

CELSI Research Report No. 16

THE RISE OF THE DUAL LABOUR MARKET: FIGHTING PRECARIOUS EMPLOYMENT IN THE NEW MEMBER STATES THROUGH INDUSTRIAL RELATIONS (PRECARI R)

COUNTRY REPORT: LATVIA

APRIL 2016

MĀRA BUKOVSKA

MARIJA KRŪMIŅA

ALF VANAGS

LINDA VILDAVA



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Māra Bukovska

Baltic International Centre for Economic Policy Studies

Marija Krūmiņa

Baltic International Centre for Economic Policy Studies

Alf Vanags

Baltic International Centre for Economic Policy Studies

Linda Vildava

Baltic International Centre for Economic Policy Studies

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Central European Labour Studies Institute (CELSI)

Zvolenská 29
821 09 Bratislava
Slovak Republic

Tel /Fax: +421-2-207 357 67
E-mail: info@celsi.sk
Web: www.celsi.sk

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Corresponding Author:

M. Bukovska, M. Krūmiņa, A. Vanags, L. Vildava
Baltic International Centre for Economic Policy Studies,
Strelnieku iela 4a, Riga LV-1010, Latvia
E-mail: mara.bukovska@gmail.com, marija@biceps.org, alf@biceps.org,
linda@biceps.org

Table of contents

1. Introduction.....	3
2. An overview of Latvia’s labour market.....	4
3. Legal framework and recent developments.....	6
4. Forms of precarious work.....	9
Fixed-term work	10
Temporary agency workers.....	11
Part-time work.....	12
Self-employment	12
Employees of micro enterprises.....	13
Shadow economy – undeclared work and envelope wages	14
Concluding remarks.....	16
5. Analysis of selected sectors: precarious employment trends and positions of trade unions and employers.....	18
Introduction.....	18
Construction sector	22
Health care sector	27
Metal sector	34
Retail sector.....	37
Temporary agency work.....	44
6. Comparative evaluation and conclusions.....	48
7. Bibliography.....	52
8. Appendices	56
Appendix I: Structure of social dialogue.....	56
Appendix II: List of interviews	57

1. Introduction

This paper looks at the development of precarious or non-standard employment in Latvia from 2008 to 2015. The aim of the paper is to examine the role of social partners and industrial relations in addressing the development of precarious work forms and potential duality of the labour market. Precarious work forms are analysed from perspective of: wages, working time, job security, social security, collective bargaining and voice through trade unions. The following sectors are construction, health care, metal, retail and temporary agency workers.

The forms of work that on some dimensions provide less security in Latvia than the full-time open-ended employment agreement are: part-time work, fixed-term work, self-employment and employment in micro enterprises. Part-time, fixed-term and full-time open-ended employment is regulated by Labour Law with minor differences in the regulation. Also employment of micro enterprise employees is regulated by Labour Law; however, micro enterprises are subject to micro enterprise tax regime, which results in significantly lower social security. Self-employment is regulated by the Civil Code rather than by Labour Law.

The use of precarious work forms has been driven mainly by economic factors and the cost saving and tax optimizing options they provide for employers. Part-time and fixed-term employment forms were created for purposes when standard the full-time open-ended employment are not appropriate e.g. seasonality. In practice, part-time employment can conceal full-time employment with envelope wages. Fixed-term employment is used to fit the nature of work planning process, i.e., fixed-term projects and employers' uncertainty of their ability to provide long-term employment. Self-employment can be used to optimize taxes and save costs for employers. Self-employed status relieves employers from the obligation to pay social security contributions and fro other responsibilities e.g. holidays once a person no longer counts as a dependent employee.

The crisis in Latvia lasted from late 2008 until the resumption of growth in 2011. The data indicate that during recession the incidence of all forms of non-standard or precarious work forms increased. As growth resumed the prevalence of part-time and fixed-term employment on average declined but self-employment, however, has increased since 2011 allegedly because of the micro enterprise tax law introduced in 2010. Part-time employment almost doubled in all the sectors analysed in depth and, except for the metal sector, shows little sign of reverting to pre-crisis levels. The numbers of micro enterprise tax payer status and employees of micro enterprises has grown rapidly but this may be reversed as a result of regulation expected to come into force in 2016 prohibiting micro enterprise status in 37 different sectors.

From a total workforce in 2014 of 992 thousand (i.e. active individuals including both employed and unemployed) 95 thousand or 9.6% were self-employed, 65.4 thousand or 6.6% worked part-time and 25.7 thousand or 2.6% worked on fixed-term contracts. Thus, nearly 19% of the workforce worked with non-standard or potentially precarious work agreements.

The report is structured as follows: section two provides an overview of Latvia's labour market, section three describes and discusses the legal framework, section four examines precarious work forms in Latvia in more detail, section five provides and analyses and the empirical evidence gathered from interviews with social partners and representatives of government institutions, section six contains a cross-sectoral assessment of the empirical evidence.

2. An overview of Latvia's labour market

Since 2006 the annual average number of active individuals¹ in the labour market has varied in range of 50-53% of Latvia's total population. In 2014 Latvia's labour market consisted of 992,400 active individuals, which is 50.4% of the total population, standing at 1,968,200 in 2014. The employment rate was 66.3% in 2014² – the highest since 2007 and 2008, which were considered the economic boom peak years, shortly before the crisis hit Latvia's economy and consequently its labour market in late 2008 and early 2009. The unemployment rate was 10.8% in 2014, slightly lower than the unemployment rate of 11.9% in 2013.³ During the crisis GDP cumulatively declined by 25% and while the recession was deep, it was relatively short-lived and GDP growth resumed in 2011. In 2014 the greatest number of workers were employed in trade (146 thousand or 17% of all employed, including both wholesale and retail), manufacturing (114 thousand or 13% of all employed) and education (98 thousand or 11% of all employed).⁴ 446.2 thousand Women (employment rate 64.3%) and 438.5 thousand men (employment rate 68.4%) were employed in 2014. While the employment rate is higher for men, women make up the greater part of the labour market in absolute numbers. The unadjusted gender pay gap was 14.4% in 2013, which is slightly higher than 13.8% in 2012.⁵

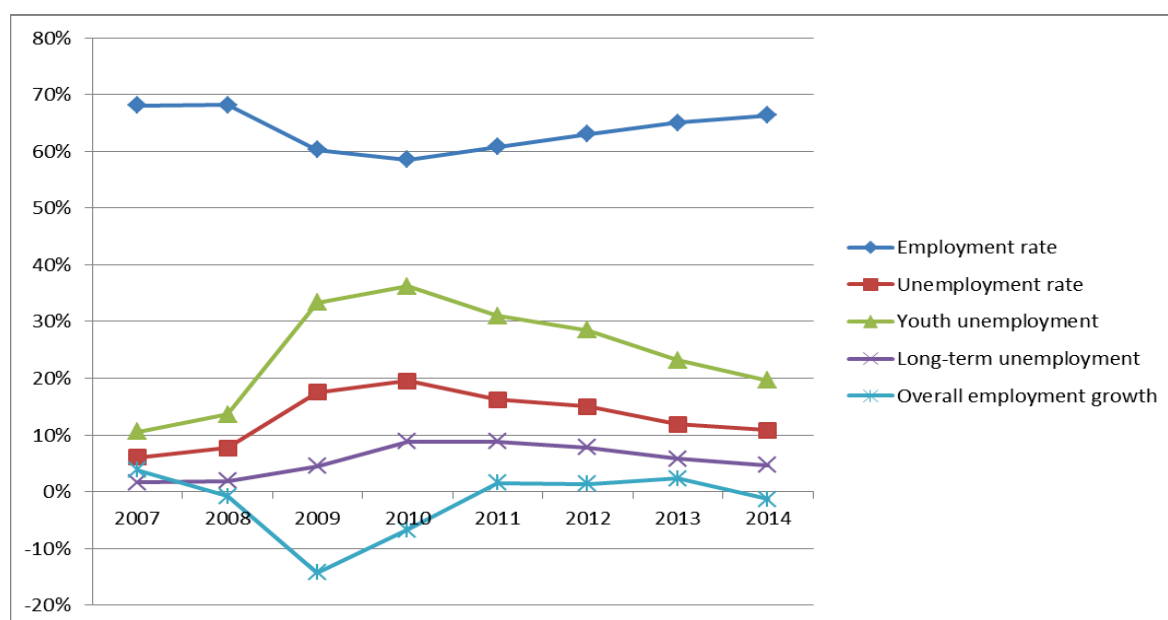


Figure 1. Main labour market indicators in Latvia in 2007-2014. Source: Eurostat.

In the fourth quarter of 2014 the average weekly number of hours worked was 21.1 for part-time employees (slightly above the EU average of 20.1 hours) and 40.5 hours for full-time employees (slightly below the EU average of 41.5 hours weekly). In the same period self-employed people in Latvia worked 21.4 hours weekly if working part-time (the EU average was 18.3 hours) and 41.9 hours weekly if working full-time (the EU average was 47.6 hours).⁶ Self-employed people on average tend to work more hours than

¹ The active population includes all employed and unemployed individuals. The inactive population includes all individuals classified as neither employed nor unemployed. No age group defined.

² Age group 15-64.

³ Source: Eurostat. Comparatively, Eurozone 18 countries (excl. Lithuania) unemployment rate was 11.6% in 2014 and EU28 unemployment rate was 10.2% in 2014.

⁴ Source: Central Statistical Bureau (CSB) of Latvia. Retrieved from: http://data.csb.gov.lv/pxweb/lv/Sociala/Sociala__ikgad_aiznemtdv/jvs0010g.px/table/tableViewLayout1/?rxid=cdbc978c-22b0-416a-aacc-aa650d3e2ce0

⁵ Source: Eurostat.

⁶ Source: Eurostat.

dependent employees. The average gross monthly salary in Latvia was 716 euros in 2013 and 765 euros in 2014.⁷ The highest average monthly gross salary of 953 euros was registered in Riga (the capital city) and Stopiņu municipality (a region next to Riga, scoring seventh place out of 110 Latvia's municipalities in terms of the regional development index in 2013⁸) in 2014. Meanwhile in 2014 the lowest average monthly gross salary of 439 euros was registered in Dundagas municipality (located in a remote region in North Western Latvia with particularly low levels of both industrialization and agriculture⁹), which is less than half of the earnings registered in the highest paid regions. The highest monthly gross salaries were paid in aviation (1968 euros) and finance (on average 1682 euros) sectors in 2014, while the lowest wages were paid in catering services (462 euros) and manufacture of clothing (459 euros).¹⁰ The data indicates a more than fourfold difference between best and worst paid sectors.

Figure 2 shows the distribution of monthly wages in early 2015 and striking feature is the noticeable spike around the minimum wage¹¹ which is strongly suggestive of the presence of envelope wages for many of those officially reported as earning the minimum wage.

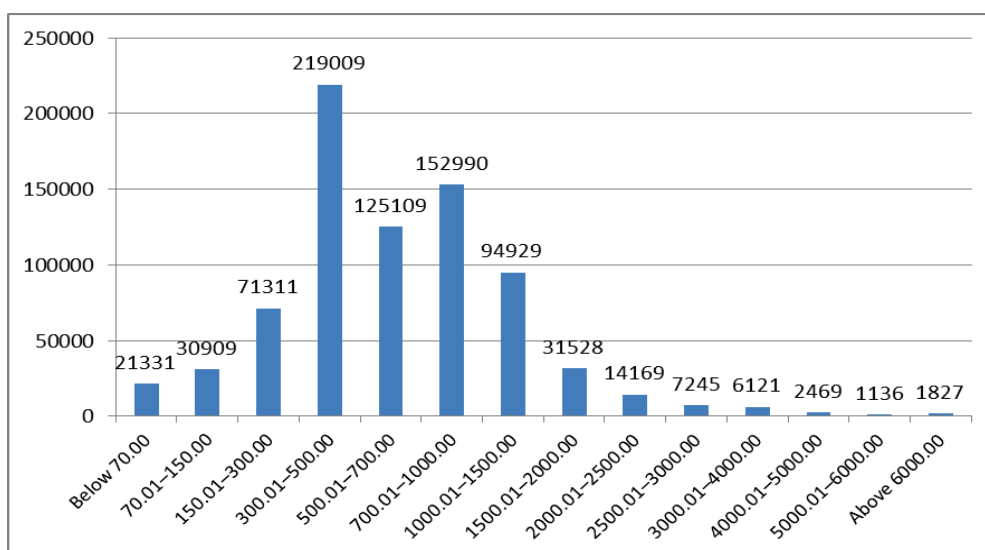


Figure 2. Gross monthly salary distribution in the beginning of 2015 (number of recipients). Measured in euros. Statutory minimum wage is 360 euros as of 1 January 2015. Source: CSB

A rather small share of the adult population¹², 5.5% in 2014, participated in training and education, while the EU average in 2014 was 10.7%. The expected duration of working life was 34.8 years in 2013. According to official data around 40 thousand people also had a second job in 2014.¹³ In 201, an estimated 55

⁷ Source: CSB. Retrieved from: <http://www.csb.gov.lv/statistikas-temas/iedzivotaju-ienemumi-galvenie-raditaji-30268.html>

⁸ Valsts Reģionālās Attīstības aģentūra. (n.d.) Teritorijas attīstības indekss. Retrieved from: http://www.vraa.gov.lv/lv/petnieciba/attistibas_indekss/

⁹ 28% of the municipality's territory is nature reserve and legally protected from economic exploitation. Furthermore, the number of inhabitants has been annually shrinking and was slightly more than 4.5 thousand in 2014.

¹⁰ Source: CSB. Retrieved from:

http://data.csb.gov.lv/pxweb/lv/Sociala/Sociala__ikgad__dsamaksa/DS0020_euro.px/table/tableViewLayout1/?rxid=cdc978c-22b0-416a-aacc-aa650d3e2ce0

¹¹ This is even more pronounced with more detailed data.

¹² Aged 25-64.

¹³ Source: Eurostat.

thousand people could be regarded as additional potential labour force¹⁴ which is equivalent to 5.6% of the actual total labour force.¹⁵ The youth (aged 15-24) unemployment rate in 2014 stood at 19.6%, which was lower than the rate of 23.2% in 2013. In general, while youth unemployment remains high it is down from its peak of 36.2% in 2010. Youth unemployment decreased mainly as a result of the economic recovery that started in 2011. Additionally, the EU carried out targeted campaigns to reduce EU wide rising youth unemployment. Also, research suggests that wages of new hires are lower than those of incumbent employees. While employers are reluctant to cut the wages of incumbent employees, the wage of new hires can be more easily adjusted.¹⁶

Trade union density in 2013 was estimated at 13%, an increase from 11.5% in 2012.¹⁷ In other words, slightly more than one tenth of employees in dependent employment are trade union members. Trade union density in Latvia was 16% in 2006, suggesting that it declined during recession.¹⁸ Trade union density is generally lower in post-Soviet bloc countries. Estonia's trade union density was 6.4%, Poland's – 12.5%, and Hungary – 10.5% in 2012. In comparison, Scandinavian countries (Denmark, Finland, Sweden, Norway) on average had trade union density as high as 64.1% in 2012.¹⁹

Company level workers representatives are an alternative representation form. A person can act as a workers representative if elected by at least half of employees of a company. The elected representative is the entitled to represent the interests of workers and to sign collective agreements. It is estimated that around 25% of employees were covered by elected representatives in 2013. Collective agreement coverage was 34% in 2013²⁰ which is higher than density collective agreements apply to all workers in a company including those who are not trade union members. A worker cannot opt out from a collective agreement once it is signed and in force.

3. Legal framework and recent developments

Employer and employee relations are mainly regulated by the 2002 Latvian Labour Law, which superseded a previous law that had been in force since Soviet times. The 2002 law placed more emphasis on protecting the rights and freedoms of employees. Since being enacted in 2002, the Labour Law has been amended several times with the latest amendments coming into force on 1 January 2015. Following the 2008 economic recession and the subsequent recovery, there has been a debate between social partners, trade unions and the government about how to improve the response of the labour market to economic shocks. One of the consequences brought on by the financial crisis was a realisation that social dialogue and bargaining are fundamental to securing flexible and fair labour market legislation. Social dialogue

¹⁴ Additional potential labour force include people available for work, but not seeking it and people seeking work, but not immediately available.

¹⁵ Source: Eurostat Newsrelease. (27 April 2015). Retrieved from: <http://ec.europa.eu/eurostat/documents/2995521/6800423/3-27042015-AP-EN.pdf/08a0ac51-c63d-44d0-ad29-248127fd01c3>

¹⁶ Semjonovs, A., Vanags, A., Zasova, A. (23 April 2014). What happened to wages in Latvia's 'internal devaluation'? Baltic International Centre for Economic Policy Studies.

¹⁷ Karnite R., (19 february 2015). Latvia: Industrial Relations Profile. EurWork. Retrieved from: <http://www.eurofound.europa.eu/observatories/eurwork/comparative-information/national-contributions/latvia/latvia-industrial-relations-profile>

¹⁸ Worker-participation.eu. (2014). Latvia. Key Facts. Retrieved from: <http://www.worker-participation.eu/National-Industrial-Relations/Countries/Latvia>

¹⁹ Source: OECD.

²⁰ Worker-participation.eu. (2014). Latvia. Key Facts. Retrieved from: <http://www.worker-participation.eu/National-Industrial-Relations/Countries/Latvia>

concerning the Labour Law at a national level involves three institutional bodies: the Cabinet of Ministers (governmental body), the Latvian Employers Confederation (the largest organisation representing employers in Latvia), and the Latvian Free Trade Union Confederation (the biggest non-governmental organisation in Latvia that represents the interests of professional trade union members and employees). Together these institutions make up the National Tripartite Cooperation Council which is the main formal social dialogue institution.

The main purpose of the latest amendments to the Labour Law enacted in January 2015 was to shape the law in a way that it is more practical and able to better realise the aims of the legislators and better address the actual issues of the labour market. The changes introduced can largely be placed in two groups – changes where existing rules have been clarified and improved, and then there are some changes that represent new provisions.²¹ Thus in order to lower unregistered employment and reduce the risk of cheating, backdated contracts will be placed under institutional scrutiny.²² This is intended to improve, worker safety and rights. However, it should be remarked that some of the provisions in the new legislation would also ensure a higher level of competitiveness. For example, fixed-term contracts can now be signed for a maximum five-year term, an increase from three.²³ Additionally, 60 days (increase from 30 days) break is required between fixed-term agreements among the same parties in order to consider it a new agreement instead of an extension of a previous one. There is no limit to renewals of fixed-term agreements, therefore, implying that the maximum length of a fixed-term agreement is *de facto* not limited. The legislative changes also ensure a higher degree of transposition of EU labour legislation, including the implementation of directives 94/33/EC, 1990/70/EC, 98/59/EC and 2003/88/EC.²⁴ These include institutional protection of young people at work (94/33/EC), regulation of fixed-term employment contracts (1990/70/EC), approximation of the laws concerning collective redundancies (98/59/EC) and the regulation of working time (2003/88/EC). Their transposition in Latvia includes additional employment restrictions for youth aged between 15 and 18; Article 45 relating to Directive 1990/70/EC will allow the conclusion of a fixed-term agreement for up to five years; regarding collective redundancy procedures, transposing Directive 98/59/EC will provide a shorter term for notification to the State Employment Agency and the right to initiate dismissal procedures after such notification has been submitted; and there are several amendments concerning the regulation of working time - article 138(3) permits overtime work of a maximum of 8 hours within a 7-day period with the reference period not exceeding 4 months, specific working time restrictions on night work, and the compensation of unused paid annual leave.²⁵ With regards to precarious work forms main legislative changes concern extension of the length of fixed-term agreement from three to five years (see ‘fixed-term work’), transposition of EU directive on temporary agency workers (see ‘temporary agency workers’), and the introduction of micro enterprises tax payer status (see ‘self-employment’).

