



**Republic of Latvia
Ministry of Finance (Focal Point)
European Union Funds Monitoring Department**

***Strategic Report on Implementation of
the EEA Financial Mechanism 2009–
2014 in Latvia
April – December 2012***



Riga, May 2013

Glossary of Acronyms

AA – the Audit Authority
AAR – Annual Audit Report
Bilateral Fund - Fund for Bilateral Relations at National Level 2011-2017
CA – the Certifying Authority
CC – the Cooperation Committee
CoM – Cabinet of Ministers (Latvian Government)
Climate Programme – Programme LV02 “National Climate Policy”
Cultural Heritage Programme – Programme LV04 “Conservation and Revitalisation of Cultural and Natural Heritage Programme”
DPP – the Donor Programme Partner
Description of the MCS – Description of the Financial Mechanisms 2009-2014 Management and Control System of Latvia
EC – European Commission
EEA – the European Economic Area
EFTA – European Free Trade Association
EU – European Union
Financial Mechanisms – the EEA Financial Mechanism and the Norwegian Financial Mechanism
FMO – the Financial Mechanism Office
FP – the National Focal Point
IMF – International monetary fund
Law – the Law on Management of the Financial Mechanisms 2009 – 2014
MCS - Financial Mechanisms` Management and Control System
MoC – the Ministry of Culture
MoEPDR – the Ministry of Environmental Protection and Regional Development
MoES - the Ministry of Education and Science
MoF – the Ministry of Finance
MoU – the Memorandum of Understanding on the Implementation of the EEA Financial Mechanism 2009– 2014
NGO – Nongovernmental organization
OC – Open call
PA – Programme Agreement
PIA – Programme Implementation Agreement
PMCS – Programme management and control system
PO – Programme Operator
PP – Programme Proposal
PMB – the Procurement Monitoring Bureau
Programme Regulations – CoM Regulations on implementation of respective Programme
Regulation – the Regulation on the implementation of the EEA Financial Mechanism 2009-2014
Scholarship and Research Programme – Programme LV05 “Norwegian-Latvian Research Support Fund and Scholarship Programme”
SACD – the State Aid Control Department of the MoF
SIF – the Society Integration Foundation
TAF – the Technical Assistance Fund 2011-2017 (including Bilateral Fund at National Level)

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1 Executive summary

According to the Article 2.2, Paragraph 1, of the Regulations the MoF, acting as the FP for the implementation of the Financial Mechanisms in Latvia, has prepared the “*Strategic Report on the implementation of the EEA Financial Mechanism 2009-2014 in Latvia April – December 2012*”. Before submission to the donor states according to the requirement set out in the Article 4.4, Paragraph 4, of the Regulations the Strategic Report has been approved in the written procedure on 26 March 2013 by the Monitoring Committee of the Financial Mechanisms. All comments and proposals received from the Monitoring Committee were taken into account within elaboration process of the Strategic Report.

The Strategic Report will be discussed during the Annual Meeting with representatives from the donor states planned for 29 May 2013.

This document aims to present the process of the preparation and the implementation of the Financial Mechanisms in Latvia, displays actual situation and describes activities planned for the next reporting period – the year 2013.

2 Assessment of impact at national level

The Baltic States, especially Latvia were amongst the worst hit countries by the global financial crisis. Shortly after Iceland went bankrupt on October 2008 and after taking over one of the largest banks of Latvia by the state the government of Latvia made a decision to enter the IMF and EU supported International Loan Programme to cope with the crisis in the country, but in return it was forced to adopt very strict austerity measures imposed by the IMF. In the result the Latvian GDP fell by 18% in 2009 causing the unemployment rate to grow as high as nearly 20% in 2010, showing little signs of recovery. However by the end of 2010 some signs of stabilization in the Latvian economy could be already observed.

The International Loan Programme for Latvia was planned in the total amount of 7.5 billion euro, but in view of the fact that the economic and financial situation in the country stabilized and improved, Latvia did not use in full the available loan. Within the framework of the Programme Latvia has used in total 4.4 billion euro.

In June 2012 the IMF recognized Latvia's accomplishments in bringing order to the country's economy, encouraging Latvia to complete three more tasks – to join the Eurozone, to promote economic competitiveness and to reduce social inequality, which are high on political agenda of the country.

Besides, at the end of 2012 Latvia made a pre-term repayment of the reminder of the loan, which allowed successful closure of the programme and signalled stable economic growth in the country.

National Development Plan

In December 2012 the government of Latvia adopted the National Development Plan 2014-2020¹, which determines most important medium-term priorities, areas of actions, objectives and indicators for their implementation. The Financial Mechanism will contribute to some of the priorities defined in the Plan, in particular to:

- **Research and Innovation** by Scholarship and Research Programme and Climate Programme;
- **Growth of the National Economy** by Climate Programme;
- **Human Securitability** by NGO Fund and Cultural Heritage Programme.

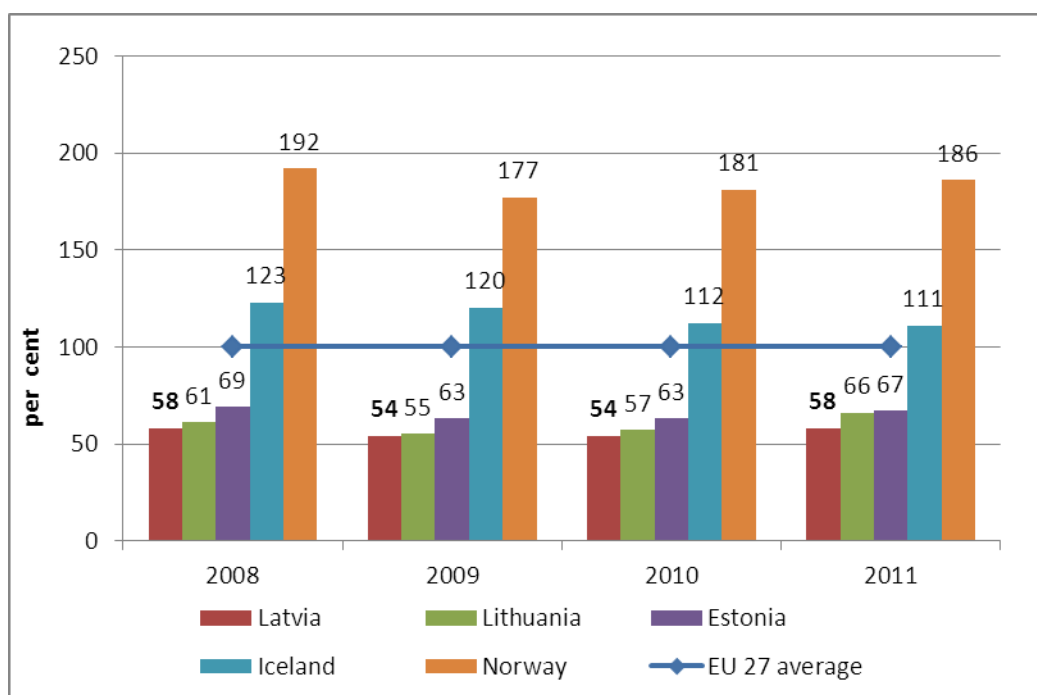
It can be concluded that all programmes comply with the priorities set in the Plan, in particular cases one programme can even comply with more than one priority.

Gross Domestic Product

GDP per capita based on purchasing power parity allowing comparing the level of well-being of the populations of different countries and the rate of economic growth shows that Latvia is the third poorest EU country following Bulgaria and Romania. Its GDP per capita even though regained the pre-crisis level, still constitutes about a half of the average EU 27 and is about one third of the Norwegian volume of GDP per capita.

Chart 1 GDP per capita (% of average for EU-27, According to Purchasing Power Parity)

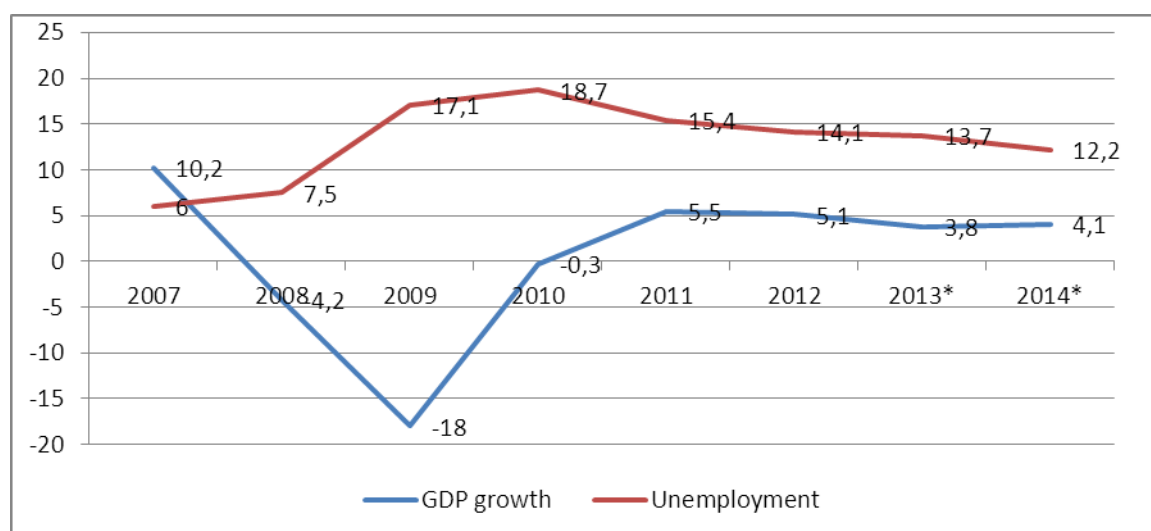
¹ http://www.nap.lv/images/NAP2020%20dokumenti/NDP2020_English_Final.pdf



Source: Eurostat

Nevertheless, according to the Central Statistical Bureau of Latvia, in 2012 the GDP in comparable prices grew by 5.2% making Latvia the fastest growing economy in the European Union in 2012.

Chart 2 Actual GDP growth rate and unemployment dynamics (%) in Latvia over the period 2007-2012 and forecast for 2013 and 2014



Source: The Central Statistical Bureau of Latvia

* EC's economic forecast for Latvia

According to the statistics the largest contribution to growth in 2012 came from domestic trade, manufacturing, construction and transport sector, together accounting for two-thirds of GDP increase. It is primarily these branches that are expected to continue to determine the GDP dynamic. Considering data on 2012, the Ministry of Finance estimates that the GDP at current prices will reach the pre-crisis level in 2013. The GDP growth forecast for 2013 has been set at 3.7 per cent. Being a small

and open economy Latvia's economic growth is to a great extent dependant on the processes in other countries with which it has close economic ties. Considering that Latvia's largest export partners are its neighbouring countries Lithuania and Estonia, which also are on the path of a rapid post-crisis economic growth, as well as Germany, which is a large and stable economy, there are good perspectives to achieve the forecasted growth level. The continuous rapid growth of the Latvian economy depends on a favourable external market situation, but considering the gradually improving labour market situation and increasing average wages in the country an increasing domestic consumption would also contribute to overall economic growth. The latest retail trade indicators already show optimistic trends².

