



Ministry of Finance of the Republic of Estonia



Annual report

European Economic Area (EEA)

Financial Mechanism

Estonia

September 2006 – September 2007

National Focal Point

Tallinn

2007

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Introduction

The main challenges for the year 2007 were to launch individual projects' and all three block grants. The main efforts were put into the evaluation of the individual projects and submission of applications to the Financial Mechanisms Office. The set objectives were fulfilled in general and only small postpones in deadlines had to be overcome.

In the first half of the year the implementation system was strengthened with spreading detailed information to the main players and during the second half of the year the system was tested – the implementation procedures were presented and evaluated and the overall risk analysis of the implementation system is under preparation.

In general the year 2007 has been a steady development and system strengthening period. There is more certainty to make plans for 2008 when the relevant staff is compiled, implementation system is in place and the approval of the projects is in the process.

The cut-off date of the annual report is September 30th 2007. The financial data is updated last on October 11th 2007.

This annual report was approved by the Monitoring Committee on October 19th 2007.

1. Progress made for achieving the overall objective of the EEA Financial Mechanism and progress made towards Estonian specific objectives

1.1 Legal base

The Regulation of the Government No 696 about approving the designated bodies was prepared and adopted by the Government on December 19th 2006. The Decree lays down the areas of responsibilities of each involved institution during the implementation of the financial mechanisms. The list of responsible institutions is the same as in the Annex of the Description of the implementation system agreed on December 5th 2005 in Oslo at the high level meeting.

Also, the amendments to the existing Decree of the Government No 137 (which lays down the implementation bodies, responsibilities and procedures) have been provided. The reason for the amendments raised from slight changes in the disbursement procedures for Projects and Funds, the monitoring and supervision articles have been described more detailed and also, the tasks of a Ministry as a Project promoter are included into the Decree.

The aim of the amendments was to update the legislation with the real needs.

1.2 Open call for individual projects

1.2.1 Evaluation process

Administrative and eligibility check

Administrative and eligibility check for 309 applications was completed by December 20th 2006. The administrative and eligibility check evaluation report was compiled by January 24th 2007 and was sent to the Monitoring Committee for information. In total

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95% of the submitted applications passed the administrative and eligibility control and only 5% were failed. The applicants were informed by letter on February 2nd 2007.

Among the 5% of failed applications two appeals were registered. According to the appeal process the Ministry of Finance analysed carefully the appeals and decided to satisfy the appeals. The projects were forwarded to further evaluation.

Quality Evaluation

All qualified applications were sent to the quality evaluation where one horizontal expert and two priority area specific experts evaluated the quality of the applications. The evaluation was provided during October 2006 and February 2007.

The evaluation report was reviewed by the National Focal Point (NFP) and where relevant the NFP made its suggestions to the Monitoring Committee. The aim of the review by the NFP was to avoid double financing with state budget and other foreign financing recourses and assess the financial capacity of the local governments. Also, prioritisation of the projects for the state was under consideration.

All qualified applications in priority areas 4 (Human Resources), 6 (Implementation of Schengen Acquis and the Judiciary) and focus area 7.5 (Innovative models for large infrastructure investment projects) were evaluated by the beginning of January and the evaluation report compiled by January 24th 2006.

All qualified applications in priority areas 1 and 2 (Environment protection and Sustainable Development) and 3 (Cultural Heritage) were evaluated by the end of January and the evaluation report was compiled by February 16th 2007.

All qualified applications in priority area 5 (Health and childcare) were evaluated by the end of February and the evaluation report was compiled by March 19th 2007.

The evaluation results of priority areas 1,2,3,4,6 and focus area 7.5 were presented to the Monitoring Committee on March 29th 2007. The Monitoring Committee approved the evaluation results and the ranking lists.

The evaluation results of priority area 5 were presented to the Monitoring Committee on April 27th 2007. The Monitoring Committee approved the evaluation results and the ranking list.

