



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

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



**Riga,
31 March 2015**

Glossary of Acronyms

AA – Audit Authority

AAR – Annual Audit Report

BS – Beneficiary States

NBF - Fund for Bilateral Relations at National Level 2011-2017

CA – the Certifying Authority

CC – Cooperation Committee

CoM – Cabinet of Ministers (Latvian Government)

Climate Programme – Programme LV02 “*National Climate Policy*”

CPCB – Corruption Prevention and Combating Bureau of Latvia

Cultural Heritage Programme – Programme LV04 “*Conservation and Revitalisation of Cultural and Natural Heritage Programme*”

DPP – Donor Programme Partner

EC – European Commission

EEA – European Economic Area

Embassy – Royal Norwegian Embassy in Riga

EU – European Union

FMs – EEA Financial Mechanism and Norwegian Financial Mechanism

FMO – Financial Mechanism Office

FP – National Focal Point

IFR – Interim Financial Report

MCS - FMs` Management and Control System

MoC – Ministry of Culture

MoEPRD – **Ministry of Environmental Protection and Regional Development**

MoES - **Ministry of Education and Science**

MoF – Ministry of Finance

NGO – nongovernmental organization

OC – open call

PA – Programme Agreement

PBF - Fund for Bilateral Relations at the Programme Level

PIA – Programme Implementation Agreement

PMCS – Programme Management and Control System

PO – Programme Operator

PP – project promoter

PMB – Procurement Monitoring Bureau

Programme Regulations – CoM Regulations on respective Programme`s implementation and OCs

Regulation – Regulation on the Implementation of the FM 2009-2014

Research and Scholarships Programme – Programme LV05 “*Research and Scholarships*”

SEDA – State Education Development Agency

SGS – Small Grant Scheme

SIF – Society Integration Foundation

TAF – project LV001 “*Technical Assistance Fund 2011-2017*” (inc. NBF)

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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 FMs in Latvia, has prepared the “*Strategic Report on the implementation of the FM 2009-2014 in Latvia January – December 2013*”. 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 was approved in the written procedure on 25 March 2015 by the Monitoring Committee of the FMs. All comments and proposals received from the Committee were taken into account within elaboration process of the Report. It will be discussed during the Annual Meeting planned for 10-11 June 2015.

The document aims to present the progress of the FM’s implementation in Latvia within pertinent socio-economic environment, inc. status of achievement overall and specific goals, bilateral relations, the status of programmes and results of the risk assessment exercise, as well as the activities planned for the next reporting period.

If the year 2012 was the year of approval of PPs, and the year 2013 - signing PAs between the donor states and the FP, then the year 2014 - launching OCs and signing contracts for implementation of pre-defined projects. If the year 2012 was the year of approval of all national legislative acts establishing and regulating the horizontal (overall) implementation, management and monitoring of the FMs in Latvia, and the year 2013 - approval of specific Programme Regulations, then the year 2014 - elaboration of OC guidelines for projects to be approved within a particular programme or amendments of OC guidelines due to changing State Aid regulations.

By March 2014 all PMCSs were submitted to the FMO and first system audits of them were carried out by the AA.

Already some first programme results have been achieved by the end of March 2015:

- **NGO sector:** Within the pre-defined project 2 strategically important researches regarding NGOs in Latvia were conducted and already 13 OC projects contributing to provision of basic services on local level and the development of cohesive society were completed;
- **Culture sector:** Restoration works have already started at 4 cultural heritage sites as well as field experts have raised the professional qualifications by exchanging experience with Norwegian experts. Also 2 bilateral cultural exchange projects contributing to promotion of cultural and art products internationally are already completed;
- **Justice sector:** After in depth analysis and targeted information and knowledge sharing measures done by specially established working group together with Norwegian and Estonian experts, legislation amendments have been made to introduce electronic monitoring in 2015 as a new alternative to imprisonment. Also several trainings, workshops and peer consulting to Olaine prison’s and State Probation Service’s employees were provided on various topics, thus noticeably strengthening fields’ capacity.
- **Industry innovations sector:** The Incubator was opened and already 69 green business ideas were approved for pre-incubation, first three OC projects were commenced and received support to develop and implement green technologies in production;
- **Regional capacity building sector:** Strategic partnerships and 4 networks for local cooperation between municipalities were established, thus starting enhancement of municipalities’ performance improvement system.
- **Scholarships and research sector:** Prior to submission of application to the OC 51 bilateral visit facilitated the establishment of stronger partnerships and submission of higher quality applications.
- **Use of the NBF and the PBFs:** several strategic level events were successfully organized:

- *Latvian Presidency in the Council of the EU* activities: international conference on *Smart Specialization Strategy*, stimulating transnational cooperation to strengthen smart specialization in areas of joint potential;
- *Riga—the European Capital of Culture 2014*: 8 different activities in the field of culture resulting in wide publicity of events and artists, inc. from the donorstates;
- International conference in the field of justice “*Professionalism of Prison and Probation Services Staff in Correctional/Education Work*” where issues concerning all involved parties were discussed - burnout prevention, professionalism criteria and new methods for working with the common target groups - prisoners and probation clients;
- international conference “*NGO Forum Riga 2015*” as part of the EU Presidency, in which an important document for the involvement of citizens in decision-making at both the national and the EU level was adopted;
- not even mentioning the bilateral relations strengthening effect, which has been achieved by concrete input into all 4 outcome types determined by the donorstates: Extent of cooperation, Shared results, Improved knowledge and mutual understanding, Wider effects.

2. Assessment of the effect of the Grants

2.1 Cohesion

Most substantial achievements of Latvia in 2014 were – introduction of euro, repayment of part from the international loan issued to Latvia during the economic crisis, preparatory works to join the Organization for Economic Co-operation and Development (approval of milestones for Latvia), increased credit ratings of Latvia, approval of the EU Funds 2014–2020 planning period – thus showing economic and financial development of Latvia.

On 4 October 2014 elections of the 12th Parliament of Latvia (*Saeima*) were held. In total 6 parties were elected, from which 3 parties are governing political coalition – the Unity (*Vienotība*), the Green and Farmer parties' alliance (*Zaļo un Zemnieku savienība*) and the National Alliance (*Nacionālā apvienība*). The principal aim of the new Government is enhancement of the population's welfare by focusing on growth of the national economy, improvement of life quality of the individuals and families as well as security. The leading principles are sustained - growth of Latvian economy, fiscal accountability, macroeconomic stability and sustainable development.

Latvian Presidency of the EU Council (the Presidency), which will last January – June 2015, is very important challenge and opportunity for Latvia. Latvia has defined three overarching priorities for the Presidency:

- *Competitive Europe* – aim is to enhance the competitiveness and growth of the EU;
- *Digital Europe* – aim is to fully exploit the digital potential in the economy;
- *Engaged Europe* – aim is to engage EU in issues of global importance and to reinforce the role of the EU in the global arena.

The Presidency's Work Programme is available on the official Presidency's web page: <https://eu2015.lv/the-presidency-and-eu/priorities-of-the-latvian-presidency>. In total 200 events (like conferences, high level meetings, culture activities etc.) will be held, as well the representatives from the EEA-EFTA countries (Iceland, Liechtenstein and Norway) will also present some events.

One of the main and the most ambitious goal of the Presidency is to put into practice the Investment Plan for Europe (the Plan) by June 2015. The constructive discussion between EU Member States and the European Parliament should be ensured during the Presidency to reach agreement on necessary legislation to put into practice the Plan. Principal aim of the Plan is to strengthen the EU competitiveness in global scale and simultaneously to enhance an attractive environment for investments and economic growth. Taking into account that Europe faces economic challenges like stagnation or slow growth, high unemployment, high poverty level, introduction of the Investment Plan in amount of EUR 315 billion will give the substantial incentives for economic growth and creation of new jobs in Latvia and in EU thus reducing economic and social disparities within the EEA.

One of the prioritized issues will be EU actualities in the gender equality area. This priority is also related with FM as one of the cross-cutting issues is the gender equality. The Presidency will continue to work on proposal on the EC's directive regulating improvement the gender balance among the companies. Several high level events will be organized.

The National Reform Programme of Latvia for the Implementation of the Europe 2020 Strategy (approved by the CoM on 26 April 2011) describes the medium-term macroeconomic scenario, reflects key macro-structural bottlenecks of the economy and main targets of Latvia for 2020. The aim of Latvia is to foster economic growth and employment. Sustainable growth's targets are set out also in the *Latvia 2030 Strategy*. By 2020 Latvia aims to achieve employment rate of 73% (59.1% in 2014); an increase of investments in

research and development to 1.5% of GDP (0,60 % in 2013); an increase of the share of people having completed higher education to 34-36% (27% in 2014); reduce the share of persons at-risk-of-poverty to 21% (32,7% in 2013); increase the share of renewable energy in the total gross energy consumption to 40% (37,1% in 2013), etc.

National Development Plan of Latvia for 2014-2020 (the NDP), approved by the Saeima on 20 December 2012), determines most important medium-term priorities, areas of actions and indicators for their implementation. The FM will contribute to some of the priorities defined in the NDP, in particular to:

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

All programmes fully comply with the priorities set in the NDP and are oriented on decrease of disparities between Latvia and the EEA.

As well as Latvian programmes corresponds to priorities set by the Presidency:

- **Competitive Europe** by Research and Scholarships Programme, and Climate Programme;
- **Engaged Europe** by NGO Fund and Cultural Heritage Programme.

The macroeconomic disparities between the donor states and Latvia clearly justifies the need for cohesion. Considering the size of the FM 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 FM is of great value both in financial (investment) terms in targeted areas as well as providing intangible value – added as mutual knowledge spill-overs and strengthened bilateral relations in various sectors. The programmes 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 – reduction of social and economic disparities within the EEA – in its own focused and complementary way.

Climate Programme

Norway and the EU have common interests when it comes to climate policies. A large part of the EU legislation on climate change and energy efficiency is already binding to Norway through the Agreement on the EEA. For the 2nd commitment period of the Kyoto Protocol Latvia together with other EU Member States has committed by 2020 to achieve the joint target of 20% emission reduction comparing to 1990 whereas Norway – 30%.

In the 4th quarter of 2014 the EC approved the 2030 Framework for Climate and Energy with objectives to be met by 2030. The EU Member States, as well as Norway, reached the common understanding to achieve the joint target of 40% emission reduction comparing to 2005. This Framework aims to make the EU's economy and energy system more competitive, secure and sustainable and also sets a target of at least 27% for renewable energy and energy savings by 2030. It also takes into account the longer term perspective set in the Roadmap for moving to a competitive low carbon economy by 2050, the Energy Roadmap 2050 and the Transport White Paper. These documents reflect the EU's goal of reducing greenhouse gas emissions by 80-95% below 1990 levels by 2050 as part of the effort needed from developed countries as a group.

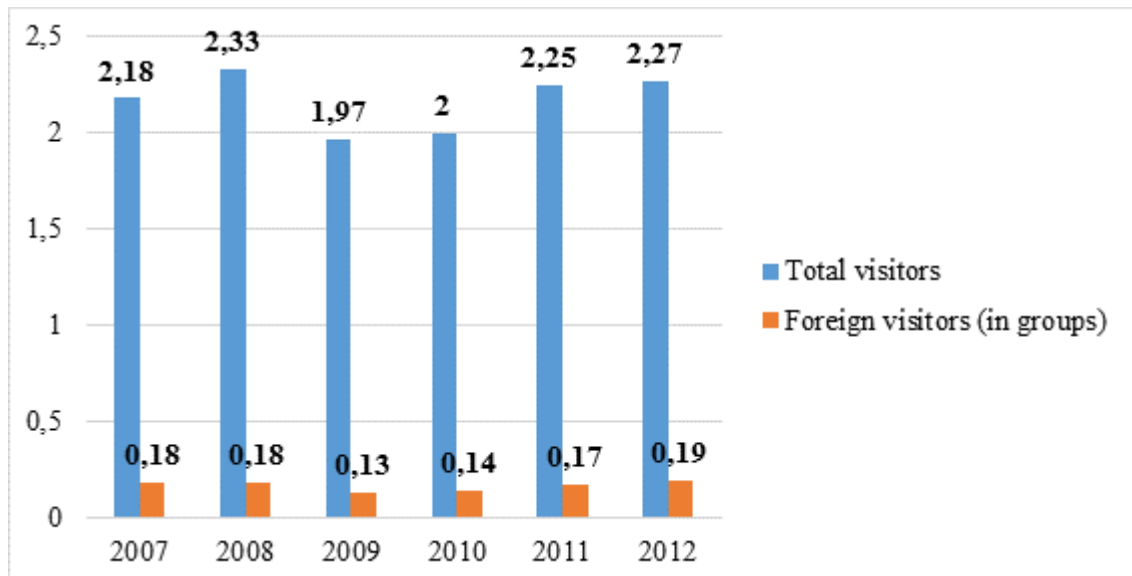
In order to achieve these goals in 2014 Latvia's Environmental Policy Strategy 2014-2020 was adopted. The Strategy is the national level planning document for the environmental sector that includes directions for low-carbon policies development, low-carbon technology

implementation and sustainable land management in farming. Additionally in 2014 Latvia set following priorities in the field of climate under the Latvian Presidency – international Climate Change negotiations, strengthening of the EU emission trading system and development of further steps of 2030 Climate and Energy Framework. Specific actions shall be introduced at all levels – national, regional, businesses and society – which means that climate policy must be inclusive and integrated into policies of other sectors. Therefore many activities planned in pre-defined projects within the Programme will help to prepare documents for integrated climate change mitigation and adaptation as well as to implement them in real life. Activities within OC and SGS will contribute towards achievement of Latvian defined commitments. Thus investments within the programme will lead to long-term and sustainable environmental and economic benefits in Latvia and in the EEA.

Cultural Heritage Programme

Culture is an important factor in social and economic development. Culture along the development of the economic, social inclusion and balanced environment in the world is admitted as forth pillar of sustainable development.¹ According to results of surveys the culture and art have impact not only to development of state but involvement of persons in culture activities facilitates as well as civic activity, quality of life, health and considerate attitude to environment of these persons.² The protection and conservation of cultural heritage contributes to social cohesion and to the preservation of history for future generations. Thus implementation of the programme will have a positive impact on development of cultural environment and conservation, restoration and availability of cultural values in Latvia. Infrastructure and services of museums and cultural objects will be enhanced thus making them more accessible to broader audience and attractive to visitors, thereby fostering tourism especially in the regions of Latvia. In chart below see statistics on number of visitors in public museums in Latvia, inc. number of foreign visitors.

Chart 1. Number of visitors to the state and municipal museums, M



Source: MoC

Above included data show direct link between number of culture objects’ visitors and economic situation afterwards – decrease of visitors in crisis’ period and moderate increase of visitors year by year (in compere: in 2009 – 134,1 th. and in 2012 – 188,4 th.)

¹ John Hock. Forth pillar of sustainable development, Culturelab, 2007

² *The contribution of the arts and culture to the national economy.* Report for Arts Council England and the National Museums Directors’ Council, May 2013. Centre for Economics and Business Research Ltd., pp. 84-87

The Cultural Policy Guidelines “*Creative Latvia 2014-2020*” were adopted by the CoM on 27 July 2014. They describe Culture policy’s main objectives, priorities and actions to achieve them. Implementation of Guidelines started in 2014, when Riga was a Culture Capital of Europa and are continued in 2015, when Latvia governs the Presidency of EU Council. Both international events are a unique possibility to attract Europe’s and world’s attention to Latvia, and which should be used in recognition of Latvia and its culture and economic potential. The following priorities are set in the Guidelines: 1) preservation and development of the culture capital by society’s involvement in culture processes; 2) creativity in lifelong education and culture education oriented on labour market; 3) competitive culture and creative industries; and 4) accessibility of creative territories and culture services.

Development of cultural arena in Latvia and implementation of the programme will make impact on improvement of quality of people life; economic regeneration of territories by attracting tourists to regions; improvement of living environment quality; facilitation of employment and inflow of investments. The results of the programme shall promote long-term sustainability and facilitate reduction of social and economic disparities among regions of Latvia and other countries of the EEA.

NGO Fund

In previous report data from the “Research on NGO sector” (2013) were used and situation with 2011 was compared. Next survey will be carried out in 2015, nevertheless since the last report some changes within the programme area in Latvia have happened. One of the changes is an increase of NGOs. In 2013 in Latvia were officially registered 17 500³ NGOs, but in January 2015 – 19 393⁴. The tendency shows that more than 1200 new NGOs are registered yearly (in 2013 – 1535, in 2014 – 1286).

Civil society and democratic values – in order to understand the development of the civic participation it’s important to see society’s confidence about the public institutions, trust in media and political parties. The newest data⁵ about Latvia shows that in comparison with 2013, in 2014 still state institutions have negative rating and only two – the army and police has got more than 50% positive responses, but the lowest trust is into political parties. Trust into regional and local public authorities has been more positive than into government, because people believe that local government can influence their life more than national. Nevertheless the tendency looks good as trust into state institutions is growing during the implementation time of the programme. In order to understand better these results, it’s important to analyze, what are the most important topics for Latvia’s society⁶: health and social security (31%); pensions (19%); education system (10%) and immigration (9%). These data shows that still the social issues as health and social security, pensions are the top ones. Ethnic minorities also are thinking that the most actual problems in Latvia are: social security and social policy (36%); and reduction of unemployment (34%)⁷. If we compare data with other countries than there are no extreme difference.

Situation regarding political rights and civil liberties in Latvia is not in the contradiction with other EU Member States. According to data⁸ the trust and believe into political processes are in the line of freedom possibilities. But there still is a need within the NGO Fund to support activities with the purpose of involving the society and increasing the level of awareness, as

³ “Research on NGO sector” data, 2013, Activity of the pre-defined project under NGO Fund

⁴ https://www.lursoft.lv/lursoft_statistika/?&id=50

⁵ Eurobarometer data, 2014: http://ec.europa.eu/public_opinion/archives/eb/eb82/eb82_anx_en.pdf

⁶ Eurobarometer, data in December 2014

⁷ “Latvian minority population survey” (2014) by SKDS

⁸ Freedom house assessment Freedom in the World on political rights and civil liberties, 2014

<https://freedomhouse.org/report/freedom-world-aggregate-and-subcategory-scores#.VMEQGC6avoA>

well as the level of trust in the NGO sector and its ability to influence the decision making process in the country.

There is still necessity to foster civil society in order to overcome the consequences of the financial crisis – poverty and social exclusion. In 2013 the percentage of Latvian inhabitants whose income level was below the official threshold for poverty risk was 21.2 % which is less than during pre-crisis period, but with the increasing tendency since 2010. It is still high in comparison with other EU countries. Also, Latvia has the highest proportion of children living in single-parent households - 38.3% (EU-28 average - 31.8%). The poverty rate by age group confirms that the risk of poverty in 2013 was the highest for retired people 65+ (27.6%) followed by children (24.3%). The analyses of poverty situation proves that the main poverty-risk groups are one-parent and large families, single-person households, low labour intensity and unemployed households, as well as children and people of retirement age. Low-income in the country is due to high income inequality and high material deprivation that promotes poverty and social exclusion. Decrease of the poverty and social exclusion is set to be one of the priority objectives of the Europe 2020 Strategy. Each Member State shall set out its quantified targets and Latvia promised to reduce poverty and social exclusion risk for 121 th persons. NGOs have become significant players in the fight against poverty and social exclusion and the role of NGOs in addressing these issues is very relevant and necessary. Therefore it is important to strengthen NGOs operating in this area. Above mentioned information justifies that programme outcome – Provision of welfare and basic services to defined target groups increased (allocation of Programme funding for projects 50%) – is still crucial.

One of the support areas within NGO Fund is gender equality – data⁹ shows that gender inequality index for Latvia is 0.22 in 2013 (same index in 2011-2012). On the one hand it shows stability in other in comparison with Norway the difference is 0.15 points. If we analyse gender pay gap than Latvia (2012) in comparison with EU-28 (16.5) is in better position – 13.8. In 2014 SIF made a research¹⁰ of the situation of man and woman in the large companies and the main conclusions were – over the past 6 years executive boards of large companies of Latvia on average were represented by 20% women and 80% men, while the supervisory councils – by 15% women and 85% men. Whereas the EC's data¹¹ shows that the proportion of women on the boards of Latvian large companies is lower, while in the category of small/medium-sized companies it is considerably higher.

An important issue is as well as is a cohesive society. There are more than 170 different ethnic groups living in Latvia¹², still the Russian community is particularly big – around 0,6 M inhabitants and 31% from them are still non-citizens. From the point of social rights¹³, the rights of Latvian non-citizens do not significantly differ from the rights of Latvian citizens, and the most part of non-citizens are also aware of that. Political rights are not important for the most part of non-citizens, while those, to whom they matter, mostly use the opportunity to naturalise and obtain Latvian citizenship. At the same time, the status of non-citizen offers an essential advantage for many non-citizens–visa-free regimes with Russia. This status is suitable enough for vast majority of Latvian non-citizens, in order not to change anything. Mostly Latvian non-citizens have not encountered different attitude or limited access to services (exception is longer control at the borders during travels abroad). Recommendations from this survey: Latvian citizenship must be made attractive both to citizens and non-citizens, address and motivate parents of non-citizen children to register their child as

⁹ Nations Development Programme's data: <http://hdr.undp.org/en/data>

¹⁰http://www.sif.gov.lv/index.php?option=com_content&view=article&id=9396&Itemid=244&lang=lv&lang=en

¹¹ EC Report on proportion of women on the boards of companies, 2014

¹²http://www.pmlp.gov.lv/lv/assets/images/statistika/iedzivotaju%20reg.statistika%2001072014/ISVN_Latvija_pec_TTB_VPD.pdf

¹³ Research "Analysis of integration of Latvian non-citizens" by "Baltic Institute of Social Sciences", 2014 http://www.biss.soc.lv/downloads/resources/nepilsoni/BISS_Noncitizens_2014.pdf

Latvian citizen, to support in various ways the learning of Latvian language and to continue informing about naturalisation procedure. Only 13% of ethnic minorities' respondents think that it is important to solve the problems of citizenship and national questions¹⁴. Thus to support activities like promotion of intercultural dialogue, participation of ethnic minority NGOs in the decision making and their interest advocacy and reduction of the hate speech are very important.

Research and Scholarships Programme

Science, research and innovation of Latvia is an integral and harmonious part of the world of science and the European Research Area. Scientific and technological development is a key factor for Latvia's sustainable economic development and public welfare. Latvia¹⁵ employs more than 10 000 employees in research and development (hereinafter – R&D), inc. 7 500 researchers, 23% of which are working in business and industry. Among the population aged 25 – 34 1% are PhD holders (considerable increase over previous years) and 37% of young adults aged 30-34 are with a higher education degree.

State budget funding for scientific activity has so far been negligible compared to other EU Member States. The impact of the crisis has aggravated the situation - state funding for science was substantially reduced; and funding of private sector decreased as well. Within crises period financing in R&D had dropped to 0.46% of GDP, but up to 2013 there is a little increase - respectively 0.60 % of GDP¹⁶. *EU Strategy for Smart, Sustainable and Inclusive Growth "Europe 2020"* raised the basic objective of investing 3% of EU GDP in R&D. Accordingly Latvia set a quantitative target to increase investment in R&D funding up to 1.5% of Latvian GDP by 2020.¹⁷ EU Funds's and FM's financing in education and research is one of the solutions for raising an efficiency and quality of the studies and research work thus these foreign funds play significant role in this sector.

Latvian R&D policy¹⁸ foresees three main actions:

- 1) *Potential development of scientific activity* – aims to increase the number of employees in science and research, to establish competitive research institutions with modern material and technical support, thus strengthening their infrastructure and facilitation of the competitiveness of scientists;
- 2) *Long-term cooperation platform between companies and scientists* – aims to establish a framework for a more effective cooperation in developing research infrastructure and support for joint studies and facilitating technology transfer. The action includes support for competence centres, technology transfer contact points and a research infrastructure to facilitate the commercialization of research results and practical guidance studies;
- 3) *Support for the development of innovative businesses* – grants will be offered for the development of new, innovative, environmentally friendly products and technologies, their introduction into production, for high value added investment projects and an increase in the number of innovative enterprises.

Guidelines for the Development of Education 2014-2020 was adopted by the CoM on 22 May 2014. They set objectives and actions to improve quality of education, facilitate inclusive education for individuals' development, people's welfare and education's system, which meets the needs of national economy thus ensuring sustainable development of Latvia. As per Guidelines, in order to ensure a high quality of higher education; activities provided

¹⁴ Public opinion pool of living in Latvia Center by "SKDS", 2014

¹⁵ According to MoES' data

¹⁶ Source: Central Statistical Bureau of Latvia

¹⁷ Report on Development of Science and Technology in Latvia, 2011 (MoES)

¹⁸ Report on Development of Science and Technology in Latvia, 2011 (MoES)

by foreign assistance programmes and strategic partnerships are considered as significant tools for improving internationalization and international competitiveness of higher education in Latvia and in globalized world.

