



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

***Strategic Report on Implementation of  
the Norwegian Financial Mechanism  
2009–2014 in Latvia  
January – December 2013***



**Riga, 31 March 2014**

## Glossary of Acronyms

**AA** – the Audit Authority  
**AAR** – Annual Audit Report  
**Bilateral Fund** - Fund for Bilateral Relations at National Level 2011-2017  
**CA** – the Certifying Authority  
**Capacity-Building Programme** – Programme LV07 “Capacity-Building and Institutional Cooperation between Latvian and Norwegian Public Institutions, Local and Regional Authorities”  
**CC** – the Cooperation Committee  
**CoM** – Cabinet of Ministers (Latvian Government)  
**Correctional Services Reform Programme** – Programme LV08 “Reform of the Latvian Correctional services and Police Detention Centres”  
**DPP** – the Donor Programme Partner  
**Decent Work Programme** – Global Fund for Decent Work and Tripartite Dialogue  
**Description of the MCS** – Description of the Financial Mechanisms 2009-2014 Management and Control System of Latvia  
**EC** – European Commission  
**EEA** – the European Economic Area  
**EFTA** – European Free Trade Association  
**EU** – European Union  
**Financial Mechanisms** – the EEA Financial Mechanism and the Norwegian Financial Mechanism  
**FMO** – the Financial Mechanism Office  
**FP** – the National Focal Point  
**Innovation Programme** – Programme LV06 “Green Industry innovation Programme”  
**IMF** – International Monetary Fund  
**Law** – the Law on Management of the Financial Mechanisms 2009 – 2014  
**LIDA** – Latvian Investment and Development Agency  
**MCS** - Financial Mechanisms` Management and Control System  
**MoE** - the Ministry of Economics  
**MoEPRD** – the Ministry of Environmental Protection and Regional Development  
**MoES** - the Ministry of Education and Science  
**MoF** – the Ministry of Finance  
**MoI** - the Ministry of Interior  
**MoJ** – the Ministry of Justice  
**MoU** – the Memorandum of Understanding on the Implementation of the Norwegian Financial Mechanism 2009– 2014  
**NGO** – nongovernmental organization  
**OC** – open call  
**PA** – Programme Agreement  
**PIA** – Programme Implementation Agreement  
**PMCS** – Programme Management and Control System  
**PO** – Programme Operator  
**PP** – programme proposal  
**PMB** – the Procurement Monitoring Bureau  
**Programme Regulations** – CoM Regulations on respective Programme`s implementation

**Regulation** – the Regulation on the implementation of the Norwegian Financial Mechanism 2009-2014

**Scholarship and Research Programme** – Programme LV05 “Norwegian-Latvian Research Support Fund and Scholarship Programme”

**SACD** – the State Aid Control Department of the MoF

**SEDA** – the State Education Development Agency

**SGS** – a small grant scheme

**TAF** – the Technical Assistance Fund 2011-2017 (including Bilateral Fund at National Level)

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## ***1 Executive summary***

According to the Article 2.2, Paragraph 1, of the Regulations the MoF, acting as the FP for the implementation of the Financial Mechanism in Latvia, has prepared the “*Strategic Report on the implementation of the Norwegian Financial Mechanism 2009-2014 in Latvia January – December 2013*”. Before submission to the donor state according to the requirement set out in the Article 4.4, Paragraph 4, of the Regulations the Strategic Report has been approved in the written procedure on 24 March 2014 by the Monitoring Committee of the Financial Mechanisms. All comments and proposals received from the Monitoring Committee were taken into account within elaboration process of the Strategic Report.

Strategic Report will be discussed during the Annual Meeting with representatives from the donor states planned for 4 June 2014.

The document aims to present the progress of the preparation and the implementation of the Financial Mechanism in Latvia within pertinent socio-economic environment, including status of achievement overall and specific goals, bilateral relations, the status of MCSs and results of the risk assessment exercise, as well as activities planned for the next reporting period – the year 2015.

If the year 2012 was the year of approval of all four PPs, then the year 2013 was the year of signing all four PAs between the donor state and the FP; the last one, Scholarship and Research PA, was signed on 12 April 2013.

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 Financial Mechanism in Latvia, then the year 2013 was the year of elaboration and approval of specific Programme Regulations, setting procedures for implementation of a particular programme, evaluation/implementation of pre-defined projects and OC guidelines for projects to be approved within a particular programme. In 2014 this work will continue since some POs still need to approve some of their Programme Regulations – Scholarship and Research Programme (2), Innovation Programme (1) and Correctional Services Reform Programme (1). This work shall be accomplished by summer 2014.

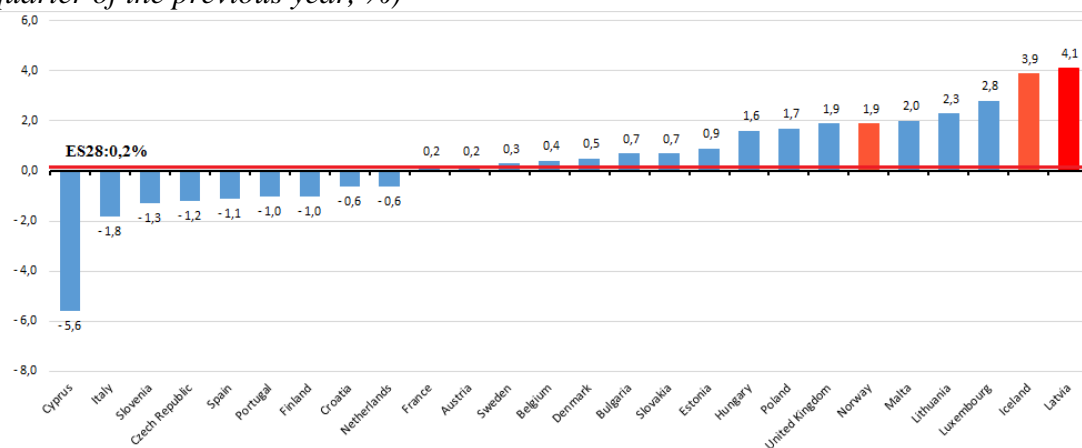
If the year 2012 was the year of elaboration and approval of the description of the MCS, then the year 2013 was the year of elaboration and approval of all four PMCSs; the last one Correctional Services Reform PMCS, was submitted to the FMO on 13 March 2014. The AA's Assurance Reports and Audit Reports state that PMCSs are compliant and have been established taking into account proportionality for efficient achievement of the Financial Mechanism goals, however, it will be possible to evaluate the effectiveness of functioning only after some time of implementation and after recommendations provided by the AA are implemented.

## 2 Assessment of the effect of the Grants

After sustained stagnation the EU economy showed positive growth in the 2nd quarter of 2013. It was continuing also in the 3rd quarters of 2013 when GDP was by 0.2% higher than a quarter before. Also latest business tendency surveys show that economic activities in the EU are gradually increasing. The recovery is expected to continue and to gather some speed in 2014. Nevertheless, development trends in Member States of the EU still differ. Growth in new EU countries is faster than on average in region. Baltic States indicate the most rapid economic growth within the EU as a whole. Further growth still depends on risks and uncertainty in global market and political aspects.

Since the end of 2009 a gradual growth is seen in the economy of Latvia. According to Chart 1 the GDP has increased by 4.1% against the corresponding quarter of the previous year.

*Chart 1 GDP growth in the 3<sup>rd</sup> quarter of 2013 in EU (against the corresponding quarter of the previous year, %)*



Source: European Commission

According to expert assessment Latvia has achieved fastest growth in EU that is sustainable and balanced between external and domestic demand. Latvia during last 3 years has been most growing economy in EU and it is expected that Latvia will remain among the fastest growing economies in EU. However, growth has become slightly moderate.

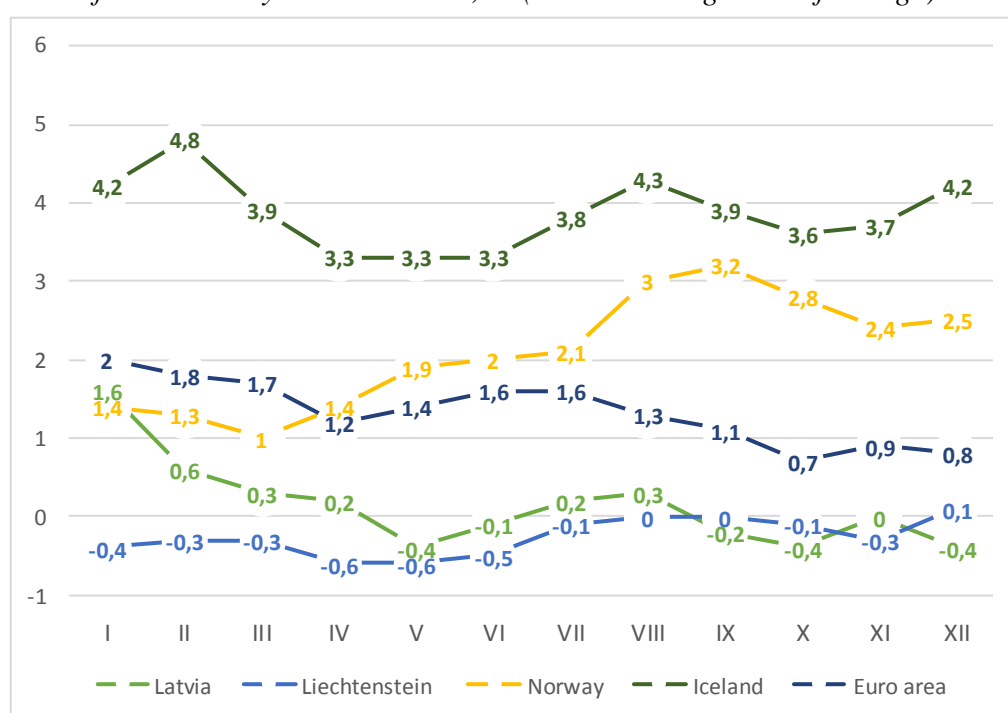
Being a small and open economy Latvia's economic growth is to a great extent dependant on the processes in other countries with which it has close economic ties. Considering that Latvia's largest export partners are its neighbouring countries like Lithuania, Russia and Estonia, which also are on the path of a rapid post-crisis economic growth, as well as Poland and Germany, which are large and stable economics, there are good perspectives to achieve the forecasted growth level. The EC forecast that economic growth rates in 2014 will increase in all of these countries. Stronger trading partner's demand would provide the opportunity for Latvia – to expand export markets and thereby strengthen its position.

Joining the euro zone on 1 January 2014 was one of the most important events of Latvian economic. Membership of euro zone provides more opportunities for sustainable overall development of Latvia by reducing various costs related to currency exchange for residents and enterprises thus developing a stable business and investment environment in Latvia and thereby fostering decrease of economic disparities within Latvia and developed EEA states.

Stability of Latvian economy can be also testified by the increased credit rating at least for one grade in 2013 by all biggest credit rating agencies ("Moody's Investors Service", "Standard & Poor's", "Fitch Ratings"). Long-term investments` ratings for Latvia are evaluated with positive and stable future forecasts as compared to under investment category level during crisis period.

Economic growth is related with inflation dynamic. In 2013, changes in consumer price level were very moderate in Latvia. Inflation dynamic in Latvia, donor state an EU is shown in Chart 2. In November 2013 consumer prices were by 0.4% lower than a year ago. In 11 months of 2013, drop in prices of food (by 1.4%), fuel (by 4.9%) and heat (related to decline in prices of natural gas – by 6.8%) had the greatest downward impact on the consumer price level, while increase in the prices of footwear (by 5.8%) applied the most significant upward effect. Also at the level of EU price dynamics was more moderate in 2013.

*Chart 2 Inflation rate dynamics in 2013, % (annual average rate of change)*



Source: Tradingeconomics.com

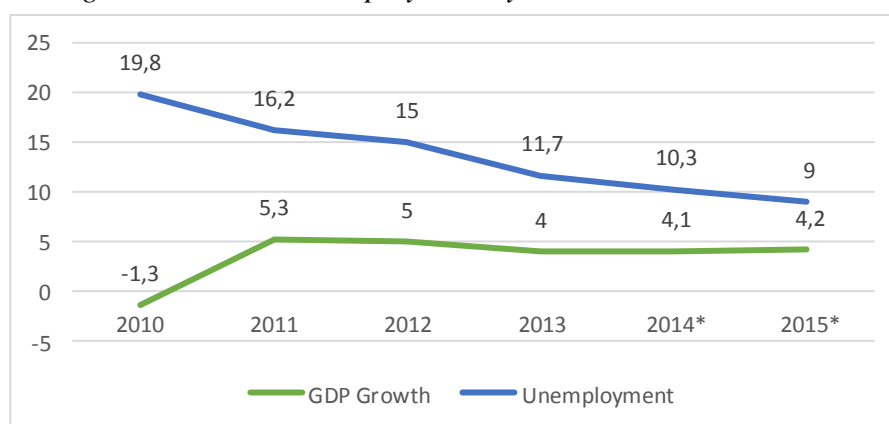
Latvian economic growth reflects also in average gross wages which slowly are rising. The most significant being in real estate sector, public administration and trade. The highest average gross wage in 2013 still is recorded in Riga region (EUR 814), while the lowest – in Latgale region (EUR 490) demonstrating still evident regional disparities and challenges. Accordingly growth of gross wages reflects positive on real earnings of population thereby facilitating increase of retail turnover in 2013 that reached 5% (in comparison with the previous year) showing the fastest increase since March 2013. Growth of real earnings reflects as well in the increase of trade of the non-food consumer goods (increase by 3.4% in 2013 in comparison with previous year) which shows that population could start to afford not only goods of prime necessity. In general retail data of 2013 confirms the tendency that main driver of economic growth is domestic demand and private consumption.

In 2013 the policy to decrease taxes was elaborated in the Latvian state budget for 2014. Personal income tax was decreased from 25% to 24% for year 2014, and decrease by 1% is planned to be continue each year till 2016, when the rate will be

22%. Untaxed wage minimum was increased up to 75 euro (64 euro in 2013) and allowance for dependent - up to 165 euro (114 euro in 2013). As from 2014 also rate of social security contributions was decreased by 1%, thereby part of employer – 23.59% and employee – 10.5% (accordingly in 2013 – 24.09% and 11%). All these measures aim to positively affect increase of net wage and retail turnover, growth of domestic demand and private consumption, employment rates and to facilitate business environment and investments thus reducing economic and social disparities between Latvian regions and EEA.

Gradual improvement of economic activities has positive effect on the situation in labor market and according data of Chart 3 unemployment rates decreases gradually. Gradual improvement of economic activities has positive effect on the situation in labor market – employment increases and high unemployment caused by crisis decreases.

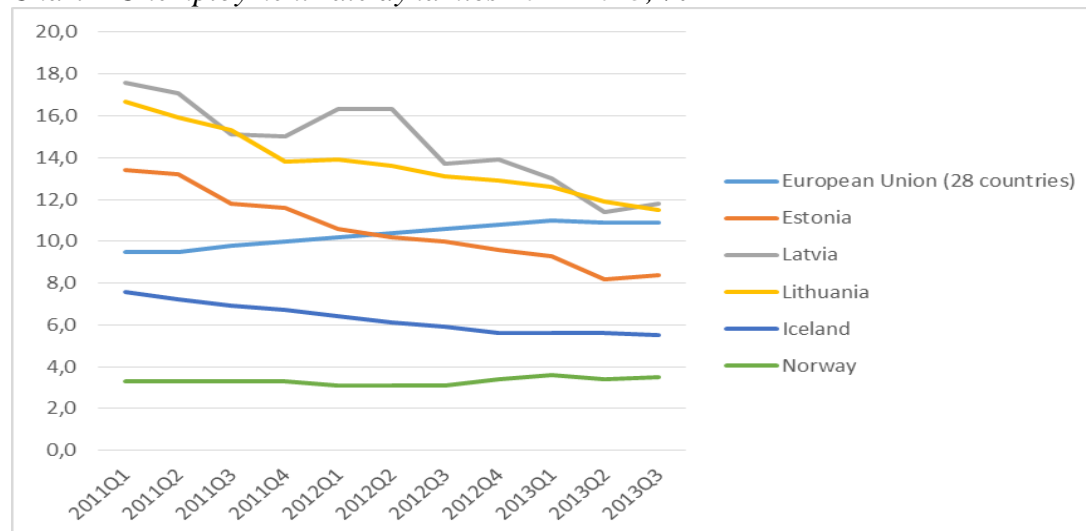
*Chart 3 GDP growth rate and unemployment dynamics in Latvia, %*



Source: European Commission, *The autumn 2013 European Economic Forecast*

In the 3<sup>rd</sup> quarter of 2013, approximately 900 thousand persons were employed (by 1.3% more than in the 3<sup>rd</sup> quarter of 2012). At the same time, number of economically active population dropped by 1%. In the 3<sup>rd</sup> quarter of 2013, unemployment rate dropped to 11.8%, and it is 1.9% less than a year ago. The highest unemployment rate still was registered in Latgale region (18.6%), while the lowest – in Riga (5.7%). According to statistic data (see Chart 4) unemployment rate in Latvia is still high comparing to neighbouring countries EU average and the donor state.

*Chart 4 Unemployment rate dynamics 2011-2013, %*

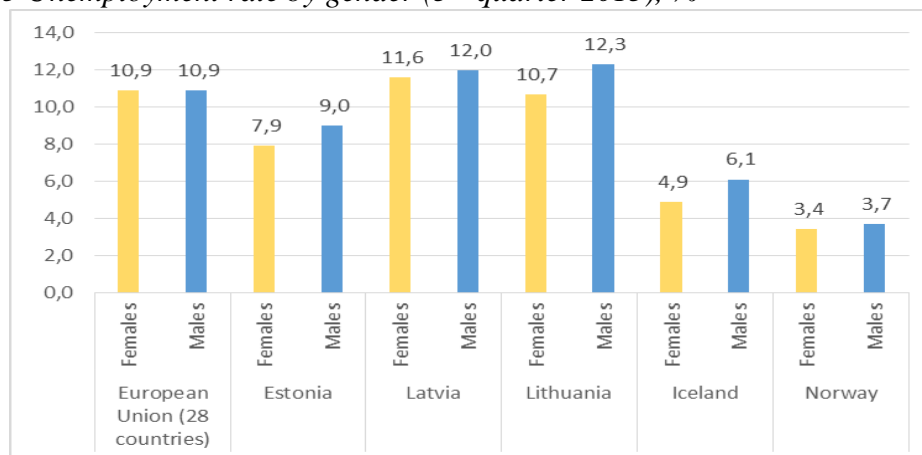




Source: European Commission

Comparatively high unemployment is still mainly related to cyclical factors and features of structural unemployment are becoming more typical. Risk that part of current unemployed persons will not be able to find 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 October 2013 share of long-term unemployed persons (not working for more than a year) in the total number of unemployed persons accounted for 37.8 %.

