

**MEMORANDUM OF COOPERATION
OF THE RESPONSIBLE MEMBERS OF THE CABINET OF MINISTERS
AND THE REPRESENTATIVES OF THE CONSTRUCTION INDUSTRY**

AND

**PRIORITY TASKS IN 2016–2018
FOR FULFILMENT OF THE MEMORANDUM OF COOPERATION
OF THE RESPONSIBLE MEMBERS OF THE CABINET OF MINISTERS
AND THE REPRESENTATIVES OF THE CONSTRUCTION INDUSTRY**

Riga, 31 May 2016

MEMORANDUM OF COOPERATION OF THE RESPONSIBLE MEMBERS OF THE CABINET OF MINISTERS AND THE REPRESENTATIVES OF THE CONSTRUCTION INDUSTRY

The construction industry is an important sector of the economy, which not only provides significant added value and jobs, but is also an important factor contributing to the competitiveness of the entire economy and the overall growth of the country. However, this is only possible if the construction industry ensures adequate quality, sustainability and safety.

In recent years, the development of the construction industry in Latvia has not been sufficiently purposeful and well-balanced.

The construction industry is characterised by the great impact of the shadow economy – domination of hidden employment, tax evasion, concealment of income. This creates the risk of low quality – the construction industry is not able to attract young professionals since they are not satisfied with illegal employment; the investment of construction businesses is very risky since the application of innovation and technology is ousted by illegal activities.

The shadow economy also creates national security risks. Construction process management is formal. Poorly developed quality culture does not ensure self-regulation and increases the probability that the works carried out in the construction industry are not only of poor quality, but also unsafe or even dangerous.

In an industry dominated by the shadow economy, it is impossible to implement a modern, sustainable and innovative approach – public and private sector customers are encumbered with the struggle for compliance with minimum safety and quality criteria, meanwhile contractors who want to work legally, introducing innovation and ensuring high quality, are squeezed out of the market.

We are committed to changing this situation. The construction sector in Latvia will satisfy social and economic needs. To this end, Prime Minister Māris Kučinskis, Deputy Prime Minister and Minister of Economics Arvils Ašeradens and Minister of Finance Dana Reizniece-Ozola, of the one part, and the Latvian construction industry companies represented by the Partnership of Latvian Construction entrepreneurs, Latvian Road Builders' Association, Latvian Association of Power Engineers and Energy Constructors as well as the undersigned associations and companies representing the construction industry, of the other part, have entered into the following

MEMORANDUM OF COOPERATION.

1. The Parties recognise that by cooperating with the purpose of mitigating the impact of the shadow economy in the construction sector and stimulating high-quality, safe and sustainable development of the construction industry in Latvia, the ratio of the shadow economy in the construction sector may shrink by half within three years.
2. The Parties recognise that the construction industry can be set to rights by facilitating the faster and more efficient introduction of the recommendations given by the World Bank and the Organisation for Economic Co-operation and Development, as well as the adoption of good practice standards in the European countries.
3. The Parties recognise that, only by cooperating, is it possible to set to rights and improve the regulation of the sector, strengthen the capacity of construction companies and enhance their competitiveness in foreign markets, as well as attract investment to the economy of Latvia.
4. The Parties recognise that the most appropriate format for the initial cooperation on the fight against the shadow economy is the Council for the Fight against the Shadow Economy established by the Cabinet of Ministers.
5. The Partnership of Latvian Construction entrepreneurs hereby undertakes:
 - 5.1. to finance an annual assessment of the shadow economy in the construction industry;
 - 5.2. to develop an annual draft action plan for the reduction of the shadow economy in the construction industry (hereinafter referred to as the Plan).

6. The Parties highly appreciate the Action Plan 2016–2018 developed by the Partnership of Latvian Construction entrepreneurs, which is agreed with the industry organisations and the officials of the Ministry of Economics responsible for the industry and is appended to the Memorandum as an annex.

7. The Minister of Economics undertakes to submit the Plan to the Council for the Fight against the Shadow Economy on approval, as well as to carry out control over its implementation and regularly communicate with the Latvian construction industry companies regarding the topical issues in the industry.

8. The Minister of Finance undertakes to coordinate the control over the implementation of the Plan and assessment of its implementation within the boundaries of her competence.

9. The Prime Minister undertakes to ensure constant cooperation of the Parties during the development of the regulatory framework, while respecting the diversity of views and interests, as well as ensuring the sustainable development of the industry.

10. The Parties undertake to assess the applicability of the Memorandum and the need for its revision on a yearly basis.

11. Other non-governmental construction industry organisations may also accede to the Memorandum by submitting an application letter.