Table 1 GDP growth rate dynamics (%) in the beneficiary countries and Iceland over the period 2008-2012

Country	2008	2009	2010	2011	2012
Iceland	1.2	-6.6	-4.0	2.6	2.3
Bulgaria	6.2	-5.5	0.4	1.7	0.8
Cyprus	3.6	-1.9	1.3	0.5	-2.3
Czech Republic	3.1	-4.5	2.5	1.9	-1.1
Estonia	-4.2	-14.1	3.3	8.3	3.5
Greece	-0.2	-3.1	-4.9	-7.1	-6.4
Hungary	0.9	-6.8	1.3	1.6	-1.7
Latvia	-3.3	-17.7	-0.9	5.5	5.2
Lithuania	2.9	-14.8	1.5	5.9	3.6
Malta	3.7	-2.7	2.7	1.6	1.0
Poland	5.1	1.6	3.9	4.3	2.0
Portugal	0.0	-2.9	1.9	-1.6	-3.2
Romania	7.3	-6.6	-1.1	2.2	0.2
Slovakia	5.8	-4.9	4.4	3.2	2.0
Slovenia	3.4	-7.8	1.2	0.6	-2.3
Spain	0.9	-3.7	-0.3	0.4	-1.4

Source: Eurostat

Unemployment

Registered unemployment rate continued to decrease in 2012 and at the end of the year was 10.5% of the economically active population or 14.1% of population between 15 and 75 years of age. The number of the unemployed has dropped by 20.1% during 2012. By the end of 2012 the lowest unemployment rate was in Riga region – around 6.8% of the economically active population, while in Kurzeme region the registered unemployment rate was around 11%, in Zemgale region – around 12% and in Vidzeme region – around 13%. The highest unemployment rate remains in Latgale region – around 21% of the economically active population. During the 2012 the number of registered unemployed in all regions kept decreasing - in Riga region it

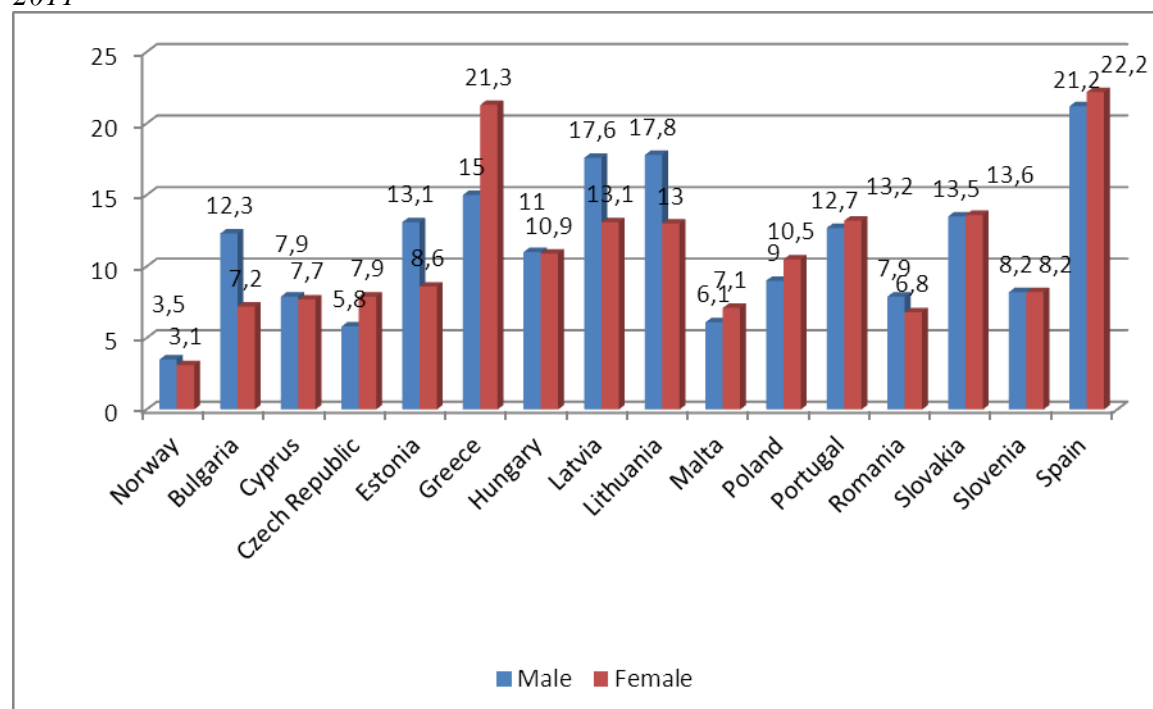
² Central Statistical Bureau of Latvia „Retail trade turnover in December 2012”, 30.01.2013

has dropped by 27.4%, in Kurzeme region –by 20.2%, in Zemgale region –by 20.2%, in Vidzeme region –by 14.9% and in Latgale region –by 11.9%.

The chart in the Annex 6.4 of this Report clearly shows that the global financial crisis reached its peak in Latvia in 2009-2010. This was the time the economy of Latvia reached the lowest point and the unemployment reached the second highest position in the EU after Spain. However, already by the end of 2011 the first signs of recovery became obvious. Even though some sceptics tend to lessen the significance of the positive employment statistics by attributing the reduced unemployment rate indicators to the vast numbers of emigration, yet the growing GDP figures cannot be denied. Besides one should also consider the share of shadow economy that also increased during these years. According to latest data of the National Work Inspection nearly 3 000 illegally employed persons have been detected during the Inspection's on-the-spot controls in 2012 alone, which reveals the fact that there is still a relatively large share of the so-called unregistered employment in Latvia. It is still quite common that people officially register as unemployed yet continue working illegally, thus getting both the unemployment benefits and salary.

Looking at the unemployment from a gender-based perspective it appears that in some countries like Bulgaria, Estonia, Latvia and Lithuania there is a higher male unemployment exceeding female unemployment by 4.5%-5%, while in other countries, especially Greece, the Czech Republic, Portugal and Spain female unemployment is dominant. In Latvia male unemployment exceeded female unemployment by 4.5% in 2011, while in Greece it was quite the opposite – male unemployment was by 6.3% lower than female unemployment. Also in Norway male unemployment indicator slightly dominates female unemployment indicator, even though by only four per cent points.

Chart 3 Unemployment rate by gender in the beneficiary countries and Norway in 2011

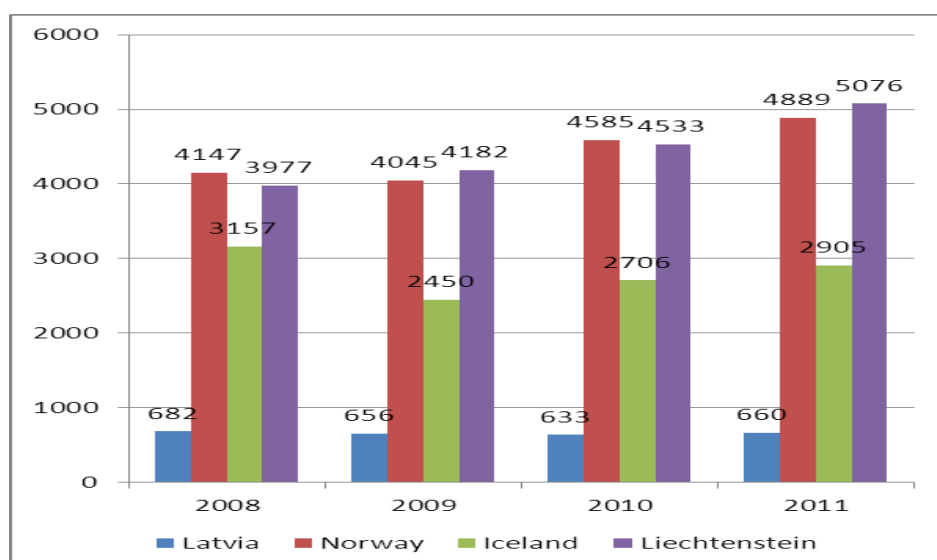


Source: Eurostat

Labour costs

Disparities between Latvia and the donor states become the most evident when it comes to salaries. It is also clear that the salaries cannot directly be compared between the donor states and Latvia as the cost of living and tax load also greatly differs in these countries, nevertheless the significant difference is obvious and undeniable. On the other hand the low labour costs make Latvia more competitive and more attractive to potential investors who look for opportunities to expand their business. At the same time nearly 40% of the Latvian population are at risk of poverty or social exclusion³, which to a large part can be attributed to the consequences of the crisis, as well as the severe austerity measures taken to remedy the economy. A large number of the population have left Latvia for a search of a better life. Before the global crisis broke out one of the most popular destinations for the Latvian expatriates was Ireland and UK, but when crisis hit Europe, many Latvians have found their homes in Germany and Norway as well.

Chart 4 Comparison of average gross monthly wages in Latvia and the donor states, EUR



Even though the nominal figures for wages in Latvia look dramatic compared to those of the donor states, the trend shows that Latvia is getting out of the crisis and is approaching the pre-crisis level. The average salary figures show that the worst situation in Latvia was around 2010, when its economy reached the lowest mark. Nevertheless Latvia has managed to reorganize its economy and is now the fastest growing economy in the European Union. The average gross monthly wage reached and even slightly exceeded the pre-crisis level by the end of 2012 reaching 684 euro. It is expected that the average gross monthly salary in Latvia in 2013 will reach the level of 709 euro, which would be the highest level ever since re-gaining its independence.

Table 2 Average gross monthly wages by genders in Latvia and the donor states over the period 2008-2012, EUR

Averag	Latvia*	Norway**	Iceland***	Liechtenstein****
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³ Eurostat News release STAT/12/171 3 December 2012 „At risk of poverty or social exclusion in the EU27. In 2011, 24% of the population were at risk of poverty or social exclusion”

e wages, EUR	total averag e	male	femal e	total averag e	male	female	total averag e	male	female	total averag e	male	femal e
2008	682	700	593	4629	4982	4181	2649	2905	2112	5113	5589	4498
2009	656	733	615	4792	5131	4344	2468	2649	2088	5113	5589	4498
2010	633	683	556	4982	5335	4534	2555	2736	2193	5066	5514	4534
2011	660	703	586	5172	5538	4724	2736	2934	2334	5066	5514	4534
2012	684	727	586	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*Central Statistical Bureau of Latvia

** Statistics Norway

*** Statistics Iceland

**** Liechtenstein Amt Für Statistic

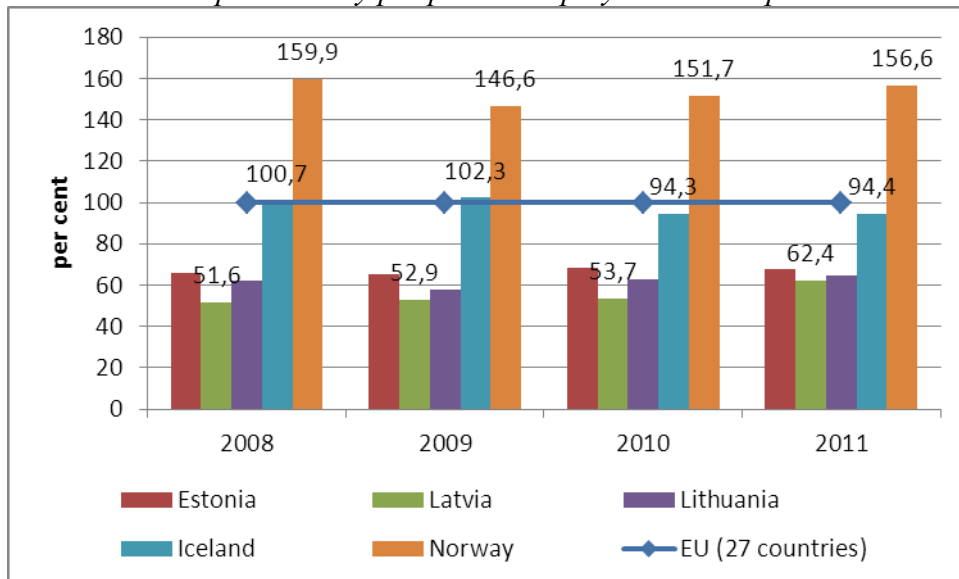
The average annual national currency exchange rate of the respective year was used for calculation of amounts into euros:

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00033&plugin=1>

Productivity

As regards labour productivity the statics show that in comparison to the average EU-27 the indicator for Latvia has been constantly increasing even during the period of the global economic recession.

