ANNEX 3 EDUCATION SYSTEM REFORM

Latvia's public expenditure on education was at 5.7% of GDP in 2013[1], which was above the EU average of 5.0% of GDP. The high cost of maintaining rural schools with a declining number of pupils has been the key factor for the high cost of education services and the discontent of teachers with their compensation. The proposed pay reform by Ministry of Education does not address the core issues and contains risks of continued discontent in the sector and demands for additional funding. Various issues persist in other sub-sectors of the education system.

A study by the Bank of Latvia[2] indicates that there is a discrepancy between the demand and supply sides of the labour market. In particular, there is a scarcity of highly qualified professionals and little demand for the considerable number of unemployed low-skilled workers. Consequently, the report argues that a significant reduction of the natural level of unemployment can be achieved by a better match between the skills of the unemployed and the available job vacancies. An analysis of international organisations' publications suggests that occupational and skill mismatch is a prevalent problem in Latvia and other Member States of the European Union. This has been identified as a pressing issue for Latvia, and education policy guidelines foresee cooperation with the employment sector[3].

A report by the *International Labour Office* claims that 43% of Latvian employees are overeducated for the position they hold[4]. However, the report by the *Bank of Latvia* suggested that the discrepancy between supply and demand was particularly pronounced in the case of low-skilled workers. What is more, there is an underproduction of highly qualified and highly skilled workers. This implies that overeducation itself does not guarantee a high skill level. It is often used as a proxy for skill mismatch, but the *OECD Skills Outlook 2013* shows that proficiency at various skills is not determined, though it is certainly influenced, by the level of educational attainment[5]. In other words, a diploma from an institution of higher education does not always mean high proficiency in numeracy or literacy – some countries' high school graduates perform better than those who hold a university diploma in another country. The Latvian case, therefore, suggests certain inefficiencies in the educational system[6], as it does not consistently provide graduates with professionally valued skills. Furthermore, this issue may not be restricted to higher education.

Both the EC and OECD argue that vocational education suffers from poor reputation. This is corroborated by a report on vocational training in Latvia[7]. The latter states that participation in vocational education has increased, but enrolment is still among the lowest in the European Union. However, even though the number of students in post-secondary vocational education programmes is still comparatively small, the report claims that such programmes have become more popular and the number of students has significantly increased. The report argues that this is linked to growing youth unemployment, as post-secondary vocational education offers labour-market relevant skills in a short period of time.

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[1] Source: Eurostat.

[2] Krasnopjorovs, O. Natural and cyclical unemployment in Latvia: New insights from the Beveridge curve model. Available: https://www.macroeconomics.lv/sites/default/files/dm_2_krasnopjorovs_2015_en.pdf, accessed on 11.09.2015.

[3] See *Izglītības attīstības pamatnostādnes 2014.-2020. gadam*

[4] Skill mismatch in Europe. Available: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_315623.pdf, accessed on 11.09.2015.

[5] Skills outlook: 2013. Available: http://skills.oecd.org/documents/SkillsOutlook_2013_KeyFindings.pdf, accessed on 11.09.2015.

[6] It is important to note that the problems faced by the Latvian labour market may not be reducible to skill shortages, as the quality of recruitment strategies, over-qualification and salary expectations may also play a role.

[7] Vocational education and training in Latvia. Available: http://www.cedefop.europa.eu/files/4134_en.pdf, accessed on 11.09.2015.

An initiative was approved in August 2015 by the Cabinet of Ministers that would stimulate student interest in vocational education and encourage employees to take on interns from such study programmes. This is in line with the objectives outlined in the *National Development Plan 2014-2020* and has the potential to improve the professional relevance of vocational qualifications. Proposed reforms in higher education also seek to promote the relevance of academic research to the needs of the private sector. Therefore, there are indications that the government seeks to address the connection between education and the labour market.

Latvia has a low adult participation rate in lifelong education and further learning. Both lifelong learning and vocational education have been identified as important factors for the long-term development of the European Union. A particular point of concern is the reputation of vocational education and, consequently, the underuse of its potential in redressing the balance between the skills valued and required in the Latvian economy and those provided by the education system (see above). The situation is equally problematic in the case of adult participation in lifelong learning. Latvian adults in the 25-64 age group are less likely to have taken a formal education course in the last twelve months than the European Union average – 4.3% as compared to 6.2% (Chart A3.1).

