



National Focal Point of Estonia

EEA Financial Mechanism STRATEGIC REPORT 2012

Strategic Report on the implementation of the EEA Financial Mechanism
2009-2014 in Estonia



**RAHANDUS-
MINISTEERIUM**
MINISTRY of FINANCE of the REPUBLIC of ESTONIA

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1 EXECUTIVE SUMMARY

The overall objectives of the European Economic Area Financial Mechanism 2009-2014 are to contribute to the reduction of economic and social disparities in the European Economic Area (EEA) and to strengthen bilateral relations between the donor states and the beneficiary states.

To achieve the overall objectives, the donor states – Iceland, Liechtenstein and Norway contribute to Estonia 23 000 000 Euros, out of which 7,5% is assigned for donor states' management costs and the net amount available for Estonia is 21 275 000 Euros.

During negotiations between the donor states and Estonia five programme areas were identified as most relevant in order to achieve the overall objectives. As a result of the negotiations the total amount available was divided between the following programme areas: i) Integrated Marine and Inland Water Management; ii) Funds for Non-Governmental Organisations; iii) Children and Youth at Risk; iv) Conservation and Revitalisation of Cultural and Natural Heritage and v) Scholarships.

Since all the programmes were approved and could start with preparations for implementing only at the end of 2012, it is not yet possible to assess how the chosen programmes have contributed to achieving the overall objectives. However, the report presents an assessment of how the programmes are expected to help to address the Estonian development needs in respective priority sectors and contribute to long-term internal strategies such as Sustainable Estonia 21 or Competitiveness Plan Estonia 2020. This is supported by an overview of the most relevant macro indicators describing the social and economic situation and trends in Estonia.

In 2012, the bilateral relations between Estonia and the donor states were strengthened through events financed from the Fund for Bilateral Relations at National Level. The focus of using the Fund for Bilateral Relations at National Level has been helping the preparation of programmes through facilitating better mutual understanding between Estonian and donor states' institutions.

Looking forward, the most crucial challenge for the programmes in 2013 is to organise bilateral events, launch all planned open calls in time and start pre-defined projects' implementation in order to be able to achieve the programmes' outputs, outcomes and objectives.

The reporting period of the current report is the calendar year of 2012. However, in order to provide a better overview, a few facts from the year 2013 known by the time of compilation of the report have been added.

2 ASSESSMENT OF IMPACT AT NATIONAL LEVEL

The main goals of Estonia for the long term are increase in welfare, a cohesive society, ecological balance and viability of the Estonian cultural space¹. The funding from the EEA and Norway Grants 2009-2014 with the objective to contribute to the reduction of economic and social disparities in the EEA helps to address the Estonian development needs in specific priority sectors, which all contribute to longer term internal strategies such as Sustainable Estonia 21 or Competitiveness plan Estonia 2020.

An important function of the EEA and Norway Grants has been the supplement to EU and other funding enabling among others to cover the areas, which fall out of the eligibility scope of other funding, but are still at great relevance considering the objective of reduced disparities. The most visible example is the Public Health programme, which enables to focus on mental healthcare for children and young people, which is not covered with EU funding and due to national regional disparities is a field that is also underfinanced by national means. Thus the support enables to tackle the specific problems so that the overall development needs would be most effectively and efficiently covered, which means that the EEA and Norway Grants' contribution offers real added value, although it is sometimes difficult to indicate the direct share in the higher indicator level reached.

According to Statistics Estonia, by preliminary data, the estimated population number in Estonia was 1 286 540 on 1 January 2013²: thus Estonia is with 1,3 million inhabitants one of the smallest of the countries to be financed under EEA and Norway Grants.

The decline in the population in 2012 was mainly influenced by the increase of emigration and the growth in the number of deaths. In 2012, 10 871 persons emigrated from Estonia, which is 4 657 persons more than a year earlier. At the same time, 4 416 persons immigrated to Estonia. Thus, Estonia has achieved the largest negative net migration over the past decade, which means that 6 455 more people emigrated than immigrated. Net migration has been negative over the entire last decade and it was the lowest due to emigration during the period of 2007–2009.

The decline in the number of births and the growth in the number of deaths have also influenced the natural increase, which was negative again – there were 1 460 more deaths than births. The natural increase has been negative since 1991, but started to decline since 2004. In 2010, the natural increase was positive by 34 births, but by now there has been a turn once again. In 2012, the negative natural increase achieved the highest level during the last five years.

Since regaining of independence in 1991, the Estonian economy has grown nearly tenfold. Estonia saw extraordinary economic growth from 2001-2007. A correction began already in 2007, when the growth rate began gradually decreasing in connection with a shift in the economic cycle. As a result of the decline in trade volumes in the world's economy from

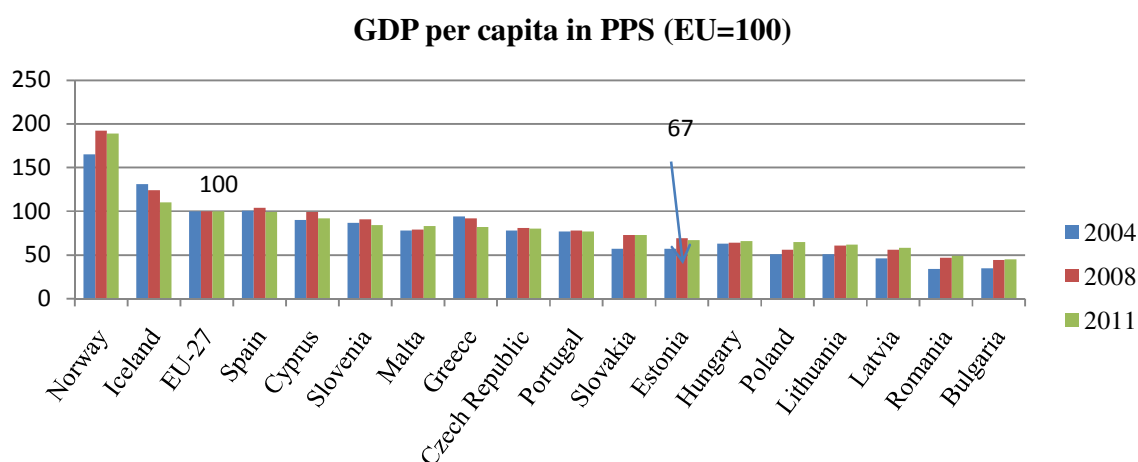
¹ Sustainable Estonia 21.