Before the above-mentioned adjustments, trade unions had argued that the previous labour legislation favoured the interests of employers over employees. Even though the OECD had remarked that employee

²¹ Putniņa R., (17 December 2014). Izmāiņas darba likumā no 2015. gada. Retrieved from: <http://www.lvportals.lv/visi/skaidrojumi/267446-izmainas-darba-likuma-no-2015gada-i/>

²² Ibid.

²³ Ibid.

²⁴ European Labour Law Network. (n.d.) Amendments to the Labour law. Retrieved from:

www.labourlawnetwork.eu/national_labour_law/national_legislation/legislative_developments/prm/109/v__detail/id__5210/category__19/index.html

²⁵ Ibid.

protection in Latvia is higher than in the average member states,²⁶ some research has drawn the opposite conclusion. While Latvia's Labour Law can be characterized as rather rigid, adjustment to the crisis of 2008-2010, when Latvia underwent internal devaluation, demonstrated the ability of the Latvian labour market to respond quite flexibly. Labour cost adjustment mainly took place through cuts in employment rather than wages: there was a massive reduction in employment (reaching about 20%), which took place over a very short period of time, 2008 and 2009, while the annual unemployment rate increased rapidly from 7.7% in 2008 to 17.5% in 2009 and 19.5% in 2010.²⁷ Empirical evidence confirms that employment adjustment took place through a rapid increase in job separations and hours worked²⁸. There was also a considerable fall in wages in the public sector (20% or more), and to a smaller extent – in private sector wages.²⁹ Anna Zasova has argued that the main reason for the supposed flexibility of the Latvian labour market is due to weak law enforcement.³⁰

The Labour Law regulates working time and a maximum working week of 40 hours. Yet the actual number of hours worked by full-time workers is on average slightly higher than this (see above in 'An overview of the Latvian labour market'). The Law, which regulates overtime remuneration at a national level, states that overtime pay must not be lower than 100% of regular hourly or daily pay. Employers are free to set overtime remuneration higher than 100% of regular hourly or daily pay.³¹ However, one of the contested issues that remain among the employer and employee organizations is pay for overtime: currently, due to a lack of enforceable legislation on the matter, employees may remain unpaid for some or all of the extra hours they have worked.³² Practice varies: employees might be required not to report overtime hours, or they may receive payments at below the 100% rate or in the form of irregular overtime bonuses.

The minimum wage is negotiated at a national level although in practice the government has the final say, and it stands at 360 euros in 2015, an increase from 320 euros in 2014. Monthly minimum wage relative to average earnings was 42% in 2013. This ratio was 34.1% for Estonia and 48.3% for Lithuania in 2013. However, nearby Scandinavian countries do not have statutory minimum wage at all.³³ The government has agreed to increase statutory minimum wage to 370 euros as of 2016. Additionally it plans to implement a differentiated non-taxable personal allowance as of 2016 and develop a long-term strategy for implementing progressive taxation in order to minimize income inequality in the society. Non-taxable minimum was 75 euros in 2015 and the government agreed to increase it to 85 euros in 2016. Low wage earners (up to 380 euros a month) will be subject to higher non-taxable minimum of 120 euros a month. It

²⁶ Karnīte, R. (29 January 2015). Latvia: Amendments to labour law. Retrieved from: <http://www.eurofound.europa.eu/observatories/eurwork/articles/industrial-relations-law-and-regulation/latvia-amendments-to-labour-law>

²⁷ Source: Eurostat.

²⁸ Brauksa, I., Ludmila F. (2013). Internal Labour Market Mobility in 2005–2011: The Case of Latvia. Working Papers 2013/02, Latvijas Banka

²⁹ Blanchard, O.J., Griffiths, M., Gruss, B., (Fall 2013). Boom, Bust, Recovery: Forensics of the Latvia Crisis. Retrieved from: http://www.brookings.edu/~media/Projects/BPEA/Fall-2013/2013b_blanchard_latvia_crisis.pdf?la=en

³⁰ Zasova, A. (3 June 2014). 'Labour market institutions: an obstacle or support to Latvian labour market recovery?', *Baltic Journal of Economics*. Retrieved from: <http://www.tandfonline.com/doi/pdf/10.1080/1406099X.2011.10840488>. A similar point has also been made by Oļegs Krasnopjorovs, 'Employment protection in Latvia: rigid de jure, flexible de facto?', Latvian Bank, Riga (2013), www.makroekonomika.lv

³¹ Labour Law, Section 68

³² Karnīte, R. (28 January 2015). Latvia: Strengthening the role of trade unions in ensuring employment rights. Retrieved from: <http://www.eurofound.europa.eu/observatories/eurwork/articles/industrial-relations-law-and-regulation/latvia-strengthening-the-role-of-trade-unions-in-ensuring-employment-rights>

³³ Source: Eurostat.

is planned to gradually increase non-taxable minimum for low-wage earners and decrease it for high-wage earners.³⁴

The Labour Law states that every employee and employer has the right to freedom of association and shall not be discriminated against because of belonging to a trade union, or use it as a purpose to refuse signing an employment agreement or ceasing any existing employment agreement. Workers are free to choose or not to choose to belong to a trade union. In other words, it is not mandatory to become a member of any trade union. Section 7 of Labour Law, 'Principle on Equal Rights', clearly states that: 1) 'Everyone has an equal right to work, to fair, safe and healthy working conditions, as well as to fair work remuneration'; 2) 'The rights provided for in Paragraph one of this Section shall be ensured without any direct or indirect discrimination – irrespective of a person's race, skin colour, gender, age, disability, religious, political or other conviction, ethnic or social origin, property or marital status, sexual orientation or other circumstances.'³⁵ There is also Section 29 on 'Prohibition of Differential Treatment' that secures against discrimination in the work place. While this is a necessary legislation, the new labour law secures greater protection for at risk or certain groups of workers. A new Trade Union Act was adopted by the Parliament on 1st November 2014.³⁶ This replaced legislation in place since 1991 which had become outdated and was in contradiction to new legislation, for example, rules relating to the resolution of labour disputes.³⁷

Latvia has also ratified all the fundamental conventions of the International Labour Organization. They relate to abolition of child labour, setting 15 as the minimum working age, rights to equal remuneration, prohibition of discrimination in the workplace, abolition of forced labour, rights to organise, freedom of association, and collective bargaining. In general, the worst forms of child labour and any kind of forced labour are prohibited.

4. Forms of precarious work

Figure 3 shows the dynamics of different non-standard employment forms. The increase in self-employment after 2010 is related to the introduction of micro enterprise tax payer status, which allows for lower tax rates for micro enterprises and their employees. The crisis began in late 2008 and the data indicate an increase in part-time and fixed-term employment as of that moment but the prevalence of both work forms declined as GDP growth resumed in 2011.

³⁴ Ministry of Finance. (16 Sep 2015). Diferencētais neapliekamais minimums mazinās ienākumu nevienlīdzību. Retrieved from: <http://www.fm.gov.lv/lv/aktualitates/jaunumi/nodokli/51287-diferencetais-neapliekamais-minimums-mazinas-ienakumu-nevienlidzibu>

³⁵ Valsts valodas centrs. Labour law. (n.d.) Retrieved from: <http://www.vvc.gov.lv/advantagecms/LV/aktualitates/index.html>

³⁶ Karnīte, R. (29 January 2015). Latvia: Amendments to labour law. Retrieved from: <http://www.eurofound.europa.eu/observatories/eurwork/articles/industrial-relations-law-and-regulation/latvia-amendments-to-labour-law>

³⁷ Ibid.

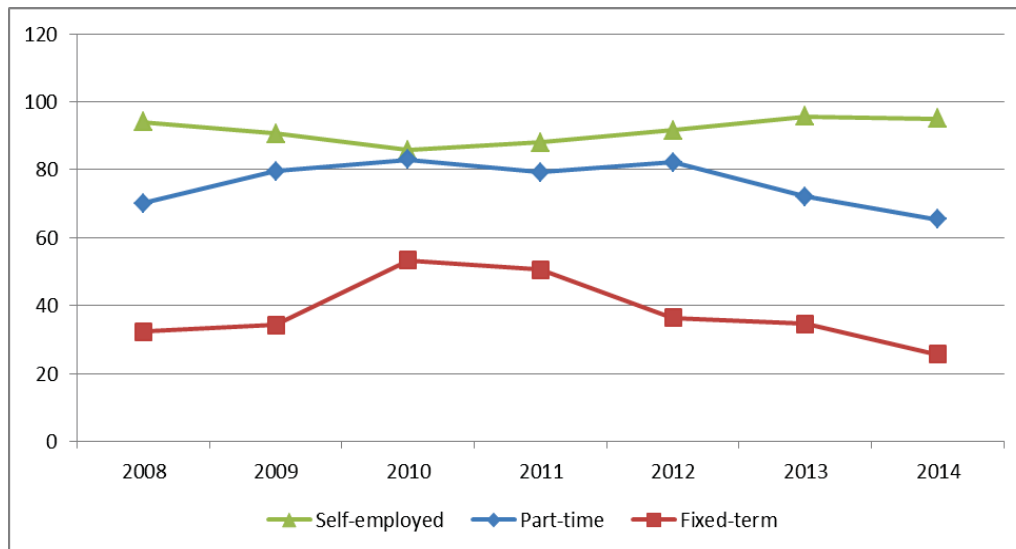


Figure 3. Number of self-employed, part-time workers and workers with fixed-term contracts in Latvia in 2008-2014 (thousands). Source: Eurostat.

Employees with a full-time, open-ended employment agreement with an employer are considered to be placed in the best-protected employment form. This kind of arrangement offers employees full social protection and covers many areas like better paid social contributions, paid holidays, paid sick leave and maternity leave, severance pay, and unemployment benefit. Furthermore, an employee and his or her family are entitled to receive compensation in case of accidents, which are particularly prevalent, for example, in manufacturing and construction in Latvia. Another matter of importance with open-ended employment agreements is that they continue until such time as both parties agree to terminate the agreement. In other words, it allows for long-term employment and professional development, including promotions.

However, full-time, open-ended employment forms can still be abused by practices such as: inadequate overtime remuneration, forced unpaid leave, dismissal while on maternity leave and other abuses.

Less secure employment forms in Latvia are considered to be: fixed-term employment, part-time employment, self-employment, and employment in a micro-enterprise. In addition one should consider undeclared work and envelope wages as generating insecurity for workers.

Fixed-term, open-ended, full-time and part-time employments are regulated by the same rules with very minor exceptions. Fixed-term work implies a reduced opportunity for long-term employment, while part-time employment implies that employees do not have the opportunity to use all their available working time for employment and earning income. Part-time employment was particularly abused during recession when employees were forced into part-time employment as companies were striving to cut labour costs, but were unable to go below the statutory minimum wage. Thus many opted for reducing the weekly work load below the official 40 hours. Micro enterprise employees also have an employment agreement that is regulated by Labour Law, however, they have significantly different tax and social security contributions regime which is defined by the micro enterprise tax law.

Fixed-term work

Temporary employment contracts are not particularly wide-spread in Latvia's labour market. The percentage of employees with temporary employment agreements peaked at 7.9% during the third quarter of 2010. In the fourth quarter of 2014 the number stood at 3.2% as compared to EU average of 14.1%

during the same period.³⁸ In 2013 around 12.3 thousand people had temporary employment agreements with duration from one to three months, 12.8 thousand had agreements with duration from four to six months and only 2.6 thousand had agreements with a duration from seven to twelve months. The main reasons for accepting a temporary employment agreement are: inability to find a permanent job (63.9% of the respondents in 2014) and being on a probationary period (14.6% of the respondents).³⁹ However, involuntary temporary employment in 2014 represented 2.1% of the total employed work force as compared with the EU average of 8.7%. The share of involuntary temporary unemployment has actually declined since its peak at 5.1% of total employed in 2010.⁴⁰

The legal status of fixed-term work does not differ from an open-ended employment agreement, except for the fact that a fixed-term agreement includes a predetermined date for expiration. The existing agreement might or might not be prolonged or a new agreement might or might not be signed. According to the Labour Law fixed-term agreements should be made only in cases when open-ended agreements are not possible.⁴¹ Fixed-term agreements cannot exceed five years, including all extensions. However, there is no limit to how many times a fixed-term agreement can be renewed, while there must be a break period of 60 days before signing a new fixed-term agreement among the same parties as otherwise it shall be considered as an extension of previous agreement.⁴²

Temporary agency workers

Latvia has incorporated EU Directive 2008/104/EC specifically on temporary agency workers in order to ensure they are treated fairly as compared with other employment forms. Figure 5 indicates that the total number of temporary agency workers has been growing since 2008 with very an accelerated increase in 2011 and 2012. The number of TAWs has quadrupled over 2008 to 2011. The number of TAWs was in decline in 2013 when it dropped to 1036 people compared to 1208 in 2012. Nevertheless, the 2012 peak in

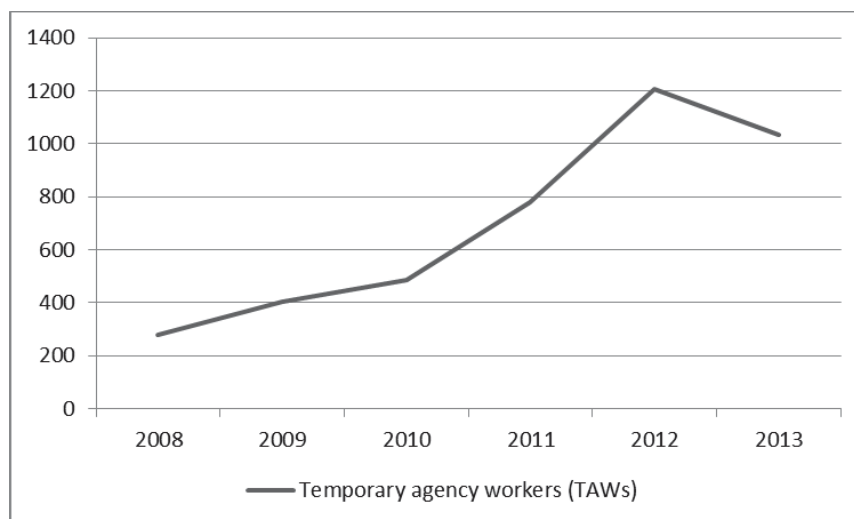


Figure 4. The number of temporary agency workers in Latvia over 2008-2013. Source: Eurostat.

The number of TWA workers represented just 0.14% of total employment in that year.

³⁸ Source: Eurostat. Age group 15-74 years.

³⁹ Source: Eurostat. In 2014 3.3% of all employed were having temporary employment agreements. According to data, the percentage of respondents must be calculated out of these 3.3% as the total population for the sample.

⁴⁰ Source: Eurostat.

⁴¹ Labour Law, Section 44(1)(2)

⁴² Labour Law, Section 45

In June 2011, the Latvian government adopted the EU Directive 2008/104/EC on temporary work agencies, which entered into force on 20 July 2011.⁴³ While Latvian legislation had been largely in line with the Directive, some changes needed to be made. Most noteworthy was 'the obligation of temporary work agencies to provide temporary agency workers with the same basic working and employment conditions as those afforded to the regular employees of the user undertaking'.⁴⁴ The main purpose of the Directive is 'to guarantee a minimum level of effective protection to temporary workers and to contribute to the development of the temporary work sector as a flexible option for employers and workers'.⁴⁵ In effect, the Directive aims to serve both employee and employer interests as it ensures greater transparency and flexibility in the temporary work sector.⁴⁶

Part-time work

Part time workers are subject to the same regulation as full-time employees with open-ended employment agreements, except they are not required to work the full 40 hours per week. Accordingly they receive lower total wages than employees doing the same, but working full time, i.e., they are paid the same amount per unit of time, but they work less hours.⁴⁷ Part-time employment became particularly prevalent during recession and employers often hired new employees on a part-time basis.

The share of part-time workers in Latvia has historically been rather low (usually less than 10% of total employment) as compared with the EU average of about 20%. The highest incidence of 11.1% was registered in the first quarter of 2010, since then the share has steadily declined to 7.4% in the fourth quarter of 2014. The EU average stood at 20.3% in the fourth quarter of 2014.⁴⁸ The main reasons for entering part-time employment are inability to find a full-time job (38.1% of respondents in 2014), other unspecified reasons (29.3% of respondents) and other personal or family responsibilities (16.3% of respondents). Personal illness or disability (3.7% of respondents) and looking after children and incapacitated adults (3.7% of respondents) are other reasons why people work part-time.⁴⁹ In 2014 more women (38.2 thousand) than men (20 thousand) were employed part-time. It is estimated that 38.1% of all part-time employed were involuntary part-time in 2014, which is slightly lower than 40.7% in 2013.⁵⁰

Self-employment

In the fourth quarter of 2014 there were registered 86.3 thousand self-employed. The number of self-employed quarterly fluctuates in a range from 80 till 95 thousand people. A significantly larger part of self-employed is men. In 2014 around 56.2 thousand men were self-employed, while women – 34.5 thousand.⁵¹

Self-employment is the least protected legal work form in Latvia because it is not regulated by Labour Law, but by the Civil Code. The self-employed are subject to a different tax and social payment regime and

⁴³ Clauwaert, S., and Schomann, I. (January 2013) The crisis and national labour law reforms: a mapping exercise. Country report: Latvia.

⁴⁴ Ibid.

⁴⁵ European Commission. (n.d.) Working Conditions - Temporary Agency Workers. Retrieved from: <http://ec.europa.eu/social/main.jsp?catId=706&langId=en&intPagId=207>

⁴⁶ Ibid.

⁴⁷ Labour Law, Section 134

⁴⁸ Source: Eurostat. Age group 15-74 years.

⁴⁹ Source: Eurostat. In 2014 7.4% of all employed were in part-time employment. According to data, the percentage of respondents must be calculated out of these 7.4% as the total population for the sample.

⁵⁰ Source: Eurostat.

⁵¹ Source: Eurostat.

because of this people working solely as self-employed might be eligible for lower state benefits: smaller pensions, no paid sick leave, no maternity leave etc. Furthermore, social contributions are tied to the minimum wage, i.e. the required minimum social contribution payment is around one third of the minimum wage (360 euros) irrespective of the actual earnings of the self-employed person. While the self-employed have certain flexibility in the choice of their social contribution payments, they more often than not choose to make only the required minimum. Another option for the self-employed is to pay micro enterprise tax or royalties (depending on the form of occupation), and these payments also involve low social security payments which eventually may result in low pensions in retirement. Furthermore, the income of the self-employed is often irregular and subject to significant fluctuations, which means that they are not guaranteed a regular stream of income. Self-employed people basically have very limited opportunities to receive vocational training or paid sick leave. In case of official sick leave the self-employed may still claim tax reduction based on the number of days of illness.

An individual can register as a micro enterprise tax payer, but this status does not require registering a legal entity. The micro enterprise tax payer law was enacted in 1 September 2010 and as of that time the number of self-employed has gradually increased. A person paying micro enterprise tax may have annual turnover of no more than 100,000 euros⁵².