Objective of the Guidelines for the Development of Science, Technology and Innovation 2014-2020 (adopted in 2013) is development of the Latvian knowledge basis and facilitation of innovation capacity. To achieve this objective it is necessary to develop human capital of science, technology and innovation, to facilitate Latvian science international competitiveness, to modernise and integrate research and education sectors, to create effective knowledge transfer environment and to strengthen innovation capacity of enterprises. Thus one of the main target is to increase a role of science and research in higher education institutions, which will be achieved by integration of scientific institutes in these institutions. More than 60% of research is concentrated in the major universities – University of Latvia, Riga Technical University, University of Agriculture of Latvia, Daugavpils University and Riga Stradins University. Research and scientific institutions are quite fragmented in Latvia, for example, 14 State Research Institutes and 27 University Research Institutes were operational in 2014. The highest number of institutes (in total 16) are in University of Latvia. And goal by 2020 is to consolidate research potential in to 20 internationally competitive institutes which will be integrated with higher education and industry. In 2013 the international evaluation of scientific institutes¹⁹ was carried out in Latvia. The results identified 15 scientific institutes or their separate departments as strong international players with a solid international reputation. The Institute of Organic Synthesis was the most high-rated as a global player with a considerable impact on the development of the discipline worldwide.

Education, innovation and knowledge transfer are related with business incubators. There are 8 business incubators operating in the regions and in Riga (the Incubator financed from the Norwegian FM) and some of them closely cooperate with higher education institutions. Simultaneously it would be necessary to evaluate possibility to foster development of incubators of higher education institutions thus facilitating quality of studies and practical experience. For example, there are already 2 knowledge transfer centres established under universities – the Innovation and Technology Transfer Centre (Riga Technical University) and the Technology and Knowledge Transfer Centre (University of Agriculture of Latvia). Thus actions like *long-term cooperation platform between companies and scientists and support for the development of innovative businesses* are complimentary with Innovation Programme financed from the Norwegian FM.

The Research and Scholarships Programme by provision of increased funding in higher education and research sector will lead to fostering entrepreneurial activities (new educated employees, new research and business activities) thus giving positive effect on sustainable development of Latvian economy and reducing social and economic disparities in the EEA.

¹⁹ According to MoES' data

2.2 Bilateral relations

One of overall objectives is to strengthen bilateral relations between the donor states and BS in the priority sectors. Latvia has used both possibilities for strengthening them – the NBF as well as programme level bilateral funds:

NBF

In 2014 all planned activities under the NBF priority “*Riga – The European Capital of Culture 2014*” were successfully implemented with overall 100% financial absorption rate. In the result of these activities:

- 8 Norwegian and Icelandic artists have exposed their artworks and installations in 4 exhibitions and 3 art festivals, inc. in Latvia’s biggest contemporary art festival “Survival kit 6”²⁰ and in one of the biggest events in Riga in 2014 “Staro Riga”²¹. Video projection installation “Northern Grain of Salt” created by Norwegian artist was facade of on the wall of one of the biggest churches in the old city of Riga (St Peter's Church).



Video projection installation “Northern Grain of Salt” of the wall of the St Peter's Church.

- The curator from Iceland participated in preparation of one exhibition - “(Re)construction of Friendship”²², which was exposed in the Corner House former headquarter of the State Security Committee of the Latvian SSR (KGB) after occupation of Latvia in 1940. The Corner House has stood vacant for a number of years and for the

²⁰ Source: <http://www.survivalkit.lv/en/news/>

²¹ Source: <http://www.staroriga.lv/013/en/?return=/>

²² Source: <http://riga2014.org/eng/news/40757-kgb-building>

first time it was opened for the general public on 1st of May 2014. The Corner House was opened for 6 months providing excursions and exhibitions and attendance of visitors was very high.

- An exposition of mobile environment objects “Unexpected appointments”²³ where placed in Riga and Norway, thus ensuring direct broadcasting of 2 events. One – Project’s opening which was organized in the Norwegian Constitution Day when broadcasting in Riga celebration events of 200 years of the Norwegian constitution from Drobak take place. Second one - World Chess Olympiad in Tromso when information about happening in Olympiad was broadcasted in Riga two weeks. Mobile environment objects also were used locally in Riga when broadcasted celebration of Summer solstice in Mezaparks, off-stage of Choir Olympiad and information for visitors of the light festival “Staro Riga”. For example, during the light festival “Staro Riga” were placed 2 environment objects which served as information center for visitors about festival and its events as well as provided information about donor states support to Latvia. It shall be mentioned that during 5 days ~500 thousand visitors attended the festival.
- Successful collaboration and exchange of experience between different artists, art galleries and NGO in Latvia and donor states was facilitated, thus for example, a curator from Iceland plans in future to organize exhibitions in Iceland with participation of Latvian artists as well as Latvian art galleries and artists are interested in cooperation with donor states artists in other art projects in future. It also shall be mentioned that the exhibition “Viewfinders. Contemporary Baltic and Nordic Photography”²⁴ received invitation to the *Pingyao International Photography Festival* in China and participated there in September 2014.
- A catalog was published during the exhibition “(Re) construction of Friendship” where themes of small country's relations with major powers from both Latvian and Icelandic artists and historian’s point of view were discussed.
- Wide publicity of events and artists in the mass media (TV, radio, press, internet, social networks) was ensured, especially for the light festival “Staro Riga” and the exhibition of sound art “SKAN2”²⁵ (music of noises and extreme metal) in which also a British avant-garde music magazine “The Wire” and Austrian national public service broadcaster ORF were present.

Detailed description of the **Latvian Presidency in the Council of the EU** activities was concealed with the Embassy and the FMO during 2014.

The 1st event took place in the National Library (the main national venue for Presidency’s events) on 12-13 February 2015 organized by MoES and SEDA. Funding for conference on Smart Specialization Strategy was combined also from the PBF of Research and Scholarships Programme. Smart specialization is an innovation policy concept designed to promote the efficient and effective use of public investment in research. Regionally focused policy has strong potential for fostering innovation, which can be implemented through instruments such as smart specialization, etc. The challenge is to mobilize internal assets and resources in fields, where the country or region has a specific specialization. The conference was an opportunity to exchange experiences and discuss opportunities and work that has been done with regard to stimulating transnational cooperation to strengthen smart specialization in areas of joint potential. The objective was a stronger linkage between National/Regional Research and Innovation Strategies for Smart Specialization and the

²³ Source: <http://www.eeagrants.lv/?id=49&zina=105>

²⁴ Source: <http://riga2014.org/eng/gallery/foto/1204-viewfinders-contemporary-baltic-and-nordic-photography>

²⁵ Source: <http://riga2014.org/eng/notikumi/641-exhibition-of-sound-art-skan-ii>
<http://riga2014.org/eng/news/42170-opening-of-sound-art-exhibition-skan-ii-part-one>

priorities set by the Europe 2020 Strategy and their impact on the EEA and the national research and innovation policies. The focus was put on synergy among Cohesion policy, Horizon 2020 and national financial instruments. Particular emphasis was placed on:

- taking stock of the state of play in the development of Smart Specialization Strategies;
- identifying issues to ensure effective and efficient implementation, monitoring and evolution of the strategies;
- chart out fields requiring cooperation at European level and policy support, in particular with a view to the Council conclusions during the Latvian Presidency in the Council of the EU.



Presentation by Ms. Anne Kjersti Fahlvik, Executive Director of the Division for Innovation of the Research Council of Norway²⁶.

The conference brought together about 200 participants from 17 countries; and it was opened by the State Secretary of the Royal Norwegian Ministry of Education and Research. During the conference 3 speakers from the Research Council of Norway delivered Norwegian experience towards following topics:

- Europe 2020 and smart specialization strategy implementation towards regional growth;
- Smart specialization strategy as a facilitator for human resource capacity building;
- Key enabling technologies and regional smart specialization.

Two more activities will be implemented in the 2nd quarter of 2015 according to the detailed description provided by the FP to the FMO on 6 March 2014.

By the end of reporting period 66% of the NBF`s financing has been absorbed as can be seen in the table below:

Table 1. The NBF`s budget breakdown by priority measures

Measure	Expenditure used	% of total
Costs occurred during programme preparation phase 2011-2013	116`854	32%
International seminar in Justice and Home affairs in fall 2013	13`428	4%
8 activities within “Riga – the European Capital of Culture in 2014”	108`646	30%

²⁶ Source: <http://www.ris3riga2015.lv/gallery/>

3 activities within “Latvian presidency of the Council of the EU 2015”: Conference “Smart Specialization Strategy: New Approaches for Partnerships among Education, Research and Industry in Regions” ²⁷ ; Conference “Deinstitutionalization practices and further development of European social care policy” (15 June) Public campaign „My Baltic Sea 2015” and Multi – media performance (26 May – 28 June)	125`822*	34%
Total:	364`750	100%

*as per implementation contract signed with PP (Secretariat for the Latvian Presidency in the Council of the EU) on 29 September 2014

PBF

Donor partnerships are ongoing in all programmes – both at programme and at project level, thus covering all programme areas selected for implementation in Latvia. Within reporting period several instruments to strengthen bilateral relations were used. From the PBS bilateral cooperation was fostered between POs and the DPPs as well as between the PPs and donor project partners. In the CC meetings POs, the FP and the DPPs meet regularly on a biannual bases both in Latvian and in donor states, usually crucial decisions are taken there with regards to usage of the PBFs, Complimentary Actions, project selection and evaluation, risks and monitoring, achievement of the best outcomes and outputs with the available resources, necessary amendments in PAs or Programme Regulations. Several POs have initiated amendments in PAs/Programme Regulations in order to allow also PO to receive the PBF’s financing and to implement bilateral measures on a more strategic, programme level.

Summary on donor partnership projects in Latvia please find in the Annex 6.3 of this Report. Whereas summary information about the measures implemented and progress achieved at programme level in 2014 divided into 4 types of strengthening bilateral relations results can be found in the table below:

Table 2. Strengthening bilateral relations results achieved in 2014

1. Extent of cooperation		
Number of submitted/approved projects in partnership with a donor partner:		
Project calls	Number of partnership project from submitted projects/%	Number of partnership projects from approved projects/%
Climate Programme:		
OC	7 of 23 (30%)	4 of 7 (57%)
SGS	32 of 63 (51%)	14 of 18 (78%)
Total:	39 of 86 (45%)	18 of 25 (72%)
NGO fund / NGO project measure:		
2 nd OC	35 of 309 (11%)	9 of 44 (20%)
3 rd OC	8 of 145 (6%)	<i>Results in April 2015</i>
Total:	43 of 454 (9%)	9 of 44 (20%)
Cultural Heritage Programme:		
SGS Conservation of Cultural Heritage	8 of 27 (30%)	5 of 5 (100%)
SGS Culture Exchange	37 of 38 (97%)	8 of 8 (100%)
Total:	45 of 65 (69%)	13 of 13 (100%)
Research and Scholarships Programme:		
Preparatory visits OC	55 (100%)	51 (100%)
Research OC	73 (100%)	11 (100%)
Scholarship OC	33 (100%)	<i>Results in May 2015</i>
Total:	161 (100%)	62 (100%)
Research and Scholarships Programme – 33 out of 73 submitted and 8 out of 11 approved Research projects used opportunity to find potential donor states partners and to plan development of the joint		

²⁷ The conference website: <http://www.ris3riga2015.lv/>

<p>project application during Preparatory Visits. All Scholarships Preparatory Visit's applicants, except one, submitted project applications in Scholarships OC. These numbers show an excellent result as majority of Preparatory Visits resulted in the submission of final project applications to Research and Scholarships OCs.</p> <p>Climate Programme - 2 Bilateral Partner Search Forums organized by PO. 62 entities took part: 39 of them were from Latvia, the rest from Norway and Iceland. The participants had an opportunity to discuss questions related to preparation of project applications and to harmonize necessary documentation.</p> <p>NGO Fund - in December PO organized the seminar „<i>Bilateral cooperation within projects supported by EEA grant "NGO Fund" – impact and recommendations</i>” to promote benefits of bilateral cooperation within the projects and to find an innovative ways, how and why to cooperate. Over 100 participants took part in the seminar, incl. representatives from Norwegian, Icelandic and Latvian NGOs, the Embassy, local and national institutions of Latvia²⁸.</p>
<p>2. Shared results</p>
<p>Climate Programme – 24 experts from Latvia and 23 experts from Norway took part in 2 experience sharing events in Norway about GHG emission inventory system in Norway.</p>
<p>Improved knowledge and mutual understanding</p>
<p>n/a</p>
<p>Wider effect</p>
<p>NGO Fund - the PO in cooperation with <i>European Movement – Latvia</i> in March 2015 organized “<i>NGO Forum - Riga 2015</i>”. High level representatives from the EC, European Economic and Social Committee, the Norwegian Ministry of Foreign Affairs and EU wide NGO networks took part in the event as well as more than 250 participants from all around Europe incl. NGOs, policy and decision makers and opinion leaders/experts. The aim of the event was to bring together non-governmental and public sector representatives in order to exchange experiences, to promote further cooperation and to achieve progress in agreement with key partners as regards implementation of the Article 11.1 and 11.2 of the Lisbon Treaty²⁹.</p>

Taking into account the concrete results achieved in all 4 types of strengthening bilateral relations and the fact that by now 26% of all projects have partners from donor states, one can conclude that cooperation history between our countries is an example of excellent bilateral relations between countries, rooted in mutual trust and respect, which allow us to look confidently in our future cooperation.

²⁸ More information available on PO's web page <http://goo.gl/17dHLR>

²⁹ Overview of the event is available on PO's webpage: http://www.sif.gov.lv/index.php?option=com_content&view=article&id=9556&lang=en

3. Reporting on programmes

3.1 Overview of programme status

During the reporting period all programmes were in active implementation phase.

Pre-defined projects

There are all together 8 pre-defined projects in implementation within 3 programmes - NGO, Cultural Heritage and Climate. NGO Fund's pre-defined project runs smoothly according to plan. By the end of reporting period 4 of 5 pre-defined projects within Cultural Heritage Programme have commenced/finished their procurement procedures for main activities and restoration works are ongoing in 2 projects. Both pre-defined projects under Climate Programme are started their work on development of national adaption strategy and enhancement of the capacity of Latvian inventory experts by sharing experience with Norwegian partners. Almost all pre-defined projects will run until final deadline - 30 April 2016.

OCs

In 2014 it was planned to complete all OCs in programmes, and at the end of reporting period it was nearly accomplished. There are no more OCs planned in 2015. As always the highest over-subscription rates are in NGO Fund and Research OCs, the same tendency was also seen in the previous FMs. Please find below summary status information about OCs:

Table 3. Summary of OCs in 2014

Programme	OC	OC closed	Number of applications received	Approved projects in 2014	Over-subscription rate
Cultural Heritage Programme	SGS Conservation of Cultural Heritage	20.12.2013	27	5	4.5
	SGS Culture Exchange	06.12.2013	38	8	5.2
NGO Fund	NGO Project Measure (2 nd OC): medium and macro projects	02.12.2013	171	30*	6.0
	NGO Project Measure (2 nd OC): micro projects	23.01.2014	138	15	7.9
	NGO Project Measure (3 rd OC) micro projects	05.01.2015	145	Results in April 2015	11.4
Climate Programme	Emission reduction technologies inc. renewable energy, sustainable buildings and technology development	08.10.2014	23	7	2.8
	SGS Capacity Building in the field of research and measures for enhancing society's understanding about climate change and its consequences	19.09.2014	63	18	3.9
Research and Scholarships Programme	Scholarships	23.01.2015	33	Results in May 2015	1.6
	Research	30.09.2014	73	11	9.0
TOTAL:			711	93	

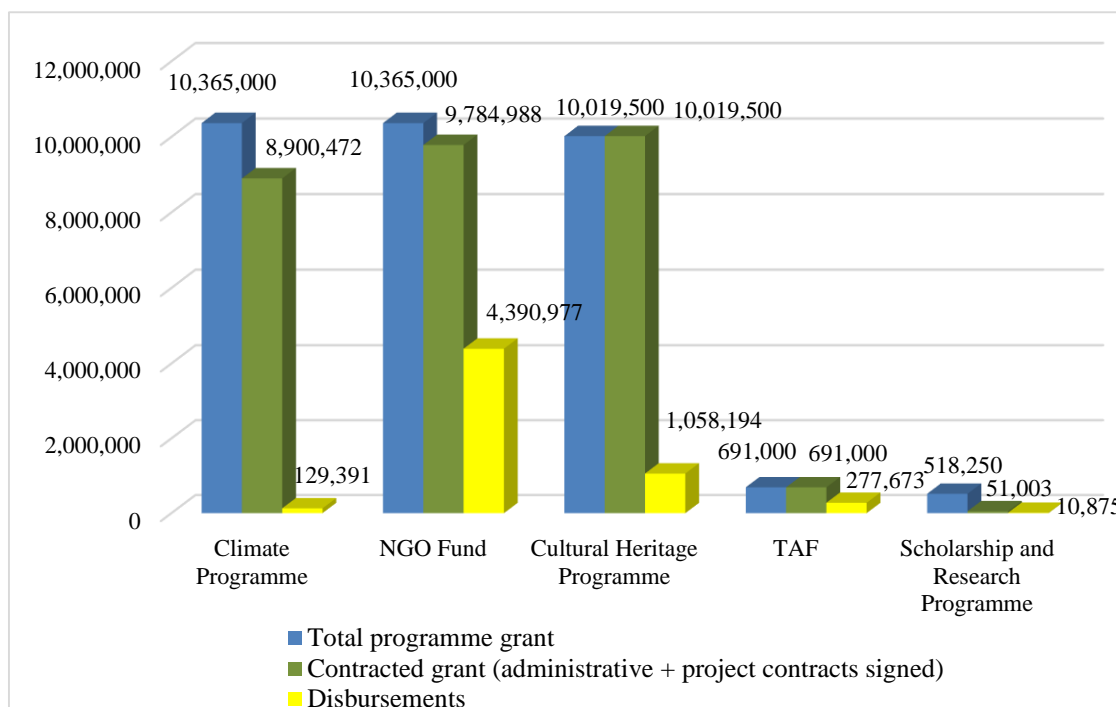
*Contracts with 29 PPs signed because of refusal of one PP to sign a contract.

Commitments and disbursements made

In total 31,958,750 euro from the FM is available for implementation of programmes till 30 April 2017. Till 31 December 2014 disbursements in amount of 5,867,110 euro were received, representing 18% of the total allocation.

In 2014 the absorption rate is still very low (please see the chart below), as many OCs' projects had just started or those who are already running had mainly worked on preparation of procurement procedures and other management/documentary issues, meaning that the main projects' activities and major payments for real works will be made in 2015 and 2016 when one can expect the greatest impact on achievement of programmes' results.

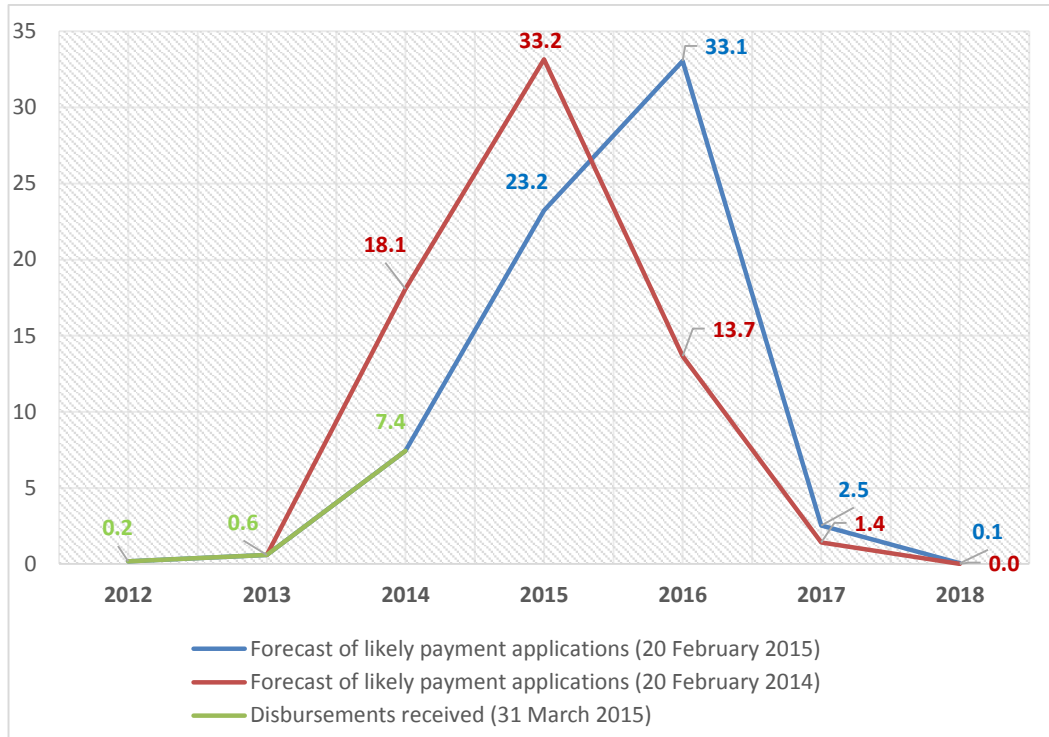
Chart 2. Financial data breakdown by programmes on 31 March 2015, EUR



As can be seen in the chart below, till the end of 2014 Latvia has received the disbursements in the total amount of 8,209,953 euro from both FM's. The major payments are planned in 2016. Please find below the comparison of the CA's forecasts of likely payment applications submitted to the FMO on 20 February of 2014 and of 2015. The main reason for deviation between these two forecasts is as follows:

- 1) launch of OCs in Climate programme was significantly delayed because the final programme proposal with 2 OCs divided into 3 eligible support areas and wide range of eligible applicants (especially when state aid rules shall be applied if the support is provided to private sector) compared with originally planned in the programme proposal have substantially complicated the work on elaboration of the OC Guidelines. As result, the forecast was dramatically changed – advance payments for PPs planned in 2014 were postponed to 2015 and majority of interim payments to the 2nd half of 2015 and this means that majority of payments from donor states will be received just in 2016;
- 2) main reason for deviation between these two forecasts: lunch of OCs in Research and Scholarships programme was significantly delayed because of the lack of capacity of PO at the moment of elaboration of draft OC Guidelines. As result, the forecast was dramatically changed – advance payments to the PP planned in 2014 were postponed to 2015 and majority of interim payments to the 2nd half of 2015 and this means that majority of payments from donorstates will be received just in 2016.

Chart 3. Comparison of forecast of likely payment applications of both FMs, M EUR



3.2 Individual programme summaries

National Climate Policy

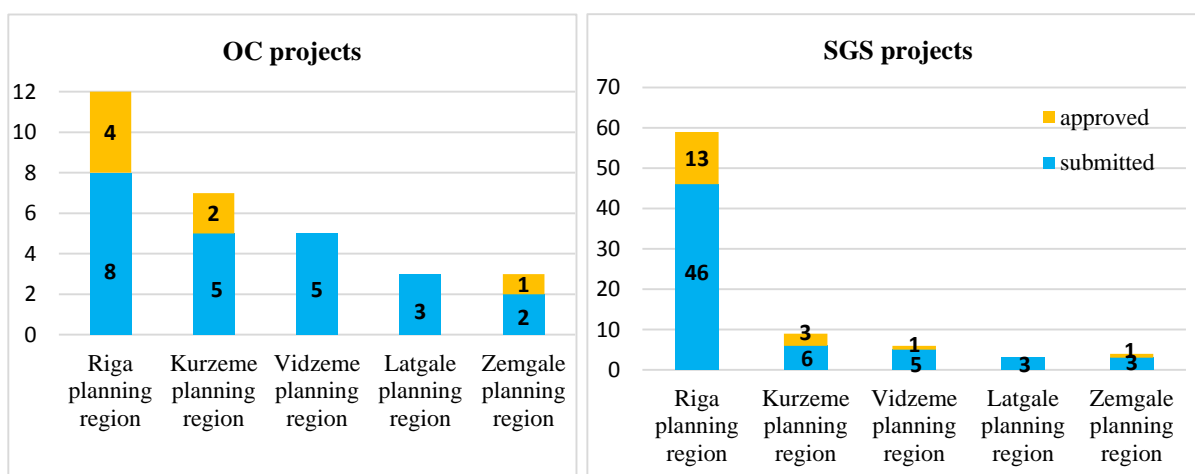
Programme has three main focus measures:

- 1) 2 pre-defined projects: “Development of proposal for National Adaption Strategy, inc. identification of scientific data, measures for adapting to changing climate, impact and cost evaluation” (the 1st project) and “Development of national system for greenhouse gas inventory and reporting on policies, measures and projections” (the 2nd project);
- 2) OC “Emission reduction technologies inc. renewable energy, sustainable buildings and technology development”;
- 3) SGS “Capacity Building in the Field of Research and Measures for Enhancing Society’s Understanding about Climate Change and its Consequences”.

The single OC and SGS were completed in fall 2014. The signing of all project contracts, inc. with reserve projects, will be finished by June 2015.