All the ranking lists were published on the webpage www.fin.ee/eeagrants after the Monitoring Committee's approval. The statistical data about the evaluation results is provided in Annex 1.

1.2.2 Progress of project submission to the Financial Mechanisms Office

The process of submission of projects to the Financial Mechanism Office (FMO) started with sending first the project applications, which were submitted in the Open call in English. The NFP organised the translation of the applications submitted in Estonian. After receiving the translated application forms and annexes from the translation bureaus applicants were asked to confirm that they agree with it and after their confirmation the NFP submitted the applications to the FMO. Last "successful" projects were submitted to the FMO by the beginning of July. Reserve applications' forms were also translated into English and submitted to the FMO on August 1st.

By October 4th three projects were approved for financing by Financial Mechanisms Committee:

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- 1) EE0012 (163/2006) University of Tartu „Emission of nitrous oxide and methane from Estonian agricultural landscapes - variation among various ecosystems and possible mitigation strategies” (Financed by EEA FM)
- 2) EE0010 (052/2006) Ministry of Environment „Sustainable groundwater monitoring of East-Viru county, Estonia” (Financed by Norwegian FM)
- 3) EE0016 (022/2006) University of Tartu „Capacity building for disease surveillance and health monitoring in Estonia” (Financed by Norwegian FM)

1.3 Block grants

For all block grants the year 2007 has been a year of preparing applications, specifying conditions of implementing internally and with donors. All block grants have been approved for financing.

1.3.1 Fund for Non-Governmental Organisations (NGO Fund)

For finding an Intermediary for the NGO fund a public procurement procedure in compliance with the Public Procurement Act was carried out. The type of the procedure was “negotiated tendering procedure with prior publication of tender notice”, which means that the tender notice was published in the public procurement register and all interested parties could qualify. In the second round the qualified bodies had to submit the tenders. The procedure gave to the NFP the possibility to negotiate with tenderers to select the best possible Intermediary.

At the end of 2006 first the prequalification of companies for the public procurement “Finding an Intermediary for the NGO Fund” was announced. Due to very high requirements for experience none of the participating companies qualified. The second prequalification was announced in January 2007 and that time all three tenderers passed the qualification requirements. By the deadline in April only one of the qualified tenderers submitted a tender - Open Estonia Foundation (OEF). The tender was composed very professionally and the proposed management cost fitted the limit. In April the OEF was approved as the Intermediary (as the winner of the public procurement). OEF is a non-governmental not-for-profit foundation that was established in April 1990. The mission of the Foundation is to create conditions for the development of an open society in Estonia. Foundation's programmes are driven by a vision of democracy, civil society, rule of law, respect for minorities and equal opportunities in the democratic decision making processes in society.

The NGO fund application form prepared by the OEF was approved by the donors on June 21st. Within the summer the technical details were discussed and the Project Implementation Plan (PIP) was agreed. The Grant Agreement was signed on September 12th 2007. The Ministry of Finance and the Intermediary signed the Contract under Public Law on October 5th 2007.

The overall aim of the NGO Fund in Estonia is to strengthen civil society by raising the capacity and influence of civil society organisations in Estonian society.

Grants will be available to initiatives that are aimed at strengthening civil society through supporting NGO activities in three priority fields, which were agreed as a result of open discussions during the preparation period for implementing the NGO Fund in Estonia and they reflect the actual needs of the Estonian NGO sector. The resources of the fund will be divided between projects falling into the three priority fields as follows:

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- Democracy and civil society development – 50%;
- Environment and sustainable development – 25%;
- Social integration and local development – 25%.

The priority fields are in line with the objectives of the financial mechanisms to support social and economic cohesion.

According to the PIP the preparations for implementing the fund began in August 2007. Open calls will be organised twice a year to give potential applicants sufficient time to plan, consult and prepare the projects, and to allow the Foundation to conduct a fair and thorough evaluation of submitted projects.