² <http://www.stat.ee/65140>

the end of 2008 and after that the quickly decreasing domestic demand however, Estonia's GDP dropped 3,7% in 2008 and 14,3% in 2009.

The economic recovery began in 2010 and picked up to 7,6% growth in 2011 and 3,2% in 2012, pushed by export. Recovery of foreign demand and the adaptation of Estonian enterprises during the crisis paved the way for stronger growth in the industrial sector's export volumes.

Increasing of the productivity and innovation of the economy is one of the most important preconditions in achieving the growth of GDP per capita. For that purpose the Estonian Government has set the target to increase the productivity per person employed up to 73% of the EU average by 2015³, while in 2011 the indicator was 67,6%.



Source: Eurostat⁴

The average real growth in productivity in Estonia over the past 10 years has been faster than the average for Europe (even when the downturn in 2009 is included). At the same time, GDP per capita in comparison with the EU15 continues to be low, and the primary reason is relatively low productivity (approximately one-half of the average for the EU15). The low level of productivity is related to both low total factor productivity and capital intensity. In essence, this means that companies have invested little, that a great amount of human resources is expended, that they manufacture relatively inexpensive output and provide low value added services.

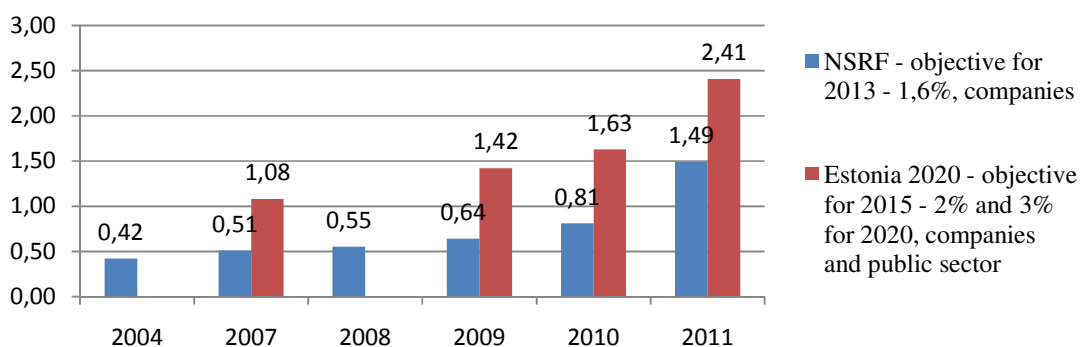
In this context the EEA and Norway Grants research and scholarships programmes' as well as green ICT programme's input has seen as valuable contribution helping to achieve the Estonia's goal for 2020 to raise the level of R&D investments up to 3%.⁵

³ Estonia 2020

⁴ <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00114>

⁵ NSRF – National Strategic Reference Framework 2007-2013 for the use of EU support.

The level of R&D investments of the GDP

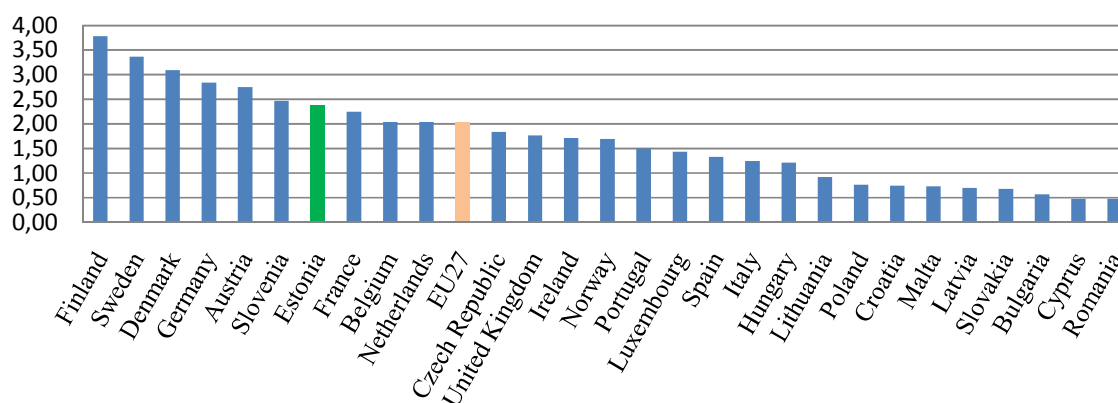


Source: Statistics Estonia and Eurostat – rd_e_gardt

R&D investments rose to 2,41% of GDP in 2011. The high growth was achieved by a twofold increase in private sector R&D expenditure and a 22% increase in public sector R&D expenditure. The spectacular one-off growth in private sector R&D expenditure was achieved by the R&D investments made to launch a new production facility in the shale-oil sector. The growth in public sector R&D investments was achieved by accelerating implementation of EU structural funds measures.

Even though the average real growth in productivity in Estonia over the past 10 years has been faster than the average for Europe, the GDP per capita in comparison with EU15 continues to be low, and the primary reason is relatively low productivity.

