



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

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



**Riga,  
31 March 2015**

## **Glossary of Acronyms**

**AA** – Audit Authority

**AAR** – Annual Audit Report

**BS** – Beneficiary States

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

**CA** – the Certifying Authority

**Capacity-Building Programme** – Programme LV07 “*Capacity-Building and Institutional Cooperation between Latvian and Norwegian Public Institutions, Local and Regional Authorities*”

**CC** – Cooperation Committee

**CoM** – Cabinet of Ministers (Latvian Government)

**Correctional Services Reform Programme** – Programme LV08 “*Reform of the Latvian Correctional services and Police Detention Centres*”

**CPCB** – Corruption Prevention and Combating Bureau of Latvia

**DPP** – Donor Programme Partner

**Decent Work Programme** – Global Fund for Decent Work and Tripartite Dialogue

**EC** – European Commission

**EEA** – European Economic Area

**Embassy** – Royal Norwegian Embassy in Riga

**EU** – European Union

**FMs** – EEA Financial Mechanism and Norwegian Financial Mechanism

**FMO** – Financial Mechanism Office

**FP** – National Focal Point

**Incubator** – pre-defined project “*Green Tehnology Incubator*” within the Innovation Programme

**Innovation Programme** – Programme LV06 “*Green Industry innovation Programme*”

**IFR** – Interim Financial Report

**LIDA** – Latvian Investment and Development Agency

**MCS** - FMs` Management and Control System

**MoE** - Ministry of Economics

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

**MoES** - **Ministry of Education and Science**

**MoF** – Ministry of Finance

**MoI** - the Ministry of Interior

**MoJ** – the Ministry of Justice

**NGO** – nongovernmental organization

**OC** – open call

**PA** – Programme Agreement

**PBF** - Fund for Bilateral Relations at the Programme Level

**PIA** – Programme Implementation Agreement

**PMCS** – Programme Management and Control System

**PO** – Programme Operator

**PP** – project promoter

**PMB** – Procurement Monitoring Bureau

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

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

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

**SEDA** – State Education Development Agency

**SGS** – Small Grant Scheme

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

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## 1. Executive summary

According to the Article 2.2, Paragraph 1, of the Regulations the MoF, acting as the FP for the implementation of the FMs in Latvia, has prepared the “*Strategic Report on the implementation of the FM 2009-2014 in Latvia January – December 2013*”. Before submission to the donor state according to the requirement set out in the Article 4.4, Paragraph 4, of the Regulations the Strategic Report was approved in the written procedure on 25 March 2015 by the Monitoring Committee of the FMs. All comments and proposals received from the Committee were taken into account within elaboration process of the Report. It will be discussed during the Annual Meeting planned for 10-11 June 2015.

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

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

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

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

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

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

## 2. Assessment of the effect of the Grants

### 2.1 Cohesion

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

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

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

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

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

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

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

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

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

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

- **Research and Innovation** by Research and Scholarships Programme and Innovation Programme;
- **Growth of the National Economy** by Innovation Programme;
- **Human Securitability** by Correctional Services Reform Programme and Decent Work Programme;
- **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 the EEA.

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

- **Competitive Europe** by Research and Scholarships Programme, Innovation Programme, Capacity Building Programme and Decent Work Programme;
- **Engaged Europe** by Correctional Services Reform Programme.

The macroeconomic disparities between the donor state and Latvia clearly justifies the need for cohesion. Considering the size of the FM to Latvia as well as the areas of support the impact to the Latvian economy would be difficult to measure, nevertheless the contribution of the FM is of great value both in financial (investment) terms in targeted areas as well as providing intangible value – added as mutual knowledge spill-overs and strengthened bilateral relations in various sectors. The programmes are important for development of a cohesive society in Latvia and to promote reduction of economic disparities. Each programme will contribute to achievement of the overall objective – reduction of social and economic disparities within the EEA – in its own focused and complementary way.

### ***Research and Scholarships Programme***

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

State budget funding for scientific activity has so far been negligible compared to other EU Member States. The impact of the crisis has aggravated the situation - state funding for science was substantially reduced; and funding of private sector decreased as well. Within crises period financing in R&D had dropped to 0.46% of GDP, but up to 2013 there is a little increase - respectively 0.60 % of GDP<sup>2</sup>. *EU Strategy for Smart, Sustainable and Inclusive Growth "Europe 2020"* raised the basic objective of investing 3% of EU GDP in R&D.

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<sup>1</sup> According to MoES' data

<sup>2</sup> Source: Central Statistical Bureau of Latvia

Accordingly Latvia set a quantitative target to increase investment in R&D funding up to 1.5% of Latvian GDP by 2020.<sup>3</sup> EU Funds's and FM's financing in education and research is one of the solutions for raising an efficiency and quality of the studies and research work thus these foreign funds play significant role in this sector.

Latvian R&D policy<sup>4</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 in developing research infrastructure and support for joint studies and facilitating technology transfer. The action includes support for competence centres, technology transfer contact points and a research infrastructure to facilitate the commercialization of research results and practical guidance studies;
- 3) *Support for the development of innovative businesses* – grants will be offered for the development of new, innovative, environmentally friendly products and technologies, their introduction into production, for high value added investment projects and an increase in the number of innovative enterprises.

*Guidelines for the Development of Education 2014-2020* was adopted by the CoM on 22 May 2014. They set objectives and actions to improve quality of education, facilitate inclusive education for individuals' development, people's welfare and education's system, which meets the needs of national economy thus ensuring sustainable development of Latvia. As per Guidelines, in order to ensure a high quality of higher education; activities provided by foreign assistance programmes and strategic partnerships are considered as significant tools for improving internationalization and international competitiveness of higher education in Latvia and in globalized world.

*Objective of the Guidelines for the Development of Science, Technology and Innovation 2014-2020* (adopted in 2013) is development of the Latvian knowledge basis and facilitation of innovation capacity. To achieve this objective it is necessary to develop human capital of science, technology and innovation, to facilitate Latvian science international competitiveness, to modernise and integrate research and education sectors, to create effective knowledge transfer environment and to strengthen innovation capacity of enterprises. Thus one of the main target is to increase a role of science and research in higher education institutions, which will be achieved by integration of scientific institutes in these institutions. More than 60% of research is concentrated in the major universities – University of Latvia, Riga Technical University, University of Agriculture of Latvia, Daugavpils University and Riga Stradins University. Research and scientific institutions are quite fragmented in Latvia, for example, 14 State Research Institutes and 27 University Research Institutes were operational in 2014. The highest number of institutes (in total 16) are in University of Latvia. And goal by 2020 is to consolidate research potential in to 20 internationally competitive institutes which will be integrated with higher education and industry. In 2013 the international evaluation of scientific institutes<sup>5</sup> was carried out in Latvia. The results identified 15 scientific institutes or their separate departments as strong international players with a solid international reputation. The Institute of Organic Synthesis

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<sup>3</sup> Report on Development of Science and Technology in Latvia, 2011 (MoES)

<sup>4</sup> Report on Development of Science and Technology in Latvia, 2011 (MoES)

<sup>5</sup> According to MoES' data



was the most high-rated as a global player with a considerable impact on the development of the discipline worldwide.

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

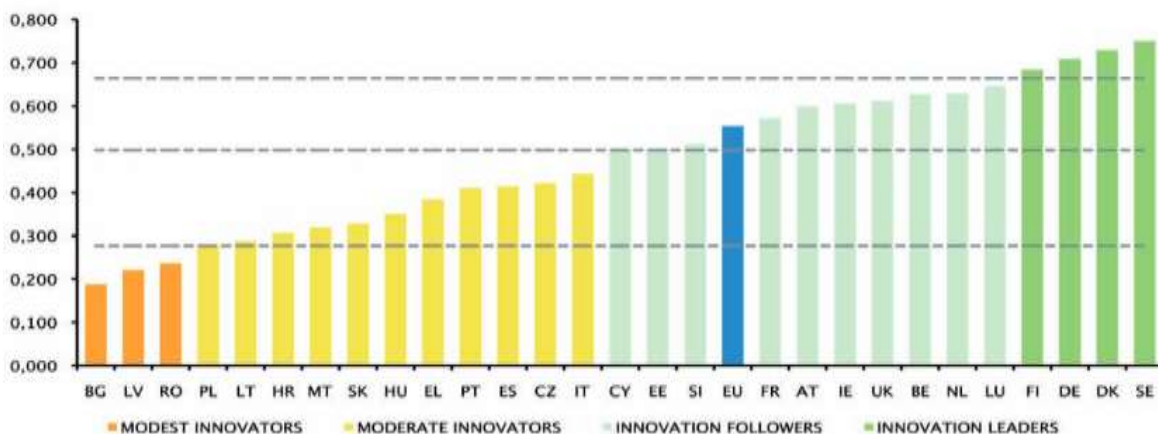
The Research and Scholarships Programme by provision of increased funding in higher education and research sector will lead to fostering entrepreneurial activities (new educated employees, new research and business activities) thus giving positive effect on sustainable development of Latvian economy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

### ***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” and innovative industries thus supporting further development of the existing enterprises.

Based on average innovation performance Latvia is in modest innovator group well below of the EU average (please see in the chart below), but within modest innovators’ Latvia is performing almost seven times as high as the least performing country Bulgaria. Whereas Norway is within moderate innovators’ group.

*Chart 1. EU Member States’ Innovation performance 2014*



According to last data<sup>6</sup> proportion of innovative enterprises in Latvia has raised in last years and in average is 30,4% (2008-2010: 29,9%; 2006-2008: 24,3%), while in the EU countries this indicator was on average 52%. Main challenges of innovation system is low innovation capacity of companies (lack of skills, funding, infrastructure), access to finance, especially in early stage of business development, poorly developed cooperation between industry and research sectors.

<sup>6</sup> Innovation survey by the Central Statistical Bureau of Latvia, 2010-2012

By supporting the establishment of the Incubator under Innovation programme – the new important and dynamic player in Latvia’s innovation ecosystem is added, which will promote technology transfer and commercialization of research results and creation of new innovative companies. The Incubator will serve as an overarching institution which fosters the creation and growth of new products and businesses in „green” innovation area. As well as it will facilitate development of the vibrant green industry and business community in Latvia by using regional strengths through research, innovation, business development and facilitation of international business opportunities.

Gradual improvement of economic activities have positive effect on the situation in labour market and high unemployment caused by crisis decreases. According to the latest data<sup>7</sup> the total unemployment rate in Latvia has decreased from 11.5% to 10.7% in 2014. At the same time unemployment rate (under 25 years) is quite significant. At the end of 2014 it was 20.9% in comparison with EU28 it is slightly lower, because EU28 average level was 21.8% in 2014. Programme will try to provide an input to efforts to decrease unemployment as the projects foresee creation of new work places and in the Incubator especially young people are motivated and supported to start their own business activity.

In 2014 *Guidelines on Latvia’s Science, Technological Development and Innovations for 2014-2020* where adopted by the CoM. They identify the key challenges of research and innovation system; define objectives and priorities for development of science, technology and innovation. The Guidelines include also the Smart Specialization Strategy of Latvia, which identifies the areas on which the limited resources should be focused to achieve the required critical mass, to accomplish significant results and to develop competitive advantages. *The Smart Specialization Strategy* lays down the following growth priorities:

- efficient use of primary products for manufacture of high value added products, development of new materials and technologies;
- supporting development of new products and technologies within the current industrial and cross-sectorial framework, as well as new industries with high growth potential that are based on the key enabling technologies;
- improvement of energy efficiency, inc. development of new materials, streamlining production processes, introduction of latest technological innovation, use of alternative energy resources and other solutions;
- development of a modern and up-to-date ICT system in private sector and public sector;
- modern education system to meet the requirements of future labour market and to development of competences, entrepreneurial ability and creativity.

The aim of the programme fully corresponds with the Guidelines and the programmes’s activities will facilitate implementation of *the Smart Specialization Strategy* and growth priorities in Latvia. As well as the programme has direct impact on challenges of Latvian economy, such as: unemployment; limited financing; weak knowledge-intensive economy; low productivity and weak innovation performance. Thus the programme will have a positive effect on reduction of economic and social disparities in the 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.

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<sup>7</sup> The Eurostat data

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

Latvia's economic development is directly related with strengthening of regions. It is important to build common approach for territorial development thus strengthening links between national, regional and local development planning documents. With the aim of improving the process of territorial planning in municipalities, providing the public with timely information about the documents of territorial planning of a municipality, MoEPRD has developed a *Territorial Development Planning Information System*, which will allow the public to express their opinion about the planned changes and about specific development ideas in municipalities. The system will serve as the primary work environment and source of information for spatial development planning documents. It will be possible to store documents graphical and text data, inc. information on the permitted use of land units, buildings, restrictions and burdens, enabling centralized planning process to get the necessary electronic key data. Consequently, the entrepreneurs will be able to operatively get information about the land use planning and investment attraction projects.

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 inc. 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 organized 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.

In order to facilitate higher business activity in regions, legal regulation regarding to the rights of the state and municipalities to handle their immovable property (land) was improved by making amendments in the binding regulation of the CoM. The Regulations allow state and local municipalities to reduce the land rent for the construction of the production facility, thus creating an attractive environment for: new investments, setting up new enterprises in municipalities as well as for promotion of local employment and reduction of emigration risk, promotion of construction of new production facilities and increase of gross domestic product.

