EDUCATION AND THE LABOR MARKET IN LATVIA

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One of the general goals of educational systems is to help satisfy the needs of the labor market and thus provide opportunities for the people in those markets. This is an acknowledged goal of the various strategies that have been formulated in Latvia. One of the main conclusions of the Long-Term Economic Strategy for Latvia prepared by the Ministry for Economic Affairs (May 2001) states: “Latvia’s real potential to achieve a rapid rate of economic growth is contingent upon the experience and high-skilled specialists already existing in the traditional and knowledge-intensive sectors and upon society’s ongoing concern with respect to the provision of high quality education.”

The purpose of this document is to examine the extent to which the current educational system in Latvia is able to satisfy the requirements of its labor market. It is important, however, to understand that it is not possible to accurately determine the profile that labor demand will have attained by the time today’s students join the labor force. Nevertheless, it is vital to ensure that students today are adequately prepared to meet the future demands of the labor market and that they have the skills and qualifications that would be needed in a modern economy and society.

The adequacy of the educational system is a function of at least four conditions. First, the population of school age should be enrolled in the educational system and the system should receive the resources it needs to achieve its goals. Moreover, these resources ought to be used efficiently. Second, the quality of education in terms of student learning should be as high as possible; in particular, it is essential to establish a system to oversee and improve the quality of education. Third, educational programs and their contents need to be aligned with the demands of the labor market. A fourth condition, in the context of decentralized educational institutions and decision-makers and a free market economy, refers to the need for an information system. Such a system should provide the various actors with key information they need to make informed decisions vis-à-vis the job market.

Resources invested in human capital

Enrolment and amount of resources invested

The first and most basic indicator of the readiness for future employment of the current generation of children is participation in school. Latvia has made good progress in this respect, since secondary education is almost universal. As Figure 1 shows, educational attainment in Latvia has risen rapidly in recent decades in comparison to the OECD countries. In 2000, only 19 percent of Latvians aged 25-34 had failed to complete at least upper secondary education. In the European Union (EU) countries, this figure was 29 percent on average. Among the EU candidate countries, however, the percentage of persons who have not completed upper secondary is, on average, lower than in Latvia. In Norway, the Czech Republic, Lithuania, and the Slovak Republic, for example, the figure is below 10 percent.

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1 In its Declaration on Projected Activities (2002), the new government affirmed: “We shall secure modern, quality education for the people, in order to meet the needs of the Latvian and the global labor markets and the economic and social requirements of the Latvian regions.”
It is interesting to note that Latvia has made faster progress in upper secondary completion than the average EU country. Three decades ago, 60 percent of the Latvian population then aged between 25 and 34—now aged 55 to 64—had not completed upper secondary education, while the percentage for the EU was 54 percent.\footnote{2} The significant improvement seen in upper secondary completion rates is very important, because young people who drop out of the education system before completing the upper secondary stage face serious difficulties when they enter the labor market. Longitudinal analyses in OECD countries suggest that a poor start in the labor market can be difficult to overcome for those with low levels of initial qualifications.\footnote{3} Figures for Latvia from the 2000 Labor Force Survey (LFS) show that the unemployment rate is 22 percent among workers whose studies ended before upper secondary, 11 percent among workers with complete upper secondary education, and a much lower 6 percent among higher education graduates.

Enrolment in higher education (HE) has also increased markedly of late. The number of HE graduates tripled between 1991 and 2001. The number of students admitted in 2001 was more than double the number admitted in 1995, with most of the expansion taking place in part-time studies. Even many of those defined as full-time students are working part-time.

Many of these entrants already hold an HE degree or are returning to school to obtain additional qualifications so as to improve their prospects in the labor market. Over 40 percent of HE students in 2002-2003 were at least 25 years old.\footnote{4} This is a good indication that education is in very high demand as a means of retraining to meet the new demands emerging from the restructuring of the economy and the labor market. It also points to a rapid response capacity on the part of HE institutions. There is no question that the high enrolment rates constitute one of the strengths of the Latvian educational sector.

Spending on education as a percentage of GDP is already high in Latvia. In the late 1990s, public expenditure on education was about 6.5 percent of GDP, compared to an average of 5.3 percent in the OECD countries. The most recent European Commission report\footnote{5} also confirms Latvia’s comparatively higher level of public spending on education. The average figure for EU members is 5.2 percent of GDP, rising to 5.8 percent for EU candidate countries, while in Latvia public expenditure on education is about 6.3 percent of GDP. In addition, the contribution of the private sector represents a growing source of funding in Latvia. Tuition fees paid to HE institutions account for more than 30 percent of their budget.

In general, teachers are adequately qualified. About 84 percent of the teaching staff in general education schools have higher education degrees, almost without exception from pedagogical institutions. Nearly 80 percent of Vocational Education and Training (VET) school teachers have completed higher education, and about 75 percent have pedagogical training.\footnote{6}


\footnote{3} OECD, From Initial Education to Working Life: Making Transitions Work, 2000. \url{http://oecdpublications.gfi-nb.com/cgi-bin/OECDBookShop.storefront/EN/product/912000021P1}

\footnote{4} Ministry of Education and Science (MoES) data.

\footnote{5} EC, 15 Quality Indicators of Lifelong Learning Performance in Europe, 2002 \url{http://europa.eu.int/rapid/start/cgi/guesten.ksh?_action.gettxt=gt&doc=IP/02/971[0]RAPID&lg=EN&display}.