Total R&D expenditure (GERD) (% of GDP in 2011)

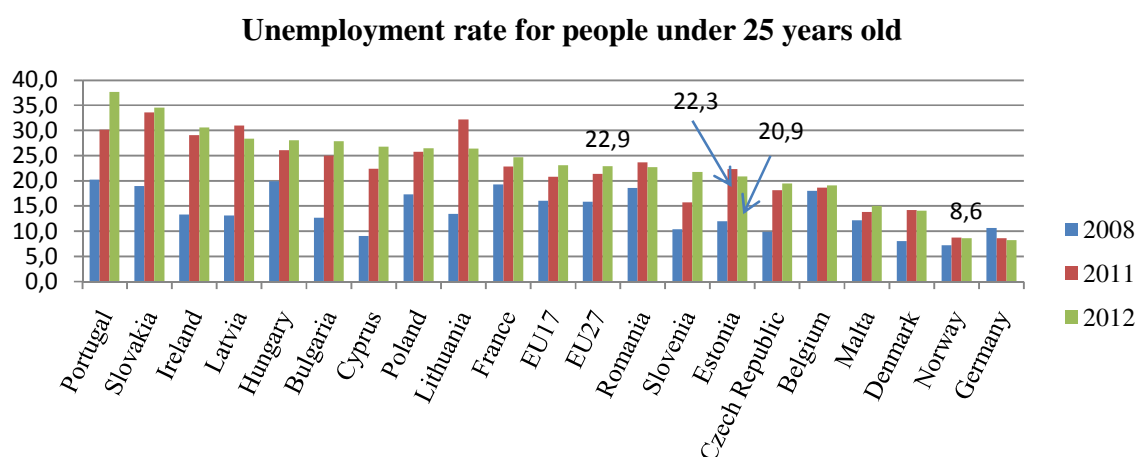


Source: Eurostat, 13.02.2013

In 2011, the employment rate of the age group 20-64 rose, reaching the level of 70,4%.⁶ The main reasons for the rise of the employment rate include the positive impact of the overall economic situation on the labour market and the improved exports.

The annual average unemployment rate was in 2012 the lowest of the last four years being 10,2% compared to 12,5% in 2011.

The youth (under 25) unemployment rate is declining being 22,3% in 2011 and 20,9% in 2012. It has remained stable over the years. The Ministry of Education and Research and the Ministry of Social Affairs are developing special employment and education measures for youth, which support and prepare for transitions between the education system and the labour market.



Source: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_a&lang=en

Here the programme Children and Youth at Risk addressing child welfare and youth correctional services, which is the field that has been nationally underfinanced, contributes directly to the aim to reduce the youth unemployment rate as well as the Europe 2020 goal to reduce the percentage of early school leavers (18-24).

The share of persons with an equivalised disposable income below the risk-of-poverty threshold has been relatively stable during the years, being on the level of 19,5%. In 2009, the indicator reached the level of 15,8%. The decrease in the at-risk-of poverty rate was due to increased pensions and governmental benefits in 2009, but also due to a fall in people's incomes, which meant that, for the first time in ten years, there was a decrease in the poverty threshold. There was an increase again in 2010 and 2011 to the level of 17,5%, so above EU27 average and the national objective to be achieved by 2014 15%.

⁶ http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_10

By means of reducing regional disparities between the EU countries and Estonia the following table shows remarkable improvements with regard to set convergence objectives.

Indicator	EU 27 average	Estonia		
	2011	2011	2010	2009
GDP per capita in PPS ⁷	100	67	63	63
Level of R&D investments of the GDP ⁸	2,03%	2,38%	1,63%	1,43%
Employment rate of the age group 20-64 ⁹	68,6%	70,4%	66,7%	69,9%
At-risk of poverty rate ¹⁰	16,9%	17,5%	17,5%	15,8%

Source: Eurostat and Estonian Statistics

Ensuring synergies with investments from the EEA and Norway Grants, EU financing and state funding in the process of preparing for the next EU financing period 2014-2020 during the ex-ante evaluation the additionality aspect will be analysed thoroughly, the bottlenecks will be brought out to the attention of the Ministry of Finance and suggestions will be made to further boost the co-effect.

2.1 Cohesion

2.1.1 Environment and climate change

The priority sector includes one programme – Integrated Marine and Inland Water Management. With this programme there are clear connections and valuable contribution to the objectives of Estonian Environmental Strategy (ES2030), which is a strategy for developing the sphere of the environment. EES2030 serves as the basis for the preparation and revision of all sector-specific development plans within the sphere of the environment.

a) Contextual trends

The environmental challenges of the future are to secure a low-carbon, resource constrained world while preventing environmental degradation, biodiversity loss and unsustainable use of resources.

Estonia lacks a comprehensive long-term climate change adaptation strategy. Moreover, preservation of natural resources and in particular protecting biodiversity is a continuing challenge. The sustainable use of marine resources, including the prevention of overfishing, is important for the further development of the country's blue economy.

⁷ <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00114>

⁸ <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

⁹ http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_10

¹⁰ Statistics Estonia – table LES01

According to the Estonian Maritime Policy of the Ministry of Economic Affairs and Communications, it is estimated that approximately 30% of the anthropogenic impact on the sea is caused by the environmental burden from ships and ports.

According to research of Estonian Environment Information Centre the percentage of water bodies in good or very good status was in 2008 71,4% and in 2011 73,1% compared to the very ambitious objective set to reach by the year 2015 the level of 100%.

b) EEA Grants' contribution

The objective of the programme Integrated Marine and Inland Water Management is to achieve good environmental status in European marine and inland waters since around 74% of Estonian rivers, 50% of lakes and only 2 coastal water areas out of 16 can be defined as having good environmental status. This objective is in line with Estonia's obligations deriving from EU marine and inland water legislation, the EU Strategy for the Baltic Sea Region and the HELCOM Baltic Sea Action Plan 2021.