In 2014 *the Operational Programme of EU Funds 2014-2020 "Growth and Employment"* was adopted by the CoM. It, considering the NDP 2014 – 2020 and *Regional Policy Guidelines 2013-2019*, provides the following regional policy support measures of MoEPRD for investments in the municipal infrastructure:

- to improve the amount of private investments in regions by investing in business development according to the economic specialization specified in the development plans of municipalities and based on the needs of local entrepreneurs;

- to promote the improvement of energy efficiency and the use of renewable energy sources in municipality buildings pursuant to the development programs integrated by the municipality;
- to revitalize territories by regenerating degraded territories pursuant to the development programs integrated by municipalities.

As well as in 2014 the informative report on *Description of the Operational Programme of EU Funds 2014-2020 "Growth and Jobs"* was adopted by the CoM, which sets the urban and polycentric development investment principles and mechanisms of implementation.

The programme aims at increase of 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 thus contributing to reduction of social and economic disparities in the EEA.

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

Strengthening of correctional services inc. sanctions not involving imprisonment, is one of the priorities of Latvia. The programme will foster improvement of the situation in the Latvian Correctional Services and will contribute to improvement of short-term detention centres (hereinafter - STDC) in accordance with the relevant human rights standards, in particular in accordance with the recommendations of the Committee for the Prevention of Torture, which are now being put into practice while preparing the construction projects for STDC and developing a legislative proposal.

Considering the fact, that in Latvia prison population rate is the highest in Europe and prison sentences are long, a large number of population – prison inmates – do not take part in normal economic or social processes in society during their prison sentence. Approximately 60% of inmates serve their sentence in prison repeatedly, which indicates 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 their possibilities to integrate back into normal social and economic processes of society after the release. Changes could be reached through reduction of length of prison sentences and prison population; and by provision of intensive re-socialization and introduction of electronic monitoring.

In 2013 there were 6`059 imprisoned person, whereas in 2014 this number decreased till 5`280<sup>8</sup>, this tendency is evident of applied criminal punishments' policy during several last years in Latvia. It is expected that this trend will continue also in future. Recently there has been an unprecedented reform of the early release's system in Latvia, which has opened a new opportunity for earlier release of an individual from the place of confinement. In October 2014 the Parliament of Latvia passed the necessary laws which envisage introduction of the electronic monitoring in Latvia from the 2015 as a new alternative in the system of enforcement of punishments for criminal offences. Thus the Programme has led to a significant reform as a result of which the convicts not only will have a new opportunity for release, but also incentives for putting their lives and relationships with their families in order. Over a longer period, this shall reduce occurrence of relapse and improve better integration of the convict into the society and the labour market. The electronic monitoring model implemented in Latvia fully complies with the principles of the EC Recommendation Rec (2014)4 on Electronic Monitoring.

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<sup>8</sup> According to Latvian Prison Administration' data

Decrease in number of imprisoned persons: allows to commence serious evaluation of opportunity to provide such a living space per one prisoner as it is stated by international standards and it 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 the sentence.

The content of re-socialization measures must be suitable for different inmate needs, inc. vulnerable groups like addicts, as well as adequate training of staff is needed. The programme will seek to introduce new forms of re-socialising measures like drug addiction treatment programs in prison as well as will provide prisons' staff trainings. 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.

The following EU and national level legislation related to programme area were adopted/amended in 2014:

- *the EC Recommendation Rec(2014)4 on Electronic Monitoring and the EC Recommendation Rec(2014)3 on Dangerous Criminals* (adopted on 19 February 2014);
- *the Latvian Penalty Execution Code and the State Probation Service Law* (the amendments to conditional pre-term release reform and implementation of the electronic monitoring were adopted by the Parliament on 2 October 2014);
- *the Criminal Law and the Criminal Procedure Law* (the amendments to conditional pre-term release reform and implementation of the electronic monitoring were adopted by the parliament on 16 October 2014).

Implementation of the programme has no direct impact on the economic differences, however it is foreseen in the long term. By reduction of the number of prisoners and by improvement of re-socialisation's and STDC systems, there will be increase in the number of working age persons in the country thus contributing to the FM's objective – to the reduction of economic and social disparities in the EEA.

## 2.2 Bilateral relations

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

### NBF

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

- 8 Norwegian and Icelandic artists have exposed their artworks and installations in 4 exhibitions and 3 art festivals, inc. in Latvia’s biggest contemporary art festival “Survival kit 6”<sup>9</sup> and in one of the biggest events in Riga in 2014 “Staro Riga”<sup>10</sup>. Video projection installation “Northern Grain of Salt” created by Norwegian artist was facade of on the wall of one of the biggest churches in the old city of Riga (St Peter's Church).



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

- The curator from Iceland participated in preparation of one exhibition - “(Re)construction of Friendship”<sup>11</sup>, which was exposed in the Corner House former headquarter of the State Security Committee of the Latvian SSR (KGB) after occupation of Latvia in 1940. The Corner House has stood vacant for a number of years and for the

<sup>9</sup> Source: <http://www.survivalkit.lv/en/news/>

<sup>10</sup> Source: <http://www.staroriga.lv/013/en/?return=/>

<sup>11</sup> Source: <http://riga2014.org/eng/news/40757-kgb-building>

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

- An exposition of mobile environment objects “Unexpected appointments”<sup>12</sup> where placed in Riga and Norway, thus ensuring direct broadcasting of 2 events. One – Project’s opening which was organized in the Norwegian Constitution Day when broadcasting in Riga celebration events of 200 years of the Norwegian constitution from Drobak take place. Second one - World Chess Olympiad in Tromso when information about happening in Olympiad was broadcasted in Riga two weeks. Mobile environment objects also were used locally in Riga when broadcasted celebration of Summer solstice in Mezaparks, off-stage of Choir Olympiad and information for visitors of the light festival “Staro Riga”. For example, during the light festival “Staro Riga” were placed 2 environment objects which served as information center for visitors about festival and its events as well as provided information about donor states support to Latvia. It shall be mentioned that during 5 days ~500 thousand visitors attended the festival.
- Successful collaboration and exchange of experience between different artists, art galleries and NGO in Latvia and donor state was facilitated, thus for example, a curator from Iceland plans in future to organize exhibitions in Iceland with participation of Latvian artists as well as Latvian art galleries and artists are interested in cooperation with donor states artists in other art projects in future. It also shall be mentioned that the exhibition “Viewfinders. Contemporary Baltic and Nordic Photography”<sup>13</sup> received invitation to the *Pingyao International Photography Festival* in China and participated there in September 2014.
- A catalog was published during the exhibition “(Re) construction of Friendship” where themes of small country's relations with major powers from both Latvian and Icelandic artists and historian’s point of view were discussed.
- Wide publicity of events and artists in the mass media (TV, radio, press, internet, social networks) was ensured, especially for the light festival “Staro Riga” and the exhibition of sound art “SKAN2”<sup>14</sup> (music of noises and extreme metal) in which also a British avant-garde music magazine “The Wire” and Austrian national public service broadcaster ORF were present.

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

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

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<sup>12</sup> Source: <http://www.eeagrants.lv/?id=49&zina=105>

<sup>13</sup> Source: <http://riga2014.org/eng/gallery/foto/1204-viewfinders-contemporary-baltic-and-nordic-photography>

<sup>14</sup> Source: <http://riga2014.org/eng/notikumi/641-exhibition-of-sound-art-skan-ii>  
<http://riga2014.org/eng/news/42170-opening-of-sound-art-exhibition-skan-ii-part-one>



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

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



*Presentation by Ms. Anne Kjersti Fahlvik, Executive Director of the Division for Innovation of the Research Council of Norway<sup>15</sup>.*

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

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

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

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

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

Measure	Expenditure used	% of total
Costs occurred during programme preparation phase 2011-2013	116`854	32%
International seminar in Justice and Home affairs in fall 2013	13`428	4%

<sup>15</sup> Source: <http://www.ris3riga2015.lv/gallery/>



8 activities within “Riga – the European Capital of Culture in 2014”	108`646	30%
3 activities within “Latvian presidency of the Council of the EU 2015”: Conference “Smart Specialization Strategy: New Approaches for Partnerships among Education, Research and Industry in Regions” <sup>16</sup> ; Conference “Deinstitutionalization practices and further development of European social care policy” (15 June) Public campaign „My Baltic Sea 2015” and Multi – media performance (26 May – 28 June)	125`822*	34%
<b>Total:</b>	<b>364`750</b>	<b>100%</b>

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

## PBF

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

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

Table 2. Strengthening bilateral relations results achieved in 2014

<b>1. Extent of cooperation</b>		
Number of submitted/approved projects in partnership with a donor partner:		
<b>Project calls</b>	<b>Number of partnership project from submitted projects/%</b>	<b>Number of partnership projects from approved projects/%</b>
<b>Innovation Programme:</b>		
OC’s 1 <sup>st</sup> round	5 of 13 (38%)	1 of 3 (33%)
OC’s 2 <sup>nd</sup> round	3 of 22 (14%)	<i>Results in May 2015</i>
SGS 1 <sup>st</sup> round	1 of 7 (14%)	0 of 4 (0%)
SGS 2 <sup>nd</sup> round	3 of 19 (16%)	2 of 6 (33%)
<b>Total:</b>	<b>12 of 61 (20%)</b>	<b>3 of 13 (22%)</b>
<b>Decent Work Programme:</b>		
<b>Total in OC:</b>	<b>3 of 8 (38%)</b>	<b>3 out of 4 (75%)</b>
<b>Research and Scholarships Programme:</b>		
Preparatory visits OC	55 (100%)	51 (100%)
Research OC	73 (100%)	11 (100%)
Scholarship OC	33 (100%)	<i>Results in May 2015</i>
<b>Total:</b>	<b>161 (100%)</b>	<b>62 (100%)</b>
<b>Research and Scholarships Programme – 33 out of 73 submitted and 8 out of 11 approved Research projects used opportunity to find potential donor states partners and to plan development of the joint project application during Preparatory Visits. All Scholarships Preparatory Visit’s applicants, except one, submitted project applications in Scholarships OC. These numbers show an excellent result as majority</b>		

<sup>16</sup> The conference website: <http://www.ris3riga2015.lv/>

of Preparatory Visits resulted in the submission of final project applications to Research and Scholarships OCs.

**Innovation Programme** - highly appreciated the DPP's expert work in Projects' Selection Committees – expertise on “green” and environmental impact aspects.

2 Bilateral Partner Search Forums organized by PO. The 1st - on 10 November in Riga: 12 Latvian/5 Norwegian entities (companies, municipalities and scientific institutions). The result: 19 individual matchmaking business meetings hold. The 2nd - on 31 October in the Technological Park of Oslo (Forskningsparken): 10 Latvian/14 Norwegian enterprises operating in sectors like rubber, hydroelectric power, packaging manufacturing, health care, oil extraction, blocks of houses and mobile homes, eco-production to ecological paints, wood pellets and amber thread fabric production.

## 2. Shared results

**Innovation Programme** – one of OC's PPs, “Cemex Ltd.”, has established partnership with the Civil Engineering and Material Sciences Department of Norwegian Technical University (the largest technical and life science university in Norway), which has experience in road research and lifecycle analysis. The partner is involved in research activities on elaboration of RCC material for road cover (Roller-Compacted Concrete is a substitute for ordinary concrete).

**Capacity-Building Programme** – 13 experience and knowledge exchange events between institutions in Latvia and in Norway were organized in order to take over the Norwegian experience in usage of “bench learning” system model for municipalities, coastal planning, regional development planning, spatial planning, popularization of Norwegian local resources and attraction of foreign investments, and planning and institutional management model of national parks. 4 strategic partnerships were developed by signing 4 partnership contracts between PPs and the donor state project partners.

**Decent Work Programme** – in total within 4 completed projects 9 activities (3 experience exchange visits to Norway, 6 conferences, 2 round table discussions held in Latvia) were organized where Norwegian experience and practice in social dialogue and decent work issues was used.

### Improved knowledge and mutual understanding

**Capacity-Building Programme** – the Embassy in close cooperation with the DPP and PO on 29 September 2014 organized conference “*Innovation in the Public Sector: From Ideas to Action*” in Eastern part of Latvia, in Rezekne, at newly built Concert Hall “GORS”. During conference Latvian and Norwegian specialists shared their experience in regional and rural development, green innovations, public procurement, green energy and road infrastructure. The conference was followed by in close cooperation between PO and the DPP organized “*Seminar on Progress of the Implementation and Synergy of the Pre-defined Projects*” where pre-defined PPs shared their achievements, challenges and worked using a World Cafe method. During the seminar PPs together with experts identified potential synergies and complementarities between the projects, and expressed interest to cooperate mutually between the projects e.g. after the seminar PPs actively exchange information with each other and involve experts from other projects in their activities.

**Correctional Services Reform Programme** – in April „*Criminal law/penal chain conference*” was organized by the DPP in Loen, Norway. The aim was to discuss wide range of topics (e.g. political priorities within the correctional service; treatment of drug - addicted inmates; treatment and interventions with violent offenders; custodial penalty, risk assessment and a safe release; European cooperation within the correctional service through Norway Grants) among the BS. Directors of correctional services' entities as well as field experts from Latvia, Lithuania, Poland, Rumania and Norway took part in this event, strengthened the cooperation and improved mutual understanding of best practices.

In October PO organized 2 day bilateral conference “*Professionalism of the Prison and Probation Service Staff in Correctional/ Educational Work*”. All together 116 participants, incl. Norwegian, British and Estonian representatives, took part in the conference which allowed to discuss the issues that concern all involved parties - burnout prevention, professionalism criteria and new methods for working with the common target groups - prisoners and probation clients<sup>17</sup>.