Slightly more than 43 thousand micro enterprise tax payers were registered by May 2015. The number of micro enterprise tax payers has been increasing and it is expected that it will continue to rise.⁵³ The Ministry of Finance and State Revenue Service have issued official statements warning that micro enterprise tax⁵⁴ may lead to substantially lower pensions and state benefits as compared with the tax regime for dependent employment. By relying only on micro enterprise tax the tax payer might not even reach the minimum pension level at retirement.

Employees of micro enterprises

Micro enterprises can have up to five employees. Every employee can receive up to 720 euros monthly salary without paying any income tax and any amount above the threshold is subject to 20% income tax. The employment relation between micro enterprise tax payer and employees is regulated by Labour Law, but they are subject to the micro enterprise tax regime. The enterprise pays a 9% revenue tax of which 69.4% goes to compulsory social security contributions for all employees together in the enterprise. By contrast with a standard employment agreement 34.09 % of each workers wage is paid as compulsory social security contribution. For most realistic assumption the latter is much higher for the same wage than the contribution made under the microenterprise regime. Of course a microenterprise worker may voluntarily join the state offered additional social security contributions scheme to boost his or her contributions. Thus the precariousness of the employees of the micro enterprises is in the differing tax regime, which provides lower social benefits than employment with non-micro enterprise tax payer. It is the duty of the employer to inform employee upon signing employment agreement that the income tax and social security contributions are paid according to micro enterprise tax regime.⁵⁵

The average number of micro enterprise employees was 84 thousand in 2013 while of these the estimated number that actually worked was 57 thousand. The number of micro enterprise employees has gradually increased from 42 thousand (26 thousand actually working) in 2011 and 66 thousand (42 thousand actually

⁵² If a micro enterprise exceeds the limit, it is subject to additional tax payments for excess turnover.

⁵³ Pētersone, I., (13 May 2015). Valsts ieņēmuma dienesta paveiktais un uzsāktais nesamaksāto nodokļu mazināšanā.

Retrieved from: https://www.vid.gov.lv/dokumenti/aktualitates/informacija%20presei/2015/maijs/vid_petersone.pdf

⁵⁴ 69.4% of the tax payment is attributed to social security contributions.

⁵⁵ Micro enterprise tax law. Articles 2(1)(2) and 3(1).

working) in 2012.⁵⁶ Additionally, it is estimated that around 40% of micro enterprise employees were also employed by a non-micro enterprise employer in 2013. This figure of 40% is stable over time around, 60% of micro enterprise employees remain inadequately socially uninsured.⁵⁷ The average net wage in the country was 516 euros, while average income of micro enterprise employee was 432 euros in 2013 and significantly lower social contributions amounting to 112.3 euros a month. For an employee with the same net wage of 432 euros, but working for non-micro enterprise employer monthly social security contributions would be 205.16 euros. The average net earnings of micro enterprise employee are below average net wage in the country. In 2013 only 0.8% of micro enterprise employees had monthly wage greater than tax exempt threshold of 720 euros. The rest had monthly wage below 720 euros.⁵⁸

The greatest number of micro enterprise employees work in professional, scientific, technological services sector (24.3% or 13.8 thousand in 2013), trade (9.7%), construction (9.6%), other services (8.5%), information and communication services (8.1%) and other sectors.⁵⁹

Shadow economy – undeclared work and envelope wages

The shadow economy is entrenched in Latvian labour market culture, making for an unprotected informal workforce. This is perhaps the single most important distortion present in the Latvian labour market and hence is a reform issue that needs to be more effectively addressed than hitherto. According to Mihails Hazans, “Understanding determinants of the size of the informal workforce is important both for policy making and for design of institutional reforms”.⁶⁰ The very least protected group of workers are people having undeclared work relations and receiving envelope wages. Having no employment agreement implies no social security or legal protection because work relations do not exist officially. Also, it means very limited access to vocational training and education paid by the employer. In addition, often undeclared employees have limited understanding of work security procedures, and are therefore more likely to get injured. Moreover, if they have suffered an injury they are less likely to inform the authorities and are very unlikely to receive any compensation, paid rehabilitation or compensation to families in case of fatal injuries. Undeclared employees do not pay any social contributions and have very limited opportunities to receive paid leave, severance pay and may receive lower pension once they retire. Furthermore, undeclared employees can be easily dismissed without any compensation or prior notice and approval from a trade union.

Wages paid in envelopes imply that there are no social contributions made for unofficially received income. In many cases employees have employment agreements and officially receive the statutory minimum wage while anything extra is paid in envelopes. Furthermore, envelope wages are more easily subject to changes and employees cannot enjoy the protection provided by trade unions if they are present within the sector. Focus Group research had also found that employees who are being paid in envelopes and thus do not pay tax feel less secure and content with their work.⁶¹ A conclusion is also drawn that enterprises that pay

⁵⁶ Ministry of Finance. (June 2014). Mikrouzņēmuma nodokļa efektivitātes novērtējums.

⁵⁷ Ministry of Welfare. (2014). Informatīvais ziņojums „Par Mikrouzņēmumu nodokļa likuma praktiskās īstenošanas gaitu un rezultātiem, kā arī mazās saimnieciskās darbības veicēju sociālo nodrošinājumu”.

⁵⁸ Ministry of Finance. (June 2014). Mikrouzņēmuma nodokļa efektivitātes novērtējums.

⁵⁹ Ibid.

⁶⁰ Hazans, M. (July 2011) “Informal Workers across Europe: Evidence from 30 Countries”, Discussion Paper Series, no. 5871. Retrieved from: <http://ftp.iza.org/dp5871.pdf>

⁶¹ Ibid.

envelope wages place themselves and their employees at risk, since they are less likely to follow normative safety regulations or other labour legislation.⁶²

The estimated shadow economy level in Latvia in 2014 was 23.5% of GDP, a minor improvement as compared to 23.8% of GDP in 2013.⁶³ As the economy recovered and GDP growth resumed after the recession, the shadow economy has declined from its peak at 36.6% of GDP in 2009 and 38.1% of GDP in 2010, yet it still remains significant particularly in certain sectors. The lowest observed level of the shadow economy was in 2012 when it was 21.2% of GDP; however, over past two years it has increased and remained at near one quarter of GDP.⁶⁴

The most troubled sectors are considered to be construction, retail and services. In 2014 the shadow economy level was estimated to be as high as 48.9% of value added in the construction sector, 28.6% in retail and 19.6% in services. Furthermore, the shadow economy is pervasive among all sizes (measured by number of employees) of companies. Around 5.6% of all enterprises are unregistered, therefore, avoiding any form of income taxes, social contribution payments and declared employees.⁶⁵

In 2014 companies underreported the number of employees by 9.6%, income by 21.7% and wages by 20.3%.⁶⁶ Better policy action from state authorities requires a better understanding of why the shadow economy persists and is regarded as acceptable. In general, VID (Latvia's state revenue service) has increased measures to fight against shadow economy and tax avoidance. For example, VID is offering the most troubled sectors two months to improve their tax discipline as otherwise they will face targeted audits, inspections and even interventions by the finance police. The results indicate that the situation has slightly improved in targeted sectors and a similar approach shall be used for other sectors allegedly having problems with tax discipline and undeclared work.⁶⁷ However, the shadow economy is a complex issue requiring multilateral approach from various governmental bodies, including Ministry of Economics and Ministry of Finance, and well-considered tax policy, which incentivizes legalization of envelope wages and undeclared employees.

Table 1: Dimensions of precariousness

		Quality of working conditions				
The formal employment status		Wages	Working time	Job security	Social Security	Voice through trade union, protection through collective bargaining
	Open-ended contract	No less than statutory minimum wage of 360 euros (if full-time) as regulated by national law. Overtime	40 hours per week as regulated by Labour Law. Anything above is overtime.	May be dismissed with prior notice a month before. If employee is a member of trade union, employer must receive consent from	Employees (10.5%) and employers (23.59%) pay monthly social contributions.	Rights are represented if member of trade union. Collective agreements refer to employees irrespective of their membership in any of the trade unions. Non-member rights can be

⁶² Ibid.

⁵⁷ Putniņš, T., Sauka, A. (2015). SSE Riga Shadow Economy Index 2009-2014. Retrieved on: <http://www.sseriga.edu/en/news-and-events/news/shadow-economy-index-2009-2014.html>

⁶⁴ Ibid.

⁶⁵ Ibid.

⁶⁶ Putniņš, T. and Sauka, A. (May 2015) proposed shadow economy index contains three major areas, which are undeclared companies income, undeclared employees and envelope wages. The higher the percentage, the more problematic area of shadow economy it is considered and the more weight it has of total shadow economy index It allows for breaking down total shadow economy index in more details.

⁶⁷ EurWork. (19 December 2014). Undeclared work: Individual employment relations – Q3 2014 (EurWork topical update). Retrieved from: <http://eurofound.europa.eu/observatories/eurwork/articles/working-conditions-law-and-regulation/undeclared-work-individual-employment-relations-q3-2014-eurwork-topical-update>

		compensated at rate of no less than 100% of normal working time hourly rate.		trade union, which can refuse employee's dismissal.		affected if the actions of trade unions refer to national or sectoral regulation at large.
	Part-time contract	Similar to open-ended contract, except statutory minimum wage can be reduced proportionally according to reduced workload.	Less than 40 hours per week as regulated by Labour Law.	Similar to open-ended contract.	Similar to open-ended contract.	Similar to open-ended contract.
	Fixed-term contract	Similar to open-ended contract.	Similar to open-ended contract.	Similar to open-ended contract. Employment agreement includes predetermined date of termination, which trade unions cannot object to once employee has agreed to it.	Similar to open-ended contract.	Similar to open-ended contract.
	Self-employed	Most often receive pay per completed work. Irregular income instead of regular salaries.	Unlimited because these relations are not regulated by Labour Law. Employers do not make vacation accruals because they are not required to provide paid leave.	Very limited job security because not regulated by Labour Law. All disputes are resolved according to Civil Code. Not perceived as employment, rather a form of entrepreneurship.	Low social security payments which may result in lower social benefits. Social security payments made by self-employed only.	Very limited. There is no employment agreement regulated by Labour Law. Self-employment relations regulated by Civil Code are not a competence of trade unions. However, trade unions can promote policy where employers provide self-employed with employment agreement.
	Employees of micro enterprise tax payer	Up to 720 euros tax exempt, anything above taxed at 20% tax rate. Non-taxable minimum is not applied.	40 work hours per week as regulated by Labour Law.	Similar to open-ended contract.	Entitled to the same social security benefits as open-ended employment contracts in companies that are not micro enterprises. In comparison social guarantees are not calculated based on employees' salary, but paid social security contributions. In other words, social security payments are significantly lower.	Can become member of trade unions because these are employment relations regulated by Labour Law.

Concluding remarks

Neither unions nor government nor employers have precarious work forms very high on their action agenda. Indeed the government regards the use of the term 'precarious employment' as pejorative preferring instead 'atypical work forms'. All social partners condemn abuses of precarious work forms such as bogus self-employment but regard it the province of the State Labour Inspectorate or the State Revenue Service to address these.

Thus although formally Latvia's employment protection provisions are quite comprehensive and even considered rigid, *de facto* precariousness prevails in all forms of work relationship. This is because of several interrelated factors: weak law enforcement, weak or non-existent trade unions and widespread informality.

In terms of prevalence of precarious work the most striking features from the data include: strong growth of part-time and fixed term work during the recession which has subsequently been reversed; strong growth in temporary agency workers throughout, albeit from a low base; somewhat higher prevalence of self-employed.

5. Analysis of selected sectors: precarious employment trends and positions of trade unions and employers

Introduction

In the early nineties right after Latvia regained its independence the trade union coverage was as high as 90%. This was a legacy of the Soviet Union when membership in trade unions was largely mandatory. In the transition to a market economy membership collapsed. This was partly because many large companies went bankrupt and with them their Soviet style unions and partly because trade unions had to adapt their approach to market economy and the new bargaining procedures this implied. As of 2013 trade union density was 13%.

The evidence from the interviews is that Latvian trade unions do not target precarious work forms as such, though they are against the abuse of precarious work forms when it applies to members. It is accepted that precarious forms may justifiably emerge when open-ended full-time work arrangements do not fit the economic situation. For example, part-time employment is useful when an employee is studying or improving professional skills, or for parents with children. Fixed-term employment is needed often for seasonal work or certain projects with a predetermined date of termination. Trade unions in general support such precarious work forms when other work arrangements are unsuitable. Thus the Free Trade Union Confederation of Latvia (LBAS) supported the extension of fixed-term agreements from three to five years with a break period of 60 days in between the agreements in order to consider them as separate contracts (between the same parties).⁶⁸

According to Free Trade Union Confederation of Latvia precarious work forms are not regarded as a priority for several reasons. First, they in general support the economic need for part-time, fixed-term employment and self-employment. Second, the general incidence of precarious work forms among trade union members is relatively low and other more important issues require the time and focus of union officials. Third, there is very little incidence of abuse of precarious work forms among trade union members. Thus the unions see their primary duty as protecting and representing the rights of their members while abuse of precarious work forms tends to appear where trade unions are absent.⁶⁹

The Ministry of Welfare (the government body involved in National Tripartite Cooperation Council (NTCC)) also supports the use of precarious work forms as long as those work forms are used for their intended economic purpose. The Ministry even strongly objects to the use of the term 'precarious work forms' and insist it should be substituted with a term such 'atypical work forms' because such work forms are useful and contribute to labour market flexibility. At the same time the Ministry condemns the use of these work forms for purposes such as tax optimization. The Ministry of Welfare does not itself plan any new initiatives related to precarious work forms, but if proposals are submitted by social partner organizations these would be sent to the Labour Affairs Tripartite Cooperation Sub-council of the NTCC that will review them and prepare the proposals for further discussions.⁷⁰

Part-time work is seen by the State labour Inspectorate as a potential vehicle for abuse e.g. when the statutory minimum wage is increased, employers can switch from full-time to part-time workload in order to officially continue paying previous remuneration level but on a part-time basis while anything additional

⁶⁸ To name an example, often European Union and their funding related projects require limited duration work up to five years.

⁶⁹ Baldzēns, E., Rācenājs K. (3 June 2015) Free Trade Union Confederation of Latvia (LBAS). Personal communication.

⁷⁰ Dreimane, A., Pilsuma, A., Zvīdriņa, I. (12 October 2015). Ministry of Welfare. Personal communication.

is paid in envelopes. Thus part-time employment disguises unreported full-time jobs with a share of income paid in the envelope. The State Labour Inspectorate makes regular monitoring using State Revenue Service data and often turning its attention to companies that have many part-time employees because of the suspicion they might have envelope wages and undeclared income.⁷¹

However, according to the State Labour Inspectorate workers often protect employers in the event of an inspection. Workers are reluctant to provide information about real working condition, thus, frustrating the process of inspection. In practice it is more difficult to prove hidden full-time employment than lack of an employment agreement. Employees complain or approach the inspectorate only when they do not receive pay or when they have increased need for social security. Employees rarely inform about ongoing problems but only after they have taken place.⁷²

Fixed-term employment is not significant problem according to State Labour Inspectorate since in only a few cases has the inspectorate established insufficient basis for signing a fixed-term agreement.

According to the Labour Inspectorate self-employment is potentially problematic. Employers seek to sign service contracts instead of employment agreements in order to avoid paying social security contributions. Workers become entrepreneurs instead of employees but frequently people do not understand the difference between employment and service agreements. The State Labour Inspectorate can evaluate the substantive part of a service agreement relationship and if de facto it looks like an employment relation, employers can be fined as if having undeclared employees. However, the prevalence of undeclared employees and issues with self-employment have declined because of higher fines and sanctions. The Labour Inspectorate also makes follow-up checks and if they again discover problems and breaches of the rules, even harsher punishments are applied. The Inspectorate regards the regulation as sufficient, but monitoring and punishment policy has to be improved to make them more effective.⁷³

The micro enterprise tax regime implies very low social protection. The government has decided to prohibit micro enterprise tax payer status in 37 sectors due to the fact that the use of this work form distorts competition and thus hurts those companies that pay taxes according to standard regime as well as impacts future social insurance benefit recipients. In 2014 the average income of micro enterprise was 15,000 euros and average number of employees was 2.2.⁷⁴ The government seeks to establish a new regulation that would ensure higher social protection both for the self-employed and for micro enterprise tax payers and their employees.

The cases of undeclared employment have declined annually since 2012 from 3070 cases of undeclared employees to 1549 in 2014. Since the fines for unregistered employees have increased, employers have become more creative in their approaches trying to legalize employment relations, yet minimize the tax burden. The most problematic areas in relation to Labour Law are signing proper employment contract including all required details (2274 incidents or 55% of the problematic cases), lack of proper and full work hours accounting (498, 12%), dismissal (468, 11%), insufficient remuneration according to employment agreement (436, 11%), and vacation (100, 2%) in 2014. Complaints received mostly relate to unpaid work

⁷¹ Puķukalne, B.(15 September 2015) State Labour Inspectorate. Personal communication.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Dreimane, A., Pilsuma, A., Zvīdriņa, I. (12 October 2015) Ministry of Welfare. Personal communication.

remuneration (923 incidents or 30% of all complaints), dismissal (1104, 36%), and signing of an employment contract (585, 19%).⁷⁵

It is estimated that around 51% of employers in Latvia pay their employees statutory minimum wage or lower. Most companies paying just the minimum wage are small and create a tiny contribution to total economy. It is estimated that around 3-4% of companies create 93-95% of Latvia's GDP (shadow economy excluded). The Free Trade Union Confederation of Latvia is present in nearly all companies where the greatest economic value is created. The abuse of precarious work forms is more likely happen where trade unions are not present or engage infrequently. It is regarded as very unlikely that employees with employment contracts would be asked by the employer to register as self-employed and continue cooperation based on a service agreement if trade unions are present.⁷⁶

Only 16-18% of Latvian companies have collective agreements. They are most common in large and medium enterprises. Small companies basically have no collective agreements. During the recession collective agreements became less common, because these agreements included requirements that employers were unwilling to meet. Since collective agreements cannot be revised or cancelled unilaterally employers have been particularly cautious about commitments when facing global economic instability. Nevertheless all large state companies and very many large private companies have collective agreements. Collective agreements do not cover salaries, but they can cover bonuses. Salaries are regulated by the Labour Law and negotiated at the individual level. Collective agreements, however, can cover pay for overtime. According to the Labour Law overtime is remunerated at double the pay employees receive for a standard work hour and collective agreements can include clauses determining overtime remuneration higher than required by the Labour Law. Collective agreements cover all additional bonuses and extras that employers can provide additional to the requirements enshrined in Labour Law. Collective agreements cover all employees having an employment agreement irrespective of their employment form (part-time, fixed-term, summed work hours). However, this does not apply to self-employed because they do not have an employment agreement, but a service agreement and are not legally in an employment relationship with the company for which they provides services.⁷⁷

During the recession collective agreements were often revised and after the recession collective agreements have again been revised, usually under an annual revision process between employers and trade union representatives.⁷⁸

There are no reliable official statistics on the prevalence of precarious work forms by sector. However the CSB does publish data on full-time and part-time hours worked by sector. The dynamics of the share of part-time hours is shown in Figure 4. Several points are worth noting. The effect of the recession in more or less doubling the share of part-time hours is very clear. Moreover, except for metals this has not been reversed in the recovery. Secondly, the share of part-time hours in the private health care sector is persistently about double that in the public sector.