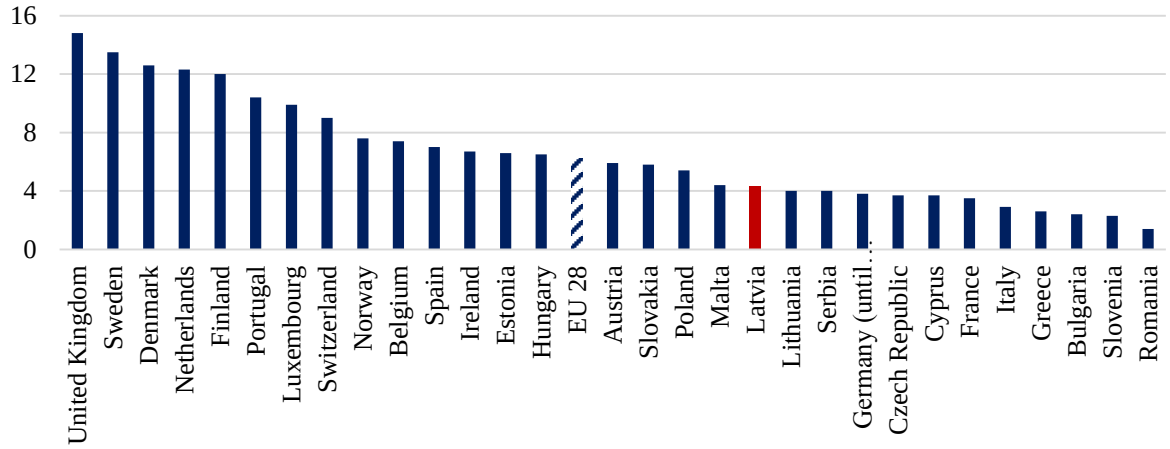

Chart A3.1 Adults (25-64) in Formal Education and Training in the Last 12 Months in 2011, % from adults (25-64). Source: Eurostat.

The report on vocational education stresses the need to **convince employers and employees that vocational training (e.g. in-company training) is an investment in future productivity, rather than purely as an expense.** A number of incentives currently exist (e.g. tax breaks) to stimulate interest both from employees and employees, and the Ministry of Education and Science seeks to improve adult learning, so there is evidence of an effort to rectify this situation[8].

The situation is similar, however, in the context of non-formal education (Chart A3.2), so it could be argued that the lack of interest and low participation in further education is prevalent, and could be a contributing factor to the discrepancy between the demand and supply sides of the labour market. Increasing the popularity of, and enrolment in, lifelong education courses has the potential to decrease unemployment and ensure that jobseekers, as well as low-skilled and low-productivity workers, can obtain the skills and competences needed to re-enter the labour market[9].

[8] Vocational education and training in Latvia. Available: http://www.cedefop.europa.eu/files/4134_en.pdf, accessed on 11.09.2015.
[9] OECD: Economic Survey of Latvia - 2015, Available: http://www.oecd.org/eco/surveys/Overview_Latvia_2015_Eng.pdf, accessed on 11.09.2015.