### Wider effect

**Innovation programme** – legally binding bilateral partnership was created within the frame of the programme - Institution “*Green Industry Innovation Center Ltd.*” was established together with University of Latvia, Riga Technical University and SIVA (Norway) to act as the Incubator's PP. As a result SIVA is one of the Incubator's PP and will share its wide experience in the sphere of “green” technologies, innovation and technology transfer. 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. Furthermore it has been agreed with the DPP and SIVA that Norwegian

<sup>17</sup> Detailed information about the event is available on PO's web page: <http://norwaygrants.tm.gov.lv/en/2009-1014/news/international-conference-professionalism-of-prison-and-probation-services-staff-in-correctional-educ>

technology parks and incubators like PRONEO, *Campus Kjeller* could provide some additional expertise to the Incubator and enterprises.

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

### 3. Reporting on programmes

#### 3.1 Overview of programme status

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

##### *Pre-defined projects*

There are all together 8 pre-defined projects in implementation within 3 programmes - Innovation, Capacity-Building and Correctional Services Reform. 6 of them were started in 2013, while “*Improving the standard of police detention centres*” under Correctional Services Reform Programme started in the 2<sup>nd</sup> and the Incubator under Innovation Programme started in the 3<sup>rd</sup> quarter of 2014. The Incubator runs smoothly according to plan and already pre-incubation services were provided. Procurement regarding reconstruction of the Incubator’s premises will be launched in the 2<sup>nd</sup> quarter of 2015. By the end of reporting period all 4 pre-defined projects within Capacity-Building Programme have commenced/finished their procurement procedures for main activities and started elaboration of drafts development planning and nature protection documents and public discussions on them with target groups. Correctional Services Reform Programme had 2 major amendments in PA with substantial shifts between existing activities/projects and adding up new activities, resulting in some changes in project’s outcomes/outputs. All pre-defined projects will run until final deadline - 30 April 2016.

##### *OCs*

In 2014 it was planned to complete all OCs in programmes, and at the end of reporting period it was nearly accomplished. There are no more OCs planned in 2015, except for SGS Incubation measure where the LIDA announced the 3<sup>rd</sup> OC at the end of March 2015 taking into account low absorption rate in previous calls under SGS and OC Support for Introducing Green Technologies into Production. As always the highest over-subscription rate are in Research OC, the same tendency was also seen in the previous FMs. Please find below summary status information about OCs:

*Table 3. Summary of OCs in 2014*

<b>Programme</b>	<b>OC</b>	<b>OC closed</b>	<b>Number of applications received</b>	<b>Approved projects in 2014</b>	<b>Over-subscription rate</b>
Innovation Programme	Support for Introducing Green Technologies into Production (1 <sup>st</sup> OC)	20.03.2014	13	3	0*
	Support for Introducing Green Technologies into Production (2 <sup>nd</sup> OC)	16.01.2015	22	Results in April 2015	1.2
	SGS Incubation measure (1 <sup>st</sup> OC)	30.09.2014	7	4	0.01
	SGS Incubation measure (2 <sup>nd</sup> OC)	01.12.2014	19	6	2.6
Research and Scholarships Programme	Scholarships	23.01.2015	33	Results in May 2015	1.6
	Research	30.09.2014	73	11	9.0
<b>TOTAL:</b>			<b>167</b>	<b>24</b>	

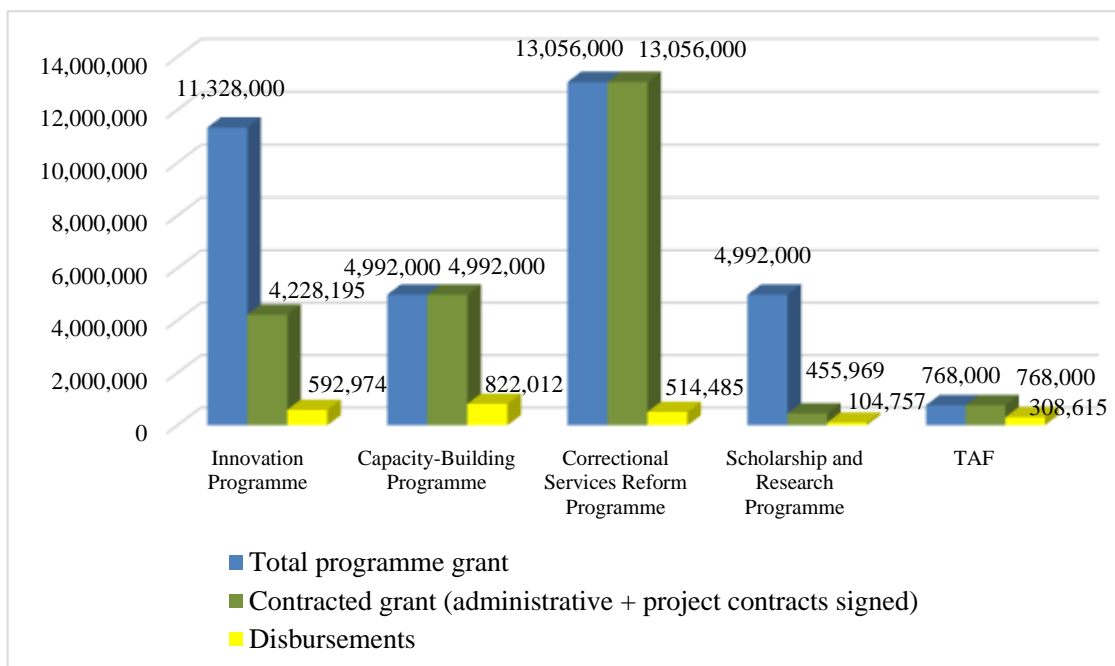
\* Applications submitted only for 61% of OC’s financing

## Commitments and disbursements made

In total 35,136,000 (excluding Decent Work Programme) euro from the FM is available for implementation of programmes till 30 April 2017. Till 31 December 2014 disbursements in amount of 2,342,843 euro were received, representing 7% of the total allocation.

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

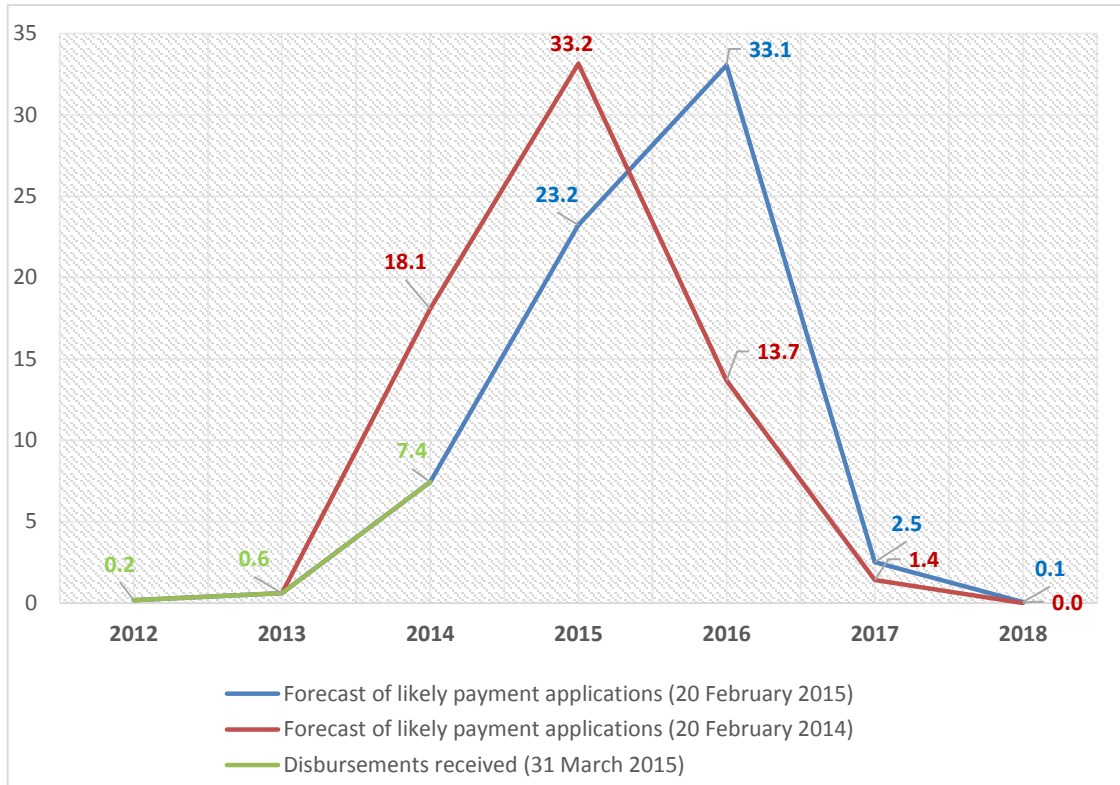
Chart 2. Financial data breakdown by programmes on 31 March 2015, EUR



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

- 1) assessment of pre-defined projects in Correctional Services Reform programme was significantly delayed because clarification and harmonization of applications with donorstate projects' partners took more time than planned;
- 2) number of applications received in the OC of Innovation programme was lower than expected, therefore smaller amount of advance payments was paid out. The OCs in both SGSs were launched just in the 2nd half of 2014, therefore advance payments to PPs will be paid in 2015 – after projects' evaluation and signing of project contracts;
- 3) main reason for deviation between these two forecasts: launch of OCs in Research and Scholarships programme was significantly delayed because of the lack of capacity of PO at the moment of elaboration of draft OC Guidelines. As result, the forecast was dramatically changed – advance payments to the PP planned in 2014 were postponed to 2015 and majority of interim payments to the 2nd half of 2015 and this means that majority of payments from donorstates will be received just in 2016.

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



## 3.2 Individual programme summaries

### *Innovation programme*

Programme has three activities:

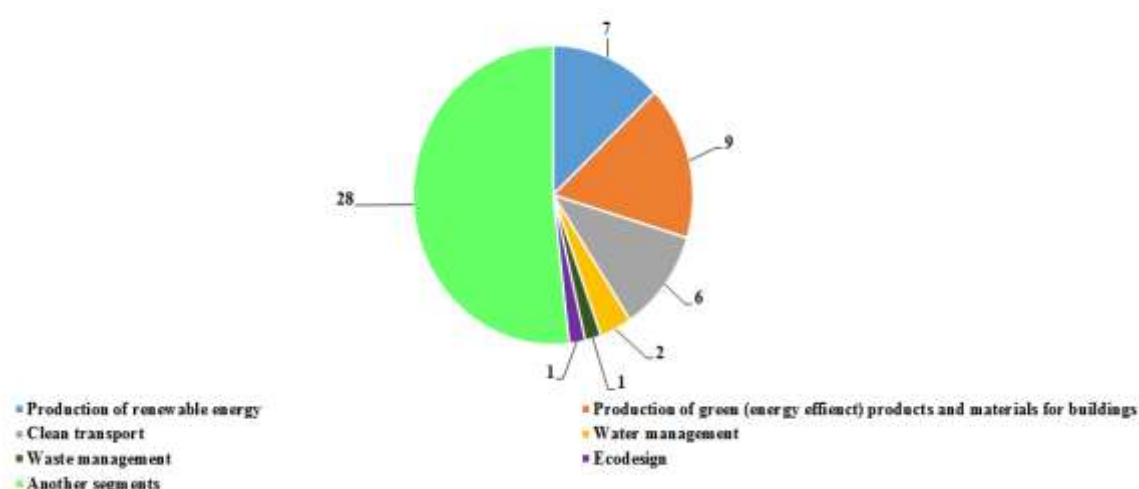
- 1) The Incubator;
- 2) SGS – support funding for start-up enterprises during early development phase;
- 3) OC – support funding for projects, which develop and implement innovative environmental products, technologies and processes in production.

None of the programme outcomes' indicators were achieved in 2014 as impact of indicators will be measured after projects' implementation and due to fact that within the reporting period only 4 projects were in implementation phase and first pre-incubation services were provided whereas some progress at output level was achieved during 2014.

On July 2014 **the Incubator**<sup>18</sup> was opened in Riga. It ensures space for 235 m<sup>2</sup> (or 13% of planned 1800m<sup>2</sup>) to operate the Incubator and to provide pre-incubation and incubation services. The Incubator has started to work on elaboration of the procurement documentation on premises' renovation. It is planned to launch the procurement in the 2<sup>nd</sup> quarter of 2015 and renovation works will be done by 30 April 2016 (according to plan).

From August 2014 till January 2015 the Incubator has launched 4 rounds for business ideas' selection and in the result 70 green business ideas from 328 were selected for pre-incubation services (thus 98,5% of output target value is achieved by February 2015). The interest about the pre-incubation services is high – only 21% from all submitted ideas could be approved. The results from the first 3 rounds of pre-incubation show (see the chart below) that all programme's support areas were covered, but the dominant area was green products and construction materials. The results also show that the Incubator is promoting technology transfer as 32 pre-incubation ideas are based on research conducted by universities or state research institutes or in development of business model the students or researchers were involved.

*Chart 4. Supported business ideas by segments for pre-incubation services in 2014*



The Incubator has also created network with the Risk Capital Funds and Business Angels and the first networking evenings with teams of business ideas and representatives from the

<sup>18</sup> The Incubator's webpage: <http://www.giic.lv/en/>

early stage investor community was held in November 2014 and January 2015. The investor evenings will be organized regularly in future.