Due to the gap in supporting activities that contribute to managing marine and water related problems in an integrated manner, the contribution of EEA Grants is of great importance. In addition to that, as Estonia somewhat lacks behind in the environmental research field in the EEA (e.g. research for the ecosystem services, etc.) as well as knowledge and awareness about liquefied natural gas (LNG) as an alternative ship fuel. In Norway, LNG has been used for shipping since the eighties. In comparison to low-sulphur diesel, NOx emissions would decrease by 80-90%, CO₂ by 20-25%, particle emissions would be close to zero and sulphur emission would be negligible.¹¹ This means its environmental performance can be considered more favourable and that LNG could be used as ship fuel in Estonia as well. There is a need for a socio-economic analysis whether using LNG as a ship fuel would be feasible. For this reason the experience and knowledge passed through bilateral co-operation is very valuable.

EEA Grants' contribution plus investments in fisheries and maritime sectors help to achieve a sustainable use of natural resources and a sustainable economic development at sea and in coastal areas in line with the National Development Plan "Estonian Maritime Policy 2012-2020".

2.1.2 Civil society

The priority sector contains one programme - Fund for Non-Governmental Organisations.

a) Contextual Trends

According to Statistics Estonia, in 2011 there were in total 33 088¹² non-profit associations/foundations. The number has grown year-by-year, being for example in 2008

¹¹ http://www.inlandnavigation.org/nl/why-use-waterways/green-logistics/lng-as-alternative-fuel_119.aspx

¹² <http://pub.stat.ee/px-web.2001/Dialog/Saveshow.asp>

respectively 28 511, thus the development of citizens' initiative and the third sector could be considered quite fast. 1 890 of them were active in the field of education and 987 in the field of human health and social work. It could be additionally pointed out that the number has risen also in Ida-Viru county, where the relative percentage of minorities is the highest – in 2008 – 2 731 and in 2011 – 3 021 non-profit associations/foundations.

Estonian Integration Monitoring 2011¹³ carried out by PRAXIS Center for Policy Studies, University of Tartu and TNS EMOR in 2011, which was requested by the Ministry of Culture, indicated that in 2011 the share of the representatives of other nationalities who experienced unequal treatment was 20% (in 2008 - 49%), and that half of them, according to their words, experienced that repeatedly (in 2008 - 24%). The expectations of the Russian-speaking population regarding education demonstrate increasing orientation toward vocational and university education. 26% (in 2008 – 12%) of the respondents want themselves or their children (grandchildren) to have at least a vocational education; and while the figure for those respondents who want to have a university education was 39% in 2008, today the figure is 50% of the respondents with Russian or other mother tongue. The attitudes of Estonians with respect to involvement of the Russian-speaking population have become more positive. In 2008 64% and in 2012 70% of the respondents who were Estonians (rather) agreed with the following statement, “Involvement of the non-Estonians in the Estonian economy and governance of the State is beneficial for Estonia”. While in 2008, 59% of the Estonians (rather) agreed with the statement that “The opinions of the Russian-speaking population should be known better and they should be taken into consideration more than before, as they are a part of the Estonian society”, in 2012 their share was already 66%. The Estonians' support for bigger involvement of representatives of the Russian population in the governance of the Estonian society and economy increased and became stronger. One fifth of the people eligible to elect the members of the Parliament of Estonia represent other nationalities and the parties should offer them opportunities for participating in Estonian politics.

b) EEA Grants' contribution

The programme supports projects initiated for promoting democratic values, including human rights, for developing advocacy and watchdog role and small capacity building projects. Special attention is paid to multicultural dialogue and the integration of national minorities as well as strengthening the capacity of NGOs developing social services with the focus on activities targeting children and youth.

Estonia holds great potential in resolving society's problems through the contribution from NGOs. Taking over the best practices of Norway, Iceland and Liechtenstein provides an opportunity to further develop NGO capacity building and spread their activity in an influential way. There are already many active NGOs in Estonia, but their initiatives could have greater impact, which is why it is worth learning from the effective examples of other countries. The NGO Fund contribution, especially in the context of enabling transfer of experience, is seen very valuable.

¹³ http://www.kul.ee/webeditor/files/integratsioon/Integratsiooni_monitooring_2011_ENG_lyhiversioon.pdf

2.1.3 Research and scholarships

The priority sector includes one programme – the Scholarship programme. This programme will be implemented in cooperation with the Norwegian-Estonian Research Cooperation programme and the Scholarship programme financed from the Norway Grants.

a) Contextual trends

Finding new sources of growth, making economy more knowledge-intensive and increasing the impact of Estonian science are according to analyses made at the end of 2011 Estonia's essential development needs in the 10 years perspective. New opportunities for economic growth have to be found in order to improve the standard of living of the Estonian people. Increasing the productivity of and the added value created by Estonian entrepreneurs requires finding and participating in new areas of growth, cohesion between science, development and innovation system and the needs of the economy. The biggest problem in Estonia is that the country remains significantly behind the leaders of today's Europe – the Scandinavian countries. Estonia's weaknesses are low level of research and development investments of the private sector and modest amount of high-tech export. Still, some improvements could be pointed out. Namely, in 2010, the R&D intensity, i.e. share of economic activities, amounted to 1,63% of the GDP, in 2011 the number was respectively 2,38%. The growth of R&D investments was attained owing mainly to the increased contribution of the business sector, which is one of the main goals of the Estonian Government.

In Estonia, the number of European patent applications has grown year-by-year: in 2009 43 and in 2010 51, but it is still very low compared to the EU average or for example Norway's 409 in 2010.

Until now, the Erasmus programme has had a very important role in realising the goals of the internationalisation of Estonian higher education. The Erasmus programme is a great possibility to implement their internationalisation strategies. The participation rate in student mobility of Erasmus programme in Estonia has reached up to 1.5% of the total student population (939 outgoing students in 2009/2010, incl. 214 student placements) in 2010/2011 1 028 outgoing students.¹⁴

b) EEA Grants' contribution

Enhanced human capital and knowledge base through international cooperation is the objective of the scholarship programme in Estonia. The chosen measures will encourage a more active student and staff mobility and an increased and strengthened cooperation between secondary education institutions.