Chart 5 Labour productivity per person employed over the period 2008-2011



Source: Eurostat

In 2008 in Latvia productivity per one employed person was 51.6 % of the respective indicator in the EU-27. For comparison in Estonia this indicator was 65.8%, in Lithuania – 62.1%. The lowest indicators of productivity in the EU-27 were among the newest Member States – Bulgaria 36.5%, Romania – 47.7%. In 2011 the labour productivity in Latvia had increased to 62.4% of the respective indicator in the EU-27. Over the 4 years period this indicator has increased in all 3 Baltic States, yet Latvia presents the steepest leap among them. Estonia has progressed from 65.8% in 2008 to 68% in 2011, whereas Lithuania from 62.1% in 2008 to 64.8% in 2011.

Economic cooperation between Latvia and Norway

Importance of economic relations between Norway and Latvia increased substantially during the last 10 years. It is confirmed by both the increased amount of foreign trade for more than 3.5 times and substantial growth of Norwegian foreign direct investments in Latvia.

Norway has been one of the 10 biggest trade partner states in last 5 years, by constituting on average 2.5% from total export amount of Latvia. Amount of export to Norway increased more than 3.5 times within last 10 years and in 2012 it increased by 18% if compared with export data of 2011. Mainly wood and metal goods are exported to Norway. Each of mentioned groups constitutes around 20% from total export to Norway and 3% from total export of wood and metal goods of Latvia. More than half of import (60%) constitutes import of mineral products (mostly electrical energy), but amount of services' import is comparatively low.

In 2012 the Norwegian investments in Latvia were on the 5th place if compared by accumulated direct investment amounts in Latvia. The Norwegian direct investments are mostly concentrated in sectors like financial brokerage (for example, one of the biggest banks in Latvia – JSC “DNB bank”), wholesale trade and retail trade (for example, Narvesen, Statoil Fuel & Retail, Moller Auto), as well as agriculture and forestry.

2.1 Cohesion

The first overall objective is to reduce social and economic disparities within the EEA. The above reflection on the macroeconomic disparities between the donor states and Latvia clearly justifies the need for cohesion. Considering the size of the Financial Mechanism to Latvia as well as the areas of support the impact to the Latvian economy would be difficult to measure, nevertheless the contribution of the grants should not be undermined. Even though the largest contribution to GDP growth in 2012 came from domestic trade, manufacturing, construction and transport sector, and these branches are expected to continue to determine the GDP dynamic, the sectors supported by the grants would also have their impact. The areas determined for the grants support are important for development of a cohesive society in Latvia and to promote reduction of economic disparities.

Each programme will contribute to achievement of the overall objective in its own way.

Climate Programme will contribute to achievement of the following outcomes:

- 1) Improved environmental information on impact, status and trends;
- 2) Developed strategies and measures for adapting to a changing climate;
- 3) A less carbon-dependent economy.

The programme will strengthen the Latvian institutional capacity in national climate policy development and implementation including information analysis, scenario development, policy analysis and development of documents for integrated management of climate change mitigation and adaptation to climate change, development of emission reduction technologies and society involvement measures.

NGO Fund will contribute to achievement of the following outcomes:

- 4) Active citizenship fostered;
- 5) Provision of welfare and basic services to defined target groups increased;
- 6) Democratic values, including human rights, promoted;
- 7) Strengthened capacity of NGOs and an enabling environment for the sector promoted.

The programme will foster reduction of social and economic disparities by supporting daily NGO activities in the areas of democracy and participatory democracy; human rights, including minorities rights; good governance and transparency; combating racism, xenophobia and discrimination; gender equality and reduction of gender-based violence and environment and sustainable development, supporting their activities aimed at the social sector, including provision of welfare and basic services, local and regional NGO initiatives to reduce social inequalities and to promote social inclusion and gender-equality, including support to children and youth at risk, as well as by developing a cohesive society – intercultural dialogue and integration of national minorities, including strengthening of human rights and national identity, awareness-raising informative and educational activities on citizenship issues and language training promoting democratic participation, prevention of discrimination, promotion of tolerance and acquisition of citizenship. Supporting NGO activities will provide opportunity to improve the socio-economic situation in Latvia, thus, improving Latvia's competitiveness in the EEA and increasing overall stability in the region.

Cultural Heritage Programme will contribute to achievement of following outcomes:

- 1) Cultural heritage restored, renovated and protected;
- 2) Cultural heritage made accessible to the public;
- 3) Contemporary art and culture presented and reaching a broader audience.

The programme is expected to have a positive impact on development of cultural environment and conservation, restoration and availability of cultural values in Latvia. The programme will result in ensuring the revitalization and conservation of significant cultural heritage objects and promotion of diversity of culture and art serving as an important factor for improving quality of life of people, as well as economic regeneration of territories by attracting cultural tourists to regions, by improving quality of living environment, and by facilitating creation of new jobs and inflow of investments, thus promoting long-term sustainability and facilitating reduction of social and economic disparities among Latvia and other countries of the EEA.

Risks at National level

To ensure qualitative risk management of the Financial Mechanism implementation within the MoF a *Risk Management Group* for the *EU Structural Funds, Cohesion Fund, Financial Mechanisms and Swiss Programme* was established in 2011. The main tasks of the group are:

- to harmonise Risk Management Strategy;
- to assess risks;
- to update the Risk Register.

Risk management includes the following steps:

- identification of risk events;
- risk analysis, assessment and classification, as well as selection of Risk Management Strategy;
- Risk Management Strategy implementation and monitoring.

To obtain a systematic, integrative and evaluative view of the risk management system a Risk Register was created. It contains information on risks, controls, monitoring and responsible persons and includes strategic, financial, compliance and operational risks. It is updated and monitored biannually.

A number of risks could impede efficient implementation of the Financial Mechanism. The FP has defined a strategic risk – achievement of programmes' outcomes and outputs. All programmes' outcomes and outputs have been approved by the CoM as an *Indicative Target Profile* (in March 2013 together with quarterly report on implementation of EU Funds, Financial Mechanisms and Swiss Programme). The FP in cooperation with POs will ensure regular monitoring progress on achievement of the programmes' outcomes and outputs.

Another major risk – not reaching the objective of social and economic cohesion in the framework of the Financial Mechanism – is due to the relatively small amount of funds made available through the Financial Mechanism which could not be sufficient to create a visible improvement in reducing social and economic disparities.

Another risk that could impede acquisition of programmes' funding is infringement and error of procurement procedures, especially in cases of construction works where there is a high competition in the market and appeal procedures are often lodged after publication of results, which could result in delayed implementation of project level activities. To reduce the risk of procurement appeals the PMB will be involved in ex-ante verification of procurement documentation (see the Chapter 3.2 of this Report, section *EU legislation – Public procurement*).

Also issues regarding staff resignations of institutions involved in the Financial Mechanism's management or project promoters may also arise during implementation period, hindering efficiency until proper replacements are in place.

As regards risks that could impede achieving bilateral objectives in programmes and projects, the most significant risk relates to availability of the donor partners for their actual involvement in projects. Since there are many beneficiary countries most of the DPPs and project donor partners must share their attention among several countries at once making it difficult to concentrate on a particular project. Some POs have found it difficult to reach the prospective donor project partners even during the programme preparation phase. To avoid occurrence of similar situations in programmes' implementation phase the POs will ensure inclusion of specific conditions in the Partnership Agreements stipulating actions to be taken in case of a partners' limited or zero availability.

Risks at Programme level

Programme level Risk Management Strategy shall be described in Programme's MCS and annually reported in programme Annual Report. In general the POs have defined risks mostly in following areas for which the risk mitigation plan in each programme is in place:

- insufficient number of qualitative project ideas;
- availability of donor project partners;
- achievement of project results;
- lack of co-financing for projects;
- low participation of target groups and stakeholders due to lack of capacity or financial resources;
- long public procurement procedures;
- political and legislative changes, including changes in state aid rules since 2014;
- shortage of project implementation time.

2.2 Bilateral relations

Another overall objective is to strengthen bilateral relations between the donor states and the beneficiary countries in the priority sectors.

The FP in consultations with the Royal Norwegian Embassy in Riga, the FMO and the involved national level institutions has determined priorities to be supported from the Bilateral Fund at National Level. According to the latest Work Plan submitted for approval of the donor states there will be three main priorities supported:

- an international seminar on abolishing of administrative arrests in the second part of 2013;
- several bilateral cultural activities in the context of Riga – The European Capital of Culture 2014;
- bilateral events during the Latvian presidency of the Council of European Union in 2015. Specific topics to be covered under this priority to be discussed during the Annual meeting.

The programme level bilateral fund will be used to foster partnerships in the specific programme areas and to promote partnerships on project level. As during the reporting period the programmes have just been approved by the donor states and no actual projects have been started in 2012; the bilateral relations have been strengthened through the CC meetings, while discussing the forms of partnerships. Detailed list of activities financed from the Bilateral Fund during 2012 please find in the Annex 6.3 of this Report.

All of the approved programmes held their opening events in the reporting period, where the DPP representatives were also present sharing their ideas for bilateral cooperation within programmes and projects.

In Climate Programme bilateral relationships will be strengthened at programme and project level by a close cooperation in all levels with various public institutions from Norway.

NGO Fund aims at strengthening bilateral relations by facilitating cooperation between the NGOs in implementing various projects. Considering that the donor states' civil society traditions are developed much further compared to Latvia, cooperation projects will be a possibility for the involved organisations to take over the good practice and experience, to ensure knowledge transfer, build sustainable cooperation networks and develop common innovative ideas. The cooperation possibility will have added value for the NGO sector in Latvia in stimulating search for and establishment of partnerships with related organisations in the donor states.

In the framework of the NGO Fund opening event on 14 November 2012 a partner search match-making event took place where the Latvian NGOs could search for potential project partners from the donor states. The partner search forum was attended by 57 participants from 36 NGO organizations, including 11 organizations from Norway and participants from the Iceland Human rights centre and the Norwegian Helsinki Committee.

In Cultural Heritage Programme bilateral relations will be facilitated by both implementing activities within the programme bilateral fund and within projects of the Small Grant Scheme "*Cultural Exchange*" and by promoting establishment of cooperation with the donor states in the framework of pre-defined projects and projects implemented within the Small Grant Scheme "*Conservation of Cultural Heritage*". The main objective of the cooperation is exchange of experience and sharing information and knowledge on conservation of cultural heritage, as well as, different kinds of expressions of culture and art.

Summary on donor partnerships pre-defined projects within each programme please find in the Annex 6.1 of this Report.

3 Management and implementation

3.1 Management and control systems

National-level

The FP according to Article 4.1 and 4.8 of the Regulation has submitted to the FMO the Description of the MCS accompanied by the AA report and opinion about its compliance on 8 June 2012. As a result of the compliance audit a number of deficiencies were identified, which, together with recommendations and actions to address them were summarized in the Deficiencies Elimination Plan attached to the Compliance Audit Report. It was concluded that the MCS established by the FP, the CA and the AA in all key aspects has been established according to evaluation criteria except the compliance with the evaluation criteria that will be achieved after the implementation of recommendations provided in the Deficiencies Elimination Plan.