⁷⁵ Valsts Darba Inspekcija. (2015) 2014. gada darbības pārskats. Retrieved on: http://vdi.gov.lv/files/vdi_darbibas_parskats_2014.pdf

⁷⁶ Baldzēns, E., Rācenājs K. (3 June 2015) Free Trade Union Confederation of Latvia (LBAS). Personal communication.

⁷⁷ Alksnis, A. (31 July 2015) Employers' Confederation of Latvia (LDDK). Personal communication.

⁷⁸ Ibid.

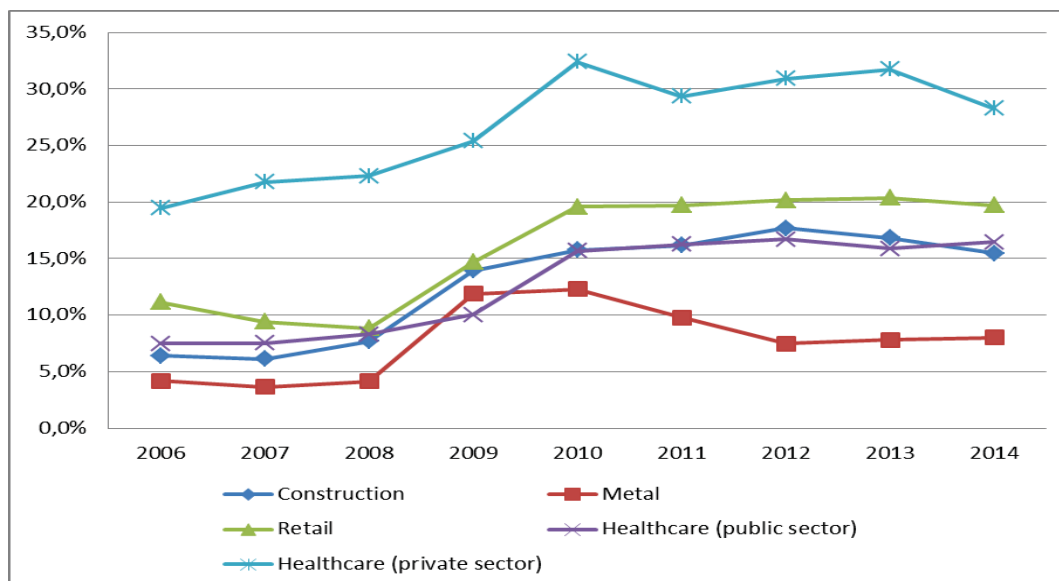


Figure 5. Hours worked part-time as a share of total hours worked by sector in Latvia in 2006 - 2014. Source: CSB.

There are basically no substitute organizations for trade unions and their functions as enshrined in the regulation. Trade union activities are regulated and protected by Latvian law and international law ratified by the Latvian government. In order that workers affect policies and political processes at the regional or national level, the only option is through trade unions and the confederation of trade unions. National Tripartite Cooperation Council has regular communication with ministries and various work commissions in the government. There are few individuals who are capable to bargain with employers as effectively as trade unions, which indicate that there is potential for trade unions to expand their density. Members of trade unions cannot be dismissed by the employer without the agreement of the trade union unless employees have severely breached internal work organization rules and requirements. Another aspect is also the ability of trade unions to execute the rights they have been assigned by law. Smaller companies are in less need of trade union presence, because they know each other more personally. While in medium and large enterprises have a greater need for trade union presence.⁷⁹

The LBAS is lobbying for legislation that will make certain additional benefits contained in collective agreements such as education and training expense etc. tax-deductible. This initiative has been supported by the State Revenue Service, the Ministry of Economics, the Latvian Association of Local and Regional Governments, the Employers' Confederation of Latvia, and the Latvian Chamber of Commerce and Industry.

Trade unions regularly monitor payments of salaries and quickly follow-up if there are any hitches, as well as timely approach employers if they notice a deterioration in the economic and financial situation of the company. Most problems exist in companies where trade unions are not present and sometimes trade

⁷⁹ Baldzēns, E., Rācenājs K. (3 June 2015) Free Trade Union Confederation of Latvia (LBAS). Personal communication.

unions get involved at the sectoral level that indirectly affects employees, who are not trade union members.⁸⁰

Construction sector

The construction sector has two sectoral trade unions: the Latvian Builders Trade Union and the Latvian Road Builders Trade Union. The Latvian Builders Trade Union unites 27 professional organizations. Employers are represented by the Latvian Builders Association, whose members are small and medium construction companies. The Latvian Builders Trade Union has signed general agreements with the Latvian Builders Association. Discussions among social partners happen frequently and they seek to find consensus for matters on which they have diverging views, however the trade union regards the general agreement as rather declarative which currently does not work in the expected manner. All the aforementioned organizations also take part in Sector Experts Council, which aims to increase the quality and availability of workforce in the sector.

The construction⁸¹ sector experienced a major boom in the run up to the 2008 crisis. Mostly fuelled by cheap and extensive lending the industry grew rapidly and was then the hardest hit by the crisis losing 60% of its value added in three years. In 2008 the construction industry employed 124.1 thousand workers or 11.8% of all employed. In 2009 employment dropped by 41.7% to 72.3 thousand people and by another 20.3% in 2010 to 57.6 thousand people. The industry started to recover as of 2011 as the economy returned to growth and by 2014 employed 73.2 thousand people or 8.3% of all employed. The construction sector is characterised by significant seasonality and usually during second and third quarters employment is higher than during first and fourth quarters of the year. The difference between seasons can be more than 25 thousand people.⁸² As a result it is common practice in the industry to employ people on fixed-term agreements.

There seems to be some disagreement on the prevalence of part-time work in construction: according to Eurostat 2.1 thousand people worked part-time in construction sector in 2014 or nearly 3% of the workforce, CSB data suggest that about 15% of hours worked were part-time, but the State Revenue Service believes that around 70% of employees in construction are employed part-time. A high share of part-time work would be consistent with the perception of construction as a sector where the shadow economy is very widespread.⁸³

In 2014 2.6 thousand people had temporary employment which is down from four thousand people in the previous year. Self-employment fluctuated over the years: during the recession the number of self-employed peaked at 12.8 thousand people in 2008 and dropped to 9.8 thousand people in 2009. In 2010 it declined further to 6.6 thousand, but since then the number of self-employed has gradually increased to 9.6 thousand in 2014.

The average weekly working time in 2014 was 23.8 hours for part-time and 40.7 hours for full-time employment. Whereas self-employed worked 41.7 hours per week on average in 2014.⁸⁴ The average

⁸⁰ Baldzēns, E., Rācenājs K. (3 June 2015) Free Trade Union Confederation of Latvia (LBAS).. Personal communication.

⁸¹ Construction sector represents F group in NACE 2 classification. The group includes (41) construction of buildings, (42) civil engineering and (43) specialised construction activities.

⁸² Source: CSB.

⁸³ Baldzēns, E., Rācenājs K. (3 June 2015) Free Trade Union Confederation of Latvia (LBAS).Personal communication.

⁸⁴ Source: Eurostat. Age group 15-74.

reported monthly salary was 730 euros (before taxes) in 2014, which was up from 678 euros in 2013 and 635 euros in 2012.⁸⁵

In 2014 the State Labour Inspectorate carried out targeted inspections in the construction sector. In 33% of the enterprises inspected they discovered breaches of the regulations. The highest number of breaches found (389 cases) were lack of a written and signed employment agreement i.e. undeclared workers. The second most important issue was inadequate physical safety in workplaces.⁸⁶

During recession the prevalence of precarious work forms increased. As the economic situation improved the frequency of precarious work forms declined except for self-employment. The increase in self-employment most likely is related to the introduction of micro enterprise tax law which came into force in autumn 2010 and self-employment in the sector increased as of 2011. When the government introduced micro enterprise tax payer status many small construction companies dissolved their Limited Liability Companies and registered as one or more micro enterprise tax payers. Basically they became self-employed.⁸⁷ Legal status as micro enterprise tax payer involves a significantly lower tax burden.

Self-employment is a particularly attractive work form in the construction sector where work often involves rotation among different projects and construction sites. Also, employees may specialize in certain areas and thus they might be involved in a project only when their expertise is needed. Self-employment status implies that many responsibilities are shifted away from employer to the self-employed. The employer is not required to make social security contributions, and not responsible for work safety (physical safety).

Workers are not usually forced in a direct manner to become self-employed, but they are persuaded to take on the status often lacking understanding of the legal and economic issues. Since employees themselves agree to become self-employed they do not complain afterwards. Furthermore, the trade unions cannot help, because the Labour Law does not cover the self-employed.⁸⁸

In case of rotating employees both open-ended and fixed-term agreements are possible. However, more often fixed-term agreements are used for positions when workers are not needed on a permanent basis. From the point of view of the employer precarious work forms allow utilizing resources more effectively. Construction projects are often broken down into several stages and requires people for certain duties at certain stages of construction process. In other words, mostly people are employed on fixed-term agreements due to the structure of construction projects. Fixed-term agreements are signed for certain duties until the required tasks are finished. Then the work relation might be ceased or continued at another site on a different construction project. Usually these fixed-term agreements are not applied for management and operational and supervisory positions.⁸⁹

A distinction needs to be made between large and small and medium enterprises (SMEs). Large scale companies normally dominate the market and state procurements and they extensively subcontract smaller construction companies to perform certain duties as part of large orders. The competition among subcontractors drives the price down and precarious work forms are used to reduce costs for these companies. At points of time when the minimum statutory wage has been raised the use of standard open-

⁸⁵ Source: CSB. However, unofficial earnings (envelope wages) mean that incomes in the sector are much higher than this.

⁸⁶ Valsts Darba Inspekcija. (2015). 2014. gada darbības pārskats. Retrieved on: http://vdi.gov.lv/files/vdi_darbibas_parskats_2014.pdf

⁸⁷ Grīnbers, N. (12 June 2015) Latvian Builders Association. Personal communication.

⁸⁸ Servuts, J., Gretere, I., Gužāns, J. (11 August 2015) Latvian Builders Trade Union. Personal communication.

⁸⁹ Graudiņš, A. Guntis Rāvis Fund. (2 June 2015) Personal communication.

ended full-time employment contracts has tended to decline being substituted by part-time employment. Thus the industry seeks to use precarious work forms to reduce costs due to strong pressure to deliver the lowest price.⁹⁰ Basically, the available budget and required results are the determining factors when planning employment and employment forms. If employees are sent abroad to work on construction projects their relations with employer are regulated by national law of the country they are sent to. Employers publish work advertisements that usually contain straightforward description of required duties and whether it involves part-time or fixed-term work.⁹¹

Table 2: Dimensions of precariousness for the construction sector

		Quality of working conditions				
		Wages	Working time	Job security	Social Security	Voice through trade union, protection through collective bargaining
The formal employment status dimension	Open-ended contract	Minimum wage of 360 euros as regulated by national law. Overtime compensated at rate of no less than 100% of normal working time hourly rate. Average reported wage in 2014 was EUR 730.	40 hours per week as according to Labour Law. Anything above is overtime.	Need approval of trade union before dismissal. Otherwise, might be dismissed at any time.	Both employees and employers pay their share of social security contributions.	Rights are represented if member of trade union. Collective agreements refer to employees irrespective of their membership in any of the trade unions. Non-member rights can be affected if the actions of trade unions refer to national or sectoral regulation at large.
	Part-time contract	Similar to open-ended contract, except wage can be reduced proportionately according to reduced workload. Assumed to cover envelope wages.	Less than 40 hours per week as regulated by Labour Law.	Similar to open-ended contract.	Similar to open-ended contract.	Similar to open-ended contract.
	Fixed-term contract	Similar to open-ended contract. Very unlikely to receive paid leave.	Similar to open-ended contract.	Similar to open-ended contract, except employment agreement includes predetermined date of termination.	Similar to open-ended contract.	Similar to open-ended contract.
	Self-employed	Most often receive pay per completed work instead of regular salaries.	Unlimited because these relations are not regulated by Labour Law. Vacation time unavailable. Employers do not make vacation accruals because they are not required to by law.	Very limited job security because not regulated by Labour Law. All disputes are resolved according to Civil Code.	Low social security payments which may result in lower social benefits. Social security payments made by the self-employed only.	Very limited. There is no employment agreement regulated by Labour Law. Self-employment relations regulated by Civil Code are not a competence of trade unions.
	Employees of micro enterprise tax	Up to 720 euros tax exempt, anything above taxed at 20%	40 work hours per week as regulated by Labour Law.	Similar to open-ended contract.	Entitled to the same social security benefits as open-ended	Can become member of trade unions because these are employment

⁹⁰Grīnbers, N. (12 June 2015) Latvian Builders Association. Personal communication.

⁹¹Graudiņš, A. (2 June 2015) Guntis Rāvis Fund. Personal communication.

	payer	tax rate. Non-taxable minimum is not applied.			employment contracts in companies that are not micro enterprises. In comparison social guarantees are not calculated based on employees' salary, but paid social security contributions. In other words, social security payments are significantly lower.	relations regulated by Labour Law.
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Over the last ten years there has been a shift from open-ended full-time contract to agreements with different work forms such as part-time work, fixed-term work and service agreements (self-employed). One of the cost optimization forms practised is envelope wages which reduce the tax burden for companies and precarious work forms represent a mechanism that facilitates the use of envelope wages by hiding them from the state authorities. Use of precarious work forms is intertwined with the level of shadow economy.⁹² Minimum wages are particularly pervasive in construction sector, but it is quite apparent to social partners that construction workers could not make ends meet with minimum wage and that it is used to cover envelope wages.⁹³ The construction sector is perceived as the most troubled sector in Latvia in terms of shadow economy with an estimated level of the shadow economy being nearly 50% of value added in 2014.

The Latvian Builders Trade Union believes that precarious work forms have become more prevalent due to the nature of construction work planning process. While the Cabinet of Minister Rules place constraints on the use fixed-term employment, companies circumvent the rules by employing workers for a probationary period of three months and then dismissing them, often without paying salary for the last month of employment. According to the trade union companies tend to use non-union workers in this process so as to avoid having to account for such dismissals.

There are also frequent issues with leave and vacation remuneration that is not paid by employers. Also, reported work hour tables usually indicate that employees work eight hours per day, however, in practice, worked hours are longer especially during the summer season when workers are often required to work 15-16 hours per day. Underreporting of hours is a device to avoid required overtime pay.⁹⁴

Large construction companies seek to win public procurements by offering low prices often at dumping levels and then they seek to save on subcontractor costs by pushing them to lower prices. Subcontractors are then forced to save on costs by optimizing taxes, paying envelope wages and minimizing labour costs by shifting to precarious work forms. Qualified employees often refuse to work in such circumstances and either chooses to emigrate or to change their profession. Vacant positions are then occupied by less qualified staff. The environment becomes less attractive and companies face increasing turnover of labour and a decline in qualified labour. Over the last five years this process has been particularly pervasive. The chain of sub-contractors that is typical in construction means that the main contractor has very limited

⁹² Grīnbers, N. (12 June 2015) Latvian Builders Association. Personal communication.

⁹³ Servuts, J., Gretere, I., Gužāns, J. (11 August 2015) Latvian Builders Trade Union. Personal communication.

⁹⁴ Ibid.

control of quality and conditions down the chain where the actual work is performed and creates very detailed agreements with various penalties for breaches in order to reduce these risks.⁹⁵

Initiatives and results

Construction is one of the sector in which the micro enterprise tax regime is to be prohibited after a three year transition period to 2018.⁹⁶ The motivation for prohibition in construction and 36 other sectors is the widespread use of the regime for tax optimization purposes.

There are few collective agreements in the sector because companies seek to avoid long-term employment commitments rather keeping long-term staff to the lowest possible staff levels. Also, most construction companies are small in terms of the number of workers which makes it less necessary to have a collective agreement. Small and medium enterprises are very fragmented and have significant employee turnover, which makes it difficult to administer collective agreements.⁹⁷

There are a couple dozen collective agreements in the sector, which is a rather small number for the whole sector. Over the last five years almost no new collective agreements have been signed within the industry despite trade union invitations and thoroughly prepared agreement proposals. In 2014 one new agreement was signed. It is rare that company level trade unions are organized and individual membership is preferred by workers because they frequently change their workplace. Also prefer not to declare to employers that they are members of a trade union and employers cannot require this information. Collective agreements typically cover issues on remuneration, work safety, social guarantees.⁹⁸

The trade unions in the sector do not have specific strategy regarding precarious work forms. Usually they respond to certain cases and situations when problems have arisen and their presence and action is necessary. Employees usually approach and become members of trade union when they have problems. Undeclared employees approach the trade union when they do not receive salary. The trade union usually helps its members at the individual level and since it also works on changes in legislation and it indirectly also helps non-members in construction sector.⁹⁹

A particular trade union focus is to have employees professionally educated in construction, because educated employees are more desirable and receive higher wages. The trade union also participates in developing professional standards including: the content and standards of education programmes in construction, exam content, providing expertise in decision making. The union actively takes part in the Sector Experts Council and cooperates with: all vocational schools that prepare specialists in construction, the State Examination Centre, the Ministry of Education, the State Education and Development Agency. There is also active cooperation with: the Ministry of Education, the State Labour Inspectorate, the State Revenue Service, the Latvian Builders' Association, the Strategic Partnership for Construction Development, and the Latvian Association of Civil Engineers.¹⁰⁰

⁹⁵ Grīnbers, N. (12 June 2015) Latvian Builders Association. Personal communication.

⁹⁶ Ministry of Finance. (22 September 2015). Nepiemēros mikrouzņēmumu režīmu 37 nozarēs. Retrieved on: <http://www.fm.gov.lv/lv/aktualitates/jaunumi/budzets/51334-nepiemeros-mikrouzņēmumu-nodokla-rezīmu-37-nozare>m

⁹⁷ Servuts, J., Gretere, I., Gužāns, J. (11 August 2015) Latvian Builders Trade Union. Personal communication.

⁹⁸ Ibid.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

There are initiatives to develop new and more effective public procurement regulations where currently the lowest price criterion prevails in the selection of suppliers. The pressure to minimize price in turn affects work relations and employment forms used within the sector. It has been proposed that a new regulation should include a requirement that only properly qualified employees can work in the sector and that measures should be taken to eliminate chains of subcontractors (subcontractors having subcontractors) where dumping prices and the shadow economy prevail.

The Latvian Builders Trade Union is seeking to implement joint liability in construction sector. This notion includes the proposal that involved parties should jointly be responsible towards employees. For example, the lead contractor and subcontractor would be jointly responsible for paying salary to employees, their work safety and all social contributions made by the subcontractor.¹⁰¹ The trade union would like to include in the general agreement a point on increasing minimum wage in the sector, but currently it is unrealistic to achieve this aim due to resistance of employers.¹⁰²

Large-scale construction companies are planning to develop a programme where students are taught and prepared for work in construction sector. It aims to provide students with work experience and the opportunity to integrate in the labour market. Students will be working part-time due to need to combine work with studies. Educational institutions and companies will together create a programme which is licensed under Latvian law.¹⁰³ Here we observe an apparently precarious work form with a positive social and economic purpose.