For sustainable integration of young people to the labour market, it is relevant to allow them to gain more work-based experiences in enterprises and extend the apprenticeship and traineeship measures.

¹⁴ http://ec.europa.eu/education/erasmus/doc/stat/1011/countries/estonia_en.pdf

In higher education the priorities set within the measures (for example focus on mathematics, science and technology direction) enable a shift from social sciences to engineering, which creates the basis that could support the creation of an innovation culture in Estonia. A higher degree of openness and internationalisation is needed in higher education to better respond to the need for skills in the potentially growing sectors and R&D.

More emphasis is needed on supporting international cooperation for researchers, PhD students and students and attracting talents to Estonia.

The programme is directly addressed to one of the central challenges in the context of Estonia's prospects for continued growth, thus to achieve growth in productivity through products and services with greater capital intensity and higher value added.

2.1.4 Protecting cultural heritage

The priority sector contains one programme - Conservation and Revitalisation of Cultural and Natural Heritage.

a) Contextual Trends

The manors are an important cultural heritage in Estonia. Today, there are 59 schools and orphanages in the old manor houses, spread across Estonia, providing room and education for 3 578 children. Many of them represent the best examples of architectural heritage and a large number of them are under state protection.

The use of old manor houses as schools can be considered as finding new applications for historic heritage, but their objectives are much broader and have a social tendency – to develop local cultural identity, to encourage local people to participate in and to increase their knowledge about the value of cultural heritage, to promote local economical life through cultural heritage, to create new partnership relations between different communities and on an international level.

Nearly 20 manor schools have been restored and they function as attractive regional community centres offering various services. This is achieved with the joint contribution of national manor schools' programme, which was launched in 2001, with the follow-up programme to be continued up to the end of 2016 and the EEA and Norway Grants 2004-2009. The EEA and Norway Grants' support was given for the restoration of nine manor schools in five Estonian counties with the highest concentration of manor schools in Estonia.

Still, with regard to 2/3 of the manor houses there is a strong necessity for restoration and upgrading in order to safeguard their future and bring them in line with current requirements for a good educational environment.

b) EEA Grants' contribution

In Estonia key activities of the cultural heritage programme include the preservation and revitalisation of manor houses operating as schools. Through the implementation of the restoration activities the learning environment of Estonian schoolchildren will be enhanced and the manor schools will meet the European standards.

The impact to be expected is on one hand the pure fact that the manor schools are restored and protected, which is crucial considering that more than 2/3 of the manor school buildings are listed as architectural monuments.

Besides restoration works the programme is oriented towards the multifunctional use of the premises. The programme supports the phenomena of manor schools by strengthening the common identity of the whole network of schools.

The wider impact of the programme is the added value in regional development, tourism and business. The image of various regions is often tied to the cultural life in the region, and the local cultural space also influences the motivation of people to either stay in the region or leave, which in turn is directly linked to the objective of the EEA and Norway Grants of reducing economic and social disparities.

In addition to that, the historic manors housing schools have an important role in securing the identity of the region and in integrating the regions into cultural traditions of Europe.

The previous implementation of the national manor schools' programme and the EEA and Norway Grants have demonstrated the capacity of the renovated manor schools to serve successfully as community centres and to carry out several functions in the area. This has influenced the socio-economic development in little communities, for example by giving opportunities for emerging private enterprises that has enabled creating new jobs and diversification of seasonal activities, which in turn has attracted more tourists and increased the viability of the regions.

2.1.5 Human and social development

The priority sector contains one programme – Children and Youth at Risk.

a) Contextual Trends

The health behaviour in school-aged children (HBSC) study¹⁵ pointed out that compared to the previous report there has been a positive improvement of the youth risk behaviour, but determinants of the risk behaviour are still high. The prevalence of mental health problems among young people is increasing and the use of psychoactive substance has contributed

¹⁵National Institute for Health Development - http://www.tai.ee/terviseandmed/uuringud?limit=10&filter_catid=0&filter_year=0&filter_pubid=0&filter_languageid=0&filter=HBSC&filter_order=p.publish_year&filter_order_Dir=DESC

significantly to that trend. The HBSC report noted that 38% of girls and 18% of boys have experienced depressive episodes over the last 12 months and by age 15 more than 17% of adolescents have been drunk at least once. Moreover, the research showed a strong relation to mental health problems and alcohol consumption. Estonia has one of the highest levels of alcohol consumption and suicide incidents' rates in Europe. In conclusion, improving and developing mental health services are essential for targeting people's well-being and health indicators, especially focusing on children's mental health problems.

The goal of Europe 2020: the share of early school-leavers should be under 10%. The share in Estonia was 13,9% in 2009, 11,6% in 2010 and 10,9% in 2011. The national target is 9,5% by 2020.

The number of administrative offences committed by juveniles in Estonia in the age group 14-17 was 21 825 in 2012 compared to 32 717 in 2008. Criminal offences committed by juveniles in the age group 14-17 have also decreased in 2012: 1 807 compared to 3 105 in 2008.¹⁶

b) EEA Grants' contribution

The Children and Youth at Risk programme is focused mostly on the efforts to help vulnerable (neglected, abused, truant children, pupils with learning and behavioural difficulties, children in broken and poor homes and with weak social ties, children in closed institutions) children and minors who breach norms and laws in society. This specific field has previously been underfunded and fragmented.

Norway has a long experience in dealing with children at risk and improving their wellbeing. As timely and relevant intervention is of crucial relevance, the transfer of knowledge is very valuable for Estonia. With the partners' support, advice and best practice examples a sustainable system developed is the most essential value added.

The programme contributes directly to reducing the rate of juvenile crime. Recidivism rate of young people is 59%/45%/40% (rate of recidivism: aged up to 18 from prison/18-26 from prison/released from special schools). The target in the end of this program period is 55%/40%/30%.¹⁷

In addition to that, the established early intervention schemes and individualised educational, psychological and social assistance for pupils at the risk of drop-out both in general education and vocational education and training contribute to European as well as Estonian 2020 objective to reduce the high share of early school leavers.