Teachers’ salaries were very low in the early 1990s, which made it difficult to enroll young students in pedagogical programs. In recent years, however, teachers’ salaries have increased more rapidly than the average wage. Figure 2 shows that, according to LFS, the average earnings of educational sector employees rose from 76 percent of the average wage in the economy in 1997 to 96 percent in 2001. While the average wage in the private sector grew by 30 percent during this period, in the public sector it rose by 40 percent, while the average pay for workers in the education sector (mostly teachers) increased by more than 65 percent. The average wage for female workers in the education sector is now higher than the overall nationwide average wage (LFS data).

Despite the upswing in teachers’ salaries, it remains difficult to attract and retain teachers in schools for certain subjects (including English as a second language, information technology, and mathematics). Also, compared to those of their European counterparts, teachers’ salaries are still low in relation to per capita GDP. Similar problems have been evidenced among HE professors.

There is a need to continue increasing teachers’ salaries. Since these account for about 90 percent of the resources invested in education, the rise in wages will continue to represent a significant demand on the education budget. However, given that investment in the education sector is already relatively high, the only way to reconcile the need for higher wages with the existing conditions is to ensure that resources are used more efficiently.

**Efficiency in the use of resources**

Class size and pupil-teacher ratios are comparatively small in Latvia. Even more worrying is the fact that both class and school sizes have declined over the last 15 years. In 2000, the number of students in general schools was only 5 percent higher than in 1985. The number of teaching staff had risen by 22 percent in that period, however, and the number of schools by 12 percent. Figure 3, which compares the student-teacher ratio in Latvia with the EU and the OECD averages, shows that class sizes are much smaller in Latvia. The data in this Figure refer to full-time equivalent teaching posts, in order to ensure comparability. The information commonly published in Latvia shows an even lower ratio than displayed in this figure—namely 9 students per teacher—because it includes both full-time and part-time teachers.

Demographic trends suggest that this situation will tend to worsen in the coming years. The number of schoolchildren will continue to decline as a result of a drop in the fertility rate in the 1990s. According to recent estimates, in 2020 the number of young people aged 15-19 will be half the number recorded in 2000. Clearly, class size is an issue that needs to be addressed as a matter of urgency.

The decline in the number of school children will require a rationalization of the network of schools and classes. While this has been widely recognized, it nevertheless often creates difficult situations for local communities where schools play an important role. In these circumstances, the mechanism of school resource allocation is very important. It has to allow for the participation of local communities in these decisions and provide adequate incentives to rationalize the use of limited resources.

In this regard, the current system of allocation of funds has several pitfalls. It is overregulated, with multiple authorities responsible for different decisions, making it impossible to optimize decision-

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7 *Prognosis of demographic development in Latvia: 1998-2025*. Informative material. Ed. P. Zvidrīnš. Riga: University of Latvia, 1999. Long-term population projections were prepared by the Center of Demography and the Department of Statistics and Demography of the University of Latvia.
making. Funds are allocated on a per student basis to regions or to local governments, which then transfer them to local governments or directly to schools. The allocation of resources to regions may be an appropriate way to devolve decision-making to an intermediate level in order to deal with the problem generated by a very large number of very small local governments. However, the fact that local governments are represented on an equal basis on the regional boards that decide upon the allocation of funds acts as an obstacle to rationalization of the system, and hence to more efficient resource allocation.

At the same time, the head teachers of individual schools have to comply with very detailed regulations issued by the Ministry of Education and Science (MoES) in respect of subjects, students per class, and wage scales for teachers. These regulations sometimes constitute disincentives to the rational use of resources. For example, if the number of students in a class increases to 32, the class can be—or must be—split into two, thereby doubling the demand for teachers and resources at no cost to the school or local government budget. The wage bill is ultimately passed in its entirety to the national level.

In theory, the government budget finances the education system on a per student basis, but in practice the Minister of Finance has to foot the staff wage bill that results from decisions made by regional and local governments, school directors, and MoES authorities. If the wage bill exceeds the resources available—which is almost always the case—adjustments have to be made and reallocations are imposed upon the system at a high cost to teachers or to local governments and schools.

Under the current system of resource allocation, no single government entity can plan for the allocation of funds, and the various decision-makers are motivated by different and occasionally contradictory incentives. There is an urgent need to streamline the system in order to allocate resources on a per student basis and enable decision-makers to operate in a manner that is conducive to a more rational use of funds. The existing fragmented decision-making process cannot produce a rational allocation of the limited resources. Such a move could be complemented by mechanisms to promote the timely retirement of older teachers.

An administrative/territorial reform of regions and local governments has been proposed, and this will certainly help improve the process. However, such a reform will not guarantee a more efficient allocation of resources within the school system. The importance of a decision-making process that rationalizes the use of resources should not be underestimated. If the average class size were 11 students instead of 9—which would still be below the OECD average—there would be 22 percent more resources available per student. This would make it possible in turn to more than double the resources available for school maintenance, inputs, and pedagogical supplies, or to increase teachers’ salaries by the same proportion. This issue is all the more important in the light of the fact that Latvia already invests a high proportion of GDP in education, so there is limited scope for raising additional funds.

Rationalization will not only serve to release resources in order to improve school materials and teachers’ salaries, but will also help achieve a school size that is preferable in pedagogical terms. Larger secondary schools may create the conditions for a more stimulating environment and diversity of academic fields of study. At present, at least 40 upper secondary schools have 60 or fewer students.