Concluding remarks

Construction is a particularly problematic sector. Public procurement is a major source of demand for the sector but the current system of public procurement is dysfunctional and has created incentives for the prevalence of both precarious work and informal practices (envelope wages). The race to the bottom in terms of price also implies compromising on quality. There are union initiatives on some of the problematic issues but the root of most problems is the public procurement system which the social partners have rather limited ability to influence. Unfortunately the Latvian authorities seem unwilling to deviate from the lowest price procurement principle which they see as the best way to avoid corruption in the procurement process.

Health care sector

The health care sector is one of the best represented in terms of trade unions and associations. There are two sectoral trade unions: the Nursing and Health Care Personnel Trade Union (LAĀDA) and the Health and Social Care Workers Trade Union (LVSADA). The latter has around 11000 members and affiliates 19 professional organizations. In addition to the two trade unions there are various associations that can take part in social dialogue. These are the Latvian Doctors Union, the Latvian Hospitals Union, the Latvian Nursing Association, and the Latvian Health Care Professional Organizations Union. Employers are represented by the Ministry of Health (as the public sector employer) and the Latvian Healthcare Employers Association. There is sectoral level collective agreement which covers all employees in the health care sector.

¹⁰¹ Mickeviča, N. (May 2014) *Solidārās atbildības būtība un nozīme būvniecības nozarē*. Retrieved on: http://www.lca.lv/eiffiles/rezekne-05-2014/solidara_atbildiba_mickevica_20.05.pdf

¹⁰² Servuts, J., Gretere, I., Gužāns, J. (11 August 2015) Latvian Builders Trade Union. Personal communication.

¹⁰³ Graudiņš, A. (2 June 2015) Guntis Rāvis Fund. Personal communication.

The health care sector¹⁰⁴ in Latvia was one of the most severely affected sectors during the crisis. In addition to the health sector historically being perceived as very complex and problematic, the crisis further deteriorated the general outlook of the sector. Even before the crisis, Latvia was at the lower-end among EU countries with respect to public health conditions and government expenditure on health, but the crisis worsened the situation in both respects. Latvia still lags behind other EU countries in the main health indicators. For example, in 2013, life expectancy at birth was 69.3 years for men and 78.9 years for women while EU average stood at 77.8 years for men and 83.3 years for women.¹⁰⁵ The low level of public expenditure on health is perhaps the most important issue which the health care sector faces not just for itself but because it has led to many problematic practices. Government spending on health reached a peak of 4.6% of GDP in 2009 but has declined since. In 2013, government spending on health was 3.6% of GDP which was the third lowest in the EU.¹⁰⁶ These issues, especially serious under financing, have labour market implications in the health sector.

In the past five years, the number of people employed in the health care sector has been quite stable at around 42 thousand people.¹⁰⁷ Specifically, in 2008, 43.7 thousand people were employed in the health care sector which represented 4.30% of all employed.¹⁰⁸ In 2009, the number of people employed in the sector declined slightly, dropping to 41.5 thousand but represented a larger share (5.02%) of all employed. In 2010 the number of people employed in the sector was below 40 thousand people. In 2014, 42.4 thousand people were employed in the health sector, accounting for 4.85% of all employed.

Before the crisis, part-time employment in the health sector was not common. In 2008, part-time workers made up 10.92% of total paid working hours.¹⁰⁹ However, as the crisis developed, precarious work forms became more pervasive. In 2009, already 13.04% of total paid working hours were covered by part-time employees. In 2010, the share increased even more, reaching 18.85%. The peak in part-time employment was 2012 when 19.82% of total paid working hours were covered by part-time employees. After 2012 part-time employment decreased slightly, and in 2014, 19.18% of total paid working hours were covered by part-time employees. The increase in part-time employment after 2010 might be linked to introduction of reduced working hours (38.5 hours per week as opposed to 40 hours per week) for medical personnel, which is now widespread in the health care sector. The reduced working hours were the result of a general agreement between the Ministry of Welfare and several the sector trade unions.¹¹⁰ Historically both full time and part time employees have been compensated for around 10% more than the hours they have officially worked. For part time employees the paid hours margin has been slightly higher for all years from 2008 to 2014; the difference at most has been 1.12%.

There is no quantitative data on self-employment rates in the health care sector but there is evidence that it exists. Many general practitioners and medical assistants are self-employed persons who jointly form a private practice.¹¹¹ Self-employed status can be disadvantageous to medical personnel. For example, in order to maintain the quality of medical services, health care workers need to occasionally renew their

¹⁰⁴ According to NACE 2 classification it includes (86) Human health activities.

¹⁰⁵ Source: Eurostat.

¹⁰⁶ Source: Eurostat.

¹⁰⁷ Aged 15-74.

¹⁰⁸ Source: CSB. NACE 2 86.

¹⁰⁹ Source: CSB NACE 2 86.

¹¹⁰ Uzule, L. (2010). The Minister of Welfare Signs a General Agreement with Trade Unions. Retrieved from: <http://www.lm.gov.lv/news/id/2388>. Trade unions the general agreement was signed with includes the interviewed Nursing and Health Care Personnel Trade Union.

¹¹¹ Kozlovskā, L. (2008). Taxes: a Cold Shower. Retrieved from: http://www.medicine.lv/raksti/nodoklu-aukstada_dusa_9628.

professional certificates. However, self-employed persons have to pay for training mostly from personal funds as they can be reimbursed for only EUR 213.43 per year.¹¹² Self-employment exists in privately owned hospitals where the self-employed provide certain kind of services to the clients of hospitals.¹¹³

As mentioned above, lack of financing is perceived to be the most significant issue in the health care sector which also contributes to the presence of precariousness. Low wages as such and the fall in wages during the recession both in public and private sectors pushed doctors and nurses to look for multiple employment possibilities. In 2008, the average gross wage in the sector stood at EUR 749 while average net wage was EUR 545.¹¹⁴ Interestingly, average wages in the public sector exceeded wages in the private sector. Average gross (net) wages were EUR 760 (EUR 553) in public sector while average gross (net) wages in private sector were EUR 699 (EUR 493). As the recession emerged, wages in both public and private sector declined. By 2010, the average gross wage in the health care sector had declined by 13% and the net wage by 15%. The downward movement was much more pronounced in the public sector as compared with the private sector. In 2010, average gross (net) wage in the public sector was EUR 645 (EUR 458) which represented a decline of 15% (17%) when compared with the 2008 level. However, both average gross and net wages in the private sector declined only by 4% on average, being EUR 669 and EUR 472, respectively. Since 2010, private sector employers have offered higher wages than public sector employers. In 2014, the average gross (net) wage in private sector was EUR 830 (EUR 606) while in public sector it was EUR 765 (EUR 547).

The decline in public sector wages arose from the austerity measures that had to be implemented as part of the conditions for Latvia's bailout by international lenders. The budget deficit had to be reduced by 5% which was reflected in the funding allocated for the health care sector.¹¹⁵ Two options existed: either to reduce the number of employees or to reduce wages. The latter option was chosen, and public sector wages were cut by 15% on average. Private sector employers avoided such a harsh cut in wages because of a better financial position (private sector has higher share of relatively more expensive services which are solely paid by patients).

Because of the low wages, multiple jobs are perceived to be standard in the profession. Overtime pay is very problematic for employers so doctors and nurses are encouraged to look for an extra job rather than work overtime.¹¹⁶ On average, doctors tend to have three work places while nurses have two.¹¹⁷ For doctors it is easier to work for more employers as they are more flexible in their appointment practices. Nurses, on the other hand, work in shifts and they have strict working hours so they are less flexible. For doctors, being employed by various employers might result in overlapping working hours in two different hospitals so it is often the case that a doctor leaves a hospital where he is employed on full-time basis

¹¹² Latvian Rural Advisory and Education Centre. (2015). What is New in Taxation in 2015? Retrieved from: <http://new.llkc.lv/lv/nozares/ekonomika/kas-jauns-nodoklu-piemerosana-2015-gada>.

¹¹³ Vahere, B. (2008). Private Medicine – a Pillow for the State-Financed? Retrieved from: <http://iaptieka.lv/?lapa=doctus2&id=859>.

This information was obtained from an article which included an interview with the President of the Healthcare Employers' Association and the CEO of one of the largest private hospitals in Latvia. He was interviewed by the authors of the report as well. However, no indication about prevalence of self-employment in connection with private hospitals was mentioned during the interview, even though it was asked explicitly.

¹¹⁴ Source: CSB. NACE 2 86.

¹¹⁵ Rozenfelde, L. (2012). *International loan to Latvia*. Retrieved from: <http://www.irir.lv/2012/8/2/starptautiskais-aizdevums-latvijai-2>.

¹¹⁶ Rēvalds, M. (8 June 2015) Latvian Healthcare Employers Association. Personal communication.

¹¹⁷ Ibid. Three work places for doctors and two – for nurses, it is a standard; however, it is certainly not the limit. As the President has experienced, there has been a doctor who worked for 11 employers simultaneously.

before the end of his working hours in order to make it to another job on time. Employers, however, are forced to accept such behaviour as they are unable to motivate employees financially.¹¹⁸ In a similar manner, employer hands are tied because of the poor supply of health care professionals in the labour market. Employers have to put up with disregard for official working hours and they have difficulties to fire doctors that perform poorly as there is lack of substitute candidates with appropriate knowledge and experience in the labour market.¹¹⁹ However, employers also understand that a doctor may need to have multiple jobs to achieve a reasonable level of pay.

Because of work specificity, nurses work on a summed work time basis. This is a form of work where an employee can work at maximum 56 hours a week but the working hours are flexible and determined by a schedule approved jointly by both the employer and employees. In addition a person cannot work for more than 24 hours in a row.¹²⁰ Nurses frequently choose to work 24 hour shifts.¹²¹ As nurses work in several jobs, a 24 hour shift in a hospital (secondary health care level) can be accompanied by an additional 8 hour shift as an assistant nurse to a general practitioner. This sums up to 32 hours without a break, which can be physically and emotionally dangerous not only for the nurse, but also for patients. There have been attempts to introduce a split working hour regime but this has been opposed by the nurses themselves. The reason for this is that 35% of nurses who work in the capital city Riga commute on a daily basis from other regions where there are no employment possibilities.¹²² Thus it makes sense to minimise the time and resources on daily commuting.

As mentioned above, since 2010 average wages in the private sector have been higher than in the public sector. Thus, a movement of sector professionals from public to private sector would be expected and indeed, the number of people employed in the private sector has increased from 10 thousand in 2008 to 12.5 thousand in 2014.¹²³ The number of people employed in public sector decreased throughout 2008-2010. In 2008, 33.6 thousand people were employed in public sector but in 2010, only 29.3 thousand people were employed, a drop of 12.8%. However, since then the number of people employed in the public sector has slightly increased each year reaching 29.8 thousand in 2014. The net result is that over 2008-14 the number of people employed in the private sector has increased by 25.4% while the number of people employed in the public sector has decreased by 11.3%.

However, the situation is more complicated than the official statistics show. It is widely believed that the official income of doctors is significantly supplemented by the payment of gratuities. These under-the-table payments are more prevalent in the public sector and in small to medium sized enterprises in the private sector.¹²⁴ Thus, in net terms, a doctor employed in public hospital, which accepts or even demands a gratuity payment¹²⁵, might receive more money than a doctor employed in the private sector who wants to remain transparent and pay taxes fairly.

¹¹⁸ Ibid.

¹¹⁹ Ibid.

¹²⁰ Ministry of Welfare. (n.d.). *Know Working Hour Rules*. Retrieved from: <http://www.lm.gov.lv/text/432>.

¹²¹ Raiska, D. (15 June 2015) Latvian Nurses Association. Personal communication.

¹²² Ibid.

¹²³ Source: CSB. NACE 2 86.

¹²⁴ Ibid.

¹²⁵ In 2015, the Corruption Prevention and Combating Bureau started a case against one of the biggest public hospitals as the oncological department demanded gratitude payments from patients in order to bypass the queue for department's services.

The shadow economy in the form of under-the-table payments to doctors is widespread. In 2011, 57% of people acknowledged the existence of corruption and doctor bribing in Latvia; and 33% of people had made gratuity payments to doctors themselves.¹²⁶ Low wages and lack of health care personnel are cited as reasons for the prevalence of under-the-table payments.

Lack of personnel stems from two issues:

1. Low remuneration;
2. Issues with organization of medical education. There is a serious mismatch between the number of graduates of medical programmes and the number of state-financed residency places offered. A residency, if self-financed, is rather expensive and in combination with the low expected wages in Latvian health care system forces many young professionals to make a decision to leave the country and do their residency in the Scandinavian countries or in Germany. Often, residents then choose to stay and work abroad permanently. Statistics show that the number of doctors is on a declining trend. In 2008, there were 8437 doctors working in Latvia while in 2014, the number had fallen to 7727, a decline of 8.4%¹²⁷. The situation with nurses is similar. In 2008, there were 9913 nurses working in the health care system while in 2014, the number was 6737, a drop of 32%. This has vast consequences:
 - a. As young professionals leave the country, the average age of doctors has increased. In 2008, 36.3% of doctors were aged 55 or more while in 2013 43.5% of doctors were older than 55¹²⁸. As more doctors reach retirement age the health care system could soon face an even more severe shortage of doctors;
 - b. As the population ages, more health services will be needed, especially those of support staff. However, the outlook is not very positive. The number of nurses per 10 thousand people has decreased substantially from 45.8 nurses in 2008 to just 33.9 nurses in 2013. This implies that availability and quality of medical services is likely to worsen
 - c. The situation with respect to availability of health care services in regions is even worse. The wage gap between Riga and Latvia's poorest region Latgale has increased from 18.4% in 2008 to 20.3% in 2014¹²⁹. The possibility to earn more in the capital discourages professionals from having a job in regions where hospitals struggle to find staff and are on a verge of being closed¹³⁰. If the trend continues, regional hospitals will have difficulties to service their patients.

The shortage of healthcare care personnel creates incentives for patients to offer and doctors and nurses to accept and require the gratuity payments¹³¹. First of all, hospitals and other medical institutions cannot fully ensure provision of services in a timely manner and adequate quality; secondly, doctors and nurses overloaded with work cannot devote adequate attention to each individual patient. These circumstances

Delfi.lv. (2015). Personnel of the Oncology Centre and Hospital Gailezers required gratitude payments for bypassing the queue. Retrieved from: <http://www.delfi.lv/news/national/criminal/onkologijas-centra-un-gailezera-personals-pieprasijis-pateibas-par-rindas-apiesanu.d?id=45953955>.

¹²⁶ Corruption Prevention and Combating Bureau. (2013). *Corruption Risks in the Health Care Sector*. Retrieved from: http://www.knab.gov.lv/uploads/free/parskati/knab_risku_analize_ves_apr.pdf.

¹²⁷ Source: CSB.

¹²⁸ Source: Eurostat.

¹²⁹ Source: CSB. NACE 2 86.

¹³⁰ In order to attract young professionals to work in regional hospitals, they are often offered additional benefits as a flat for family, a place for children in the kindergarten, which is troubling to obtain in Riga, etc.

¹³¹ Corruption Prevention and Combating Bureau. (2013). *Corruption Risks in the Health Care Sector*. Retrieved from: http://www.knab.gov.lv/uploads/free/parskati/knab_risku_analize_ves_apr.pdf.

motivate patients to offer under-the-table money in order to receive medical services of acceptable quality. At the same time, shortage of professionals in certain fields has led to a concentration of power in the hands of certain doctors which increases the likelihood of doctors expecting informal payments from patients.

Table 3: Dimensions of precariousness for the health care sector

		Quality of working conditions				
		Wages	Working time	Job security	Social Security	Voice through trade union, protection through collective bargaining
The formal employment status dimension	Open-ended contract	Statutory minimum wage of 360 euros as regulated by national law. Overtime compensated at rate of no less than 100% of normal working time hourly rate.	40 hours per week as according to Labour Law. But according to collective agreement with Ministry of Welfare weekly hours are reduced to 38,5. Anything above is overtime.	Require trade union approval to be dismissed if member of trade union. Otherwise, may be dismissed at any time.	Both employees and employers pay their share of social contributions.	Rights are represented if member of trade union. Collective agreements refer to employees irrespective of their membership in any of the trade unions. Non-member rights can be affected if the actions of trade unions refer to national or sectoral regulation at large.
	Part-time contract	Similar to open-ended contract, except wage can be reduced proportionately according to reduced workload.	Less than 38,5 hours per week. However, usually people have several part-time workplace, which in total can have more than 38,5 hours.	Similar to open-ended contract.	Similar to open-ended contract.	Similar to open-ended contract.
	Fixed-term contract	Similar to open-ended contract. Less likely to receive paid leave depending on the term of the contract.	Similar to open-ended contract.	Similar to open-ended contract, except employment agreement includes predetermined date of termination.	Similar to open-ended contract.	Similar to open-ended contract.
	Self-employed	Most often receive pay per completed work instead of regular salaries.	Unlimited because these relations are not regulated by Labour Law. Vacation time unavailable. Employers do not make vacation accruals because they are not required to by law.	Very limited job security because not regulated by Labour Law. All disputes are resolved according to Civil Code.	Low social security payments which may result in lower social benefits.	Very limited. There is no employment agreement and business relations are not regulated by Labour Law.
	Employees of micro enterprise tax payer	Up to 720 euros tax exempt, anything above taxed at 20% tax rate. Non-taxable minimum is not applied.	40 work hours per week as regulated by Labour Law. Reduced workload of 38.5 hours according to sectoral collective agreement.	Similar to open-ended contract.	Entitled to the same social security benefits as open-ended employment contracts in companies that are not micro enterprises. In comparison social guarantees are not calculated based on employees' salary, but paid social security contributions. In	Can become member of trade unions because these are employment relations regulated by Labour Law.

					other words, social security payments are significantly lower.	
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Initiatives

There have been many attempts to reform the situation in the health care sector by trade unions and employer association but these attempts have been fragmented and have met numerous obstacles which interfered with successful implementation of initiatives. The Latvian Nurses' Association has recently formed a task force in order to identify the real situation of the nurses employed in the health care system.¹³² As the president of the Association explains, there have been numerous interactions with the authorities on various shortcomings of the health care system; however, the representatives of the health care system involved in discussions have always lacked concrete evidence to support their claims. Thus, the aim of forming a task force is to conduct focus group interviews to obtain consistent and sound arguments for productive further discussions with the authorities.

Social dialogue in the health care sector exists on national and sectoral level. At the national level, the Health Care Sector Sub-council represents health care sector in the National Tripartite Cooperation Council.¹³³ At a sectoral level, trade unions and employer associations are involved in discussions which have resulted in higher quality of health care services such as: better accessibility of the services or the modernisation of medical equipment.¹³⁴ However, some field professionals regard social dialogue as just talk with little influence on decisions.¹³⁵

Positive initiatives include general and collective agreements. For example in 2010 the health care trade unions achieved a national level general agreement with the Ministry of Welfare¹³⁶ which included benefits for workers such as

- an increase in average wage by EUR 21.34,
- up to 8 additional vacation days,
- reduced working hours from 40 hours a week to 38.5 hours a week
- up to 50% of the cost of qualification enhancement trainings covered by institutions.

Regarding collective agreements: trade unions in the biggest hospitals have collective agreements with the employers.¹³⁷

Concluding remarks

The overall situation with the health care sector is very problematic as many complex issues prevail, including labour market-linked issues. The sector faces serious under financing which is the root of many labour linked issues in the sector. Under-financing determines low wages which motivates young professionals to leave the country for higher paid employment. As a consequence, in Latvia there is

¹³² Raiska, D. (15 June 2015) Latvian Nurses Association. Personal communication.