2 rounds of SGS's calls were launched. By the end of 2014 none of the project contracts were signed, therefore there were no companies using incubation services in the Incubator. It is expected that the first project contracts will be signed by March 2015 and thus the Incubator will start to provide first incubation services. Due to leftovers in the 1<sup>st</sup> round (4 projects for total amount of 0.4 M EUR approved, only 49% granted from the available funding) the 2<sup>nd</sup> round was launched (6 projects for total amount of 0,77 M EUR approved thus granted ~89% from the available funding). The project contracts will be signed within the 2<sup>nd</sup> quarter of 2015.

One of reasons for leftovers is that there is still no common understanding, what is "green" by the project applicants, thus resulted in low quality of applications, non-compliance to the scope of the programme (this problem is similar also to the received projects under OC).

Delays on launching of the 1<sup>st</sup> round of the SGS was due that in July 2014 new regulation of the State Aid Rules for Regional Development become effective at the EU level, thus national Programme Regulations, were amended in order to conform them to new regulation, as amendments had to be approved by the CoM (this was reason as well for delays on launching of the 2<sup>nd</sup> round of the OC).

Approved projects aim at development of different green and energy efficient products:

- the 1<sup>st</sup> round – wooden-frame panels, standardized cell transplantation product for regeneration of horse tendons, energy efficient LED luminaires for airport runways and territories, folding electric scooter and its components;
- the 2<sup>nd</sup> round – aluminum melt pump; new industrial burner designed for granules, fiber-optic transmission system, new biopolymer products and innovative heat insulation building material.

On 2 February 2015 Project Selection Committee took the final decision on launching the 3<sup>rd</sup> round in order to acquire all funding of the programme. As it was launched at the end of March 2015 and will be open for 2 months, the applications' evaluation and afterwards project implementation schedule will be very tough, max 6 month left for project implementation. The PO's considers that 6 month incubation services as well is favored.

The SGS is related to the Incubator, which will provide incubation services. The results show (see in the table below) strong link between the Incubator and the SGS, as almost half of submitted SGS's applications have received pre-incubation services in the Incubator (it should be noted that in general project applicants', which received pre-incubation, submitted applications were in better quality then those project applicants which not received pre-incubation services).

*Table 4. Link between the PPs of the pre-incubation and SGS*

SGS	Projects which have received pre-incubation services	
	From submitted projects	From approved projects
1 <sup>st</sup> round	3 out of 7	2 out of 4
2 <sup>nd</sup> round	10 out of 19	5 out of 6
<b>Total</b>	<b>13 out of 26 (50%)</b>	<b>7 out of 10 (70%)</b>

Due to delays of rounds' launching the incubation services for projects of both rounds of the SGS will be parallel to pre-incubation services (initially it would be gradually) thus is important the capacity and available space of the Incubator. Since opening of the Incubator the available space is 235m<sup>2</sup> (as previous mentioned only after renovation will be available space in total 1800m<sup>2</sup> 30 April 2016). Thus some pre-incubation and incubation will be ensured virtually.



Unfortunately the 1<sup>st</sup> round of OC was launched in parallel to the EU Funds' call with the similar objective, which resulted in small number of projects received and in huge leftovers (applications received only for 61% or 4,7 M EUR). In the result 3 projects were approved for 1.4 M EUR thus acquiring only 19,2% of OC's funding. Projects started in fall 2014. One is implemented by the medium-size enterprise and the other two – by the large-size enterprises. Projects are aimed at elaboration of new road composite material; creation of a garbage bag production line from recycled material and introduction of new technology which neutralizes industrial wastewaters.

Due to leftovers the 2<sup>nd</sup> round was lunched, and in the result 22 applications were received in January 2015. Project evaluation will finish in April 2015. In the SGS's Project Selection Committee was discussed, if at the end there will be leftovers, a part of them could be transferred to the 3<sup>rd</sup> round of the SGS and another part for pre-incubation.

Targets of the bilateral indicator of the programme has been successfully accomplished in 2014 due to LIDA's organized 2 partner search events. In both partner search events 65 participants were involved directly, but high interest was shown from the general public and field's representatives. Number of persons involved in partner search activities between Latvia and donor state are showed in the table below:

*Table 5. Representatives from Latvia and Norway presented in partner search events*

Year	Companies		Persons			
	Latvia	Norway	Latvia	Norway	Latvia	Norway
			Women		Men	
2013	26	35	9	3	31	40
2014	22	19	15	2	26	22
<b>Total</b>	<b>48</b>	<b>54</b>	<b>24</b>	<b>5</b>	<b>57</b>	<b>62</b>

### **Capacity-Building Programme**

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.

Within reporting period in all 4 pre-defined projects public procurement procedures were carried out, which are necessary for the achievement of output indicators in 2015 and 2016.

In 2014 **the 1<sup>st</sup> project** contributed in the fulfilment of output indicator – 4 networks (out of 4) for local municipalities which will use “bench-learning” principles for development of local marketing strategies or public services' improvement plans were established in the following fields:

- strategic management;
- social work and access to health care;
- public services and housing policy;
- education and culture.

On 29 April 2014 the PP organized an opening event with participation of the donor state project partner – Norwegian Association of Local and Regional Governments (KS) – in order to present objectives of the project, planned activities and expected results.

Based on experience gained from project partner – KS – and Polish Association of Cities, draft versions of Bench-learning System Model for Latvian municipalities were elaborated and discussed at regional level. The final version of the model will be presented in 2015.

During 2014 the value of Investment Attraction Index for 119 Latvian municipalities was calculated. The PP introduced municipalities with calculation methodology of index and its component indicators as well as with usage of index in policy and strategy documents. The PP has agreed with KS and Polish Association of Cities that they will provide assistance in data collection from several municipalities in Norway and Poland in order to obtain comparative data about the index in these countries.

From August until October 2014 the PP of **the 2<sup>nd</sup> project** organized 7 seminars in Latgale planning region for local residents in order to discuss promotion of innovation and entrepreneurship in Latgale.

In order to increase the capacity and opportunities of municipalities in promoting entrepreneurship – since October 2014 the PP organized 5 training seminars (out of 15) “Knowledge Angels”. They involved simulation games, workshops, team presentations, discussions with employees of municipalities, who are working with entrepreneurship promotion and development planning issues.

Based on information gained during experience exchange visit to Norway, marketing materials in English for 30 national and regional development centers were developed.

Until the end of 2015 9 Latvian national development centers (Riga, Daugavpils, Jelgava, Jekabpils, Liepaja, Rezekne, Valmiera, Ventspils and Jurmala) will be given an opportunity to participate in international exhibitions to search potential investors and use prepared marketing materials.

There is a social network webpage developed by the PP at Facebook: [https://www.facebook.com/EntrepreneurshipPromotionLV?fref=pb&hc\\_location=profile\\_browser](https://www.facebook.com/EntrepreneurshipPromotionLV?fref=pb&hc_location=profile_browser) in order to inform society about the project's contribution to the development of entrepreneurship and innovations in Latvia.

In order to prepare a training program for development planners of Latvian municipalities about local economic development tools in **the 3<sup>rd</sup> project**, in February 2014 an expert from Organization for Economic Co-operation and Development (OECD) visited Latvia and later on 12 development planning experts from Latvian municipalities took part in training in Paris, France, organized by OECD. Based on knowledge acquired from the expert and the trainings, in 2015 the PP will organize training seminars for those development planners of Latvian municipalities, who could not participate in this training, in order to strengthen capacity of local development planning.

As one of output indicators is drafting planning documents at local, regional and national level, in 2014 the development of draft Sustainable Development Strategies and Development Programmes for 4 planning regions – Kurzeme, Vidzeme, Riga and Zemgale; a draft Concept for Public Services and Action Plan for Latgale Planning Region was initiated with organization of public discussions in these planning regions. The aim of discussions was to involve members of the society in elaboration processes of territory planning documents.

2 (out of 5) situation analysis and development scenario simulation games „Future City” took place with participation of 50 socially active representatives from 2 municipalities – Tervete and Carnikava. During simulation games there were multiple possible development

scenarios for both municipalities created, but only one scenario was selected as the most suitable one. The other 3 simulation games are planned in 2015.

The main achievement within **the 4<sup>th</sup> project** in 2014 was organization of 11 discussions by the PP with representatives from municipalities involved in the elaboration of nature protection plans and spatial planning documents, because discussions about interests and needs of municipalities are the most important starting point prior to actual development of nature protection plans and integration of them into municipalities spatial planning documents. In September 2014 the PP also organized public discussion with representatives from all project target groups about relevance of nature protection plans today and harmonization of interests of involved parties during development of nature conservation plans.

The draft version of Conception for Integration of Specially Protected Nature Areas in the Spatial Planning was elaborated. It was consulted with experts from Norway and municipalities' specialists involved in the development of natural and spatial plans, representatives from the MoEPRD and NGOs in order to ensure that views of all interested parties are taken.

### **Correctional Services Programme**

The programme 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 centers.

As part of **the 1<sup>st</sup> project** an unprecedented reform of the system of early release in Latvia was started and 2014 was a year of extensive and profound debates. Voluminous research work was performed to assess gains of introducing electronic monitoring (hereinafter – EM) in Latvia as well as economic effects of such innovation. Representatives of all involved institutions, e.g. courts, prosecutor's offices, police, the Ombudsman Office, were engaged in debates and consequently the referred issue was extensively discussed on both levels, experts and society, inc. mass media. In October 2014 the Parliament passed the necessary laws which envisage introduction of EM in Latvia in 2015 as a new alternative in the system of enforcement of punishments for criminal offences. Deadline for applications of procurement procedure for technical solutions of EM was in February 2015 and 6 proposals were received. It is planned to start electronic supervision in July 2015.

Also trainings have been organized for the employees of the State Probation Service and the Latvian Prison Administration both together and separately with a result of higher capacity of the personnel in the institutions and deeper knowledge of the specific programmes related to resocialization of individuals. Accordingly progress towards achievement of set output indicator is 30% since 22 of 72 planned seminars and supervisions have been held already.

In 2014 several changes in the Correctional Services Programme were made and new activities in the project were approved, which mainly contribute to outcome "Improved competences of both inmates and prison staff" (funding was reallocated from surplus of the 3<sup>rd</sup> project):

- 1) to develop a study regarding the criminal law provisions for preventive restraint and preventive surveillance in other countries;
- 2) to provide sex criminal behavior correction programme implementer training to the employees working in probation and prisons;
- 3) to develop violence relapse risk and criminogenic need assessment instruments.

As the biggest achievement within **the 2<sup>nd</sup> project** in 2014 shall be considered the acquired knowledge and understanding regarding treatment of addictions abroad and in Latvia. The in-depth knowledge and the subsequent expert discussions have led to common understanding regarding how differently enforcement of the punishment is to be carried out in Olaine's addiction center, as compared to the punishment enforcement system existing in other prisons in Latvia. The new approach to be used in Olaine's addiction center will be included in draft laws and processed for the Parliament's approval in 2015.

Also several training topics have been developed: risk and needs assessment has been elaborated and "Minnesota/Atlantis" programme as well as "Pathfinder" programme were adopted for working with clients in Olaine. Thus progress towards achievement of set output indicator is already 60% since 3 of 5 planned topics have been elaborated. Consultations with Polish and Norwegian experts were a significant contribution to this result.

Procurement procedure for construction of the new unit (addiction center) at Olaine prison has ended successfully. Designing of demolition and construction works is ongoing and it is planned to start construction works at the site in April 2015.

Implementation of the project has substantially deviated from initial time schedule therefore resocialization activities within project cannot be completed until 30 April 2016. As many of the project's and programme's indicators and outcomes are directly linked with resocialization, based on the FMO's offered solutions the CoM has supported the option to prolong the project till 31 December 2016 and to finance the completion of the project from the contribution of a future FM (which will be discussed upon the Memorandum of Understanding on the Implementation of the FM process with all involved parties). The FMO was informed about this decision and also resultant PA amendment proposal with necessary reallocations as well as information about several new activities within the project have been submitted to the FMO in December 2014. The new activities will directly contribute to outcome "Improved competences of both inmates and prison staff":

- 1) Development and approbation of penitentiary system staff education program;
- 2) Traineeship in project partners institutions;
- 3) Training on motivational interviewing;
- 4) Training of all levels managers of prison system on leading and managing changes;
- 5) Latvian language training for prisoners in all prisons;
- 6) Development of two researches: *Prisoner's possibilities to continue therapy after release of prison and Practice of drug free unit in prisons.*

**The 3<sup>rd</sup> project's** contract was signed in the beginning of May 2014. In the reporting period experts from the Council of Europe visited Latvia several times and together with the PP inspected 10 short term detention centres and 11 places of temporary keeping – all infrastructure which shall be renovated in the project. As a result practical recommendations both - for the adjustment of the technical condition to international standards as well as for improvement of respective national legislation according to the international human rights requirements - were made. These recommendations are being put in practice:

- Construction design has been developed and procurement procedure for reconstruction and renovation works is launched with deadline for applications on 26 March 2015. It is planned to start actual reconstruction and renovation works in May 2015;
- 3 drafts for amendments in national legislation (related to decrease of average short-term detention and police convey system) is elaborated and the process for the Parliament's approval will be started as soon as recommendations from the Council of Europe will be incorporated in the draft.