As well as taking into account that horizontal CoM Regulations were not developed at the time of compliance assessment that did not allow the AA to get an assurance on the following evaluation criteria:

- the MCS has been established taking into account proportionality for efficient achievement of the Financial Mechanisms' goals, however, it will be possible to evaluate it fully only after the implementation of recommendations provided by the AA;
- compliance of the POs, programme partners and Implementing Agencies will be checked within the framework of respective programmes' MCS compliance audits.

Follow-up of assessment results is reflected by the AA in the AAR for the period 28 April 2011 – 30 June 2012. In the result the AA concluded that till 18 December 2012 out of 29 recommendations:

- 16 were implemented;
- 2 were partly implemented;
- 11 were not yet implemented.

The AA evaluated the impact of non-implemented and partly implemented recommendations on the proper functioning of the MCS and concluded that recommendations are mostly medium and low impact because:

- 1) implementation of programmes and projects were not yet started;
- 2) only limited amount of expenditures were certified – only within the TAF;
- 3) the MCS, which was developed for the implementation of the TAF, functions effectively and no errors were found.

More detailed information is included in the AAR which the AA submitted to the donor states on 19 December 2012.

The deadline for fulfilment of those recommendations is tied to the approval of all horizontal CoM Regulations. Within reporting period only one *CoM Regulations on the Financial Mechanisms' Monitoring* were not adopted, this task was accomplished on 29 January 2013.

One partly implemented recommendation is addressed by agreement with the FMO on the PIA replacement with following national legislative acts – FMs' Management Law, the *CoM Regulations on the Financial Mechanisms 2009-2014 Management* and the *CoM Regulations on the Financial Mechanisms 2009-2014 Monitoring*. The final FP's statement that the above mentioned Latvian legislative acts include all

conditions of the PIA set in the Paragraph 3 of Article 5.8 of the Regulation was submitted to the FMO by the FP's letter No.16-6-01-1/8111 dated 18 December 2012. The second partly implemented recommendation regarding proportionality for efficient achievement of the Financial Mechanisms' goal will be implemented after all recommendations set in the Deficiencies Elimination Plan will be eliminated.

From 11 not yet implemented recommendations 7 are under responsibility of the FP and 4 under responsibility of the CA. These are mainly tasks related to the elaboration or updating internal guidelines for different aspects of implementation of the Financial Mechanisms. From 7 recommendations under responsibility of the FP one recommendation was implemented on 15 March 2013 when the MoF Guidelines on the MCS of the EU funds and other foreign assistance funds, including the Financial Mechanisms was amended.

According to the deadlines stated in the Deficiencies Elimination Plan all relevant FP's internal guidelines should be updated or elaborated by 14 May 2013 and for the CA's internal guidelines – by 14 April 2013. The AA will ensure the follow-up of the implemented recommendations set in the Deficiencies Elimination Plan. Accordingly, all AA's recommendations on the Description of the MCS compliance will be finally implemented.

In accordance with the CoM "*Procedures for Ensuring the Functions of the Audit Authority in the Management of the Financial Mechanisms for the Period of 2009-2014*" the FP shall submit to the AA the updated Description of the MCS till 31 August each year starting from 2013 till 2017. Accordingly, the FP will submit to the AA the first updated Description in the next reporting period – till 31 August 2013. Within reporting period the composition and procedures of the working groups established within the MoF or its subordinated institutions was updated:

- *EU Structural Funds, Cohesion Fund, Financial Mechanisms and Latvian-Swiss Cooperation Programme Risk Management Group* (the order of the MoF No.365 of 6 June 2012);
- *Work Group On Application of Financial Corrections in Projects Financed from the EU Funds, Cohesion Fund, Financial Mechanisms and Latvian-Swiss Cooperation Programme*" (the order of the MoF No.414 of 31 July 2012);
- *Work group On Performance of Ex-ante Procurement Checks, Solution of Established Problems and Updating of Ex-ante Procurement Checks Methodology* (the order of the PMB No.1-2/77 of 22 February 2013).

In order to ensure cooperation between departments of the MoF for fulfilment of the FP's functions the following internal rules of the MoF are in place:

- *How the MoF Ensures Implementation of the Financial Mechanisms' Project LV01 "TAF 2011-2017" in Cooperation with the CA and the PMB* (adopted on 20 February 2012);
- *On Implementation of the Financial Mechanisms' Project LV01 "TAF 2011-2017"* (updated on 19 February 2013).
- *On Cooperation during the Internal Audit Process in the MoF and Subordinated institutions* (adopted on 20 April 2012).

In order to ensure effective operation of the Financial Mechanisms' MCS and cooperation between EU funds departments of the MoF the number of internal guidelines are in place regulating implementation of the EU funds and other foreign assistance funds, including the Financial Mechanisms, in the following issues:

- on commencement of the implementation of the Financial Mechanisms` (updated on 5 November 2012);
- how the FP ensures appraisal of the PPs and conclusion of PAs (approved on 7 November 2011);
- how the FP ensures management and monitoring of the Financial Mechanisms (approved on 22 February 2013);
- on preparation of the MoF's quarterly informative report for the government of Latvia on the acquisition of the EU and other foreign assistance funds (updated on 19 June 2012);
- on planning of the state budget resources for the EU and other foreign assistance funds co-financed projects, handling of budget requests and monitoring of used budget resources (updated on 12 December 2012);
- on updating of the MCS (updated on 15 March 2013);
- on risk management (approved on 7 September 2012);
- on establishment and evaluation of the potential irregularities (approved on 30 October 2012);
- on making financial corrections within projects (approved on 21 June 2011).

Programme level

The POs started elaboration of the PMCS only after approval of the PPs by the donor states. By the end of January 2013 all PPs were approved. It is planned that PMCS will be submitted to the AA for its assessment for:

- NGO Fund on March 2013;
- Cultural Heritage Programme on May 2013;
- Climate Programme on June 2013;
- Scholarship and Research Programme on July/August 2013.

3.2 Compliance with EU legislation, national legislation and the MoUs

National legislation

The main legal act in Latvia which regulates Financial Mechanisms' implementation, management and monitoring is the Law, which is in force since 24 February 2012. The Law sets the implementation system of the Financial Mechanisms and functions of institutions involved in the Financial Mechanisms' management in Latvia.

In order to describe in more detail implementation procedures and functions of institutions involved in the management of the Financial Mechanisms following CoM Regulations were adopted:

- *Regulations for the rules of procedure for the Monitoring Committee of the Financial Mechanisms 2009-2014* (adopted on 26 June 2012, No.439);
- *Regulations on procedure how performance of functions of the Audit Authority within the Financial Mechanisms 2009-2014 will be ensured* (adopted on 24 July 2012, No.502);
- *Financial Mechanisms' 2009-2014 Management Regulations*, including procedure on state budget resources planning and payments (adopted 9 October 2012, No.694);
- *Financial Mechanisms 2009-2014 Monitoring Regulations*, including procedure on evaluations, controls, submission and review of reports on irregularities and recovering the expenditures unduly paid (adopted 29 January 2013, No 67).

In respect to replacement of the PIA with national legislative acts the situation is as follows. According to the national legal system the functions and responsibilities of the state institutions are determined in legislative acts or interinstitutional understandings (agreements). In general horizontal responsibilities and functions which are mandatory to several state institutions (all POs in Latvia are state institutions) should be determined in the legislative acts instead of the interinstitutional understandings. Additionally, the requirements for elaboration of legislative acts stipulate that functions which are mandatory and horizontal for several state institutions should be determined in documents with equal level of legal importance.

Accordingly with reference to the discussions held at the previous Annual Meeting in Riga on 23 May 2012 and following correspondence with the FMO, the FP proposed application of the exceptional case set in Paragraph 2 of Article 5.8 of the Regulation, stipulating replacement of PIA with national legislative acts of similar effect and content. All provisions for PIA which are set in the Paragraph 3 of Article 5.8 of the Regulation are covered by following horizontal national legislative acts for the Financial Mechanism:

- Law;
- Financial Mechanisms' Management Regulations;
- Financial Mechanisms' Monitoring Regulations.

Final FP's statement that above mentioned Latvian horizontal legislative acts include all conditions of the PIA set in the Paragraph 3 of Article 5.8 of the Regulation and warranty that the obligations of all POs in Latvia, as specified in the above mentioned legislative acts, are valid and enforceable under legislation of the Republic of Latvia was submitted to the donor states by the FP's letter No.16-3-01-1/811 dated 18 December 2012.

In respect to the challenges which Latvia is facing the FP could mentioned that each PO has to elaborate the CoM Regulations about respective programme's implementation, including the OC guidelines and project evaluation criteria.

According to national legal system all conditions to third persons (in this case project promoters) shall be issued as legal acts at least approved by the CoM. In order to be more user friendly for final beneficiaries the OC guidelines are usually drafted separately for each specific OC within one programme. Therefore it could turn out that several CoM Regulations are drafted for implementation of one programme. For example, for implementation of the NGO Fund 3 separate Programme Regulations were elaborated – one regulating general programme's implementation conditions and pre-defined project and 2 of them were separate OC guidelines for 2 separate outcomes under the programme.

At this stage from 3 NGO Fund Programme Regulations are adopted by the CoM on 9 October 2012:

- *NFO fund implementation procedure*;
- *OC guidelines of the sub-programme „NGO project measure“*;
- *OC guidelines of the sub-programme „NGO activity support measure“*.

As well as, as expected, on 26 March 2013 the Regulation on implementation of the Cultural Heritage Programme was adopted by the CoM. An OC guidelines for projects of Cultural Heritage Programme will be elaborated and adopted during the second quarter of 2013

The adoption of all Regulations for the Climate Programme and Scholarship and Research Programme are expected as well in the second quarter of 2013.

The FP confirms that elaborated legal acts regulating implementation, management and monitoring of the Financial Mechanism are in line with the MoU. As well as all institutions involved in the Financial Mechanism's management are set in the Law and the Description of MCS in accordance with the Article 4 and 5 and the Annex A of the MoU. The FP confirms that within reconciliation procedure of the Programme Regulations the compliance with the Annex B of the MoU will be checked.

Within reporting period the FP has submitted to the donor states 2 amendments in the MoU:

- on 2 February 2012 – regarding Cultural Heritage Programme on changes in pre-defined projects (merging of two similar content pre-defined projects in one and inclusion of new object);
- on 5 November 2012 – regarding Climate Programme by proposing to add new DPP – Norwegian Directorate for Civil Protection – and remove one of four expected outcomes (“Improved capacity at national, regional and local level to undertake energy efficiency measures”). On 28 November 2012 the donor states have accepted amendments only regarding appointment of new DPP.

Therefore, the approval of proposed 2 amendments in the MoU by donor states are outstanding issue and should be agreed in Annual Meeting.

EU legislation – State aid

In order to provide monitoring of the state aid issues the institution responsible for the state aid issues in Latvia – SACD of the MoF has been involved in the programme reconciliation procedure at national level.

Firstly within national approval process of the PPs all of them were submitted for evaluation to the SACD. Afterwards the SACD will be involved by providing the opinion on the Programme Regulations with regards to state aid issues.

EU legislation – Public procurement

In previous Financial Mechanisms' period all irregularities were detected as infringement of public procurement procedures within projects (except on which was fraud case). Accordingly the FP considered solution to minimize irregularity cases related to public procurement in this Financial Mechanisms' period. The FP consulted with the PMB for its involvement in the management and implementation system of the Financial Mechanisms as it was involved in EU Funds implementation system. The obligations of the PMB related to the Financial Mechanisms are set in the Article 12 of the Law as well as in the Chapter 2.6 of the MCS. The PMB will ensure following functions:

- perform selective risk based ex-ante checks of procurement documentation and procedure of public procurement within projects;
- provide for institutions involved in the Financial Mechanisms' management consultations and opinion on public procurement issues related to projects co-financed by the Financial Mechanisms.