Chart 5 Unemployment rate by gender (3<sup>rd</sup> quarter 2013), %



Source: European Commission

The statistics show (Chart 5) that in Latvia and its neighbouring countries male unemployment exceeds female unemployment. However in Latvia this difference was quite small, only 0.4 % resembling 0.3% in Norway, while in Iceland and Estonia the difference is larger (1.2 % and 1.1% respectively).

Stable increase of the wage, decrease of unemployment rate and improvement of economic situation in EU allows to forecast increase for 4.2% of the GDP in 2014. Certain risks that could affect dynamics of the economic growth remains in 2014. The continuous rapid growth of the Latvian economy depends on a favourable external market situation, but considering the gradually improving labour market situation and increasing average wages in the country an increasing domestic consumption would also contribute to overall economic growth. However, in future to sustain further economic growth it is necessary to concentrate on exports oriented sectors.

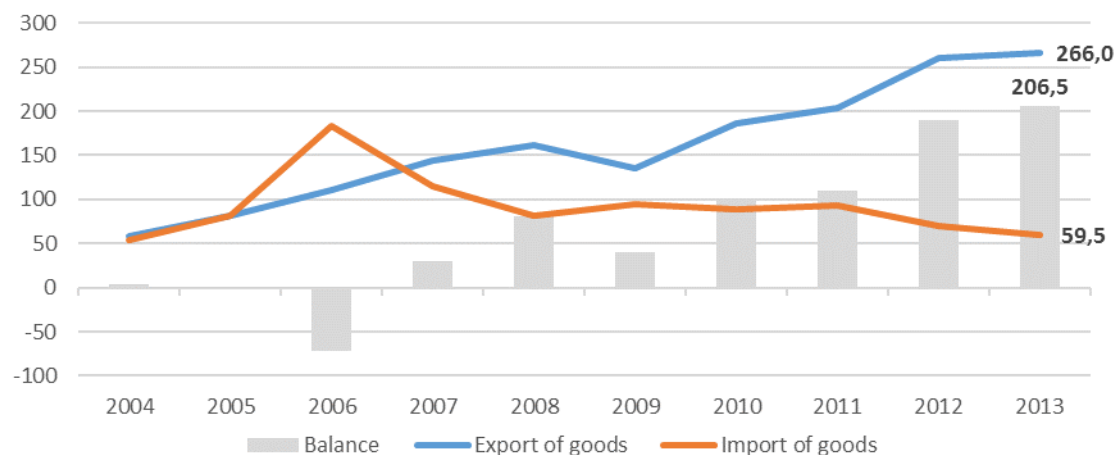
Despite positive indicators of economic growth Latvia is still the 3<sup>rd</sup> poorest EU country following Bulgaria and Romania. Financial mechanism's funding in complementarity with the EU funds of 2007-2013 as well as 2014-2020 periods in the targeted areas within framework of the EU 2020 strategy would continue providing a useful contribution to stabilize economic situation in the EEA and will make an important role for further economic growth in Latvia.

### **Economic cooperation between Latvia and Norway**

Economic affairs between Latvia and Norway have become noticeably stronger and tighter in past ten years thus significantly contributing to the growth of the economy of Latvia. Export of goods to Norway grew rapidly after the Latvia's accession to EU in 2004 (by 2.3% if compared to 2012) and reached 266 M EUR or 2.7% of total goods exports.

Norway has become one of the ten largest trading partners of Latvia in last six years and according to latest available data Norway has become the 9<sup>th</sup> largest export partner in 2013.

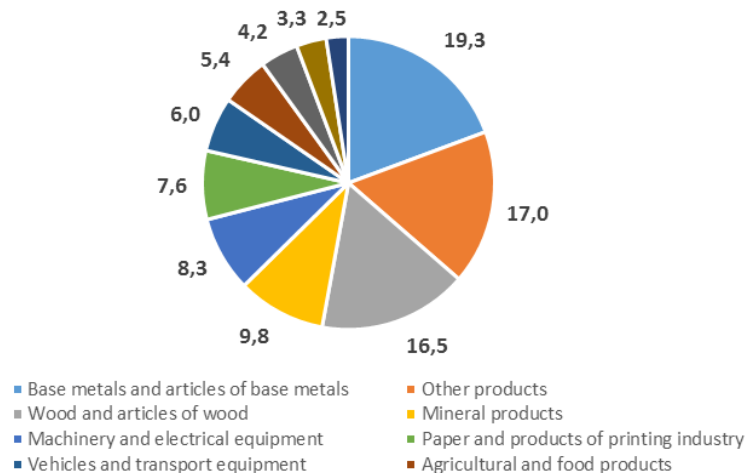
*Chart 6 Latvian and Norwegian foreign trade of goods 2004-2013, M EUR*



*Source: The Central Statistical Bureau of Latvia*

Exports of goods to Norway are mainly composed from metal (19.3%) and wood (16.5%) products, but in recent years more diversified goods export structure has evolved.

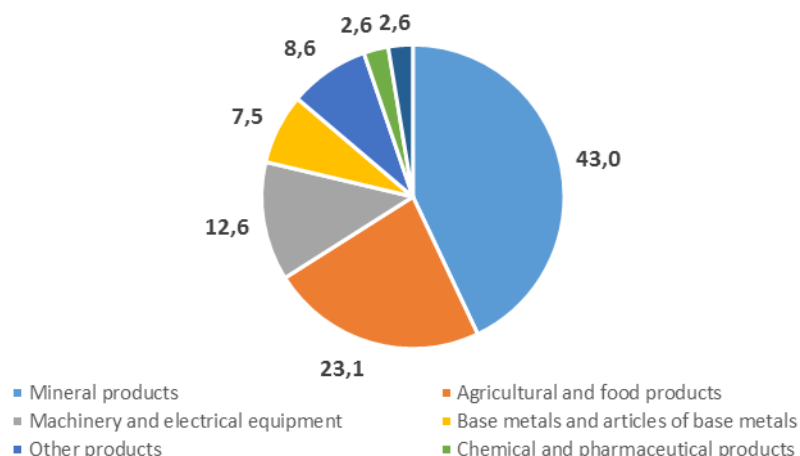
*Chart 7 Structure of exports, % of whole exports of goods to Norway in 2013*



*Source: The 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. A breakdown of goods imports by product type (see Chart 8) shows that most of goods import from Norway is mineral products (43.0%) and agricultural products (23.1%). According to latest available data Norway was the 26<sup>th</sup> largest import partner.

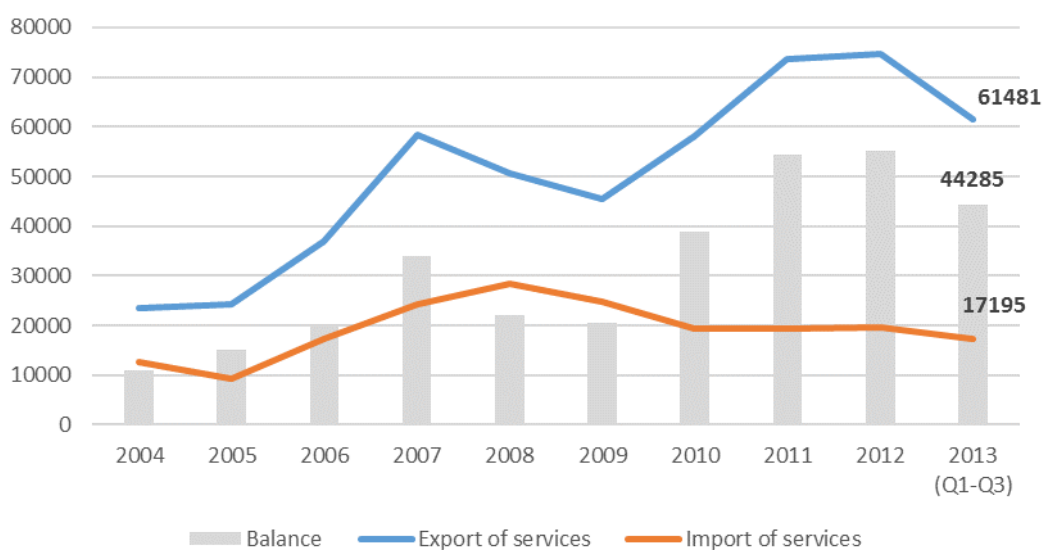
*Chart 8 Structure of imports, % of whole imports of goods from Norway in 2013*



Source: The Central Statistical Bureau of Latvia

Norway is the 6<sup>th</sup> largest partner of services exports from Latvia. In 2013 3.6% of total services exports were provided to residents of Norway. Rapid growth of services exports was observable after 2009, but since 2011 growth has been more moderate (see Chart 9). In three quarters of 2013 companies from Latvia provided services to Norway for 61.5 M EUR. Still most of services were provided in tourism sector with the trend to decline while share of transportation and other commercial services, mostly communication and construction services, has expanded.

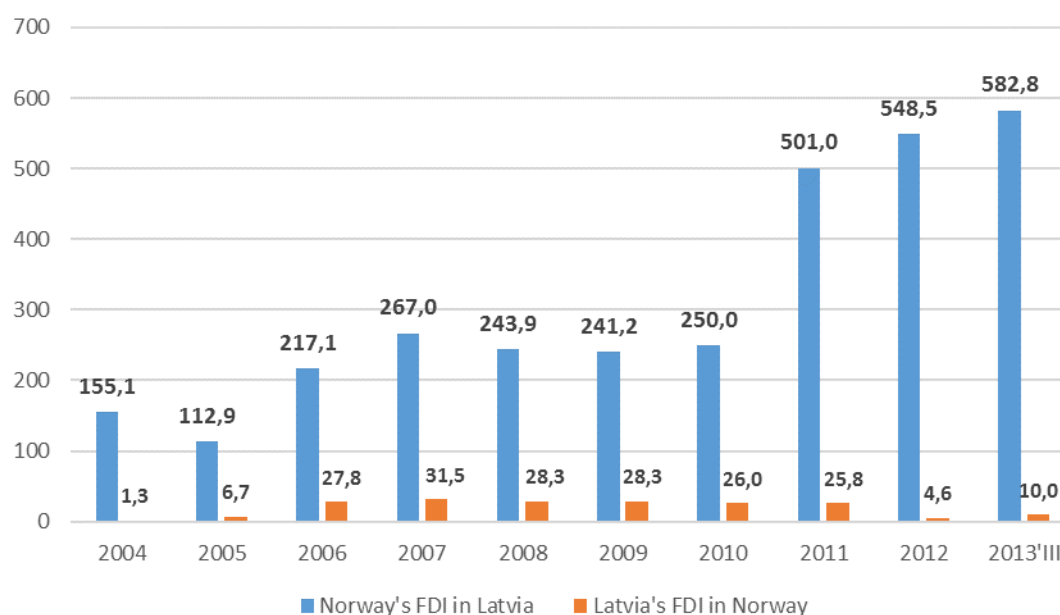
Chart 9 Foreign trade of services 2004-2013, M EUR



Source: The Bank of Latvia

Total Norwegian direct investment in Latvia at the end of 3<sup>rd</sup> quarter 2013 accounted for 582.8 M EUR (see Chart 10), ranking it's 5<sup>th</sup> place by foreign direct investments (FDI) stock in Latvia. Flows of FDI were moderate until 2010, but since 2011 stock of Norway's FDI in Latvia has noticeably increased.

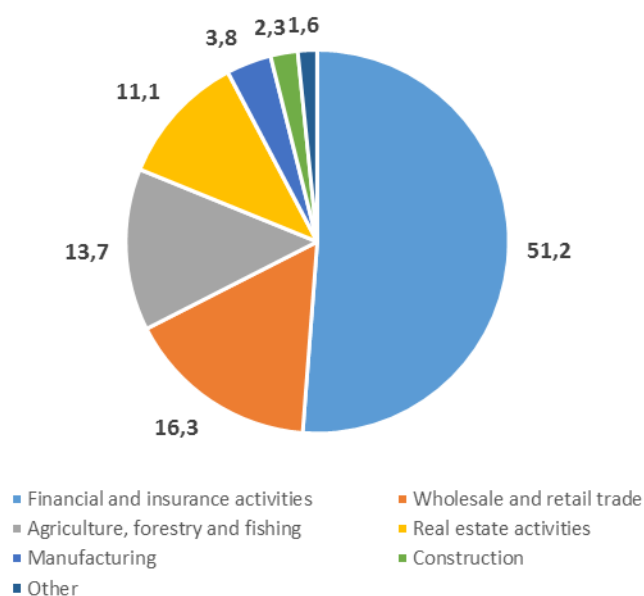
Chart 10 Foreign direct investment stock 2004-2013, M EUR



Source: The Bank of Latvia

According to statistic data (see Chart 11) at the end of 3<sup>rd</sup> quarter 2013 Norway's direct investment in economy of Latvia are mainly concentrated in the finance and insurance sector constituting 51.2% of total investment (for example, one of the biggest banks in Latvia – JSC “DNB bank”). Also more than 10% of whole amount of investment is located in wholesale and retail (for example, Narvesen, Statoil Fuel & Retail, Moller Auto), agriculture and real estate sectors.

Chart 11 Structure of Norway's foreign direct investment in Latvia, %



Source: The Bank of Latvia

## 2.1 Cohesion

The *National Reform Programme of Latvia for the Implementation of the Europe 2020 Strategy* was approved by the CoM on 26 April 2011. It describes the medium-term macroeconomic scenario, reflects key macro-structural bottlenecks of the economy of Latvia and main measures for 2011-2014 to tackle them, as well as the targets of Latvia for 2020 in the context of the *Europe 2020 Strategy* and main measures for 2011-2014 to achieve them. The aim of Latvia is to foster growth and employment, thus ensuring growth of GDP in the amount of 4-5% in the medium term and employment rate in the amount of 73% by 2020.

Sustainable growth targets of Latvia are set out also in the *Latvia 2030 strategy*. It is aimed also to achieve employment rate of 73% (58,2% in 2013); an increase of investments in research and development to 1.5% of GDP (0,66% in 2012); an increase of the share of people having completed tertiary education to 34-36% (23% in 2011); an increase of proportion of the persons who have acquired higher education in the age group from 30 up to 34 years 40% (37% in 2012); reduce the share of persons at-risk-of-poverty to 21% (35,1% in 2013); increase the share of renewable energy in the total gross energy consumption to 40% (33,1% in 2011), etc.

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

1. **Research and Innovation** by Scholarship and Research Programme and Innovation Programme;
2. **Growth of the National Economy** by Innovation Programme;
3. **Human Securitability** by Correctional Services Reform Programme and Decent Work Programme;
4. **Growth for Regions** by Capacity Building Programme.

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

The above reflection on the macroeconomic disparities between the donor states and Latvia clearly justifies the need for cohesion. Considering the size of the Financial Mechanism to Latvia as well as the areas of support the impact to the Latvian economy would be difficult to measure, nevertheless the contribution of the Financial Mechanism 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 Financial Mechanism's financed 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.

### *Innovation Programme*

It is designed to improve situation in technology intensive industries in Latvia by motivating and encouraging people to engage in business activities related to „green” industry development and supporting further development of the existing enterprises. The programme will have direct impact on challenges of Latvian economic, such as:

### 1. *Limited financing*

Although the situation in the financial market has become stable after crisis, crediting is still at a very low level, which is largely related to the strong financial market risk perception of creditors and borrowers. The limited possibilities of many enterprises to access finances have become a crucial challenge to investments and development. Thus programme by providing access to finance (pre-incubation and incubation support) for all business development's stages, particularly at the business start-up stage, will serve as additional financing for private sector.

### 2. *Developing a knowledge-intensive economy*

In innovative economic it is necessary to facilitate cooperation between scientists and entrepreneurs in order to promote cooperation between research and manufacturing sectors for implementation of industrial research, new products, and technologies, as well as to support technology transfer contact points for purposeful development of the necessary research competence at universities and research institutions and to promote introduction of research results in production. Thus programme by establishing the Technology Incubator will provide support to enterprises specializing in technology intensive industries with the aim to make efficient use of material and energy resources. In addition participation of scientific institutions in the programme will ensure significant intellectual capacity that could possibly lead to notable innovations in „green” technology area.

### 3. *Low productivity and weak innovation performance*

The productivity level of Latvian production is far behind the average EU level. The current low innovation absorption reduces the possibility to improve the situation as fast as possible. The innovation process should be linked to developing competitive advantages, particularly in the identified perspective product market for Latvia. The programme will provide support for development of new products and technologies by fostering entrepreneurs to develop industrial research by introducing new “green” products, services and technologies in production by available support in OC within the programme.

Thus the programme will have a positive effect on reduction of economic and social disparities in EEA by stimulating economic activity in knowledge intensive sectors leading to creation and securing of green jobs, setting ground for stable and sustainable development of „green” industries in Latvia, promoting overall innovation system as well as co-operation and technology transfer between private sector and scientific institutions.

### ***Capacity Building Programme***

So far, assistance to territorial development has been provided within various under-harmonised sectorial support activities, based on the sectorial, not territorial priorities. In the result, the system which regulates the procedure for allocating foreign financial resources available to Latvia has not facilitated implementation of integrated territorial (regional and municipal) development priorities so far. In 2014-2020 EU funds programming period there is a shift towards much more focused and results oriented approach.