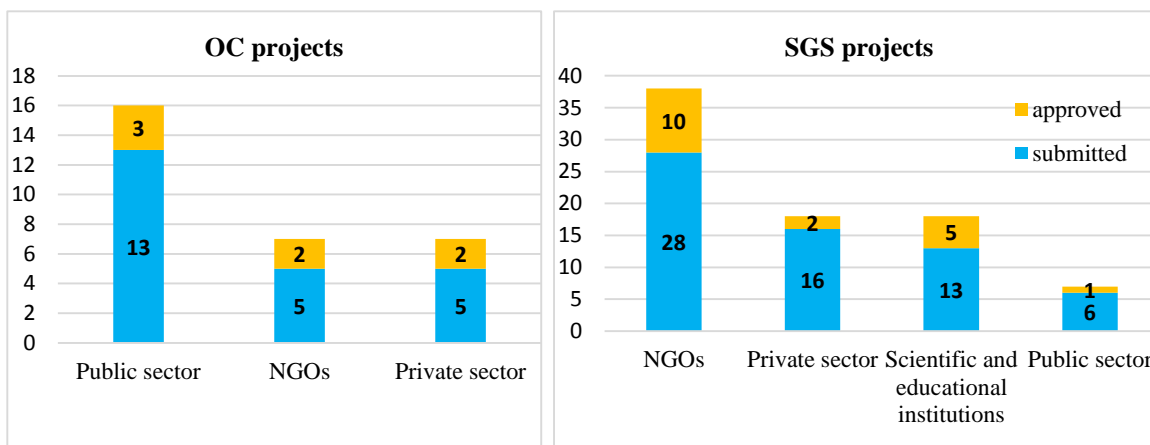
The chart below shows the distribution of submitted and approved OC’s project applications by planning regions. The major of OC’s project applications were received from institutions located in Riga planning region – as Riga is the most economically active region of Latvia the least active was Latgale and Zemgale planning region:

Chart 4. Distribution of OC’s and SGS’s applications by planning regions



The chart below shows the distribution of submitted and approved project applications by type of an applicant. Most of the applications in the OC were submitted by municipalities, which can be explained by increased awareness regarding great importance, in the long-run, of introduction of energy efficiency in municipal buildings and EU ambitious requirements of Energy Efficiency Directive (2012/27/EU) which establishes a set of binding measures to help the EU reach its 20% energy efficiency target by 2020. Whereas, most of applications in the SGS were prepared by the NGOs and private institutions which can be explained by SGS support areas which were related with applied research, educational and society understanding enhancement activities:

Chart 5. Distribution of OC's and SGS's applicants by institution type



As **pre-defined projects**' contracts were signed on 16 June 2014 (the 1st project) and on 1 July 2014 (the 2nd project), extensive works on development of procurement documentation and technical specifications were carried out in the 2nd half of 2014.

In order to inform wider society about **the 1st project**, in December 2014 the PP prepared and published an article in Latvian "green lifestyle" magazine "Vides Vēstis" (Nature News). The following activities of the 1st project were started: research for Maritime Spatial Planning; development of Climate Change and Impact Scenario for 2050-2100; development of National Climate Change and Adaptation Web-platform; and development of Flood Risk Maps for River Basins of Gauja, Lielupe and Venta.

The researches in the field of GHG emission inventory improvement and emission reduction policy in waste management sector and development of integrated database was started within **the 2nd project** as well as the project contributed in the achievement of one of programme output indicators – "Conferences, training seminars and other experience sharing events carried out to increase the capacity of Latvian inventory experts" – in October 2014 Latvian experts took part in 2 experience sharing events (out of 5) on the following topics: national GHG emission inventory system in Norway and Latvia and GHG emission inventory in agriculture and forestry sector. 24 experts from Latvia and 23 experts from Norway participated in both events.

NGO Fund

The programme has three main focus measures:

- 1) pre-defined project „Support to sustainable civil society development and improvement of the monitoring system in Latvia”;
- 2) OC NGO Activity Support Measure (1 OC, completed in time);
- 3) OC NGO Project Measure (3 OCs, all completed in time).

During 2014 there have been 2 researches finished in the **pre-defined project**, thereby fulfilling the output indicator "Number of research carried out" by 50%:

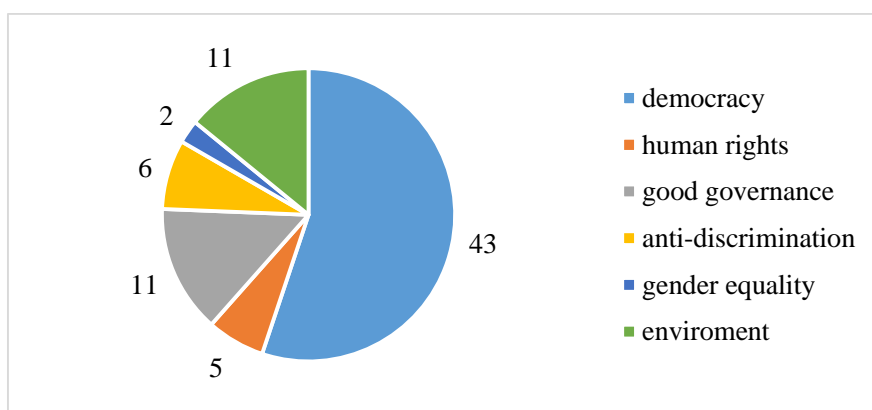
- *Research of NGO sector (2013)* includes data about number and scope of NGOs, the main funding sources as well as government's and society's attitudes and expectations towards NGOs in Latvia. The obtained information allows to develop proposals for public funding reallocation to NGOs. The next study of the NGO sector will be carried out in 2015, thus ensuring regular and qualitative information about NGO sector development in Latvia;

- *Development of human security concept and NGOs role in its operationalization* – this study includes theoretical framework as well as practical guidelines and best practice cases for improving human security at the community level, inc. NGOs. It focuses on the community level since it is the closest level to the individual and is the best positioned to help the individual to recognize and to increase securitability.

Also the draft proposal of NGO Sector Monitoring System in Latvia has been elaborated and it is planned to consummate it by the end of 2015.

All projects under the **OC NGO Activity Support Measure** are in the implementation phase. During 2014 one project was cancelled due to the donor’s request and one more was stopped following the initiative of the PP, thus releasing the funds which had been awarded to the projects. Adding these funds to other savings within the measure it was possible to approve 4 additional project proposals from the reserve list, thereafter in total 78 projects are running.

Chart 6. Support areas under the NGO Activity Support Measure by number of approved projects



One of conclusions after *CREDA consulting Mid-term evaluation of NGO Programmes under EEA Grants 2009-2014* states, that providing institutional support is invaluable investment in sustaining and developing advocacy NGOs. NGO Activity Support Measure is well perceived by the stakeholders – people who need social services, groups whose interests are represented by NGOs and also the members of NGOs. Several PPs³⁰ in evaluation reported that the institutional support provides required capacity to monitor government policies, to react when needed developing their policy advice, to participate in consultative opportunities offered by ministries and to be proactive advocating for their issues. The support is flexible enough to adjust to the hot policy issues when needed. NGOs have acquired resources to represent the interests of wider sector as well as to participate in international networks.

Actual data about reached outcome and output indicators will be available only after the projects will be finished (by the end of 2015) but even now contribution towards set outcome “*Active Citizenship Fostered*” is unquestionable.

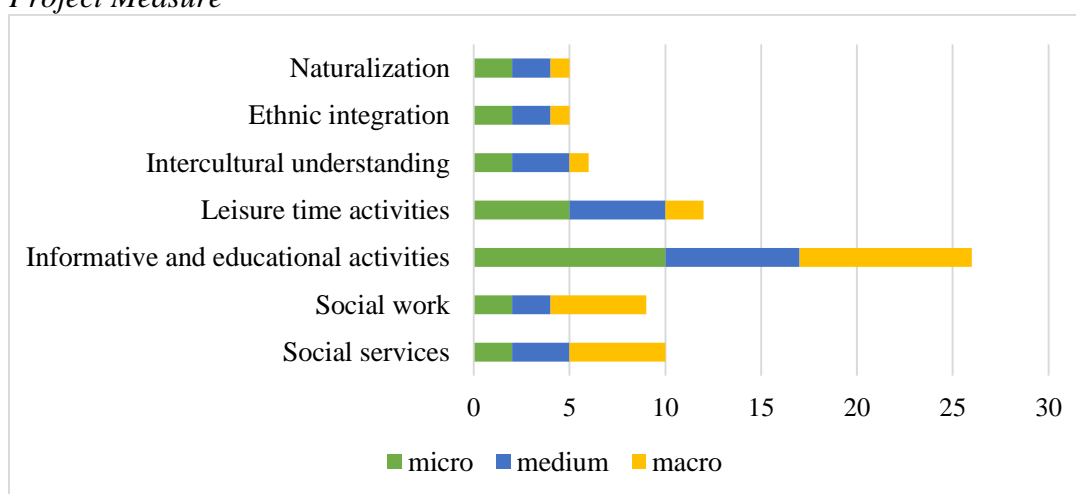
By the end of 2014 already 13 out of 67 approved projects in the 1st **OC NGO Project Measure** were completed. All of those were micro projects (up to EUR 20 000) and mainly were focused on provision of welfare and basic services on local level. However two projects were promoting the development of cohesive society and directly contributed towards achievement of set output indicators:

³⁰Public policy institute “Providus”, Latvian Rural Forum, European Movement of Latvia

Output indicator	Target	Progress by the end of 2014
<i>Increased number of people who have studied Latvian language and acquired knowledge about Latvian history and culture</i>	200	115
<i>Number of non-citizens who have participated in activities promoting acquisition of citizenship</i>	200	300

After the 2nd OC under NGO Project Measure in total 45 projects were approved, but project contracts were signed with 44 PPs. From the chart below it can be seen that most of projects will contribute to achievement of the set outcomes.

Chart 7. Planned activities by number of approved projects in the 2nd OC under the NGO Project Measure



The 3rd and the last OC under NGO Project Measure ended in January 2015 and it is planned to conclude evaluation process as well as to sign all project contracts by the end of April 2015.

A part (16%) of all approved projects are aimed directly to **Special Concerns**.

One project is focused on racism and xenophobia (reduction of discrimination towards foreign students), while 12 projects contribute towards multicultural understanding and integration of ethnic minorities – mainly project activities includes learning Latvian culture, traditions and language as well as promoting intercultural dialogue and social consolidation.

4 projects are engaged specifically in Roma inclusion. A great example is the project “Integration incubator to support Roma children and youth”. The PP in close cooperation with the donor partner “Pedverket Resource Centre” have implemented activities which can clearly be considered as a long term contribution towards Roma social inclusion in Latvia, e.g. adoption of innovative auxiliary materials for inclusion of Roma children into the education system.

There are also 2 projects which are aimed at reduction of homophobia and 11 projects which promote gender equality and reduction of gender-based (domestic) violence.

One project contributes to countering hate-speech and hate crime. Also SIF as PO is devoted towards drawing society’s attention to this issue. SIF participates in “No Hate Speech Movement” and campaign initiated by the Council of Europe. *No Hate Speech* topic is included in the agenda of seminars for the potential PPs. In March 2014 SIF launched a competition for young people “No Hate Speech online” in order to promote their awareness

and understanding of online hate speech, its consequences and forms as well as to promote tolerance online and in society in general. In total, 12 videos were prepared and submitted for the competition and the best are available on SIF's webpage³¹.

Cultural Heritage programme

Programme has three main focus measures:

- 1) 5 pre-defined projects within the activity *Conservation of cultural heritage and expansion of scope of cultural services*;
- 2) SGS Conservation of Cultural Heritage;
- 3) SGS Cultural Exchange.

In 2014 all **pre-defined projects** were in the implementation stage. A substantial work has been invested in preparation of procurement documentation for main activities, e.g. development of cultural heritage data base and virtual exposition, restoration and renovation works of museum buildings and premises. Actual renovation works at the site have started in the Rainis and Aspazija cottage in Jurmala as well as in the Rezekne Green Synagogue. Also the greatest progress by the end of 2014 was reached in the Rezekne Green Synagogue's project – already in spring 2014 the first experience exchange event was organized in Rezekne. 10 students and 2 teachers from Norway took part of debris harvesting, dismantling the hazardous building sections, exploring the building, securing and preserving several sections of the building, thus fully preparing the building for the restoration works and at the same time gaining a valuable experience. Further in autumn 2014 several more experience exchange events took place – close bilateral cooperation as well as transfer of knowledge and skills was arranged through theoretical training and practical works at the project site, seminars for teachers on wood restoration was organized in Kuldīga and expert meetings took place in Norway.

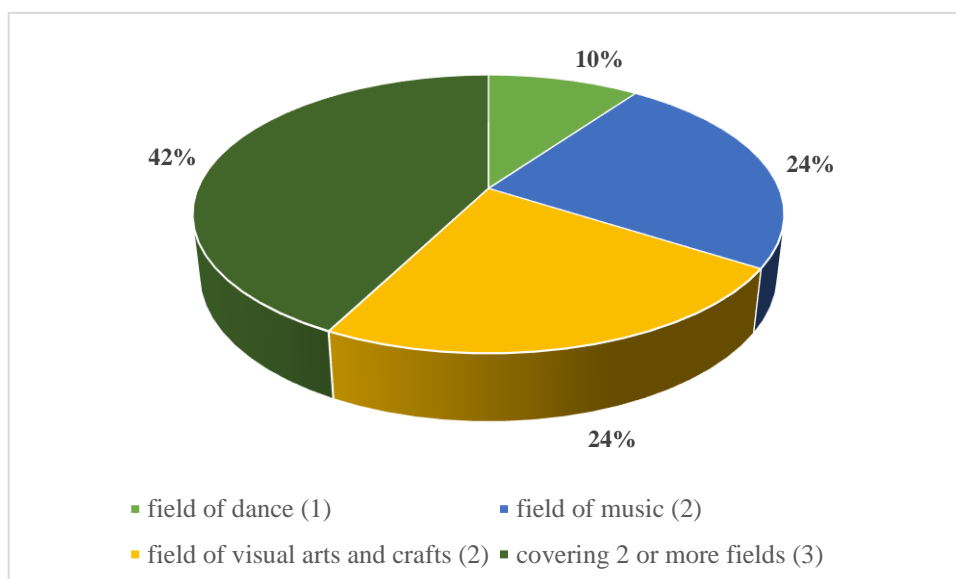
At the same time in the Riga Art Nouveau centre project already 16 author's contracts with cultural and historical specialists are concluded. Cultural heritage studies on 26 research topics are ongoing and 1040 Art Nouveau cultural heritage objects will be documented in electronic format. In the first half of 2015 it is planned to start development of Art Nouveau Cultural Heritage database and digital exposition as well as all renovation and restoration works in other pre-defined projects.

The commencement of both SGSs' projects was delayed, due to long-drawn selection process, unsatisfactory quality of projects, insufficient capacity of the PO and difficulties with signing the partnership contracts in due time.

Within **SGS Cultural Exchange** all project contracts were signed in July-September 2014, except for one project which was approved only after reallocation of funding from surplus of SGS Conservation of Cultural Heritage (PA amendments in July 2014). Implementation of these projects will give an opportunity to present different cultural activities to broader audience (as per Chart below), to strengthen cultural identity as well as intercultural dialogue by making long-term international partnerships, and to document cultural history. Within approved projects contemporary, non-traditional and classic music festivals and activities, film festivals, dancing festivals, contemporary theatre and art festival, Jewish art exhibitions, folk music and national tradition festivals will be organized. Therefore it can be foreseen that expected outcome "Contemporary art and culture presented and reaching a broader audience" will be reached smoothly.

³¹http://www.sif.gov.lv/index.php?option=com_content&view=article&id=9468&Itemid=153&lang=en

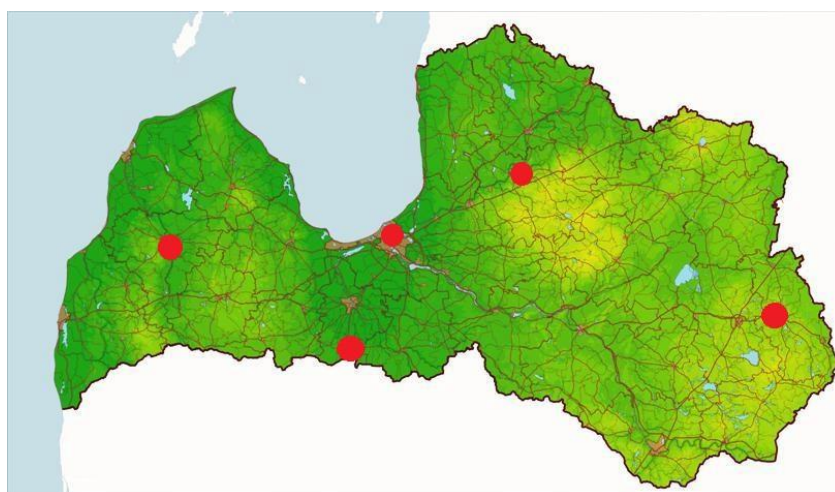
Chart 8. Funds allocated to projects within SGS Cultural Exchange by field, %



By the end of 2014 already 2 projects - *Environment manufactures* and *Dance in nature 2014* - were completed, accordingly fulfilling set output “Promoted mobility of employees working in the sphere of culture as the result of implementation of the programme” by 50%. 50 participants from Norway, Czech Republic, Ireland, USA, Iceland, Lithuania and France engaged in dance festival and contemporary cultural activities in Latvia and Norway. Other 6 projects will be completed by 30 April 2016 and no high risks within project implementation have been detected.

Also all project contracts within **SGS Conservation of Cultural Heritage** were signed during July-September 2014. Implementation of projects will be ensured in different regions of Latvia, thus reaching wider target groups for promoting cultural heritage accessibility and increasing an understanding about the cultural heritage value.

Chart 9. Approved projects in the SGS Conservation of Cultural Heritage



By the end of 2014 a preparation of procurement documentation or procurement procedures for the restoration and reconstruction activities were ongoing in all projects, with exception of Cēsis Medieval castle project where contract for the restoration works was signed already in November 2014. In 3 of 5 projects also experience exchange with Norwegian experts was organized in a fields such as cultural heritage facilities management, restoration of wooden buildings and preservation of stone wall ruins.

Outcome and output indicators regarding cultural heritage objects will be achieved only after the completion of the projects.

10 out of 18 projects in Cultural Heritage programme contribute towards **Special Concerns**. In SGS Cultural Exchange projects participates very diverse group of artists – different generations, nationalities and stages of professional abilities – therefore multicultural understanding and tolerance are promoted as well as synergy between different culture fields. Project "*Joik & Daina*" can be highlighted as a great example of promotion of intercultural dialogue. It is implemented with participation of partners from Norway. The project facilitates the understanding of national cultural values, incl. the perception of national music instruments, crafts and food culture thereby promoting cross-cultural intercourse in the wider sense. Through different cultural expressions society has an opportunity to get acknowledged with one of the oldest cultures in Europe – Sami culture – as well as to apprise ancient Latvian traditions, music and song diversity, thus raising awareness and thereby also a tolerance against their own and to other cultural contexts.

Also projects of restoration of the Green Synagogue in Rezekne and the Great Synagogue of Ludza marks a considerable support for the Jewish cultural heritage, therefore reducing prejudice and discriminatory treatment of Jews as an ethnic group. These synagogues will be restored, which will give an opportunity to acquaintance wider audience with Jewish culture and to reduce anti-Semitism in the public opinion, thus facilitating cultural diversity and tolerance.

Research and Scholarships Programme

The programme will be implemented through OCs in two components:

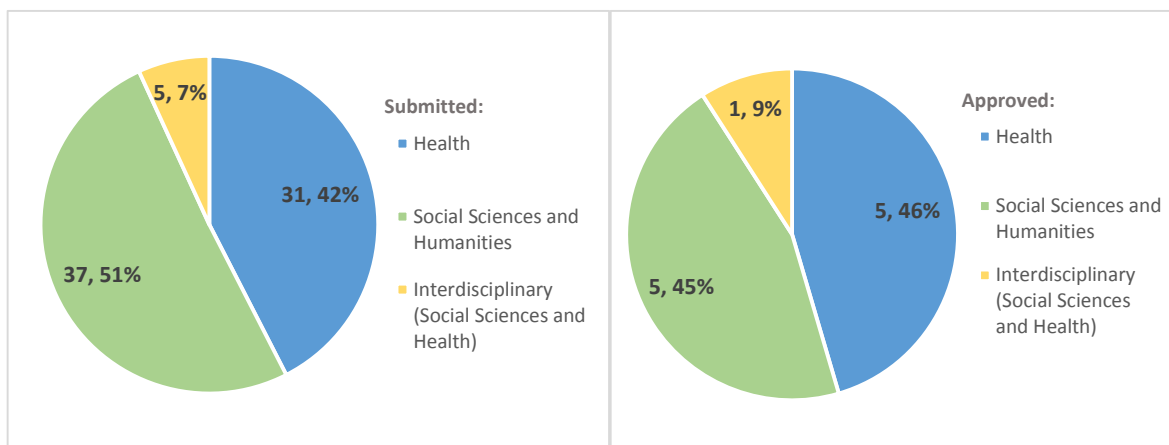
- 1) Research – support for joint research projects between Latvian and Norwegian research institutions;
- 2) Scholarships – support for mobility activities between higher education institutions in Latvia and donorstates.
- 3) Preparatory visits – support for search of potential donorstate project partner and to plan the preparation of a joint project application together with that partner.

Research OC Guidelines were approved by the CoM in June 2014 and the OC completed in September 2014. The total funding requested in the single OC more than 9 times exceeded available funding; the reason for such high interest could be as follows:

- research projects of EU Structural Funds 2007-2013 are approaching to an end, but funds under the 2014-2020 planning period are not available yet;
- limited possibilities for research organizations to obtain funding from EU Structural Funds was available for researches with wide range of thematic areas (national identity, public health, energy and environment, innovative materials and technologies, etc.), therefore they had to compete between themselves in order to receive EU funding in spite the FM where research thematic areas were limited to social sciences/humanities and health.

As can be seen in the chart below, project applications were approved in both thematic areas defined in the OC Guidelines, including one project which will use interdisciplinary approach.

Chart 10. Submitted and approved project applications divided by thematic areas in numbers and %.



The projects' activities will contribute in functional and clinical applications of prostate cancer, image-guided cancer therapy, research of Latvian language acquisition for Latvian and Russian speaking children, management of pharmaceutical products residues in Latvian environment, etc.

5 out of 11 approved projects will be implemented by the University of Latvia located in Riga, other PPs are also big players in research field located in Riga – Latvian Biomedical Research and Study Centre, Organic Biomedical Institute of Latvia, Riga Teacher Training and Education Management Academy, Latvian Sport Academy and Latvian University of Agriculture which the only one PP located outside Riga – in Jelgava, in Zemgale planning region. Each project has donorstate project partner. In 4 out of 11 approved projects the University of Oslo will be involved as a project partner, other partners also mainly located in capital city – Oslo similarly to Latvian PPs located mainly in Riga.

3 out of 11 approved projects in the Research OC will contribute towards **Special Concerns**:

- project “*Latvian language in monolingual and bilingual acquisitions: tools, theories and applications*” is focused on investigation of acquisition of the Latvian language by Latvian and Russian speaking children and creation of language assessment tools which will be used for the assessment of lexical, grammatical and phonological development of Latvian and Russian speaking children as yet such assessment tools are not available. Especially the high risk of mis-assessment is for Russian speaking children, whose development is insufficiently understood.
- project “*Gender, culture and power: diversity and interactions in Latvia and Norway*” will help to establish and to strengthen gender research community in Latvia by using the Norwegian experience in gender research. The project will be beneficial in the academic environment of Latvia, where modern, interdisciplinary gender studies do not exist as an academic discipline. The final beneficiary groups will be: researchers in the area of gender and ethnic issues, university teachers and students, state policy actors, NGOs active in the gender and ethno political dimension.
- project “*Health and social indicators of participation in physical activities for children with disabilities*” is aimed at exploration of physical skills, psychological and social behavior of children with disabilities, and development of innovative interdisciplinary education approach in study courses for physiotherapy and sport science students addressing health challenges of children with disability. It will provide positive contribution to wellbeing of children with disabilities by helping to

educate personnel, health specialists and sport science professionals as well as parents to overcome challenges they face when they seek for health related activities for these children.

Scholarships OC Guidelines were approved by the CoM in October 2014 and the OC completed in January 2015. The total funding requested in the single OC 1,6 times exceeded available funding. It is expected that decisions on the approval of project applications will be known at the Annual meeting.

During 2014 the PO supported 51 **Preparatory visits' projects** under 2 launched OCs (10 – in Scholarships component; 25 – in Research component; 16 – synergy projects). All of them have been successfully completed by the end of January 2015. After 2 OCs for preparatory visits, only 39% of the PBF for preparatory visits was contracted. Low interest level of higher education institutions can be explained by the fact that they have already established partnerships and don't need the funding for such a purpose like preparatory visit. Therefore, in January 2015 the Programme Committee decided to transfer the largest amount of remaining funds for support of bilateral activities during projects' implementation and also provided additional financing for organization of international conference "*Smart Specialization Strategies: New Approaches for Partnerships among Education, Research and Industry in Regions*" described in Section 2.2 of this report.

As major deviation from plan is related with delayed launching of OCs, instead of 2013 the OCs were launched in 2nd half of 2014, achievement of the first programme's results is planned in 2015.

4. Management and implementation

4.1 Management and control systems

National level

The FP submitted to the AA the updated description of the MCS on 21 August 2014. In order to avoid duplication of information in the description of the MCS and the PMCS, the following information about the POs were excluded from the description of the MCS: separation of functions between departments; strengthening of bilateral relations; organizational schemes; lists of procedures and risk management process.

MCS's updates also include information about changes made in the FP's and the CA's procedures and guidelines based on the AA's recommendations or changes in the external legal acts as well as information about newly approved programmes' CoM Regulations. Detailed information is included in the AAR submitted to the FMO by the AA on 19 December 2014.