More detailed procedure of selective ex-ante procurement checks are set in the Chapter VII of the *Financial Mechanisms' Management Regulations*. Regulations foresee at the programme level that:

- the PO shall submit the programme's procurement plan to the PMB within one month after approval of the programme and once in a year the procurement plan shall be updated;
- ex-ante procurement checks of the programme administration's costs (management, programme bilateral Fund and complimentary actions) will be carried out by the PMB.

Regulations foresee that at the project level:

- the project promoter shall submit the project's procurement plan to the PO within 5 working days after conclusion of the Project Contract and shall update it annually;
- the PO shall submits information on procurements within projects which fall under the PMB competence checks;
- ex-ante procurement checks of the projects will be carried out by the PMB and the PO;
- the PMB will ensure following selective ex-ante procurement checks:
 - within the pre-defined project for procurements falling under the Public Procurement Law;
 - where the planned amount of the public construction contract exceeds 500 000 lats (around 351 400 euro);
 - where the planned amount of the public contract on supply of goods or services exceeds 150 000 lats (105 400 euro);
- the PO within the calendar year shall carry out selective ex-ante checks at least 40 % of procurements under threshold set in the Public Procurement Law:
 - procurements starting from 3 000 lats (around 2 200 euro) for contracts on supply of goods or services;
 - procurements starting from 10 000 lats (7 000 euro) for public construction contracts.

In order to ensure functions of the PMB it has elaborated:

- *Procedure how the PMB Carries out Ex-ante Procurement in Projects and Verifies Ex-ante Procurement Checks Carried out by the POs and the Agencies* (adopted on 28 September 2012);

- *Methodology of Ex-ante Controls to be Carried out by the POs and the Agencies for Projects' Procurement Documentation and Procedure of Public Procurement* (adopted on 1 November 2012).

Whereas in order to exchange experience and solve questions related to public procurement ex-ante checks, the representatives of the FP, the POs, the Implementing Agencies, the AA and the CA are included in the composition of a specific work group “*On Performance of Ex-ante Procurement Checks, Solution of Established Problems and Updating of Ex-ante Procurement Checks Methodology*” (the PMB order No.1-2/77 adopted on 22 February 2013). The meetings of the work group is held quarterly. The first meeting was held on 29 November 2012.

3.3 Status of programmes from April till December 2012

Progress in programmes' approval

During the reporting period the donor states had approved all programmes proposed by Latvian authorities, except a proposal for the Scholarship and Research Programme which was approved on 23 January 2013. Please find below detailed information:

Table 3 Summary of the programmes

Title of programme	PO	Approval date	Grant, mil. EUR	Grant rate, %	Co-financing, mil. EUR	Co-financing rate, %
TAF	MoF	19.10.2011	691 000	100	0	0
NGO Fund	SIF	16.08.2012	10 365 000	95	545 526	5
Cultural Heritage Programme	MoC	10.09.2012	10 019 500	85	1 768 147	15
National Climate Policy	MoEPRD	20.12.2012	10 365 000	92,5	840 406	7,5
Scholarship and Research Programme*	MoES	23.01.2013	518 250	90	57 583	10
Total			31 958 750	92,5%	3 191 662	8,5%
Grand Total			35 150 412			

** Programme is supported by both Financial Mechanisms*

CC meetings

During reporting period several CC meetings were held in which the revised programme proposals were presented to the DPPs, the implementation of bilateral fund on programme and projects' level and timeline for further actions relating with the implementation of programme and its projects was discussed:

- on 27-28 June 2012 for Cultural Heritage Programme. On the first day the CC meeting was held in the Latvian Ethnographic Open-Air Museum, in the light to visit the port warehouse which will be restored within the pre-defined project “*Restoration of the Latvian Ethnographic Open-Air Museum's port warehouse*”;
- on 2 October 2012 for Climate Programme.

The participation of the FP's representative in the observer status was ensured in all CC meetings.

OCs undertaken

The project proposals will be selected through OCs in all programmes.

On 27 November 2012 the first two OCs were announced in the NGO Fund by the SIF:

- under sub-measure “*NGO activity support measure*” with the deadline for submission of project proposals till 28 January 2013;
- under sub-measure “*NGO project measure*” with the deadline for submission of micro project proposals till 25 February 2013 and for medium and macro project proposals till 11 February 2013.

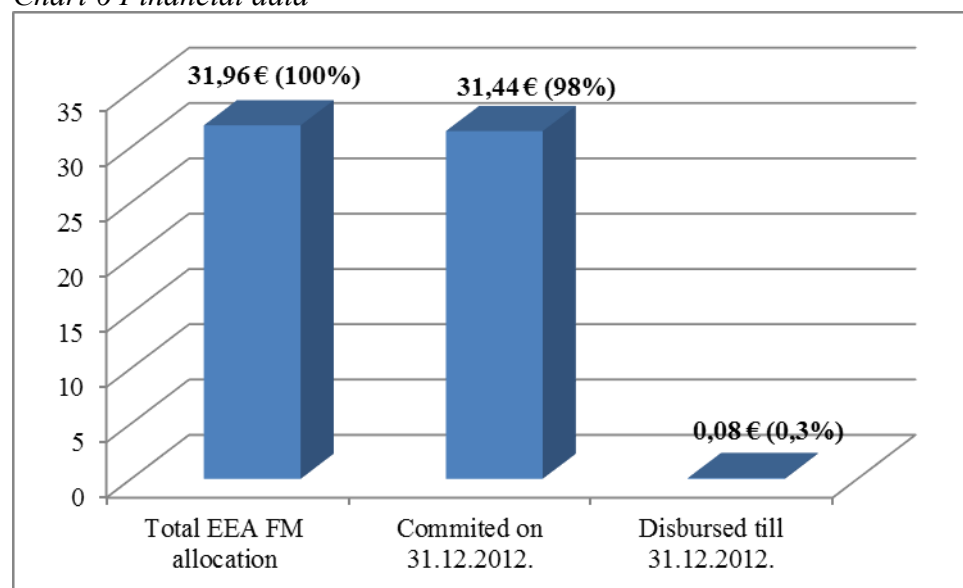
The SIF also has appraised the pre-defined project “*Support to sustainable civil society development and improvement of the monitoring system in Latvia*” and on 21 December 2012 has signed the Project Contract with the promoter.

More detailed information about each programmes' implementation progress, where POs are Latvian institutions, is included in the Chapter 4 of this Report.

Commitments and disbursements made

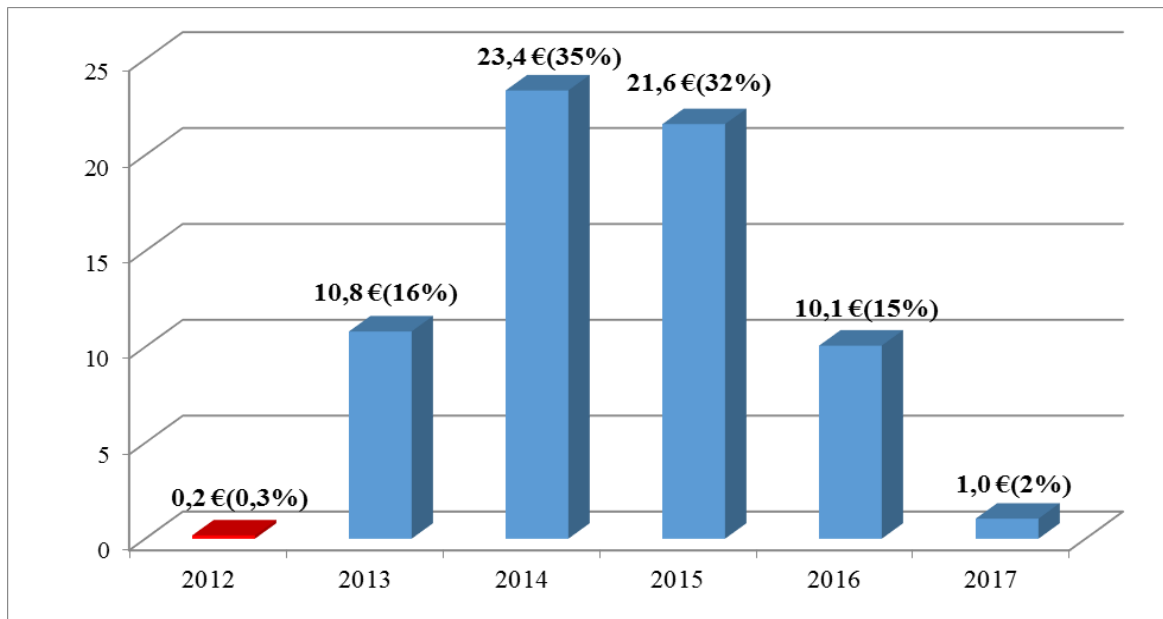
No disbursements have been made in the reporting period within the programmes. It is agreed that the first IFR of the programmes shall be submitted to the FMO on or before 15 July 2013 covering the period September 2012 - April 2013. Thereby first disbursements within the programmes will be received on or before 15 August 2013. Since on 19 October 2011 the agreement on the implementation of the TAF was signed, the first disbursements in amount of 81 945 euro have been received already for the funds spent till 31 December 2012.

Chart 6 Financial data



In total 67 094 750 euro (excluding Decent Work Programme) from both Financial Mechanisms is available for implementation of programmes. As can be seen in the chart below, in 2012 Latvia had received the disbursements in the total amount of 173 023 euro. The major payments to the project promoters are planned to be in the mid-phase of implantation of programmes. Please find bellow the CA's likely payment applications data submitted to the FMO by 20 February 2013 according to the Article 8.5 of the Regulations:

Chart 7 Forecast of likely payment applications over the period 2013-2017



Please find the detailed financial flow of each programme in the Annex 6.5 of his Report.

3.4 Irregularities

According to the Annex A of the MoU in Latvia the FP shall elaborate and implement a reporting system on irregularities in the framework of the Financial Mechanism. It shall be responsible for the preparation and submission of irregularities reports.

The FP has established following national legal acts, documents and files for detection, evaluation and reporting on the irregularities:

- Regulation of the CoM “*Financial Mechanisms 2009-2014 Monitoring Regulations*”, including procedure on evaluations, controls, submission and review of reports on irregularities and recovering the expenditures unduly paid” (adopted on 29 January 2013);
- internal procedure “*Procedure how the FP detects and evaluates possible irregularities and information provided by the institutions involved in the management of EU Funds, Financial Mechanisms and Swiss Programme about irregularities they have detected in the projects` implementation*” (adopted on 30 October 2012);
- internal procedure “*Guidelines on application of Financial Corrections in EU financed projects, including Financial Mechanisms*” (adopted by the FP on 21 June 2011);
- decree on establishment of “*Irregularity working group*” (adopted on 31 July 20120);
- Excel “*Register of Irregularity Cases*”, which will be regularly updated.

The roles and responsibilities of the FP in relation to irregularities are stipulated in the Regulation, in particular Article 11.3 thereof. In addition, the FP will ensure that all reports on irregularities and measures taken to prevent irregularities are reviewed.

The investigation of the irregularity case and the decision on applicable Financial Correction must be taken by the body which has detected an irregularity. If such decision is taken, the PO shall not include the expenditures recognized as unduly spent in the programme’s Interim Financial Report or Final Report.