12. Signatures:

/Signature/
Māris Kučinskis
Prime Minister

/Signature/
Arvils Ašeradens
Deputy Prime Minister,
Minister of Economics

/Signature/
Dana Reizniece-Ozola
Minister of Finance

On behalf of the construction
industry:

/Signature/
Baiba Fromane
Member of the Board
*Partnership of Latvian Construction
entrepreneurs*

/Signature/
Vilnis Krēsliņš
Chairman of the Board
*Latvian Association of Power
Engineers and Energy Constructors*

/Signature/
Andris Bērziņš
Chairman of the Board
Latvian Road Builders' Association

/Signature/
Mārtiņš Straume
Chairman of the Board
*Latvian Association of Civil
Engineers*

/Signature/
Leonīds Jākobsons
Executive Director
*Association of Building Material
Producers*

/Signature/
Gints Miķelsons
Chairman of the Board
Latvian Sustainable Building Council

/Signature/
Gunta Grikmane
President
Latvian Association of Architects

/Signature/
Normunds Grīnbergs
President
Latvian Association of Builders

/Signature/
Jānis Rāzna
Chairman of the Board
Association of Transport Engineers

/Signature/
Ivars Brants
Executive Director
*Latvian Association of Window
and Door Manufacturers*

/Signature/
Guntars Maļina
Chairman of the Board
*Latvian Association
of Consulting Engineers*

/Signature/
Egils Dzelzītis
Chairman of the Board
*Latvian Association of Heat, Gas and
Water Technology Engineers*

**PRIORITY TASKS IN 2016–2018
FOR FULFILMENT OF THE MEMORANDUM OF COOPERATION
OF THE RESPONSIBLE MEMBERS OF THE CABINET OF MINISTERS
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1. IMPROVEMENT OF THE INVESTMENT ENVIRONMENT

GOAL – BY THE BEGINNING OF 2019, TO INCREASE GROWTH OF THE CONSTRUCTION INDUSTRY MARKET BY 20% COMPARED TO THE YEAR 2015

To achieve the goal, the Parties agree on the implementation of the following tasks within the prescribed period:

No.	Task	Responsible persons	Period
1.1.	Revision of technical and administrative requirements at the regulatory level within the approach prevailing in the European Union	Ministry of Economics, State Construction Control Bureau, Latvian Standard, Construction industry organisations	30.06.2017
<p>Latvian construction standards are outdated; virtually, they have not been updated for several decades, and they do not reflect today's technological advances in the construction industry. Due to the adoption of the new Construction Law in 2014, the construction standards have been reapproved; however, their content and accordance with the present trends in the European Union have not been examined. Basically, the existing construction standards are established as a summary of detailed requirements for individual construction industry participants, while the leading EU Member States use construction standards to set out the main functional requirements for constructions in general (buildings, civil engineering structures) and to establish requirements for technical performance in the relevant European and national standards, the development and observance of which is ensured by the parties interested in standardisation.</p> <p>It is also important to update the accordance of the administrative requirements with today's practice applied in the construction industry by unifying the administrative framework of different structures for ensuring that it meets the present international and European construction standards.</p> <p>Sector employees should be actively involved in the development and updating of the regulation, including by participating in the development of the European and national construction standards.</p>			
1.2.	Improvement of public procurement and the associated regulation	Ministry of Economics, Ministry of Finance	01.07.2017
<p>Adoption of the Public Procurement Law by introducing the common European Union regulation in the field of public procurement is a big step in the improvement of the public procurement process; however, in relation to the public procurement of construction works, this regulation is not sufficient to eliminate all the current deficiencies of the regulation, to reduce unduly long-term risks and to ensure the high quality of construction works. To arrange the public procurement process, it is also required to:</p> <p>a) ensure the advanced introduction of classification of construction businesses by ensuring the linking of it with the public procurement regulation. During the development of the Construction Law, a conceptual decision on the introduction of the System of Classification of Construction Businesses was adopted, which will serve as an applicant's attestation of qualification, experience and conformity in the public procurement of construction works. The primary objective of the classification of construction businesses is to simplify the evaluation of applicants in the public procurement of construction works and make it more equitable and efficient by reducing the risk of groundless assignation of the right to conclude an agreement;</p> <p>b) develop methodology and guidelines for the assessment of the most economically advantageous tender by complying with the European Union guidelines on the best quality-to-price ratio, as well as for the assessment of an unreasonably cheap tender.</p>			
1.3.	Development of the medium-term policy planning document for the development of the construction	Ministry of Economics	31.12.2016