## Research and Scholarships Programme

The programme will be implemented through OCs in two components:

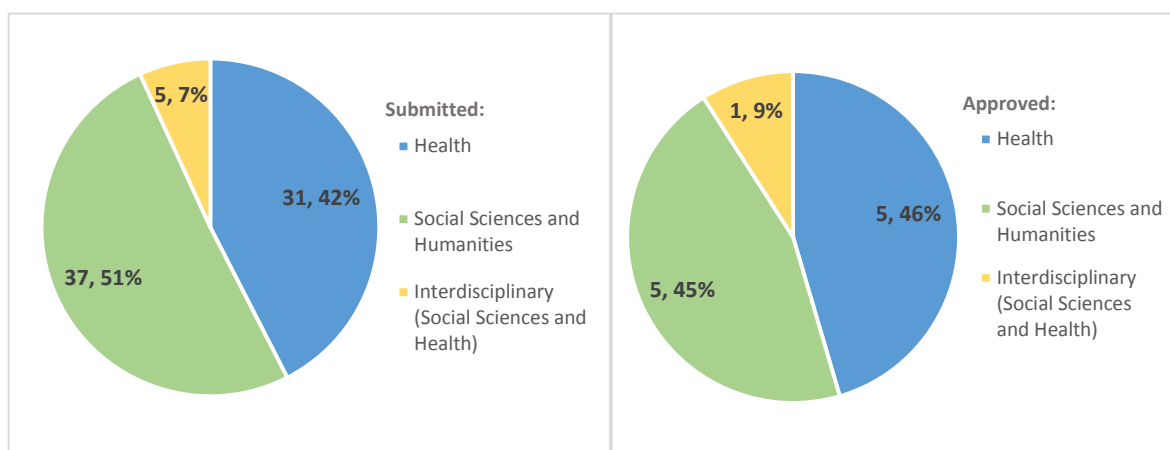
- 1) Research – support for joint research projects between Latvian and Norwegian research institutions;
- 2) Scholarships – support for mobility activities between higher education institutions in Latvia and donorstates.
- 3) Preparatory visits – support for search of potential donorstate project partner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

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

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

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

Chart 5. Submitted and approved project applications divided by thematic areas in numbers and %.



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

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

University of Oslo will be involved as a project partner, other partners also mainly located in capital city – Oslo similarly to Latvian PPs located mainly in Riga.

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

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

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

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

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

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

According to reports 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.

All 4 Latvian projects run for 2 years as it was initially planned; and were successfully implemented by the end of 2014. 100% of available funding for projects was contracted:

*Table 6. Projects approved in the Decent Work programme*

PP	Project title	Norwegian partner	Approved grant, EUR
Free Trade Union confederation of Latvia (LBAS)	To strengthen TU capacity in tripartite dialogue	Norwegian Confederation of Trade Unions (LO)	100 000
Latvian Trade Union of Education and Science Employees	Enhanced understanding of Decent Work for teachers	Union of Education Norway (Utdanningsforbundet)	120 096
Employers' Confederation of Latvia	Improvement of sectorial social dialogue in Latvia	n/a	110 000
Latvian Builders Trade Union	Social dialogue and decent work in Latvia	Norwegian United Federation of Trade Unions (Fellesforbundet)	48 144
<b>Total</b>			<b>378 240</b>

The PO by the end of March 2015 has assessed the final project interim reports submitted by Latvian PPs. According to information provided by the PO ~ 98% of projects' available grant for Latvia was utilized (in average in all BS ~95%), which is a very good result reached in a smooth implementation.

The programme had 2 outcomes. One project contributed to the outcome *“Improved social dialogue and tripartite dialogue structures and practices”*, two projects – to the outcome *“Enhanced understanding of the benefits of decent work”* and one project – to both outcomes. Main aggregated achieved results were:

- enhanced understanding of social dialogue and decent work through 43 seminars, workshops, and trainings, directly reaching at least 1200 people;
- 5 researches conducted in order to analyze existing situation toward social dialogue and decent work matters as well as to give recommendations for improvements;
- the contest for best employers “Teachers-Friendly School” organized to assess teachers' work environment as well as the event “School day” take place to raise public awareness of teachers' everyday life and to encourage decision-makers for greater support for the improvement of teachers' working environment;
- a collective agreement in construction sector and several cooperation contracts with sectorial associations and on vocational training was signed;
- the guidelines on the strengthening the sectorial social dialogue in Latvia were elaborated, inc. aspects on improving bilateral and tripartite social dialogue at sectorial level, as well as ensuring decent work;
- 3 informative brochures and 2 videos for construction sector produced to improve social dialogue and to enhance decent work;

- the journal celebrating 20 years of social dialogue in Latvia was elaborated and spread out among business society in Latvia. Within the journal effectiveness of all level social dialogue were explained, particular mention was given to sectoral social dialogue indicating its advantages and development challenges.

On 25 November 2014 a closing conference “*Results and Recommendations through Experience Sharing and Bilateral Cooperation*” took place in Oslo. The conference was exclusively for projects with Norwegian partnership. The objectives of the event were:

- share experiences and lessons learnt, exchange good practices and discuss issues of common interest looking for possible synergies;
- sum up results/impact of the Decent Work Programme in the BS, discuss the way forward - issues related to projects’ and partnerships’ sustainability;
- contribute to promote results to interested parties and public in the BS and in Norway.



Although results of the programme are not so visible and one cannot “*hang them on a wall*”, the projects` activities directly resulted in bringing up question of social dialogue and decent work in the agenda of political and business environment in Latvia. The PO was positively surprised about amazing enthusiasm expressed by the PPs and partners during the implementation of projects.



*Photos from the closing conference.*<sup>19</sup>

<sup>19</sup> Source: <https://www.youtube.com/watch?v=H8SnZNIlaag&feature=youtu.be>



## **4. Management and implementation**

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

#### **National level**

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

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

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

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

#### **Programme level**

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

During the AAR period the AA performed one system audit on the effective functioning of the PMCS in the MoE and the LIDA for the Innovation Programme. The Audit the AA concluded that the PMCS operates, but the LIDA has not yet developed all internal procedures foreseen in the description of the PMCS, so there is a risk that long development process of internal procedures may interfere the acquisition of the funding allocated to the programme.

POs of the Innovation Programme and the Capacity-Building Programme updated description of the PMCS regarding the AAR period. Changes made to initially approved<sup>20</sup> descriptions of the PMCS and the current status of fulfilment of AA's recommendations and identified necessary improvements during compliance assessment audits<sup>21</sup> are summarized in the Annex 6.9 of this Report.

#### **Risk management at national level**

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<sup>20</sup> Submitted to the FMO by April 2014 together with the Audit and Assurance Reports on compliance assessment

<sup>21</sup> Included in the previous AAR for the period 01.07.2012-30.06.2013

To ensure qualitative and effective risk management of the Financial Mechanisms implementation within the MoF *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 elaborate and update Risk Management Strategy; to assess risks and to update the Risk Register (inclusion of identified risks and exclusion of no longer relevant risks).

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

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

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

The Draft of the Risk Management Strategy for the Financial Mechanisms will be elaborated until May 2015. It will be based on recommendations and conclusions of the trainings and also taking into account conditions stipulated in the donorstate Risk Management Strategy<sup>22</sup>. Before approval the draft of the Risk Management Strategy will be provided to the FMO for consideration and comments.

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

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

During the reporting period the FP drew attention to mitigation of risk on not achieving the programmes' outcomes, which, if not mitigated, can impede achievement of the objectives of the Financial Mechanisms. The FP monitored all programmes on a regular basis and particularly focused on Innovation Programme, Correctional Services Reform Programme

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<sup>22</sup> Risk Management Strategy EEA & Norway Grants 2009-2014 adopted by the FM Committee on 27 February 2013

and Research and Scholarships Programme as they were defined as a high risk programmes in previous reporting period and introduced relevant actions such as:

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

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

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

Corruption Perception Index (CPI)<sup>23</sup> for Latvia is evaluated for 16 years. In 2013 CPI for the first time placed Latvia among countries where corruption “is not considered a serious problem” ranking Latvia in the 49<sup>th</sup> place among 175 states (with 53 points – where “0” Highly corrupted and 100 “Very clean”). In 2014 Latvia ranked in the 43<sup>rd</sup> place (with 55 points). During period 2012-2014 Latvia reached the most rapid increase (for 11 places) among the Baltic States. Still Latvia shall achieve a lot to diminish corruption risk in the state.<sup>24</sup> Please see in the table below comparison of CPI in the Baltic States during the last 3 years:

Table 7. CPI in the Baltic States 2012-2014

Place (2012.→2013.→2014.) (increase)	State	Assessment (2012.→2013.→2014.) (Increase)
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<sup>23</sup> Annually published evaluation by the Transparency International, Webpage: <http://www.transparency.org/research/cpi/overview>

<sup>24</sup> The CPCB webpage, news 03.12.2014.: <http://www.knab.gov.lv/lv/knab/press/article.php?id=469537>

32→28→26 (+6)	Estonia	64→68→69 (+5)
48→43→39 (+9)	Lithuania	54→57→58 (+4)
54→49→43 (+11)	Latvia	49→53→55 (+6)

Source: The CPCB of the Latvia

The corruption risk cannot be directly reduced by the FP, but it should be taken into account in the project selection phase and in the project implementation phase<sup>25</sup>. In order to control and minimize to the extent possible the corruption risk within the implementation process of the Financial Mechanisms, the FP during reporting period carried out the following activities:

- supplemented the draft of the *Guidelines for the Corruption Prevention and Combating 2014-2020* with overall information about anti-fraud policy, strategic objectives, results to be achieved and tasks to be carried out for the protection of interests of the EU funds and other foreign financial assistance (including the Financial Mechanisms);
- updated the Complaint Mechanism on the FP’s websites: [www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv), according to suggested standard practice by the donorstate as well as taking into account a draft guidance provided by the Transparency International<sup>26</sup>. The procedure of complaint mechanism is described on the website’s section ["Submission of complaints"](#) as well as stipulated within the description of the MCS;
- participated in trainings about risk management (including, corruption risk).

The aforementioned mitigation measures are summarized and described in detail in the FP’s response to the Corruption risk filtering results<sup>27</sup> submitted to the FMO on 13 November 2014. On 30 November 2014 the FP harmonized the final version of the report<sup>28</sup> with Transparency International and with the FMO. Whereas in the 1<sup>st</sup> quarter of 2015 in order to ensure continuity of controlling and minimizing the corruption risk issues, the FP requested all POs to describe main control and monitoring mechanisms in place at their institutions for prevention of conflict of interest, corruption, fraud in projects’ selection and monitoring stages according to template elaborated by the FP, which was based on EU Funds experience. The FP analyzed information provided by the POs’ and gained assurance that mechanisms of control and monitoring for prevention of interest conflict, corruption, fraud in POs’/Implementing Agencies’ institutions (Institutions) are in place as well as they are stipulated within respective internal procedures. All control and monitoring mechanisms are being verified both within the Institution and during performance of different audits. The main control mechanisms mentioned by the Institutions are summarized below:

Within stage “Selection of projects”

- In case of OCs all invitations to submit the applications shall be published on respective PO’s webpage and in Latvia’s official journal “*Latvijas Vēstnesis*”;
- In order to avoid double financing in projects’ selection process responsible institution verifies and gains approval that eligible costs has not yet been covered by the public financing or the EU funds or the other foreign financial assistance;

<sup>25</sup> Donors’ opinion presented at the annual Risk Management Seminar, Tallinn, Estonia, 24-25 September 2014

<sup>26</sup> Received at the annual Risk Management Seminar, Tallinn, Estonia, 24-25 September 2014

<sup>27</sup> According to the Corruption Risk Filtering report produced by Transparency International

<sup>28</sup> Transparency’s International report about key findings from all 14 countries and overview of mitigation measures (planned to be published during 2015).

- For prevention of conflict of interest Institutions shall have and they do have its own *Policy on Conflict of Interest*<sup>29</sup> (according to the *Law on Prevention of Conflict of Interest in Activities of Public Officials* as well as taking into account tasks<sup>30</sup> to be achieved for public institutions set in the CPCB's *Guidelines for the Corruption Prevention and Combating 2009-2013*). As well as all public officials, experts and members of projects' evaluation committee are required to sign an acknowledgement of lack of conflict of interest (moreover the members of the selection committees which take the decision on project approval/rejection are considered as public official and shall submit public officials' declaration). Every institution shall submit to the State Revenue Service information about public officials as well as every year every public official shall submit public officials' declaration for previous year, thereby transparency of every public official is ensured;
- Every project applicant is required to acknowledge that received aid within the scope of the project will be used only for project's purpose and in economic activity of particular legal entity and at the project's implementation place. As well as projects' applicants shall confirm that they will implement activities according to national laws and regulations and that they are aware of administrative and financial sanctions in case if false information will be provided;
- Within projects' evaluation committee representatives of different institutions are included (e.g., the donor states, the FP, sector's institutions);
- Projects' applicants are evaluated according to evaluation criteria, including verification of former information about the applicants' status of legal entity, absence of tax debt, financial status, previous experience in implementation of similar projects (if the information is available) as well as in order to ensure objectivity within the evaluation process at least two independent experts are involved.