One of the main reasons for regional disparities is the former practice in development and investment planning, which can be characterised by two major drawbacks:

- weak links between national, regional and local development planning documents;
- insufficient/ under-developed range of territorial support activities.

Evaluation of the situation suggests that capacity (knowledge and experience) for independent territorial development planning is still lacking in municipalities and planning regions, this insufficiency also affects conducting of studies, which are necessary for ensuring formulation of substantiated, evidence-based strategy and action plan. Moreover, 4 out of 5 planning regions have not drafted either their long-term sustainable development strategies or medium-term development programmes. Their previous development programmes expired in 2013 and since January 2014 the planning regions have been elaborating new regional development programmes that must be approved by the end of 2014. 98 out of 119 local governments of Latvia (urban or rural municipalities) have approved their development programmes by the end of 2013 (~ 70% of the approved local development programmes will expire only in 2018). Due to the limited financing, planning regions could not increase their capacity and engage the necessary number of planning specialists with experience in drafting regional development planning documents.

In order to achieve the objectives stated in the *Latvian Sustainable Development Strategy Latvia 2030* it is important to:

- implement the activities laid down in the normative acts regarding development planning: ensure coordination of and links between the planning documents on all planning levels (state, regional, local), as well as to ensure cooperation among all the parties involved in the planning process — public sector, private sector and community;
- provide for integrated development planning of various fields/sectors and complex solutions to the most important territorial development problems in each territory;
- provide for interaction of various sectors on all territorial levels, as well as link the sectorial priorities with the territorial development needs by including aspects of environment, economic and social development;
- change the approach of planning investments for municipalities from sector-based to territory-based approach, thus strengthening the importance of territorial development programmes and territory-based approach to investment planning, which is organised according to the priorities stated in the territorial planning documents;
- provide for local and regional institutions the required knowledge and capacity for drafting territorial development planning documents and their implementation in line with the best quality standards.

The other major problem is public services quality at local, regional and national level. There is problematic availability of services in rural territories and a low quality range of services to urban inhabitants and entrepreneurs. There is lack of common approach towards cost calculation and different costs per capita of public services provided, therefore it is necessary to improve the accountability of local governments to the society and to improve the procedures for local governments' expenditure analysis since the income sources of local governments are widened by introducing municipal taxes and new duties. If the local governments and society could access comparable information about the local governments' expenditure, they would be more motivated to achieve more efficient operation. Therefore it is necessary to develop a local governments' operation system which would:

- serve as a platform for local governments' services expenditure analysis;
- encourage local governments to optimise resources involved in provision of services;

- promote mutual cooperation among local governments for the purposes of uptake of good practice;
- ensure economy of local governments' financial resources.

The programme is designed to increase institutional and human resources capacity at institutions responsible for regional development in Latvia by cooperation and sharing of experience with similar institutions in Norway. The institutional capacity will be built and human resources development will be ensured at state, local and regional level authorities involved in regional development planning and policy implementation. In the result it will contribute to reduction of social and economic disparities in EEA.

### ***Correctional Services Reform Programme***

Strengthening of Correctional services including sanctions not involving imprisonment, is one of priorities of Latvia and programme will foster improvement of the situation in the Latvian Correctional Services. Considering the fact that prison population rate in Latvia is the highest in Europe and prison sentences in Latvia are long, a large number of population (i.e. prison inmates) does not take part in normal economic or social processes in society during their prison sentence. Although number of prisoners has decreased during several last years, situation is affected by policy of criminal punishments applied till now and by severity of courts sentencing imprisonment. Approximately 60% of inmates serve their sentence in prison repeatedly, which indicate that re-socialization process during their previous sentence has not been effective or was not suitable for specific needs of an inmate. Due to the imprisonment, inmates have lost significant social and professional skills and abilities necessary for a law-abiding life, which reduces the inmate's possibilities after release to integrate back into normal social and economic processes of society. A minimization of the above mentioned negative impact of imprisonment could be reached through reducing the length of prison sentences, by reducing prison population and by providing intensive re-socialization during the prison sentence. With support provided by the programme, activities towards reduction of the time spent in prison and reduction of overcrowding (i.e. electronic monitoring) will stimulate faster return of prisoner to society and integration into normal social and economic processes.

On 1 April 2013 very important amendment to Criminal Law came into force. It includes lowering sanctions stated in the sections. As a result, the statistics by 31 August 2013 showed, that imprisonment sites sent to courts 2`873 requests for reconsideration of sentence scope imposed to sentenced persons. Out of these requests in 1`053 cases court's adjudications were amended (meaning, sentences were lowered) and in 1`639 cases requests from imprisonment sites were rejected, but 232 sentenced persons were released. In addition, in a result of application of new Criminal Law shorter imprisonment sentences were applied to sentenced persons. Due to these changes and other causes (for example, previously made changes to the Criminal Law, decrease in number of inhabitants, educating of judges about kinds of alternative punishment) number of imprisoned persons continued to decrease in 2013. If in January 2013 there were 6`059 prisoners in imprisonment sites (4190 sentenced and 1869 detained), then in January 2014 there were 5`126 imprisoned persons. It is expected that this trend will continue also in future. Introduction of electronic supervision will decrease number of persons in imprisonment sites since new type of serving the sentence, while being member of the society, is created.



Decrease in number of imprisoned persons allowed to commence serious evaluation of opportunity to provide in Latvia size of living space per one prisoner stated by international standards. Simultaneously, decrease in number of imprisoned people shows that judges apply alternative sentences to imprisonment, thereby letting sentenced person to be involved in social and economic processes of the society while serving his or her sentence.

The programme will seek to introduce new forms of re-socialising measures like drug addiction treatment programs in prison. The content of re-socialization measures must be suitable for different inmate needs including vulnerable groups like addicts, as well as adequate training of staff is needed. Important precondition for effective re-socialization of inmates is condition of their health. Addicts or inmates with severe diseases are not able to participate effectively in the re-socialization process, thus a qualitative health care system (inc. treatment of addictions) in prison is a precondition for effective re-socialization of an inmate. Therefore, support for the vulnerable groups of inmates and addiction treatment will facilitate a faster and more successful return of inmates to normal social and economic processes, as well as training activities for prison staff will be provided.

### ***Scholarship and Research 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, public welfare, environment and natural resource conservation.

Investments in higher education and research sectors received within programme will be further used in entrepreneurial activities (new educated employees, new research activities) thus giving positive effect on development of Latvian economy.

A significant part of EU Funds in Latvia are invested in exact and natural sciences, thereby social sciences have received less attention and financing in the previous years. Programme intends to increase the number of research projects in social sciences.

Latvia faces the following challenges for investment in R&D:

- a small number of people employed in science and research (scientists aging, insufficient number of doctoral students);
- underdeveloped science and research infrastructure, under-equipped and outdated laboratories for technologically oriented projects;
- low potential for commercialisation of research results, poor cooperation between science and industry sectors;
- Latvian business structure is mainly composed of small and medium-sized enterprises which do not have the capacity to invest in R&D;
- moderately low high-tech sector.

Significant shift in terms of increased scientific funding accrued since the *Scientific Activities Law* came into force on 18 May 2005. It stated that the annual increase in funding for scientific activities shall not be less than 0.15 % of GDP. The increase in research financing was significantly affected by the opportunity for research institutions and businesses to qualify for EU funds and Financial Mechanism's funding.

State budget funding for scientific activity has so far been negligible compared to other EU Member States. The impact of the crisis (2008 and 2009) 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. Up to 2012 there is a little increase - respectively 0.66 % of GDP, which is still considerably less than in many other EU Member States. Receiving support from the foreign assistance funding, including the Financial Mechanism could appear one of the solutions for raising an efficiency and quality of the studies and research work.

In November 2010 the *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 for 1.5% of Latvian GDP by 2020.<sup>1</sup> Please see the trends of investments in the table below:

*Table 1 Investments in R&D in Latvia*

Total financing of R&D	2008	2009	2010	2011	2012	2015*	2020*
M EUR	141,6	85,2	109,6	141,4	145,4	240,7	471,1
% of GDP	0,61	0,46	0,60	0,70	0,66	1,0	1,5

\* Forecast of the MoES

Source: Central Statistical Bureau of Latvia

Latvian R&D policy<sup>2</sup> 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 between scientists and businessmen, in developing research infrastructure and support for joint studies and facilitating technology transfer. The action includes support for competence centers, 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* – aims to support innovative businesses for the development of new products and technologies, their deployment into production and an increase in the number of innovative enterprises. Within the procedure, businessmen will be offered grants for the deployment of new products and technologies into production, support for high value added investment projects, support for the development of innovative, environmentally friendly products and technologies and their corresponding deployment into production within a technology incubator.

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 Financial Mechanism (establishment of the Green Technology Incubator and OC for projects obtaining green new products and technologies for further usage into production).

The Scholarship and Research Programme by provision of increased funding in higher education and research sector will lead to sustainable development of the Latvian economy, thus reducing social and economic disparities in EEA.

<sup>1</sup> Source: Development of Science and Technology in Latvia, 2011 (MoES)

<sup>2</sup>Source: Development of Science and Technology in Latvia, 2011 (MoES)

## 2.2 Bilateral relations

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

### NBF

Within NBF the activity for 2013 was a conference in justice priority area. The MoJ in cooperation with the Saeima Legal Affairs Committee and the Norwegian Correctional Services Directorate on 30 September organized a seminar *"Abolition of Administrative Detention in Latvia: Benefits and New Opportunities"*.



The aim was to discuss the draft Administrative Violations Procedure Law developed by the Ministry of Justice prescribing significant reforms in the field of administrative violations, inter alia – exclusion of the administrative arrest from the system of the administrative sanctions. The MoJ has initiated a significant reform of the administrative sanctions system, within the framework of which it is envisaged to establish a new and efficient policy of administrative sanctions. It has been concluded in the process of the reform that it was inexpedient to amend the outdated Latvian Administrative Violations Code and hence the MoJ has developed a new procedural regulation in the field of administrative violations – the draft Administrative Violations Procedure Law. In order to stimulate individuals to become aware of their obligations prescribed by the legal norms and eliminate deficiencies in their action, the MoJ has set a goal to achieve the reasoned and commensurate procedure of application of sanctions in the future.

The FP in several fruitful consultations with the Royal Norwegian Embassy in Riga and the involved national level institutions has determined activities to be supported in 2014 and 2015 from NBF:

- several bilateral cultural activities in the context of Riga – The European Capital of Culture 2014. Detailed description of these activities has been concealed with the Embassy and approved by the donors as of 18 July 2013, including proposed changes reading two activities, which were accepted by the donors as of 25 February 2014;
- bilateral events during the Latvian Presidency of the Council of European Union in 2015. Detailed description of these activities has been concealed with the

Embassy and sent for approval to the FMO by the FP's letter No.16-6-01.1/1395 dated 6 March 2014.

By the end of reporting period 36% of NBF's financing has been absorbed, please find in the table below the proposed split of remaining financing:

*Table 2 NBF budget breakdown by priority measures*

Measure	Expenditure	% of total
Costs occurred during programme preparation phase 2011-2012 (inc. 2`479 euro - attendance of bilateral meetings/ conferences in 2013)	116`854	32%
International seminar in Justice and Home affairs in fall 2013	13`428*	4%
Activities within "Riga – the European Capital of Culture in 2014"	108`646**	30%
Activities within "Latvian presidency of the Council of the European Union 2015"	125`822	34%
Total:	364`750	100%

*\*initially planned 26`500 euro, the actual costs of conference 13`428 euro, savings transferred to Latvian presidency activities*

*\*\*as per agreement signed with the promoter on 20 March 2014*

### **Programme level bilateral funds**

Donor partnerships are planned in all programmes – both at programme and at project level, thus covering all programme areas selected for implementation in Latvia. Within the reporting period several instruments to strengthen bilateral relations were used. From the programme bilateral funds bilateral cooperation was fostered between POs and DPPs as well as between pre-defined project promoters and potential donor project partners. More detailed information about the measures implemented and progress achieved in strengthening bilateral relations by using programme level bilateral funds can be found in the Section 3.2. of this Report at the end of each programme's summary description.

Summary on donor partnership projects in Latvia please find in the Annex 6.2 of this Report.

### 3 Reporting on programmes

#### 3.1 Overview of programme status

##### *Progress in programmes' commencement*

During the reporting period all PAs have been signed and implementation has started. Please find below summary information about the programmes:

*Table 3 Summary of the programmes*

Title of programme	PO	PA signed	Grant, EUR	Grant rate, %	Co-financing, EUR	Co-financing rate, %
TAF	MoF	19.10.2011	768 000	100	0	0
Scholarship and Research Programme	MoES	12.04.2013	4 992 000	90	554 667	10
Innovation Programme	MoE	21.02.2013	11 328 000	90	1 258 667	10
Capacity-Building Programme	MoEPRD	21.02.2013	4 992 000	88,42	653 781	11,58
Correctional Services Reform Programme	MoJ	06.03.2013	13 056 000	85	2 304 000	15
Decent Work Programme	Innovation Norway	n/a	384 000	100	0	0
<b>Total</b>			<b>35 520 000</b>	<b>92%</b>	<b>4 771 115</b>	<b>8%</b>
<b>Grand Total</b>			<b>40 291 115</b>			

##### *OCs and pre-defined projects*

There are all together 8 pre-defined projects planned within Innovation Programme, Capacity-Building Programme and Correctional Services Reform Programme. 6 of them have already started in 2013, while “*Improving the standard of police detention centres*” under Correctional Services Reform Programme and “*Green technology incubator*” under Innovation Programme currently are being re-evaluated and will start in the 2<sup>nd</sup> quarter of 2014. All pre-defined projects will run until final deadline - 30 April 2016.

In 2013 it was planned to launch OCs in Scholarship and Research Programme and Innovation Programme. They were delayed. The OC for activity “*Support for introducing green technologies into production*” was opened in the 1<sup>st</sup> quarter 2014, while Innovation Programme’s SGS OCs and Scholarship and Research Programme will be announced only in the mid-2014. Please find below summary information about all OCs planned in Latvia:

*Table 4 Summary of OCs for all implementation period*

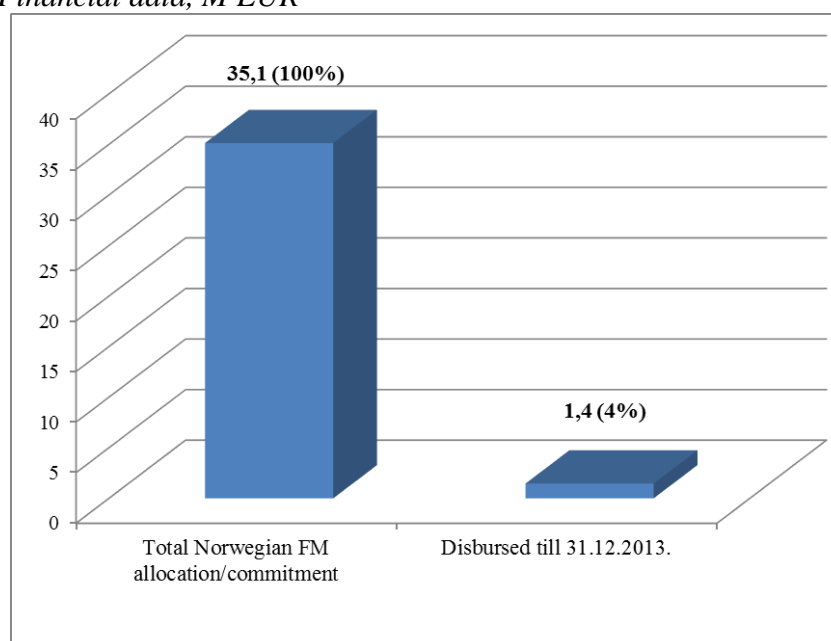
Programme	OC	Announcement	Status	
			Number of applications received	Approved projects
Innovation Programme	Support for Introducing Green Technologies into Production	21.01.2014-20.03.2014	13 (additionally could be received)	Evaluation phase

			project applications which are sent by post)	
	SGS Incubation measure (1 <sup>st</sup> OC)	2 <sup>nd</sup> quarter of 2014	-	
	SGS Incubation measure (2 <sup>nd</sup> OC)	4 <sup>rd</sup> quarter of 2014		
Scholarship and Research Programme	Scholarship (1 <sup>st</sup> OC)	2 <sup>nd</sup> quarter of 2014	-	
	Scholarship (2 <sup>nd</sup> OC)	1 <sup>st</sup> quarter of 2015		
	Research	2 <sup>nd</sup> quarter of 2014		

### ***Commitments and disbursements made***

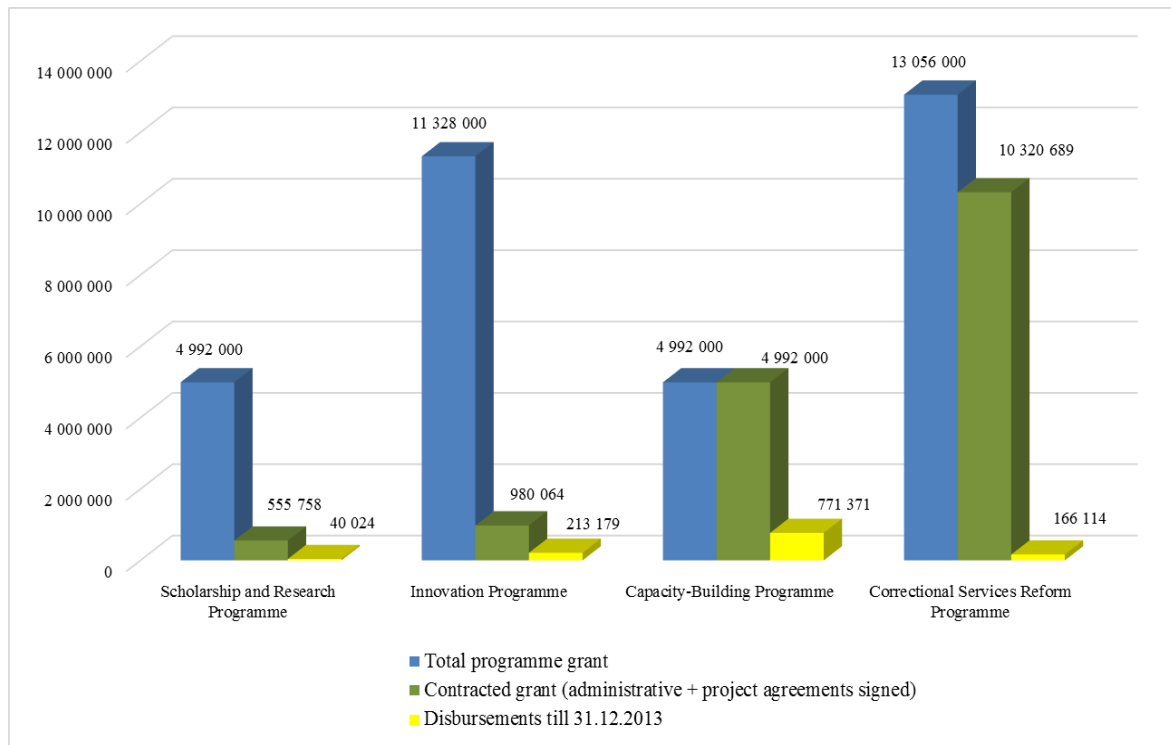
In total 35`136`000 euro (excluding Decent Work Programme) from the Financial Mechanism is available for implementation of programmes till 30 April 2017. Till 31 December 2013 disbursements in amount of 1`421`267 euro have been received, representing 4% of the total allocation.