There is also a duplication of resources because of the manner in which vocational secondary education is organized. Several ministries take part in the management of vocational schools, which has

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8 The per student allowance should be larger for rural, lower density areas so as to cover the higher costs per pupil. Otherwise there is a risk of increasing dropouts.
9 The average age of teaching staff in Latvia is actually not very high in comparison to the EU, however. In Latvia, 33 percent of teachers are over the age of 50, while the equivalent figure in the EU is 35 percent (EC 2002).
hindered the rationalization of the network at this level. The postponement of vocational school rationalization has meant that urgently needed investment to upgrade training facilities and equipment has not taken place. Over 95 percent of the budget for vocational education is absorbed by teachers’ salaries and the cost of utilities, leaving less than 5 percent for capital investment and equipment renewal. A proposal which could contribute to unifying vocational education institutions and improving their linkages with the labor market is provided further on in the text.

The number of school hours represents another source of potential efficiency gain. Latvian schools offer fewer teaching hours than schools in EU countries (see Table 1). A gradual increase in teaching hours—only partially compensated by higher salaries—could contribute to education quality improvement initiatives and to efficiency gains.

Dropout and repetition rates are low, as demonstrated by the number of years it takes to graduate. Dropout rates are increasing, however, which is a source of inefficiency and generates a problem of equity and poverty.

Quality of education

Student achievement

Latvia participated in the two most recent and comprehensive international studies on student learning, the Third International Mathematics and Science Study (TIMSS) and the OECD Program for International Student Assessment (PISA). In both studies, Latvian students performed less well than their European counterparts. Table 2 shows that in the PISA study, Latvian students achieved lower results than the average for participating OECD countries, EU countries, and EU candidate countries. In the case of the TIMSS—which surveyed mathematics and science—Latvians fared better than students from Lithuania and Cyprus but worse than the average for OECD and EU countries (see Table 3). It is even more worrying that the PISA survey graded 30 percent of 15-year-old students at level 1 or lower, a figure that was among the highest for the EU members included (see Figure 4). This means that those “...students are not benefiting sufficiently from the educational opportunities available and are failing to acquire the necessary knowledge and skills to do so effectively in their future school careers and beyond” (OECD, 2001).

The findings of these studies reveal not only the low average level of student achievement in Latvia, but also the inequities of the system. Inequalities in student learning are more pronounced in Latvia than in the average EU, EU candidate, or OECD country (see Figures 5 and 6). The lowest decile in Latvia achieved a score that is both lower than in the other countries and represents a lower proportion of the score attained by the top 10 percent of the students. These inequities result from a poor distribution of resources among schools and areas within the country, with rural areas receiving lower-quality education than the Riga area. A reform of the system of school resource allocation, as well as efficiency improvements, would help correct these inequities and thus raise the quality of education delivered in schools, especially those that have tended to perform less well.

While a detailed investigation of the reasons for the relatively low achievement of Latvian students is beyond the scope of this document, it is possible to single out a number of contributing factors, as these are relevant for future policy decisions. They include the following:

(i) The education of the cohort that participated in the international tests coincided with a period of major changes in schools following independence. For example, the curriculum had been heavily revised. In more stable conditions and with updated curricula, Latvians are likely to perform better.
(ii) Lack of adequate inputs to schools. When inputs are measured according to expenditure per student as a fraction of per capita GDP, the results achieved are seen to be in keeping with the low level of resources available (see Figure 7). It should be noted, however, that the amount of resources per student refers to 1996 and the situation has subsequently improved somewhat. A future increase in the amount of resources, if well invested, will help improve quality.

(iii) Textbooks are still not modified according to the new curriculum, which is more aligned with the international tests. This is an important policy priority, and future increases in resources should be devoted to updating textbooks.

(iv) An analysis of TIMSS items shows that “the students were better trained in the simple reproduction of knowledge where they had been trained to perform formal tasks and to answer straightforward command-type questions. They definitely had more problems when confronted with questions based on real life situations.”10 This points to a weakness in the curriculum that is especially relevant to the needs of the labor market. This finding confirms the need to continue emphasizing the implementation of the new curriculum (see below).

(v) Weak quality assurance mechanisms.

Quality assurance

There are a number of quality assurance mechanisms that should ideally complement one another. This section examines the role of quality assurance in Latvia.

National standards and external student assessment have been introduced in recent years. New external national public examinations at the end of grades 9 and 12 have been introduced by the Center for Curriculum Development and Examinations (ISEC).11 In coming years, grade 12 exams will be used as entrance examinations for higher education institutions, which have traditionally run their own high-stakes entrance exams.

These changes provide an excellent opportunity to introduce a world class quality assurance mechanism. For this to come about, the Latvian bodies responsible for the process would need to be closely aligned with international best practices in assessment. EU accession will provide new opportunities that should be taken into account in planning these new initiatives. The EU is considering the development of independent, voluntary testing/accreditation in education and training. This would be based on existing practices, but would also seek to develop new arrangements, which could be applied at the international level. The ongoing World Bank-supported education project includes a student assessment component. Technical assistance is thus being provided and there is a need to ensure that there would be enough resources available for the process. In terms of new standards and national exams, it is very important to adopt a 5-10 year strategy with specific measurable benchmarks in order to set clear goals and targets for quality improvement.