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

#### Within Stage "Monitoring of projects" –

- Regarding projects' procurements, the Institutions review procurement plans and a list of contracts concluded by PP in order to find out if it hasn't avoided to apply the appropriate procurement procedure by splitting similar procurements. This aspect is also being verified during on-spot checks.
- The Institutions follow "the four eyes" principle during procurement plans', IFRs', supporting documents' checks as well as when request for project's amendment is received;
- Regarding infringements of the competition rules in case if estimated contract value is above 42 000 euro, the institution shall require acknowledgment from Latvia's Competition Council that applicant has not previously been punished for violations of competition. In case if estimated contract value is below 42 000 euro, the institution verifies its compliance with market price using all available internal and external databases;

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<sup>29</sup> Including Institution's Internal Rules on prevention of conflict of interest or Code of Ethics and a Plan for Corruption Prevention

<sup>30</sup> One of the task – to improve the internal control mechanisms of public and municipal institutions (including anti-corruption plan which shall be updated once in a year)

- The Institutions shall ensure that PPs in their procurements follow principles set in the *FP's guidelines on requirements and verifications of the Financial Mechanisms' payment requests*;
- The Institutions perform risk based on-spot checks for projects observing principles defined in the *FP's guidelines on verifications at the Financial Mechanisms' project implementation sights*, if necessary field experts also are involved in the on-spot checks.

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

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

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

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

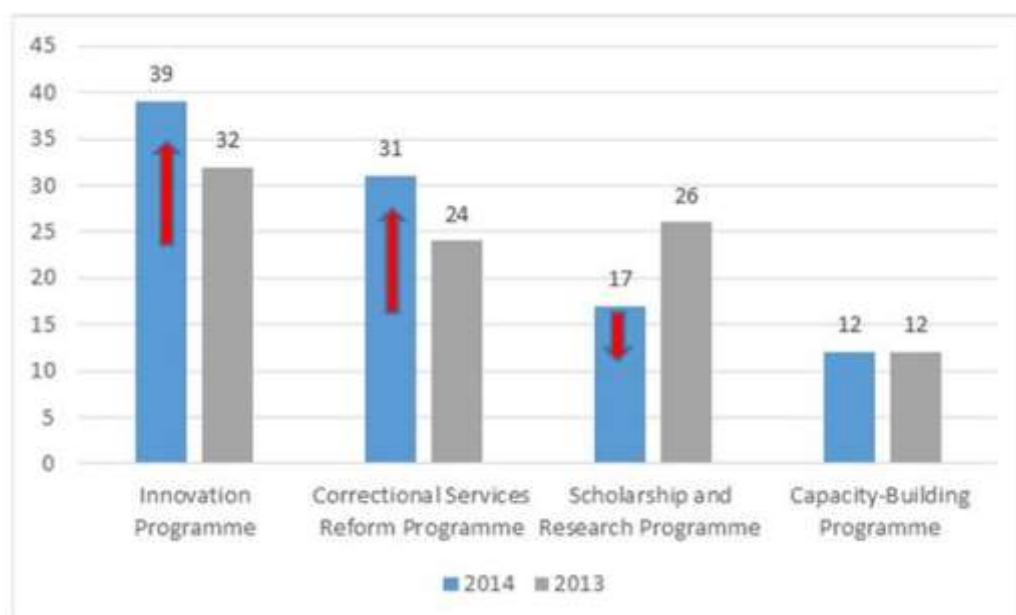
The FP evaluated risks based on regular monitoring of programmes' implementation and POs submitted information regarding the risk monitoring during 2014. The FP has identified one main horizontal risk at programme level for all programmes – *Infringement and error of procurement procedures and breaches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

According to the risk assessment (please see the Annex 7.2 of this Report) it can be concluded that from 4 programmes:

- Innovation Programme and Correctional Services Reform Programme are evaluated with the highest risk;
- Culture Heritage Programme and Research and Scholarships Programme at moderate risk level;
- and the Capacity-Building programme at low risk level.

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

Chart 6. Total risk score according to the risk assessment



Both, Innovation Programme and Correctional Services Reform Programme, are still the high risk programmes.

Under *Innovation Programme* 4 project contracts were signed covering only 29% of the available funding for projects (3.4 M out of 11.5 M EUR) and actual payments to these projects were 0.86 M EUR or only 7% of available financing. Thus the substantial risk is not sufficient acquisition of all funding available for the programme and achievement of all outcome/output indicators by the final deadline of projects' implementation. Thus solutions for further programme's implementation (including possibility to prolong projects implementation's period) shall be discussed in the Annual Meeting.

*Correctional Services Reform Programme's* activities are complex and interrelated. Implementation of the re-socialization activity is threaten by delays in construction works of the Olaine's addiction centre or lack of qualified staff or unwillingness of the target group to get involved in the re-socialization. Thus the PO will strictly monitor fulfilments of construction works according to terms set in the agreement on construction works. And the PP of the Olaine addiction centre will draft the mechanism of personnel selection and organize recruitment campaign in order to attract appropriate personnel.

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

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

## **4.2 Compliance with EU legislation, national legislation and the MoU**

### ***EU legislation – State aid***

In order to provide monitoring of the state aid issues the institution responsible for the state aid issues in Latvia – the State Aid Control Department of the MoF – continued its involvement in the monitoring of programmes by providing comments to the Innovation Programme Regulations' (both for OC and SGS) amendments with regards to state aid issues.

The EC on 29 November 2013 extended the duration of Commission's Regulation (No 800/2008 of 6 August 2008) for 6 months declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General Block Exemption Regulation). The new regulation entered into force since 1 July 2014 and Member States were allowed to apply existing schemes only by the end of June 2014 (adjustment period), with the exception of regional aid schemes. The exemption of regional aid schemes expiration date of *Regional Aid Map* for Latvia was extended until 30 June 2014. Respective changes of the state aid regulation influenced Innovation Programme and thus all decisions on approval of the 1<sup>st</sup> round of OC's project applications were strictly taken by the end of June 2014. Whereas the 2<sup>nd</sup> round of OC and both rounds of SGS were launched according to new state aid regulations. This required amendments in national level Innovation Programme Regulations, both for OC' and SGS' call conditions, in order to conform them to new state aid regulation.

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

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

#### **Exception of the Article 7.16.2 of the Regulation (Procurement)**

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

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

In order to use common approach for all projects financed from the EU Funds and other foreign financial assistance in Latvia, the FP has discussed with the FMO on exception of the Article 7.16.2 of the Regulation in specific programmes. And in January 2015 the FP and the FMO electronically agreed on exception of the Article 7.16.2 of the Regulation: the procedure outlined in national Regulation no.299 may be applied for PPs receiving 50% or



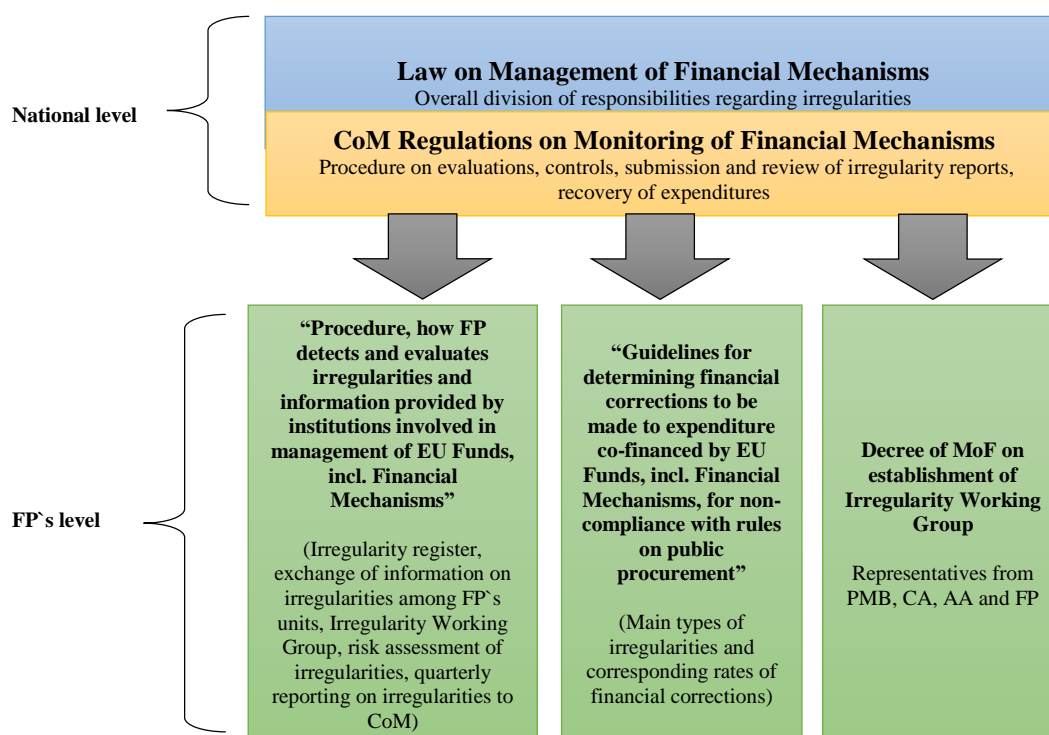
more of the eligible expenditure of the project as a project grant from a programme under the FM, if and when the national authorities consider that the procurement procedure under the Public Procurement Law cannot be applied, provided that the applicable thresholds specified in the relevant EU Directives are not exceeded. In case of Latvia the exception of the Article 7.16.2 of the Regulation will be relevant only to SGS's projects of Innovation Programme.

### ***National legislation***

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

### 4.3 Irregularities

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



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

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

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

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

Table 8. Summary on reported irregularities in 2014

1. Correctional Services Reform Programme	15 360 000	0	0,00%
2. Innovation Programme	12 586 667	3 236	0,03%
3. Capacity-Building Programme	5 645 781	2 427	0,04%
4. Research and Scholarships Programme	5 546 667	0	0,00%
5. TAF	768 000	668*	0,09%
<b>Total:</b>	<b>39 907 115</b>	<b>6 331</b>	<b>0,02%</b>

\*inc. financing from both FMs

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

Other part of irregularities was detected by POs at the project level. There were irregularities reported to the FMO for the Capacity Building programme's pre-defined project "Smart governance and performance improvement of Latvian municipalities" in amount of 1 222 euro related with non-compliant calculation of project administrative costs.

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

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

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

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

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

- 11 checks from which 6 checks were carried out in 2 pre-defined projects of Correctional Services Reform Programme and 5 - in 3 pre-defined projects of Capacity Building Programme;
- 12 checks of the programme management expenditures in all programmes -Correctional Services Reform Programme (5 checks), Innovation Programme (4) and Capacity Building Programme (2), Research and Scholarships Programme (1 check).

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

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

- Innovation Programme - 12 pre-contract monitoring visits to the 1<sup>st</sup> round of OC projects in order to get assurance that the project's implementation place will be appropriate for the project's activities.
- Capacity Building Programme - on-spot check in the pre-defined project "*Smart governance and performance improvement of Latvian municipalities*". The PO concluded that in general implementation corresponds to the plan, although minor shortcomings in the project publicity, project partner reports and market research were detected, which were corrected.
- Correctional Services Reform Programme - on-spot check in the Olaine prison pre-defined project. The PO concluded that project documentation, calculations of project administrative staff salaries, equipment and inventory costs, cooperation with the partners, procurement of documentary film and hiring of procurement expert do comply with national legal and project contract requirements.

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

## 4.5 Information and publicity

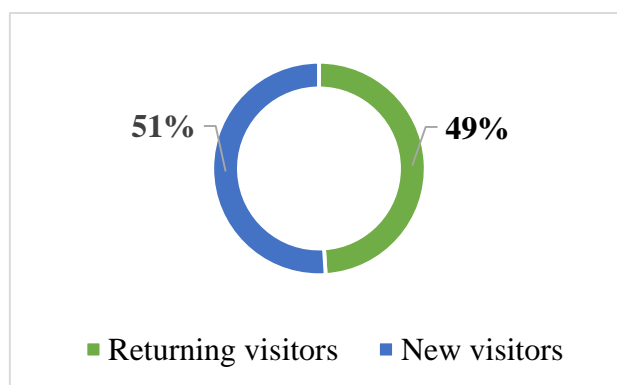
According to the FMs Communication Strategy for the period of 2009-2017 Communication Management Group, which is responsible for provision and coordination of the communication process, have gathered two times during 2014 to discuss opening events, informative seminars, common communication and publicity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

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

In 2014 the FP has distributed information (more than 40 press releases) in the mass media, social media (twitter.com) and specific list of other recipients, also information (press releases, short news, photos and videos) on national website of the FMs<sup>31</sup> were published and updated on regular basis.

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

*Chart 7. Visitors of [www.eegrants.lv](http://www.eegrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv)*

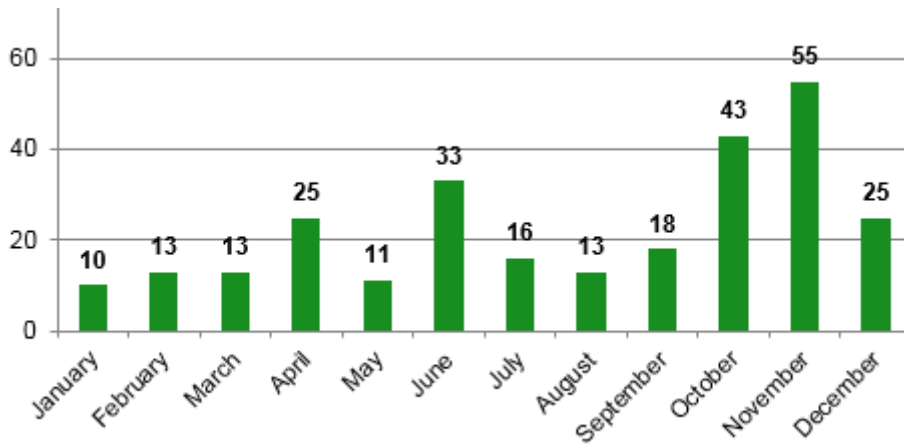


*Source: Google Analytics*

Also the FP in January 2014 started a new initiative – FMs’ media monitoring – that will be continued till 2017. In 2014 altogether 275 publications/broadcasts in the Latvian press, radio, TV and Internet were gathered.

