decisions. Consequently, any look forward and any kind of predictions at this point are impossible.

In the meantime authors see three major challenges for social agenda that Latvia faces along with other European countries:

- Demographic downturn
- Global economic crisis
- Globalisation

These challenges are only partly or not at all in hands of the decision makers.

The demographics

There are 2.3 million inhabitants in Latvia currently with the average age 40 years. The old-age dependency ratio currently is 24.8, i.e., 100 working age people have to support 25 pension-age people. According to the Eurostat estimates (EUROPOP2008, convergence scenario, see Table 11) by 2030 the population of Latvia is expected to fall to 2 million, and to 1.7 million by 2060. The population is growing older. The proportion of population over 65 years was 17% in 2008, but is expected to rise to 22% in 2030, and 34% in 2060. The old age dependency ratio⁹ is expected to reach as high as 65 in 2060. With increasing life expectancy the number of the 'the oldest old' or people aged over 80 years is growing in Europe, and in Latvia. The proportion of population that have survived 80 and more would increase from 3.6% in 2008 to 12% in 2060.

⁹ Old-age dependency ratio - number of persons aged 65 and over expressed as a percentage of the projected number of persons aged between 15 and 64

Population projections for Latvia, EUROPOP2008, convergence scenario

Year	2008	2010	2030	2050	2060
Population (millions)	2.27	2.25	2.03	1.80	1.68
Population 0-14 (% of total)	13.69	13.65	13.66	12.62	12.27
Population 15-64 (% of total)	69.03	68.99	64.17	57.80	53.34
Population 65 plus (% of total)	17.27	17.36	22.18	29.58	34.38
Population 80 plus (% of total)	3.57	3.93	5.92	9.89	11.90
Old age dependency ratio	24.8	25.17	34.57	51.18	64.45

Source: EUROTOSTAT, EUROPOP2008 (and authors' grouping)

The demographic imbalance in the future can be linked to potential fiscal crisis in many European countries, including Latvia. The society will experience important changes, and would never be the same as today. The economically active population will fall, and the inactive population will grow, so the working people would have to work more productive and more to provide for the working conditions of the elderly at least at the current level. It may also turn out to be the case that it would not be the young to care for the old, but rather the old to care for even older. In itself the demography implies increasing social budget requirements and brings with itself need for more healthcare, social houses, care work, as well as important Social policy decisions – potentially increasing pensioning age, etc.

Another trend that influenced the labour market is migration as the result of Latvia joined the Common market of the EU and its freedom of movement of persons.

A comparison of population and out-migration patterns in Latvia before and after accession to the EU shows a significant population decline and out-migration. This trend confirms that serious problems resulted for a small and fast growing economy from its integration into the European internal market. This is a cause for concern since Latvian economy that relies on sustained economic growth in order to catch up to average EU levels of per capita GDP and living standards. In addition, internal regional disparities aggravate residents' dissatisfaction with the status quo and provide incentives for out-migration. This requires effective policy choices for sustainable development and Cohesion policy implementation; given that the country's human resources for successful economic restructuring are limited.

It is obvious that in order to prevent further significant population outflows attention should be focused on making Latvia a more hospitable place for its own people to live and work. This brings us to the domain of Latvia's economic and Social policy in the wider sense.

Global interdependency and economic downturn

The social sphere of Latvia was already affected by globalisation and it is currently compounded by the severe economic downturn.

Latvia as a small economy is not able to impact the global economic trends, but has to be a follower or 'taker', meaning that it has to take the external situation as given without prospects of affecting it. This entails that any economic policies and results will always be of limited power.

At the time of writing the current paper, and expectedly also in the coming years Latvia is facing economic downturn, through unstable financial sector situation, crash of real estate markets, fall in production and growing unemployment. As a consequence the budget revenues are falling, but expenditures growing. This puts hard pressure decisions the government can make regarding the Social policy.

Latvia will be affected similarly to all other countries by globalization, but being a difficult economic situation in the coming years may become migration donor country consequently facing brain-drain and shortage of labour.

Irrespective of earlier stated Latvian priorities in the social sphere for 2007-2013 – financial stability of pension system, social inclusion, reduction of number of people on the margin, and alike, the fear is that the policy makers will more urgently need to solve the acute economic and social problems (ex. rising unemployment benefit payments), thus issues like gender equality, improvement of life for disabled, work quality etc. may be left behind.

Concluding remarks and recommendations

Latvia has followed an ambition reform strategy in recent years after the EU accession. This strategy was based on twin pillars of fiscal consolidation and structural reform. Social security reform is an important ingredient of this phase. Important initiatives have been taken to improve social protection. Social security reform must take a higher priority in order to deal with the consequences of the current economic crisis. As with the Stability and Growth Pact^{xxxvi}, peer pressure and peer review are important for both the credibility and the coordination of the process. National concerns should be stressed by the national government and parliament.