In case when additional help with the received irregularity report is needed, the FP can suggest discussing the case within the Irregularity Working Group, which is comprised from representatives of the PMB, the CA, the AA and the FP (EU Funds Monitoring Department and EU Funds Management Systems Department). The aim of internal discussions is to solve unclear issues, to share experience and to align the approach in the application of the Financial Corrections.

Besides the reporting on irregularities to the FMO, the FP quarterly reports to the government of Latvia, about all detected irregularities by submitting an informative report on progress in the acquisition of EU Funds and other foreign assistance funds, inc., the Financial Mechanism.

There are no irregularities detected in the reporting period.

3.5 Audit, monitoring, review and evaluation

Single evaluation for the whole implementation period of the Financial Mechanism will be carried out by the FP's outsourced evaluation company as one of the TAF activities. The objective of the evaluation will be to evaluate effectiveness of the Financial Mechanism's contribution in Latvia; as well as to elaborate constructive conclusions and recommendations for further effective contribution from the Financial Mechanism in the development of respective priority areas (if such contribution will be allocated).

Within the reporting period one project audit for the TAF (2 Interim Financial Reports for period 28 April 2011 – 30 June 2012) was carried out. No errors or non-eligible expenditures were found. More detailed information is included in the AAR which the AA submitted to the donor states on 19 December 2012.

The AA has elaborated its plan for the period July 2013 – June 2014 as the AAR should be prepared based on audits carried out during this period according to the Article 4.6., Paragraph 1(e), of the Regulations (please see the Audit Plan in the Annex 6.2 of this Report).

Within the reporting period there were no system audits of programmes carried out by the internal audit structures of the POs. For the next reporting period there are two system audits planned – for Climate Programme and for NGO Fund (1. MCS's compliance, 2. Fund's commencement, preparation of OC's documentation, management of OCs and conclusion of project agreements, 3. Management of financial flow, control and monitoring of projects).

As the first PP's were approved only in fall 2012 there were no audits, monitoring, reviews or evaluations of the programmes carried out by the FP, the AA or the CA within the reporting period.

According to information provided by the POs there were no on spot checks of projects carried out by the POs within the reporting period as the first OC were launched only in November 2012 and pre-defined projects were not started as they were in evaluation process.

For next reporting period project on spot checks within programmes are planned to be held starting from the fall 2013.

3.6 Information and publicity

On 26 March 2012 the FP received confirmation of approved Communication Strategy 2009-2017. According to the strategy national Communication Management Group, which is responsible for provision and coordination of the communication process of the financial mechanism in Latvia, have gathered two times in 2012 to discuss about opening events and publicity requirements as well as exchange experience for further events.

Communication Strategy defines the period from October 2011 till December 2012 as programme launching stage. During this stage different activities have been implemented, such as provision of information for mass media, production of informative materials and souvenirs, maintenance of websites and organization of the Financial Mechanisms' launching event.



It was held on 3 October 2012 in Riga during “*Norwegian Days 2012*”. It was jointly organized by Norwegian Embassy in Riga and the FP. It was opened by the Ambassador of Norway to Latvia Mr. Jan Grevstad and the Minister of Finance Mr. Andris Vilks. The FP presented general information



about the opportunities provided by the programmes. It was followed by presentations of programme areas by each of the POs.

The official part of the event was held at the Latvian Academy of Music in Riga and was enriched by a jazz concert by Hank Mobley Tribute Band formed by six musicians: 3 Latvian and 3 Norwegian.



The FP is pleased about the good attendance (~180 participants from NGOs, different institutions etc.) of the event.

As well as representatives of mass media were presented and event was reflected in the national media of Latvia – news agencies and Internet portals.

Within reporting period the FP has distributed information (press releases) in the mass media, social media (twitter.com) and specific list of other recipients, has updated and published the information (press releases and short news) on the national website of the Financial Mechanism: www.eeagrants.lv. Distributed releases are as follows:

- **25.05.2012.** Donor states are satisfied with Latvia's progress in implementation of EEA/Norwegian Grants;
- **29.08.2012.** Donor states approved the first Financial Mechanism Programme - NGO Fund;
- **12.09.2012.** Donor states approved the next Financial Mechanism Programme – Culture Heritage Programme;
- **19.09.2012.** The launching event of the new EEA/Norwegian Grants period has been announced;
- **09.10.2012.** The CoM approved Regulations of the EEA/Norwegian Grants 2009-2014 Management;
- **09.11.2012.** Opening of the NGO Fund;
- **26.11.2012.** The launch of Culture Heritage Programme;
- **27.11.2012.** OC for projects under NGO Fund has been announced.

The POs have prepared the Programme Communication Plans, using the “*Guidance for the POs for development of Communication Plan for programmes*” as well as have published information about programme on their websites. In order to inform target groups about the Financial Mechanism, the POs have published and distributed dedicated informative materials – leaflets and souvenirs.

In December 2012 within the OC of the NGO Fund 9 informative seminars in all regions of Latvia were organised by the PO – 4 in Riga and 5 in regions.

Two POs have organized Launching Events in Riga during 2012:

- for Cultural Heritage Programme it was held on 27 November. Participants of the event had the opportunity to follow a number of presentations – about the cultural heritage protection principles, about the programme and the planned support for protection of cultural heritage and cultural diversity, as well as to get useful information about the opportunities of bilateral cooperation within the framework of the programme, which is strongly supported by its two DPPs;
- for NGO Fund it was held on 14 November. The participants of the event had an opportunity to follow a number of presentations about the programme and planned projects. The second part of the event was dedicated to promotion of mutual partnership in order to help potential project promoters to establish partnerships with donor states partners. Together with the launching of the fund, there was Partner Search Forum organized, attended by 57 participants from 36 NGOs, inc., 11 organizations from Norway and Island Human rights centre, Norwegian Helsinki Committee. In accordance with information provided by participants in the evaluation form of this event, 16 participants found a potential project partner, 7 did not, and 4 organizations signed letter of intent. During the forum there were 5 thematic round table working groups organized, which consisted of mixed Latvian and Norwegian organizations working with the following issues:

1. Environment/sustainable development. Professional social work development/ education;
2. Intercultural dialogue;
3. Reduction of social exclusion;
4. Reduction of social inequalities, poverty and social exclusion, including in rural areas;
5. Innovative social services.

In order to facilitate successful finding of a partner a Partner Search Tool was introduced on the PO's webpage www.sif.lv before the forum and also a Partner Search Form (Project Fiche) was elaborated. The information also was linked with the official Financial Mechanism's webpage www.eeagrants.org and with the Norwegian Helsinki Committee's web page www.ngonorway.no, as well as placed on the Norwegian Helsinki Committee Facebook profile. Beside that cooperation with Icelandic Human Rights centre was developed, and information about possible partnerships with Icelandic NGOs sent to the nominated contact person.

In each of the launching events the Ambassador of Norway to Latvia and representatives from the FP, and respective line ministries were presented.

Information and publicity activities planned in 2013 are included in the Work Plan for 2013 in the Chapter 3.7 of this Report.

3.7 Work plan

Work plan for the period January-December 2013 is presented in the table below:

Table 4 Work plan

Scope	Task	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Management of FM	1. The FP ensures that the last horizontal (national level) normative act regulating the monitoring of FM is approved by the CoM	14.02			
	2. The POs elaborate and ensure the approval of Programme Regulations in the CoM regulating implementation of respective programme, including OCs' guidelines and evaluation of pre-defined projects		LV05 LV04 LV02		
	3. The Monitoring Committee assesses the Strategic Report 2012	20.03.			
	4. The FP submits to the FMO the description of MCS of respective PO and their functions		LV03	LV02 LV04	LV05
Implementation of Programmes	1. The FP ensures signing of all four PAs between Latvia and donor states	LV04-21.02. LV02 and LV03-06.03.	LV05		
	2. Assessment of pre-defined projects		LV02 LV04		
	3. Signing pre-defined Project Contracts		LV02 LV04		
	4. Launch of the OCs	LV03 (1 st)	LV02 LV04 LV05	LV02 LV03 (2 nd) LV04	LV05
	5. Signing OCs Project Contracts		LV03	LV03 LV05	LV02 LV03 LV04
	6. Submission of first programme IFRs to the FMO			15.07.	
	7. The projects' on-spot checks				LV03
Bilateral relations	1. International conference " <i>Abolition of Administrative Arrest in Latvia: Challenges and Benefits</i> " organized by the MoJ within the Bilateral Fund at national level				x
	2. The POs organise kick-off meetings, match making events for donor partners' search		LV05 LV04		LV03
	3. Pre-defined project promoters sign Partnership Agreements		LV02 LV04		
	4. Implementation of Complementary Actions	LV03	LV03 LV04	LV03 LV04	LV03 LV05
	5. The POs organize CC meetings		LV02 LV04 LV05		LV04 LV02

Information activities	1. The FP organises public opinion poll for potential project promoters and society in order to determine current situation and aims in communication and information field		x		
	2. The FP updates information on www.eeagrants.lv	x	x	x	x
	3. The FP and all POs provide communication with media (press releases, interviews, social media, press conferences etc. about programme opening events, open calls, pre-defined projects, informative seminars and other issues)	x	x	x	x
	4. Radio broadcast about Grants and programmes organised by the FP and the POs				x
	5. Programmes' launching events where potential project promoters from Latvia can get useful information and meet with potential project partners from donor states		LV02 LV05		
	6. Informative seminars and conferences for potential project promoters	LV03	LV04	LV02 LV03 LV05	
	7. The POs update information on programme websites about programme opening events, OCs, pre-defined projects, informative seminars and other issues	x	x	x	x
	8. Promotion materials and souvenirs about programme for potential project promoters and general public ensured by the POs		LV03 LV05		

4 Reporting on programmes

NGO Fund programme

The programme was approved on 16 August 2012 and the draft programme Agreement harmonised by the end of the year. The programme launching event took place on 14 November 2012 as described in Chapters 2.2 and 3.6 of this Report.

To ensure maximum number of good quality projects the PO during fall/winter 2012 has carried out a number of activities, like:

- publishing information about the calls on the PO's website www.sif.lv;
- developing and distributing informative materials in Latvian, English and Russian;
- developing Partner Search Tool on PO's website;
- two Programme Regulations on guidelines for OCs of both measures elaborated and approved by the CoM on 9 October 2012;
- guidelines how to fill in application form elaborated and published on website;
- guidelines for applicants, the project application forms and selection criteria translated into English and published on website;
- guidelines for applicants translated into Russian and published on website;
- informative seminars for potential project promoters organised;
- OC for external experts and NGO representatives for Projects Selection and Monitoring Committee were announced;
- invitations to state institutions in order to delegate representatives within Projects Selection and Monitoring Committee sent;
- Project Contract and Partnership Agreement elaborated and translated into English and published on website;
- internal procedures concerning project selection elaborated and approved;
- improvements in the SIF's Electronic Project Management System made (modules for project submission and selection developed).

To ensure implementation of the pre-defined project „*Support to sustainable civil society development and improvement of the monitoring system in Latvia*” the PO during fall/winter 2012 has carried out following activities:

- Programme Regulation on implementation of the fund (incl., pre-defined project) elaborated and approved by the CoM on 9 October 2012;
- Projects Selection and Monitoring Committee established;
- project application evaluated, decision taken, Project Contract signed and an advance payment transferred to the project promoter.

During December 2012 the SIF organized 9 informative seminars for potential project promoters in all regions of Latvia, in the biggest cities – Riga, Talsi, Rezekne, Jekabpils, Valmiera and Liepaja. The seminars were very well attended by the participants from the NGO sector – in total 629 persons attended seminars, half of them in Riga, the rest - in other cities.