*Chart 8. Number of publications/broadcast per month in 2014*

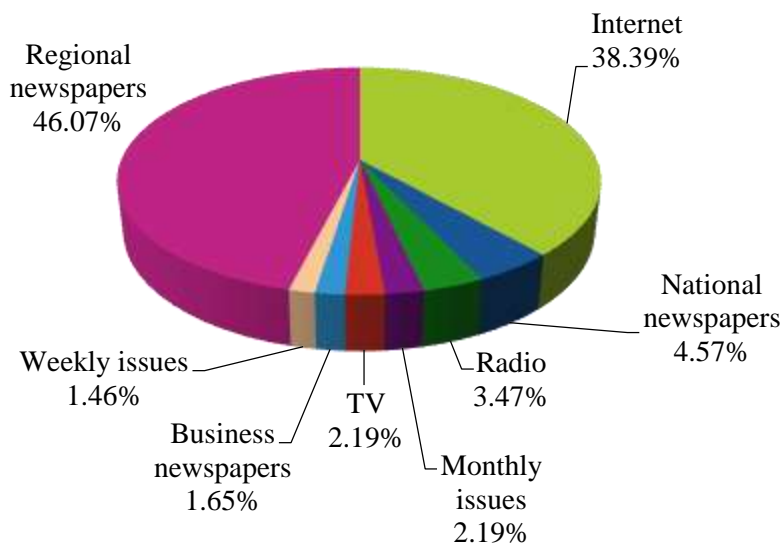
<sup>31</sup> [www.eegrants.lv](http://www.eegrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv)



In October media often reflected activities within pre-defined projects of Correctional Services Programme – mostly about procurement of Olaine addiction centre for prisoners. While the highest publicity in November 2014 is related to informative events for launching OC for Scholarships and the 2nd round of OC and SGS within Innovation Programme.

Mainly publications cover regional press what shows that projects' activities are more targeted to regions as well as information is closer to the target audience. Information about the Incubator, the new addiction centre in Olaine for prisoners, an initiation of electronic monitoring as new alternative to imprisonment as well as about opening of Latgale Region Representation Office in Riga was broadcasted in the largest national TV channels (LTV1, TV3, LNT).

Chart 9. Number of publications/broadcasts by media type in 2014



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

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



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

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

Regarding implementation of the programmes several seminars have been organized:

- 1) Several informative seminars were organized within **Research and Scholarships Programme** – 3 seminars during July/August 2014 for potential project applicants in Research OC (145 participants) and one seminar in November 2014 for potential project applicants in Scholarships OC (41 participant).
- 2) Within **Innovation Programme** 3 informative seminars for potential project applicants were organized (all together 173 participants). In January and December 2014 two seminars were aimed at entrepreneurs in order to inform about conditions, requirements and evaluation criteria within both rounds of OC. While at the end of the year there was another seminar organized with a goal to raise interest about the SGS and available support within the pre-court incubation activity in the Incubator.
- 3) In August 2014 the PO of **Capacity-Building Programme** organized informative seminar about pre-defined projects eligible costs, preparation of project reports (29 participants) and opportunities offered by the PBF.

Also in 2014 there were several information and publicity events organized in Riga, which were aimed at wider public:

### **1. Capacity-Building Programme**

- In April 2014 the PPs of two pre-defined projects organized a joint opening conference “Development Planning and Entrepreneurship Promotion in Regions and Local Municipalities of Latvia”. It was attended by development planners and entrepreneurship promotion specialists of local municipalities, representatives of planning regions, NGO’s, experts and entrepreneurs.

- In June 2014 as a part of pre-defined project there was Latgale Region Representation Office in Old Town opened. It will present actual investment projects to potential investors and show production of Latgale local entrepreneurs and craftsman, as well as it will provide premises for entrepreneurs for their communication with potential investors and cooperation partners.



*Mr Aldis Adamovičs - Chairman of Development Council of Latgale Planning Region - giving a speech at the opening event of the Latgale Region Representation Office in Riga*

## **2. Innovation Programme**

The Incubator opening day was organized in October. The importance of bringing together eco-minded entrepreneurs and scientists was highlighted throughout the day. Ambassador of the Embassy and high level representatives from MoE, LIDA, Innovation Norway (the DPP) and Riga Technical University took part in the event.



*Mr Tore Lasse By – Director of the Innovation Norway - giving a speech at the opening event of the Incubator*



## 4.6 Work plan

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

Table 9. Work plan for 2015

Scope	Task	Apr-Jun	Jul-Sep	Oct-Dec
Calls under the Programmes	Launch of SGS' call	LV06		
	Signing project contracts (OCs and SGSs)	LV06		LV06
International cooperation	Bilateral conferences/events (strategic questions within specific field)	LV06 Two NBF's events	LV08	LV06 LV07 LV08
	Implementation of Complementary Actions	LV07	LV08	LV07
	CC meetings	LV06 LV07	LV08	LV06 LV07
Information and publicity	FP and all PO's communicate with media (press releases, interviews, social media, press conferences etc.) and create/modify/update websites about programme's events, OCs, pre-defined projects, informative seminars, project progress etc. on regular basis	x	x	x
	PO's organize informative seminars, conferences on programme implementation progress	LV05 LV07	LV05 LV08	LV06 LV07 LV08
	POs create promotion materials	LV07		LV05
	FP provides ongoing media monitoring	x	x	x

## 5. Summary listing of issues and recommendations

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

**Donor partnerships** are ongoing in all programmes – both at programme and at project level, thus covering all programme areas selected for implementation in Latvia. Within the reporting period several instruments to strengthen bilateral relations were used. From the PBFs bilateral cooperation was fostered between POs and the DPPs as well as between PPs and donor project partners. So far 26% of FMs projects are with donor-partnerships. In 2014 all planned activities under the NBF priority “*Riga – the European Capital of Culture 2014*” were successfully implemented, donorstate artists have exposed their artworks and installations in Latvia, in the result wide publicity of events in the mass media (TV, radio, press, internet, social networks) was ensured.

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

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

- launch of SGS`s OC in Innovation Programme;
- launch of the procurement for renovation of the Incubator`s premises;
- signing of project contracts with the winners of Research and Scholarships Programme calls and Innovation Programme calls;
- organization of 2 last strategic level bilateral events from the NBF.

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

## 6. Attachments to the Strategic Report

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

#### Applications for Research and Scholarships Programme

Calls for proposals	2014			Total		
	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Bilateral Research Cooperation	73	0	0	73	0	0
Scholarships	0	0	0	0	0	0
<b>Total</b>	<b>73</b>	<b>0</b>	<b>0</b>	<b>73</b>	<b>0</b>	<b>0</b>

Open call related outcomes:

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

#### Bilateral Calls for Proposals

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

Open call related outcomes:

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

## Applications for Innovation Programme

Calls for proposals	2014			Total		
	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Predefined in Programme Proposal			1			1
2nd Open Call: Support for Introducing Green Technologies into Production	22	3	0	22	3	0
Main Open Call	13	5	3	13	5	3
Small Grant Scheme	7	1	0	7	1	0
Small Grant Scheme - Second Open Call	19	3	0	19	3	0
<b>Total</b>	<b>61</b>	<b>12</b>	<b>4</b>	<b>61</b>	<b>12</b>	<b>4</b>

Open call related outcomes:

- Realisation of the business opportunities of greening of the European economy
- Increased green job creation and entrepreneurship
- Predefined project measures:
  - Education and training
  - Provision of services
  - Research

## Applications for Capacity-Building Programme

Calls for proposals	2013			2014			Total		
	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted	Received	Partnership	Projects Contracted
Predefined in MoU			3			1			4
<b>Total</b>			<b>3</b>			<b>1</b>			<b>4</b>

Predefined project measures:

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

### Applications for Correctional Services Reform Programme

	2013			2014			Total		
<b>Calls for proposals</b>	<b>Received</b>	<b>Partnership</b>	<b>Projects Contracted</b>	<b>Received</b>	<b>Partnership</b>	<b>Projects Contracted</b>	<b>Received</b>	<b>Partnership</b>	<b>Projects Contracted</b>
Predefined in MoU			2			1			3
<b>Total</b>			<b>2</b>			<b>1</b>			<b>3</b>

Predefined project measures:

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

## Annex 6.2 Donor partnership projects in each programme

### Innovation Programme

Project id	Project Name	Pre-defined project	Donor state	Donor project partner	Type of organization
LV06-0007	Environmentally friendly and durable road pavement material introduction to Baltics	No	Norway	Norwegian university of Science and Technology	University, college or other teaching institution, research institute or think-tank
LV06-0001	Green Industry Innovation Centre (Green Technology incubator)	Yes	Norway	Industrial Development Corporation of Norway (SIVA IM)	Norwegian-state owned company
<b>Projects with donor project partners 2 out of 5 (40.0%)</b>			<b>Planned grant amount for projects with donor project partners € 2,376,509</b>		

### Capacity-Building Programme

Project id	Project Name	Pre-defined project	Donor state	Donor project partner	Type of organization
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 € 4,475,433</b>		

### Correctional Services Reform Programme

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 monitoring)	Yes	Norway	Ila Detention and Security Prison	National agency
			Norway	Oslo Probation Office	Regional or local authority
LV08-0002	New unit at Olaine prison, including construction and training of staff	Yes	Norway	Correctional Service of Norway Staff Academy	University, college or other teaching institution, research institute or think-tank
			Norway	Oslo Prison	National agency
LV08-0003	Improving the standard of Latvian State police detention centres	Yes	France	Council of Europe	International institutions council of Europe
<b>Projects with donor project partners 3 out of 3 (100.0%)</b>			<b>Planned grant amount for projects with donor project partners € 12,065,127</b>		

### Annex 6.3 Donor partnership projects in Latvia

#### Latvia - Summary

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

*\*Excluding TAF and Decent Work Programme*



#### Annex 6.4 List of irregularities detected at programme level

Irregularity case	Irregularity status	Case opened	Case closed	Irregularity period	Followed up	Initial nature of irregularities	Amount of recovered funds	Grant amount reduced
IR-0043	Closed	30.05.14	08.08.14	2014Q1		deviation from programme agreement	2 453	2 208
IR-0045	Closed	30.05.14	08.08.14	2014Q1		deviation from programme agreement	1 205	1 065
IR-0061	Closed	21.08.14	06.11.14	2014Q2		deviation from programme agreement	114	103
IR-0070	Closed	24.11.14	05.12.14	2014Q3		deviation from programme agreement	356	356
IR-0071	Closed	24.11.14	09.12.14	2014Q3		deviation from programme agreement	312	312
IR-0096	In Review	23.02.15		2014Q4		deviation from programme agreement	669	602
<b>Total</b>							<b>5 109</b>	<b>4 646</b>

### Annex 6.5 List of irregularities detected at project level

<b>Irregularity case</b>	<b>Irregularity status</b>	<b>Case opened</b>	<b>Case closed</b>	<b>Irregularity period</b>	<b>Followed up</b>	<b>Initial nature of irregularities</b>	<b>Amount of recovered funds</b>	<b>Grant amount reduced</b>
IR-0104	In Review	23.02.15		2014Q4		deviation from project contract	1 222	1 080
<b>Total</b>							<b>1 222</b>	<b>1 080</b>

## Annex 6.6 Monitoring and audit activities plan for 2015

No	Responsible Authority	Audit period	Audited system/ programme/ project
<b>System audits at the level of BS according to the Article 4.6, Paragraph 1(a), of the Regulations</b>			
1.	Audit Authority	I-II quarter	Public procurement audit in the PMB and other entities on a sample basis to verify effective functioning of MCS at BS's level.
<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	I quarter	System audit of MCS of Capacity Building Programme (MoEPRD and SRDA).
3.	Audit Authority	II and III quarter	System audit of MCS of Correctional Services Programme (MoJ and MoI).
4.	Audit Authority	III and IV quarter	Follow-up of system audit of MCS of Innovation Programme (MoE and LIDA).
5.	Audit Authority	IV quarter	System audit of MCS of Research and Scholarships Programme (MoES and SEDA).
<b>Projects audits according to the Article 4.6, Paragraph 1(c), of the Regulations</b>			
6.	Audit Authority	II and III quarter	Project which expenditures are reported in the programmes' IFR#4-6.
<b>Internal at the level of BS and the programme</b>			
7.	Internal audit of MoEPRD	III and IV quarter	Monitoring and reporting process and project management in Capacity Building Programme.
8.	Internal audit of SEDA	IV quarter	Assessment of execution of SEDA administration function in the preparatory visits' projects of the Research and Scholarships programme.
<b>On-spot checks</b>			

9.	LIDA	I, III and IV quarter	Visits to Innovation Programme`s predefined project (2 visits), 3 OC projects (3 visits) and after signing of 2 <sup>nd</sup> round (~4 visits) SGS contracts projects` implementation places to verify that respective place is appropriate for project activities.
10.	MoJ	I and IV quarter	Initial inspections at Correctional Services Reform Programme`s project implementation sites and preliminary inspections for the procurements of all 3 pre-defined projects: 10 verifications in the 1 <sup>st</sup> pre-defined project, 5 - in the 2 <sup>nd</sup> pre-defined project and 4 - in the 3 <sup>rd</sup> pre-defined project.
11.	MoEPRD /SRDA	I quarter	Verification of implementation progress of Capacity-Building Programme`s 4 pre-defined projects, compliance of expenditures with projects` objectives, procurement rules, implementation of cooperation agreements within project, etc.
12.	MoES	III quarter	Verification of implementation progress of Research and Scholarships Programme`s all 11 research projects and scholarships (~20 projects) projects in the beginning phase of the project to assure that all preparatory work is done properly (internal procedures, management structure).