11 National exams for grade 12 started in 1996 with English. Today 11 exams are available, of which students must take five. Problems of exam confidentiality have arisen, however, to which serious attention needs to be given. Exam results are not yet used to any great extent at the national level for policy analysis and decision-making. Instead, they are graded on a relative scale, with no national comparison over time. The results of the TIMSS civics exam led to social science and civics being introduced as a subject for grades 1-9.
In theory, one mechanism of quality assurance is the inspection system, but in practice this has not proven very reliable in Latvia. Its basic purpose is to oversee compliance with the many regulations imposed by MoES. At the same time, school inspectors have seen their legitimacy undermined by resentment toward the role they played during the Soviet era. Two other initiatives with World Bank support are underway to change the inspection system: School Accreditation and School Self-Evaluation.

Parents’ choice among schools also functions as a means of ensuring quality. The Latvian system does offer some degree of choice, which encourages competition to promote quality. Although almost absent from primary schools, school choice is playing a growing role at the upper secondary level and is important in HE. Even so, an adequate information system is needed in order to make the choice mechanism more effective. At present, students and their families lack access to reliable information on school outcomes. Much could be gained through adequate information on the results of national assessment.

The evaluation of teaching quality is also an important component of quality assurance. Latvia has no nationwide system in this respect, but there is a teachers’ bonus equivalent to 10 percent of the wage bill, which is allocated in a decentralized manner by school directors. School directors are also eligible for a bonus from a fund equivalent to 10 percent of directors’ wages, which is allocated by regional education boards. This mechanism could be enhanced by increasing the amount of resources available and linking it to student achievement—a kind of “school value added”—attributable to quality teaching. Technical assistance should be provided to school directors to enable them to experiment with new formulas that promote teachers’ efforts to improve quality.

To improve quality within a decentralized system where many changes are taking place, there is no substitute for a sound and reliable system of quality assurance. The MoES should coordinate the various initiatives underway in this area and accord high priority to its quality assurance role, which also means earmarking the required financial and human resources.

Teacher training

Initial teacher training has thus far not received sufficient attention in education reform efforts. Pre-service training fails to emphasize the requirements of the reform. Two-thirds of the students studying to become teachers are in part-time or correspondence programs. It is necessary to introduce standards for initial teacher training programs. The importance of initial teacher training for future outcomes in the educational system cannot be overstated.

Allocation of resources according to labor market needs: courses and curricula

Even when resources are adequate and efficiently used, they still need to be aligned to labor market needs. This means that courses and study programs must be in line with future needs in the workplace. Given the changing nature of labor markets, students must also be prepared to continue learning and retraining throughout their professional careers.

Latvia is experiencing two simultaneous processes of change regarding the reform of courses and curricula in response to labor market transformations. One is the result of the transition from a command to a market economy, and the other is being generated by EU accession. The accession process is providing guidelines in the form of definitions of vocational qualifications and skills in the framework of

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12 No data were available to account for the criteria used by directors to allocate the 10 percent among teachers. Anecdotal evidence indicates that it is allocated on the basis of workload, market conditions (special allowance for subjects for which there is higher demand), travel expenditures in order to retain teachers living far from the school, recognition of training efforts, and as a reward for the success of students in centralized exams or Olympiads.
the Bologna Process. A number of changes have taken place or are underway in order to improve the education system’s alignment with the labor market in the country. The most important are examined in the following sections:

Curricula

The transition from a command economy to a free market economy demands new skills and attitudes that are essential for a modern labor force. In 1996, the MoES embarked upon a two-year process to develop National Standards of Compulsory Education. Standards were approved in 1998 for grades 1 to 9, and should be fully completed by 2005. The new standards emphasize the development of thinking skills, cooperative working methods, and greater scope for creativity among teachers in schools. There has been a shift in focus from the acquisition of knowledge toward its application and use. This means a more practical orientation, which emphasizes problem solving and better linkages and integration among curriculum subjects.

According to a recent OECD review, this development mirrors the direction being followed in OECD countries. The OECD team’s assessment of the Latvian curricular reform was positive, as it considered that “in other countries, ‘standards’ are often no more than a set of requirements for basic curriculum content or a list of what should be covered by subject and by grade level. In Latvia, the standards include explicit learning outcomes for students completing grades 3, 6 and 9. The team endorses the simplicity and spirit of these expectations; if taken seriously, they will have a profound impact on the management of teaching and learning in Latvia's schools.”

As in other countries undergoing major transformations, there is still a wide gap between the expectations of the new standards and current classroom practice. The implementation of the new curriculum represents a great challenge for the education system in the years ahead. Properly implemented, its contents will provide the kind of training needed in a changing and undoubtedly challenging workplace.

Vocational vs. general secondary studies

After completion of the basic nine years of compulsory education, students have two main options: the general secondary program or a secondary level vocational education (VET). Nowadays, approximately 38 percent of elementary school graduates enter VET.

The demand for vocational education has declined significantly in recent decades. In the cohort now aged 40-59, about 60 percent of graduates from upper secondary hold a vocational studies certificate. While part of this change in preferences may be attributed to VET’s lack of relevance to new labor market needs, it also reflects a more general trend. In recent years an increasing proportion of young people in EU countries have tended to choose general rather than vocational education.

In Latvia the decline in VET education has been more marked, however. In 1999-2000, 38 percent of upper secondary students attended vocational schools, compared with 55 percent in the EU. It is important to note, though, that the international trend is reducing the traditional divide between the general and vocational curricula. This is evidenced in the increased proportion of vocational education now accounted for by general education subjects.

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In order to be successful in labor markets with diverse and changing skill demands, all students need solid generic skills—such as reasoning, problem-solving, and communication—which are requirements for all jobs. This broad foundation also enables graduates to become multiskilled workers. At the same time, a broad initial foundation prepares them better for further learning.