There were also 4 presentations regarding the fund given in the following events:

- the Financial Mechanisms launching event organised by the FP on 3 October 2012 in Riga (~ 180 participants);
- the seminar for NGOs on preparation of project applications organized by the association “*Civic Alliance-Latvia*” held on 1 November 2012 (~ 30 participants);
- the NGO forum of Vidzeme region organised by Valmiera Community Foundation in Cesis, held on 3 October 2012 (representatives from 80 organizations);

- the conference for youth workers and youth leaders organized by “*The Youth Leaders Coalition*” in Riga, held on 1 December 2012 (~ 128 participants).

The Cultural Heritage programme

The programme was approved on 10 September 2012. In the last quarter of 2012 elaboration of the Programme Regulation on implementation of the programme as well as other regulation on two OCs was initiated. On 26 March 2013 the first Regulation on implementation of the programme was approved by the government.

In order to ensure appropriate implementation of the programme additional staff for the programme administration will be recruited at the MoC. It is estimated that the necessary staff will be in place by April 2013.

On 27 November 2012 the launching event of the programme was organised in Riga where representatives of different cultural institutions and organisations participated. On 28 November the CC meeting was held in order to discuss the updated programme and the work plan for 2013.

In December 2012 the first visit to Norway financed from the programme bilateral fund (measure B) was organised in order to develop partnerships among the pre-defined project promoter JSC „*State Real Estate*” (Latvia), the State Inspection for Heritage Protection (Latvia), the Statsbygg (Norway) and the Directorate for Cultural Heritage (Norway).

In the end of 2012 harmonisation of the draft PA was ensured.

National Climate Policy

The programme was approved on 20 December 2012. In the end of 2012 harmonization of the draft PA was ensured. It was signed in 6 March 2013. The PO plans to organize programme’s launching event in June 2013.

The PO has started elaboration of 3 Programme Regulations – one will define main implementation provisions of programme and pre-defined projects, the second will be guidelines for applicants of OC “*Emission reduction technologies including renewable energy, sustainable buildings and technology development*” and the third one - for applicants of Small Grant Scheme “*Capacity Building in the field of research and measures for enhancing society’s understanding about climate change and its consequences*”. By the 2nd quarter of 2013 all Programme Regulations are planned to be approved by the CoM.

The evaluation and signing of pre-defined project contracts will be made in the 2nd quarter of 2013. The OC will be launched in the 2nd quarter of 2013 and under the Small Grant Scheme – in the 3rd quarter of 2013. Till the end of 2013 the PO plans to complete selection of project applications submitted within the OC and to sign project contracts.

As the programme was approved in the end of 2012, no programme level bilateral events have been organised. The programme level bilateral plan will be discussed in the CC meeting in the 2nd half of 2013 and the implementation of bilateral plan measures is planned to be started in the 1st half of 2014.

Scholarship and Research Programme

As the programme was approved on 23 January 2013, within reporting period no activities were carried out.

The PO in cooperation with the SEDA works on elaboration of Programme Regulations which are planned to be approved by the CoM in the 2nd quarter of 2013.

Under Scholarship Component two OCs will be launched: the first - in the 2nd quarter of 2013 making available 50% of available grant; the second - in the 4th quarter of 2013 making available the rest of available grant.

Under Research Component only one OC will be launched in the 2nd quarter of 2013.

5. Summary listing of issues and recommendations

Within the reporting period all four PPs were approved by the donor states. And the last one was approved on 23 January 2013. Accordingly Latvia is one of the first beneficiary countries whose all programmes were approved by the donor states.

All legislative acts establishing and regulating the horizontal (overall) implementation, management and monitoring of the Financial Mechanism in Latvia were adopted within reporting period. The last horizontal CoM Regulations of the Financial Mechanisms' overall monitoring were approved on 29 January 2013. In 2013 the work will continue – all POs need to approve in the CoM programme level regulations, setting procedures for implementation of a particular programme, evaluation/implementation of pre-defined projects and OC guidelines for projects to be approved within a particular programme.

The description of the MCS was elaborated and submitted to the donor states in due time according to terms set by the Regulation. The AA report states that the MCS has been established taking into account proportionality for efficient achievement of the Financial Mechanism goals, however, it will be possible to evaluate it fully only after the implementation of recommendations provided by the AA.

Donor partnerships are planned in all programmes – both at programme and at project level, thus covering all programme areas selected for implementation in Latvia. Within the reporting period several instruments to strengthen bilateral relations were used. From the Bilateral Fund between POs and DPPs as well as between pre-defined project promoters and potential donor project partners bilateral cooperation was fostered.

For example, a special matchmaking event for NGOs was organised in November 2012 together with NGO Fund launching event.

The FP would like to present examples of good practices, like:

- involvement of the SACD (responsible department with the MoF in the state aid matters) in the programme reconciliation procedure at national level thereby minimizing non-compliance to state aid regulation;
- involvement of the PMB (national institution regulating/monitoring procurement procedures) in the selective ex-ante procurement checks thereby minimizing irregularity risk related to procurement procedures within projects;
- within NGO Fund established “2 loop system” for selection of projects thereby minimizing amount of unsatisfied applicants. In the OCs it is foreseen that a lot of project applications will be received therefore only best ideas will be forwarded for submission to the final project selection phase in order to minimize administrative burden and costs of the PO as well as NGOs' costs for preparation of a final project application;
- most of POs are planning to organise matchmaking events for fostering cooperation between potential project promoters and donor project partners;
- the programmes' outcomes and acquisition of state budget financing for 2013 and planned budget financing flow for further years was approved as target profile by the CoM in March 2013.

As well as the FP would like to outline that regular workshops at the FMO and trainings in beneficiary countries (in Latvia on 5 March 2013) is a good and valuable practice to share experience and to solve issues together with donors and other beneficiary countries.

The following outstanding issues remain to be accomplished in 2013:

- Work Plan of the Bilateral Fund to be approved by the donor states;
- two MoU amendment requests of Cultural Heritage Programme and Climate Programme to be approved by the donor states;
- all four Programme Agreements to be signed between the donor states and Latvia (the task will be accomplished in April 2013);
- Programme Regulations (including, OC guidelines) need to be adopted by the CoM (Regulations on implementation of the NGO Fund Programme and Cultural Heritage Programme were adopted respectively in October 2012 and in March 2013).

6. ATTACHMENTS TO THE STRATEGIC REPORT

Annex 6.1

Summary on donor partnership projects within each programme

Title of Programme (No)	Title of pre-defined project	Objective of pre-defined project	Title of Donor partner from Norway	Main activities of Donor partner
EEA Financial Mechanism				
National Climate Policy (LV02)	1. Development of the National System for Greenhouse gas inventory and evaluation and reporting on policies, measures and projections	The main objective of the project is to strengthen Latvia's institutional capacity to improve the national system for preparing, analysing and reporting high quality information to ensure continuous improvements of the GHG emission inventory, policies, measures and projections and to comply with the relevant the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto protocol reporting requirements.	Climate and Pollution Agency (KLIF)	<p>1. KLIF will take part in the Project Steering Committee. The Project Steering Committee is a collegial institution formed by representatives from the institutions involved. The Steering Committee will monitor the implementation progress of project, evaluate results achieved and, if necessary for accomplishment of the Project goals, consider modifications of activities' plan.</p> <p>2. KLIF will take part in training seminars and experience sharing-events on national inventory system, research in agriculture and forestry sectors, Quality assurance/ Quality control procedures, LULUCF (<i>Land use, land-use change and forestry</i>) and F-gases.</p> <p>3. KLIF will also take part in project Conferences. The conferences will be the meeting and information exchange platform among Project partners and other stakeholders (e.g. experts and researchers) in order to provide information on the process of the Project implementation and to present Project's activities results to a wider</p>

				audience.
	2. Development of proposal for National Adaptation Strategy, including identification of scientific data, measures for adapting to changing climate, impact and cost evaluation	The main objective of the project is to prepare a proposal for National Adaptation Strategy. The Project includes activities on identification of existing and potential scientific data for adaptation monitoring system, identification of measures in the most vulnerable sectors, development of an impact scenario for 2050-2100, research on integrated mitigation and adaptation measures.	Directorate for Civil Protection (DSB)	<p>1. DSB will take part in the Project Steering Committee. The Project Steering Committee is a collegial institution formed by representatives from the institutions involved. The Steering Committee will monitor the implementation progress of project, evaluate results achieved and, if necessary for accomplishment of the Project goals, consider modifications of activities' plan.</p> <p>2. DSB will also take part in project Conferences. The conferences will be the meeting and information exchange platform among Project partners and other stakeholders (e.g. experts and researchers) and to provide information on the process of the Project implementation and to present Project activities' results to a wider audience.</p> <p>3. DSB together with other experts will contribute to development of adaptation monitoring system, suggest methodological approaches to sectoral risk and vulnerability assessments and assist in identification of adaptation measures by participating in seminars and conferences, offering their expertise.</p> <p>4. DSB together with other experts will provide peer-reviews to various research activities such as Flood risk maps, Maritime spatial planning and policy proposal for national adaption strategy.</p>
Cultural Heritage (LV04)	1. Restoration of Green Synagogue in Rezekne including the establishment of a wooden architecture heritage	To increase tourism flow in the historical centre of Rezekne by restoring the Synagogue and by	Blakstad Vocational School	1. Partner will be responsible for the restoration of interior wooden elements of the synagogue, monitoring of restoration methodologies, if necessary, for attraction of Norwegian restoration

	centre and creation of an exhibition of Jewish cultural heritage	establishing the Tourism Information Centre, the Wooden Architecture Heritage Centre and virtual exposition of Jewish cultural heritage, thus facilitating revival of historical centre of the city		<p>experts, putting in order adjacent territory, restoration of facade and support elements of the synagogue, as well as sharing experience of Norwegian restoration experts with school teachers of Latgale Region.</p> <p>2. Based on project's results and achievements, as well as on Norwegian experience, Rezekne City Council together with wooden house owners will elaborate concept of city priorities – conservation and restoration of wooden architecture objects.</p> <p>3. Teachers from the donor partner school will participate in training camps (2- in Latvia, 1- in Norway, Aust-Agder region) for teachers from all partner schools of the project. They will be trained in wooden restoration, colouring with colours suitable for restoration, plaster restoration works, restoration teaching methodology and creativity.</p> <p>4. One week long work camps for students from the partner school is foreseen in Rezekne City, by participating in the restoration of the synagogue, as well as experts and consultants will be involved. 16 students and two teachers from the partner school will participate in restoration works of the synagogue (mainly wood processing) four times during the project. Simultaneously also two Latvian partner schools' students (10 from each school) will take part in restoration works (wood material and wall painting restoration. Students will work in the synagogue separately, because the object size does not allow doing it all together. Bilateral cooperation and sharing of knowledge will be ensured by organizing meetings with</p>
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				students during the restoration works.
	2.Digitization of the cultural heritage of the Riga Art Nouveau Centre and development of virtual museum	To carry out the Riga Art Nouveau cultural heritage digitalisation and to create virtual museum, which would: build modern and for society accessible art space; ensure continuing of education; popularize national cultural heritage in Europe	The Art Nouveau Centre (Jugendstilsenter)	<p>There will be organised two experience exchange visits of representatives of the Art Nouveau Centre in Alesund to Riga, and three visits of representatives of project working group to Alesund, Norway. The main contribution of these visits will be the exchange with experience and consulting work with partners about operating a virtual exhibition in practice, selection of technologies, various softwares and attractive elements.</p> <p>It is planned to organize the consultations with experts of the Norwegian Art Nouveau Centre for creation of data bases and sharing experiences on operations of the Art Nouveau museums as well as creation, supplementation and maintenance of exhibitions.</p> <p>Elaboration of technical and design projects for creation of virtual museum will be carried out in partnership with experts of the Norwegian Art Nouveau Centre as well.</p>
	3.Restoration of the Latvian Ethnographic Open-Air Museum's port warehouse	Based on the international professional experience to ensure conservation of one of the oldest exhibitions of the Museum and to ensure its accessibility to the public by carrying out restoration of the building, conservation of large size objects and arranging open storage – arranging collection of large	n/a	<i>Partnerships to be developed during the project implementation</i>

		size wooden Ethnographic objects and for the first time making it accessible to the wide audience		
	4.Reconstruction of the Museum of Literature and Music	<ul style="list-style-type: none"> - Reconstruct the Museum of Literature and Music located in the historical centre of the capital next to the President residence of the Republic of Latvia in order to accommodate it for performance of entrusted functions and make its cultural content compliant with the modern requirements; - Arrange premises for public area of the Museum of Literature and Music in the reconstructed building: expositions and educational work in order to ensure an environment suitable for lifelong education needs of the public, create preconditions for operation of interpretation platform of cultural history attractive to local and foreign population; to expand amount of cultural environment fit for disabled persons in the city. 	n/a	<i>Partnerships to be developed during the project implementation</i>