¹³³ Employers' Confederation of Latvia (LDDK). (2013). The Analysis of Social Dialogue on Sectoral Level. Retrieved from: <http://www.lddk.lv/wp-content/uploads/2013/12/Nozaru-SD1.pdf>.

¹³⁴ Ibid.

¹³⁵ Brūvele, D. (29 July 2015) Nursing and Health Care Personnel Trade Union.

¹³⁶ Uzule, L. (2010). The Minister of Welfare Signs a General Agreement with Trade Unions. Retrieved from: <http://www.lm.gov.lv/news/id/2388>.

¹³⁷ Raiska, D. (15 June 2015) Latvian Nurses Association. Personal communication.

qualified labour shortage (which is expected to intensify in the future), ageing of the labour force and availability of health care services issues in the regions. Those who have stayed in Latvia struggle to make ends meet: many have multiple jobs, which contributes to the prevalence of precariousness in the sector. Low wages also reinforce the prevalence of informal payments. With lack of qualified workforce, the quality of health care services is falling so doctor-patient cooperation is overshadowed with a need to offer, accept or even demand under-the-table payments for adequate services from medical personnel. However, solely increasing financing will not resolve all problems: a long term solution also requires structural change and a change in the mind-set of all parties.

Metal sector

Trade union presence in the metal sector is very poor. There used to be Latvian Metal Trade Union, but it ceased to exist in 2011. Also, the largest metal enterprise 'Liepājas Metalurģis' used to have its own trade union, but a liquidation process was initiated in October 2014 and by definition the company union disappeared. The company suffered financial distress and eventually the court opened insolvency proceedings. Employees were laid-off and did not receive wages and soon unemployment benefits also ceased, which essentially cut-off trade union funding. Currently, the Industrial Workers Trade Union, which technically represents metal sector, but in practice the union has no members from the metal sector. In other words, there is no official trade union representation of the metal industry at the sectoral level. Smaller trade unions exist at company level, but their active status and involvement as employees' representatives is unclear. If there are any labour related questions then the employers' representatives usually approach LBAS, which coordinates cooperation of separate trade unions and represents them at national and international level.¹³⁸ However, LBAS as such does not specifically represent the metal sector. A consultative institution called the Council of Sector Experts was established in the metal sector as part of a European Social Fund project. It unites the representatives of employers and employee organizations in order to promote the development and qualification of labour resources within the sector.¹³⁹ The main focus is the availability and qualification of workforce, and there is frankly no focus on employment forms. The employers side is represented by The Association of Mechanical Engineering and Metalworking Industries of Latvia (MASOC), which has 160 members and they cover 60% of the sector by employment and 75-80% by turnover. Thus employers are much better represented than employees in metal sector.

The metal sector¹⁴⁰ is one of the leading manufacturing industries in Latvia both in terms of production volume and value added. The highest number of employed within the sector was registered in 2006 when it employed nearly 31 thousand people but employment then gradually dropped and in 2009 after a 30% decline in its workforce employment was just 19.3 thousand. Recovery began in 2011 and employment reached 24.5 thousand in 2013.¹⁴¹ In 2014 the employment again declined by 5% due to Russian sanctions and the insolvency of Latvia's largest metal manufacturing company 'Liepājas Metalurģis' that employed more than two thousand people. The company halted its operations in late 2013; there were major lay-offs in 2014. Under a new owner operations were resumed in 2015 and employment agreements were concluded with some of the previously dismissed employees. The sector exports around 85% of its production and its main markets are in Scandinavia, Germany and Russia. However, output has been

¹³⁸ Free Trade Union Confederation of Latvia (LBAS). (n.d.) About LBAS. Retrieved on: <http://www.lbas.lv/lbas>

¹³⁹ Nozaru ekspertu padomes. (n.d.) NEP darbs. Retrieved from: <http://www.nozaruekspertupadomes.lv/nozaru-ekspertu-padomes/metala-apstrade-masinbuve-un-masinzinibas/nep-darbiba>

¹⁴⁰ According to NACE 2 classification it includes (24) manufacture of basic metals, (25) manufacture of fabricated metals, except machinery and equipment, (26) manufacture of computer, electronic and optical products, (27) manufacture of electrical equipment, (28) manufacture of machinery and equipment n.e.c., (29) manufacture of motor vehicles, trailers and semi-trailers, (30) manufacture of other transport equipment.

¹⁴¹ Source: Eurostat.

shrinking since 2012. The sector is concentrated in the largest cities of Latvia – Riga, Daugavpils, Jelgava, Liepaja, and Ventspils.

Around 8% of all hours worked in metal sector were worked by part-time employees in 2014. Until 2009 the fraction of part-time employees' hours was around 4%, but then it sharply increased to 12% in 2009 and 2010, which were the years of recession. In 2011 it declined to 10% and currently stands around 8%.¹⁴² In short, it implies that part-time employment became more prevalent during the recession and later declined, but not yet to the pre-crisis level.

Available data on worked and paid hours indicate that historically employees have been compensated for 10% more hours they have worked. For full-time employees this remunerated work hours margin has remained particularly stable over time (in range of 8-10%, except 2013 when it peaked at 13%), but part-time employees have been facing more volatile margin. While full-time employment remunerated work hours margin did not decline during recession and actually very slightly increased, part-time employment remunerated work hours' margin declined noticeably. For part-time employees it was 10% during the boom years of 2007 and 2009. But during the recession it declined to less than 7% and increased to 11% in 2011 and later again fell to 8%.¹⁴³

The Association of Mechanical Engineering and Metalworking Industries of Latvia (MASOC) regularly analyses the demand and supply of skills and specialists in the sector. It cooperates with educational institutions in order to improve and create educational programmes, which prepare specialists that companies are seeking to employ. Data and analysis about the use of precarious work forms is not a priority and the MASOC does not seek to examine this issue in-depth or prepare overall statistics about them.¹⁴⁴ The metal sector has a persistent lack of specialists and precarious work forms are not relevant, because employers are seeking to hire and retain specialists.¹⁴⁵ The metal sector is particularly heterogeneous and the use of employment forms can actually vary for different companies. For example, a ship building company may bring in migrant workers. Moreover, since shipbuilding work is project based and cyclical it tends to involve fixed-term agreements for additional workers, which are needed for large-scale ship building projects.¹⁴⁶ Other companies might have standardized work on production conveyor, where fixed full-time work in 8 hours shifts is required. Additionally, seasonality (if relevant at all) varies from one company to another.

Historically mostly standard open-ended full-time employment agreements have been the norm within the metal sector. Production companies have very limited ability to implement and use precarious work forms and provide elastic time planning opportunities. Normally they have a synchronized conveyor type production process, which requires employees to be in their work place at predefined time for predefined hours. Each employee fulfils a separate duty in a bigger production process. If they have to work overtime or reduce capacity to meet demand it would affect every employee tied to a specific production process. Part-time employment is used to combine work with employees need to study or take care of their family. The industry has become more elastic in terms of allowing employees to have more freedom to choose their work time and shift it according to their personal needs. The opportunity to flexibly organize work

¹⁴² Source: CSB.

¹⁴³ Source: CSB.

¹⁴⁴ The association works for the interests of their member companies and none of the employers have raised any issues about work forms.

¹⁴⁵ Additionally, Germany is actively inviting specialists from Eastern Europe, because they have very well-developed metal industry and shortage of specialists. Migration also has certain impact on the lack of specialists in the sector.

¹⁴⁶ Grīnfelds, T. (4 August 2015) MASOC. Personal communication.

gives more satisfaction and ability to co-manage personal life and interests. Increased satisfaction correlates with decreased employees' turnover rate, which instead improves quality of production process. The greater employees' turnover becomes the greater impact on the quality of production it has.¹⁴⁷

The lack of strong trade unions in the sector is largely because workers have lacked initiative. For example according to Pēteris Krīgers (leader of LBAS) the liquidation of the 'Liepājas Metalurģs' professional organization could have been avoidable however the chairman of the professional organization chose to liquidate it without consulting LBAS. Both MASOC and LBAS would like to have an active trade union although many employers are actually quite satisfied the current situation.¹⁴⁸

Table 4: Dimensions of precariousness for the metal sector

		Quality of working conditions				
		Wages	Working time	Job security	Social Security	Voice through trade union, protection through collective bargaining
The formal employment status dimension	Open-ended contract	No less than statutory minimum wage of 360 euros (if full-time) as regulated by national law. Overtime compensated at rate of no less than 100% of normal working time hourly rate.	40 hours per week as regulated by Labour Law. Anything above is overtime.	May be dismissed with prior notice a month before. If employee is a member of trade union, employer must receive consent from trade union, which can refuse employee's dismissal. However, trade unions are basically non-existent in the sector.	Employees (10.5%) and employers (23.59%) pay monthly social contributions.	Rights are represented if member of trade union. Collective agreements refer to employees irrespective of their membership in any of the trade unions. Non-member rights can be affected if the actions of trade unions refer to national or sectoral regulation at large. Almost non-existent trade union representation.
	Part-time contract	Similar to open-ended contract, except statutory minimum wage can be reduced proportionally according to reduced workload.	Less than 40 hours per week as regulated by Labour Law.	Similar to open-ended contract.	Similar to open-ended contract.	Similar to open-ended contract.
	Fixed-term contract	Similar to open-ended contract.	Similar to open-ended contract.	Similar to open-ended contract. Employment agreement includes predetermined date of termination, which trade unions cannot object to once employee has agreed to it.	Similar to open-ended contract.	Similar to open-ended contract.
	Self-employed	Most often receive pay per completed work. Irregular income instead of regular salaries. In addition, self-employed incur costs when renting	Unlimited because these relations are not regulated by Labour Law. Employers do not make vacation accruals because	Very limited job security because not regulated by Labour Law. All disputes are resolved according to Civil Code. Not perceived as employment, rather	Low social security payments which may result in lower social benefits. Social security payments made by self-employed only.	Very limited. There is no employment agreement regulated by Labour Law. Self-employment relations regulated by Civil Code are not a competence of trade unions. However, trade unions can promote policy

¹⁴⁷ Graudiņš, A. (2 June 2015) Guntis Rāvis Fund. Personal communication.

¹⁴⁸ Krīgers, P. (5 September 2015) Free Trade Union Confederation of Latvia (LBAS). Personal communication.

		assets from the company they have signed agreement with.	they are not required to provide paid leave.	a form of entrepreneurship.		where employers provide self-employed with employment agreement.
	Employees of micro enterprise tax payer	Up to 720 euros tax exempt, anything above taxed at 20% tax rate. Non-taxable minimum is not applied.	40 work hours per week as regulated by Labour Law.	Similar to open-ended contract.	Entitled to the same social security benefits as open-ended employment contracts in companies that are not micro enterprises. In comparison social guarantees are not calculated based on employees' salary, but paid social security contributions. In other words, social security payments are significantly lower.	Can become member of trade unions because these are employment relations regulated by Labour Law.

Initiatives and concluding remarks

MASOC is not planning to have future activities regarding precarious work forms. Their main focus is development of education programmes. Generally employers are more concerned about income taxes, regulation and availability of specialists than about work forms and workers appear not to be active in participating in trade unions

Retail sector

Retail sector workers are represented by the Trade Union of Commerce. Very few people appear to be interested in joining the union and as a result the Trade Union of Commerce which aggregates 19 professional organizations and individual members from 200 different companies has around 2000 members (as of mid-2015) which is very small in relation to the total number of workers.¹⁴⁹ The Trade Union of Commerce and its affiliate professional organizations have signed collective agreements with the two largest retail chains 'Rimi' and 'Maxima Latvija'. The employer side is represented by the Latvian Traders Association and the Latvian Food Retailers Association, which unite the three largest retailers in the country.

The Trade Union of Commerce and the Latvian Traders Association have jointly created a Social Dialogue Council, which consists of three trade union representatives and another three employer representatives. They meet regularly to discuss all relevant sectoral issues. While both sides often have diverging views and understanding of the situation, they seek to create a certain consensus. Furthermore, both organizations and other representatives also participate in the Council of Sector Experts, whose aim is human resource development within the sector.

The Retail sector¹⁵⁰ is one of the largest in terms of employees. In 2014 it employed more than 86 thousand people. Historically around 10-11% of total employment in Latvia has been provided by the retail sector. The highest number of work places was registered in 2007 when the sector provided 115 thousand jobs. In 2008 the number slightly declined to 100 thousand, but the greatest decline of 19% was served in 2009 when it dropped to 90 thousand. This was followed by a further drop of 7% in 2010 when employment was 83 thousand. The number of offered work places began to increase in 2011 and stood at 87 thousand in

¹⁴⁹ The trade union is funded by membership fees and EU funds and has also received funding from Norwegian social partners for organizing training.

¹⁵⁰ According to NACE 2 classification it includes (47) Retail trade, except of motor vehicles and motorcycles.

2014.¹⁵¹The employment decline began in 2008 when the recession started and continued for two years until GDP growth resumed in 2011. The drop in employment was most significant in 2009 when it declined by 18.2% and further 9% decline was observed in 2010. Since 2011 employment has increased by 1% annually on average. While the volume of worked hours increased by 8% in 2007, it turned into a decline of 3.2% in 2008 and plummeted by 23.7% in 2009 and by another 12.2% in 2010. Since 2011 the volume of worked hours has been rising by around 2% annually.¹⁵²During the pre-crisis economic boom the share of work hours of part-time employees declined from 11.1% in 2006 to 8.8% in 2008. Then in 2009 the share of part-time employment hours jumped to 14.7% and 19.3% in 2010. Since 2010 the share of part-time employment hours has remained at around 20%.¹⁵³ In other words, part-time employment became more prevalent during recession and it continues to be so.

The average gross wage for the retail sector was 541 euros in 2014, an increase from 495 euros in 2013. This is a sector where wages are below the national average with the average wage in the retail sector usually about 70% of national average gross wage.¹⁵⁴ Gross wages in retail grew substantially during economic boom by 30.5% in 2006, 50% in 2007 and 19.8% in 2008. Growth in wages then reversed to decline by 23.7% in 2009 and 15.2% in 2010. Wage growth resumed in 2011 and showed significant 10.5% growth in 2014.¹⁵⁵

Work in the retail sector is based on summed work time.¹⁵⁶ This means that employees have flexible work schedules and they receive standard remuneration for all the hours allowed by national legislation. Everything above the set limit is considered overtime which must be remunerated by at least an extra 100% of standard hourly pay. Practically it means that retail sector employees may work a few days per week but longer hours (e.g. 12 hour work day) or work during weekends and these hours would still be considered standard work hours as long as the total number of work hours does not exceed allowed standards. According to law a work day is normally 8 hours long and monthly allowed work hours are then these 8 daily hours multiplied by the number of official work days (excluding official state holidays). During state holidays employees are by definition remunerated at double pay irrespective of the total number of hours worked per period. Employers use reference periods for overtime remuneration calculations, which can be one or more months. If the reference period is three months then employers sum all work hours worked during these three months and compare with the allowed maximum standard hours for three months according to law. Anything above three months reference number of work hours should be remunerated as overtime. However, the longer the reference period the more likely that overtime hours will even out. If during one month an employee has worked above allowed standard and the reference period is one month then the employee would be remunerated for overtime. When the reference period is two or three months or longer¹⁵⁷ the overtime might not be remunerated at all because in some months the employee may have worked less than allowed standard and when they are summed the first month overtime hours might be

¹⁵¹ Source: CSB.

¹⁵² Source: Eurostat.

¹⁵³ Source: CSB.

¹⁵⁴ Source: CSB.

¹⁵⁵ Source: Eurostat.

¹⁵⁶ Regulated by Labour Law Section 140. Summed work hours does not allow more than 56 work hours per week and employer must ensure on average 12 hours of rest daily. However, it is forbidden to employ more than 24 hours in row.

¹⁵⁷ Employers and employees can agree in employment agreement to extend reference period up to three months. In collective agreements the reference period can be extended up to one year. Regulated by Labour Law section 140(3).

cancelled out by later deficit. In general when the reference period is extended the amount of remunerated overtime is likely to decline.¹⁵⁸

The summed work-hours arrangement is applied for operating personnel such as cashiers, packers, loaders and others. Administrative staff usually have a standard work day of 8 hours. The use of summed work time is necessary due because of the typically long working hours of shops. Shops are open all days of the week and also on holidays. The shops are usually open the whole day from early morning till late evening (they can be open up to 16 hours during the day) and they need to provide continued service, which requires work in shifts. As employees finish their work somebody else has to take over their work, which requires elasticity in work planning and makes it nearly impossible to organize standard work hours during work days only. Employees have to work during weekends and holidays and often the schedule can unexpectedly change and employees are asked to work during their time off. Employees' work time is more often than not dependent on employer's needs and requirements. On the other hand, employees have the opportunity to have time off during official work days.

Self-employment is very rare in retail sector, except for small farmers who both produce and sell their production. Fixed-term employment is used when other employees are absent for certain period of time (maternity leave etc.)¹⁵⁹

Retail was one of the hardest hit sectors during the recession as domestic consumption and demand collapsed. Turnover began declining in 2008 when it declined by 7.2% and in 2009 the sector experienced a 25.6% decline and a further 3.1% decline in 2010.¹⁶⁰ As of 2011 turnover growth resumed. The number of employed declined similarly and wages were cut by 22.2% in 2009 and by another 12.4% in 2010. During the recession employers introduced part-time summed hours work. Falling turnover and demand meant that employers were worried whether they would be able to provide employees with a full-time work load. Basically employers included in employment agreements a clause which stated they must guarantee certain minimum of hours which typically was below maximum standard work hours allowed by legislation. Employees were not limited to the stated minimum of hours and they could work more if employers offered, yet there was no certainty or promise from the employers that they could offer more than the minimum stated in the employment agreements. Furthermore, if offered more hours than the agreed minimum, employees can refuse and employers cannot punish or object.¹⁶¹

Part-time work increased during the crisis and employers are reluctant to reverse the trend.¹⁶² To support their part-time employment practice employers use the argument that employees can use their available free time to work in another work place. However, employment agreements usually include a clause, which requires employees to coordinate work in other places with the employer. In other words, the employee must receive permission from the employer and it seems unlikely that they would be allowed to work for a competing retail chain.

There is significant turnover in the sector. Small companies have frequent problems and people often are hired only for a probationary period for minimum possible hours in order to minimize the labour costs. Many firms including large ones do not fully report all work hours: sometimes overtime is hidden under

¹⁵⁸ Muceniec, M. (15 July 2015) Trade Union of Commerce. Personal communication.

¹⁵⁹ Ibid.

¹⁶⁰ Data for turnover in deflated (comparative) prices. Source: Eurostat.

¹⁶¹ Muceniec, M. (15 July 2015) Trade Union of Commerce. Personal communication.