Vocational schools curriculum

During the Soviet era, vocational schools were closely linked to large industrial enterprises and collectivized agriculture. The number of professions and specializations (then more than 1,000) stands today at about 320, but this is still large.\(^{15}\)

In light of this excessive specialization of studies and the major restructuring of the Latvian economy, the results of a recent labor survey come as no surprise. Participants in the May 2000 CBS Labor Force Survey who had graduated from vocational education establishments between 1990 and 1999 were questioned about the training they had received. Of all graduates of vocational education establishments during that period, in May 2000, 28 percent were unemployed, 42 percent were employed in a profession unrelated to their studies, and only 30 percent were working in the sector for which they had been trained.\(^{16}\)

The fact that a large proportion of graduates are unemployed or not employed in their chosen profession, and the fact that many graduates of vocational schools need professional retraining as well as computer and foreign language instruction in order to get a job, point to the shortcomings of the inherited, overspecialized VET system. In line with international trends, programs should be made more general and should provide broader qualifications in a wider range of skills that are useful in the labor market. In these circumstances, a full revision of the VET curriculum, occupational standards, and courses was badly needed, and new legislation was enacted for this purpose in 1999.

National standards in secondary vocational education are being developed. A Register of Vocational Standards has been established, and new standards are being developed in cooperation with social partners. A Tripartite Council on Vocational Education and Employment was formed in order to engage social partners in the development of vocational education. It includes representatives from the Ministries of Welfare, Economics, Finance, Justice, Agriculture, Education and Science, and Environmental Protection and Regional Development, the Latvian Confederation of Free Trade Unions, and the Latvian Employers Confederation. As of January 2003, occupational standards for 60 professions had been approved. A total of 250 need to be approved. The Danish model is being followed as a benchmark.

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\(^{15}\) In recent decades, most countries have reduced the number of specific vocational education courses and concentrated on occupational or industrial areas rather than single occupations. OECD reports that, “In Finland, the number of vocational education fields was reduced from 650 occupational programs to 25 basic study lines in the first year of post-compulsory education, followed by 250 fields of specialization. In Norway, the reform in 1994 reduced the number of foundation level courses from 109 to 13, ten of which are vocational courses. These 13 courses at the foundation level lead to some 90 at the next level, and then some 200 possible courses in the final year of upper secondary education. In Sweden, all upper secondary vocational education has been re-organized within 14 programs corresponding to broad areas of economic activity (in addition to two general education programs).”

In order to obtain a vocational qualification, students must sit for a qualifying examination. Working parties including representatives of vocational education establishments, enterprises, and professional associations have been set up for this purpose.\(^{17}\)

The integration of business and industry representatives and social partners in general into the design of vocational education programs and the updating of occupational standards, as well as their active participation in the certification process, are essential if schools are to be kept in close contact with labor market needs. As with curriculum reform in the case of general schools, the implementation of the new standards will represent the main challenge for vocational schools in the years ahead.

At the same time, the enrolment of students in the various programs has been changing in response to labor market demands. There has been an increase in the number of students acquiring qualifications for the services sector. In 1997, 50 percent of students were enrolled in manufacturing training programs, with only 40 percent of students in training programs for the services sector.\(^{18}\) In the 2000-2001 academic year the situation was different, but a comparatively high number of students were still receiving training in various manufacturing technologies—43 percent in 2000-2001—even though only 27 percent of total employed persons were working in manufacturing. The rapid development and popularity of information technology has had the effect of multiplying the number of students in computer science training programs by a factor of 5.4. The number of students studying business and management, construction, art, and music programs has also increased markedly. By contrast, in recent years the number of students enrolled in agriculture training has shrunk by a factor of 2.7.\(^{19}\)

Experience in OECD member countries shows that vocational programs with strong links to employers and enterprises result in better labor market outcomes for young people than programs with weaker links. Apprenticeship systems in the German tradition have a good track record, keeping youth unemployment in the 15-19 age group at comparatively very low levels and ensuring that these labor market benefits persist for young adults.\(^{20}\)

Unfortunately, such links are weak in Latvia. Only 13 percent of firms have links with schools, and practical training through placements in enterprises is therefore limited. Often, places are simply not available. Employers complain that they have to pay the schools and sometimes the students too, whereas there is in fact an argument for employer incentives. An evaluation of employers’ interest in organizing training placements in their firms shows that 50 percent of employers would willingly host student placements if there were appropriate tax incentives; and 32 percent are considering hosting placements even in the current circumstances.\(^{21}\)

\(^{17}\) In 2001, the Professional Education Center (PEC) of the MoES prepared the contents of national final examinations in three subject areas, as well as qualifying examinations in 28 profiles.

\(^{18}\) Note also that in most OECD countries youth employment is more highly concentrated in the services sector than adult employment (OECD).

\(^{19}\) See Modernization of Vocational Education and Training in Latvia, National Observatory report to the European Training Foundation, Riga, 2001.


The link between education and work experience is important in every country, and particularly in Latvia where many vocational schools function with outdated equipment and training capacities. This link can enable young people and employers to get to know one another, which may help to make job seeking and recruitment more efficient. Students with work experience acquire important generic work skills as well as positive attitudes and habits. Work experience can improve the efficiency and effectiveness of learning by providing opportunities for contextual and applied learning. It can be essential in developing expert skills which cannot be acquired in the classroom. The part-time work carried out by many HE students may serve to fill this role.

Finally, there is a need to unify policy in this sector and to promote school rationalization and consolidation. Currently there are four ministries sharing responsibility for VET. This accounts for the fact that there may be several small schools in the same town. It has thus far been almost impossible to consolidate schools because no coordination authority has existed in practice.