Reform must embrace elements of better funding of the state, more flexibility in labour market and more emphasis on education and training, as well as research and development.

The above-indicated aspects are subject to further research and a number of fundamental questions still remain:

- How can substantial levels of social protection and development be balanced with economic growth and labour market needs?
- What are the priorities in social protection programmes and what delivery methods are most effective, efficient and fair?

- Where there is conflict, how can it be resolved and through what mechanisms?

Recommendation 1. Continue integration of Latvian social protection and social inclusion process in line with EU policy objectives. To develop coherent strategic approach, to promote social inclusion and combat poverty, introducing more targeted measures for vulnerable groups to ensure fundamental human rights, equality, solidarity and justice.

Recommendation 2. Despite the dramatic budget situation, maintain the long-term goals of the social policies, responding to economic and social challenges, short-term decisions should not dominate. Especially this concerns ensuring sustainability of the pension system to avoid negative consequences in the long run. Adequate financing for health, family, poverty, social inclusion as well as other social security areas should be maintained.

Recommendation 3. In decision-making process the government should learn from the experiences of other countries that have undergone economic crises and successfully reformed their social protections systems. The lessons learned from policy exchanges and mutual learning through open method of coordination should serve as appropriate and applicable guidelines for policy measures. Social protection indicators suggested by EU, WB, UNDP and other international institutions should be adjusted to reflect the national economic and social environment.

Recommendation 4. Improve governance, transparency and involvement of stakeholders in the social dialogue on the basis of in-depth research on Social policy assessment and its implementation. A partnership approach to social inclusion can be useful today as the EU faces the combined challenges of rapid social change and the need to strengthen the links between economic development and social protection. The basic question is whether the Latvian economy can become more inclusive and promote solidarity. Social policy research should be developed to promote critical reflection and discussion with regard to both the means and ends of the social protection and inclusion process.

Annex 1: Key social indicators for Latvia and EU-27

Domain	Indicator	EU-27 (latest available)	2003	2004	2005	2006	2007	2008
Economy	Real GDP growth rate (%) ^a	2.5 (2007)	7.2	8.7	10.6	11.9	11.0	8.4
Population	Total population (thousands) ^b	490 898 (2005)	2 331	2 319	2 306	2 295	2 281	2 271
	Old age dependency rate (%) ^b	24.3 (2005)	22.0	22.3	..	..	..	24.8
Education and training	Education attainment level (percentage of population aged 25-64 having completed at least upper secondary education) ^c	70.8 (2007)	83.2	84.6	84.5	84.5	85.0	..
	LLL (adult participation in E&T) (% of popul. 25-64 participating in E&T over the 4 weeks prior to survey) ^c	9.6 (2006)	7.8	8.4	7.9	6.9	..	..
Labour market	Employment rate ^d	53.4 (2007)	51.3	52.1	52.6	55.3	56.9	..
	Employment rate of older workers (55-64) ^d	44.7 (2007)	41.8	45.9	49.5	53.3	57.7	..
	Unemployment rate (ILO definition) ^e	7.0 (2008)	10.5	10.4	8.9	6.8	6.0	7.3
	Long-term unemployment rate in % of active population	3.0 (2007)	4.4	4.6	4.1	2.5	1.6	..
Social protection	Expenditure on social protection as % of GDP ^g	27.3 (2004, EU-25)	13.4	12.9	12.4	12.2	..	..
	Old age and survivors benefits as a % of total social benefits ^g	46.2 (2006)	53.9	51.9	50.0	48.3	..	..
	Sickness and health care benefits as a % of total social benefits ^g	29.2 (2006)	23.2	24.4	26.0	29.1	..	..
	Inequality of income distribution (S80/S20 income quantile share ratio)	4.9 (2005)	5.5 (2000)	..	6.7	7.9	6.3	..
Income, social inclusion and living conditions	At-risk-of-poverty rate before social transfers (except pensions)	26 e (2005)	22 (2000)	..	26	28	27	..
	At-risk-of-poverty rate after social transfers	16 e (2005)	16 (2000)	..	19	23	21	..
	Gini coefficient	30 (2006)	34 (2000)	..	36	39	35	..
	Gender pay gap in adjusted form (difference between men's and women's average gross earnings)	15 (2005)	16	15	17	..	..	..
Health and safety	Accidents at work (per 100 thousand persons in employment)	79 (2004)	145	136	169	177	194	..

^a Source: Eurostat – National Accounts; ^bEurostat – Demographic statistics ; ^c Eurostat – EU Labour Force Survey; ^d Eurostat – Quarterly LF data (QLFD); ^e Eurostat – Unemployment rates ; ^f Eurostat – Labour market policy database; ^g Eurostat – European System of integrated social Protection Statistics (ESSPROS)

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