¹⁶² Ibid.

bonuses in order to hide the fact that actual overtime is larger than the maximum allowed according to law. In general, there are problems with accounting work hours in full.¹⁶³

As explained by employer representatives, the number of hours worked part-time has been increasing, because retail chains cannot afford to hold employees during work hours when they are not needed. In order to increase productivity employers are willing to have more flexibility with work hours accounting, hiring and dismissal procedures. Their opinion is that the time when people had full time guaranteed work is over.¹⁶⁴

Retail chains are not only interested in the number of hours worked, but they are also concerned with productivity. People are being rotated among positions to make work less monotonous and more employees could do the required work when necessary. It is challenging to keep motivating employees who are relatively low paid. Some workforce functions might be substituted by electronic equipment. Retail chains are planning to introduce more self-service cash desks, where employee presence is less needed.¹⁶⁵

Table 5: Dimensions of precariousness for the retail sector

		Quality of working conditions				
		Wages	Working time	Job security	Social Security	Voice through trade union, protection through collective bargaining
The formal employment status dimension	Open-ended contract	No less than statutory minimum wage of 360 euros (if full-time) as regulated by national law. Overtime compensated at rate of no less than additional 100% of normal working time hourly rate.	Official 8 hours per day, which are used to calculate monthly allowance of standard work hours. Monthly work hours can vary depending on the number of working days.	May be dismissed with prior notice a month before. If employee is a member of trade union, employer must receive consent from trade union, which can refuse employee's dismissal.	Employees (10.5%) and employers (23.59%) pay monthly social contributions.	Rights are represented if member of trade union. Collective agreements refer to employees irrespective of their membership in any of the trade unions. Non-member rights can be affected if the actions of trade unions refer to national or sectoral regulation at large.
	Part-time contract	Similar to open-ended contract, except statutory minimum wage can be reduced proportionally according to reduced workload. Income may vary depending on the number of hours worked. Lack of certainty of monthly income.	Employment agreement states minimum required work hours (less than monthly standard work hours allowance) provided by the employer, but employee might work more if employer offers	Similar to open-ended contract.	Similar to open-ended contract.	Similar to open-ended contract.
	Fixed-term contract	Similar to open-ended contract.	Similar to open-ended contract.	Similar to open-ended contract. Employment agreement includes predetermined date of termination, which trade unions cannot object to once employee has agreed	Similar to open-ended contract.	Similar to open-ended contract.

¹⁶³ Puķukalne, B. (15 September 2015) State Labour Inspectorate. Personal communication.

¹⁶⁴ Krūzītis N., (20 August 2015) Latvian Food Retailers Association. Personal communication.

¹⁶⁵ Ibid.

				to it.		
Self-employed	Most often receive pay per completed work. Irregular income instead of regular salaries. However, this form of employment is very rare in the sector.	Unlimited because these relations are not regulated by Labour Law. Employers do not make vacation accruals because they are not required to provide paid leave.		Very limited job security because not regulated by Labour Law. All disputes are resolved according to Civil Code. Not perceived as employment, rather a form of entrepreneurship.	Low social security payments which may result in lower social benefits. Social security payments made by self-employed only.	Very limited. There is no employment agreement regulated by Labour Law. Self-employment relations regulated by Civil Code are not a competence of trade unions. However, trade unions can promote policy where employers provide self-employed with an employment agreement.
Employees of micro enterprise tax payer	Up to 720 euros tax exempt, anything above taxed at 20% tax rate. Non-taxable minimum is not applied.	40 work hours per week as regulated by Labour Law.		Similar to open-ended contract.	Entitled to the same social security benefits as open-ended employment contracts in companies that are not micro enterprises. In comparison social guarantees are not calculated based on employees' salary, but paid social security contributions. In other words, social security payments are significantly lower.	Can become member of trade unions because these are employment relations regulated by Labour Law.

Initiatives and results

The Trade Union of Commerce has tried to promote the idea of closing stores during holidays. This has been resisted by workers who are actually willing to work on holidays as they receive double pay as compared with standard work hours. There appears to be preference among retail workers to work fewer days per week at longer hours and then have more free days. However, the union continues to press for the idea that shops should not be open during official holidays and is surveying workers in order to understand their attitudes and they are then seeking to educate and inform them about the benefits of different options in terms of work planning. Employers fear loss of income if they close shops during holidays.¹⁶⁶

The retail sector has significant employee turnover. While employers argue that it is normal for the services sector and argue that many employees are young people who choose work in a shop as their first employment experience before leaving for other work places. However, the union believes the high turnover is because of low wages – the average wage in the sector is EUR 541 which is above the minimum statutory wage but well below the overall average wage in the economy (EUR 760 in 2014).

The trade union is seeking to promote the practice that employers provide full-time employment for those employees that wish to work full-time. Where the trade union is present it seeks to monitor employment status and nudge employers to provide employees with full-time employment on fair terms. In case there

¹⁶⁶ Muceniece, M. (15 July 2015) Trade Union of Commerce. Personal communication.

are employees doing similar work and working a similar number of hours the union insists that they all work based on similar agreements and number of hours.¹⁶⁷.

Individual members cannot negotiate or sign a collective agreement, but the trade union offer them individual protection and legal advice. The union also helps company level trade unions to negotiate and sign collective agreements, because mostly these organizations are led by company employees that have limited experience and understanding of trade union functions and legal capacity. Trade union organizes lectures and seminars where they explain to workers their rights and provide them with various informative materials. Signed collective agreements cover all employees irrespective of their membership and this fact creates little incentive to join a trade union because a worker can receive the benefits enshrined in the agreement without being a member, paying membership fees or participating in events organized by the union. The trade union prepares informational materials and creates web pages for company trade unions¹⁶⁸, as well as actively participates in events where people can come and talk to them about the benefits of being a member.

'Maxima Latvija' case study

The largest employer in the retail sector is 'Maxima Latvija' employing around eight thousand people in 2015.¹⁶⁹The company provides employees with the opportunity to freely choose their work arrangement, i.e., either full-time or part-time. Employees are required to submit an official application to change their work arrangement. 'Maxima Latvija' cooperates with the State Employment Agency to offer internships for people aged 15-18 during the summer school break. Summer interns are employed on fixed-term agreements and the company hired more than 400 youngsters in summer 2015.¹⁷⁰

During the recession, which started in 2008, the company did not lay-off or cut wages for existing employees. 'Maxima Latvija' has relatively high employee turnover (mostly people perceive work in retail chain as temporary before they leave for other opportunities) and during recession they reduced the number of staff by not employing new people in the place of those who left. Depending on a case by case situation and if there was a need to employ someone new in the place of resigning employees they did so, but, if not, the place was left empty. The new employees were hired on new employment agreement terms. In other words, the reduction happened relatively naturally without intentional intervention by the management.¹⁷¹

There is also a company specific trade union 'SIA Maxima Latvija trade union' whose members are the employees of the retail chain and in spring 2015 they had around 120 members (out of around 8000 employees).¹⁷² New members were attracted often with the help of existing members that talk to their colleagues and explain the meaning of a membership in 'Maxima Latvija' trade union.¹⁷³ Management and

¹⁶⁷ Employees work official 167 hours per month on average, but the number of hours can be as high as 184 hours, depending on the number of work days per month.

¹⁶⁸ For trade union of two largest retail chains 'Maxima Latvija' and 'Rimi Latvija'.

¹⁶⁹ 'Maxima Latvija' is also the largest private employer in Latvia.

¹⁷⁰ Apinis, R., (13 August 2015) Maxima Latvija. Personal communication.

¹⁷¹ Apinis, R., (13 August 2015) Maxima Latvija. Personal communication.

¹⁷² Collective agreements can be signed between trade union and employer or employees' representative and employer. However, employees' representative can be elected in meetings where at least half of employees are present. In large-scale retail chains it is very difficult if not impossible to have meetings where half of the employees participate. Due to this requirement it is more convenient to have trade union as a representative because there is no requirement about the number of members.

¹⁷³ Muceniece, M. (15 July 2015) Trade Union of Commerce. Personal communication.

trade union representatives organize monthly meetings where they discuss various issues mostly regarding specific employees. The negotiation of the very first collective agreement was started in October 2013, but due to the tragic event of November 2013 when a store collapse killing 54 people and leaving many more injured the process was halted. It was resumed only several months later because of the internal and external crisis situation the company underwent after the tragic event. While the event created a sombre emotional state within the company, it did not have apparent impact on employee turnover despite the fact that right after the event they stopped running advertisements and promotional activities. The event might have been contributing factor for employees to resign, but it was not perceived as a main reason for employees to leave company in the period after the tragedy.¹⁷⁴

In March 2015, the Maxima trade union and the company signed a collective agreement. The agreement covers the rights of all employees irrespective of their membership of the trade union. Furthermore, the collective agreement covers all new employees. The agreement expires in five years and most likely will be renegotiated as the term approaches.¹⁷⁵ The agreement comprises areas like remuneration policy, work schedule and work safety arrangements, work order, social security and other labour legal rights protection related issues. The collective agreement also determines the relations between employees and the employer, as well as the membership payment procedure (salary accountants pay trade union 1% of members' net salary and members themselves are exempt from this task). Additionally, the trade union is granted access to all work places of the retail chain where they can place their informational materials for employees.¹⁷⁶ The agreement includes requirements for health insurance and dinner for employees.

Trade union representatives regard the agreement as acceptable as a first collective agreement for 'Maxima Latvija' even though it contains only some of the requirements that the trade union and employees wished to include. However, trade union also indicated that it aims to continue developing cooperation and subject the agreement to further additions and improvements.¹⁷⁷

Concluding remarks

Employees mostly are not properly and sufficiently informed about their rights, which make them vulnerable vis-à-vis employers who are more knowledgeable about the legal framework and regulation. To address this lack, the trade union actively seeks to inform and educate workers about their rights and the benefits of being a member of the union. During recession employees were offered new employment agreements, which they did without much going into the details and their legal and financial implications. Part-time work gives uncertainty about monthly income and makes it more difficult to plan personal finance, especially given that the average wage in the sector is relatively low. While new employees were already offered part-time employment and later incumbent full-time employees were presented with part-time employment agreements accompanied with an employer announcement that part-time work was the new standard. If employees had been more educated about their rights or consulted with a trade union, they would have been less likely to agree to shift to part-time employment.

The trade union has become more informed about collective agreements and collective bargaining. It has a better capability to engage in productive and constructive negotiations with good results. Also, the employers have become more open and towards the trade union and appreciate that cooperation with the

¹⁷⁴ Apinis, R., (13 August 2015) Maxima Latvija. Personal communication.

¹⁷⁵ Ibid.

¹⁷⁶ SIA Maxima Latvija arodorganizācija (19 March 2015). Noslēgts darba koplīgums. Retrieved on: <http://maxiao.lv/m/?p=121>

¹⁷⁷ Muceniece, M. (15 July 2015) Trade Union of Commerce. Personal communication.

union can contribute to addressing issues such as work hour planning. Collective agreements are becoming more frequent within the sector and when negotiating agreements the trade union takes into account the economic circumstances of employers.

Temporary agency work

There are no trade unions in Latvia for temporary agency workers. Employers are represented by the Temporary Employment Agencies Association of Latvia (LPDAA), which has three temporary work agencies as members. Temporary work agencies are supervised and monitored by the State Employment Agency in cooperation with the State Labour Inspectorate. The State Employment Agency issue licences and monitors TWA operations.¹⁷⁸ Even if there are no complaints about the work of a TWA, once in every two years the State Employment Agency carries out a detailed inspection. In addition TWAs have to submit documentation to the State Employment Agency once a year, which Agency can use as a simple and superficial check on TWA activities.¹⁷⁹ Although the Law regulating work of TWAs is sufficient, there are issues with monitoring and supervision mainly because both the State Employment Agency and the State Labour Inspectorate lack resources for proper and efficient examinations. In addition, it appears that the State Labour Inspectorate does not pay much attention to TWAs so offences might go unnoticed.¹⁸⁰ The reason for little attention is that the State Labour Inspectorate receives practically no complaints about TWA work. Employees mostly are not properly and sufficiently informed about their rights, which make them vulnerable vis-à-vis employers who are more knowledgeable about the legal framework and regulation

In Latvia, the TWA regime is as follows:

- Employees of a TWA not temporary workers vis-à-vis the TWA, rather they are employed on a permanent basis, meaning they have open-ended contracts. The TWA choose when and how often they hire out a worker on a fixed term basis to third party clients each of their employees. Thus, TWAs have to have a solid employment contract with their employees. Any other type of employment agreements is not permitted
- While an employee of a TWA is not being hired out and thus does not receive a wage, which is covered from a fee the TWA charges for its services to a client, the TWA has to pay the employee the minimum wage as determined by the Labour Law.
- In general, the Labour Law applies to TWAs as to other companies in Latvia. Therefore, fixed-term contracts can be utilized only in very special cases.

From the above, it can be understood that temporary work refers to an employee being hired out for a limited amount of time in a company which is a client of the TWA. Essentially, an employee of a temporary work agency has a temporary work place or job position with the client company which hires the services of the worker, but he or she is not subjected to temporary work (fixed term employment) as such.

However, there are instances where TWAs try to bypass law. For example, TWAs can force its employees to accept a mutual agreement on a temporary suspension of the employment contract, if a TWA has no possibility to hire out the particular employee at that moment.¹⁸¹ Another example is that TWAs attempt to employ people on fixed term contracts on a basis of an argument of “a temporary increase in workload”.

¹⁷⁸ Dreja, M. (15 September 2015) State Employment Agency. Personal communication.

¹⁷⁹ Ibid.

¹⁸⁰ Ibid.

¹⁸¹ Dreja, M. (15 September 2015) State Employment Agency. Personal communication.

However, that is strictly speaking illegal for as “a temporary increase in workload” refers to TWAs client companies (e.g. a need for more employees in a manufacturing company), not the TWAs themselves.¹⁸²

As of 2015, there are 29 TWAs in Latvia whose sole business operation is hiring out personnel. An additional 17 companies provide personnel rent as a part of their services. The further presented statistics refer to companies which exclusively offer personnel rent services. TWAs in Latvia operate in eleven industries: transportation, accommodation and catering, manufacturing, wholesale and retail, ITC, health care, agriculture, construction, energy, administrative and support services, and other services. The number of people employed and rented by TWAs is on an increasing trend. In 2013, TWAs rented 595 people. In 2014, the number of people almost doubled, reaching 1 049 people. In the first half of 2015, the number of people employed and rented has been 470.¹⁸³

Seasonality is the main reason for the existence of temporary work.¹⁸⁴ Companies whose operations have seasonality are the main users of temporary employment opportunities. It can be seen in the official statistics. Out of eleven industries, seven industries (transport, accommodation and catering, manufacturing, wholesale and retail, agriculture, construction and energy) are to some extent seasonal. In 2013, 37.8% of employees were hired out for a work in a company affected by seasonality. In 2014, the share of employees rented for a seasonal job was 57.5% and in 2015, it is 75.1%.

In 2013 the distribution by hiring sector was: 338 people (equivalent to 56.8%) were hired in other services; agriculture with 99 people (equivalent to 16.6%) and accommodation and catering with 43 people (equivalent to 7.2%) followed. In 2014, 433 people (equivalent to 41.3%) were rented in other services industry while 276 people (equivalent to 26.3%) were in transport and 173 people (equivalent to 16.5%) in accommodation and catering. In 2015, the same industries as in 2014 have been dominant; however, the distribution has changed. Transport dominates with 176 people (equivalent to 37.5%) hired followed by other services with 92 people (equivalent to 19.6%) hired and accommodation and catering with 83 people (equivalent to 17.7%) hired.

Seasonality is closely linked to educational attainment. Low and medium-skilled work force dominates temporary work.¹⁸⁵ Companies are hiring for relatively less sophisticated positions, for example, in manufacturing processes, where employee turnover is high and which do not require extensive knowledge and skills. However, among the TWA employees, there are also people with tertiary education, e.g. in administrative services and ITC industries..

Seasonality and costs associated with hiring employees directly on a seasonal basis have contributed to the growing popularity of TWAs among employers. TWAs work as an intermediary between employers and employees and provide an opportunity for a company to rent personnel with relevant qualifications without employing them directly. TWAs are especially useful in cases when employee turnover is rather high. For employers it is relatively costly in terms of time and funds to carry out human resource activities aimed at employing people for short periods of time. Thus, TWA services can prove useful.

Foreign markets represent a major destination for TWA workers. In 2013, only 45.5% of hired out workers were employed in Latvia. In 2014, the percentage increased to 53.0% and in the first half of 2015, the share of employees hired out for work locally was 52.8%. The main foreign destinations for TWA workers are:

¹⁸² Ibid.

¹⁸³ Data on TWA industries and number of employees was provided by the State Employment Agency.

¹⁸⁴ Čeremisina, V. (27 August 2015) Biuro. Personal communication.

¹⁸⁵ Ibid.

Germany, Belgium, Norway, Lithuania, Austria, France and Sweden. In all years available (2013-2015), Germany, Norway and Sweden have been among top destinations. In 2013, 22.5% were hired in Norway, 17.7 in Germany and 13.3% in Sweden. In 2014, 16.2% were hired out for work in Germany, 15.7% for work in Norway and 12.4% for work in Sweden. In the first six months of 2015, Germany has been the top destination with a 20.6% share with Norway in second place with 17.2%.

It is argued by the TWA representative that be the intermediation of TWAs has substituted the shadow economy. Previously when personnel rent were not common in the labour market many temporary workers were employed without employment contracts and paid in envelopes.¹⁸⁶ Temporary work, as opposed to being employed without a contract, is appealing for both employers and employees. Employers are increasingly trying to be transparent while employees are guaranteed a degree of work security.¹⁸⁷ Employees especially benefit from temporary employment when compared to working in the shadow economy as temporary work via an agency is official and contributes to a person's total years of work experience, which in turn improves rights to benefits,

However, the line between the need for a flexible work force and the desire to minimise expenses is not that clear. When hiring a TWA worker, a company is not responsible for allocating vacation, and various benefits and social contributions; these are the responsibility of the TWA. This implies that for a company it is cheaper to rent an employee rather than establish a permanent position. At the same time, the use of TWA services facilitates the firing process of employees. In some case, using TWAs can have the opposite effect on companies. For example, there is evidence that TWAs include a point in their contracts that an employee when he or she quits the TWA cannot work in a company which has hired the worker while working for a TWA, for one year. Strictly speaking this is illegal.¹⁸⁸ In such a way, the TWA ensures that it does not loses business from a situation where an employee is rented to a company but then hired at the same company, thus decreasing demand for TWA's services. It is believed that such violation of employee rights still prevails and is more pervasive in smaller TWAs.¹⁸⁹

The main reason why temporary work might still be viewed with suspicion among workers is insufficient knowledge about this form of work. The word "temporary" implies lack of stability with respect to employment and stream of earnings. In addition, many people who have had either official or unofficial temporary work experience have faced a situation where they have not received remuneration for their work, which only contributes to potential misunderstanding of official temporary agency work. In reality, , TWA employees have an open-ended employment contract and at least the minimum wage is guaranteed for them.

TWAs have a great incentive to hire out their employees on a continuous basis. Thus, often employment continues but in a relevant position in a different company.¹⁹⁰ Such a concept of temporary work is unfamiliar to many people, especially older people.¹⁹¹

From a legal perspective, the concept of TWAs is new. Up until 2011, temporary work as realised by temporary work agencies had not been defined by the Labour Law.¹⁹² Up until 2008 there were only a few

¹⁸⁶ Čeremisina, V. (27 August 2015) Biuro. Personal communication.

¹⁸⁷ Ibid.

¹⁸⁸ Dreja, M. (15 September 2015) State Employment Agency. Personal communication.

¹⁸⁹ Mickevica, N. (2012). The Operating Framework of Labour Assurance Service Providers. Retrieved from: http://www.lbas.lv/upload/stuff/201211/pagaidu.darba.agenturu.regulejums_n.mickevica_31.10.2012_final.pdf.

¹⁹⁰ Ibid.

¹⁹¹ Ibid.