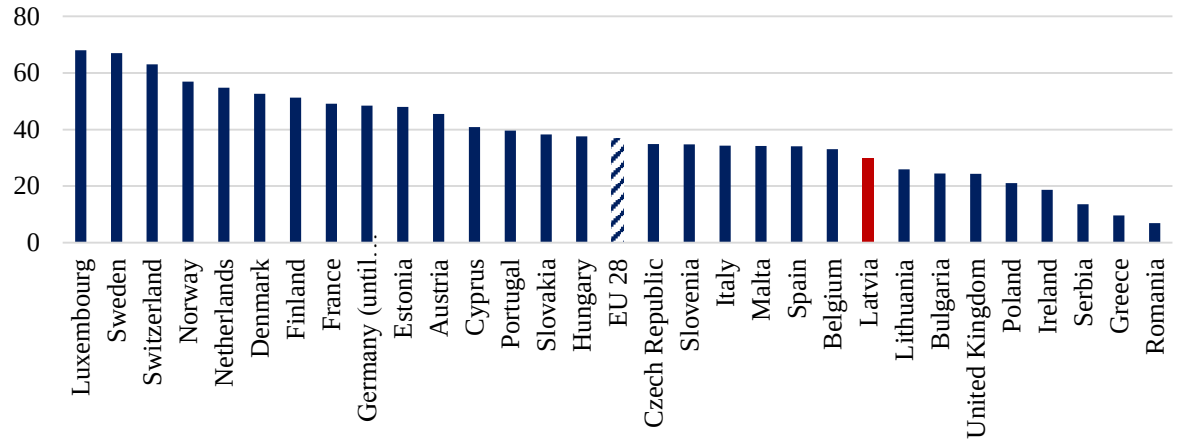

Chart A3.2 Adults (25-64) in Non-formal Education and Training in the Last 12 Months in 2011, % from adults (25-64). Source: Eurostat.

The current situation is unsatisfactory, however. As with vocational training more generally, a number of measures exist to encourage and support participation in lifelong learning, but overall interest is low, and OECD's 2015 report on Latvia suggests that **existing incentives may not be sufficient to encourage and develop adult education and training.**

The proportion of university graduates in science, technology, engineering and mathematics in Latvia is below the EU average (Chart A3.3)**.** Suggestions that focus on employability and increasing the quality and relevance of academic qualifications and competences are often discussed in relation to an issue facing the EU as a whole – the underproduction of students studying STEM[10] disciplines. However, even in the context of broader concerns regarding shortages of qualified professionals in knowledge-intensive sectors, Latvia's indicators are low. For example, the number of students studying engineering, manufacturing or construction was only at average EU levels in 2013; in the case of science, mathematics and computing the situation was even worse – 6.5% as compared to the European Union average of 10.7% (Chart A3.4).

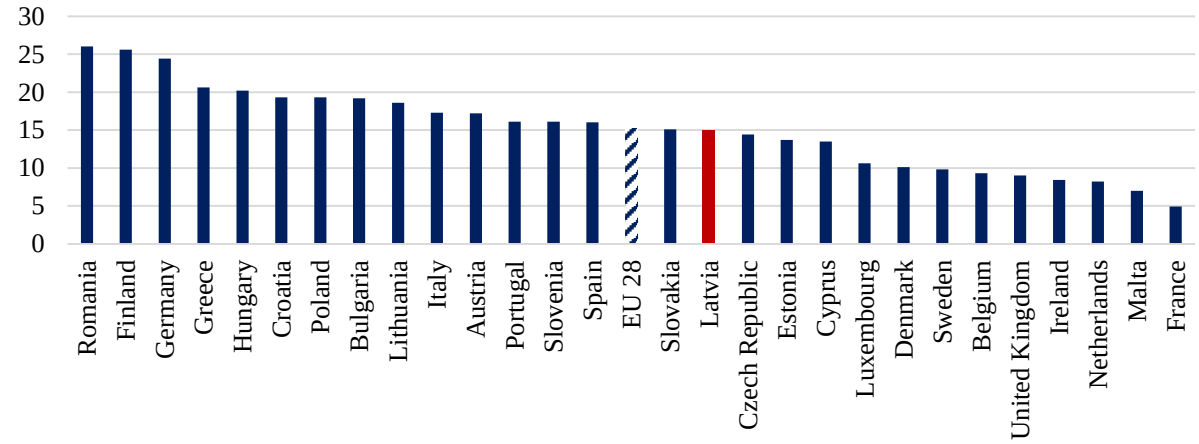

Chart A3.3 Students studying towards a Bachelor's or equivalent degree in Engineering, manufacturing and construction in 2013, % of all students. Source: Eurostat, Council's calculations.

[10] Science, technology, engineering and mathematics.