Within the AAR for the period from 01.07.2013 till 30.06.2014 (hereinafter – AAR period) the AA's opinion is included which states that the MCS developed in the MoF as the FP and the Treasury as the CA are functioning effectively and complies with the Regulation and laws and regulations of the Republic of Latvia as well as assures that the IFRs prepared during the AAR period are correct and underlying transactions are legal and regular.

The AA has gained confidence over appropriate implementation of the AA's recommendations during assessment (follow-up of recommendations from the audit on the effective functioning of the MCS in the FP and the CA) performed from 03.02.2014 till 03.04.2014 where no systematic deficiencies were found, only minor ones, which did not affect the operation of the MCS. All recommendations with up to date deadlines expressed to the FP and the CA are implemented.

Programme level

According to the Paragraph 2 and 3 of the Article 4.8 of the Regulation all POs have elaborated and submitted to the AA for compliance assessment detailed descriptions of the PMCS and PO's functions. By March 2014 the FP has submitted to the FMO all descriptions of the PMCS together with the Audit and Assurance Reports on compliance assessment. The AA confirms that PMCSs comply with the Regulation and generally accepted audit principles however some improvements are needed to address deficiencies identified during the compliance assessment.

During the AAR period the AA performed one system audit on the effective functioning of the PMCS in the SIF for the NGO Fund. The AA concluded that the PMCS operates efficiently and complies with the Regulation and laws and regulations of the Republic of Latvia, however some improvements were necessary.

POs of the Climate programme, the NGO Fund and the Cultural Heritage Programme updated description of the PMCS regarding the AAR period. Changes made to initially approved³² descriptions of the PMCS and the current status of fulfilment of AA's recommendations and identified necessary improvements during compliance assessment audits³³ are summarized in the Annex 6.9 of this Report.

Risk management at national level

To ensure qualitative and effective risk management of the Financial Mechanisms implementation within the MoF *Risk Management Group* for the *EU Structural Funds*,

³² Submitted to the FMO by March 2014 together with the Audit and Assurance Reports on compliance assessment

³³ Included in the previous AAR for the period 01.07.2012-30.06.2013

Cohesion Fund, Financial Mechanisms and Swiss Programme was established in 2011. The main tasks of the group are: to elaborate and update Risk Management Strategy; to assess risks and to update the Risk Register (inclusion of identified risks and exclusion of no longer relevant risks).

Latvia's Risk Management Group experience was also presented during annual Risk Management Seminar in Tallinn in September 2014.

Trainings on the risk management – in order to improve overall risk management process, the MoF carried out procurement for trainings on risk management in EU Structural Funds and the Financial Mechanisms. On 11 August 2014 the MoF signed agreement with “KMPG Baltics Ltd” (contractor) for provision of aforementioned service. During September – November 2014 trainings were organised for the representatives of the MoF who are working with foreign assistance programmes. Trainings included 3 parts (theoretical, strategic and practical seminar). Trainings focused on basic principles of risk management, identification and assessment of risks, determination of risk appetite and risk tolerance, risk mapping, controlling, mitigation and monitoring principles, IT tools, etc. In the end of November 2014 the contractor elaborated and submitted a final report including general results, conclusions of the training as well as the proposals for Risk Management Strategy for the Financial Mechanisms formulated during the practical seminar in which the risk of corruption was also analyzed as well as the main national level and some programme level risks were considered.

Main outcomes of the risk trainings: according to the recommendations and conclusions expressed by the contractor, the MoF has elaborated a new internal Procedure for the risk management for the EU Structural Funds 2014-2020 and the Financial Mechanisms and has updated the Risk Register template, which both were approved in the Risk Management Group's meeting on 19 December 2014. Newly elaborated Procedure determines main risk groups, risk appetite and risk tolerance, new scales for likelihood and consequence (adjusted to the Financial Mechanisms) as well as stipulates responsibility of each department and officials. Enhanced Risk Register's template is more transparent and comprehensible, as well as methods how to fill in the Risk Register are clearly described.

The Draft of the Risk Management Strategy for the Financial Mechanisms will be elaborated until May 2015. It will be based on recommendations and conclusions of the trainings and also taking into account conditions stipulated in the donorstates Risk Management Strategy³⁴. Before approval the draft of the Risk Management Strategy will be provided to the FMO for consideration and comments.

Another result from trainings: increased employees' competence on risk management, thus also rising the quality of risk assessment process at the FP.

During the reporting period and for next period the FP has identified 3 risks at national level: 1) not achievement of the programmes' outcomes; 2) insufficient absorption of the PBFs and 3) corruption risk. Description of risks and mitigation actions relevant to current implementation phase of the Financial Mechanisms are included in the Annex 6.7.1 of this Report.

During the reporting period the FP drew attention to mitigation of risk on not achieving the programmes' outcomes, which, if not mitigated, can impede achievement of the objectives of the Financial Mechanisms. The FP monitored all programmes on a regular basis and particularly focused on Climate programme and Research and Scholarships Programme as they were defined as a high risk programmes in previous reporting period and introduced relevant actions such as:

³⁴ Risk Management Strategy EEA & Norway Grants 2009-2014 adopted by the FM Committee on 27 February 2013

- participation in the programmes’ CC meetings biannually;
- participation in Projects’ Selection meetings;
- monthly monitoring of planned and actual expenditures of the programme;
- quarterly reporting to Latvian Government on the implementation progress of foreign assistance;
- close cooperation with Norwegian Embassy and the FMO on actual issues related to programmes;
- communication on regular bases by phone/e-mail/letters/meetings with the POs and Implementing Agencies.

Regarding insufficient absorption of the PBFs risk – 27% of the PBFs are absorbed by the end of 2014 (absorption various between 13% up to 47% depending on the programme). Therefore on 16 December the FP in cooperation with the Embassy hold Communication Group’s meeting where the main stress was put on absorption of the PBFs. The POs submitted plans and proposals on activities to be supported from the PBFs. Within the meeting experience and best examples were shared between POs and possible improvements of absorption of the PBFs were discussed. And it is planned that discussions about absorption of the PBFs within the Communication Group’s meetings will be organized in future.

Regarding corruption risk – within reporting period the CPCB in close co-operation with other institutions has elaborated *Guidelines for the Corruption Prevention and Combating 2014-2020*. In the beginning of 2015, the CPCB submitted the Guidelines to the CoM. Taking into account necessary amendments to the *Law on the CPCB* and the fact that in the first half of 2015 Latvia will held Presidency most probably the Guidelines will be adopted only in the second half of 2015. Thus the CPCB informed that the Guidelines’ period will be changed to 2015-2020. This will be the third anti-corruption policy document developed by the CPCB in Latvia since 2004 and all the documents, including the latest one, include activities on integrity and corruption prevention, thereby maintaining principles of continuity and ensuring that anti-corruption politics are being implemented.

Corruption Perception Index (CPI)³⁵ for Latvia is evaluated for 16 years. In 2013 CPI for the first time placed Latvia among countries where corruption “is not considered a serious problem” ranking Latvia in the 49th place among 175 states (with 53 points – where “0” Highly corrupted and 100 “Very clean”). In 2014 Latvia ranked in the 43rd place (with 55 points). During period 2012-2014 Latvia reached the most rapid increase (for 11 places) among the Baltic States. Still Latvia shall achieve a lot to diminish corruption risk in the state.³⁶ Please see in the table below comparison of CPI in the Baltic States during the last 3 years:

Table 4. CPI in the Baltic States 2012-2014

Place (2012.→2013.→2014.) (increase)	State	Assessment (2012.→2013.→2014.) (Increase)
32→28→26 (+6)	Estonia	64→68→69 (+5)
48→43→39 (+9)	Lithuania	54→57→58 (+4)
54→49→43 (+11)	Latvia	49→53→55 (+6)

Source: *The CPCB of the Latvia*

³⁵ Annually published evaluation by the Transparency International, Webpage: <http://www.transparency.org/research/cpi/overview>

³⁶ The CPCB webpage, news 03.12.2014.: <http://www.knab.gov.lv/lv/knab/press/article.php?id=469537>

The corruption risk cannot be directly reduced by the FP, but it should be taken into account in the project selection phase and in the project implementation phase³⁷. In order to control and minimize to the extent possible the corruption risk within the implementation process of the Financial Mechanisms, the FP during reporting period carried out the following activities:

- supplemented the draft of the *Guidelines for the Corruption Prevention and Combating 2014-2020* with overall information about anti-fraud policy, strategic objectives, results to be achieved and tasks to be carried out for the protection of interests of the EU funds and other foreign financial assistance (including the Financial Mechanisms);
- updated the Complaint Mechanism on the FP's websites: www.eeagrants.lv and www.norwaygrants.lv), according to suggested standard practice by the donorstates as well as taking into account a draft guidance provided by the Transparency International³⁸. The procedure of complaint mechanism is described on the website's section "[Submission of complaints](#)" as well as stipulated within the description of the MCS;
- participated in trainings about risk management (including, corruption risk).

The aforementioned mitigation measures are summarized and described in detail in the FP's response to the Corruption risk filtering results³⁹ submitted to the FMO on 13 November 2014. On 30 November 2014 the FP harmonized the final version of the report⁴⁰ with Transparency International and with the FMO. Whereas in the 1st quarter of 2015 in order to ensure continuity of controlling and minimizing the corruption risk issues, the FP requested all POs to describe main control and monitoring mechanisms in place at their institutions for prevention of conflict of interest, corruption, fraud in projects' selection and monitoring stages according to template elaborated by the FP, which was based on EU Funds experience. The FP analyzed information provided by the POs' and gained assurance that mechanisms of control and monitoring for prevention of interest conflict, corruption, fraud in POs'/Implementing Agencies' institutions (Institutions) are in place as well as they are stipulated within respective internal procedures. All control and monitoring mechanisms are being verified both within the Institution and during performance of different audits. The main control mechanisms mentioned by the Institutions are summarized below:

Within stage "Selection of projects"

- In case of OCs all invitations to submit the applications shall be published on respective PO's webpage and in Latvia's official journal "*Latvijas Vēstnesis*";
- In order to avoid double financing in projects' selection process responsible institution verifies and gains approval that eligible costs has not yet been covered by the public financing or the EU funds or the other foreign financial assistance;
- For prevention of conflict of interest Institutions shall have and they do have its own *Policy on Conflict of Interest*⁴¹ (according to the *Law on Prevention of Conflict of Interest in Activities of Public Officials* as well as taking into account tasks⁴² to be achieved for public institutions set in the CPCB's *Guidelines for the Corruption Prevention and Combating 2009-2013*). As well as all public officials, experts and

³⁷ Donors' opinion presented at the annual Risk Management Seminar, Tallinn, Estonia, 24-25 September 2014

³⁸ Received at the annual Risk Management Seminar, Tallinn, Estonia, 24-25 September 2014

³⁹ According to the Corruption Risk Filtering report produced by Transparency International

⁴⁰ Transparency's International report about key findings from all 14 countries and overview of mitigation measures (planned to be published during 2015).

⁴¹ Including Institution's Internal Rules on prevention of conflict of interest or Code of Ethics and a Plan for Corruption Prevention

⁴² One of the task – to improve the internal control mechanisms of public and municipal institutions (including anti-corruption plan which shall be updated once in a year)

members of projects' evaluation committee are required to sign an acknowledgement of lack of conflict of interest (moreover the members of the selection committees which take the decision on project approval/rejection are considered as public official and shall submit public officials' declaration). Every institution shall submit to the State Revenue Service information about public officials as well as every year every public official shall submit public officials' declaration for previous year, thereby transparency of every public official is ensured;

- Every project applicant is required to acknowledge that received aid within the scope of the project will be used only for project's purpose and in economic activity of particular legal entity and at the project's implementation place. As well as projects' applicants shall confirm that they will implement activities according to national laws and regulations and that they are aware of administrative and financial sanctions in case if false information will be provided;
- Within projects' evaluation committee representatives of different institutions are included (e.g., the donor states, the FP, sector's institutions);
- Projects' applicants are evaluated according to evaluation criteria, including verification of former information about the applicants' status of legal entity, absence of tax debt, financial status, previous experience in implementation of similar projects (if the information is available) as well as in order to ensure objectivity within the evaluation process at least two independent experts are involved.

Taking into account aforementioned existing controls within the Institutions, the FP can conclude that employees are aware of the consequences of participation in dishonest and illegal activities as well as project applicants are aware that in case of providing false information, administrative and financial sanctions may be imposed.

Within Stage "Monitoring of projects" –

- Regarding projects' procurements, the Institutions review procurement plans and a list of contracts concluded by PP in order to find out if it hasn't avoided to apply the appropriate procurement procedure by splitting similar procurements. This aspect is also being verified during on-spot checks.
- The Institutions follow "the four eyes" principle during procurement plans', IFRs', supporting documents' checks as well as when request for project's amendment is received;
- Regarding infringements of the competition rules in case if estimated contract value is above 42 000 euro, the institution shall require acknowledgment from Latvia's Competition Council that applicant has not previously been punished for violations of competition. In case if estimated contract value is below 42 000 euro, the institution verifies its compliance with market price using all available internal and external databases;
- The Institutions shall ensure that PPs in their procurements follow principles set in the *FP's guidelines on requirements and verifications of the Financial Mechanisms' payment requests*;
- The Institutions perform risk based on-spot checks for projects observing principles defined in the *FP's guidelines on verifications at the Financial Mechanisms' project implementation sights*, if necessary field experts also are involved in the on-spot checks.

According to information provided by the Institutions, the FP has gained assurance that they ensure appropriate control mechanisms, thereby continuous projects' monitoring process in its material aspects is ensured.

During the next reporting period the FP will take the following main actions related to the risk management:

- develop the Risk Management Strategy for the Financial Mechanisms in May 2015;
- continue strong monitoring of all programmes, especially those with a high risk level.

Risk management at the programme level

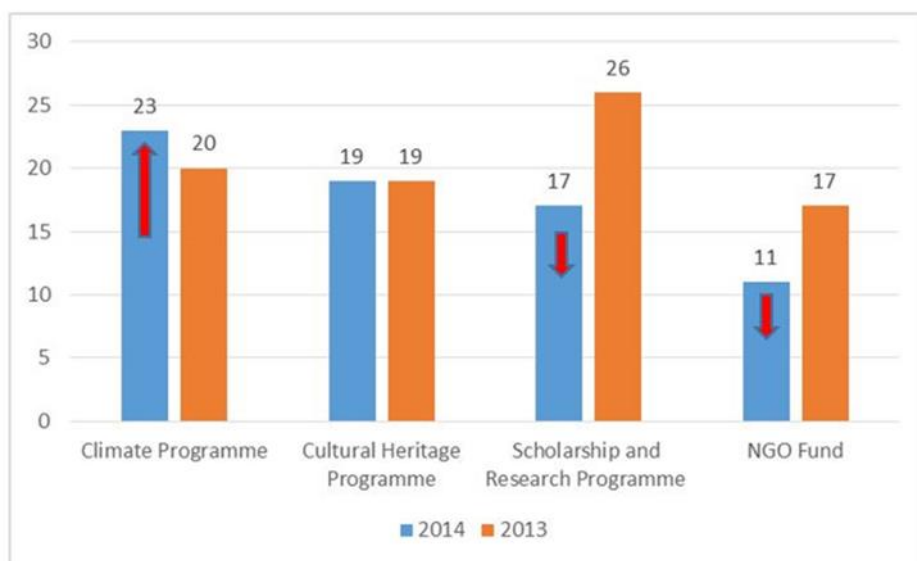
The FP evaluated risks based on regular monitoring of programmes' implementation and POs submitted information regarding the risk monitoring during 2014. The FP has identified one main horizontal risk at programme level for all programmes – *Infringement and error of procurement procedures and breaches of procurement contracts' conditions* – except NGO Fund. As NGOs are not contracting authorities according to *the Public Procurements Law* and procurement procedures shall be launched only when amount of contract is at or above EU set thresholds. Although this risk has been sufficiently monitored at projects' start-up phase by the POs/Agencies and the PMB providing monitoring of projects' procurement plans, ensuring ex-ante verifications of procurement documentation and procurement process; it still remains relatively high during projects' implementation phase, when the PPs may not have appropriate experience and/or sufficient understanding in public procurements' procedures, as well as negligent attitude of the PPs may cause this risk. In order to mitigate this risk the PMB will continue to provide consultations on public procurement issues to the POs/Agencies, whose responsibility is not only to perform selective ex-ante verifications, but also to provide competent advice and consultations for project promoters on a regular basis. During 2015 the POs/Agencies shall ensure regular monitoring over procurement process by providing competent advice and consultations for the PPs as well as the POs/Agencies will ensure strict supervision over appropriate fulfillment of procurement agreements' conditions.

According to the risk assessment (please see the Annex 7.2.2 of this Report) it can be concluded that from 4 programmes:

- Climate Programme is evaluated with the highest risk;
- Culture Heritage Programme and Research and Scholarships Programme at moderate risk level;
- and NGO Fund at low risk level.

Please see in the chart below actual risk scoring of programmes in comparison to previous reporting period:

Chart 11. Total risk score according to the risk assessment



During 2014 the risks of *Research and Scholarships Programme* were reduced due to following aspects: new employee from June 2014 was hired in the PO's institution responsible for programmes' implementation thus the capacity of the PO was improved; all OCs were launched and projects were evaluated; as well as in comparison to the other programmes it has longer projects' implementation deadline for both activities – scholarships (September 2016) and research (April 2017).

Whereas *Climate Programme's* risks have raised, because in the OC's projects insufficient time for construction activities is possible as the construction of new low-energy buildings is planned in 5 out of 7 approved projects. Furthermore, the construction of "green" buildings is very new and innovative direction in Latvian construction field as the building industry has been historically conservative, relying on time-proven construction materials and methods. The introduction of new "green" materials and methods always involves the higher risks and sometimes can result in notable building failures. The PO will closely monitor OC's projects with the construction activities: verification of the procurements and monitoring of progress of construction works.

The FP will ensure regular monitoring of the above mentioned high risk programmes and request further actions from the involved institutions.

4.2 Compliance with EU legislation, national legislation and the MoU

EU legislation – State aid

In order to provide monitoring of the state aid issues the institution responsible for the state aid issues in Latvia – the State Aid Control Department of the MoF – continued its involvement in the monitoring of programmes by providing comments to the Climate Programme Regulations with regards to state aid issues.

The EC on 29 November 2013 extended the duration of Commission's Regulation (No 800/2008 of 6 August 2008) for 6 months declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General Block Exemption Regulation). The new regulation entered into force since 1 July 2014 and Member States were allowed to apply existing schemes only by the end of June 2014 (adjustment period), with the exception of regional aid schemes. Respective changes of the state aid regulation is actual for the Climate programme's OC and thus all decisions on approval of OC's project applications were taken by 31 December 2014.

EU legislation – Public procurement

At the national level the PMB is involved in ex-ante checks of procurement documentation/procurement procedure within programmes and projects in order to minimize irregularity cases related to public procurement. The obligations of the PMB related to the FM are set in the Law on Management of the FMs 2009 – 2014, the CoM Regulations on the FMs' Management as well as in the MCS. Additionally an ex-ante procurement checks should be carried out by the PO/Implementing Agency at a project level. The results of ex-ante checks carried out by PMB and PO/Implementing Agencies in 2014 are described in the Section 4.4 of this Report.

Exception of the Article 7.16.2 of the Regulation (Procurement)

Public Procurement Law and the CoM Regulation no.299 (of 4 June 2013) *on the procurement procedure and its application to projects financed by the contracting authority* (Regulations no.299) composes overall national regulation for public procurements in Latvia. Latvia by this Regulation has set simplified procurement procedures for all legal entities (private persons/NGOs) which receive financing for the implementation of contracts from the funding provided by the EU Funds or other foreign financial assistance instruments, inc. FMs. Thus, in order to conclude either a service or a supply, or a construction contract with the supplier, the beneficiary of the foreign financial assistance should follow the procurement procedure stipulated in this Regulation.

The simplified procedure set in the Regulations no.299 doesn't mean that PP haven't obligation to follow the principle of best economic practice, full and fair competition and optimal use of the FM – all this principles should be/are already included in project contracts signed between the POs and PPs.

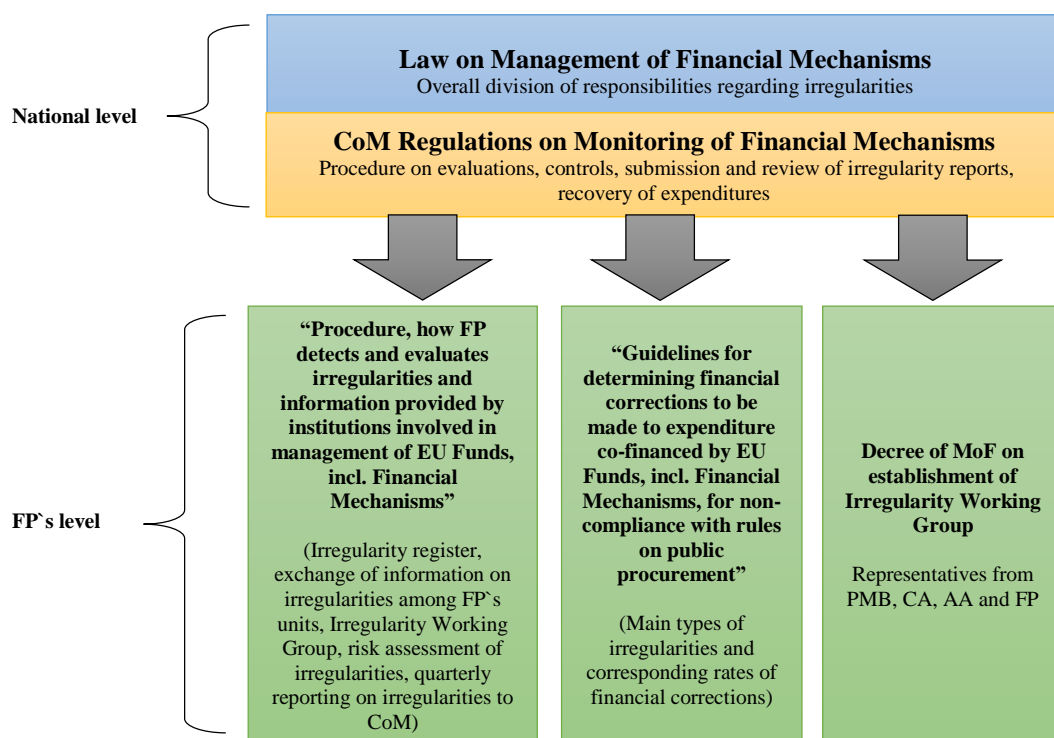
In order to use common approach for all projects financed from the EU Funds and other foreign financial assistance in Latvia, the FP has discussed with the FMO on exception of the Article 7.16.2 of the Regulation in specific programmes. And in January 2015 the FP and the FMO electronically agreed on exception of the Article 7.16.2 of the Regulation: the procedure outlined in national Regulation no.299 may be applied for PPs receiving 50% or more of the eligible expenditure of the project as a project grant from a programme under the FM, if end when the national authorities consider that the procurement procedure under the Public Procurement Law cannot be applied, provided that the applicable thresholds specified in the relevant EU Directives are not exceeded. In case of Latvia the exception of the Article 7.16.2 of the Regulation will be relevant only to SGS's projects of Climate Programme.

National legislation

The legal regulation of the FM's implementation, management and monitoring in Latvia is set and described in the MCS. Only by mid-2014 last Programme Regulations on SGS'/OC' conditions (Climate programme, Research and Scholarships Programme) were adopted as each PO had to elaborate and approve in the CoM the OC guidelines, inc. project evaluation criteria, as according to national legislation all conditions applicable to the third persons (in this case – PPs) shall be issued as legal acts at least adopted by the CoM.

4.3 Irregularities

The legal basis for detection, evaluation and reporting on irregularities and, if necessary, application of financial corrections and making reimbursements is determined in the Regulation (the Chapter 11 and 12) as well as in the national legal acts and the FP`s internal procedures indicated below:



The FP is designated as national authority responsible for reporting on irregularities. The institutions involved in the management of the FM shall report to the FP on irregularities immediately or quarterly in accordance with cases determined in the Regulation. If the irregularity case is complicated and needs further consideration, inc. on financial correction to be applied, the FP can propose additional discussions at the Irregularity Working Group. Irregularities which do not need to be reported to the FP by submitting irregularity reports (the Article 11.7.1 of the Regulation) shall be reported to the FP on a quarterly basis by submitting irregularities` summary report.

The PO has an obligation to investigate each irregularity and to take decision on applicable financial correction when the application of 100% correction would be disproportionate.

The FP keeps a register on all reported irregularities at the programme and project level. It is also used for reporting to the CoM about implementation progress of EU funds and other foreign assistance, inc. the FM.

Please see in the table below the summary for irregularities reported at the programme and project level by the CA, the AA and POs to the FP and further to the FMO:

Table 5. Summary on reported irregularities in 2014

Title of programme	Total programme costs, EUR	Reported irregularities, EUR	Reported irregularity from total programme costs (%)
1.Cultural Heritage Programme	11 787 647	2 380	0,02%
2.Climate Programme	11 205 405	0	0,00%
3.NGO Fund	10 910 526	18 592	0,17%
4.TAF	691 000	668*	0,10%
5. Research and Scholarships Programme	575 833	0	0,00%
Total:	35 170 412	21 640	0,06%

*inc. financing from both FMs

A part of all irregularities was unduly spent programme administrative expenditures which were excluded from the respective IFRs and reported to the FMO in accordance with the Chapter 11 of the Regulation. Taking into account that compliance of programme administrative expenditures with proportionality principle was one of the main reasons for non-eligible expenditures at the programme level, on 26 June 2014 the FP sent to all POs/Implementing Agencies a letter in which explained the situation and asked to observe the proportionality principle for administrative expenditures in future.