	industry and the medium-term strategic planning of large construction projects	cooperation with other institutions and construction industry organisations	
<p>The construction industry does not have an effective medium-term development strategy, which would analyse the situation in the construction sector, identify obstacles in the development of the construction industry and include proposals and tasks for improvement and further development of the industry.</p> <p>The Construction Industry Development Strategy is one of the most important documents designed for the arrangement of the industry and promotion of its development since every proposal must be based on a thorough analysis, assessment of the experience of other countries and opinion of international organisations on the development trends of the construction industry in Europe and the world. Only then will the proposed measures be meaningful and in accordance with the objectives set.</p> <p><u>The development of the sector strategy should be based on proposals of the international organisations –the World Bank and the Organisation for Economic Co-operation and Development, which analyse the experience of other countries and the best practice in the regulation of the construction industry and its application.</u></p> <p>In the construction industry, an important role is played by the state and local governments' construction orders, which constitute a substantial share in the total turnover of the construction industry. The construction industry has its own specificity; it differs significantly from other sectors. Construction process is time consuming, seasonal and multi-faceted. Construction of large facilities involves a significant number of employees and other service providers. In order to enable construction companies to efficiently allot their resources (especially human resources), to build an appropriate personnel policy and thus to ensure high-quality standards in the construction process, it is important to plan the construction of facilities ordered by the state and local governments' in a timely and effective manner.</p>			
1.4.	Development of proposal for a funding model for road infrastructure maintenance and development	Ministry of Transport, Ministry of Finance, Construction industry organisations	31.08.2016
<p>Lack of funding does not allow for the implementation of fully-fledged maintenance of Latvian roads, as a result of which the road quality deteriorates with each passing year. In 2015, 46% of paved roads and 41.8% of gravel roads out of all the public roads under the management of the state government were in poor and very poor condition. Renovation and reconstruction of asphalt pavement of the state roads are carried out twice less than is necessary, meanwhile renovation and reconstruction of bridges are carried out four times less than is required. A major contribution to the maintenance of Latvian roads was provided by the European Union structural funds, which allowed both repair works of the roads under the management of the state government to be performed and new road infrastructure to be constructed, which is significant for the development of Latvia. Thanks to European Union funds, the condition of the main state and regional roads has been improving; however, the state local roads are still in poor condition. Taking into account that in the next planning period (that is, starting from 2020) European Union funds will no longer be provided for the maintenance of Latvian roads, as well as the need to resolve the problem of maintenance of regional roads, the government must urgently establish a new funding model for road maintenance in order stop the gradual collapse of the roads and promote their further development.</p>			

2. SHADOW ECONOMY RESTRICTION MEASURES

GOAL – BY 2019, TO REDUCE THE RATIO OF THE SHADOW ECONOMY IN THE CONSTRUCTION INDUSTRY BY AT LEAST HALF COMPARED TO THE YEAR 2015, AND TO ACHIEVE COMPLIANCE OF THE AVERAGE SALARIES OF THE SECTOR'S EMPLOYEES WITH THE AVERAGE SALARIES IN THE STATE

To achieve the goal, the Parties agree on the implementation of the following tasks within the prescribed period:

No.	Task	Responsible persons	Period
2.1.	Determination of the minimum salaries in the construction industry through the conclusion of a general agreement or introduction of reference remuneration levels with the help of the regulatory framework	Construction industry employers' organisations and trade unions in cooperation with the Ministry of Economics, Ministry of Finance and Ministry of Welfare	01.01.2017
<p>Cooperation between organisations representing the interests of employers and employees is one of the most effective tools in balancing the interests of employers and employees, which potentially may arrange the industry by determining a level playing field for all companies working in the given sector.</p> <p>The conclusion of a general agreement on the introduction of the minimum salaries for occupational groups and (possibly) occupational categories is proposed for the purpose of the introduction of a single salary system in the sector, as well as the promotion of competition and reduction of dumping and the risk of abnormally cheap tenders, especially in public procurement.</p> <p>Taking into account the specificities of the sector and the terms for mandatory application of a general agreement in the industry stipulated in the Labour Law, the conclusion of a general agreement can prove to be a time consuming and complicated process. Therefore, it is necessary to consider the possibility of introducing reference salaries in the sector with the help of the regulatory framework, which should be obligatorily applied to every construction worker.</p>			
2.2.	Development of standards for construction service contracts and their consolidation at the regulatory level	Ministry of Economics, Ministry of Finance, State Construction Control Bureau, Latvian Standard	01.01.2018
<p>Development of standardised construction service contracts based on the best practice and experience of the European countries will contribute to the arrangement of the construction industry and application of equal conditions for participants in the construction industry, thus guaranteeing the performance of predictable obligations in accordance with the requirements of the standards. Application of the standardised contracts should be mandatory in public procurement.</p>			
2.3.	Introduction of ID card system for employees working in the construction industry	Ministry of Economics, Ministry of Welfare, Ministry of Finance, State Construction Control Bureau, State Labour Inspection, State Revenue Service	01.01.2019
<p>The objective of the introduction of the identity card information system for construction professionals is to improve builders' qualification and its identification, labour safety and protection, as well as to record persons employed in the construction sector and their real working time, ensuring processing of the necessary information and enhancing inter-institutional cooperation.</p> <p>The identity card of a construction professional is the document certifying the qualification and labour</p>			