The need for rationalization will be augmented by the imminent sharp drop in the number of students as a consequence of demographic trends. In 2002 Parliament agreed to transfer all vocational schools to MoES, starting in 2004. This may successfully put an end to the current situation, which has resisted all previous attempts at better coordination.

This much needed reorganization of schools represents an opportunity to experiment with new institutional arrangements that could enhance efficiency in the use of resources and foster a closer connection between vocational schools and the labor market. In turn, this would speed up the implementation of new curricula. One such scheme might be the management of some vocational schools by HE institutions, through contractual arrangements with the MoES. The MoES would pay the HE institutions the same amount per student it now spends on its own schools. Participating HE institutions would have to demonstrate a record of excellence in the employability of their graduates. HE institutions are already obliged to be responsive to labor market needs, because otherwise they cannot attract the students whose tuition fees constitute their source of funding. Therefore, they keep track of their graduates’ working careers and make agreements with private companies.

Such an arrangement for upper secondary vocational schools would not only increase the employability of their graduates but would also provide them with better opportunities for further training. HE institutions could also use the current infrastructure to convert vocational schools into training centers providing not only vocational training programs, but short courses and adult education as well.

Higher Education programs

As indicated above, there has been a very rapid increase in HE enrolment, and the sector is quite dynamic despite the financial difficulties it has experienced. HE institutions face several of the same curriculum and course alignment issues as vocational schools. A few of these are examined here.

Latvia is a signatory to the Bologna declaration and is participating in the joint higher education reform process in Europe following the guidelines formulated in the declaration. It has thus been acknowledged that the Latvian system of academic and professional degrees has to be made compatible with the European system. It has been argued that labor-market orientation should be a principle of university education also. Latvia is committed to playing an active role in European cooperation on

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mechanisms of quality assurance in higher education (with accreditation of both institutions and programs).\textsuperscript{23}

EU accession also requires adjustments in professional qualifications that should serve to steer reform of curricula and standards. The 2002 Regular report on Latvia’s progress toward accession\textsuperscript{24} states: “Framework legislation in the area of mutual recognition of professional qualifications is in place,” but adds that: “Shortcomings have been identified with regard to curricula and training for nurses which need to be addressed.” This process provides appropriate directives for the renovation of curricula and standards in line with labor market needs, based on EU market demands. After renovating the curriculum, the great challenge will be to effectively implement these new standards.

Enrolment by knowledge area displays a shift that has resulted in a concentration of graduates in the social sciences, which accounted for 57 percent of all graduates in academic year 2001/2002 while engineering and technology accounted for only 7 percent. This should come as no surprise, since it is effectively filling a market gap inherited from the Soviet era. Management and economics offer a clear example. HE has had to meet the training needs of the emerging private corporate and banking sectors. The response has taken two forms: new HE institutions have been established to offer the programs that are most in demand, and existing institutions have restructured their programs and designed new ones in order to satisfy growing demand.

With regard to more traditional programs, Latvian graduates in scientific and technological subjects number 7.3 per 1,000 citizens aged 20-29. This is a higher figure than the EU candidate countries (which have a ratio of around 6 per 1,000) but lower than the EU average, which is above 10, and much lower than the United Kingdom, Finland, and Ireland where the ratio above 15.\textsuperscript{25}

Two factors in particular determine changes in enrolment and graduation patterns among courses: student choice and government funding. Student choices are influenced by information about prospective market supply and demand, which means that the quality of available information is a key issue. The need for enhanced information is discussed below.

The government funds State HE education institutions by providing resources for a certain number of places weighted by their cost (not the actual cost, because funds are insufficient, but a portion of it). This is a key factor since students apply first for these low-cost or free places. All remaining places have to be fully funded by the students. Thirty percent of total enrolment is currently funded from the government budget. This mechanism has the potential to act as a policy tool to align the HE system with labor market and development needs.

Alternatively, public funding could be used to offset inequities in access that may result from the tuition payments. This problem has recently been addressed by means of a new student loan system administered by the banking system and backed by the State.

\textsuperscript{23} See Bologna follow-up measures. 

\textsuperscript{24} http://europa.eu.int/comm/enlargement/report2002/lv_en.pdf

\textsuperscript{25} EC, Key Data on Education in Europe, 2002.
The MoES decides which places will receive public funding, on the basis of recommendations from the HE Council. This approach clearly carries a risk that existing programs, courses, and faculties will exert excessive influence on the Ministry’s decisions and that labor market and development needs will not be accorded the consideration they deserve. A more objective and independent review of needs should be conducted every few years by an independent panel, so that this mechanism effectively contributes to reallocating public money in a socially efficient way.

Alternatively, a variety of mechanisms could be used to allocate government funds directly to students, whose choices regarding programs and institutions would then define the destination of funds. In this case, the extent to which resource allocation reflects labor market demands would be a function of the quality of information available to students. Any shift that involves affording student choice a greater role in government resource allocation needs to go hand in hand with improved public information regarding the quality of different programs and the employability of their graduates.

If resources continue to be allocated to institutions and the above proposal of an independent panel is adopted, some form of competition should be introduced among HE institutions in terms of the quality and relevance of their programs.

**Information system**

The alignment of the education system and of education choices to labor market demands depends on the quality of the information available. In this respect Latvia has a major gap to bridge. Schools need better information on labor market needs in order to structure their programs more appropriately. Parents and students need better information about the quality and labor-market success of graduates from different programs. School and education leaders in general need information about how their graduates fare in the job market.