Other part of irregularities was detected by POs at the project level. There were irregularities reported to the FMO for the NGO fund's 6 projects in the total amount of 16 652 euro, inc. NGO "Family Association" project on policy making processes in the field of gender equality, where based on the FMO's decision (13 March 2014) on project grant cancellation, the PO issued an administrative act about the termination of the project contract and the repayment of the grant (10 255 euro), which was paid out already to the PP. The PP had appealed the PO's decision to the Latvian Court and resolution of dispute will depend on the court's decision. Irregularities in other NGO fund's 5 projects were related with non-compliances in the calculations of project administrative costs and incomplete or lacking supporting documentation. The irregularities were also reported to the FMO for the Cultural Heritage Programme's Rezekne Synagogue pre-defined project in amount of 1 467 euro related with discovered non-compliances in the business trip procurement procedure.

The PO has excluded irregularity amounts from interim payments or final payments to the PPs, except in one above-mentioned NGO fund's project, and has reduced the total eligible costs of projects for respective amounts.

In order to reduce the risk of errors and irregularities following effective mechanisms are used:

- detailed check of IFRs and projects' progress reports and certification of incurred expenditure respectively by the CA and the PO;
- periodical monitoring visits and on-the-spot checks made by the CA, the AA and the POs in order to check the financial progress versus physical progress;
- regular update of register of all irregularity cases made by the FP;
- publicly available mechanism for submission of complaints and alerts on irregularities;
- selective ex-ante procurement checks by the PMB to prevent infringements of procurement rules;
- as the FM and EU funds are administered by the MoF, the results of audits in EU funds can be shared, if they affect also the implementation of the FM.

4.4 Audit, monitoring, review and evaluation

The PMB has carried out several selective **ex-ante procurement checks**:

- 7 checks from which 6 checks were carried out in 3 pre-defined projects of Cultural Heritage Programme and one - in pre-defined project of Climate Programme;
- 5 checks of the programme management expenditures in all programmes - Climate Programme (2 checks), Cultural Heritage Programme (1), NFO fund (1), Research and Scholarships Programme (1 check).

In result of ex-ante procurement check the PMB issues a positive opinion on received procurement documentation if the PO, Implementing agency or the PP eliminated all the PMB's objections or negative opinion if the above-mentioned organizations failed to provide the PMB with information regarding elimination of infringements in procurement documentation, infringements are not eliminated or the PMB is not able to get assurance about elimination of infringements. In 2014 the PMB issued a few positive opinions without objections, as almost in all check the PMB had objections which were eliminated in the deadline set by the PMB.

According to information provided by the POs to the FP during the reporting period they have carried out:

- Cultural Heritage Programme - on-spot check in the *Ethnographic Open-Air Museum's* pre-defined project. The PO detected incorrect public procurement procedure for construction works. The PP plans to announce corrected public procurement procedure in April 2015.
- NGO Fund - 33 on-spot checks from which 11 checks were concluded with objections regarding low risk non-compliances in project recordkeeping, arrangement of project accounting, calculation of depreciation on fixed assets and fulfilment of publicity requirements, etc. Objections in 4 projects were remedied in 2014, the decisions in other projects will be made before the approval of the next project reports.

During reporting period 2 **system audits** by internal audit structures of the POs (the SIF and the MoC) were carried out. 4 recommendations regarding improvements of transparency and reduction of administrative burden in NGO fund's OC project selection by the SIF were implemented in due deadlines. No recommendations were provided to the MoC as it was concluded that internal control system established by it functions effectively and ensures effective and timely performance of PO's functions.

Overview of various system audits and on-spot checks planned for the next reporting period please find attached in the Annex 6.6 of this Report.

4.5 Information and publicity

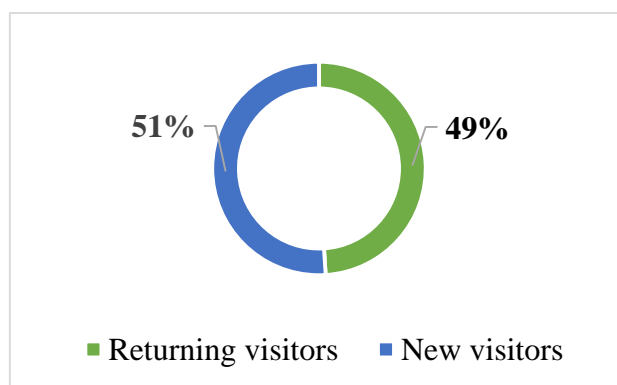
According to the FMs Communication Strategy for the period of 2009-2017 Communication Management Group, which is responsible for provision and coordination of the communication process, have gathered two times during 2014 to discuss opening events, informative seminars, common communication and publicity requirements as well as to exchange experience for further events.

POs have updated the Programme Communication Plans and have carried out different activities, such as provision of information for mass media (about their activities and results), organization of informative seminars and conferences as well as published information about sectorial issues on their websites.

In 2014 the FP has distributed information (more than 40 press releases) in the mass media, social media (twitter.com) and specific list of other recipients, also information (press releases, short news, photos and videos) on national website of the FMs⁴³ were published and updated on regular basis.

On the website there were approximately 1800 unique visitors per month. Half of them were returning visitors. 91% of visitors are from Latvian domain. Average stay on page was 3 minutes.

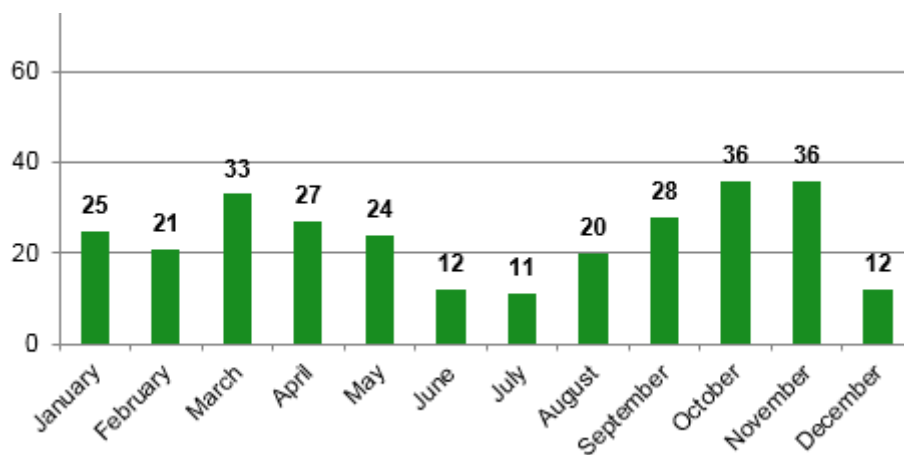
Chart 12. Visitors of www.eegrants.lv and www.norwaygrants.lv



Source: Google Analytics

Also the FP in January 2014 started a new initiative – FMs’ media monitoring – that will be continued till 2017. In 2014 altogether 285 publications/broadcasts in the Latvian press, radio, TV and Internet were gathered.

Chart 13. Number of publications/broadcast per month in 2014

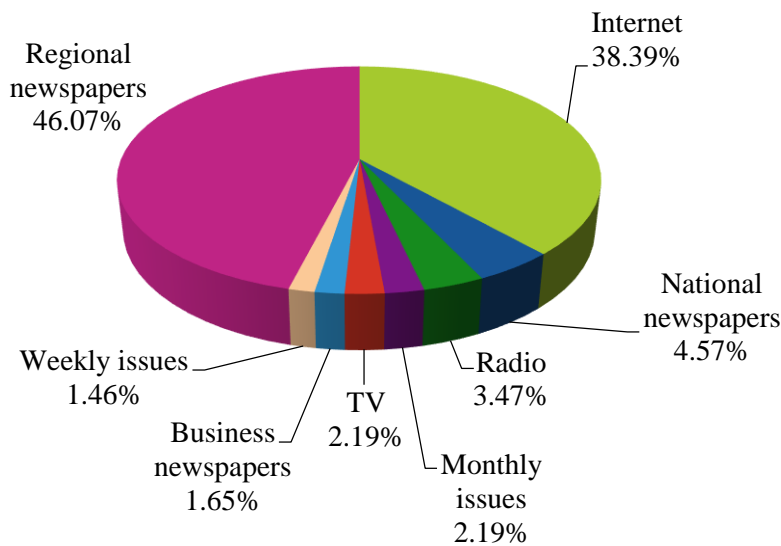


⁴³ www.eegrants.lv and www.norwaygrants.lv

In September/October there was high publicity specifically about Culture Heritage programme due to commencement of cultural heritage conservation projects under SGS as well as bilateral activities in Green Synagogue in Rezekne. While the high publicity in November 2014 is related to informative events for launching Scholarships OC and the 3rd round of OC within NGO fund.

Mainly publications cover regional press what shows that projects' activities are more targeted to regions as well as information is closer to the target audience.

Chart 14. Number of publications/broadcasts by media type in 2014



In order to provide comprehensive information to the general public infographics (one for each programme) were procured by the FP in 2014. By means of infographics now everyone has a possibility to find out the most important information about the FM as well as about the programmes and projects of different fields in Latvia which are implemented within the framework of the FM. Infographics are used as an informative material at all publicity events as well as are available on website of the FM.

In May 2014 as a part of the 200th anniversary of the Norwegian Constitution the mid-term informative event of the FM was organized in Riga. During the event both small and adult visitors of the Esplanade (one of the biggest parks of Riga and also the central place for outdoor festivities of Riga 2014 program) had a possibility to find out information about the investment of the FM in Latvia as well as to participate in different activities and competitions.



Norwegian Ambassador to Latvia, H.E. Mr. Jan Grevstad - giving a speech at the event of the 200th anniversary of the Norwegian Constitution

During the event, there was a project *Unexpected Appointments* presented in which it was possible to watch through a "mobile eye" what happens at that moment in Norway as well as to communicate and even to acquire a new friend in Norway. Everyone was welcomed to look at a photo exhibition *Latvia through EEA/Norway Grants' Eyes* in which one could find out more about already implemented projects in different places of Latvia. The event was enriched by Norwegian culture programme and other activities.

Regarding implementation of the programmes several seminars have been organized:

- 1) Several informative seminars were organized within **Research and Scholarships Programme** – 3 seminars during July/August 2014 for potential project applicants in Research OC (145 participants) and one seminar in November 2014 for potential project applicants in Scholarships OC (41 participant).
- 2) During June-September 2014 within **Climate Programme** there were 4 informative seminars organized for potential project applicants in OC and SGS. Around 285 people representing state institutions, local governments, scientific and educational institutions, private enterprises and NGOs took part in the seminars and were introduced with the calls' conditions, objectives and partnership making aspects.

In June, August and September 2014 four seminars were organized for the OC and SGS applicants about completion and submission of the project applications.

In September 2014 the PO took part in informative seminar "Economically efficient low energy building reconstruction and construction" and informed potential project applicants about the OC.

In November 2014 opening conference of pre-defined projects held in Riga in order to introduce the programme target groups and society with pre-defined projects' objectives, activities and expected results.



Project partner from Norway shared experience on climate issues during opening conference

- 3) During March-September 2014 within the NGO fund there were 4 informative seminars organized about launching the projects, topical issues during implementation of projects, progress achieved and examples of good practice - all together 154 participants took part in these events. Also in November 2014 the PO organized informative seminar session (4 seminars in different regions of Latvia) on drafting project proposals for OC under NGO Project Measure. Seminars provided detailed information about the programme and conditions for application. Seminars were well attended (in total 147 participants) and contributed to the very high number of submitted projects.
- 4) In October 2014 PO of Cultural Heritage programme organized informative seminar for PPs of pre-defined projects and within both SGSs (51 participants). Implementation issues of projects were discussed and special attention was focused on preparation of procurement documentation.

4.6 Work plan

Since progress of January 2014-March 2015 is already included in this report, please see work plan for the period April-December 2015 below:

Table 6. Work plan for 2015

Scope	Task	Apr-Jun	Jul-Sep	Oct-Dec
	Signing project contracts (OCs and SGSs)	LV02 LV03		
International cooperation	Bilateral conferences/events (strategic questions within specific field)	LV04 Two NBF's events		LV04
	Implementation of Complementary Actions	LV02 LV03 LV04	LV03 LV04	LV02 LV03
	CC meetings	LV04	LV02	LV04
Information and publicity	FP and all PO's communicate with media (press releases, interviews, social media, press conferences etc.) and create/modify/update websites about programme's events, OCs, pre-defined projects, informative seminars, project progress etc. on regular basis	x	x	x
	PO's organize informative seminars, conferences on programme implementation progress	LV03 LV05	LV03 LV05	LV02 LV03 LV04
	POs create promotion materials		LV02 LV04	LV05
	FP provides ongoing media monitoring	x	x	x

5. Summary listing of issues and recommendations

Within the reporting period **implementation of all programmes was ongoing**. The POs had to invest their workload into evaluation/implementation of pre-defined projects and elaboration/amendments of OC/SGS guidelines for projects to be approved within a particular programme, evaluation of projects submitted in the calls, signing of project contracts, evaluation of project reports, monitoring of projects, elaboration of activity plans for the PBFs and Complimentary Actions. According to initial PAs, in all programmes where OC/SGS`s were envisaged, they had to be launched in 2013, at least the 1st round of calls. Nevertheless, due to several reasons, which could differ from programme to programme, depending on their specifics, most of calls were launched/closed in 2014, only NGO Fund and Culture Heritage Programme managed to launch their OCs in 2013, whereas Scholarship Programme call was closed only in January 2015.

Donor partnerships are ongoing 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 PBFs bilateral cooperation was fostered between POs and the DPPs as well as between PPs and donor project partners. So far 26% of FMs projects are with donor-partnerships. In 2014 all planned activities under the NBF priority “*Riga – the European Capital of Culture 2014*” were successfully implemented, donorstates artists have exposed their artworks and installations in Latvia, in the result wide publicity of events in the mass media (TV, radio, press, internet, social networks) was ensured.

The FP would like to note **the best practice examples** in 2014 at the overall management level of the FMs: the FMO`s provided training on Irregularities and DoRIS Reporting System for all 3 Baltic States` FPs simultaneously (4 December, Tallinn); biannual workshops at the FMO`s premises for the FPs (18 March and 20 November, Brussels), annual Communication Workshops for the Embassies and the FPs (10-11 March, Bucharest); annual conference on Risk Management and Good Governance for Results for the FPs (24-25 November, Tallinn). Such activities are a good and valuable practice to share experience and solve issues together with the donorstates and the other BS.

Following **main tasks** remain to be accomplished starting from March 2015:

- signing of project contracts with the winners of Research and Scholarships Programme calls, NGO Fund`s last call and Climate Programme calls;
- organization of 2 last strategic level bilateral events from the NBF.

The FP has evaluated risks at national and programme level. 3 main risks were identified at national level: 1) *under cohesion objective - not complete achievement of programmes' outcomes in donorstates' set deadline*; 2) *under bilateral objective - insufficient absorption of the PBFs*; 3) *under operational issues - corruption risk and conflicts of interest*. There was one horizontal risk identified at the programme level: *under operational issues - infringement and error of procurement procedures and breaches of procurement contracts' conditions*; and several specific risks for each programme, allowing to determine the programmes with the highest risk score. The FP has elaborated risk mitigation actions and will ensure regular monitoring of the national and programmes level risks and request further actions from the involved institutions, if necessary. Additionally in order to improve overall risk management process outsourced training course was organized in the fall 2014 for the representatives of the MoF/FP about risk management process in management of investment funds (EU Structural Funds and the FMs). Training focused on basic principles of risk management, identification and assessment of risks, determination of risk appetite and risk tolerance, risk mapping, controlling, mitigation and monitoring principles. In the result of the training the existing FMs Risk Register will be updated and the FMs Risk Management Strategy will be developed by the end of May 2015.

6. Attachments to the Strategic Report

Annex 6.1 Applications received, selected and contracted for each programme

Applications for Climate Programme

Calls for proposals	2014			Total		
	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Predefined in MoU			2			2
Capacity Building in the Field of Research and Measures for Enhancing Society's Understanding about Climate Change and its Consequences	63	32	0	63	32	0
Emission reduction technologies inc. renewable energy, sustainable buildings and technology development	23	7	0	23	7	0
Total	86	39	2	86	39	2

Open call related outcomes:

- Developed strategies and measures for adapting to a changing climate
- A less carbon-dependent economy
- Predefined project measures:
- Capacity-building
- Information and awareness raising
- Research

Applications for NGO Fund

	2012	2013			2014			Total		
	Contracted	Received	Partnership	Contracted	Received	Partnership	Contracted	Received	Partnership	Contracted
Predefined in Programme Proposal	1									1
OC number 1: NGO Activity Support Measure - Active citizenship fostered (2 stages)		206	10	76	0	0	2	206	10	78
OC number 10 (NGO Project Measure (democratic)- 2nd call, microprojects (1 stage)		0	0	0	30	0	2	30	0	2
OC number 11 (NGO Project Measure (democratic)- 3rd call, microprojects (1 stage)		0	0	0	0	0	0	0	0	0
OC number 2: NGO Project Measure - microprojects (Provision of welfare) - 1st call (1 stage)		118	1	19	0	0	0	118	1	19
OC number 3: NGO Project Measure – medium/macro projects (Provision of welfare) - 1st call (2 stages)		182	54	35	0	0	0	182	54	35
OC number 4 (NGO Project Measure (welfare)- 2nd call, medium and macro projects (2 stages)		131	29	0	0	0	24	131	29	24
OC number 5 (NGO Project Measure (welfare)- 2nd call, microprojects (1 stage)		0	0	0	108	0	13	108	0	13
OC number 7: NGO Project Measure - microprojects (Democratic values) - 1st call (1 stage)		30	0	4	0	0	0	30	0	4
OC number 8: NGO Project Measure - medium and macro projects (Democratic values) - 1st call (2 stages)		52	7	8	0	0	0	52	7	8
OC number 9 (NGO Project Measure (democratic)- 2nd call, medium and macro projects (2 stages)		40	6	0	0	0	5	40	6	5
Total	1	759	107	142	138	0	46	897	107	189

Open call related outcomes:

- Active citizenship fostered
- Democratic values, inc. human rights, promoted
- Provision of welfare and basic services to defined target groups increased
- Predefined project measures:
 - Advocacy
 - Information and awareness raising
 - NGO - Public coalition building

Applications for Cultural Heritage Programme

Calls for proposals	2013			2014			Total		
	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Predefined in MoU			5						5
Open call for small grant scheme for preservation of cultural heritage	27	8	0	0	0	5	27	8	5
Open call for small grant scheme for the cultural exchange	38	37	0	0	0	8	38	37	8
Total	65	45	5	0	0	14	65	45	18

Open call related outcomes:

- Cultural heritage restored, renovated and protected
- Contemporary art and culture presented and reaching a broader audience
- Predefined project measures:
 - Capacity-building
 - Education and training
 - Infrastructure development and provision of equipment
 - Provision of services

Applications for Research and Scholarships Programme

Calls for proposals	2014			Total		
	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Bilateral Research Cooperation	73	0	0	73	0	0
Scholarships	0	0	0	0	0	0
Total	73	0	0	73	0	0

Open call related outcomes:

- Increased research cooperation between Norway and the BS
- Strengthened research capacity in the BS and increased application of research results through research cooperation between Norway and the BS

Bilateral Calls for Proposals

	2013			2014			Total		
Calls for proposals	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Preparatory visits	44	0	41	11	0	10	55	0	51
Total	44	0	41	11	0	10	55	0	51

Open call related outcomes:

- Increased research cooperation between Norway and the BS
- Strengthened research capacity in the BS and increased application of research results through research cooperation between Norway and the BS

Annex 6.2 Donor partnership projects in each programme

Climate Policy Programme

Project id	Project Name	Pre-defined project	Donor state	Donor project partner	Type of organization
LV02-0001	Development of Proposal for National Adaptation Strategy, Including Identification of Scientific Data, Measures for Adapting to Changing Climate, Impact and Cost Evaluation	Yes	Norway	Norwegian Directorate for Civil Protection (DSB)	National agency
LV02-0002	Development of the National System for Greenhouse Gas Inventory and Reporting on Policies, Measures and Projections	Yes	Norway	Norwegian Environment Agency	National agency
LV02-0007	Adazi Free Waldorf School Gyms Construction	No	Norway	Solenergi Fusen AS	Small or medium sized enterprise (SME)
Projects with donor project partners 3 out of 3 (100.0%)			Planned grant amount for projects with donor project partners € 3,856,637		

NGO Fund

Project id	Project Name	Pre-defined project	Donor state	Donor project partner	Type of organization
LV03-0039	Democratic Study Circles	No	Norway	Norwegian Association for Adult Learning	Umbrella organization / Network of NGOs
LV03-0060	Regular Latvian Red Cross operation in the field of human rights and anti-discrimination	No	Norway	NGO "Norwegian Red Cross"	Other type of NGO
LV03-0075	Promoting security for youth in alternative care	No	Norway	Association SOS Children's Villages Norway	Other type of NGO
LV03-0089	READY - Reintegration and Education Actions for Demanding Youth	No	Norway	TroNett	Other type of NGO
LV03-0092	Traditional values and new skills - for sustainable development of society	No	Norway	Camphill Village Trust of Norway	Other type of NGO
LV03-0094	Voluntary social work as base for the better quality of life	No	Norway	NGO "Norwegian Red Cross"	Other type of NGO

LV03-0095	Empowering National Youth Council of Latvia "LJP 2.0"	No	Norway	The Norwegian Children and Youth Council	Advocacy organization (NGO)
LV03-0097	Be active and get involved!	No	Norway	Norwegian Association of the Blind	Advocacy organization (NGO)
LV03-0098	Raising a child non-violently!	No	Iceland	Blatt afram - prevention of sexual abuse of children	Other type of NGO
LV03-0099	Let's Open a World for Opportunities and Skills	No	Norway	Association Latvian Society in Norway	Other type of NGO
LV03-0100	Center for early childhood development of children with disabilities	No	Iceland	NGO Cerebral Palsy Island	Other type of NGO
LV03-0101	Together in society	No	Norway	The Foundation „Sound of Happiness Competence Centre"	Other type of NGO
LV03-0102	Mechanisms of social integration for children and youth with special needs	No	Norway	NGO Pedverket Resource Center	Other type of NGO
LV03-0103	We live together in our country	No	Norway	NGO "Norwegian Red Cross"	Other type of NGO
LV03-0105	The Reducing of Social Exclusion and Invalidisation of Children with Autism and Autistic Spectrum Disorders	No	Norway	Foundation Nordic-Baltic Organisation for Professionals Working with Children and Adolescents	Foundation
LV03-0107	The development of supporting measures to include families with children who are at risk of social exclusion	No	Norway	Association SOS Children's Villages Norway	Other type of NGO
LV03-0109	WORK is LIFE	No	Iceland	NGO Workshop Ortaekni of the Organization of Disabled in Iceland	Other type of NGO
LV03-0121	Integration incubator to support Roma children and youth	No	Norway	NGO Pedverket Resource Center	Other type of NGO
LV03-0124	Salutogenesis – important method for active support and successful social integration into society of children and young people with special needs	No	Norway	Research Centre for Health Promotion and Resources HiST/NTNU	Regional or local authority

				(the Centre) - research unit co owned	
LV03-0134	Inclusion of Animal therapy into the social rehabilitation of abused children	No	Norway	EKT Rideskole og Husdyrpark AS	Service provision organization (NGO)
LV03-0142	Promoting social inclusion of men who have intimate relations with men (MSM) by improving access and quality of health care services	No	Norway	Gay and Lesbian Health Norway	Advocacy organization (NGO)
LV03-0143	Providing sustainable environment for psycho-social rehabilitation for cancer patients implementation in Latvia	No	Norway	Montebello Centre	Other type of NGO
LV03-0165	SAFE HERE – innovative community programs against current violent actions	No	Norway	Stine Sofies Stiftelse	Other type of NGO
LV03-0166	Family care - secure base for development of children	No	Norway	Linnea Kompetansesenter	Other type of NGO
LV03-0168	Integration of long-term patients into the job market by providing ICT skills acquisition	No	Norway	Norwegian university of Science and Technology	University, college or other teaching institution, research institute or think-tank
LV03-0174	Diversity as a resource for education and community development	No	Norway	The National Centre for Multicultural Education	University, college or other teaching institution, research institute or think-tank
LV03-0176	UCAN do that 2!	No	Norway	Change the World	Community-based Organization (NGO)
LV03-0180	Innovative solutions for accessible – socially inclusive product of tourism development in Latvian municipalities	No	Norway	Stop discrimination	Foundation
LV03-0181	Another Latvia	No	Norway	Drobak municipality	Regional or local authority
LV03-0182	Universal Design for the Future	No	Norway	Norwegian Association of the Blind	Advocacy organization (NGO)
LV03-0185	Development of Social Rehabilitation Services of Latvian Diabetes Federation	No	Norway	Norwegian Diabetes Association	Other type of NGO
Projects with donor project partners 31 out of 188 (16.5%)			Planned grant amount for projects with donor project partners € 2,217,841		