The first open call for proposals is planned to be announced on November 22nd 2007 as a part of the civil society conference in Tallinn. The first open call deadline for submitting applications is at the beginning of the year 2008, i.e. 60 days after the announcement. As the eligibility period for the management of the NGO Fund will end by April 30th 2011, there will be altogether six open calls for small-scale projects and five open calls for large-scale projects.

The NGO Fund is an important mechanism for assuring a targeted short-term support to institutional development of Estonian civil society organisations. During the implementation period (2007-2011) of the Fund strengthening of the Estonian civil society organisations' capacity, role and influence will be supported with altogether 2,122,000 EUR.

The NGO Fund is financed 50% from Norwegian and 50% from EEA financial mechanisms.

1.3.2 Transfer of Knowledge Fund

The Ministry of Education and Research (MoER) is responsible for the development of the block grant. The MoER has appointed the Estonian Science Foundation (ESF) as an Intermediary. According to the Estonian legislation the ministries do not deal with the direct implementation of EU or other programmes (i.e. day-to-day interaction with the end-recipients). The Organization of Research and Development Act provides that the state budget assignments foreseen for science, especially for research grants, are managed by the ESF. Therefore, the ESF will act as an intermediary of the block grant Transfer of Knowledge fund in the field of academic research. The State Budget Act 2007 also provides resources for preparation of the block grant to the ESF. Responsibilities concerning technical implementation of the Block Grant shall be delegated from MoER to the ESF with the management agreement regulated by Estonian legislation.

The application form prepared by the MoER and the ESF was submitted to the FMO in May 2007 and the revised version in July 2007. The block grant Transfer of Knowledge Fund was approved by the donors on October 18th 2007. There will be only one open call for the total amount 481 015 EUR which will be launched in November 2007.

The Transfer of Knowledge Fund is financed 50% from Norwegian and 50% from EEA financial mechanisms.

1.4 Technical Assistance for implementation of the Financial Mechanisms

The eligibility date for Technical Assistance (TA) expenditures was September 20th 2006. Since that date the costs have been occurring. The Grant Agreement was signed and got into force on February 20th 2007.

The first Project Interim Report was submitted to the FMO in March 2007 and the second Project Interim Report in September 2007.

According to the Grant Agreement the detailed budget for 2008 was presented to the FMO on September 28th 2007.

As the situation between the planning and the implementation period has been changed, the NFP introduced the changes in the TA budget to the FMO in September 28th 2007. As the total change is more than 15% of the total cost of the project, the changes needed to be approved by the FMC. The main changes in the TA budget are:

1. To reduce the number of officials from five to three for the period 2008-2011
2. To reduce the personnel costs of two officials for 30% for the period of 2008-2011 as they will be responsible also for the Swiss-Estonian Cooperation programme.
3. The transfer of the Evaluation Committee costs from Administration costs under Personnel costs (all the Evaluation Committee costs are disbursed already).

According to the proposed changes in the TA budget the amount of **214 098 EUR** (24% from the total budget) will be saved. **We suggest to add the amount of 214 098 EUR to the budget of the Open Call** or in other words to channel additional 214 098 EUR to the individual projects. This will allow us to finance a larger number of individual projects.

The proposed transfer of 214 098 EUR from TA budget to the individual projects will be discussed on the Annual Meeting.

The TA is financed 50% from Norwegian and 50% from EEA financial mechanisms.

1.4.1 Evaluation of the implementation system

Under the TA budget the NFP initiated an evaluation of the implementation system. The aim of the evaluation is to analyse whether the implementation system of the financial mechanisms for implementation of the projects is ready, whether the Intermediate Bodies and the Intermediaries have the procedures in place, where the possible risks are and which are the measures to prevent them. The NFP provided a simplified procedure from August to September 2007 and Ernst & Young Baltic Ltd as the provider of the evaluation was nominated on September 26th. The evaluation starts in October and will be finalised by the end of January 2008. The system evaluation should guarantee NFP that the procedures and guidelines are followed, the Intermediate Bodies and the Intermediaries are ready to implement the financial mechanisms and the possible risks are identified.