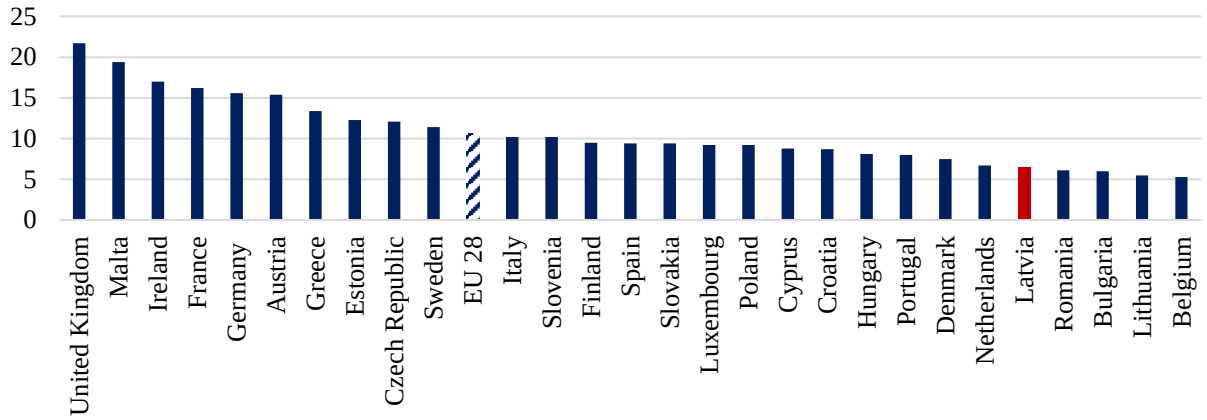

Chart A3.4 Students studying towards a Bachelor's or equivalent degree in Science, mathematics and computing in 2013, % of all students. Source: Eurostat, Council's calculations.

Student interest appears to be greater in the social sciences where Latvia performs better than most other Member States of the European Union (Chart A3.5).

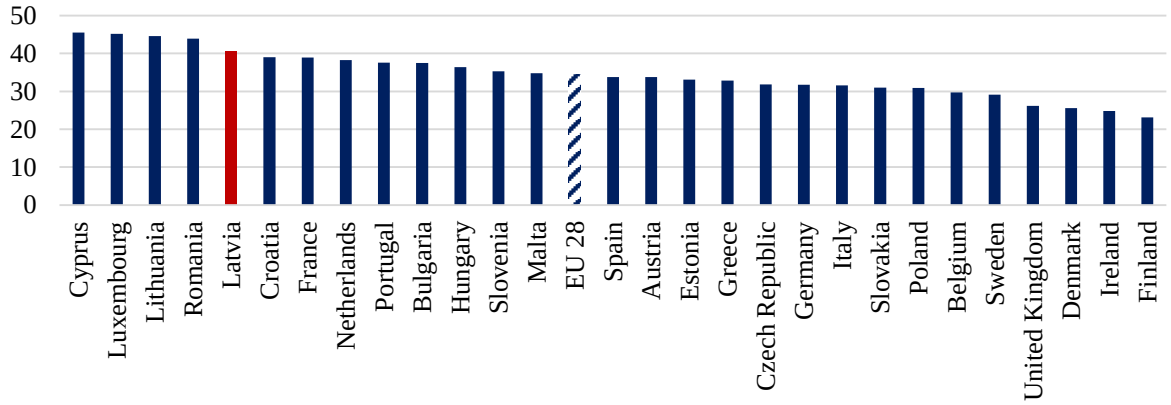

Chart A3.5 Students studying towards a Bachelor's or equivalent degree in Social sciences, business and law in 2013, % of all students. Source: Eurostat, Council's calculations.

The EC has argued that **labour shortages in the areas of health care, science and engineering will be a problem for Latvia in the near future**, and reforms in higher education have been identified as necessary for the long term development of the Latvian economy and the alleviation of future unemployment issues in knowledge-intensive sectors. The reforms proposed and approved in June 2015 seek to address the issues identified above by re-assessing the costs of different study programmes and redistributing funds - shifting resources away from the social sciences and humanities to STEM disciplines and introducing a performance-based component into the funding process. Furthermore, there are plans to introduce mandatory school-leaving exams in physics and chemistry in 2017 in order to stimulate student interest in STEM disciplines. Nonetheless, it remains to be seen whether these measures will be sufficient to gravitate students towards the natural sciences and engineering, rather than simply improve their proficiency in certain skill areas.

The Council finds that reforms leading to a consolidation of rural schools, effective encouragement to expand the share of students in STEM disciplines, improved vocational and lifelong learning as a combined effort of employers and the government would improve education outcomes and pave the way for sustainable development.