*Chart 12 Financial data, M EUR*



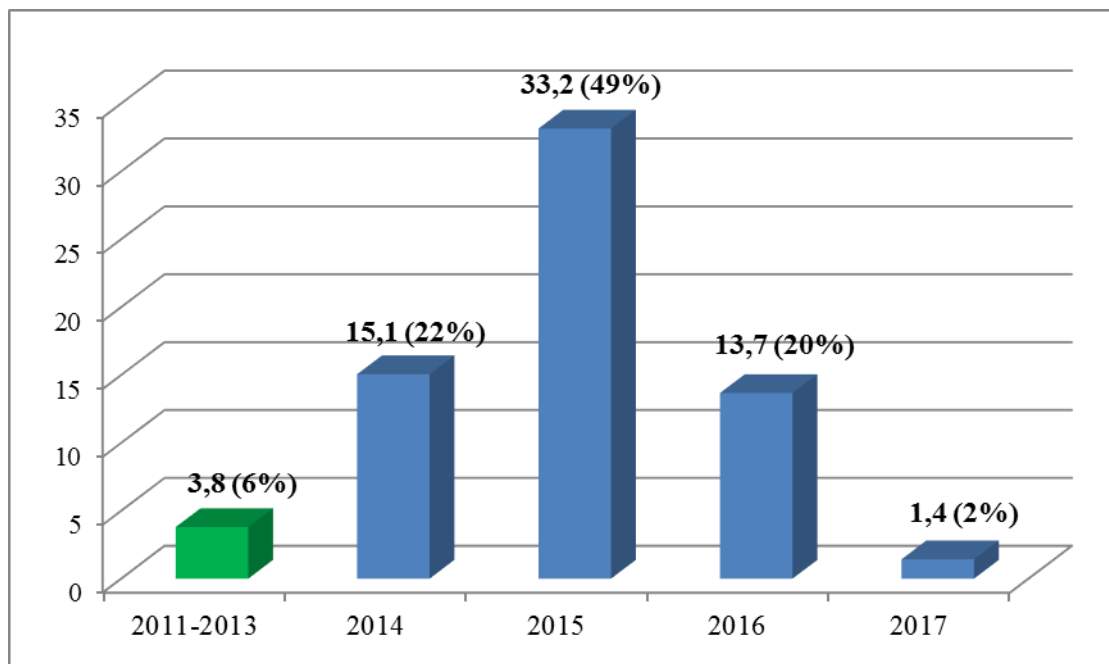
In 2013 mainly the programme administrative expenditures were reported, except for the Correctional Services Programme and Capacity-Building Programme where the first payments to the project promoters were paid.

*Chart 13 Financial data breakdown by programmes, EUR*



As can be seen in the chart below, till 2013 Latvia had received the disbursements in the total amount of 3`759`022 euro from both Financial Mechanisms. The major payments for the project promoters are planned in 2015. Please find below the CA's likely payment applications data submitted to the FMO on 20 February 2014:

*Chart 14 Forecast of likely payment applications of both Financial Mechanisms over the period 2014-2017, M EUR*



## 3.2 Individual programme summaries

### *Innovation programme*

In 2013 the main emphasis was on programme's preparation activities. Both Programme Regulations necessary for the implementation were approved by the CoM in 2013- the 1st regulating general programme's implementation conditions, pre-defined project and the SGS; the 2nd – the OC guidelines for the outcome „*Realization of the business opportunities of greening of the European economy*”. Programme has three main focus measures:

1. OC – funding for „green” technology development, implementation or replacement of the existing technology;
2. pre-defined project - establishment of Green Technology Incubator in Riga;
3. SGS – funding for incubation services.

**Launching of the OC** was delayed as the PO in parallel was also concentrated on issues related to launching of pre-defined project and the SGS (elaboration of Programme Regulations, evaluation process of the pre-defined project). The OC was finally launched on 21 January 2014 and was closed on 20 March 2014 with the result of 13 received applications for 4,7 M EUR (61% of available financing in the OC).

**Pre-defined project** has been nationally evaluated and approved on 26 September. The DPP's expert was involved in the project's evaluation. On 27 September the PO sent external appraisals of the pre-defined project and the SGS to the FMO according to pre-eligibility condition set in the PA. The final decision from the donor state was received on 6 February 2014. Due to substantial changes in implementation conditions, it will be necessary to change the Programme Regulations, to re-evaluate the pre-defined project at national level and only then to sign a project agreement.

**Launching of the SGS** was delayed as it is related to delays of launching of the pre-defined project as both measures are connected.

Due to delays none of outcome or output indicators have been achieved yet. Delays in implementation were related with following aspects:

- coordination of pre-defined project and the SGS with the FMO which has taken more time than it was expected initially;
- modifications in the OC and the PA in order to streamline conditions for business infrastructure support recipients among similar support programmes in Latvia, which had to be agreed with the FMO.

There were following modifications proposed in initial values of outcome indicators set in the PA:

- value of the indicator “*Amount of private sector investments made in green industry projects supported in EUR*” has been decreased from 14,4 M EUR to 9,4 M EUR due to increased aid intensity for the OC projects;

- value of the indicator “*Number of companies taken up in the incubator and supported under the SGS*” has been decreased from 40 to 15 companies due to smaller financing available for the SGS as part of it was allocated to the pre-defined project.

Programme in general addresses all cross-cutting issues, but directly makes impact on following:

- environmental aspect is directly related to programme's aim and outcome indicators and is determined as one of the main criteria for support within the OC and the SGS;



- sustainable economic development is tackled by considerations such as job creation, support to entrepreneurs, and creation of a favourable environment for provision of technology incubation services.

### **Use of funds for bilateral relations**

Very good cooperation with the DPP (Innovation Norway) has been achieved. All actual issues and challenges of programme's implementation has been addressed in cooperation with the DPP.

Representatives from the Industrial Development Corporation of Norway (SIVA) have taken part and helped in the preparation process of the pre-defined project. Legal bilateral entity - *Green Industry Innovation Center Ltd.* - was established together with University of Latvia, Riga Technical University and SIVA to act as a pre-defined project promoter. This combination of Latvian and Norwegian competencies will allow to provide the best possible advice to foster enterprise development as SIVA has wide and substantial experience in technology incubator operations, „green” technologies, innovation and technology transfer in Norway and different countries. Furthermore it has been agreed with the DPP and SIVA that Norwegian technology parks/incubators like PRONEO, Campus Kjeller could be included and could provide some additional expertise to the Technology Incubator and enterprises.

Programme's bilateral indicator has been exceeded already. The indicator's "*Number of persons involved in exchange visits between beneficiary states and donor states*" value has reached 63 (initially planned 30), of which 61 person iwas involved in matchmaking events and 2 - in exchange visits connected with the pre-defined project elaboration.

Norwegian experience would be very useful for OC's and SGS's projects as Norway has a world leading competence in energy and environment. Several Norwegian green companies are already active in the Baltics and they are successful in sectors like:

- renewable energy (wind, biogas, waste to energy, hydro, solar) and energy systems (energy trading, energy efficiency);
- water and waste management (sludge treatment, composting, recycling) and green production.

The LIDA organised two bilateral matchmaking events in 2013. The aim was to facilitate search for potential partners from donor state prior to the preparation of a project application within the OC or the SGS. The 1<sup>st</sup> part of the events included seminar about the programme's implementation conditions, requirements and opportunities, the DPP's presentations about Norway's green business development and presentations about Latvian–Norwegian collaboration in green industries. The 2<sup>nd</sup> part was related to individual *business to business* meetings. The 1<sup>st</sup> event was organised on 20 June in Oslo, where 14 companies from Latvia and 14 companies and scientific institutions from Norway participated and 21 business meeting was hold. The 2<sup>nd</sup> matchmaking event took place in October 2013 in Oslo, were 12 companies from Latvia and 21 companies and officials from Norway participated and 33 business meetings were held. Totally around 50 participants were invited. Companies which participated in the events represented following industries: renewable technologies, waste and water management, eco design, food technologies and energy efficiency.

### **Capacity-Building Programme**

All implementation rules of programme were included in the Programme Regulations approved by the CoM on 26 February 2013.

The programme basically consists of 4 pre-defined projects:

1. Smart governance and performance improvement of Latvian municipalities;
2. Implementation of regional policy actions in Latvia and elaboration of regional development measures;
3. Increasing territorial development planning capacities of planning regions and local governments of Latvia and elaboration of development planning documents;
4. Integration of specially protected nature territories of Latvia in spatial plans.

During 2013 mainly the elaboration, appraisal and approval of projects took place. Finally in mid-December project contracts were signed regarding implementation of the first 3 projects. Last project contract regarding implementation of the 4th project was signed in mid- January 2014.

All projects will contribute to outcome “*Enhanced capacity and quality of the services provided by public institutions, local and regional authorities through enhanced institutional capacity and human resources development*”, but as they have only started, it is too early to evaluate their impact.

The activities of projects are directly aimed at introduction good governance in all levels of state administration. Development of long-term territorial planning documents, including plans for development of Latvian coastal infrastructure, will be carried out taking into account the estimated climate change, landscape values, other environmental regulations, etc. as well as networks for local authority cooperation and service quality improvement will be established through exchange of experience and knowledge between Latvia and Norway.

### **Use of funds for bilateral relations**

The DPP plays a strategic role in programme implementation and actively participates in biannual CC meetings by sharing ideas and experience.

One of two bilateral indicators is achieved already - “Number of partnership agreements in the beneficiary public sector” (target – 4, achievement – 4). 3 of 4 partnership agreements with Norwegian partners were signed in December 2013, the 4<sup>th</sup> agreement – in January 2014. The following partners will take part in following actions in 4 projects accordingly:

1. Ministry of Local Governments and Regional Development of Norway, Oppland County (coordinator) and Aust-Agder County will conduct a research about support measures for distant and under-developed Norwegian regions, will visit Latvia to share experience on the entrepreneurship promotion activities planned and implemented in Norway and will organise visits of Latvian experts to Norwegian local municipalities to share experience on used solutions for local entrepreneurship and innovation development in Norway.
2. Ministry of Local Governments and Regional Development of Norway, Oppland County (coordinator), Aust-Agder County and Østfold County will visit Latvia to become familiar with the Latvian planning region experience in elaboration of development planning documents and share experience of the measures implemented in territorial development planning in Norway. The partners will host Latvian delegation to introduce it with the practice of local development planning and cooperation between Norwegian regional and local municipalities, as well as local communities. The partners will provide advisory support on the issues that are related to regional and local development planning.

3. Norwegian Association of Local and Regional Authorities will introduce with the methodology used in creation of Norwegian “learning-through-comparison” system, present good practice examples on the use of this system, acquisition of the system and provision of support to Latvian authorities during implementation of the system, as well as provide support in the research of the good practice experience of the Polish local governments.

4. Oppland County will provide comments and suggestions on methodology regarding integration of specially protected nature territories of Latvia in spatial plans. The partner will organize meetings with Norwegian planning and methodology specialists in order to share experience on Norwegian specially protected nature territories and planning system. The partner will visit Latvia two times - to become familiar with specially protected territories and planning system in Latvia and lastly to see how the methodology is implemented in the planning process.

### ***Correctional Services Programme***

The programme basically consists of 3 pre-defined projects:

1. Increasing the application of alternatives to imprisonment;
2. New unit at Olaine prison;
3. Improving the standard of police detention centres.

For **the 1<sup>st</sup> project** a contract was signed in June. Experience exchange visits to Estonia, the United Kingdom, Sweden and Denmark regarding topics of electronic surveillance and conditional release have taken place, as well as initial drafts of proposals for legislation on electronic supervision were elaborated. Also trainings and seminars “*Introduction to Work with Sex Offenders*”, “*Knowledge Refurbishment Training Course in Work with Sex Offenders*” for staff from the State Probation Service and the Latvian Prison Administration were held.

For the 1st project a contract was signed in June. Representatives of the State Probation Service and the Latvian Prison Administration visited to Estonia, the United Kingdom, Sweden and Denmark to exchange of experience regarding topics of electronic surveillance and conditional release. The gained experience is of high importance regarding the electronic surveillance introduction procedure. Researchers have been hired to conduct research on possibilities to introduce the electronic surveillance system and improvement of the resocialisation system. In result, the initial drafts of proposals for legislation on electronic supervision were elaborated.

The project promoter also:

- ensured participation of the State Probation Service and the Latvian Prison Administration staff in 5 international conferences and seminars regarding:
  - 1) effective methods working with sex offenders, to find out the causes of action organized by National Organization of the Treatment of Abusers in the United Kingdom;
  - 2) broad range of topics related to sex offenders, for example, the latest researches and evaluations, therapeutic intervention, enforcement of penalties and protection of interests of sex offenders organized by the Association for the Treatment of Sexual Abusers in the USA;
  - 3) trial the reduction of detention organized by the International Corrections and Prisons Association in the USA;

- 4) analysis of the role of probation in different countries and the education and training of European probation and prison staff organized by the Confederation of European Probation in the United Kingdom;
  - 5) electronic monitoring in Scotland organized by institutions involved in the probation system in the United Kingdom. Latvian representatives visited also the University of Glasgow, G4S Care and Justice Services, Scottish Government, and National Offender Management service in London. The aim of the seminar and visit was to introduce Latvian representatives with experience of United Kingdom on electronic monitoring and conditional release.
- organised 5 training of the State Probation Service and the Latvian Prison Administration staff and trainers on motivational interviewing skills;
  - organised 2 seminars on the topic “Introduction to Work with Sex Offenders” and 2 seminars on the topic “Knowledge Refurbishment Training Course in Work with Sex Offenders” for staff of State Probation Service and Latvian Prison Administration.

Based on the above-mentioned, 2 of 4 outcome indicators were partly achieved already while set target values will be reached at the end of implementation of the projects:

1. *“Increased application of alternatives to prison” - “Number of participants in training activities”* (target – 671, achievement – 98);
2. *“Improved competencies of both inmates and prison staff” - “Number of staff trained at prisons”* (target – 349, achievement – 56).

Also there is progress in achieving 1 of 3 output indicators under outcome *“Increased application of alternatives to prison” - “Number of training events (seminars and supervisions)”* (target – 65; achievement – 9). So far overall activities are implemented and indicators achieved according to the project contract.

For the **2<sup>nd</sup> project** a contract was signed in mid-September. The 1<sup>st</sup> activity *“Human Resource Capacity Development”* is ongoing: a methodology for in-depth evaluation of prisoners is being developed and the social skills mastering/renewal programme is being improved. The 2<sup>nd</sup> activity *“Construction”* is also ongoing: technical specifications project is developed, provisional cost estimates are made on the basis of building draft, an independent expert’s opinion is received; also draft agreement to be concluded with the constructor is developed. Furthermore, the PO has involved an expert from the Council of Europe who got acquainted with the draft Olaine prison’s unit for addicts and he issued an opinion on the technical specification’s compliance with standards and recommendations of the Council of Europe regarding prisons, as well as compliance with best prison maintenance practices. It is too early to evaluate progress and influence towards achievement of the proposed outcomes and outputs at this stage.

At the same time the PO has assessed risks and asked donorstate (several times – during previous Annual Meeting on 29 June 2013, with letters dated 28 February 2013. and 3 February 2014, during prison’s site visit on 4 April 2014) for a term extension beyond April 2016 in order to provide sufficient time for implementation of the 3<sup>rd</sup> activity *“Resocialization activities”*. It cannot be implemented in parallel with the 2<sup>nd</sup> activity, since the current prison infrastructure cannot provide premises that allow for an implementation of all substantial components of the 3<sup>rd</sup> activity as well as isolation of inmates from an access to drugs. Therefore it is essential to maintain

the planned sequence of activities and to ensure an appropriate timing for implementation of activities. If period of eligibility of expenditures will not be prolonged, indicators linked with the outcome “Increased focus on vulnerable groups in prison” will most probably not be reached at all.

Evaluation of **the 3<sup>rd</sup> project** took more time than expected. It was interrupted due to time-consuming negotiations on partnership terms with the Council of Europe. In the result the initial project size had to be reduced since there is a significant delay in launching the project and due to set time limitations for the implementation of the project. The re-evaluation of the adjusted project proposal was carried out in the CC meeting in March 2014 and a decision on positive appraisal of the project has been adopted. Due to changes in the project proposal necessary amendments to the PA will be developed and submitted to the FMO. The project promoter plans to sign the project contract by latest 2014 to be able to fully implement the re-sized project until final deadline - 30 April 2016.