2. Financial progress pertaining to commitments and disbursements

The year 2007 has provided a unique opportunity to use the practice of the first project - the TA of the NFP – to strengthen the developed financial system in more detail and specify the principles for different types of project assistance. Also, there has been a close cooperation with the Intermediate Bodies and the Intermediaries to share the information and discuss different matters raised and documents under preparation.

The first project in actual progress - the TA of the NFP – has been successfully in progress for 14 months during which two Project Interim Reports have been submitted to the FMO.

During the period from September 2006 to September 2007 only disbursements related to TA were made. There were 5 grant offers made during that period, but there were no other projects in the stage of actual implementation than the TA and no other disbursements have been made yet.

The Paying Authority has not reported any problems related to the disbursements as there is only one project actually in progress.

As the block grants are at the beginning of actual implementation, separate bank accounts have been opened in the state treasury system especially for EEA and Norwegian funds similarly to the bank account of the Paying Authority. In the state treasury system the Estonian Bank's average exchange rate is guaranteed and the institutions related to the implementation of the financial mechanisms are not earning interest with their positive account balances which enables to eliminate possible requirements on any net interest generated.

The changes in the TA budget were presented to the FMO on September 28th 2007. The proposed changes will decrease the total amount of the TA and as proposed by the NFP the saved resources would increase the budget of individual projects. For details please see chapter 1.5.

The projects and block grants committed and disbursed are described in Annex 2.

The overview of the total disbursements made is described in the following table:

Type of grant	%	EUR	EEA FM	Norwegian FM	Disbursements from total budget 11.10.2007		
					Norway	EEA	%
Total	100%	30 286 116	9 386 496	20 899 620	60 106	60 106	0,4%
Individual projects	76,89%	23 256 708	7 720 760	15 535 949	0	0	0
NGO fund	7,00%	2 120 028	1 060 014	1 060 014	0	0	0
Regional Development block grant	12,21%	3 697 935	0	3 697 935	0	0	0
Transfer of knowledge fund	1,50%	454 292	227 146	227 146	0	0	0
Technical assistance	2,50%	757 153	378 576	378 576	60 106	60 106	0,4%

The level of commitments is described in Chart 1.