Recently there have been a number of valuable initiatives in this regard. The surveys conducted by the Latvian National Observatory as part of the EU Phare Program are an example of a type of activity that should be promoted. In 2000, surveys were carried out in the information technology, telecommunications, and electronics (ITTE) and construction sectors. These provided data on future labor force needs in those sectors. It was estimated that demand for ITTE specialists would more than double in the following three years. The survey of Latvian construction companies showed that an increase in the number of workers can be expected at all levels of qualifications.

The dropout rate in secondary vocational schools remains very high at 14.1 percent in 2000 and 14.4 percent in 2001, compared to 4 percent in general secondary schools. The majority of dropouts from VET abandon their studies in the first year because of poor course choice. The lack of professional career guidance accounts for this source of inefficiency in VET schools. The Professional Career Counseling Center is addressing this need, but is only serving about 20 percent of graduates from grades...

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26 According to the study of Latvia’s ITTE firms, specialists with fourth level vocational qualifications are in greatest demand. The results of the survey of Latvian ITTE firms show that the largest increases in staff numbers can be expected in the following professions: software design, software project management, systems analysis, software product testing, ITTE consultancy, computer network and systems administration, and others related to the development and servicing of software and Internet applications.

27 The largest increase in demand (30 percent) in the next three years is expected to be for specialists with vocational qualifications at levels 4 and 5. Demand for low-qualified workers is expected to increase by only 5 percent.

Despite support provided by the Leonardo da Vinci Program, the provision of a guidance and counseling service to advise pupils and parents on appropriate paths through the VET system, is still inadequate and needs to be strengthened at the elementary and secondary levels. In 2000, the Agency for Vocational Education Development Programs (an enterprise established by MoES) opened the Latvian National Resource Center for Vocational Guidance (NRCVG). The NRCVG cooperates with similar organizations in Europe, which together form the Euro Guidance Network.

The role of schools has to be strengthened in this regard. At a minimum, schools should provide information about jobs and careers and should seek to evolve into active providers of advice to individual students about career development possibilities and prospects, using links between schools and employers to help place students.

An evaluation was conducted in 1999 of the knowledge and skills acquired by graduates at universities and business schools and the relevance of these to employers’ needs. The survey was carried out at the Stockholm School of Economics in Riga and covered 120 large and medium-sized firms in Latvia. The results point, for example, to the need for developing communication skills and incorporating teamwork into study programs. This type of analysis should be conducted on a regular basis with regard to various courses.

The goal of a good information system should be to enable individuals and employers to make better career and training/education choices, and to empower education/training institutions to respond much more directly to changing labor market needs. Some valuable initiatives have been implemented, but a systematic, integrated, and consistent approach remains to be developed.

Conclusion

In the past decade, Latvia’s economy and labor market have gone through an impressive restructuring. This restructuring will be completed with the process of EU accession.

Latvia’s education system has been forced to reform to face this new situation. It had to adapt first to demands arising from independence and the establishment of a democratic regime, and then to the reforms required by the modernization of its economy. In the task of adequately preparing its students for the challenges they will face in the labor market of the future, Latvia already has some important strengths on which to build. Among these strengths, and thanks to persistent efforts in past decades, is the fact that a very high proportion of the young population is already completing at least twelve years of education. At the same time, a significant effort is now being made with regard to the resources devoted to education. The relatively large volume of resources invested by the government and the impressive increase in higher education enrolment—largely funded by students and their families—reflects well on the priority afforded to education.

Nevertheless, major concerns remain to be addressed. The first of these refers to the quality of education. The findings of international student assessments show that Latvia has a large gap to fill. Part of the needs will require more resources, which are needed to update textbooks and train teachers in order


30 For further information on the role of this network, see Modernization of Vocational Education and Training in Latvia, National Observatory report to the European Training Foundation, Riga, 2001.

to complete the implementation of the curricular reform. Strengthening the quality assurance system is another key issue. Since the country is already investing a relatively high amount of resources in education, the resources needed to continue raising teacher’s salaries and enhancing their training and to update textbooks will have to come from a more efficient use of these funds. There is plenty of scope for improving efficiency and reinvesting the savings into quality initiatives, by rationalizing the school network and increasing class and school sizes. In order to achieve these objectives while at the same time dealing adequately with the needs and priorities of local communities, a reorganization of the resource allocation system and decision-making process is needed. This means allocating resources from the central budget on a per student basis and aligning instances of decision-making at the different levels from school to regional and national government.

In order to properly prepare and support today’s students for the demands of the future labor market, about which all we know for certain is that they will be diverse and changing, students need solid generic skills—such as reasoning, problem-solving, team working, communication, and learning abilities—which are requirements for all jobs. Such a broad foundation will support the students’ future learning. The new standards and curricular reforms are appropriately designed to bring about this change; the challenge will be to implement them properly. The new national exams would help in monitoring this process, and therefore these need to receive adequate attention and emphasis.

Regarding options for school programs, preferences toward a general upper secondary education, with a concomitant reduction in the number of courses in the vocational stream, should be pursued. Within the vocational system, the most pressing need today is to link the students’ experiences much more closely to the workplace. Innovative new schemes should be introduced to this end.

At the level of higher education, the mechanism of government resource allocation needs to shift in order to align education more directly with the job market and development needs.