Cultural Heritage Programme

Project id	Project Name	Pre-defined project	Donor state	Donor project partner	Type of organization
LV04-0003	Restoration of Rezekne Green Synagogue including development of wooden architecture centre and exposition of Jewish culture heritage	Yes	Norway	Sam Eyde upper secondary school	University, college or other teaching institution, research institute or think-tank
LV04-0004	Restoration of the Museum of Rainis and Aspazija	Yes	Norway	Association of Lillehammer museums: The Museums Aulestad, Bjerkebæk, Norwegian Olympic Museum and the Postal Museum	National agency
LV04-0005	Digitization of cultural heritage of Riga Art Nouveau Centre and Development of Virtual Museum	Yes	Norway	The National Centre of Art Nouveau	National agency
LV04-0006	Restoration of Eleja Manor Premises	No	Norway	Norwegian Institute for Cultural Heritage Research (NIKU)	University, college or other teaching institution, research institute or think-tank
LV04-0007	Restoration of Kuldiga Old Town Hall and Improvement of Quality and Accessibility of its Culture Services	No	Norway	Akershus Restoration centre	Other
LV04-0008	Life in Motion	No	Norway	Bergen International Film Festival (BIFF)	Small or medium sized enterprise (SME)
LV04-0009	Conservation of Cesis Medieval castle for regional socioeconomic development	No	Norway	Ostfold County	Regional or local authority
LV04-0010	Experimental music lighthouses: Riga-Tromsø	No	Norway	Insomnia Festival	Other type of NGO
LV04-0011	Environment manufactures	No	Norway	Frogn Municipality Department of Culture	Regional or local authority
			Iceland	Youth centre „Hitt Husitt” Department of Culture	Other type of NGO
LV04-0012	Dance in Nature 2014	No	Norway	Siri & Snelle Produksjoner	Other type of NGO

LV04-0013	Latvia - Norway. Discover Folk Tradition in Music	Yes	Norway	Nesttun String Orchestra	Other
LV04-0014	NORTH Creative Network - for open innovation and cultural exchange	No	Norway	i/o/lab-Center for future arts	Other type of NGO
			Norway	Piksel Produksjoner Ltd.	Micro-enterprise
			Iceland	Association for electronic arts "Lorna"	Other type of NGO
LV04-0015	Joik & Daina	No	Norway	Foreningen Isogaisa	Other type of NGO
LV04-0016	450 years together. Jewish culture in Latvian environment – arts, music, education	No	Norway	Oslo Jewish Museum/ Stiftelsen Jødisk Museum i Oslo	National agency
LV04-0017	Restoration of the Great synagogue of Ludza and revival of Jewish spiritual heritage	No	Norway	The foundation Museums Centre in Hordaland	Other
LV04-0018	Restoration of the Museum of Jānis Akuraters	No	Norway	Association of Lillehammer museums: The Museums Aulestad, Bjerkebæk, Norwegian Olympic Museum and the Postal Museum	National agency
Projects with donor project partners 16 out of 18 (88.9%)			Planned grant amount for projects with donor project partners € 4,075,186		

Annex 6.3 Donor partnership projects in Latvia

Latvia - Summary

Project grant amount total	€ 56,347,230
Number of projects	220
Number of projects with donor project partner	59
Proportion of projects with donor project partners	26,81%
Number of programmes*	7
EEA and Norway grants committed	€ 67,094,750

**Excluding TAF and Decent Work Programme*

Annex 6.4 List of irregularities detected at programme level

Irregularity case	Irregularity status	Case opened	Case closed	Irregularity period	Followed up	Initial nature of irregularities	Amount of recovered funds	Grant amount reduced
IR-0044	Closed	30.05.14	08.08.14	2014Q1		deviation from programme agreement	84	72
IR-0060	Closed	21.08.14	06.11.14	2014Q2		deviation from programme agreement	806	685
IR-0070	Closed	24.11.14	05.12.14	2014Q3		deviation from programme agreement	356	356
IR-0071	Closed	24.11.14	09.12.14	2014Q3		deviation from programme agreement	312	312
IR-0101	In Review	23.02.15		2014Q4		deviation from programme agreement	1 992	1 703
IR-0102	In Review	23.02.15		2014Q4		deviation from programme agreement	23	20
IR-0103	In Review	23.02.15		2014Q4		deviation from programme agreement	1 939	1 842
Total							5 511	4 989

Annex 6.5 List of irregularities detected at project level

Irregularity case	Irregularity status	Case opened	Case closed	Irregularity period	Followed up	Initial nature of irregularities	Amount of recovered funds	Grant amount reduced
IR-0056	Closed	14.07.14	28.10.14	Immediate		deviation from programme agreement	10 794	10 254
IR-0095	In Review	23.02.15		2014Q4		deviation from project contract	1 467	1 247
IR-0097	In Review	23.02.15		2014Q4		deviation from project contract	13	12
IR-0098	In Review	23.02.15		2014Q4		deviation from project contract	24	21
IR-0099	In Review	23.02.15		2014Q4		deviation from project contract	183	164
IR-0100	In Review	23.02.15		2014Q4		deviation from project contract	3 260	2 934
Total							15 668	14 745

Annex 6.6 Monitoring and audit activities plan for 2015

No	Responsible Authority	Audit period	Audited system/ programme/ project
System audits at the level of BS according to the Article 4.6, Paragraph 1(a), of the Regulations			
1.	Audit Authority	I-II quarter	Public procurement audit in the PMB and other entities on a sample basis to verify effective functioning of MCS at BS's level.
System audits at the level of the programme according to the Article 4.6, Paragraph 1(b), of the Regulations			
2.	Audit Authority	I quarter	System audit of MCS Climate Programme (MoEPRD and SRDA).
3.	Audit Authority	IV quarter	System audit of MCS of Research and Scholarships Programme (MoES and SEDA).
Projects audits according to the Article 4.6, Paragraph 1(c), of the Regulations			
4.	Audit Authority	II and III quarter	Project which expenditures are reported in the programmes' IFR#4-6.
Internal at the level of BS and the programme			
5.	Internal audit of MoEPRD/SRDA	III and IV quarter	Monitoring and reporting process and project management in Climate programme.
6.	Internal audit of MoC	IV quarter	Assessment of execution of PO's functions in project selection process within Cultural Heritage Programme.
7.	Internal audit of SEDA	IV quarter	Assessment of execution of SEDA administration function in the preparatory visits' projects of the Research and Scholarships Programme.
On-spot checks			
8.	SRDA	II and III quarter	Verification of implementation progress of Climate Programme's 2 pre-defined projects, compliance of expenditures with projects' objectives, procurement rules, etc.

9.	SIF	I and IV quarter	Verification of implementation progress of NGO Fund`s 42 projects (from approved 144 projects), compliance of expenditures with projects` objectives, procurement rules, etc.
10.	MoC	I and II quarter	Verification of implementation progress of Culture Heritage Programme`s 4 pre-defined projects and 13 both SGS projects, compliance of projects` implementation in accordance with the rules of the programme and legal acts and in two SGS projects - control before final payment.
11.	MoES	III quarter	Verification of implementation progress of Research and Scholarships Programme`s all 11 research projects and scholarships (~20 projects) projects in the beginning phase of the project to assure that all preparatory work is done properly (internal procedures, management structure).

Annex 6.7.1 Risk assessment at the national level

No	Type of objective [1]	Description of risk	Likelihood [2]	Consequence [3]	Risk Score [4]	Mitigation actions done	Mitigation actions planned	Planned implementation date	Responsible department
1	Cohesion objective:	Not complete achievement of programmes' outcomes in donorstates' set deadline (except NGO Fund)	3	3	6	<p>Regular monitoring of achieved programmes' outcomes as ensured by the FP by performing following activities:</p> <ol style="list-style-type: none"> 1) biannual participation in programmes' CC meetings; 2) regular participation in Projects' s Selection Meetings; 3) regular communication with the FMO and the Embassy, incl. biannual meetings on bilateral activities and publicity issues; 4) regular monitoring of planned and actual expenditures of each programme; 5) quarterly reporting to Latvian Government on the implementation progress of the Foreign Assistance (incl., the Financial Mechanisms); 6) regular communication with POs and Implementing Agencies by phone/e-mails/letters/meetings; 7) close following to the updated programme implementation plans (Research and scholarships programme). 	<p>In order to achieve planned programmes' outcomes the FP will:</p> <ol style="list-style-type: none"> 1) Monitor all programmes, especially high risk programmes; 2) Participate in the programmes' CC meetings; 3) Participate in Projects' Selection Meetings; 4) Closely cooperate with the Embassy and the FMO on actual issues related with programmes; 5) Ensure monitoring of planned and actual expenditures of each programme; 6) Report to Latvian Government on the implementation progress of the Foreign Assistance (incl., the Financial Mechanisms); 7) Communicate by phone/e-mails/letters with POs/Implementing Agencies; 8) Organize meetings with POs/Implementing Agencies. 	<ol style="list-style-type: none"> 1) On a regular basis; 2) Biannually; 3) When necessary; 4) On a regular basis; 5) Monthly; 6) Biannually; 7) On a regular basis; 8) When necessary. 	EU Funds Monitoring Department

2	Bilateral objective:	Insufficient absorption of the PBFs	2	1	3	<p>1) Representatives of the FP biannually participated in the programmes' CC meetings, in which one of the topic was regarding bilateral relations;</p> <p>2) Representatives of the FP, all POs/Agencies and the Embassy biannually participated in Communication Group's meetings, where the bilateral cooperation issues were discussed;</p> <p>3) The FP closely cooperated with the Embassy in order to solve issues related to enhancement of bilateral cooperation;</p> <p>4) The FP in close cooperation with the POs regularly monitored the progress made towards achievement of the bilateral indicators of the programmes.</p>	<p>1) The FP will participate in programmes' CC meetings;</p> <p>2) The FP, all POs and the Embassy will participate in Communication Group's meetings;</p> <p>3) The FP will closely cooperate with the Embassy on issues related to implementation of Financial Mechanisms, including bilateral relations;</p> <p>4) The FP will analyze programmes' bilateral relations and its indicators carried out within elaboration of the Strategic Report.</p>	<p>1) Biannually;</p> <p>2) Biannually;</p> <p>3) On a regular basis;</p> <p>4) 31 March, 2015 by submitting the Strategic Report</p>	EU Funds Monitoring Department
3	Operational issues:	Corruption risk and conflicts of interest	1	2	3	<p>1) On 30 October 2014 the FP updated "Complaint Mechanism" on the websites: www.eeagrants.lv and www.norwaygrants.lv according to suggested standard practice and taking into account a guide and a checklist provided by the Transparency International.</p> <p>2) Procedure of complaint mechanism was stipulated within the description of the MCS (updated on 19 August 2014).</p> <p>3) On 12 November 2014 the FP supplemented the draft Guidelines for the Corruption Prevention and Combating 2014-2020 with overall information about anti-fraud policy, strategic objectives, results to be achieved and tasks to be carried out for the protection of interests of the EU</p>	<p>1) Adoption of the Guidelines for the Corruption Prevention and Combating 2014-2020 by Latvian Government;</p> <p>2) Elaboration of the Risk Management Strategy for the Financial Mechanisms;</p> <p>3) The FP will continue monitoring of all programmes;</p> <p>4) The FP will collaborate with the CPCB on any particular case related to corruption and conflict of interest issues in relation to the Financial Mechanisms.</p>	<p>1) 31 December 2015;</p> <p>2) May 2015;</p> <p>3) On a regular basis;</p> <p>4) When necessary.</p>	EU Funds Management and Control Department

					<p>Funds and other Foreign Assistance (incl., the Financial Mechanisms);</p> <p>4) From September till November 2014 the FP participated in trainings on Risk Management in the EU Funds and the Financial Mechanisms;</p> <p>5) According to the recommendations and conclusions received during the trainings, the MoF elaborated a new internal Procedure for the risk management for the EU Funds and the Financial Mechanisms and updated the Risk Register template which both were approved in the Risk Management Group's meeting on 19 December 2014;</p> <p>6) Persons involved in governance of the Financial Mechanisms are required to acknowledge lack of conflict of interest;</p> <p>7) The MCS is implemented at national and programme level, describing duties for involved institutions and persons in management of the Financial Mechanisms, thus ensuring clear definition of roles and responsibilities. Opinion of the AA states that the MCS is compliant with the Regulation and works effectively (updated opinion is included within the AAR for the period from 01.07.2013 – 30.06.2014 submitted to the FMO on 19 December 2014).</p>		
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[1] The risks should be categorized in one of 3 ways, depending on whether it poses a risk to the cohesion objective, the bilateral objective, or is more of an operational issue

[2] Each risk should be described as to whether it poses a risk to the cohesion objective, the bilateral objective, or is more of an operational issue, where 4 = Almost certain (75 – 99% likelihood); 3 = Likely (50 – 74%); 2 = Possible (25 – 49%); 1 = Unlikely (1 – 24%)

[3] Assess the consequence(s) in the event that the outcomes and/or crucial operations are not delivered, where 4 = severe; 3 = major; 2 = moderate; 1 = minor; n/a = not relevant or insignificant

[4] For each risk, risk value is calculated by adding up likelihood and consequence. Risk value from 1 to 2 is acceptable, controls are recommended, but not mandatory, risk value from 3 to 4 is acceptable, but controls are obligatory. Risk value from 5 to 6 is non acceptable, controls and mitigation activities are obligatory, risk value from 7 to 8 is non acceptable, mitigation activities are obligatory before starting operations

Annex 6.7.2 Risk assessment at the programme level

Programme	Type of objective [1]	Description of risk	Likelihood [2]	Consequence [3]	Risk Score [4]	Mitigation actions done / planned
<p>All programmes, except NGO Fund</p>	<p><i>Operational issues:</i></p>	<p>Infringement and error of procurement procedures and breaches of procurement contracts' conditions</p>	<p>3</p>	<p>4</p>	<p>7</p>	<p>2014 1) The POs/Agencies monitors projects' procurement plans. 2) The POs/Agencies and the PMB performs regular ex-ante verifications of procurement documentation and procurement process. The POs/Agencies in cooperation with the PMB ensure selective, risk based ex-ante checks of projects' procurement documentation and procedures and provide consultations and opinions on public procurement issues to the POs/Agencies, whose responsibility also is to perform selective ex-ante verifications, excluding procurements already verified by the PMB. 3) Meetings of the Management Group on Procurements is organized in the MoF on a quarterly basis involving representatives from the PMB, the FP and the POs/Agencies where one of the urgent topic is related to procurements also in management of the Financial Mechanisms and topics related to procedures of ex-ante verifications of procurements. 4) During the informative seminars organized by the POs they explained to the PPs requirements for procurements. 5) The POs/Agencies/PPs ensure strict supervision over procurement process (PPs consults with POs/Agencies; competent members of procurement commission are ensured; for the assessment of offers specialist are attracted). 6) The POs and PPs ensure strict supervision over appropriate fulfillment of procurement agreement's conditions (conditions on contractual penalty are included; information exchange between the parties is maintained on a daily basis; regular meetings with development engineers on construction designs are taking place in case of the construction projects). 2015 All mitigation actions carried out in 2014 will be continued in 2015.</p>

Programme	Type of objective [1]	Description of risk	Likelihood [2]	Consequence [3]	Risk Score [4]	Mitigation actions done/ planned	Total risk score for the Programme [5]
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Programme	Type of objective [1]	Description of risk	Likelihood [2]	Consequence [3]	Risk Score [4]	Mitigation actions done/ planned	Total risk score for the Programme [5]
LV02 Climate Programme	<i>Cohesion (Programme) outcomes:</i>	Not achievement of outputs under OC's projects with construction activities (as project contracts were signed only by February 2015)	2	4	6	<p>2014 One of the OC's conditions was that the applicant should provide a construction plan developed to the technical project's stage and approved by Latvian Construction Board which would allow to start the construction immediately after signing of a project contract.</p> <p>2015 The PO will closely monitor OC's projects with contraction activities: verification of the procurements and monitoring of progress of construction works.</p>	23
	<i>Operational issues:</i>	Low interest and responsiveness of the target group within SGS's activities	2	3	5	<p>2015 Before launching projects' activities te PPs will organize publicity events. During projects' implementation periodic communication with the target groups will be ensured as well as information and publicity events will be organized to ensure involvement of the target groups. The PPs will communicate with sectoral associations and educational institutions in order to find out necessity for activity and to gain additional support for involvement of th target groups. The PPs will elaborate reserve list of participants in order to invite additional participants, in case, if approved participants refuse to participate in projects' the activities (e.g., trainings or seminars).</p>	

		Design errors, construction mistakes and low quality of construction works.	2	3	5	<p>2015 Within procurement documentation high quality requirements will be set as criteria for selection of tenderers. During construction works enhanced construction supervision, author supervision will be ensured as well as, if necessary, additional experts will be involved. Within the construction contract conditions, rules, deadlines and sanctions will be stipulated in detail.</p>	
LV04 Cultural Heritage Programme	<i>Cohesion (Programme) outcomes:</i>	Increase of the construction costs	3	3	6	<p>2014 1) Before signing project contracts within OC the PO assessed cost commensurability and price compliance to market prices. 2) A cost reserve of 5% out of total construction costs is included in the sum of eligible costs. 3) Supervision of each project is ensured in order to follow the implementation of activities. 2015 In case if increase of costs will occur: 1) Amounts of construction and/or exhibition formation will be reviewed and amendments in projects' budget will be proposed in order to use the cost reserve of 5% (has to be accepted by the PO); 2) Funding from other pre-defined projects could be reallocated; 3) Funding from other activities could be reallocated where funding balance occurs; 4) Supervision of each project will be ensured in order to follow the implementation of activities.</p>	19
		Lack of skilled restorers to ensure qualitative restoration of objects of cultural heritage	2	4	6	<p>2014 1) Selection of restorers were carried out considering the Public Procurement Law as well as within the elaboration process of procurement technical specifications special attention was drawn to qualification requirements for restorers. 2) Within projects the cooperation with donor institutions working in the sphere of conservation of cultural monuments was facilitated thus exchange of experience and knowledge, consultations and training of restorers were promoted. 2015 All mitigation actions carried out in 2014 will be continued in 2015.</p>	

LV05 Research and Scholarships Programme	<i>Operational issues:</i>	Lack of capacity at the PO level handling with the programme management	2	3	5	<p>2014 In order to strengthen PO's capacity a new employee responsible for programmes' implementation was hired in June 2014</p> <p>2015 The PO will improve competences of human resources involved in the programme by participation in trainings (seminars, workshops, etc.) thereby accumulating more experience and knowledge on the programme's management.</p>	17
		The PPs lack of understanding about project implementation conditions (incl. contracting)	2	3	5	<p>2014/2015 Within the Programme Regulations and in the PO's internal regulations detailed procedures on conclusion of the contracts with the beneficiaries, contracts' amendments as well as on implementation of the projects are provided. During project's contracting phase the Agency organizes consultations for the PPs. On a regular bases the Agency's employees monitor the implementation of the projects according to the Agency's internal procedures and other external regulations.</p>	
LV03 NGO Fund	<i>Cohesion (Programme) outcomes:</i>	Low level of public tolerance towards discrimination	3	2	5	<p>2014 <i>No Hate</i> campaign (workshops, public awareness campaigns etc.) was implemented. Young people were involved as messengers as well as video campaign for school pupils was implemented. Seminar on <i>hate speech</i> for the SIF employees was organized.</p> <p>2015 Seminars for media and young bloggers will be organized.</p>	11
		The PPs don't reach target group to planned extent	3	3	6	<p>2014 During informative seminars and in guidelines how to fill in the application form, the PO emphasized the significance of the target group, its adequacy and knowledge of its needs and problems. During project's evaluation the PO took into account the PPs previous experience working with the selected target groups, as well as the selection of target groups and needs analysis. During project implementation phase the PO payed attention to the involvement of target group within project activities, as well as on-spot checks and regular review of submitted reports were carried out in order to eliminate the risk of insufficient amount of target group. After each call kick-off seminars for project promoters were organized, in 2014</p>	

						– 2 events, as well as regular communication with the PPs was insured. 2015 All mitigation actions (except informative seminars) carried out in 2014 will be continued.
	<i>Bilateral outcome:</i>	Insufficient interest from NGO's representing donor countries and other BS in participation in partnership projects	3	1	4	2014 Cooperation with the Norwegian Helsinki Committee and the Icelandic Humans Rights Centre was continued. Partner search tool was developed (project fiche elaborated, project ideas published in www.sif.lv, information published via www.ngonorway.no, www.facebook.com). Information materials about OC translated into English and distributed also to other BS's NGO POs. In December the PO organized bilateral exchange seminar were project promoters and their partners from donor countries could tell about their projects and share their experience about "+" and "-" in bilateral partnerships.

[1] The risks should be categorised in one of 3 ways, depending on whether it poses a risk to the cohesion outcomes, the bilateral outcomes, or is more of an operational issue.

[2] Each risk should be described as to whether it poses a risk to the cohesion outcomes (programme outcomes), the bilateral outcome or crucial operational issues: 4 = Almost certain (75 – 99% likelihood); 3 = Likely (50 – 74%); 2 = Possible (25 – 49%); 1 = Unlikely (1 – 24%).

[3] Assess the consequence(s) in the event that the outcomes and/or crucial operations are not delivered, where 4 = severe; 3 = major; 2 = moderate; 1 = minor; N/A = not relevant or insignificant.

[4] For each risk value is calculated by adding up likelihood and consequence. Risk value from 1 to 2 is acceptable, controls are recommended, but not mandatory, risk value from 3 to 4 is acceptable, but controls are obligatory. Risk value from 5 to 6 is non acceptable, controls and mitigation activities are obligatory, risk value from 7 to 8 is non acceptable, mitigation activities are obligatory before starting operations.

[5] Total risk score for the Programme is calculated adding up all relevant risk scores for each Programme (inc. *Programme Horizontal risks*).

Annex 6.8 Annual Report 2014 under the TAF Agreement

1.OVERVIEW OF MAIN ACTIVITIES

National entities	A brief summary of the main activities carried out
1.National Focal Point	<p>Overall management and monitoring of the FMs ensured. Reevaluation of risks at national level carried out and the Risk Register updated. The FP's guidelines updated about verifications on project implementation sights and about requirements and verifications of payment requests. Filled in questionnaire and requested information provided for the Transparency International/Berlin Risk Institute for the corruption risk survey. The FP's opinion of the draft report of corruption risk assessment and risk filtering sent to the FMO. The guidelines and checklist for the complaint mechanism prepared by the Transparency International reviewed and comments provided to the FMO regarding this matter. Draft national Guidelines for the Corruption Prevention and Combating 2014-2020 supplemented with overall information about anti-fraud policy, strategic objectives, results to be achieved and tasks to be completed for the protection of interests of the EU Funds and other foreign financial assistance instruments, inc. the FMs. Participation in the Risk Management Group meetings where the FMs risks were also evaluated and analyzed. Descriptions of all PMCSs submitted to the FMO as well as the MCS updated. Organized seminar about Risk Management for MoF, inc. preparation of procurement documentation, participation in procurement committee, contract supervision, review of seminar's programme. According to the recommendations and conclusions expressed by the contractor, the MoF has elaborated a new internal procedure for the risk management for the EU Funds 2014-2020 and the FMs and has updated the Risk Register template, which were both approved in the Risk Management Group meeting on 19 December 2014. The FP participated in the FMO's organized: Workshop on Irregularities in March in Brussels, Annual Communication Meeting in March in Bucharest, Risk Management and Good Governance Seminar in September in Tallinn, Annual Workshop for all FPs in November in Brussels, Training on Irregularities for all Baltic States' POs, CAs and the AAs in December in Tallinn. The FP organized the Annual Meeting in June in Riga and biannually participated in the CC meetings. The Publicity Day for the EEA and Norway Grants organized in May in Esplanade Park in Riga center. Infographics about all programmes produced. Websites maintained www.eeagrants.lv and www.norwaygrants.lv. The FP distributed information (press releases) in the mass media, social media (twitter.com) and specific list of other recipients, has updated and published the information on the websites of the FMs www.eeagrants.lv and www.norwaygrants.lv. Media monitoring of FMs was performed. TAF's IFR #8, #9 and #10 were submitted to FMO.</p>
2.Certifying Authority	<p>Verification and certification of the projects' IFRs, analysis of the auditors' reports, preparation and submission of the forecast of likely payment applications, improvement of internal procedures.</p>

3.Audit Authority	1.	System audits	Assessed the effective functioning of the MCS of FMs at the national level as well as at the programme level, 3 system audits performed. In order to assess the effective functioning of the MCS one system audit has been carried out in FP and CA from February till April. In order to assess the effective functioning of the PMCS two system audits were carried out: - in the SIF/NGO fund from April till September; - in the MoE and the LIDA/ Innovation Programme from September till December.
	2.	Project audits	Assessed expenditures incurred during the period from 01.05.2013 to 31.12.2014. One project audit carried out from August till December covering 16 projects, from which: - 15 projects from the NGO fund; - 1 project from the Capacity-Building Programme.
	3.	External Quality Assessment of the Audit Authority	It was carried out from September till December by Ernst & Young Baltic. The following aspects of the AA's activities were examined: - The compliance of the AA's rules of procedure (functions and tasks specified in the rules of procedure), policy, goals, plans, and internal procedures with the International Standards on Auditing and Code of Ethics issued by the International Federation of Accountants; - Assessment of the AA's tasks and the tools and methods used therein, incl., examination of certain the AA's audits; - Assessment of the AA's staff competences (professional knowledge, skills, diligence, experience as well continuity of professional development (continuing vocational training)); - Comparison of the performance of the AA's function with the best practice and identification of the areas to be improved.
	4.	Annual Audit Report and Opinion	The AAR and Opinion for the reference period from 01.07.2013 to 30.06.2014 was submitted to the FMO on 19.12.2014.
	5.	Expert consultations	One legal consultation from the experts in legal area was received when performing project audit from 21.08.2014 to 19.12.2014.
4.Other entities (Procurement Monitoring Bureau)	Ex-ante checks of 36 procurement procedures were carried out and 52 conclusions were provided (28 positive, 23 with objections and 1 negative). In addition ex-post checks of 3 procurement procedures, which previously have been verified by respective POs involved, were carried out.		
5.Entity responsible for irregularity reporting	All irregularities received from the PO, the CA and the AA were reviewed. 15 irregularity reports were submitted to the FMO. The Irregularity Register maintained regularly.		