### **Use of funds for bilateral relations**

Most of the activities were implemented in collaboration with the DPPs and donor project partners thereby progress in achieving several of bilateral indicators is visible under all bilateral outcomes:

1. “*Extent of cooperation*”
  - “*Number of partnership agreements in the beneficiary public sector*” (target – 5, achievement – 4);
  - “*Strengthened institutions*” (target – 6, achievement – 6);
  - “*Number of activities involving both institutions in beneficiary and donor states*” (target – 14, achievement – 9);
2. “*Shared results*”
  - “*Number of study visits to Norway*” (target – 5, achievement – 3);
  - “*Number of joint (bilateral) articles or interviews published*” (target – 5, achievement – 1);
3. “*Knowledge and mutual understanding*”
  - “*Number of events held by the PO or the DPP*” (target – 4; achievement – 1);
4. “*Wider effects*”
  - “*Number of international networks where project and programme partners participate together*” (target – 4; achievement – 4);
  - “*Number of professional networks between institutions in beneficiary and donor states established and operational*” (target – 5; achievement – 4).

Set target values will be reached till the end of implementation of the projects.

During the CC meeting in September 2013 Bilateral Fund Activity Plan till 30 April 2017 was approved. It includes clear timetable and brief content of 4 thematic conferences proposed by PO, a joint activity and a workshop suggested by the DPPs and two bilateral visits planned.

### **Scholarship and Research 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.

Programme Regulation for preparatory visits under the bilateral fund were approved by the CoM on 22 October. Major deviation from plan is related with launching of

OCs in both components, because both OCs` guidelines are still in the process of elaboration at the MoES. Approval of them is planned only in the 2<sup>nd</sup> quarter of 2014. The achievement of programme`s outcomes and outputs will start only at the end of 2014 when the projects will be ongoing.

### **Use of funds for bilateral relations**

The OC for preparatory visits was launched on 11 November with deadline for applicants on 22 December for the available programme`s co-financing - 0,1 M EUR. Higher education institutions and research institutions were able to apply for funding of preparatory visits in order to start planning of joint cooperation with donor states partners and development of project applications which can be submitted in upcoming Research and Scholarships OCs.

On 14 and 25 November the SEDA organized informative seminars about OCs application procedures (number of participants - 91). The PO informed potential project promoters that partner search database maintained by the Research Council of Norway can be used for search of Norwegian project partners.

In spite of delays in launching the programme, interest from applicants was significant, in particular in Research component. Finally 41 out of 44 project applications were approved (37 under Research component; 4 –Scholarships). As only 52% from the available funding was contracted, the PO plans to launch additional OC for preparatory visits before the 2<sup>nd</sup> Scholarships OC in 2015.

The PO and the State Education Development Agency in 2013 participated and gained valuable experience about programme`s implementation issues in the following *Complimentary measures*:

1. on 5-7 June in Bergen the Norwegian Centre for International Cooperation in Higher Education (SIU) (also the DPP) organized experience sharing conference for all POs of Scholarships programmes, where they shared their experience in launching of OCs, also specific budget issues and programme risks (methodology, identification and management of risks) were discussed;
2. on 15-16 October in Liechtenstein the National Agency for International Education Affairs (AIBA) organized conference for all POs of Scholarships programmes, where they shared their experience about current implementation progress and future plans. Several important issues were discussed, for example, submission of programme annual report, their format and content, main challenges and risks, donor states` expectations regarding good governance in the monitoring and management of programmes;
3. on 19-20 November in Warsaw the Research Council of Norway held a meeting with participation of all POs of Research programmes, where good practice examples on evaluation of research project proposals were shared and some solutions discussed were integrated into the draft OC guidelines for Research component in Latvia.

### ***Decent Work Programme***

Implementation of all 4 projects approved after the OC started in January with 2 years implementation period, ending on 31 December 2014. Due to savings after the OC (3481 euro) Innovation Norway got the approval from the FMO and on 25 July 2013 invited project promoters who were actively implementing projects in the frame of the programme to apply for additional grant support. On 15 January 2014 first extra allocation was approved for “*Enhanced Understanding of Decent Work for teachers*” implemented by Latvian Trade Union of Education and Science Employees (2081 euro). On 26 February 2014 second extra allocation was approved for “*Social*

*dialogue and decent work in Latvia*” for all remaining financing (1400 euro) implemented by Latvian Builders Trade Union.

According to conclusions provided by the Innovation Norway, the Norwegian partners identify Latvia as a state with dominant role of tripartite cooperation and during the last few years, the tripartite cooperation has been active in finding new solutions with consensus within tax policies, increased employment, unemployment and social regulations. The projects on the programme foster the strong commitment for cooperation between government, employers and employees as well as increase the tripartite dialogue between them.

Main results achieved per each project during 2013 are as follows:

**1. To strengthen Trade Union capacity in tripartite dialogue**

The project started with research – evaluation of the Free Trade Union Confederations’ of Latvia (LBAS) as governments’ social partners past performance, LBAS current efficiency and evaluation of National Tripartite Cooperation Council (NTCC) and the role of social partners now and in the future. On 23 May LBAS, employees and government representatives met in the conference “*Dialogue between social partners and the government: myths and reality*” organized by LBAS. Conference was devoted to assessment of the current operation of NTCC. It was the first time when all 3 parties came together to evaluate and discuss the present and future of tripartite social dialogue in Latvia and it lead to positive aspects to proceed discussions how to improve work of NTCC.

**2. Enhanced understanding of Decent Work for teachers**

A contract was signed for carrying out the research on teachers needs in employment stability and decent working conditions. An international conference was organized on 9 October 2013 with the aim to enhance understanding of Decent Work for teachers for encouraging development of work environment. Acontest “*Teacher Friendly School 2013*” was carried out and 3 winners in 3 categories (kindergartens, primary schools, secondary schools) were presented in awarding ceremony during the conference.



From 16 September till 4 October 228 deputies of the Saeima, local municipalities and officials of the MoES became trained and educated in the teachers' everyday routine within the campaign "School Day", thus promoting tripartite dialogue between the parties and increasing understanding within officials of decision-making authorities as well as to stimulate qualitative discussion on main needs of development of teacher work environment.

**3. Improvement of sectorial social dialogue in Latvia**

2 reports were elaborated. The 1<sup>st</sup> report provides an overview on situation of social dialogue in Latvia and suggests proposals for development of sectorial social dialogue in the future. According to the conclusions and recommendations of this report

Employers' Confederation of Latvia in collaboration with LBAS will continue work for development of sectorial social dialogue in Latvia. The other report provides an overview on the legal framework of social dialogue in national and international laws. Both reports allowed to carry out further project activities, including working with associations of the priority sectors. In the result 2 cooperation agreements with sectorial associations were concluded for improvement of sectorial social dialogue as well as guidelines on strengthening of the sectorial social dialogue in Latvia were elaborated.

#### **4. Social dialogue and decent work in Latvia**

During the first period of project implementation, the project activities were based on improvement of communication between the parties of social dialogue. In order to enhance social dialogue and cooperation with employees and government agencies for decent work issues on 10 November the collective agreement was signed between Latvian Builders Trade union and Building Materials Producers Association "*SKONTO PREFAB*" Ltd. Proposals for new Law for the construction sector were made. The regional seminar was organized on 18 September which provided the opportunity for government, employers and employees to discuss the problems in the construction sector of the region. As a result, possible scenarios were discussed and the ways to improve the situation in the construction sector in the region were suggested. Brochures on education opportunities in construction sector were prepared thereby increasing the public awareness in this sector.



## **4 Management and implementation**

### **4.1 Management and control systems**

#### **National level**

According to the Paragraph 1 and 2 of the Article 4.8 of the Regulation, on 8 June 2012 the FP has submitted to the FMO the detailed description of the national MCS accompanied by the report and opinion after compliance assessment issued by the AA. As a result of the compliance assessment audit, the AA provided a number of recommendations to address identified deficiencies and summarized them all in the Deficiencies Elimination Plan attached to the compliance assessment audit report. On 18 June 2013, after the follow up of the implementation of recommendations of the MCS compliance assessment, the AA submitted information on the implementation of before mentioned recommendations, confirming that all the recommendations stated in the Deficiencies Elimination Plan are implemented and MCS complies with the Regulations and generally accepted accounting principles. In addition, the AA assessed whether the national MCS was established taking into account proportionality for the efficient achievement of the Financial Mechanisms' objectives and confirmed that the MCS requirements in relation to the effectiveness of achieving the objectives of the programmes are proportionate.

In accordance with the CoM Regulations No.502 *"Procedures for Ensuring the Functions of the Audit Authority in the Management of the Financial Mechanisms for the Period of 2009-2014"*, the FP on 20 September 2013 submitted to the AA the updated description of the MCS. The updates include changes pursuant to implementation of recommendations from the compliance assessment audit – changes made in / newly approved FP's and CA's procedures and updated information received from POs. More detailed information on approved procedures and changes are included in the letter No.14-13/3538 submitted to the FMO by the AA on 18 June 2013 together with the *Summary of follow up of the implementation of recommendations of the MCS compliance assessment*.

Assessment of the AA regarding changes in the MCS has been performed during follow-up of recommendations from the compliance assessment audit and is included in the AAR for period from 01.07.2012 – 30.06.2013 approved on 28 December 2013. The AA opinion included in the AAR states that MCS functioned effectively and assures that IFRs prepared during the above mentioned period are correct and underlying transactions are legal and regular.

#### **Programme level**

According to the Paragraph 2 and 3 of the Article 4.8 of the Regulation all POs 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 accompanied with the Audit and Assurance Reports on compliance assessment. The AA confirms that POs' MCSs comply with the Regulation and generally accepted audit principles however some improvements are needed to address deficiencies identified during the compliance assessment.

Current status of fulfilment of requirements set in the Paragraph 2 of the Article 4.8 of the Regulation regarding submission of the descriptions of the POs' MCSs to the FMO, the AA opinion and identified necessary improvements are summarized in the table below.

Table 5 Necessary improvements of the POs` MCSs

PO/ Programme	The AA opinion	Submission to the FMO
MoEPRD and SRDA/ Capacity- Building Programme	10 December 2013 <b>The MCS in all the material respects has been established in accordance with the assessment criteria.</b> There were no recommendations provided.	7 January 2014
MoE/ Innovation Programme	6 January 2014 <b>The MCS in all the material respects has been established in accordance with the assessment criteria.</b> Without affecting the opinion, the AA identified deficiencies related to separation of functions and development of procedures and guidance within the LIDA. The AA has provided recommendations for the improvement of the system, and the MoE and the LIDA have developed the action plan for implementation of the recommendations.	22 January 2014
MoES/ Scholarship and Research Programme	21 February 2014 <b>The MCS in all the material respects has been established in accordance with the assessment criteria.</b> Without affecting the opinion, the AA identified that two Programme Regulations (Research and Scholarships) are not yet approved by the CoM as well as the MoES has not yet developed internal procedures on implementation of the programme, inc. cooperation process with Implementing Agency, monitoring process of Agency`s functions, process of reporting on progress and irregularities. The AA issued respective recommendations to improve the system. All recommendations are to be implemented latest by June 2014.	28 February 2014
MoJ and MoI/ Correctional Services Reform Programme	31 January 2014 <b>The MCS in all the material respects has been established in accordance with the assessment criteria.</b> Without affecting the opinion, the AA identified following deficiencies: <ul style="list-style-type: none"> <li>- Programme Regulations are not yet approved by the CoM;</li> <li>- the MoJ has not yet fully elaborated internal procedures for projects on-the-spot and for ex-ante verifications as well as for preparation of programme reports. The MoI have not yet elaborated internal procedure on functions of the MoI as national programme partner.</li> <li>- there is no internal procedure on activities in case of irregularities, as well as responsible ministry for final decision on irregularity.</li> <li>- the MoJ has not yet fully elaborated procedure on revision and summarizing of identified risks and mitigation actions before preparation of annual reports.</li> </ul> The AA has issued recommendations to improve the system till latest the end of 3rd quarter of 2014.	14 March 2014

### Risk management at national level

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

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

Risk management includes the following steps:

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

To obtain a systematic, integrative and evaluative view of the risk management system a Risk Register was created. It contains information also on risks related to the governance of Financial Mechanisms. Detailed description of risks and mitigation actions relevant to current implementation phase of the Financial Mechanisms are detailed in the Annex 6.4 of this Report.

The most relevant risk which, if not mitigated, can impede achievement of the objectives of the Financial Mechanisms is time constraints for some programmes. The FP monitors the implementation progress and relevance of this risk for each programme individually on regular basis and will introduce relevant actions accordingly.

Corruption risk is assessed to be unlikely at the current implementation stage. As already explained in the FP's letter sent to the FMO on 11 September 2013, there have not been corruption related cases attributable to the Financial Mechanisms so far to assess this risk to be higher. Also the MCSs in the management of the Financial Mechanisms ensures strong internal control in all levels, separation of duties and multiple levels of decision making to minimise the risk of any decision not being objective and transparent. Nevertheless as the FP has only limited mandate for prevention of corruption risk, it collaborates with the Corruption Prevention and Combating Bureau of Latvia on any particular case related to corruption and conflict of interest issues

Related with the fraud and corruption risk, the FP draws its attention to the risk of infringement and errors of procurement procedures in implementation of the Financial Mechanisms. Starting from mid-2013 ex-ante verifications of procurement documentation and procedures were performed by the PMB and also by the POs, consulting with the PMB in order to minimise the risk of errors in the initial stage of procurement process and to avoid irregularities in future.

In order to improve overall risk management process, the MoF plans to organise procurement in 2014 to ensure training for the representatives of the MoF, including representatives from the FP, about risk management process in management of investment funds (EU Structural Funds and the Financial Mechanisms). Training will focus 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 result of the training it is planned that a Risk Management Strategy will be developed based on deep risk assessment and consequently the existing Risk Register will be updated. During the assessment, risks also related to the Financial Mechanisms, including corruption and fraud risks, will be analysed and after elaboration of the Risk Register, the assessment of the institutions involved in the implementation of the Financial Mechanisms will be carried out in accordance with the risk factors listed in the Register.

### **Risk management at programme level**

The FP has evaluated programme risks based on regular monitoring of programme implementation and PO's provided information on risks. Long negotiation process

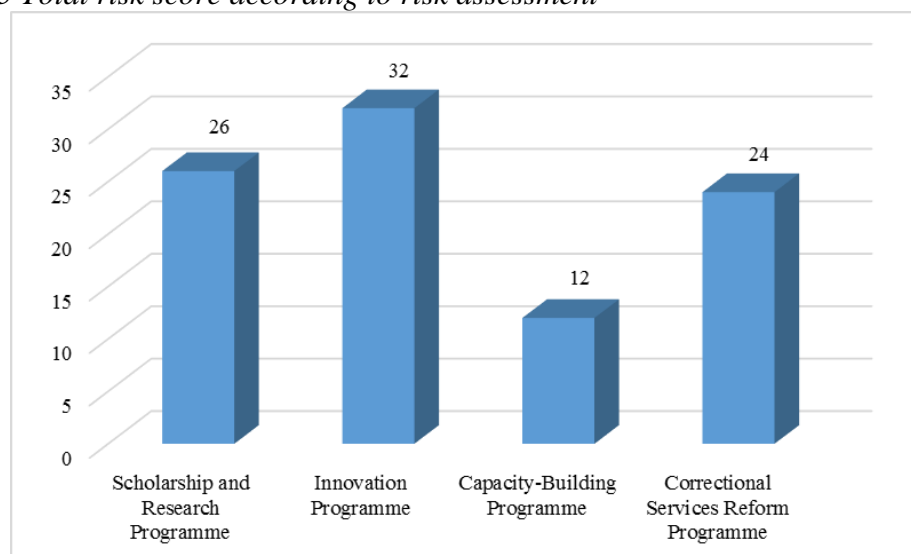
between the EC and donorstate on commencement of the FMs has direct and negative impacted on real start of programmes' implementation as the MoUs were signed with delay of almost two years. Nearly all pre-defined projects were approved by the end of 2013, thereby living time for projects' implementation only a bit more than 2 years, thus generating risk to accomplish all pre-defined project's activities and envisaged indicators by the end of maximal implementation deadline.

The FP has identified two horizontal risks at programme level: 1) partial acquisition of Programme bilateral fund and 2) risk of double financing. During 2013 almost none of POs had fully used financing of Programme bilateral fund (savings arose in all organised match making events). Therefore in 2014 the FP in close cooperation with the POs will organise regular meetings (biannually Communication group, the meetings with Norwegian Embassy – the first was held on 6 February 2014) to discuss on possible new actions and share best practices in order to foster bilateral activities. Regarding risk of double financing – POs and Implementing Agencies shall set up internal procedures for control of double financing, ensuring that control is made within process of granting of financing, desk checks of the reports as well as during on-the-spot checks. This procedure shall be set in the PMCS.

According to risk assessment (Annex 6.5 of this Report) it can be concluded that there are 3 programmes with highest risk possibility:

- Scholarship and Research Programme;
- Innovation Programme;
- Correctional Services Reform Programme.

*Chart 15 Total risk score according to risk assessment*



### ***Scholarship and Research Programme***

Although the longer maximal project implementation deadline for Scholarship projects (September 2016) and Research projects (April 2017), the programme is a high risk programme due to significant capacity problems of the PO. The launching of the OCs in both programme measures is delayed as the PO had difficulties with elaboration of the Programme Regulations regarding the OCs. As none of the OC's Guidelines were elaborated in 2013, the launching of the OCs is postponed to spring 2014. Accordingly the FP sent official request to the PO for improvement of staff capacity of the MoES in order to ensure timely execution of PO's functions.

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

More detailed risk assessment at national and programme level please see in the Annex 6.4 and Annex 6.5 of this Report.

### ***Innovation Programme***

Due to long negotiation procedure between the PO and the FMO regarding implementation conditions of the pre-defined project “Technology Incubator” and the SGS by the end of 2013 none of these activities has been started, therefore there is high risk not to accomplish all activities as planned. Accordingly based on the FP’s request the PO has submitted a detailed action plan on implementation of the programme, listing planned activities per each month, their implementation deadlines and responsible persons for them in order to strictly control the implementation process.