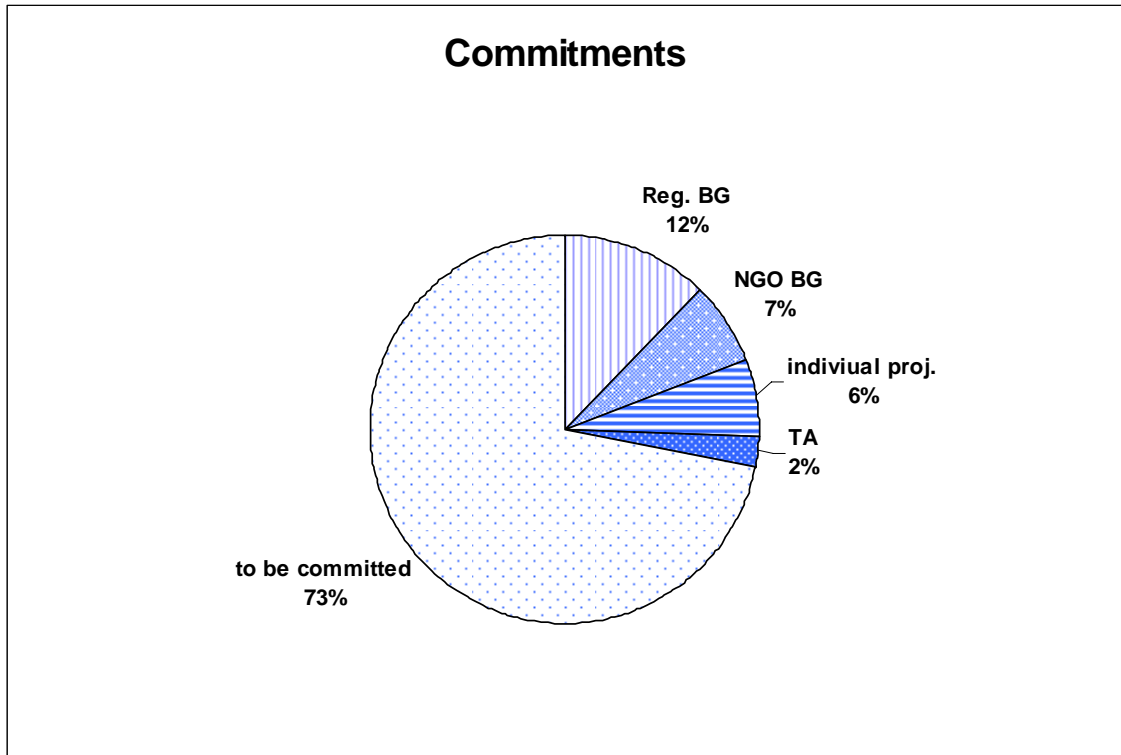


Chart 1: The level of commitments by October 11th 2007.

3. Project Promoters

The Project Promoters are mainly local governments, public agencies and non-profit organizations, but there are also some private companies among the Project Promoters. In the 1st and 2nd priority area there are four public agencies, one ministry, one foundation and 3 private companies. In the third priority area all seven promoters are local governments. In the 4th priority area the promoter is a public agency. In the 5th priority area there are three public agencies, one foundation, one non-profit organization, two private companies and two local governments.

4. Target Groups

The main target group of the projects can be considered the public at large as mostly the projects help to improve people's opportunities to study, get better medical care, take more care of the environment etc. More precise target groups of different projects are pupils and students, children with special needs, AIDS and communicable diseases patients and hospitals' staff treating them, teachers, youth with different nationalities etc.

5. Compliance with Community policy and legal issues including tendering and procurement

5.1 State aid

The NFP has identified five environmental projects where the state aid is considered:

- 1) EE0034 "Acquisition of Crystallisation and Deep Desulphuration Technology in the Battery Recycling Plant of AS Ecometal"
- 2) EE0019 "Reuse of Solid Combustible Waste in Cement Rotary Kilns of AS Kunda Nordic Tsement"
- 3) EE0040 "Reduction of Greenhouse Gas Emissions through the Adoption of Renewable Biofuels in the Boiler House of OÜ Lihula Soojus"
- 4) EE0039 "Relocation of the Piping of District Heating out of the Beach Area of the City of Sillamäe"

Aid for two of these projects (EE0034 and EE0019) may be regarded as regional investment aid under the Commission Regulation 1628/2006 on regional investment aid. For these projects we will not submit a state aid notification, but as they fall under the exemption regulation on regional investment aid, we will send summary information to the EC and it will be published on the Official Journal.

Aid for project EE0034 includes also state aid for SMEs (costs for outside services) which fall under Commission Regulation 70/2001. Summary information on SME aid will be sent to the EC as well.

For the project EE0039 the NFP will submit an application for state aid to the EC on the basis of environmental aid guidelines. The application is at the moment being compiled.

The best solution for giving state aid to the project EE0040 is still under consideration.

Some of the projects include also de minimis aid. De minimis aid will be granted following the conditions set in Commission Regulation 1998/2006. For granting de

de minimis aid neither notification nor summary information for the EC is needed, the NFP will control the compliance with cumulation rules.

Also, in order to grant state aid under the exemption regulations 1628/2006 and 70/2001, de minimis aid regulation 1998/2006 and the EC environmental aid guidelines the relevant chapters with reference to the above-mentioned EC documents have been added to the Decree of the Government no 137 adopted by the Government on October 4th 2007. The adoption of this Decree gives Estonia a legal base for giving state aid to the abovementioned projects. The financial decision will be done by the donor states.