2.BUDGET OVERVIEW in EUR

Actual expenditure till 31.12.2014	Planned expenditure till 31.12.2014	Unused amount in EUR, %
724 442	799 402	74 960 EUR/ 9%
Disbursements till 31.12.2014	Total TA budget	Absorption rate in %
586 288	1 459 000	40.18
Planned expenditure for 2015 (forecast of 17.09.2013)	Planned expenditure for 2015 (forecast of 10.02.2014)	Justification for changes, if any
394 017	394 017	N/a

3.PROCUREMENTS (for amounts that exceed the national thresholds for the procurement)

Activity outsourced by national level institution	National entities	Value of the procurement	Name of the provider
Seminar organization about Risk Management	National focal point	15 350 <i>EUR</i> without VAT (2 097,01 <i>EUR</i> *)	"KPMG Baltics" Ltd.
Media monitoring analysis	National focal point	16 380 <i>EUR</i> without VAT (2 280 <i>EUR</i> *)	"BNS-LATVIJA" Ltd.
External evaluation of the Audit Authority	Audit Authority	9 600 <i>EUR</i> without VAT (4100 <i>EUR</i> *)	"Ernst&Young Baltic" Ltd.
Construction expert advice	Audit Authority	18 895,60 <i>EUR</i> without VAT	"Baltline Globe" Ltd.

*Amount eligible from TAF

4.STAFFING

National Focal Point – The Ministry of Finance				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Armands Eberhards	Head of Focal Point, Deputy State Secretary of the MoF	Main responsible authority of the FP	0	N
Diāna Rancāne	Head of EU Funds Monitoring Department	Overall management and monitoring of the FMs	0	N
Diāna Atkauķe <i>from May 2012 till now</i>	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Head	Overall management and monitoring of the FMs	30%	Y

Guntra Želve <i>from May 2012 till now</i>	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Deputy Head	Overall management and monitoring the FMs (inc. programme LV06)	30%	Y
Gita Tenisone <i>from July 2012 till June 2014</i> Diāna Bremšmite <i>from June 2014 till now</i>	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Senior Expert	Management and monitoring of the TAF activities (inc. the NBF). Planning and monitoring of the TAF budget (monthly/yearly)	50%	Y
Signe Sīlīte <i>from July 2013 till now</i>	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Chief Specialist	Management and monitoring of the FMs' programmes LV03, LV04 and LV08	100%	Y
Inga Vajevska <i>from May 2012 till now</i>	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Chief Specialist	Management and monitoring of the FMs' programmes LV02, LV07 and LV05	100%	Y
Solveiga Ozola	Director of EU Funds Management System Department	Supervision of department activities		N
Liene Vigule	Deputy Director of EU Funds Management System Department	Supervision of department activities		N
Jekaterina Kapilova <i>from January 2012 till August 2014</i> Evita Loseva <i>from October 2014 till now</i>	EU Funds Management System Department, EU Funds Legal Unit, Legal advisor	Draw up the Law on Management of the FMs 2009 – 2014 and Regulations of the CoM for implementation of the FMs; Provide opinion on implementation and application of the law and rules mentioned; Provide opinion on procedures and rules for implementation of programmes and projects.	25%	Y
Gita Tenisone <i>from June 2014 till now</i> Dita Tetere <i>from December 2013 till July 2014</i>	EU funds Management System Department, Senior expert	Development, coordination and amendment of national MCS; Monitoring of implementation of the PMCS and submission to the FMO; Coordination of risk management process; Analysis of the MCS and system audit results and monitor implementation of recommendations; Other tasks related to the MCS issues.	50%	Y
Iveta Lāce <i>from November 2011 till March 2014</i> Natalja Lipina <i>from April 2014 till now</i>	Finance and Maintenance Department, Foreign Funded Projects Implementation Unit, Senior officer	Plans the TAF's budget, financing plans, estimates, procurements. Prepares IFRs and Annual TAF Reports. Participates in elaboration of regulatory documents.	20%	Y
			15%	

<i>Baiba Balode from April 2014 till now</i>	Finance and Maintenance Department, Foreign Funded Projects Implementation Unit, Deputy Head	Plans the TAF's budget, financing plans, estimates. Prepares IFRs and Forecasts of Likely Payment	15%	Y
<i>Antra Bolgzde from November 2011 till now</i>	Finance and Maintenance Department, Accounting Unit, Deputy Head	Carry out accounting (reports). Participation in elaboration of regulatory documents	20%	Y
Ilze Berga	Finance and Maintenance Department, Accounting Unit, Head/Chief accountant	Supervision of Unit activities	3%	N
Laima Kalniņa	Finance and Maintenance Department, Accounting Unit, Senior accountant	Carry out accounting (rewards)	5%	N
Anta Freimane			3%	
Viktorija Grīnfelde	Finance and Maintenance Department, Head	Supervision of department activities	5%	N
<i>Lelde Grīnvalde from October 2012 till June 2014</i>	Communication Department, Deputy Head	Coordinates the FMs Communication Strategy; organizes Communication Management Group meetings, common activities and informative events for popularization of EEA/Norway Grants; cooperates with media, ensuring information (press releases, news) and organization of media events	20%	Y
<i>Ieva Pužule from June 2014 till now</i>	Communication Department, Senior officer			
<i>Edgars Putins from November 2012 till now</i>	Finance and Maintenance Department, Informatics Unit, Leading IT administrator	Maintains web pages www.eagrants.lv and www.norwaygrants.lv	10%	Y
Certifying Authority – State Treasure				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Karīna Zencova	European Affairs Department, Director	Participation in elaboration of legal documents, guidelines and system description, establishment of the internal procedures to ensure responsibilities of the CA, verification and certification of IFRs, approval of the auditors' reports analysis, verification of the prepared Forecast of Likely Payment Applications to the FMO	20%	N
Anda Pudāne			20%	N

Santa Lakševica	European Affairs Department, Deputy director	Participation in elaboration of legal documents, guidelines and system description, elaboration of the internal procedures to ensure responsibilities of the CA, verification of IFRs, analysis of the auditors' reports, preparation of the Forecast of Likely Payment Applications to the FMO	20%	N
Kaspars Braže	European Affairs Department, Senior officer		50%	Y
Regīna Uljanova			50%	Y
Audit Authority - Ministry of Finance				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Nata Lasmane	EU Funds Audit Department, Director/Head of the AA	Ensures overall management of the AA. Supervises audits, inc. approval of the Overall audit strategy for every audit, approval of all audit reports, issuing opinions. Approves Single Audit Strategy for the whole period of the FMs. Approves the AARs annually on effectiveness of the MCS. Issues Opinions annually on the basis of the controls and audits that have been carried out, as to whether the MCS functions effectively.	1,5%	N
Olga Guza <i>from May 2012 till now</i>	EU Funds Audit Department ,Chief Expert	Elaborates methodology of the AA for carrying out audits and for preparation of Single Audit Strategy and the AARs. Manages compliance assessment audits and audits on the effective functioning of the MCS. Manages audits on effective functioning of the PMCS. Performs risk assessment of the projects in order to establish sample for auditing. Manages audits of the projects. Prepares and submits to the FMO Single Audit Strategy, the AARs annually on the effectiveness of the MCS. Prepares and submits annually to the FP Annual Audit Plans.	50%	Y
Ilona Skorobogatova <i>from November 2012 till now</i>	EU Funds Audit Department, Auditor	Carries out compliance assessment audits, audits on the effective functioning of the MCS, audits on the effective functioning of the PMCS, audits of the projects.	50%	Y
Raimonda Batņa <i>from September 2014 till October 2014</i>		Participates in audits (in case of lack of human resources).	50%	Y

Jānis Gaišonoks <i>from October 2014 till December 2014</i>				
Other entities – Procurement Monitoring Bureau				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Inta Vingre	Control Department, Director	Develops plans of pre-examinations, approving conclusions	10%	N
Artūrs Gurskis <i>from August 2013 till September 2014</i>	Control Department, Senior officer	Develops plans of pre-examinations, examinations of the procurement documentation and preparing conclusions	50%	Y
Aldis Šilders <i>from September 2014 till now</i>				
Evija Rubene <i>from September 2013 till now</i>				
Entity responsible for irregularity reporting – Ministry of Finance				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Inga Vajevska <i>from May 2012 till now</i>	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Chief Specialist	Irregularity reporting	10%	Y
Signe Gulbe <i>from July 2013 till now</i>			10%	Y

5.THE COMING YEAR 2015

National entities	Overview of the principal tasks planned to be implemented
1.National Focal Point	Overall management and monitoring of the FMs. Organization of the Annual Meeting 2015 in Riga. Participation in seminars/workshops/conferences initiated, organized or co-organized by the donor states. Media monitoring of the FMs performed. Publicity activities carried out.
2.Certifying Authority	The principal tasks will remain the same as in 2014

3.Audit Authority	Carrying out audits on: 1) effective functioning of the MCS – one audit is planned in relation to public procurement system; 2) effective functioning of the PMCSs– audits are planned for following programmes –LV07 / LV02, LV08 and LV05; 3) the projects which expenditures have been reported in the programmes' IFR#4, #5 and #6. Preparation and submission to the FMO: 1) Annual Audit Report till 31.12.2015 on the basis of the controls and audits mentioned before; 2) Opinion till 31.12.2015 as to whether the MCS functions effectively.
4.Other entities (Procurement Monitoring Bureau)	Will continue to develop plans of ex-ante checks of procurements and will perform them as well as will perform random of procurements relating with programme administration. It is planned to carry out at least 36 ex-ante checks and develop conclusions of procurements.
5.Entity responsible for irregularity reporting	Regular reporting will be continued in accordance with procedures set in the Regulation.

Annex 6.9 Improvements and updates of the PMCSs⁴⁴

PO/ Programme	AA`s Opinion date	AA`s opinion and identified necessary improvements and recommendations	Actual status of recommendations	Justification for updated description of PMCS	Date of approval of PMCS`s updated version ⁴⁵
SIF/ NGO Fund	01 July 2013	The PMCS in all the material respects has been established in accordance with the assessment criteria. Identified deficiencies were related to implementation of security measures of the Project Electronic Management System (PEMS) and development of user guides for this system. The AA assessed deficiencies to have medium impact on criterion “Reliable accounting, monitoring and financial reporting systems in computerized form”.	The deficiency related to implementation of the security measures of the PEMS is eliminated. A user guide for the PEMS project selection module is developed, but the guides for the remaining modules are still under development due to technical reasons and are planned to be completed until the end of April 2015. Taking into account that the PEMS is actually working and information about projects is maintained there, <u>the AA within the AAR assessed that the deficiency has a low impact on the functioning of the PMCS.</u>	Updates are based on the implementation of the SIF internal audit`s recommendations and amendments in the external legal acts. Updated version was evaluated by the AA during MCS audit of the programme LV03 performed during the AAR period and <u>the changes in the MCS are not considered significant.</u>	7 January and 16 October 2014
MoEPRD and SRDA/ Climate Programme	10 December 2013	The PMCS in all the material respects has been established in accordance with the assessment criteria. The AA identified that OCs Programme Regulations were not elaborated by the MoEPRD as well as the SRDA`s sections of the MCS regulating administration procedures of SGS and OCs were not elaborated. The AA provided recommendations for the improvement of the PMCS.	All the recommendations were implemented during the AAR period.	Updated because the CoM approved Climate programme Regulations as well as information about the MoEPRD and SRDA internal procedures and other information related to the implementation of the programmes have been updated. Updated version was evaluated by the AA in the follow-up of the implementation of the recommendations of the	17 September 2014

⁴⁴ In accordance with information included in the AA`s AAR for the period 01.07.2013 – 30.06.2014 and actual information received from the POs and the AA by March 2015

⁴⁵ Date of approval of updated PMCS (and/or date of order of changes) in the PMCS during the AAR period.

				compliance assessment audit, <u>the changes in the MCS are not considered significant.</u>	
MoC/ Cultural Heritage Programme	18 December 2013	The PMCS in all the material respects has been established in accordance with the assessment criteria. The AA identified that following documentation was not elaborated by the MoC: internal procedures regarding selection of SGS's projects, supervision of projects' implementation, preparation of programme reports, reporting and monitoring procedures for irregularities and for the recovery of amounts unduly paid as well as detailed guidance for the PPs regarding carrying out procurements where price does not reach thresholds. The AA provided recommendations for the improvement of the MCS.	All the recommendations were implemented during the AAR period.	Updated because the CoM approved Cultural Heritage programme Regulations, as well as in accordance with recommendations made by the AA. Updated version was evaluated by the AA in the follow-up of the implementation of the recommendations of the compliance assessment audit, <u>the changes in the PMCS are not considered significant.</u>	10 September 2014
MoES/ Research and Scholarships Programme	21 February 2014	The PMCS in all the material respects has been established in accordance with the assessment criteria. The AA identified that two Programme Regulations (Research/ Scholarships) are not approved by the CoM as well as the MoES has not developed internal procedures on implementation of the programme, inc. cooperation process with the SEDA, monitoring process of the SEDA's functions, process of reporting on progress and irregularities. The AA issued respective recommendations to improve the system with the deadline - by June 2014.	The Regulations on Scholarships Activity inc. also the project cost eligibility conditions and procedure for selection and approval of the projects have been developed and approved by the CoM during the set deadline. The Regulations on Research Activity inc. also the project cost eligibility conditions and procedure for selection and approval of the projects, process for selection and approval of the independent project appraisers have been developed and approved by the CoM during the set deadline. <u>All recommendations have been implemented, except one</u> – the internal procedure of the MoES for programme implementation inc. also the procedure for cooperation between the	N/A	N/A

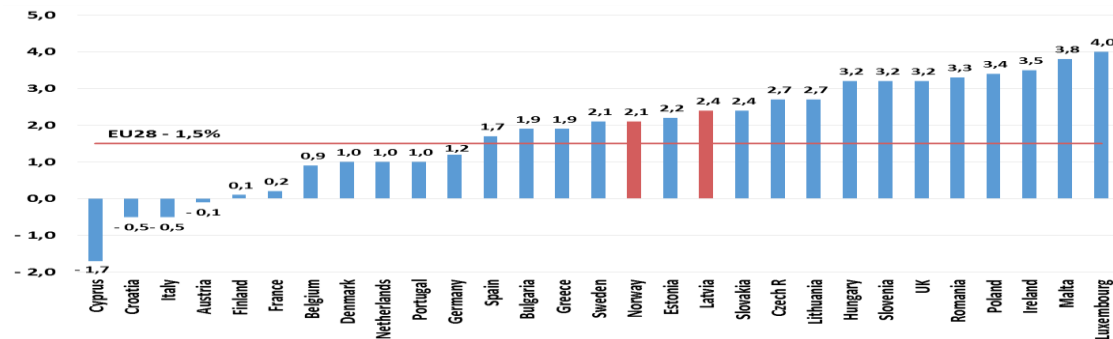
			MoES and the SEDA, the procedure for monitoring of functions delegated to the SEDA, procedure for preparation of programme reports, procedure for reporting irregularities is still under development and planned to be elaborated and approved until the end of April 2015.		
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Annex 6.10 Economic background of EU, Latvia and cooperation with Norway

Latvia became the 18th member state of the Eurozone in the beginning of 2014, thus providing more opportunities for sustainable development of Latvia by reducing currency exchange costs and fostering a stable business and investment environment. This gave a positive signal to investors and contributed to an upgrade for one level of the credit ratings by all leading credit ratings agencies (Standard&Poor's, Fitch and Moody's). Credit ratings of Latvia have returned at investment level and are the highest since economic crises period. As Baltic States are united region Lithuania's joining to the Eurozone in the beginning of 2015 is an important event. Thereby Baltic region with a single currency will be more united, politically and economically stronger and less depended from the turbulence of the geopolitical circumstances. Joining the Eurozone reaffirmed integration of the Baltic States in Europe, which in the current geopolitical situation is particularly important. EU single currency has decreased impact of the Russian economic sanctions, as well has served as clear signal about region's economic and political stability to the eastern neighbor.

Economic recovery in EU28 remains fragile and the economic momentum in many Member States is still weak. While economic activity did pick-up at the beginning of 2014, economic growth in the 2nd half of 2014 demonstrated less encouraging results. Confidence is lower than in the beginning of 2014, reflecting increasing geopolitical risks and less favorable world economic prospects. In 2014 GDP in EU28 increased by 1.3% year-on-year, while the range of Member States' growth rates remained broad from -1.7% in Cyprus to 4.0% in Luxembourg. However, growth differences are expected to decline over the next 2 years, while overall GDP growth in EU is expected to rise slowly in the course of 2015. An acceleration of economic activity is expected to be driven by the strengthening of the financial sector, as well as recent structural reforms starting to bear fruit. For the first time since 2007, the economies of all EU Member States are expected to grow again in 2015.

Chart 1 GDP growth in the 3rd quarter of 2014 in EU (against the corresponding quarter of the previous year, %)



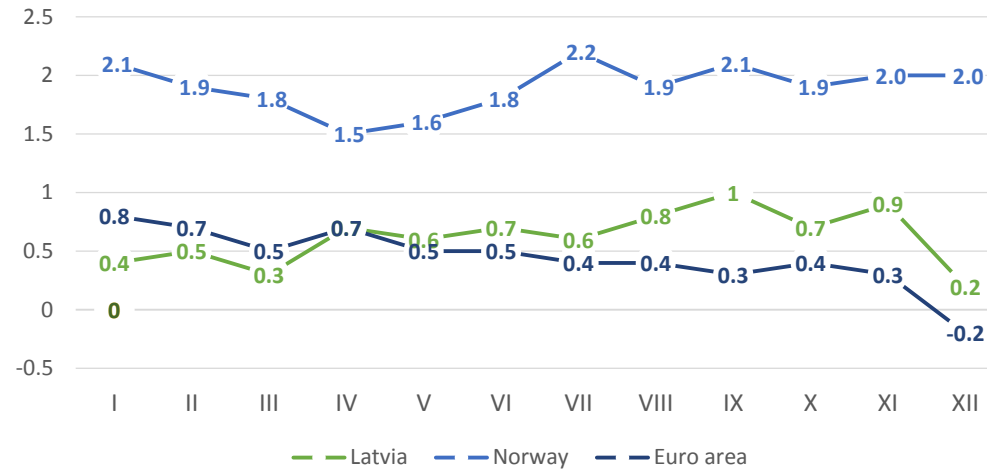
Source: Eurostat, Central Statistical Bureau of Latvia

In Latvia, after 3 years of strong economic growth, expansion of the economy has become slower in 2014. In 2013, GDP increased by 4.2%, but in 2014 it slowed down to 2.4%, however it still exceeds the EU average growth rate by 1.1 percentage point.

Economic slowdown of Latvia was determined both by internal and external factors in 2014. At the beginning of the year, economic growth was negatively affected by the shutdown of the largest metallurgical plant in Latvia - *Liepajas Metalurģis*, while from the 2nd quarter of 2014, tense geopolitical and economic situation in the region played a role. Introduced trade sanctions and devaluation of Russian ruble adversely affected Latvian exports to Russia, as well as manufacturing in several sub-sectors closely related to Russia's markets. Investment activity also declined as a result of increasing political instability in the Eastern European region. Main driver of economic growth in 2014 remained domestic demand, mainly private consumption and sectors related to it, such as construction, financial and insurance services, public administration and others. Positive developments in these sectors were provided by improvements in the labor market.

Economic growth is related with inflation dynamics. In 2014 changes in consumer price level remained very moderate in Latvia despite of widespread concern about significant upward impact of euro introduction on consumer prices. Inflation dynamic in Latvia, Norway and euro area is shown in the chart below. In December 2014 consumer prices in Latvia were by 0.2% higher than a year ago. Annual average inflation in 2014 was at historically low level of 0.6%. Prices for goods in 2014 remained practically unchanged, but prices for services had an upward trend mainly due to price and wage convergence to the EU average level. Inflation in 2014 was dragged down by external factors, namely, by declining oil prices in the global market, thus reducing local prices for fuel. In the euro area falling energy and food prices, as well as the substantial slack in the economy, have contributed to further decrease in inflation.

Chart 2 Inflation rate dynamics in 2014, % (annual rate of change)



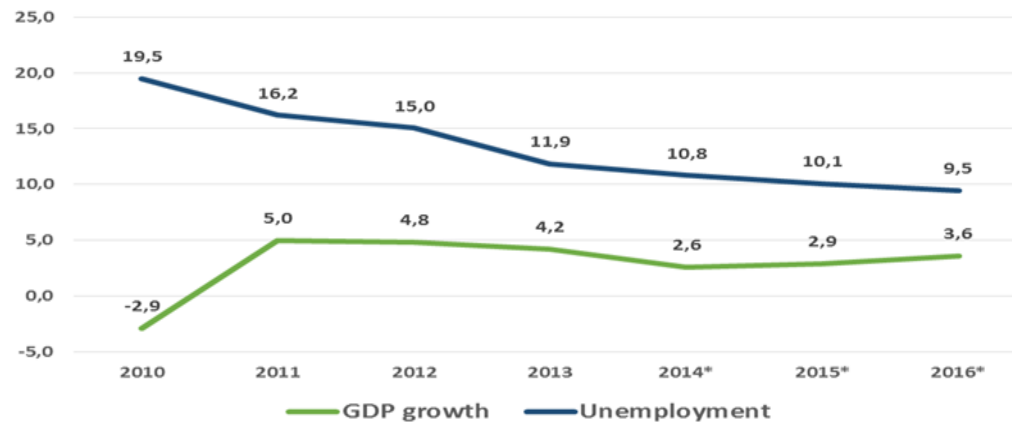
Source: Eurostat, Central Statistical Bureau of Latvia

The rapid economic growth of previous years has started to show up in rising earnings. The average gross wage in 2014 increased by 6.8% year-on-year, reaching 765 euro, while real wages grew by 8.0%, driven by low inflation and tax reduction on labor. In 2014 wages grew faster in the private sector where salary rose by 7.4%, while wages in the public sector increased by 6.1% year-on-year. The highest average gross wage still is recorded in Riga region - 837 euro, while the lowest – in Latgale region (eastern part of Latvia) – 522 euro, demonstrating still evident regional disparities and challenges.

In 2014 the policy of lowering taxes on labor continued in the Latvian state budget for 2015. Personal income tax rate was decreased from 24% to 23% for the year 2015, while the minimum wage was raised to 360 euro. All these measures aim to positively affect real earnings, bolstering both domestic demand and private consumption, as well as business environment and investments thus reducing economic and social disparities between Latvian regions and EU.

Steady economic growth has a positive effect on the situation in labor market. According to data from the Chart below unemployment rate has decreased since 2010. Following the noteworthy improvements in the labor market in 2013, these improvements slowed down in 2014 as it was influenced by both lower economic growth rate and decline in the number of working age population. Still, the jobseeker rate in 2014 decreased to 10.8% - by 1.1 percentage point year-on-year, and was the lowest since 2008.

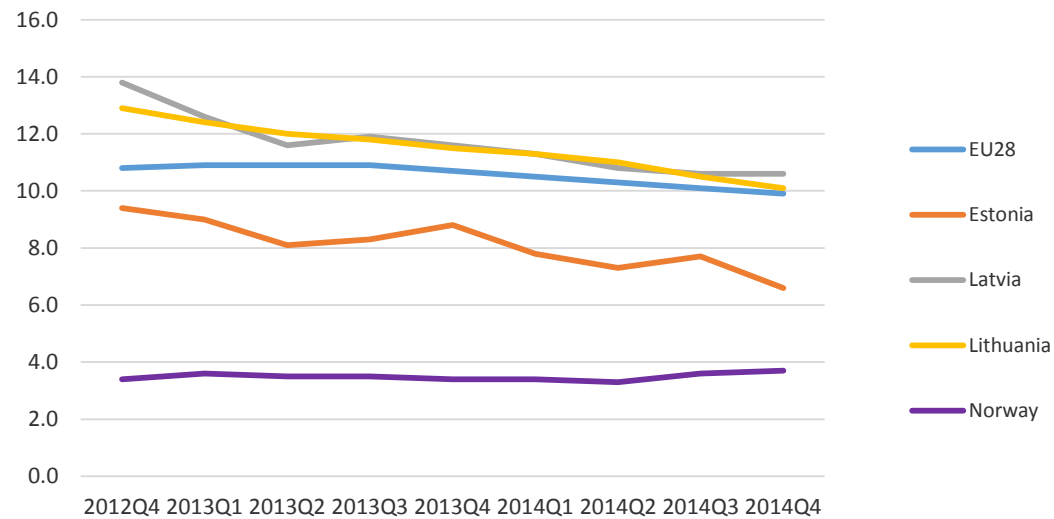
Chart 3 GDP growth rate and unemployment dynamics in Latvia



Source: Central Statistical Bureau of Latvia, EC forecast*

The registered unemployment rate has been falling steadily – from 9.8% at the end of January 2014 it has decreased to 8.5% at the end of December 2014. The highest unemployment rate still was registered in Latgale region – 17.8%, while the lowest – in Riga region - 5.2%. According to data from the Chart below unemployment rate in Latvia is still high comparing to neighboring countries, the EU average and Norway.