¹⁶ Ministry of Justice - <http://www.noorteseire.ee/en/indicators/302>

¹⁷ Source of basic level: Ahven, A., Salla, J., Vahtrus, S. (2010) *Recidivism in Estonia*. Criminal policy surveys no 11. Tallinn: MoJ. Criminal Policy Department.

2.2 Bilateral relations

In 2012, the bilateral relations between Estonia and the donor states were strengthened mainly through the events financed from the Fund for Bilateral Relations at National Level since the programmes were approved only at the end of the year. The focus of using the Fund for Bilateral Relations at National Level in 2012 was helping the preparation of programmes and facilitating the communication between the Programme Operators and the potential applicants/project promoters of pre-defined projects and the Donor Programme Partners and other potential partners. Many meetings and several seminars were held in Estonia to discuss the content of the programmes, also study trips to Norway were organized to learn from local experience. The Fund for Bilateral Relations at National Level contributed to the pre-defined projects' of the programmes Integrated Marine and Inland Water Management and Children and Youth at Risk finding a Donor Project Partner.

The key events under the Fund for Bilateral Relations at National Level in 2012 were as follows:

- the launch of the EEA and Norway Grants in Estonia on 14 March
- Estonian-Norwegian cooperation on democracy education, I, on 17-19 September
- joint conference of Children and Youth at Risk and Public Health Initiatives programmes, on 3-4 October
- conference of outdoor activity promotion, on 16 October

The Fund for Bilateral Relations at National Level will further be a resource for activities encouraging better mutual understanding between Estonian and the donor countries' institutions in the following fields:

- enhancing collaboration in promoting democratic values and open debate in society with specific focus on youth
- enhancing collaboration on common concerns in the area of working with children and youth
- enhancing collaboration in promoting healthy life styles through sports and outdoor activities with specific focus on youth
- learning from best practices on other topics relevant for municipalities
- co-operation in the priority areas of the Estonian and Norwegian chairmanships of the Baltic Sea Council

In 2013, one bigger event is planned to be carried out – a regional cooperation conference for local governments.

The programme preparation phase has shown that in some fields co-operation with the donor states, especially with Norway already exists. Also there is a great interest in learning from donor states' experience. The feedback from the joint conference of Children and Youth at Risk and Public Health Initiatives programmes showed that the Estonian people working in those fields have to some extent already heard about the donor states' practices and what is needed for the development of an actual partnership is the "final push". This means that the programmes should focus the partnership events on actual contact making,

including pre-matching of potential partners – this can be done in cooperation between the Programme Operators that know the potential applicants on the one hand and the Donor Programme Partners on the other hand that know the potential partners. This would ensure that both the applicants and the partners know their roles and responsibilities as well the mutual benefits. This in turn ensures actual shared results, mutual understanding and awareness and hopefully also wider effects after the projects and programmes have finished.

The research cooperation programme's pre-matching proved that it is a very effective way of initiating partnerships. However, this resulted in an unexpectedly large amount of joint applications, which means that most of the submitted projects will not be financed from the research cooperation programme. Still, the contacts have been made and hopefully the partners will implement their ideas through other mechanisms.

Considering the existing relations and the number of partnerships in the pre-defined projects, achieving the overall objective of strengthened bilateral relations is highly likely in Estonia. In order to ensure that all the programmes contribute to strengthening bilateral relations, very clear plans for the use of the Funds for Bilateral Relations at Programme Level will be made by the Programme Operators in cooperation with the Donor Programme Partners.

3 MANAGEMENT AND IMPLEMENTATION

3.1 Management and control systems

The management and control systems of the National Focal Point, the Certifying Authority, the Audit Authority and the entity responsible for the preparation and submission of irregularities reports (AFCOS Estonia) were set up in the first half of 2012, audited in August-September and submitted to FMO in September. As a result of the compliance assessment of the description of the management and control systems the Audit Authority was in the opinion that these are proportional, effective and in compliance with generally accepted accounting principles in relation with achieving the objectives of the programmes and that the managerial set up is in line with the requirements of the Regulations of the EEA and Norway Grants.

The setting up of more detailed internal work processes was also started. The main challenge is to set up sufficient, but at the same time proportional control over the programme operators in order to ensure efficient and correct implementation of the programmes. The main division of tasks was made between the different authorities. In order to be as efficient as possible, as many work processes as possible were taken over from the work processes of the Structural Funds implementation system. Moreover, it is planned to use the relevant expertise from the Managing Authority of the Structural Funds in different work processes such as monitoring (including monitoring over public procurements), communication, using simplified costs etc.

The implementation system of the Fund for Bilateral Relations at National Level was also set up and sent to the donors for approval within the work plan for the fund.

At the programme level, setting up of management and control systems was started, but not yet entirely finished. However all the programme proposals included the main principles of management and control. This is expected to be one of the biggest challenges of 2013 specially because all the programme were approved more or less at the same time and the dead lines of the submission of the management and control systems are very close to each other.

3.2 Compliance with EU legislation, national legislation and the Memorandum of Understanding

The Memorandum of Understanding on the implementation of the EEA Financial Mechanism 2009-2014 between Estonia on one side and Iceland, Liechtenstein and Norway on another side was signed on 10 June 2011. Since the memorandum does not include any clauses, which would need internal ratification, the memorandum entered into force on the day after the date of its last signature. The memorandum and the legal framework of the financial mechanism based on the memorandum serves as the main legal basis for implementing the EEA Grants and are followed by the Estonian state.

Since implementation agreements between the National Focal Point and the Programme Operators cannot be signed due to provisions in the Estonian legislation, a Government of the Republic decree for the establishment of the rules and procedures for application for and implementation of the grant from the EEA and Norwegian Financial Mechanisms 2009-2014 was prepared by the Ministry of Finance. Government of the Republic decree provides a legal basis for the programme operators to implement the programmes and delegate their duties to other institutions. The decree also provides rules on payment of grant, the suspension and refusal of payments, reclamation and repayment of the grant, monitoring, audit, publicity and reporting. The decree is expected to enter into force in the first half of 2013.