### ***Correctional Services Reform Programme***

The PP was submitted to the FMO in December 2011. This was the first PP from Latvia, nevertheless it was approved by donor as nearby the last one – only one year later, on 12 November 2012. Having regard to the late approval and lengthy evaluation of 3 pre-defined projects, their approval and implementation has been considerably delayed. Accordingly risk of not accomplishment of activities is identified in all 3 pre-defined projects, but the highest risk is in the pre-defined project “New unit at Olaine Prison”. The PO recognized this risk and accordingly asked donor (several times – during previous Annual Meeting on 29 June 2013, with letters dated 28 February 2013 and 3 February 2014, as well as during prison’s site visit on 4 April 2014) a request for extension of the pre-defined project’s implementation deadline in order to provide sufficient time for implementation of the 3<sup>rd</sup> activity “Resocialization activities”.

## **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 their involvement in the monitoring of programmes by officially commenting the Programme Regulations with regards to state aid issues.

Within reporting period the Department provided opinion on the Innovation Programme Regulations regarding the OC guidelines. Due to new state aid regulation all decisions on approval of OC's project applications shall be taken by 30 June 2014 as it is regional aid programme. Taking into account that substantial amendments shall be made (due to modifications in the PA accepted on 17 February 2014) within the Programme Regulations regarding the SGS's OC, the state aid for this SGS will be provided already according to new state aid regulations, as it will not be possible to launch the OC, to evaluate projects and to take final approval decisions by the end of June 2014.

On 29 November 2013 the European Commission has 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 - GBER) [OJ L 214, 09/08/2008]. The new GBER will enter into force on 1 July 2014. The EU Member States can continue to apply existing schemes only until 30 June 2014, provided they had previously submitted the summary information sheets required for implementing schemes under the GBER to the Commission and the scheme is not substantially amended.

In accordance with the GBER's Article 44, Paragraph 3, at the end of the period of validity, any aid schemes exempted under GBER shall remain exempted during an adjustment period of six months, with the exception of regional aid schemes. The exemption of regional aid schemes shall expire at the date of expiry of the approved *Regional Aid Maps* and given that the current regional aid map for Latvia has been extended until 30 June 2014, the regional aid measures may be continued with existing conditions until 30 June 2014.

### **EU legislation – Public procurement**

In previous Financial Mechanism's period all detected irregularities were as infringement of public procurement procedures within projects (except one which was fraud case). In this Financial Mechanism's period the PMB is involved in order to minimize irregularity cases related to public procurement. The obligations of the PMB related to the Financial Mechanisms are set in the Law as well as in the MCS. The PMB ensures following functions:

- performs selective risk based ex-ante checks of procurement documentation within programmes and projects;
- performs selective risk based ex-ante checks of procedure of public procurement within programmes and projects;
- provides consultations and opinion on public procurement issues related to projects for institutions involved in the Financial Mechanism's management.

More detailed procedure of selective ex-ante procurement checks is determined the CoM Regulations on the Financial Mechanisms' Management. They determine that ex-ante procurement checks shall be carried out by:

- the PMB at a programme level (management, bilateral fund and complementary actions);
- the PMB and the PO/Implementing Agency at a project level.

The PMB ensures following selective ex-ante procurement checks:

- within pre-defined project for procurements falling under the Public Procurement Law;
- where the planned amount of the public construction contract exceeds 711`400 euro;
- where the planned amount of the public contract on supply of goods or services exceeds 213`400 euro.

The PO/Implementing Agency within the calendar year shall carry out selective ex-ante checks for at least 40% of procurements under threshold set in the Public Procurement Law:

- procurements starting from 4`000 euro for contracts on supply of goods or services;
- procurements starting from 14`000 euro for public construction contracts.

The PMB in the 2<sup>nd</sup> half of 2013 has carried out first ex-ante checks of procedure of public procurement within pre-defined projects and within programme management. Results of ex-ante checks are described in the Section 4.4 of this Report.

In order to ensure ex-ante checks the PMB has elaborated:

- Procedure how the PMB carries out ex-ante procurement in projects and verifies ex-ante procurement checks carried out by the PO/Implementing Agencies;
- Methodology of ex-ante checks to be carried out by the POs/Implementing Agencies for projects' procurement documentation and procedure of public procurement.

Whereas in order to exchange experience and solve questions related to public procurement ex-ante checks, the representatives of the FP, the POs/Implementing Agencies, the AA and the CA are included in the composition of a specific work group “*On performance of ex-ante procurement checks, solution of established problems and updating ex-ante procurement checks methodology*”. The meetings of the work group are held quarterly.

### **National legislation**

The main legal act in Latvia which regulates Financial Mechanisms' implementation, management and monitoring is the Law (is in force since 24 February 2012). It sets the implementation system and functions of institutions involved in the Financial Mechanisms' management in Latvia. In order to describe in detail implementation procedures and functions of institutions involved in the management of the Financial Mechanisms following CoM Regulations are in place:

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

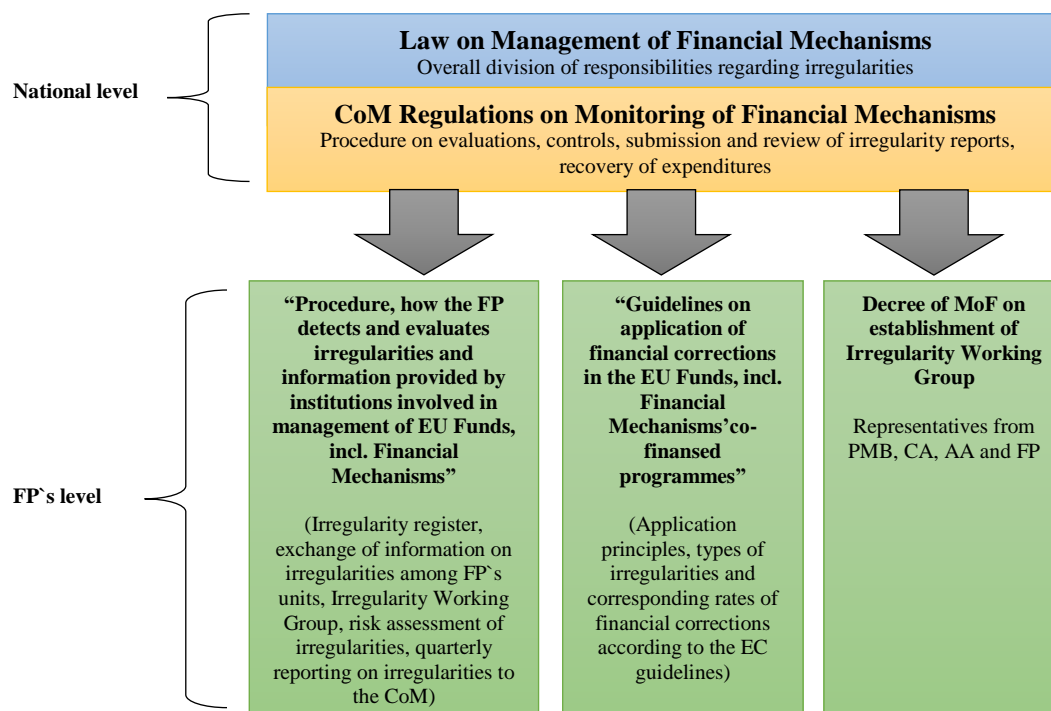
In respect to challenges which Latvia is facing, the FP would like to highlight the fact that each PO has to elaborate the Programme Regulations, incl. the OC guidelines and project evaluation criteria. According to national legislation all conditions to the 3<sup>rd</sup> persons (in this case - project promoters) shall be issued as legal acts at least approved by the CoM. By the end of March 2014 all Programme Regulations are adopted, except:

1. Scholarships OC guidelines (to be adopted in the 2<sup>nd</sup> quarter 2014);
2. Research OC guidelines (to be adopted in the 2<sup>nd</sup> quarter 2014);
3. Amendments in the Innovation Programme Regulations regarding pre-defined project and SGS due to substantial amendments in the PA (to be adopted in the 2<sup>nd</sup> quarter 2014);
4. Correctional Services Reform Programme Regulations regarding implementation of programme and pre-defined projects (to be adopted in the 2<sup>nd</sup> quarter 2014).



### 4.3 Irregularities

The legal basis for detection, evaluation and reporting on irregularities and, if necessary, application of financial corrections and making reimbursements is the Regulation (the Chapter 11 and 12) as well as 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 Financial Mechanism shall report to the FP on irregularities immediately or quarterly in accordance with cases determined in the Regulation.

If the institution has detected an irregularity, it investigates the irregularity case, takes a decision on applicable financial correction and submits the irregularity report to the FP. If the irregularity case is complicated and needs further consideration, including on financial correction which may be appropriate, the FP can propose additional discussion on irregularity case at the Irregularity Working Group.

Irregularities which do not need to be reported to the FP by submitting irregularity reports according to the Article 11.7.1 of Regulation shall be included in the irregularity summary report and provided to the FP on quarterly basis. The FP keeps a register on each detected irregularity. The register is also used for quarterly reporting to the CoM about implementation progress of EU funds, including the Financial Mechanism.

In 2013 the CA reported to the FP a negligible amount of irregularities – 1`999 euro (including 1`780 euro of Financial Mechanism co-financing) which were detected in administrative expenditures of the Innovation Programme and Capacity-Building Programme. These unduly spent administrative expenditures were excluded from respective Interim Financial Reports.

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

1. detailed check of Interim Financial Reports and projects' progress reports and certification of incurred expenditure respectively by the CA and the PO;
2. periodical monitoring visits and on-the-spot checks made by the CA, the AA and POs in order to check the financial progress versus physical progress;
3. regular update of register of all irregularity cases made by the FP and the expertise of the Irregularity Working Group when necessary;
4. publicly available mechanism for submission of complaints and alerts on irregularities;
5. selective ex-ante procurement checks by the PMB to prevent infringements of procurement rules;
6. as the Financial Mechanism 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 Financial Mechanism.

#### 4.4 Audit, monitoring, review and evaluation

The PMB carried out 7 selective **ex-ante procurement checks** and the results were positive:

1. 2 checks in Correctional Services Reform Programme's pre-defined project "*Increasing the application of alternatives to imprisonment*";
2. 5 checks of the programme management expenditures: Correctional Services Reform Programme (1 check), Innovation Programme (3 checks) and Scholarship and Research Programme (1 check).

**On-spot check** of the supporting documentation and the supplied inventory was carried out in the pre-defined project "Increasing the application of alternatives to imprisonment" of Correctional Services Reform Programme. The PO concluded that the supporting documentation corresponds with the copies submitted to the PO and indicated to the project promoter that insurance for the inventory shall be assured. As the insurance costs were not planned in the detailed budget, the project promoter revised the budget to ensure that insurance policy is purchased.

Overview of the work carried out by the AA is provided in the AAR for period from 01.07.2012. – 30.06.2013. approved and submitted to the FMO on 28 December 2013.

The FP also plans to contract an external expert to carry out the overall Final Evaluation of the Financial Mechanisms at the end of implementation period, in 2017.

Overview of various system audits and on-spot checks planned for the next reporting period please find attached in the Annex 6.3 of this Report.

## 4.5 Information and publicity

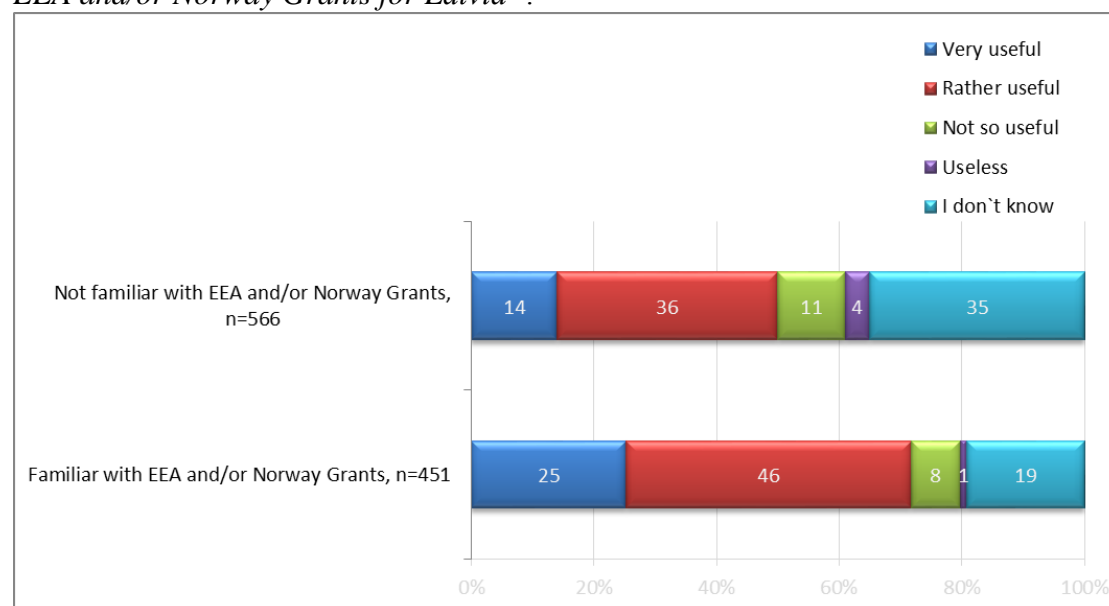
According to the Communication Strategy 2009-2017 Communication Management Group, which is responsible for provision and coordination of the Financial Mechanisms communication process, has gathered two times in 2013 to discuss programmes` opening events, informative seminars, common communication and publicity requirements as well as to exchange experience for further events. POs have re-revised the Programme Communication Plans as well as have published information about their programmes on their websites.

**Communication Strategy** defines years 2013 - 2015 as programmes` implementation stage. While commencing this stage different activities were implemented, such as provision of information for mass media (about acquisition process and results), organization of informative seminars and conferences and maintenance of websites.

The FP organised **Public Opinion Poll** for potential project promoters and society in order to determine current situation and aims in communication and information field. The goal of the survey was to find out how well population of Latvia was informed about the Financial Mechanisms. In May inhabitants of Latvia in the age group from 18 till 74 were interviewed electronically in two languages (national and Russian). In total 1017 completed questionnaires were received.

According to the results 45% of Latvian inhabitants, who use internet, in the age group from 18 till 74, are aware of EEA grants and/or Norway grants. The level of awareness is very superficial – 71% from 451 respondents, who are aware of one or both Financial Mechanisms, know only the title of the Financial Mechanism. The same refers to areas of support, the activities in the last year and programmes of 2009-2014 period, - Latvian inhabitants – internet users, mostly have heard something, but can't remember the exact information. Both personal level of awareness and Latvian society's level of awareness were evaluated as being low. Despite superficial awareness, respondents positively evaluated financial assistance to Latvia provided by Financial Mechanisms.

*Chart 16 Data from Public Opinion Poll "How useful do you believe is the support of EEA and/or Norway Grants for Latvia"?*



Latvian inhabitants, who use internet, mostly have received information about Financial Mechanisms on news sites, television and specialised web pages on the internet. They would prefer the same information channels for receiving information in the future. Positively, respondents were interested in receiving information about the Grants. The awareness of Financial Mechanisms can be characterised as comparatively wide, but without deep knowledge.

We have to take into account that survey was carried out only in the internet and at the time when most of the programmes were recently initiated. However certain trends had shown up and the FP plans to repeat similar survey at the end of the Financial Mechanism's implementation period.

*Chart 17 Visitors of [www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv). per month*



In 2013 the FP has distributed information (more than 30 press releases) in the mass media, social media (twitter.com) and specific list of other recipients, has updated and published the information (press releases, short news, photos and videos) on the websites of the Grants [www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv). PO's have also informed media about their activities as well as published information about topical issues on their websites, as well as website [www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv).

There were approximately 1700 unique visitors of these webpages per month. Half of them are returning visitors. 90% of visitors are from Latvian domain. Average stay on page was 3 minutes. (Source: Google Analytics).

To continue the programme implementation stage in 2014 the plan has been set to evaluate media publications by using the **Media Monitoring** (the FP's initiative starting from January 2014), to implement various events for potential project promoters and to develop social media communication. In 2014 the FP in cooperation with POs and the Norwegian Embassy in Riga plans to organise informative mid-term event for popularization of the Financial Mechanisms. As in 2014 Riga has become the European Capital of Culture, several events supported by the NBF have been included in official culture program, among them – the **Publicity Day for EEA and Norway Grants on 17 May 2014**. This will take place in Esplanade, one of the biggest parks of Riga and also the central place for outdoor festivities of Riga 2014 program. The event, informal in nature and aided by audio-visual and interactive information, is scheduled for afternoon, when guests of the park and Riga 2014 events will be invited to study the contributions of the EEA and Norway Grants to Latvian

culture, environment, education and other areas, as well as to get more information about upcoming project opportunities.

The following POs have launched their programmes during 2013:

1. The **opening conference of the Capacity-building Programme** was held on 25 April. The participants of the event found out more about the stated objectives of the programme, results to be achieved and the possibilities of cooperation between Latvia and Norway. In the panel discussions experts from Latvia and Norway took part, thus, providing insight into the planned activities on experience exchange (in total 96 participants).
2. The **opening event of the Scholarship and Research Programme** was held on 26 April. At the event there was a possibility to find out about the planned support within the programme for the students, teaching staff of all levels of higher education, for the employees of higher educational institutions, as well as about the support for research (in total 127 participants, also guests from donor states).

LIDA in collaboration with the DPP Innovation Norway on 20 June (represented 14 companies from Latvia and 14 companies from Norway) and on 16 October (represented 12 companies from Latvia and 21 institution from Norway) in Oslo organised two bilateral events which included search of Norwegian partners (companies or scientific institutions) for Latvian companies prior to the preparation of project application. Participants were informed about the programme's opportunities in Latvia and were provided with individual meetings to initiate negotiations on further cooperation.

In order to inform target groups about the Financial Mechanisms, programme descriptions etc. PO's published and distributed dedicated **informative materials** – leaflets and souvenirs. Regional informative seminars, conferences and partnership making events were organized for potential project applicants in order to provide information about the availability of the Financial Mechanisms, drafting of project applications and approval procedures of projects, and to ensure conditions for finding a suitable match for the project.