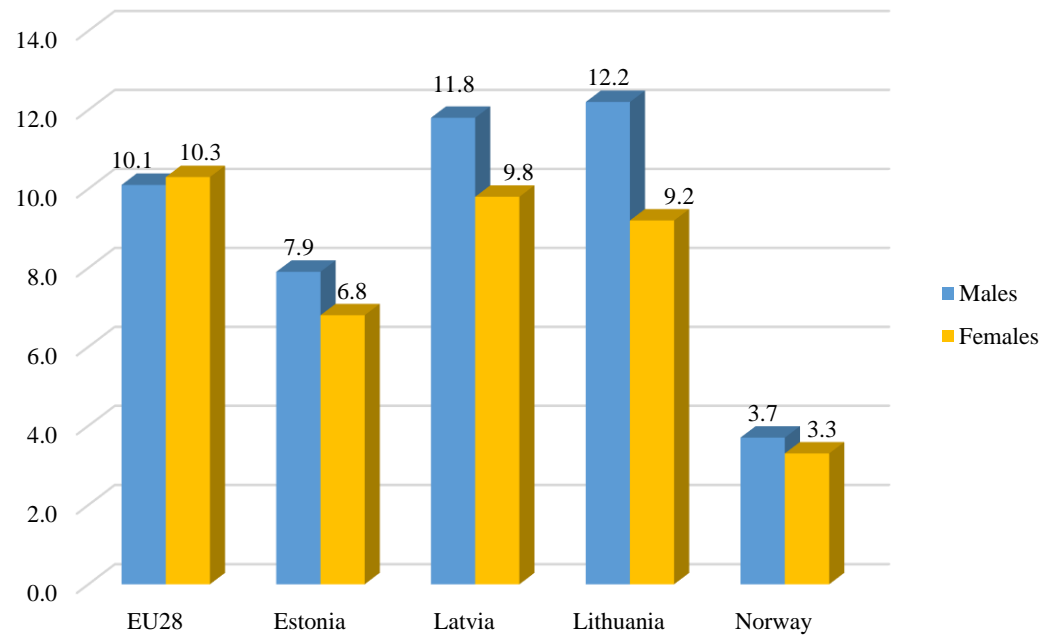
Chart 4 Seasonally adjusted unemployment rate 2012-2014, %



Source: Eurostat

Comparatively high unemployment is still mainly related to cyclical factors; and features of structural unemployment are becoming more typical. Risk, that part of currently unemployed persons will not be able to find a job in a longer term, still remains, because sectors which recover from crisis faster, are not the same ones having the largest job losses during the crisis. In 2014 share of long-term unemployed persons (not working for more than a year) in the total number of unemployed persons accounted for 33.0%, having decreased from 35.4% a year ago.

Chart 5 Unemployment rate by gender in 2014 (age 15 to 74 years), %



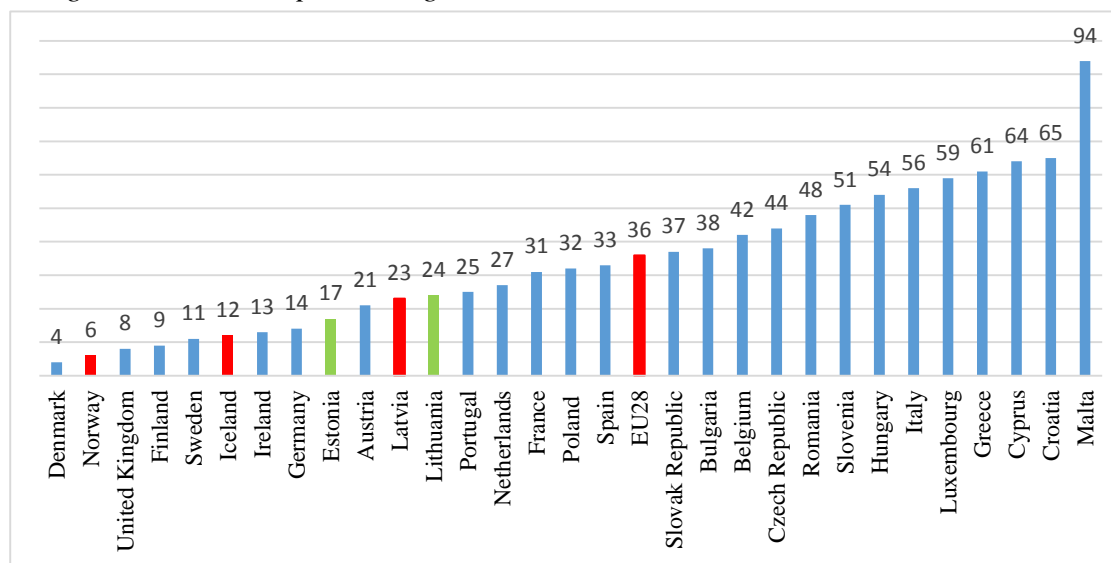
Source: Eurostat

According to data from the Chart below in Latvia and its neighboring countries male unemployment exceeds female unemployment, while in Europe the situation is reversed. In Norway the unemployment rate is low for both genders.

Geopolitical tension in region and economic recession in Russia and depreciation of the Russian ruble remain most significant risks to economic growth in Latvia. In addition to that, economic growth in the euro area is weak, thus negatively affecting Latvia's growth potential. On the positive side, resumption of production at *Liepajas Metalurģs* could provide significant positive boost to manufacturing as well as overall GDP growth in 2015. In addition, lower oil prices will contribute to economic growth in Latvia by boosting consumption, partially offsetting negative spillovers from recession in Russia. Economic growth is therefore projected to be relatively weak at 2.6% in 2014 and 2.9% in 2015 according to the latest EC forecasts.

Evaluation results of different international organizations as well testifies about development of Latvian economy. For example, Latvia has achieved high score in the annual report *Doing Business*⁴⁶, where it ranks in the 23rd place among 189 states and is in the 9th place among EU28. The rank has increased comparing to the report *Doing Business 2013* when Latvia was in the 25th place among 185 states. Latvia has substantially improved rating in procedures of reception of the building permits; connection to energy; tax pay off ratio, nevertheless on progress major problems still are related with effective operation of the courts system.⁴⁷

Chart 6 Ease of doing business ranking in the Annual report *Doing Business 2015*



Source: www.doingbusiness.org

Latvia ranks in the 42nd place (year ago the 52th place and the year before the 55th place) among 144 states in evaluation of the *Global Competitiveness Index (GCI)*⁴⁸ 2014-2015. Relevant improvement are in fulfilment of base requirements (institutional environment, quality of the public infrastructure,

⁴⁶ The report *Doing Business* is published annually by the World Bank since 2003 (www.doingbusiness.org) and provides objective measures of business regulations and their enforcement across 189 economies

⁴⁷ Data in *Doing Business 2015* as of 1 June 2014

⁴⁸ *Global Competitiveness Report* is a yearly report published by the World Economic Forum, webpage: <http://www.weforum.org/reports/global-competitiveness-report-2014-2015> Data of the GCI gives possibility to determine advantages and disadvantages of states competitiveness in specific indicators which identify competitiveness

macroeconomic environment, health and education) where Latvia has enhanced from the 40th place to the 34th place, as well as improvements in indicators of the efficiency enhancers (higher education, efficiency of the product and labor market, development of financial market) where Latvia has enhanced from the 41th place to the 36th place, nevertheless ranking of indicator like entrepreneurship satisfaction and innovations are still low – the 61st place (before the 68th place).

Latvia ranks in the 37th place (year ago the 42nd place) among 178 states in evaluation of the *Economic Freedom Index*⁴⁹ (published in January 2015) improving rank by 5 position comparing to previous year. Nevertheless remaining in group of states which are “*moderate free*”. Level of the Latvian economic freedom corresponds to 69.7 percentage points which is for 1% more than in the previous year. Improvements were in 8 out of 10 indicators, especially concerning entrepreneurship freedom, labor freedom, investment freedom and freedom of corruption.

Improvement of the microeconomic indicators and improved ranks in international entrepreneurship environment evaluations in recent years shows development and alignment of business environment, as well as availability of funding for entrepreneurs through such programmes, as for instance, Innovation programme under Norwegian Financial Mechanism, which ensures support for development of the green technologies, products and services for enterprises and start-ups by providing the pre-incubation and incubation services.

Latvia has got closer by 20% to EU medium level of the living standards in last 10 years. By joining EU in 2004 the GDP per capita in Latvia was only 47% from EU average, but in 2013 this indicator has reached already 67%. Despite the steady economic growth in recent years, Latvia still is the 4th poorest EU country following Bulgaria, Romania and Croatia. Thus any EU and other foreign financial assistance including FMs in focused and complementary way and in the targeted areas will make an important role and impetus for further economic growth and achievement of national objectives of Latvia.

Thus EU Cohesion Policy and other foreign financial assistance instruments are linked to priorities set in the strategy “Europa 2020” and the National Development Plan 2020 and are considered as main investment instruments to achieve sustainable growth and results, reducing disparities between Latvia and the EEA.

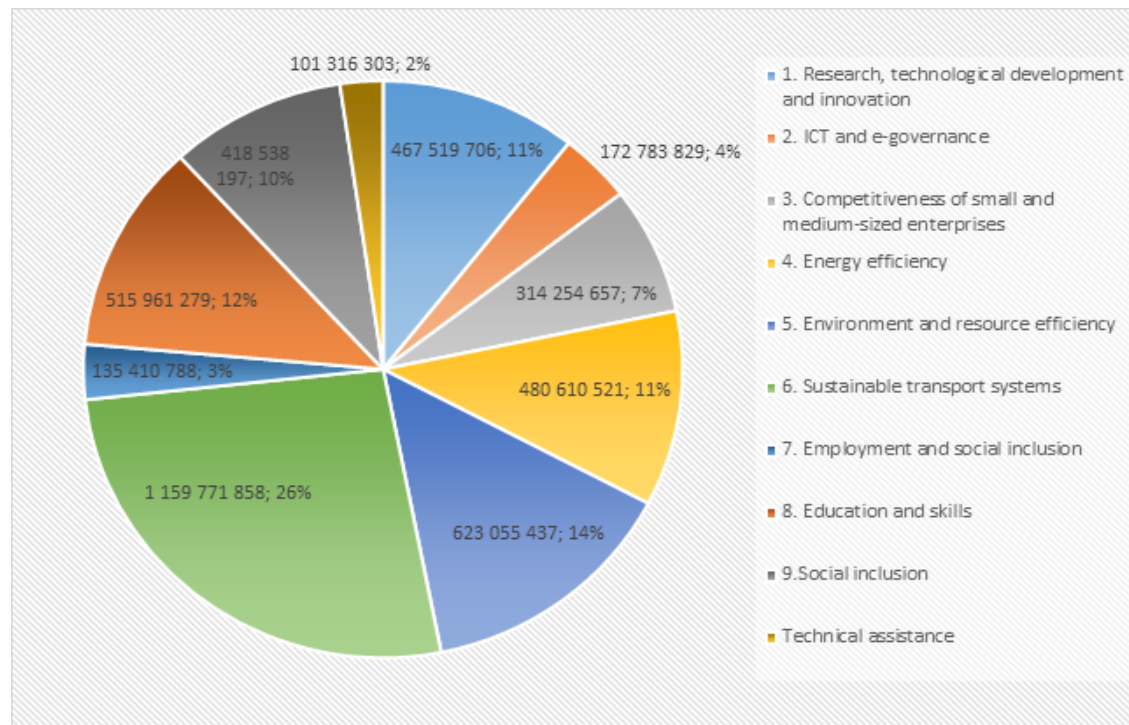
On 13 November 2014 the EC approved officially *Operational Programme “Growth and Employment” for the EU Funds 2014-2020* programming period⁵⁰, in which there will be 4.4 billion euro available for Latvia. Latvia is among the first Member States having the operational programme officially approved. The most significant investments are planned in order to reduce the number of citizens under the poverty risk by providing appropriate training, improving their health condition and integrating them into the labor market, as well as to facilitate the employment by integrating long-term unemployed persons and young people in the labor market. With the support of EU Funds it is also planned to reduce the consumption of primary energy by improving

⁴⁹ *Index of Economic Freedom* is an annual index and ranking created by the Heritage Foundation since 1995, webpage: <http://www.heritage.org/index/>

⁵⁰ More information on EU Funds 2014-2020 implementation in Latvia are available on webpage <http://www.esfondi.lv/events.php?id=496>

energy-efficiency in the private and public housing stock, improving energy-efficiency in the industrial production and supporting increase in the energy-efficiency of the public transport. It is also planned to increase investments in the research and development, promotion of the private investment attraction, as well as to activate cooperation between research institutions and businessmen. Investments of EU Funds are also planned to improve information and communication technologies and transport infrastructure having a direct impact on the economic productivity, underlying innovations and increasing internal and external mobility of people and goods.

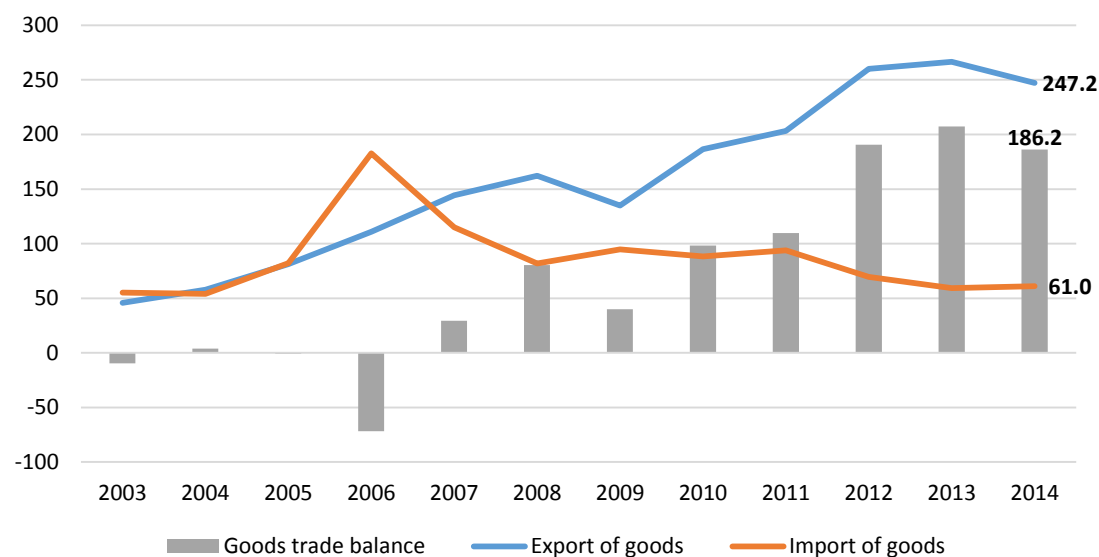
Chart 7 EU Funds 2014-2020 financing by priority areas in Latvia



Economic cooperation between Latvia and Norway

Trade is important pillar of the economic relationship between our countries. Economic ties between Latvia and Norway have become noticeably stronger and tighter in past 10 years thus significantly contributing to the growth of the economy of Latvia. Economic co-operation continues to be one of the priority areas of the Latvian-Norwegian relations. Norway remains important Latvia's foreign trade and investment partners. Exports of goods to Norway grew rapidly after the Latvia's accession to EU in 2004 and only in 2009 slowed down due to economic and financial crisis, but recovered next year. In 2014, exports of goods to Norway reached 247.2 M EUR, which is by 7.3% less than in 2013. Despite the decline in 2014, Norway still is one of the 10 largest Latvian trade partners with a 2.4% share of total exports.

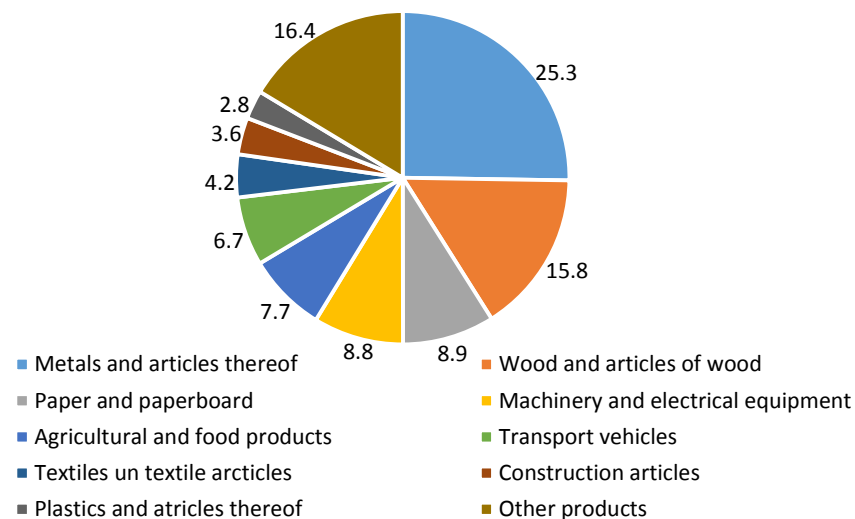
Chart 8 Latvian and Norwegian foreign trade of goods 2003-2014, M EUR



Source: Central Statistical Bureau of Latvia

Commodity exports to Norway are mainly composed from metals (25.3%) and wood (15.8%) products, but in recent years more diversified export structure has evolved. More than half of metal exports consists of metal structures, while the structure of exported wood products is more diversified.

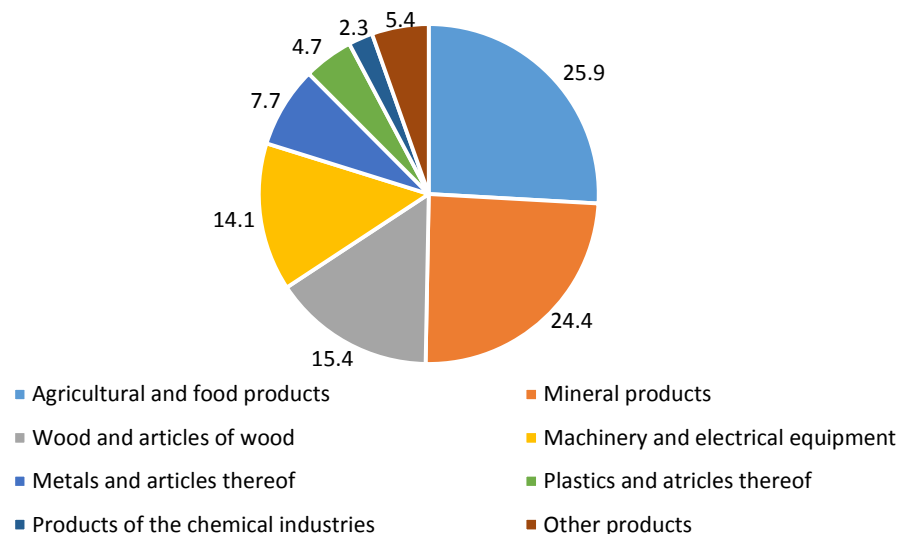
Chart 9 Structure of exports, % of total exports of goods to Norway in 2014



Source: Central Statistical Bureau of Latvia

Goods imports from Norway since 2007 has been lower than exports contributing to positive trade balance between Latvia and Norway. Mineral products share in total imports from Norway exceeded 40% in the last few years, but it dropped to 24.5% in the first 11 months of 2014. However, imports of agricultural and food products grew steadily in the last quarters and reached a peak of 25.9% of total imports in 2014.

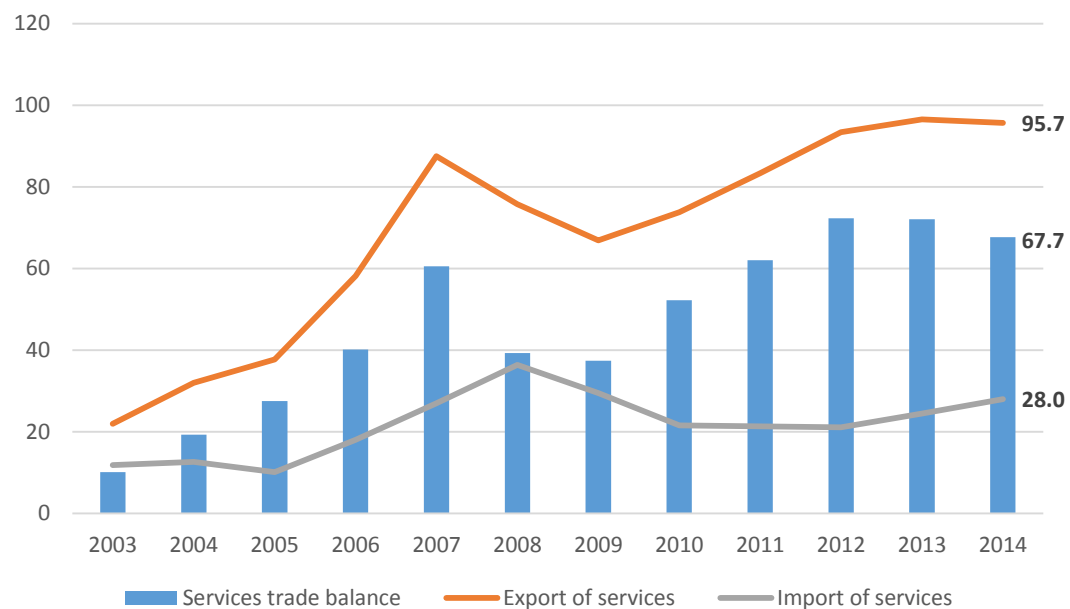
Chart 10 Structure of imports, % of total imports of goods from Norway in 2014



Source: Central Statistical Bureau of Latvia

Despite the rapid growth of services exports to Norway after 2009, its share in total Latvian services exports has been lower. 67.8 M EUR or 2.4% of total services exports were provided to residents of Norway in the 3 quarters of 2014. As in previous years tourism sector provided the largest part of services offered by Latvian companies. The 2nd largest sector was transportation sector.

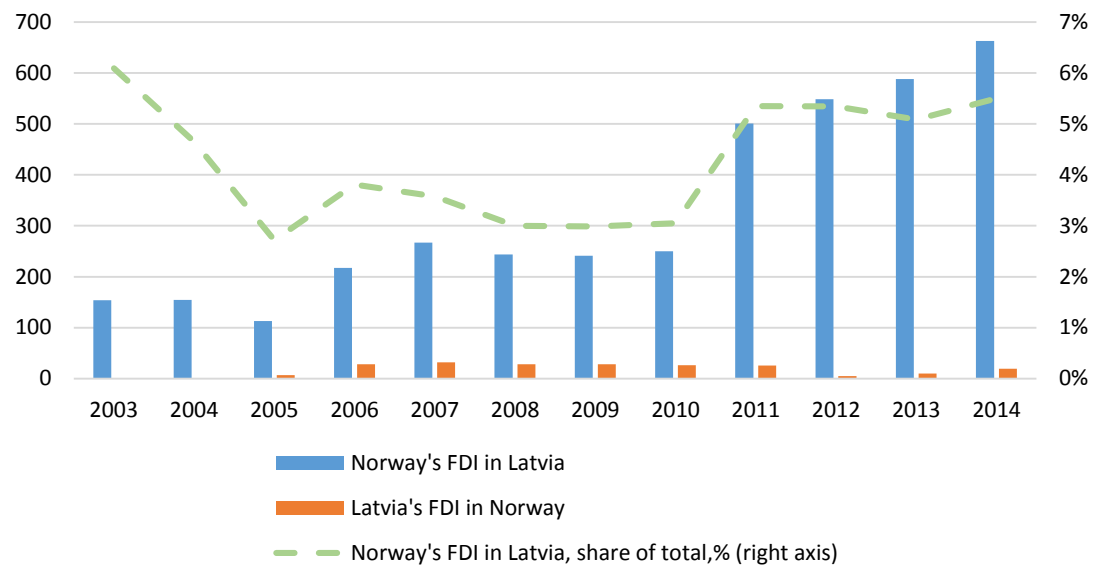
Chart 11 Latvian and Norwegian foreign trade of services 2003-2014, M EUR



Source: The Bank of Latvia

Norway was the 6th in terms of accumulated foreign direct investment in Latvia, which reached 631.3 M EUR at the end of the 3rd quarter of 2014. A lot of Norwegian companies continue to successfully operate in Latvian market. Among the most attractive areas for investment are finance and insurance sectors, as well as real estate and wholesale and retail sectors.

Chart 12 Foreign direct investment stock 2003-2014, M EUR



Source: The Bank of Latvia