TWAs in Latvia which implied that regulation was not perceived as an issue. Now TWAs agencies operate on the basis of the Labour Law. The Labour Law states that a person employed by a TWA to work for another company should have the same privileges as a direct employee of that company.¹⁹³ This includes aspects such as equal remuneration and equal working environment and conditions. TWAs are responsible for and monitor compliance with the Labour Law.¹⁹⁴

Initiatives

Temporary work agency cooperation with other relevant labour market stakeholders is poor. For instance, temporary work agencies are not involved in social dialogue, do not sign collective agreements and do not communicate with sectoral trade unions.¹⁹⁵ However, the agencies do informally cooperate with the State Employment Agency in helping to find jobs for the registered unemployed by advertising their vacancies with the State Employment Agency.¹⁹⁶

Concluding remarks

Temporary work as provided by temporary work agencies is small but growing form of employment in the Latvian labour market. TWAs in Latvia have to employ the people they hire out to other companies on an open-ended contract. In addition, TWAs have to pay minimum wage during a period when an employee is not being hired out though there is some evidence that TWAs use devices to circumvent this. There are no trade unions representing TWA workers and the monitoring and supervision provided by the State Employment Agency and the State Labour Inspectorate is limited. TWAs may have contributed to reducing the shadow economy.

¹⁹² Mickevica, N. (2012). *The Operating Framework of Labour Assurance Service Providers*. Retrieved from: http://www.lbas.lv/upload/stuff/201211/pagaidu.darba.agenturu.regulejums_n.mickevica_31.10.2012_final.pdf.

¹⁹³ Ibid.

¹⁹⁴ Čeremisina, V. (27 August 2015) Biuro. Personal communication.

¹⁹⁵ Very few employees of temporary work agencies, if at all, are members of any trade union.

¹⁹⁶ Čeremisina, V. (27 August 2015) Biuro. Personal communication.

6. Comparative evaluation and conclusions

Trade unions are trying to gradually build their position in the labour market. They seek to inform and educate workers about the benefits and representation they can receive as union members. Most people have very little understanding about their rights as granted by Labour Law. Employers are gradually beginning to accept the role of trade unions and their role with respect to employee rights protection. It is a gradual and slow-moving process to attract new members and educate people about their rights. People mostly seek membership of trade unions in when they have problems and need guidance and protection. Otherwise, they show little interest in joining a trade union.

Employers in general are better represented than employee organizations. Mostly trade unions are present in sectors where the public sector is dominant like education and health care. In the private sector trade unions are much less prevalent and widespread. Trade union density was 16% in 2006 and declined to 11.5% in 2011, meaning that trade union density declined during recession. Recession put social partners in jeopardy as they had to face severe economic and market turmoil. Employers were put in strangled financial situations and had to reassess collective agreements. Trade unions were responsive enough and agreed to 'freeze' the terms of the collective agreements during recession. The main focus of social partners during recession was to avoid strikes and minimize lay-offs.

The presence of trade unions varies across sectors. The health care sector has two significant and large trade unions due to historical reasons. Also the construction sector has two trade unions, but admittedly few collective agreements as compared to whole industry because the environment does not stimulate the development of collective agreements. The metal sector technically has a trade union, but no sectoral trade union that actively represents metal sector employees. Temporary agency workers do not have a trade while the retail sector has a trade union with small membership relative to the size of the sector; however, they have managed to sign collective agreements with the two largest retail chains.

While Latvia's Labour Law is recognized as nominally rigid, the adjustment to the crisis testifies to de facto actual flexibility. Labour market duality is not particularly prevalent in Latvia. Trade unions are relatively weak everywhere. The full-time open-ended work form can be abused in various aspects like signing inappropriate employment agreements, paying remuneration that is inconsistent with the employment agreement, inappropriate dismissal procedure and other issues.

Precarious work forms are not regarded as a priority for social partners. In general social partners support the economic rationale of these work forms and regard potential abuse as not a widespread problem, but as separate cases. Evidence indicates that problems with work forms are less prevalent where active trade unions are present. Trade unions are usually concerned with protecting the rights of their members but this may frequently benefit non-members when trade unions influence regulation at sectoral or national level.

Precarious work forms were created for specific economic purposes but during recession when industries were hit by declining demand they were often used to reduce labour costs and save on taxes. Precarious work forms are not used for their original purposes but often abused for different economic reasons like tax burden optimization. Prevalence of precarious work forms increased during recession which began in late 2008. Part-time and fixed term employment has been on decline since growth resumed, but self-employment has actually increased as of 2011 when micro enterprise tax law was enacted.

While part-time employment was created expecting that employees would choose it when they needed for work-life balance, it appears that employers rather use it for their own financial benefit and convenient financial planning. Part-time employment increased during recession significantly and still remains at

particularly pervasive level. Decline of part-time employment has happened only in metal sector once GDP growth resumed in 2011. While the regulation of part-time employment is the same for all industries, there are different economic causes for part-time employment in each sector. The retail sector moved into part-time summed work hours' employment due to employers' uncertainty about their ability to provide full-time hours and their desire to avoid overtime, which must be remunerated at double rates. In health care sector part-time employment is used as vehicle to combine work in several workplaces in order to make ends financially. Meanwhile, in the construction sector part-time employment is used to cover hidden full-time employment and envelope wages. Meaning, officially employees work part-time and receive low official wages, while factual work hours can be full-time and they receive additional income in envelopes. Part-time employment is very much intertwined with shadow economy and envelope wages.

Fixed-term employment is more prevalent where the nature of work organizations creates an incentive for fixed-term employment. It is especially prevalent in construction sector, where work is project-based and employers often lack certainty about future work, therefore they seek to avoid long-term employment in order to minimize labour costs. Price dumping is prevalent in construction sector, which puts pressure on employers to reduce labour costs and therefore they seek to use precarious work forms as tool for minimizing cost and tax burden. For these reasons self-employment and micro-enterprise status is particularly prevalent in construction sector as it saves on employers' share of social security contributions for employees.

Self-employment is still relatively less frequent as compared with other EU countries, especially in Western Europe. However, this work form has come under institutional scrutiny due to low social security. There are two different tax regimes that can be chosen. One where income tax is paid in conjunction with social security contributions tied to statutory minimum wage. If the monthly net income is more than statutory minimum wage the social security contributions must be paid at the level of 30.58%, but the self-employed can choose to pay only the required minimum and anything additional is individual choice. The other tax regime is micro enterprise tax payer status, which implies 9% tax rate of the turnover¹⁹⁷ and 69.4% of these 9% constitute social security contributions. Given that micro enterprise on average have annual turnover of 15,000 euros it consequently creates very small annual social security contributions. It is planned to prohibit micro enterprise status in 37 sectors (including construction) and have period of transition for three years up until 2018.

The employment of workers in micro enterprises is regulated by Labour Law, but the tax regime is regulated by micro enterprise tax law. The number of micro enterprise has been gradually rising and reached 84 thousand in 2013. However, 40% of them annually also are employed by non-micro enterprises which imply that the rest 60% of micro enterprise employees are insufficiently socially insured. Social security contributions are allocated from micro enterprise tax payments calculated from annual turnover. Employees of micro enterprises can voluntarily join the social security contributions scheme, but very few have opted for this, e.g., only 66 people during the first quarter of 2014 and almost 80% of them were women.¹⁹⁸ Employees of micro enterprises are the least socially protected employment form.

Temporary agency workers are required by law to have open-ended agreements while they are being hired out to do temporary work in different work places. In reality this work form can be abused by

¹⁹⁷ 12% tax rate for annual turnover more than 7,000 euros and applies in the fourth year when having the legal status as micro enterprise tax payer for three full years.

¹⁹⁸ Ministry of Welfare. (2014). Informatīvais ziņojums „Par Mikrouzņēmumu nodokļa likuma praktiskās īstenošanas gaitu un rezultātiem, kā arī mazās saimnieciskās darbības veicēju sociālo nodrošinājumu”.

agencies asking the employees to agree on dismissal with a promise to re-employ in the future once they have new job opportunities to offer. This is a result of the requirement to pay statutory minimum wage while the employee is not hired out. Noticeably, slightly more than half of temporary agency workers are being posted in countries as Germany, Belgium and Scandinavia. Transposition of EU Directive 2008/104/EC requires equal treatment of temporary agency workers in comparison with the usual employees of companies that rent temporary workers from the agencies.

While the social partners and the government are not concerned with part-time and fixed-term employment in general, self-employment or specifically micro enterprises is one of their priorities. Evidence shows that micro enterprise tax payer status is used to plan and avoid tax payments, therefore, distorting competition for companies that pay standard tax rates, which make their costs higher than micro enterprise tax payers. Another fundamental aspect with micro enterprises is low social security. The government plans to introduce minimum social security contributions tied to the statutory minimum wage, which the micro enterprise tax payers will cover from their own resources. This system mainly aims to cover socially less protected micro enterprise employees and also part-time employees receiving monthly income below statutory minimum wage.

Mostly other issues and factors must be addressed beforehand in order to solve the problems with work forms. The use of precarious work forms is the result of economic factors and structural features of the sectors. To solve part-time employment in health care, low wages issue must be addressed. An increase in wages would make health care specialists less willing to opt for several job places. In the construction sector lowest price principle and dumping prices must be addressed in state procurement. The construction sector also allegedly lacks appropriate quality controls. Another important factor is that employees are insufficiently educated about their labour rights, which makes them more vulnerable to potential abuse. This is especially relevant it is for the retail sector, where during the recession employees agreed to sign part-time employment contracts without sufficient understanding about the financial and economic implications. Knowledge of rights is important in all sectors and more informed employees are less likely to be abused. In general, understanding of social dialogue gradually changes and the culture is still developing.

Table 6: Comparative overview of precarious work and social partner responses

	Main developments since 2008			Responses to precarious employment		
Sector	Labour market dualization trends/reasons	Forms	Dimensions	Unions	Employers	Other specific developments
National Level	Limited. Weak trade unions and open-ended full-time employment can as well be abused.	Part-time and fixed-term increased during recession, but afterwards declined. Self-employment has become more prevalent due to favourable regulation.	Low minimum wage of 360 euros. Shadow economy at level of 23.5% in 2014. High incidence of envelope wages and hidden full-time under part-time employment. Low social security for self-employed.	Signing collective agreements and general agreements. In general, support the use of precarious work forms when used for their initial economic purposes.	Seek to have easier dismissal procedures and lower overtime remuneration.	Minimum wage increase to 370 euros as of 2016. Government plans to introduce differentiated non-taxable minimum.

Construction	Significantly prevalent part-time employment (70%) due to shadow economy. Undeclared employees and envelope wages.	70% part-time work, increased self-employment and fixed-term. Informal work and undeclared employees in SMEs.	Many people receive minimum wages, which tend to disguise envelope wages.	Trade union deals with separate precarious work form cases. No general strategy to deal with precarious work forms.	More widespread use of fixed-term, part-time employment and self-employment. Employers seek and facilitate to employ labour on precarious work forms due to cost optimization purposes.	General agreement signed, but currently still is very declarative.
Health Care	Significant difference between private and public sector in terms of precarious work form development.	Increase in part-time employment, which is twice as high in private sector compared to public sector.	Several workplaces for doctors and nurses is standard in order to make ends financially.	Stronger trade union presence.	Unsupport the fact that doctors have several workplaces, yet have to accept it due to financial reasons.	Sectoral collective agreement. Reduced state financing for health care sector to planned 2.86% of GDP in 2016.
Metal	Shortage of qualified work force, precarious work forms not very prevalent.	Decline in part-time work since end of recession.	Non-existent trade unions mean easier dismissal procedure and less representation of employees' rights.	No active trade union in the sector. A few professional organizations exist.	Significantly better represented than employees. Main concern is the availability of qualified work force.	Decline in the sector due to Russian sanctions and insolvency of largest company 'Liepājas Metalurģis'.
Retail	Increase in part-time employment.	Part-time employment became more prevalent. Other employment forms are not widespread.	Average wage above statutory minimum wage, yet wage is 70% of national average.	Seek to promote full-time employment instead of part-time summed work hours employment. Signing collective agreements.	Seeks to have more flexibility with work force and sees part-time employment as a tool for achieving labour resource flexibility.	
Temporary Agency Workers	Limited.	Regulation determines that should be employed on open-ended contracts.	uncertainty of working time, income, working conditions	No active or existing trade unions in the sector. Employers supervised by State Employment Agency.	Employers seek for ways how to employ people on fixed-term due to the nature of temporary renting of personnel.	Transposed EU Directive 2008/104/EC on equal and fair treatment of temporary agency workers.

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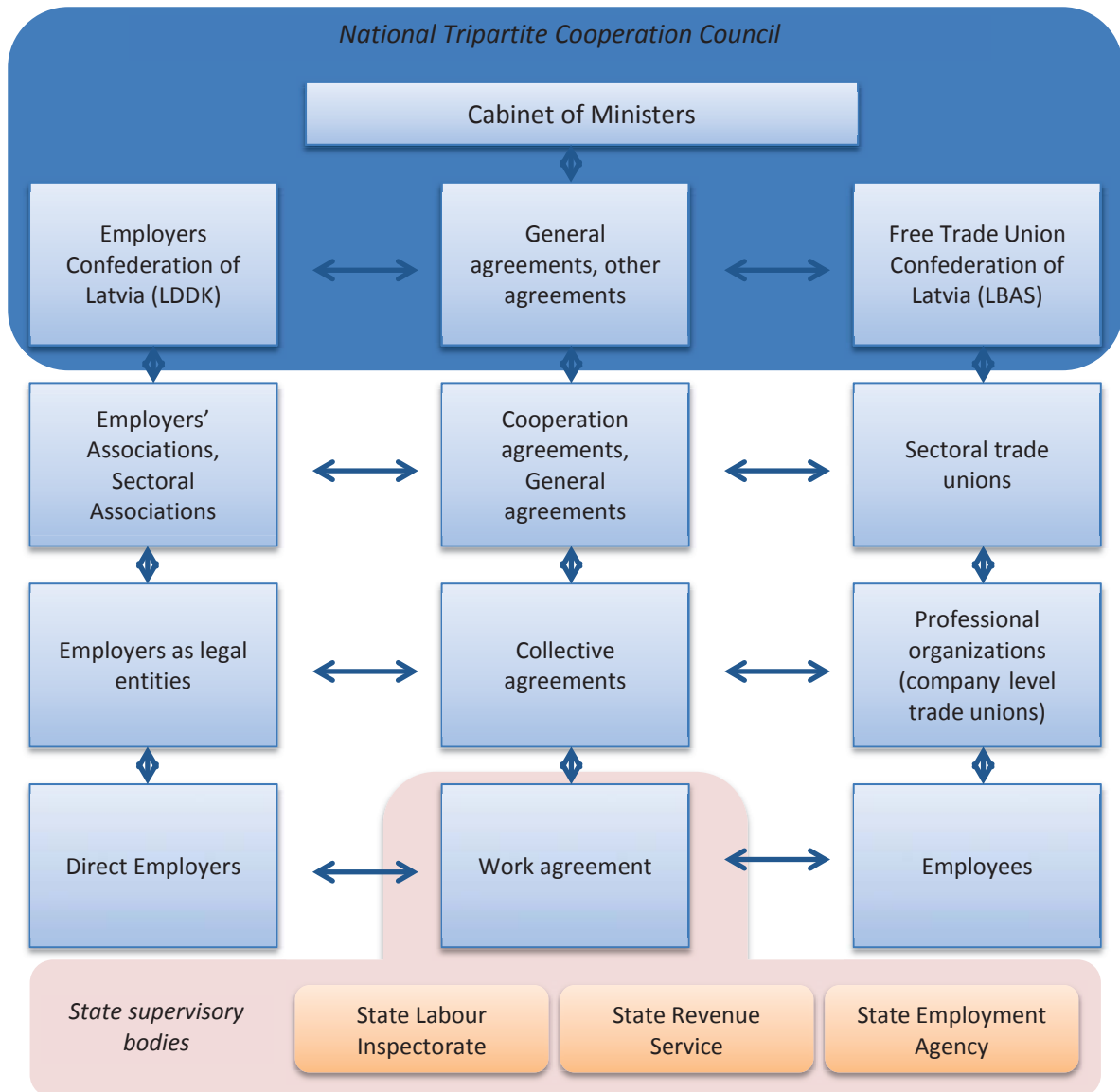
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8. Appendices

Appendix I: Structure of social dialogue



Appendix II: List of interviews

Organization	Represent	Interviewees	Interviewee's position	Type of communication	Date
National Level					
Employers' Confederation of Latvia (LDDK)	Employers, member of National Tripartite	Andris Alksnis	Lawyer, expert on Labour Law	Semi-structured interview	31 July 2015
Free Trade Union Confederation of Latvia (LBAS)	Employees, member of National Tripartite	Egīls Baldzēns	Vice President	Semi-structured interview	3 June 2015
		Kaspars Rācenājs	Lawyer		
State Labour Inspectorate	Supervisory body	Raivis Bušmanis	Legal Expert	Exchange of e-mails	September 2015
		Baiba Puķukalne	Head of Regional SLI – Chief State Inspector	Semi-structured interview	15 September 2015
Ministry of Welfare	Government, National Tripartite	Airīna Dreimane	Senior expert in financing and legal matters, Social Security Department	Semi-structure interview	12 October 2015
		Astra Pilsuma	Senior Expert, Employment Relations and Employment Security Department		
		Ilze Zvīdriņa	Deputy Director, Labour Market Policy Department		
Sectoral Level					
Construction sector					
Latvian Builders Trade Union (LCA)	Employees	Jevgēņijs Servuts	Chairman	Semi-structured interview	11 August 2015
		Ieva Gretere	Deputy Chairman		
		Jānis Gužāns	LCA Expert		
Latvian Builders Association	Employers	Normunds Grīnbergs	President	Semi-structured interview	12 June 2015
Guntis Rāvis Fund	Employers	Artūrs Graudiņš	HR Lead	Semi-structured interview	2 June 2015

Healthcare sector					
Nursing and Health Care Personnel Trade Union	Employees	Daina Brūvele	Chairman	Semi-structured interview	29 July 2015
Latvian Nurses Association	Employees	Dita Raiska	President	Semi-structured interview	15 June 2015
Latvian Healthcare Employers Association	Employers	Māris Rēvalds	Chairman	Semi-structured interview	8 June 2015
Metal sector					
Association of Mechanical Engineering and Metalworking Industries of Latvia (MASOC)	Employers	Toms Grīnfelds	Executive Director	Semi-structured interview	4 August 2015
Guntis Rāvis Fund	Employers	Artūrs Graudiņš	HR Lead	Semi-structured interview	2 June 2015
Free Trade Union Confederation of Latvia	Employees	Pēteris Krīgers	Chairman	Phone conversation	5 September 2015
Retail Sector					
Trade Union of Commerce	Employees	Maira Muceniece	Chairman	Semi-structured interview	15 July 2015
Latvian Food Retailers Association	Employers	Noris Krūzītis	Executive Director	Semi-structured interview	20 August 2015
Maxima Latvija SIA (retail chain)	Employers	Raitis Apinis	HR Lead	Semi-structured interview	13 August 2015
Temporary work agencies					
Biuro (temporary work agency)	Employers	Viola Čeremisina	Latvian Branch Manager	Semi-structured interview	27 August 2015
State Employment Agency	Employees	Marianna Dreja	Head of Legal Department	Semi-structured interview	15 September 2015



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