safety training of a person employed in the construction industry.

The identity card information system for construction professionals is an information system that includes information on the persons employed in the construction industry who have received the identity card of a construction professional, their qualifications, labour safety training, employers, specific facilities and hours actually worked at these facilities.

Introduction of an electronic system for the recording of employees at a construction facility has several objectives. This is an effective mechanism aimed both to protect workers' rights and implement the state control of the processes taking place on the construction site. This will greatly help supervisory authorities to receive objective and necessary information on workers employed in the construction sector and regulate the observance of workers' rights, reducing the risk of the shadow economy as well as illegal employment.

2.4.	Development and adoption of the ethical standard of the construction industry	Construction industry organisations	01.07.2017
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Construction companies in general, as well as each individual person working in the construction industry, make a significant contribution to national development, helping to create high-quality infrastructure and enhancing each individual's living environment and living conditions, and are responsible to society for their work. Development and introduction of the ethical standard of the construction industry is the sector's own commitment to improve and develop its internal operational processes that are also an acknowledgment of the responsibility of the persons working in the construction industry to society for their work and its quality.

3. IMPROVEMENT OF THE COMPETITIVENESS OF THE INDUSTRY

GOAL – BY THE BEGINNING OF 2019, TO ENSURE GROWTH OF CONSTRUCTION SERVICE EXPORTS BY 20% COMPARED TO THE YEAR 2015

To achieve the goal, the Parties agree on the implementation of the following tasks within the prescribed period:

No.	Task	Responsible persons	Period
3.1.	Digitisation of circulation of construction documents through facilitating a gradual transition to electronic data movement and storage by applying new technologies and global best practices	Ministry of Economics, Ministry of Environmental Protection and Regional Development, Ministry of Justice, State Construction Control Bureau	31.12.2018

One of the preconditions for the optimisation of construction processes, by shortening the periods for the preparation, coordination and approval of construction documents and improving the circulation of documents, is the introduction of a digital circulation system for documents and data, which would include digital preparation, coordination, approval and storage of documents.

It should be noted that the introduction of the digital circulation system requires improvement of the national information systems as well as ensuring of the compatibility and availability of documents and data.

3.2.	Revision of education standards through linking with the professional standards and approximating to the labour market requirements, as well as the provision of opportunities for professional development by offering an opportunity to improve knowledge throughout life (lifelong education)	Construction industry organisations, Ministry of Science and Education, Ministry of Economics	
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Qualified, professional, socially secure and motivated construction personnel is one of the essential preconditions for quality construction processes and the high quality of constructions, as well as for the contractors' competitiveness in foreign markets. Educational programmes should comply with requirements of the industry, and the education institutions must provide training of a qualified labour force.

The companies working in the construction sector experience knowledge deficiencies of construction workers on a daily basis, which are caused by insufficient compliance of educational programmes with the labour market requirements. The profession classification and professional standards in the construction sector must also be improved. By cooperating with the industry organisations, it is necessary to carry out the revision of the existing regulation in order to improve the recording of construction professions and arrange descriptions of professions, clearly defining requirements and competence for professions or (as far as possible) profession categories.

The education system must provide persons working in the construction sector with the opportunity to continue professional development (lifelong education), promoting employees' growth and competitiveness.

3.3.	Purposeful support of construction service export by providing advisory and market research support to the economic representatives	Ministry of Economics, Investment and Development Agency of Latvia	
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The construction industry is one of the most regulated sectors of the economy worldwide; it reflects the country's traditions, culture and development trends, and it is associated with the state and public safety and protection. Each country has a different regulation for the sector. In addition, a number of countries have quite a protectionist policy for the protection of the internal market. To enable Latvian contractors to acquire the foreign market, it is necessary to provide them with consistent state support for understanding of the framework of a particular country, implementation of formalities and commencement of activities, which can be provided by the Investment and Development Agency of Latvia by means of improving its operations.