Lastly, the information system regarding student learning, teacher and school quality, graduate success in the workplace, and employer satisfaction is severely underdeveloped. This is a key issue that must be addressed if Latvia is to meet the challenges of better aligning its education system to future labor market needs.
Tables and Figures

Figure 1. Educational Attainment in Latvia in Recent Decades

Percentage of persons without an upper secondary qualification, by age group, 2000
Figure 2. Education sector wages

National and education sector wages 1997-2001
Table 1. Number of Teaching Hours

<table>
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<th>Annual number of teaching hours (Lower Secondary), 1997/98</th>
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<th>Days a year</th>
<th>Annual number of hours</th>
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<th>Days a year</th>
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<td>maximum</td>
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<td>Latvia</td>
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<td>EU (country mean)</td>
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Table 2.

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<tr>
<td>Poland*</td>
<td>479</td>
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<td>Czech Republic*</td>
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<td>Hungary*</td>
<td>480</td>
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<td>Russia</td>
<td>462</td>
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<td>Brazil</td>
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<td>México</td>
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<td><strong>EU average</strong></td>
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<tr>
<td><strong>Scandinavian</strong></td>
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Table 4.1.
*EU candidates.
**All EU members except the Netherlands.
***Finland, Norway, and Sweden.

Table 3

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<td>Finland</td>
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<td>Cyprus*</td>
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<td><strong>OECD average</strong></td>
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<tr>
<td><strong>EU average</strong></td>
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*EU candidates.
**Includes only five members of the EU.
Figure 4. Students at Level 1 or Below on the PISA Literacy Scale
Figure 5. Inequalities in PISA Scores

10th and 90th percentiles and 10th/90th ratio, Pisa 2000
Figure 6. Inequalities in PISA Scores

Percentage of students at each level of proficiency on the combined reading literacy scale, Pisa 2000
Figure 7. Literacy Achievement in PISA 2000 and Per Student Expenditure in Primary as Share of Per Capita GNP

Annex

23
Persons Interviewed

January 6, Monday
13:00 Mr. Janis Chakste, Director, Dept. of Higher Education, Ministry of Education, Valnu street 2, Rm 524, 7047899

14:00 Mr. Janis Juliks, Head, Education project PMU, 12, Basteja str, 7814322
Ms. Guntra Kaufmane, Leader Student Assessment subcomponent PMU

16:00 Ms. Ieva Jaunzeme, Director, Latvian Employers’ Confederation, 12, Vilandes str, 7225162, mob 6533779 (door code 14)

17:15 Mr. Gunars Krusts, Director, Dept. of Vocational Education, Ministry of Education, Valnu street 2, Rm 415, 7047819

January 7, Tuesday
10:00 Mr. Oskars Zids, Association of Pedagogics Science, Dean, Faculty of Education, University of Latvia, in the WB office

11:00 Mr. Mareks Grushkevics, Deputy Director, dpt of Education Policy, Ministry of Education, Valnu street 2, Rm 318, 7047917
Mr. Maris Krastins, Head, Centre for Curriculum Development and Examinations, (ISEC)

14:00 Ms. Lauma Sika, Director, EU Integration Dept., Ministry of Education, Valnu street 2, Rm 202, 9174209 (lauma.sika@izm.gov.lv)
Ms. Solvita Silina, Academic Information Center, Latvian National Observatory

January 8, Wednesday
9:00 Ms. Solveiga Rozite, head of division, State Employment Service, 38, Kr. Valdemara str., Rm 519, Interpreter Ms. Anna Rotanova

11:00 Mr. Kaspars Kaulins, Managing Director, “Fontes R&I, Management Consulting”

14:00 Messrs. Andrejs Bankavs, Andrejs Murnieks, Latvian Teachers Council, WB office, Interpreter Mr. Andris Smilgdrivs

16:00 Mr. Valdis Dombrovskis, Minister of Finance, 1, Smilsu street, Rm 202, 7226672 (Also present Ms. Inguna Sudraba, Deputy State Secretary)

January 9, Thursday
10:00 Mr. Janis Eglitis, School Directors’ Association

11:30 Mr. Aldis Baumanis, Rector, Turiba, Graudu 68, 7606100, in the WB office
14:00 Mr. Juris Lujans, Minister of Economy (also present Messrs. Kaspars Gerhards, State Secretary; Olegs Baranovs, Director, and Imants Krupenkovs, division head, Structural Policy Dept.; A.Buharins, Director, Entrepreneurship Dept., R.Aleksejenko, Director, Industry Dept.) 55, Brivibas street, 7013118

16:00 Ms. Maija Porsnova, State Secretary, Ms. Agrita Groza, Deputy State Secretary, Ministry of Welfare (also present representatives from Labor, Health, Social Insurance, and Social Assistance Depts.), 28/II, Skolas str., 6th Floor, hall – Interpreter Ms. Anna Rotanova

18:00 Higher Education Council, 21, Meistaru str. 7223392 (aip@latnet.lv)

January 10, Friday

10:00 Ms. Zoya Medvedevskih, Mr. Helmut Ancans, Bank of Latvia, 2a, Kr. Valdemara street, 7022409/411

11:30 Mr. Janis Krastins, Deputy Chairperson, Trade Unions, 29/31, Bruninieku str., 5th Floor, 533, 7270273; Interpreter Mr. Andris Smilgdrivs

14:00 Mr. Karlis Sadurskis, Minister of Education, Valnu street 2, Rm 300, 7047810

15:30 Ms. Zinaida Strautmane, Head, Division of Education, Budget Dept., Ministry of Finance, 1, Smilsu str, Rm 320, 7095440, Interpreter Ms. Anna Rotanova