5.2 Procurement

Procurement procedures are provided according to the public procurement law of Estonia, which is harmonised with the EU legislation. The NFP provided a procurement procedure to select an Intermediary for the NGO Fund. For detailed information see chapter 1.3.1.

No procurement procedures were provided under the individual projects.

6. Cross cutting issues

The evaluation criteria of the individual projects included the cross cutting issues. The general evaluation criteria no 3.2.2 included among others also the elements of gender equality, sustainable development, good practice and good governance. In all the projects the cross cutting issues were evaluated.

7. Public awareness

When the year 2006 was oriented to get the financial mechanisms into people's minds, the year 2007 is focused on rising of public awareness. The main challenges for 2007 were:

- (a) Start of the individual project implementation
- (b) Launch of the first open call of the NGO Fund
- (c) Launch of the Regional Development block grant
- (d) Launch of the Transfer of Knowledge block grant

The main activities, which were carried out, were actuated from the abovementioned challenges:

- 1) The development of a new webpage was initiated
- 2) Information events for Intermediate Bodies were carried out
- 3) Press releases were published
- 4) Souvenirs and posters were produced
- 5) Monthly reviews were compiled

7.1 Webpage

The NFP initiated the creation of a new webpage reflecting the implementation of the financial mechanisms in Estonia. The aim of the new webpage was to create a new design, which would follow the visual look of the EEA Grants website, and to make the website more user-friendly with building a new structure for more and better structured information and to create a site for informing about the approved projects. Currently the webpage is still under development due to technical (mainly IT) problems. The NFP makes efforts to open the new webpage within this year.

The creation of the design of the webpage was financed from the TA budget.

Concerning the NGO Fund the Network of Estonian Non-profit Organisations has published and spread information about the NGO Fund on its homepage. The information is only in Estonian as the most reliable language of the target group.

7.2 Press releases and press conference

During the period from September 2006 to September 2007 there were three press releases made concerning the public procurement for finding an intermediary for the NGO fund in the first half of the year. They did not get much response in the media as at the same time elections of the parliament and the government were in process. As the real open calls are more attractive for the press the launching of the first open call of the NGO fund in November will be accompanied with a press release and a press conference.

7.3 Information events

The information events during 2007 were focused on the Intermediate Bodies. The information events were provided in the first half of the year. At that moment the Open Call was provided but no project financing decisions were made, hence the improvement of the implementation system and relevant bodies were targeted. In May and April four information seminars were provided to the Intermediate Bodies: to the Ministries of Justice, Social Affairs, Economics and Communications and Environment. The target group of the information seminars were officials of the Intermediate Bodies who are responsible for the monitoring of the individual projects. About 6-12 officials participated in each information seminar. During the information seminars the following topics were presented and discussed:

- 1) The role and tasks of the Intermediate Body
- 2) Monitoring
- 3) Reporting system
- 4) Irregularities and audit
- 5) Payments system
- 6) Information activities
- 7) Procedures

The NFP got feedback from the Intermediate Bodies that the information seminars were very useful and well targeted – the ministries responsible received a lot of relevant information and got answers to their questions.

7.4 Monthly reviews

The NFP continued to compile monthly reviews to inform the Intermediate Bodies about activities during the previous month. The monthly review was spread by e-mail to the officials of the Intermediate Bodies.

7.5 Promotional materials

The NFP is planning to “award” the Project Promoters on signing the implementation agreement with a package of promotional materials: a thematic desk calendar, pens, posters and stickers all packed into a linen bag. This would give the Project Promoter an emotional starting point in addition to the relevant technical information (who is the contact person in the NFP and in the Intermediate Body, how the procedures are functioning etc.).

The promotional materials were elaborated in September and October 2007 and will be distributed mainly to the Project Promoters of the individual projects. Posters, pens and stickers can also be given to the sub-projects under the block grants. These promotional materials carry mainly the idea of general informing.