	5. Restoration of the Museum of Rainis and Aspazija	Reconstruction and restoration of the Museum of Rainis and Aspazija in order to ensure preservation of the cultural heritage to next generations and provide availability of high-quality cultural services to all groups of the public.	Lillehammer Museum, Norway	<i>To be specified</i>
Scholarship and Research (LV05)	n/a	n/a	n/a	n/a

**Possible establishment of donor partnership at the project level*

Monitoring and audit activities plan for 2013

No	Audited system / programme / project	Audit type	Audit period
1.	NGO Fund PO's (SIF) MCS	Compliance assessment according to Article 4.8, Paragraph 4 of the Regulations	1 st and 2 nd quarter
2.	Cultural Heritage Programme PO's (MoC) MCS		2 nd quarter
3.	Climate programme (MoEPRD) MCS		2 nd and 3 rd quarter
4.	Scholarship and Research Programme PO's (MoES) MCS		3 rd quarter
5.	Project audit for the expenditure included in the certified Interim Financial Reports submitted to the FMO on 15.11.2012, 15.03.2013, 15.07.2013	Selective project audit according to Article 4.6, Paragraph 1(c) of the Regulations	3 rd quarter
6.	Compliance assessment follow-up and management and control system of the FP and the CA	System audit at the level of the beneficiary country according to Article 4.6, Paragraph 1(a) of the Regulations	3 rd and 4 th quarter

Annex 6.3

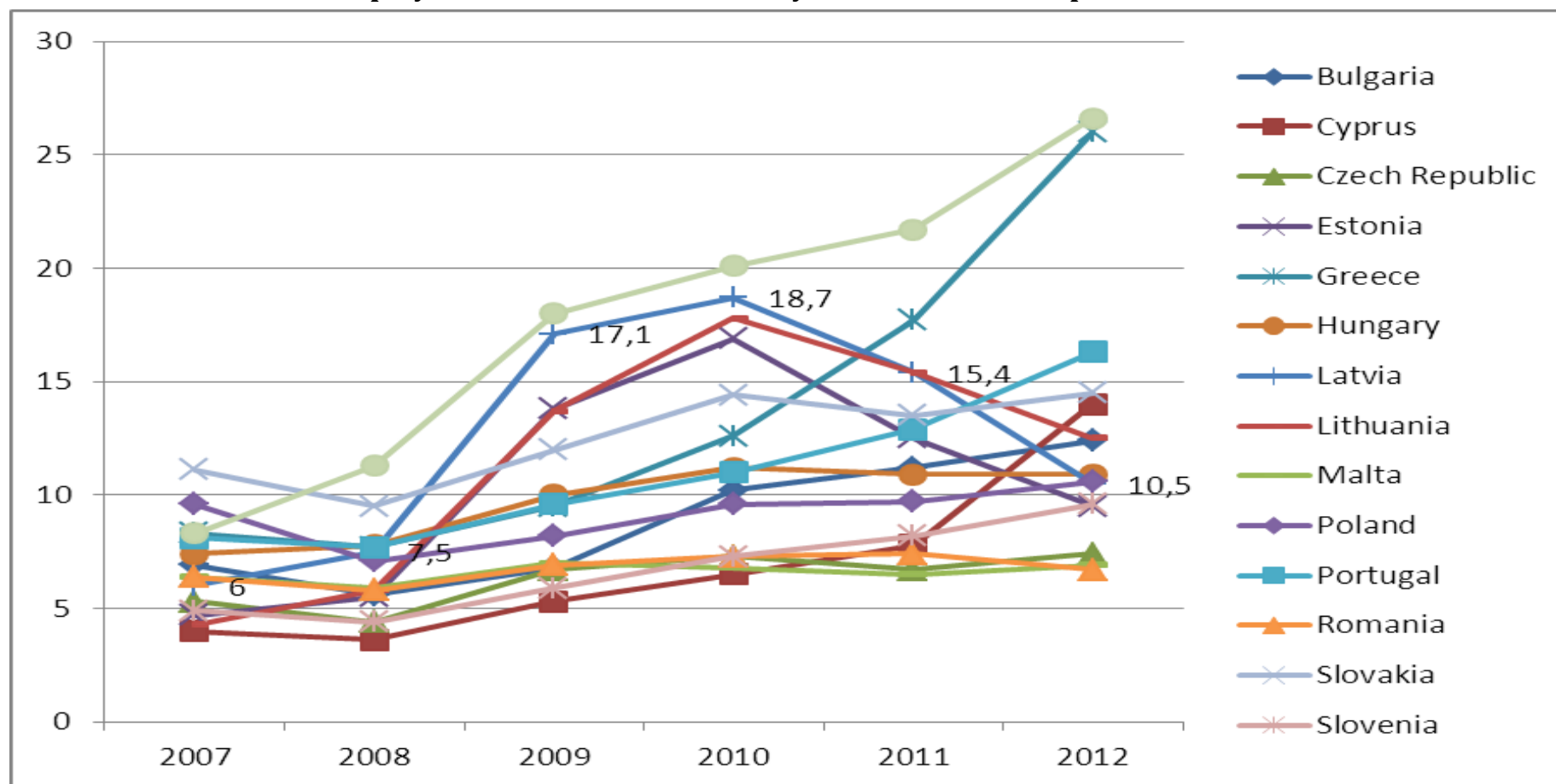
Bilateral Fund activities during 2012

Programme No.	Event	Aim and justification of event	Date of event	Type of expenditure	Amount, EUR
		GRAND TOTAL			48 536.60
LV02		Total LV02			3 396.65
	Seminar in Latvia	To foster further cooperation with the DPP and to ensure efficient implementation of the programme. Seminar was organised to discuss several topics with representatives of the programme target groups invited. A visit to the Nature Protection Board as well as to and object financed by the KPFI was organized.	08.-09.05	catering, transportation	1 582.53
	Conference in Oslo	To mark the beginning of the new programme cooperation within the various areas linked to environmental protection and climate change, Norway's Climate and Pollution Agency (Klif), Directorate for Nature Management (DN) and Directorate for Civil Protection (DSB) cordially invite you to the kick-off conference "New Opportunities for Environmental Cooperation in Europe" on 7 November 2012. The conference is organized in cooperation with the Norwegian Ministry of the Environment.	6.-7.11	travel costs and per diems	1 279.2
	CC in Riga	Meeting with DPP to discuss programme implementation and bilateral aspects in the programme projects.	2.10	catering	88.22
LV03		Total LV03			9 586.82

	Mission to Brussels	Workshop Gender Equality and Gender-Based Violence. The EEA and Norway Grants 09-14; Exchange of experiences and lessons learned so far (FMO organized seminar).	22-24.05	travel costs and per diems	1 229.62
	Mission to Oslo	Meeting with FMO and NMFA to discuss programme proposal as well as to meet with the Norwegian Helsinki Committee to discuss partnership possibilities within the programme.	14-15.05	travel costs and per diems	2 488.19
	NGO Fund operators meeting in Oslo	To discuss how to foster bilateral relations in projects, donor expectations, use of the bilateral fund and the fund for complementary actions, and the role of the Norwegian Helsinki Committee.	26-27.09	travel costs and per diems	1 376.36
LV04		Total LV04			16 116.40
	Visit to pre-defined project partners in Norway	CC members' and pre-defined project promoters' visit to Norwegian museums that could act as partners in the projects.	24.-26.04	travel costs and per diems	16 418.18
	Visit of potential partners for pre-defined project " <i>Restoration of the Museum of Rainis and Aspazija</i> " in Latvia	Introducing potential partners with the pre-defined project „renovation of Rainis and Aspazijas museum” objects and to agree on the terms of the future cooperation.	08.-10.06	catering and transportation costs	2 221.16
	Visit of pre-defined project " <i>Digitalization of the cultural heritage of the Riga Art Nouveau Centre and creation of the virtual museum</i> " partner to Latvia	To discuss the inputs of the Norwegian partner in the project, the amount of related financing and cooperation strategy.	27.-30.06	catering, travel and hotel costs	2 015.47

	CC in Riga	To discuss issues related to amendments to the programme proposal made in the programme appraisal process, the potential use of programme level bilateral fund, organizing of publicity measures, as well as to make on the spot visits of the pre-defined projects.	27.- 28.06	catering and transportation	306.16
	Launching event organized by donor states in Oslo	Launching event and contact seminar organised by the DPPs - The Norwegian Directorate for Cultural Heritage and the Arts Council Norway.	11.- 12.10	travel costs and per diems	1 970.61
LV05		Total LV05			19 436.73
	Seminar in Oslo	Information meeting: EEA funding for research cooperation with Central Europe (Organizer: Research Council of Norway (DPP)).	24.- 25.04	travel costs and per diems	2 835.50
	Conference in Bergen	Conference/ contact seminar for education institutions in the framework of EEA/ Norway grants. The aim of the conference/ contact seminar is to create a meeting/networking place for different institutions and provide information/advice on the participation in the grant schemes (organize Norwegian Centre for International Cooperation in Education (DPP)).	25- 28.04	travel costs and per diems	2 213.04
	Launching seminar in Reykjavik	Launching event and contact seminar organised by the Icelandic DPP RANNIS for POs and potential donor partners.	2-5.10.	travel costs and per diems	4 100.83
	Seminar in Oslo	Seminar organized by the DPP- Norwegian Research Council to share experience and best practices of the Research cooperation programmes within the previous implementation period of the FMs.	29- 30.11	travel costs and per diems	1 351.79

Unemployment rate in the beneficiary countries over the period 2007-2012



Source: Eurostat

Annex 6.5

Financial flow of programmes (EUR)

Programme No.	Programme	Programme Total Eligible Costs	Eligible Costs Used in 2012	Unused Eligible Costs in 2012*	2013	2014	2015	2016-2017
	Total:	41 485 079	390 488	338 127	8 392 031	13 618 397	10 796 525	8 205 777
LV01	TAF	1 459 000	256 265	0	246 460	303 348	316 854	336 074
LV02	National Climate Policy	11 205 406	0	0	234 718	3 713 509	2 665 534	4 591 645
LV03	NGO fund	10 910 526	96 972	39 724	2 891 920	4 107 528	3 068 742	705 641
LV04	Cultural Heritage Programme	11 787 647	37 251	42 138	2 505 053	3 084 668	4 092 763	2 025 774
LV05	Scholarship and Research Programme	6 122 500	0	0	2 513 880	2 409 344	652 632	546 644

* Unused financing will be used in the next years.