In addition to that, the Government of the Republic Decree No 278 “Reclamation and Repayment of Grants and Rules and Procedures for Reporting on Irregularities in Awarding and Using the Grants” of 22 December 2006, which stipulates the requirements for informing about irregularities or fraud and conditions for repayment of the financial support, will be updated in 2013 according to the needs for implementing the Grants.

When preparing the programme documents (open call criteria, draft agreements etc), special attention will be paid to assuring compliance with the legislative framework inter alia the compliance with Community Policy (state aid, public procurement, programme area specific directives). When needed, consultations on specific issues with the specialist in the area will be organised. For example, there have been continuous consultations on state aid with the Public Procurement and State Aid Department of the Ministry of Finance of Estonia. Also, it is planned to use the expertise of the Managing Authority of the

Structural Funds to consult the Programme Operators regarding public procurements in the programmes and the projects.

At the same time several programmes are directly aiming to raise internal capacity in meeting EU directives' for example the Integrated Marine and Inland Water Management programme.

3.3 Status of Programmes

Since all the programmes were approved only at the end of 2012, calls were undertaken only within the programmes managed directly by the FMO or donor state entities. However, preparations for launching the open calls planned for the 1st quarter of 2013 were started.

The table showing the main relevant dates in the progress of the preparation of the programmes is as follows:

	Programme	Submission of proposal	Grant decision	Agreement
EE02	Integrated Marine and Inland Water Management	23.02.2012	22.12.2012	28.03.2013
EE04	Children and Youth at Risk	14.02.2012	7.11.2012	25.02.2013
EE05	Conservation and Revitalisation of Cultural and Natural Heritage	2.03.2012	2.10.2012	25.02.2013
EE10	EEA Scholarship Programme	13.02.2012	20.12.2012	

Within the Fund for Non-Governmental Organisations two first open calls out of five were launched in autumn 2012.

- The 1st open call for i) projects initiated for promoting democratic values, including human rights and ii) projects initiated for developing advocacy and watchdog role. The call was launched on 25 September with the deadline of 25 November.
- The 2nd open call for small capacity building projects was launched on 10 October with the deadline of 10 December.

Interest towards the fund was higher than expected. Altogether 92 applications were submitted for projects addressing promotion of democratic values and human rights (58) and projects for promoting advocacy and watchdog role (34); 122 applications were submitted for capacity building activities.

The grant decisions of the open calls are expected to be available in spring 2013.

3.3.1 Technical Assistance

The agreement for the financing of Technical Assistance (TA) and the Fund for Bilateral Relations at National Level was signed on 20 April 2012 with the eligibility period for the TA from 8 June 2011 until 31 December 2017 and for the Fund for Bilateral Relations at National Level from 8 June 2011 until 31 October 2017.

The amount of the TA grant is 729 000 Euros (EEA Grants' share – 345 000). The TA is used for costs of additional management systems specifically established for the implementation of the EEA and Norway Grants. 72 824 Euros was used during the year 2012. The expenditures included salaries of the National Focal Point, the Certifying Authority and the Audit Authority officials, organising meetings and participating in meetings and publicity costs. The cumulative use of the TA by the end of 2012 was 90 550 Euros, which corresponds to 12,42% of the total amount available.

The amount of the Fund for Bilateral Relations at National Level grant is 243 000 Euros (EEA Grants' share – 115 000). During the year 2012 117 884 Euros was used. The cumulative use of the fund for Bilateral Relations at National Level by the end of 2012 was 145 056 Euros, which corresponds to 59,69% of the total amount available.

3.4 Irregularities

No irregularities were detected during 2012 since the implementation of programmes was not yet started. Presently, the main focus is on setting up well functioning management and control systems of the programmes, which assures avoiding or early detection of irregularities.

3.5 Audit, monitoring, review and evaluation

In 2012 the Audit Authority carried out one compliance assessment of the detailed management and control system description for the implementation of the European Economic Area and Norwegian Financial Mechanisms 2009-2014 in Estonia.

The scope of the compliance assessment included a detailed description of the management and control system that incorporates the National Focal Point, the Certifying Authority, the Audit Authority and AFCOS Estonia. As a result of the compliance assessment the Audit Authority gave the opinion that the description of management and control systems are in all material aspects proportional, effective and in compliance with generally accepted accounting principles in relation of achieving the objectives of the programmes and that the managerial set up is in line with the requirements of the Regulation of the EEA and Norway Grants.

Since all the programmes were approved at the end of 2012 no calls were undertaken and therefore no more audits were carried out.

In 2013 all the Programme Operators have to submit their detailed descriptions of the management and control systems to the National Focal Point. The National Focal Point reviews the descriptions in the order that they are submitted and in case it finds these sufficient and in line with the legislative framework, then it presents these to the Audit Authority for Compliance Assessment.

Neither management and control system audits nor project audits are planned for 2013.

The Audit Authority will compose an audit strategy for the programmes during 2013.

3.6 Information and publicity

The communication strategy for the EEA and Norway Grants 2009-2014 in Estonia was submitted to the donors for approval on 13 April. The strategy was revised according to the received comments and resubmitted on 21 August. The strategy was approved on 4 October.

The biggest information event in 2012 was the festive launch of the grants. The launching seminar was held on 27 March, presenting the objectives and planned outcomes of the programmes and had a bilateral aspect to it, presenting also the possibilities for and actual cooperation with donor state entities. The launching event included presentations by each programme operator followed by separate discussions under each programme.