8. Planning for the following year: fields of intervention and measures and a work plan

8.1 Challenges for 2008

The main challenges for 2008 are:

- 1) To test and constantly improve the implementation system
- 2) To launch a successful monitoring system
- 3) To strengthen the communication with the Intermediate Bodies and the Project Promoters

While the year 2007 was crucial for real launching of the financial mechanisms the year 2008 should mainly focus on strengthening the implementation system. The implementation of the individual projects should have started and all the block grants should have launched the first open calls. The risk analysis (the evaluation of the implementation system described in chapter 1.4.1) carried out at the end of 2007 should have underlined the main potential risks and bottlenecks in the system which should be improved or minimised during 2008.

The main activities in 2008 are indicated in the following table:

Action plan for 2008				
	<i>I quarter</i>	<i>II quarter</i>	<i>III quarter</i>	<i>IV quarter</i>
Individual projects				
<i>Projects approved by the FMO</i>	X			
<i>Grant Agreements and Implementation Agreements are signed</i>		X		
<i>All projects have started implementation</i>			X	
NGO Fund				

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	X			
	I quarter	II quarter	III quarter	IV quarter
<i>First open call is closed</i>	X			
<i>First selection of sub-projects has been done</i>	X			
<i>First projects have started implementation</i>		X		
Transfer of Knowledge block grant				
<i>Open call is closed</i>	X			
<i>Selection of sub-projects has been done</i>	X			
<i>First projects have started implementation</i>		X		
General management activities				
<i>Annual report is submitted to the FMO</i>				X
<i>Annual meeting is conducted</i>				X
<i>The system evaluation has been carried out</i>	X			
Publicity activities				
<i>Information events have been conducted</i>	X	X		
<i>Articles in the media have been initiated</i>		X	X	
<i>Press releases after Grant decisions of the individual projects and each block grant have been made</i>	X			
<i>Media events and/or press releases when launching block grants have been made</i>	X			
<i>Promotional materials have been produced</i>	X			

8.2 Audits carried out during the reporting year 2007

Auditing the management and control systems of the administration of the Norwegian and EEA financial mechanisms and executing project audits on a sample basis is the responsibility of the Financial Control Department of the Estonian Ministry of Finance (the Auditing Authority).

According to the Decree no 137 of the Government of the Republic of Estonia from 14th of July 2006 the Auditing Authority audits the management and control systems of the administration of the financial mechanisms if needed.

No **system audits** have been planned and carried out during the year 2007 as the NFP is outsourcing an overall evaluation of the implementing system of the Norwegian and EEA financial mechanisms (including the management and control systems of the NFP and Intermediate Bodies) at the end of 2007. The evaluation is outsourced from a private audit and advisory company.

As no payments have been made during the reporting year 2007 no **project audits** (sample checks on expenditure) have been carried out during the year 2007.

8.3 Audit plan for the following reporting year 2008

No **system audits** are planned for the year 2008. If needed (for example high risks have been discovered in the administration / project management process) an audit will be carried out.

Project audits will be carried out on the basis of the annual audit plan compiled according to the sampling methodology in cooperation with Intermediate Bodies. The audits will be conducted in accordance with Standards of The Institute of Internal Auditors (IIA) and in conformity with the national auditing manuals (“The Manual of Sample Check on Expenditure” and “The Procedures on Auditing of the Financial Control Department of the Ministry of Finance”).

Audit plan for the year 2008 is expected to be compiled at the end of the year 2007.

Annexes

- I. Individual projects' evaluation statistics
- II. Commitments and disbursements made during September 2006 and September 2007

Annex I Individual projects' evaluation Statistics

The statistics of an Individual Projects' Open call was compiled after the evaluation of all applications. The Annex I concludes the results of the evaluation process.



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Annex II Commitments and disbursements made during September 2006 and September 2007



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