The MoJ made a [dedicated website](#) for the Correctional Services Reform Programme.

The following POs have organized informative seminars for potential project promoters during 2013:

1. The SEDA organised informative seminars on 14 and 25 November on the drafting of project proposals in the preparatory visits' activity under the **Scholarships and Research Programme**. Seminars provided detailed information about the programme and conditions for application. Seminars were well attended (in total 91 participants) and contributed to the rather high number of submitted projects.

2. LIDA within the **Innovation Programme** organised two informative seminars during 2013.



The first seminar was organised on 16 April, with assistance of “Green Technology Incubator” in order to inform about the Incubator and support options under SGS. Around 100 participants were also introduced to meaning of bilateral relations within the programme. The second seminar took place on 1 August. Its goal was to continue the promotion of the programme, focusing on procurement of new equipment under open call procedure.

## 4.6 Work plan

Work plan for the period January-December 2014 is presented in the table below:

*Table 6 Work plan*

Scope	Task	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
Management of FM	1. The POs elaborate and ensure the approval of Programme Regulations in the CoM regarding implementation of programme and OC	LV08	LV06		
	2. The FP submits to the FMO the description of MCS of respective PO and their functions	LV05 LV08			
Implementation of Programmes	1. Re-evaluation of pre-defined projects	LV06 LV08	LV06		
	2. Signing pre-defined project contracts	LV07	LV06 LV08		
	3. Launch of OCs	LV06	LV05		
	4. Launch of SGSs		LV06 (1 <sup>st</sup> )	LV06 (2 <sup>nd</sup> )	
	5. Signing OCs project contracts			LV06	
Bilateral relations	1.Experience exchange visits: POs/ Implementing Agencies/ project promoters to donorstate; project donor partners and experts to Latvia	LV08		LV06	LV08
	3. Bilateral conferences or events		LV07 LV08		LV08
	4. Implementation of Complementary Actions			LV07	LV07 LV08
	5. The POs organize CC meetings	LV08	LV06 LV07	LV08	LV06 LV07
Information and publicity	1. The FP and all PO`s provide: - communication 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 etc.; - audio-visual materials (photo, video, info-graphics etc.) for media, society and potential and actual project promoters.	x	x	x	x
	2. Several PO`s organise informative seminars, conferences where potential	LV06 LV07	LV05 LV06	LV05	



	project promoters can gain useful information.				
	4. Several POs create and distribute promotion materials and souvenirs.		LV05 LV06		
	5. The FP in cooperation with POs and the Norwegian Embassy in Riga organises one of 3 major information activities (mid-term event) on the implementation of the Financial Mechanisms (in accordance with the Article 4.3.4 (b) of the Regulations).		17 <sup>th</sup> of May		
	6. The FP provides ongoing media monitoring.	x	x	x	x

## ***5. Summary listing of issues and recommendations***

Within the reporting period all PAs were signed by the donor state and **implementation of all programmes was ongoing**. The POs had to invest their workload into elaboration/approval at the CoM of Programme Regulations, setting procedures for implementation of a particular programme, evaluation/implementation of pre-defined projects and OC guidelines for projects to be approved within a particular programme. As well as on elaboration/approval of PMCS in order to submit them to the donor state in due time according to terms set by the Regulation. According to PAs, in all programmes where OC's were envisaged, they had to be launched in 2013, at least the 1<sup>st</sup> OCs. Nevertheless, due to several reasons, which could differ from programme to programme, depending on their specifics, most of OCs were postponed to year 2014.

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

For example, in 2013 two bilateral matchmaking events were organised in Oslo in June and October within Innovation Programme. The aim was to facilitate search for potential partners from donor state prior to preparation of an application. The 1<sup>st</sup> part of these events included seminar about the programme's implementation conditions, requirements and opportunities, the DPP's presentations about Norway's green business development and presentations about Latvian–Norwegian collaboration in green industries. The 2<sup>nd</sup> - was related to individual business to business meetings.

In total 26 companies from Latvia, 35 companies/officials and scientific institutions from Norway participated and 54 business meetings were held. Companies which participated represented following industries: renewable technologies, waste and water management, eco-design, food technologies and energy efficiency.

As well as the FP would like to note **best practise examples** in 2013 at the overall management level of the Financial Mechanism: the FMO's provided trainings in the Beneficiary States (in Latvia on 5 March programme and project level reporting, results based management and bilateral relations; and on 3-4 December about project level information and DoRIS reporting system); the FMO's provided training in reporting and in results and risk management for all 3 Baltic States simultaneously in Vilnius on 11-12 December); regular workshops at the FMO for the FPs, the CAs, Communication personnel). Such training is a good and valuable practice to share experience and solve issues together with the FMO and other Beneficiary States.

The following **outstanding issues** remain to be accomplished after March 2014:

- the activities for 2015 financed from the NBF to be approved by the donor state;
- launch of OCs in Scholarships and Research Programme, and SGS in Innovation Programme;
- signing of remaining pre-defined project agreements: 1 in Correctional Services Reform Programme and 1 in Innovation Programme;
- Programme Regulations (including, OC guidelines) need to be adopted by the CoM (1 Regulation for Scholarships, 1 – Research and 1 – Innovation Programme (amendments of existing Regulations for Incubator and SGS)).

The FP has evaluated **risks** at national and programme level. At national level were identified 5 main risks: 1) insufficient time for implementation of projects in set deadline (especially in Scholarship and Research Programme, Correctional Services Reform Programme and Innovation Programme); 2) insufficient involvement of the donor partners in bilateral projects; 3) corruption risk and conflicts of interest; 4) infringement and errors in procurement procedure; 5) POs' and implementing agencies' administrative capacity difficulties. 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 it is planned to organise procurement in 2014 to ensure training for the representatives of the MoF about risk management process in management of investment funds (EU Structural Funds and the Financial Mechanisms). Training will focus 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 it is planned that a Risk Management Strategy will be developed based on deep risk assessment and consequently the existing Risk Register will be updated.

## 6. ATTACHMENTS TO THE STRATEGIC REPORT

### Annex 6.1 Applications received, selected and contracted for each programme

#### Applications for LV07 Capacity-Building and Institutional Cooperation between Latvian and Norwegian Public Institutions, Local and Regional Authorities

	2013			Total		
Calls for proposals	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Predefined in MoU		3	3		3	3
<b>Total</b>		<b>3</b>	<b>3</b>		<b>3</b>	<b>3</b>

Predefined project measures:

- Capacity-building
- Education and training
- Information and awareness raising

#### Applications for LV08 Reform of the Latvian Correctional services and police Detention Centres

	2013			Total		
Calls for proposals	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Predefined in MoU		2	2		2	2
<b>Total</b>		<b>2</b>	<b>2</b>		<b>2</b>	<b>2</b>

Predefined project measures:

- Capacity-building
- Infrastructure development and provision of equipment
- Provision of services

## Annex 6.2 Donor partnership projects in Latvia

### LV07 - Capacity-Building and Institutional Cooperation between Latvian and Norwegian Public Institutions, Local and Regional Authorities

Project id	Project Name	Pre-defined project	Donor state	Donor project partner	Type of organisation
LV07-0001	Implementation of regional policy actions in Latvia and elaboration of regional development measures	Yes	Norway	Aust-Agder County	Regional or local authority
			Norway	Ministry of Local Governments and Regional Development of Norway	Government ministry
			Norway	Oppland County	Regional or local authority
LV07-0002	Increasing territorial development planning capacities of planning regions and local governments of Latvia and elaboration of development planning documents	Yes	Norway	Aust-Agder County	Regional or local authority
			Norway	Ministry of Local Governments and Regional Development of Norway	Government ministry
			Norway	Oppland County	Regional or local authority
			Norway	Ostfold County	Regional or local authority
LV07-0003	Integration of specially protected nature territories of Latvia in spatial plans	Yes	Norway	Oppland County	Regional or local authority
LV07-0004	Smart governance and performance improvement of Latvian municipalities	Yes	Norway	Norwegian Association of Local and Regional Authorities	Other
<b>Projects with donor project partners 4 out of 4 (100.0%)</b>			<b>Planned grant amount for projects with donor project partners € 4,475,434</b> (100% from contracted grant amount for projects)		

### LV08 - Reform of the Latvian Correctional services and police Detention Centres

Project id	Project Name	Pre-defined project	Donor state	Donor project partner	Type of organisation
LV08-0001	Increasing the application of alternatives to imprisonment (incl. possible pilot project on electronic surveillance)	Yes	Norway	Ila Detention and Security Prison	National agency
			Norway	Oslo Probation Office	Regional or local authority
LV08-0002	Establishment of a new prison block in	Yes	Norway	Correctional Service of	University, college or other teaching

	Olaine prison, including construction and training of staff			Norway Staff Academy	institution, research institute or think-tank
			Norway	Oslo Prison	National agency
<b>Projects with donor project partners 2 out of 2 (100.0%)</b>			<b>Planned grant amount for projects with donor project partners € 9,288,564</b> (100% from contracted grant amount for projects)		

### **Latvia - Summary**

Project grant amount total	€ 37,133,887
Number of projects	155
Number of projects with donor project partner	32
Proportion of projects with donor project partners	20,65%
Number of programmes *	7
EEA and Norway grants committed	€ 67,094,750

*\* Excluding Technical assistance programmes and PA22*

### Annex 6.3 Audit activities plan for 2014

No	Responsible Authority	Audit period	Financial Mechanism	Audited system/ programme/ project
<b>System audits at the level of the Beneficiary State according to the Article 4.6, Paragraph 1(a), of the Regulations</b>				
1.	Audit Authority	I and II quarter	EEA/NOR	System audit of of the FP and the CA
<b>System audits at the level of the programme according to the Article 4.6, Paragraph 1(b), of the Regulations</b>				
2.	Audit Authority	III and IV quarter	NOR	System audit of Innovation Programme (MoE and LIDA)
3.	Audit Authority	IV quarter	NOR	System audit of Capacity-Building Programme (MoEPRD and SRDA)
<b>Projects audits according to the Article 4.6, Paragraph 1(c), of the Regulations</b>				
4.	Audit Authority	III quarter	EEA/NOR	Projects which expenditures will be reported in the programmes' IFR#2-3
<b>Internal audits at the level of the Beneficiary State and the programme</b>				
5.	Internal audit department of MoF	IV quarter	EEA/NOR	Assessment of administration of the Financial Mechanisms at the FP, the CA and the PMB
<b>Verification prior approval of project application</b>				
6.	LIDA	II and IV quarter	NOR	Visits to Innovation Programme's OC (each project) and SGS (at random basis) projects' implementation places before LIDA takes a decision on approval of a project application in order to verify that project's activities were not started before LIDA's decision.
<b>On-spot checks</b>				
7.	MoJ	I and IV quarter	NOR	Initial inspections at Correctional Services Reform Programme's project implementation sites and preliminary inspections for the procurements of all 3 pre-defined projects: 3 verifications in 2 pre-defined projects and 4 verifications in one pre-defined project.
8.	MoEPRD /SRDA	II and IV quarter	NOR	Verification of implementation progress of Capacity-Building Programme's 4 pre-defined projects, compliance of expenditures with projects' objectives, procurement rules, etc.

9.	LIDA	IV quarter	NOR	Monitoring of Innovation Programme`s pre-defined project`s (Incubator) progress report and supporting documentation
10.	MoES	IV quarter	NOR	Verification of implementation progress of Scholarship and Research Programme`s 3 research projects, compliance of expenditures with projects` objectives, procurement rules, etc.



#### Annex 6.4 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	Insufficient time for implementation of projects in donors' set deadline (30.04.2016) for Correctional Services Reform Programme and Innovation Programme	3	3	6	Regular monitoring in close cooperation with POs is performed in order to monitor progress on projects implementation and to determine any obstacles that can cause more delays and to take proper actions if necessary	FP plans to evaluate necessity for project implementation deadline extension individually for each case	According to necessity	EU Funds Monitoring Department
2	Bilateral objective	Insufficient involvement of the donor partners in bilateral projects	1	1	2	1) Representatives of the FP regularly participate in the CC meetings, during which one topic usually refers to bilateral relations. 2) Representatives of the FP regularly participate in Financial Mechanisms Communication Group that involves the FP, all POs and Norwegian Embassy. Besides publicity events also there are the bilateral cooperation issues discussed. 3) The FP closely communicates with Norwegian Embassy in Riga in order to solve issues related to bilateral cooperation (previous meeting on 6 February, 2014). 4) The FP regularly in close cooperation with POs monitors the progress made towards achievement of the bilateral indicators of the programmes.	1) Continued FP's participation in the CC meetings 2) Continued FP's participation in the Communication Group's meetings 3) Continued communication with the Norwegian Embassy 4) Analyses of programmes' bilateral relations and its indicators carried out within elaboration of the Strategic Report	1) Bi-annually 2) Bi-annually 3) On regular basis 4) On 31 March, 2014 by submitting Strategic Report to the donors	EU Funds Monitoring Department

3	Operational issues	Corruption risk and conflicts of interest	1	2	3	<p>1)Persons involved in governance of Financial Mechanisms are required to acknowledge lack of conflict of interest.</p> <p>2)“Complaint Mechanism” is implemented and publicised on the national Grants website which provides channel for the confidential reporting of corrupt practices.</p> <p>3)MCS system is implemented at national and programme level, describing duties for involved institutions and persons in management of Financial Mechanisms, thus ensuring clear definition of roles and responsibilities. Opinion of the AA states that MCS is compliant with the Regulation and works effectively.</p> <p>4) the FP communicates with the Corruption Prevention and Combating Bureau on any particular case related to corruption and conflict of interest issues related to Financial Mechanisms.</p>	Risk management strategy for EU funds and EEA/Norway grants is planned to be developed consequently revising and updating the Risk Register after performing deep assessment of risks including corruption risk and risk of the conflict of interest. Additional mitigation actions, if necessary, will be introduced after assessment.	31 December 2014	EU Funds Management System Department
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4	Operational issues	Infringement and error of procurement procedures in Financial Mechanism's projects	2	2	4	<p>1) To reduce the risk of procurement appeals the POs, Implementing agencies involved in programmes management and the PMB perform ex-ante verifications of procurement documentation and procurement process, this requirements is set in the Chapter 2.6 of MCS and in the CoM Regulations on the implementation of the Financial Mechanisms. The PMB ensures selective, risk based ex-ante checks of procurement documentation and procedure within projects and provide consultations and opinions on public procurement issues to POs and Implementing Agencies, who's responsibility also is to perform selective ex-ante verifications, excluding procurements already verified by the PMB. The PMB carried out the 1<sup>st</sup> ex-ante verifications in the 2<sup>nd</sup> half of 2013.</p> <p>2) Meetings of Management Group on Procurements Issues are organised involving representatives from the PMB, the FP and POs. On the agenda usually are urgent topics related to procurements in EU Funds and also in management of Financial Mechanisms and topics related to procedures of ex-ante verifications of procurements.</p>	<p>1) To continue ex-ante verifications in 2014 by PMB, POs and Implementing agencies.</p> <p>2) To participate in the meetings of Management Group on Procurements Issues.</p>	<p>1) On regular basis</p> <p>2) Quarterly</p>	EU Funds Monitoring Department/ EU Funds Management System Department
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5	Operational issues	Governance issues - staff turnover, communication issues, poor competence in POs' institutions	2	2	4	1) The FP monitors the fulfilment of the POs' functions. If there are capacity problems, the FP proposes to strengthen PO's capacity by finding responsible staff and using programme management costs. The FP has sent official request to the MoC – the PO of the Culture Heritage programme (in 2012) and to the MoES – the PO of the Scholarship and Research Programme (in 2013) for improvement of staff capacity in order to ensure timely execution of PO's functions. 2) In order to ensure work quality for persons involved in execution of PO's functions, the FP ensures close cooperation with POs, provides consultation and organises trainings, if necessary (for example, in cooperation with the FMO trainings in Riga on 5 March and 3-4 December 2013 and in Vilnius for all three Baltic states on 11-12 December 2013).	Continued regular monitoring of POs' functions and provided consultations and trainings, if necessary	On regular basis	EU Funds Monitoring Department
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[1] The risks should be categorised 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 6.5 Risk assessment at the programme level

### Programme Horizontal Risks

Programme	Type of objective [1]	Description of risk	Likelihood [2]	Consequence [3]	Risk Score [4]	Mitigation actions done/ planned
All programmes	<i>Bilateral outcomes</i>	Partial acquisition of Programme bilateral fund results in untapped potential of strengthening bilateral relations	3	2	5	The risk is due to the fact that resources of Programme Bilateral Fund can't be reallocated to other programme activities. In 2013 almost none of POs have fully used financing of Programme Bilateral Fund (savings arose in all organised match making events). In order to have better acquisition of available financing regular meetings are planned (Communication Group, meetings with Norwegian Embassy) to discuss with POs on possible new actions and to share best practices to foster bilateral activities.
All programmes	<i>Operational issues</i>	Risk of double financing	1	3	4	POs and Implementing Agencies shall set up internal procedures for control of a double financing, ensuring that checks on the double financing are verified, when granting financing, during the desk checks of the reports as well as during on-the-spot checks. According to national legislation all institutions involved in the Foreign Financial Assistance shall regularly update list of approved projects. These lists are used for verification of double financing. According to national legislation once per year PO shall submit to the FP the confirmation that approved projects within the programme have not received double financing.