The communication strategy needs adjusting regarding the time plan. It was planned to launch the newly designed and restructured website in the second half of 2012, but due to unforeseen internal procedural delays and prioritization of tasks to having the programmes approved it was postponed to the first quarter of 2013. In addition to the website of the National Focal Point, a Facebook page of the EEA and Norway Grants Estonia was launched. News regarding the programmes, the information activities and the bilateral events are being shared there.

Considering the phone calls and e-mails with questions regarding the programmes and the possibilities it can be said there is a big interest in Estonia for the grants and that the messages have so far reached the audiences well. When the actual implementation starts, the stronger emphasis will be on the programmes' communication. The role of the National Focal Point regarding information and publicity will be to act as a central point for advice and guidance, but also as a central point for monitoring over the communication activities.

3.7 Work plan

Altogether eight open calls are planned to be launched under the programmes in 2013 and all the pre-defined projects are expected to start their implementation. In addition to that, two open calls are planned to be carried out in the second half of 2013.

The table showing the main relevant dates in the planning of the launching events, partner events and open calls of the programmes is as follows:

	Programme	Launch	Partner event	Open calls 2013
EE02	Integrated Marine and Inland Water Management	2 nd quarter 2013		wild-life protection – 2 nd Q; ecosystem methodologies and restoration of habitats – 2 nd Q
EE04	Children and Youth at Risk	May 2013		youth work - 2 nd Q; education – 4 th Q
EE05	Conservation and Revitalisation of Cultural and Natural Heritage	6.02.2013	May 2013	renovation projects – 1 st Q; development projects - 2 nd Q
EE10	EEA Scholarship Programme	21.01.2013	-	preparatory visits' - rolling call since 21.01 ¹⁸ ; institutional cooperation projects 01.02-01.04

The Monitoring Committee convenes before the annual meeting in order to review the progress of implementation, to give an opinion on the strategic report and to give input to the work plan of 2014 of the bilateral fund at national level.

The Cooperation Committees of the programmes are planned to be convened throughout the year in order to discuss the launching events of the programmes, open call conditions, work plans of the bilateral funds at programme level, etc. Since the year 2013 will be crucial in launching the programmes and setting up of management and control systems, the Cooperation Committee meetings will be convened according to running needs and in case of most programmes more than once a year thus it is too early to present a regular yearly plan.

Most important information activities during 2013 will be programmes' launching events and partner days listed in the table above. Also press releases will be issued and specific information seminars will be carried out for each open call.

4 REPORTING ON PROGRAMMES

The EEA and Norway Grants' moving from a project approach in 2004-2009 period to a programme approach in 2009-2014 period has both advantages (joint overall objectives and possible synergies without spreading funds thinly out) and disadvantages (danger of less focusing on special locations and target groups). In order to mitigate the risk of less focusing on special locations and target groups, several pre-defined projects addressing the most crucial needs in the chosen sectors were identified within the programmes in the

¹⁸ The same open call for both financial mechanisms

preparation phase. In addition to that, many of the programmes are very much interlinked, which means that there is a clear focus on certain matters and therefore greater overall impact in certain sectors can be foreseen.

In general, at the present stage of implementation only the possible risks that may threaten the achievement of the programmes' objectives given in the programme proposals can be indicated. As in most programmes no projects have yet been selected from open calls, it is too early to further analyse and emphasise those risks.

Still, with regard to some programmes, the risks are pointed out below.

The high risks involved in all projects of the Integrated Marine and Inland Water Management programme are of more technical nature – unforeseen delays in the timeframe including delays in public procurements and possible increase of costs. But the requirement to add project management plans to project applications and a close monitoring system of the Programme Operator should mitigate aforementioned risks. Also, there are concerns regarding insufficient expert knowledge in case of the marine management plan and the climate change adaptation strategy. In order to mitigate these risks, information sharing and transfer and cooperation plans will be developed and sufficient human resources allocated.

The Conservation and Revitalisation of Cultural and Natural Heritage programme aims to support social equality. By enabling education as one of the most important services for rural life the whole programme supports regional development. The main risks of the programme are based on social developments like the decrease of number of children and urbanisation. The potential planned education reform and the local government system reform have to be followed to stabilize the risks.

Since the implementation of programmes was not started in 2012, the administrative and management risks were not assessed in detail. In 2013, the National Focal Point will organise the first risk assessment exercise to the Programme Operators using the methodology of the Structural Funds. The aim of the risk assessment exercise is to assess possible problems during the implementation, their severity and to work out mitigation measures (training, guidance, supervisory activities, new developments etc) to the problems that receive a high risk score. Another benefit is getting information from Programme Operators about possible problems, also encouraging experience sharing and networking.

The risk assessment will be carried out in three parts. The first part will be held as a seminar to the implementing bodies where participants can bring out all risk factors that they can think of and if possible, also mitigation measures. As a second part the implementing bodies receive a summary table of all the risks and individual risk assessment takes place – how big the probability of the risk is and if the risk should realise, what its impact is. On the basis of individual assessments a summarised ranking will be made and in the third part, held as a seminar, the risks that are highest in the ranking list will be discussed and a more detailed work plan of mitigation measures for those for the next year will be developed.

Since the submission of programme proposals and their approval took longer time than initially expected, the Programme Operators are struggling with managing the timeframe so that reaching the set outputs and outcomes would not be under threat.

5 SUMMARY LISTING OF ISSUES AND RECOMMENDATIONS

At the very early phase of only starting to implement the programmes, there are no outstanding issues to be added to those that have already been mentioned under the previous points.

The main effort will be put into launching the programmes, setting up of management and control systems, organising partner events and launching of open calls. In all these activities the time factor is crucial – the programme operators need to adjust to a shorter timeframe for implementation, still ensuring that the outputs and outcomes will be reached at the end of the programmes. The National Focal Point will advise and keep an eye on the implementation as much as needed and as much as possible.

6 ATTACHMENTS TO THE STRATEGIC REPORT

Since the implementation of programmes was not started in 2012, all information known by the cut-off date of the report is presented in the main part of the report and no attachments were compiled.