### Programme Specific Risks

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]
Scholarship and Research Programme	<i>Cohesion (Programme) outcomes</i>	Insufficient number of students and Higher education institutions staff applied for grants	2	3	5	Information seminars and consultations for potential project applicants / Higher education institutions will be organised by the Implementing Agency after the launch of the OCs.	26
		Insufficient number of qualitative projects	2	4	6	Information/publicity activities are carried out in order to inform potential project promoters about programme and OCs. Informative seminars and consultations for potential project promoters will be organised by the Implementing Agency after launch of OCs. In addition the PO considers launching the 2 <sup>nd</sup> OC under the preparatory visits activity before launching the 2 <sup>nd</sup> call under Scholarships activity	
	<i>Operational issues</i>	Insufficient staff capacity to ensure appropriate programme's management and timely implementation of planned activities	3	3	6	The FP has sent official request to the MoES – the PO for improvement of staff capacity in order to ensure timely execution of PO's functions. The FP in 2014 will continue monitoring the PO's functions and capacity issues and request further actions, if necessary.	
Innovation Programme	<i>Cohesion (Programme) outcomes</i>	Insufficient capacity for project promoters to attract co-financing for implementation of projects	2	4	6	During the project evaluation process capacity of project's promoters to attract co-financing will be assessed.	32

		Insufficient time for implementation of pre-defined project and SGS's projects	2	4	6	The FP has requested the PO to submit an Action Plan for the programme implementation measures in 2014. PO has submitted the Action Plan in 25 February, 2014. The FP has elaborated its monitoring activities and will closely monitor implementation progress of the programme. The PO shall ensure all actions to launch pre-defined project and SGS in time and shall ensure regular monitoring of projects after their approval.	
		Insufficient number of qualitative projects	2	3	5	The Implementation Agency in cooperation with the PO has organised seminars to promote the idea of Green Industry Innovation and to alert potential project promoters. Scientific institution and Technology Incubator are involved in promotion of the programme.	
	<i>Operational issues</i>	Insufficient staff capacity to ensure evaluation of OCs project applications in due time, till 30 June 2014	3	3	6	Risk of staff capacity problems is due to the fact that evaluation term for OC's projects overlaps with other OCs of EU Funds in order to comply with term stated in state aid regulations (deadline for decisions for approval of projects is 30 June 2014). The FP has requested responsible PO to submit detailed action plan on implementation of the programme listing planned activities per each month, implementation deadlines and responsible persons in order to control implementation process and to ensure timely selection of projects. The FP has advised the PO to attract new staff using programme management costs, including savings from 2012-2013.	
Capacity-Building Programme	<i>Operational issues</i>	Low participation of target groups	1	2	3	The PO periodically ensures promotional events with the participation of programme's target groups in order to collect information, their expectations and to ensure added value for all involved parties.	12
Correctional Services Reform Programme	<i>Cohesion (Programme) outcomes</i>	Political risk - timely ratification of decisions in the Saeima	3	4	7	This risk affects all 3 pre-defined projects. The Parliament is informed about the initiatives and urgent issues in the pre-defined projects. But still there is a risk that there could be delays in time planned for approval by the Saeima. The PO will continue working with the Saeima to ensure timely review of draft regulations.	24

		Insufficient time for implementation of pre-defined projects	4	4	8	Request for extension of the pre-defined project's (Olaines prison) implementation deadline has been submitted to donors, because there is a high risk associated with implementation of the 3 <sup>rd</sup> activity ( <i>resocialization activities</i> ) of the project which is also linked with achievement of 5 of the programme's indicators.	
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[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 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 (including *Programme Horizontal risks*).



## Annex 6.6 Annual Report under the Technical Assistance Agreement

For the period 28.04.2011-31.12.2013

### 1. OVERVIEW OF MAIN ACTIVITIES

National entities	A brief summary of the main activities carried out
1.National Focal Point	<p>Developed and improved national level description of MCS (in line with requirements set out in the Article 4.8. of the Regulation);</p> <p>Developed and submitted to the AA descriptions of Programme level MCS (in line with Article 4.8. of the Regulation). Description of MCSs for 2 Programmes have been submitted to FMO in 2013;</p> <p>Developed and approved FP's guidelines on verifications on project implementation sights and FP's guidelines on requirements and verifications of payment requests;</p> <p>Regular risk monitoring in the framework of risk management group of the MoF;</p> <p>Drawn up and adopted the Law on the Management of the Financial Mechanisms and Horizontal Rules of COM for implementation of Financial Mechanisms. Provided opinions on implementation and application of the law and rules mentioned. Provided opinions on procedures and rules for implementation of programmes and projects.</p> <p>Overall management and monitoring of Financial Mechanisms.</p> <p>The FP participated in FMO's organized: seminar for all programme operators, the CAs and the AAs on issues related to the implementation of Financial Mechanisms, seminar on corruption risks, seminar on the contribution of Financial Mechanisms to extended European Union, the Grants communication seminar about information and publicity requirements, risk management and good governance, workshop "Reporting, programme results and risk management", communication workshop, seminar "Managing Risk for Results. Fighting Corruption", trainings on project level Information and DoRIS Reporting System and other seminars.</p> <p>NFP organized the Annual Meetings in Riga in 2011, 2012 and 2013 and participated biannually in Cooperation Committees of all programmes.</p> <p>On 26 March 2012 the FP received confirmation of approved Communication Strategy for the period of 2009-2017. The Grants launching event was held on 3 October 2012 in Riga during "Norwegian Days 2012" and was jointly organized by Norwegian Embassy in Riga and the FP. Created websites <a href="http://www.eeagrants.lv">www.eeagrants.lv</a> and <a href="http://www.norwaygrants.lv">www.norwaygrants.lv</a>. 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 (press releases and short news) on the websites of the Financial Mechanisms <a href="http://www.eeagrants.lv">www.eeagrants.lv</a> and <a href="http://www.norwaygrants.lv">www.norwaygrants.lv</a>. The</p>

	<p>FP organised Public Opinion Poll for potential project promoters and society in order to determine current situation and aims in communication and information field. The goal of the survey was to find out how well population of Latvia was informed about the Financial Mechanisms.</p> <p>IFRs #1 - #7 were submitted to the FMO and all of them approved.</p>
2.Certifying Authority	<p>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 the projects' interim financial reports, analysis of the auditors' reports, preparation and submission of the forecast of likely payment applications to the FMO.</p>
3.Audit Authority	<p>Elaborated methodology of the AA for carrying out audits and for preparation of Single Audit Strategy and Annual Audit Reports – in total 5 AA's internal procedures prepared and approved by the Head of the AA.</p> <p>Carried out MCS at national level compliance assessment audit and issued report and opinion confirming that the implementation system of the Beneficiary State complies with Regulation and generally accepted accounting principles, as well assessed the proportionality of the MCSs' requirements in relation to the effectiveness of achieving the objectives of the FMs – report and opinion have been submitted to the FMO on 8 June 2012 by the FP.</p> <p>Project audit was carried out for the TAF (including NBF). The scope of the audit consisted from the expenditure included in IFR#1 and #2. The audit report was prepared on 23 November 2012.</p> <p>Presented to the FMO Single Audit Strategy covering the method to be used, the sampling method for audits on projects and the indicative planning of audits to ensure that audits are spread evenly throughout the programming period. The Single Audit Strategy covers both Financial Mechanisms and all the programmes (except Fund for Decent Work and Tripartite Dialogue). The Single Audit Strategy has been submitted to the FMO on 28 May 2013.</p> <p>Carried out MCS at programme level compliance assessment audits and issued reports and opinions confirming that the implementation system of the programme complies with Regulation and generally accepted accounting principles, as well assessed the proportionality of the MCSs' requirements in relation to the effectiveness of achieving the objectives of the programme. Effectiveness of already functioning elements of the MCS has been also checked during the compliance assessment audits. As well as the AA performed substantive testing of expenditures declared in programmes' IFR#1 during the compliance assessment audits. Reports and opinions have been signed for the programme:</p> <ul style="list-style-type: none"> <li>a. LV07 on 10.12.2013.</li> <li>b. LV06 on 06.01.2014.</li> <li>c. LV08 on 31.01.2014.</li> </ul>

	Issued and submitted to the FMO annual audit reports and opinions on the basis of the controls and audits that have been carried out, as to whether the MCS functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular. Report and opinion regarding period 28.04.2011-30.06.2012 has been submitted on 19 December 2012 and report and opinion regarding period 01.07.2012-30.06.2013 - on 28 December 2013.
4.Other entities (Procurement Monitoring Bureau)	The PMB developed a plan of ex-ante checks of procurements. In 2013, the PMB carried out 15 ex-ante checks of procurements within programmes and has prepared 17 conclusions: 4 conclusions with objections, 12 positive conclusions and 1 negative conclusion.
5.Entity responsible for irregularity reporting	3 regular reports were submitted to the FMO through DoRIS system – for the 2 <sup>nd</sup> quarter 2013 on 23 September 2013, for the 3 <sup>rd</sup> - 2 December 2013 and for the 4 <sup>th</sup> - 28 February 2014.

## 2. BUDGET OVERVIEW in EUR

Actual expenditure till 31.12.2013	Planned expenditure till 31.12.2013	Unused amount in EUR, %
438 030	503 810	86,94
Disbursements till 31.12.2013	Total TA budget	Absorption rate in %
360 088	1 459 000	24,68
Planned expenditure for 2014 - forecast of 30.09.2013	Forecast of 31.03.2014	Justification for changes, if any
331 260	331 260	0

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

N/A

## 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 FP, Deputy State Secretary of the MoF	Main responsible authority of the FP	3%	N
Diāna Rancāne	Head of EU Funds Monitoring	Overall management and monitoring of	10%	N

	Department (EUFMD)	FM's programmes in Latvia		
Diāna Atkauke <i>from May 2012 till now</i>	EUFMD, Head of EEA, Norwegian and Swiss Projects Monitoring Division (ENSPMD)	Overall management and monitoring of Financial Mechanisms	80%	Y
Guntra Želve <i>from May 2012 till now</i>	EUFMD, Deputy Head of ENSPMD	Overall management and monitoring of Financial Mechanisms (including programme LV06)	80%	Y
Diāna Bremšmite <i>from August 2011 till July 2012</i> Gita Tenisone <i>from July 2012 till now</i>	EUFMD, Senior Expert of ENSPMD	Management and monitoring of TAF (including NBF). Planning and monitoring of TAF budget (monthly/yearly)	50%	Y
Linda Mežviete <i>from March 2012 till June 2013</i> Signe Silīte <i>from July 2013 till now</i>	EUFMD, Chief Specialist of ENSPMD	Management and monitoring of FM's programmes LV03, LV04 and LV08	100%	Y
Inga Vajevska <i>from May 2012 till now</i>	EUFMD, Chief Specialist of ENSPMD	Management and monitoring of FM's programmes LV02, LV07 and LV05	100%	Y
Solveiga Ozola	Director of EU funds Management System Department (EUFMSD)	Supervision of department activities	5%	N
Sanita Auniņa	Deputy director of EUFMSD	Supervision of department activities	5%	N
Zane Jansone <i>from June 2011 till October 2012</i> Zane Bondare <i>from July 2013 till December 2013</i> Dita Tetere <i>from December 2013 till</i>	Senior expert of EUFMSD	Development, coordination and amendment of national MCS; Monitoring of implementation of Programme MCS and submission to FMO; Coordination of risk management process; Analysing of MCS and system audit results and monitor implementation of recommendations; other tasks related to MCS issues.	50%	Y

<i>now</i>				
Jekaterina Kapilova <i>from January 2012 till now</i>	EUFMSD, Legal advisor of EU Funds Legal Unit	Draw up the Law on the Management of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period of 2009-2014 and rules of Cabinet of Ministers for implementation of EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period of 2009-2014. Provide opinion on implementation and application of the law and rules mentioned.	50% <i>(From January 2012. – November 2013)</i> 25% <i>(From November 2013. –till now)</i>	Y
Linda Barbara <i>from January 2012 till November 2013</i>	EUFMSD, Head of EU Funds Legal Unit	Provide opinion on procedures and rules for implementation of programmes and projects.	50%	Y
Viktorija Grīnfelde	Head of Finance and Maintenance Department (FMD)	Supervision of department activities	5%	N
Ilga Litaunika	Head of Unit/Chief accountant of FMD	Supervision of Unit activities	3%	N
Laima Kalniņa	Senior accountant of FMD	Carry out accounting (reward)	5%	N
Anta Freimane	Senior accountant of FMD	Carry out accounting (payments)	3%	N
Baiba Balode	Head of Unit of FMD	Supervision of Unit activities	3%	N
Iveta Lāce <i>from November 2011 till now</i>	Senior officer of FMD	Carry out planning TA budget, financing plans, estimates, procurements. Prepare interim and annual reports. Participation in elaboration of regulatory documents	20%	Y
Antra Bolgzde <i>from November 2011 till now</i>	Leading accountant of FMD	Carry out accounting (reports). Participation in elaboration of regulatory documents	20%	Y

Agnese Beļkeviča <i>from June 2011 till September 2012</i> Lelde Grīnvalde <i>from October 2012 till now</i>	Deputy Head of Unit of FMD	To coordinate EEA/Norway grants communication strategy; to organise Communication Management group meetings, common activities and informative events for popularization of Grants; to cooperate with media, ensuring information (press releases, news) and organising media events	20%	Y
Edgars Putins <i>from November 2012 till now</i>	Leading IT administrator of FMD	Carry out maintenance of web pages <a href="http://www.eeagrants">www.eeagrants</a> and <a href="http://www.norwaygrants">www.norwaygrants</a>	10%	Y
<b>Certifying Authority – The State Treasure</b>				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Karīna Zencova	Director of European Affairs Department (EAD)	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 the projects' interim financial reports, approval of the auditors' reports analysis, verification of prepared forecast of likely payment applications	20%	N
Anda Pudāne	Deputy director of EAD	Participation in elaboration of legal documents, guidelines and system description, establishment of the internal procedures to ensure responsibilities of the CA, verification of the projects' interim	20%	N
Santa Lakševica	Deputy director of EAD		20%	N
Kaspars Braže	Senior officer of EAD		50%	Y
Regīna Uljanova	Senior officer of EAD		50%	Y

		financial reports, analysis of the auditors' reports, preparation of the forecast of likely payment applications		
<b>Audit Authority - The Ministry of Finance</b>				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Nata Lasmane	Head of AA Director of European Union Funds Audit Department (EUFAD)	To ensure overall management of the AA. To supervise audits, including approval of the Overall audit strategy for every audit, approval of all audit reports, issuing opinions. To approve Single Audit Strategy for the whole period for both Financial Mechanisms. To approve Annual Audit Reports annually on effectiveness of MCS. Annually issue opinions on the basis of the controls and audits that have been carried out, as to whether the MCS functions effectively.	1,5% (based on 2013 data)	N
Olga Guza <i>from May 2012 till now</i>	Chief Expert of EUFAD	Elaborate methodology of the AA for carrying out audits and for preparation of Single Audit Strategy and Annual Audit Reports. Manage compliance assessment audits and audits on effective functioning of the MCS at the level of the Beneficiary State. Manage audits on effective functioning of MCS at the level of programmes. Perform risk assessment of the project in order to establish sample for auditing.	76% (based on 2013 data)	Y

		Manage audits on the projects. Prepare and submit to the FMO Single Audit Strategy, Annual Audit Reports annually on effectiveness of MCS. Prepare and submit annually to the FP annual audit plans.		
Ilona Skorobogatova <i>from November 2012 till now</i>	Auditor of EUFAD	Carry out compliance assessment audits. Carry out audits on effective functioning of the MCS at the level of the Beneficiary State. Carry out audits on effective functioning of MCS at the level of programmes. Carry out audits of the projects.	67% (based on 2013 data)	Y
Sandra Mūrniece	Auditor of EUFAD	Participate in audits (in case of lack of human resources).	11% (based on 2013 data)	N
<b>Other entities – The Procurement Monitoring Bureau</b>				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Inta Vingre	Director of Control Department	Developing plans of ex-ante checks, approving conclusions	10%	N
Rita Buša <i>from January 2013 till July 2013</i> Artūrs Gurskis <i>from August 2013 till now</i> Rolands Počs <i>from January till August 2013</i> Evija Rubene <i>from September 2013 till now</i>	Senior officer	Developing plans of ex-ante checks, examinations of the procurement documentation and preparing conclusions	50%	Y



<b>Entity responsible for irregularity reporting (Entity) – The Ministry of Finance</b>				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Armands Eberhards	Head of FP, Deputy State Secretary of MoF	Main responsible authority of the Entity	1%	N
Diāna Rancāne	Head of EUFMD	Overall management and monitoring of FM's irregularities in Latvia	3%	N
Diāna Atkauķe <i>from May 2012 till now</i>	EUFMD, Head of ENSPMD		5%	Y
Guntra Želve <i>from May 2012 till now</i>	EUFMD, Deputy Head of ENSPMD		5%	Y
Inga Vajevska <i>from May 2012 till now</i>	EUFMD, Chief Specialist of ENSPMD	Reporting on FM's irregularities in Latvia through DoRIS	10%	Y

## 5. THE COMING YEAR 2014

<b>National entities</b>	<b>Overview of the principal tasks planned to be implemented</b>
1.National Focal Point	<p>Submit to the FMO all descriptions of Programme level MCS (in line with Article 4.8. of the Regulation). Train representatives of FP on risk management topics and develop risk management strategy and update risk register. Overall management and monitoring of FM's programmes. Organize Annual Meeting 2014 in Riga. Participate in seminars/workshops/conferences initiated, organized or co-organized by donor state. To continue the programme implementation stage in 2014 the plan has been set to evaluate media publications by using media monitoring. In 2014 the FP in cooperation with the POs and the Norwegian Embassy in Riga plans to organise informative mid-term event for popularization of FMs. The Publicity Day for EEA and Norway grants on 17 May, which will take place in Esplanade Park in Riga center. Several activities within "Riga - the European Capital of Culture in 2014" financed by the NBF.</p>
2.Certifying Authority	The principal tasks will remain the same as in 2013.
3.Audit Authority	<p>Carry out audits on effective functioning of the MCS at the level of Beneficiary State – one audit is planned – in NFP and in the CA. Carry out audits on effective functioning of MCS at the level of programmes – audits are planned for following programmes – LV06 and LV07.</p>

	<p>Carry out audits on the projects which expenditures have been reported in the programmes' IFR#2 and #3. Prepare and submit to the FMO Annual Audit Report till 31.12.2014 on the basis of the controls and audits mentioned before.</p> <p>Issue Opinion till 31.12.2014 as to whether the MCS functions effectively.</p>
4.Other entities (Procurement Monitoring Bureau)	Will continue to develop plans of ex-ante checks of procurements and will perform them as well as 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.