### Annex 6.7.1 Risk assessment at the national level

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

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

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

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

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

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

## Annex 6.7.2 Risk assessment at the programme level

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



Programme	Type of objective [1]	Description of risk	Likelihood [2]	Consequence [3]	Risk Score [4]	Mitigation actions done/ planned	Total risk score for the Programme [5]
<b>LV06 Innovation Programme</b>	<i>Cohesion (Programme) outcomes:</i>	Not achievement of programme's outputs related to OC's and SGS's activities	4	4	8	<p><b>2014</b> The 2<sup>nd</sup> round of OC and SGS was launched.</p> <p><b>2015</b> The 3<sup>rd</sup> round of SGS in the end of March 2015 will be launched. Part of possible leftovers under the 2<sup>nd</sup> round of OC and the 3<sup>rd</sup> round of SGS could be transferred to the Incubator for pre-incubation services. The possibility to prolong deadline of projects implementation for SGS and the Incubator (as it is related to SGS (incubation) and pre-incubation (if leftovers will be transferred to pre-incubation)) could be evaluated.</p>	<b>39</b>
	<i>Bilateral outcome (s)</i>	Lack of capacity and interest in the donor states for partnership in projects	3	2	5	<p><b>2014</b> The risk was actual in 2014 as almost all OCs' were launched. The LIDA organized two matchmaking events to facilitate the partner search. Please see more information on section 2.2 of this report.</p>	
	<i>Operational issues:</i>	Lack of capacity at the level of national administrations handling the Grants	2	4	6	<p><b>2014</b> There was high level of rotation of the PO's employees responsible for programme. The lawyer (responsible for amendments in national programme regulations, appeals and other legal issues related to programme) was hired in 2014 and starting from 2015 a new employee responsible for programme's management started to work. Additional work place was created in the LIDA to increase their administrative capacity.</p> <p><b>2015</b> It is foreseen to organize 1-2 experience exchange meetings with the DPP to share good practice.</p>	

		Low potential applicants' interest within OC and lack of quality in project applications thus endangering absorption of funding	3	3	6	<p><b>2014</b> The LIDA organized additional informative seminars for the potential OC's and SGS's project applicants as well as provided information about available support within programme in 11 different regional events; provided individual advice to applicants during the calls. The PO amended national Programme's Regulations on OC and SGS conditions: adjusted definitions "new technology", "greener process" and simplified project selection criteria and applications' submission conditions. Respective informative activities gave results. In the 2<sup>nd</sup> round of OC 22 projects were submitted while in the 1<sup>st</sup> round only 13. Accordingly in the 2<sup>nd</sup> round of SGS 19 projects were submitted while in the 1<sup>st</sup> round only 7. As well as in those rounds requested financing exceeded available financing.</p> <p><b>2015</b> At least one informative seminar within the 3<sup>rd</sup> round of SGS will be organized by the LIDA. Information about call and conditions will be published on the POs/LIDA's and the FP's webpage. As well as individual advice to applicants will be provided by the LIDA during the call (answers to applicants by phone and e-mails).</p>	
		Refusal to implement a project in the middle or at the end of implementation period due to capacity problems of the PP (difficulties to ensure co-financing, insufficient experience to implement a project (for start-ups in SGS),	3	4	7	<p><b>2014/2015</b> Selection criteria provide additional points for a project, which shows higher readiness to start implementation (procurement documentation, sufficient resources or agreement with a bank). Before receiving an advance payment the PP should fulfill additional conditions to demonstrate capacity to implement project activities. The Incubator management have expertise to provide consultancy and contact of investment funds and other funding possibilities for SGS' PP. In 2015 the LIDA will regularly monitor projects' implementation by verifying project's reports and performing on-spot checks, in order to identify any risks as soon as possible and will inform the PO/the FP about it immediately. The PO will propose actions and consult with the DPP, the FP and the FMO about possible new activities to absorb leftovers created due to refusal of project implementation, if applicable.</p>	

		appliance of state aid rules)					
<b>LV08 Correctional Services Reform Programme</b>	<i>Cohesion (Programme) outcomes:</i>	Project LV08/2 - unwillingness of the target group to get involved in the planned activities	2	4	6	<b>2015</b> The risk will be mitigated by the PP: 1) informing target groups about the project activities; 2) ensuring regular work with the target groups; 3) implementing activities, which are directed to the attraction and motivation of the target group; 4) performing amendments in the project (it is planned to supplement the 1 <sup>st</sup> activity “Personnel Capacity Development” with personnel education in the sphere of motivational interviewing that will allow to choose suitable solutions for involvement of prisoners in addiction curtailing program).	<b>31</b>
		Project LV08/2 – delays in construction works of the Olaine’s addiction center	2	4	6	<b>2014</b> Procurement of constructions works was closed by November 2014 and in the agreement on construction works strict stages of works and terms for they fulfilment were set. <b>2015</b> The PO will strictly monitor fulfilments of constriction works according to the terms set in the agreement on construction works.	
		Project LV08/1 - not available funding for implementation of commenced electronic monitoring after the end of the project	2	4	6	<b>2014</b> The PP has ascertained and submitted explanation for the PO, in which informs and substantiates that electronic monitoring technologies are financially more gainful to rent, but not to purchase, hence saving the finance necessary for this purpose for the next 5 years. The Informative report on this issue was submitted by the PO to the CoM. <b>2015</b> Issue on funding will be observed with assessment and confirmation of state budget for 2016.	
	<i>Operational issues:</i>	Project LV08/2 - insufficient staff capacity, which would not allow to involve expected amount of prisoners in addiction programme	3	3	6	<b>2015</b> The PP will draft the mechanism of personnel selection and organize recruitment campaign in order to attract appropriate personnel.	

<b>LV05 Research and Scholarships Programme</b>	<i>Operational issues:</i>	Lack of capacity at the PO level handling with the programme management	2	3	5	<b>2014</b> In order to strengthen PO's capacity a new employee responsible for programmes' implementation was hired in June 2014 <b>2015</b> The PO will improve competences of human resources involved in the programme by participation in trainings (seminars, workshops, etc.) thereby accumulating more experience and knowledge on the programme's management.	<b>17</b>
		The PPs lack of understanding about project implementation conditions (incl. contracting)	2	3	5	<b>2014/2015</b> Within the Programme Regulations and in the PO's internal regulations detailed procedures on conclusion of the contracts with the beneficiaries, contracts' amendments as well as on implementation of the projects are provided. During project's contracting phase the Agency organizes consultations for the PPs. On a regular bases the Agency's employees monitor the implementation of the projects according to the Agency's internal procedures and other external regulations.	
<b>LV07 Capacity- Building Programme</b>	<i>Operational issues:</i>	Insufficient interest from target group (incl. local people) to participate in projects' activities	2	3	5	<b>2014/2015</b> The PPs regularly communicate with target groups (incl. employees of municipalities, politicians) about benefits of participation in projects' activities as well as training programmes organized within projects are focused on explaining the benefits. The PPs organize publicity activities to attract as many representatives of target groups as possible.	<b>12</b>

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

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

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

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

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

## Annex 6.8 Annual Report 2014 under the TAF Agreement

### 1.OVERVIEW OF MAIN ACTIVITIES

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

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

## 2.BUDGET OVERVIEW in EUR

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

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

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

\*Amount eligible from TAF

### 4.STAFFING

National Focal Point – The Ministry of Finance				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Armands Eberhards	Head of Focal Point, Deputy State Secretary of the MoF	Main responsible authority of the FP	0	N
Dīana Rancāne	Head of EU Funds Monitoring Department	Overall management and monitoring of the FMs	0	N
Dīana Atkauķe from May 2012 till now	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Head	Overall management and monitoring of the FMs	30%	Y
Guntra Želve from May 2012 till now	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Deputy Head	Overall management and monitoring the FMs (inc. programme LV06)	30%	Y

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



	Projects Implementation Unit, Deputy Head			
Antra Bolgzde <i>from November 2011 till now</i>	Finance and Maintenance Department, Accounting Unit, Deputy Head	Carry out accounting (reports). Participation in elaboration of regulatory documents	20%	Y
Ilze Berga	Finance and Maintenance Department, Accounting Unit, Head/Chief accountant	Supervision of Unit activities	3%	N
Laima Kalniņa	Finance and Maintenance Department, Accounting Unit, Senior accountant	Carry out accounting (rewards)	5%	N
Anta Freimane			3%	
Viktorija Grīnfelde	Finance and Maintenance Department, Head	Supervision of department activities	5%	N
Lelde Grīnvalde <i>from October 2012 till June 2014</i>	Communication Department, Deputy Head	Coordinates the FMs Communication Strategy; organizes Communication Management Group meetings, common activities and informative events for popularization of EEA/Norway Grants; cooperates with media, ensuring information (press releases, news) and organization of media events	20%	Y
Ieva Pužule <i>from June 2014 till now</i>	Communication Department, Senior officer			
Edgars Putins <i>from November 2012 till now</i>	Finance and Maintenance Department, Informatics Unit, Leading IT administrator	Maintains web pages <a href="http://www.eegrants.lv">www.eegrants.lv</a> and <a href="http://www.norwaygrants.lv">www.norwaygrants.lv</a>	10%	Y
<b>Certifying Authority – State Treasure</b>				
<b>Name of staff</b>	<b>Official position</b>	<b>Main tasks</b>	<b>Level of effort (% of working time)</b>	<b>Funded through the Grants (Y/N)</b>
Karīna Zencova	European Affairs Department, Director	Participation in elaboration of legal documents, guidelines and system description, establishment of the internal procedures to ensure responsibilities of the CA, verification and certification of IFRs, approval of the auditors' reports analysis, verification of the prepared Forecast of Likely Payment Applications to the FMO	20%	N
Anda Pudāne	European Affairs Department, Deputy director	Participation in elaboration of legal documents, guidelines and system description, elaboration of the internal procedures to ensure responsibilities of the CA,	20%	N
Santa Lakševica			20%	N
Kaspars Braže			50%	Y

Regīna Uljanova	European Affairs Department, Senior officer	verification of IFRs, analysis of the auditors' reports, preparation of the Forecast of Likely Payment Applications to the FMO	50%	Y	
<b>Audit Authority - Ministry of Finance</b>					
<b>Name of staff</b>	<b>Official position</b>	<b>Main tasks</b>	<b>Level of effort (% of working time)</b>	<b>Funded through the Grants (Y/N)</b>	
Nata Lasmane	EU Funds Audit Department, Director/Head of the AA	Ensures overall management of the AA. Supervises audits, inc. approval of the Overall audit strategy for every audit, approval of all audit reports, issuing opinions. Approves Single Audit Strategy for the whole period of the FMs. Approves the AARs annually on effectiveness of the MCS. Issues Opinions annually on the basis of the controls and audits that have been carried out, as to whether the MCS functions effectively.	1,5%	N	
Olga Guza <i>from May 2012 till now</i>	EU Funds Audit Department ,Chief Expert	Elaborates methodology of the AA for carrying out audits and for preparation of Single Audit Strategy and the AARs. Manages compliance assessment audits and audits on the effective functioning of the MCS. Manages audits on effective functioning of the PMCS. Performs risk assessment of the projects in order to establish sample for auditing. Manages audits of the projects. Prepares and submits to the FMO Single Audit Strategy, the AARs annually on the effectiveness of the MCS. Prepares and submits annually to the FP Annual Audit Plans.	50%	Y	
Ilona Skorobogatova <i>from November 2012 till now</i>	EU Funds Audit Department, Auditor	Carries out compliance assessment audits, audits on the effective functioning of the MCS, audits on the effective functioning of the PMCS, audits of the projects.	50%	Y	
Raimonda Batņa <i>from September 2014 till October 2014</i>			Participates in audits (in case of lack of human resources).	50%	Y
Jānis Gaišonoks <i>from October 2014 till December 2014</i>					
<b>Other entities – 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	Control Department, Director	Develops plans of pre-examinations, approving conclusions	10%	N
Artūrs Gurskis <i>from August 2013 till September 2014</i>	Control Department, Senior officer	Develops plans of pre-examinations, examinations of the procurement documentation and preparing conclusions	50%	Y
Aldis Šilders <i>from September 2014 till now</i>				
Evija Rubene <i>from September 2013 till now</i>				
<b>Entity responsible for irregularity reporting – Ministry of Finance</b>				
Name of staff	Official position	Main tasks	Level of effort (% of working time)	Funded through the Grants (Y/N)
Inga Vajevska <i>from May 2012 till now</i>	EU Funds Monitoring Department, EEA, Norwegian and Swiss Projects Monitoring Unit, Chief Specialist	Irregularity reporting	10%	Y
Signe Gulbe <i>from July 2013 till now</i>			10%	Y

## 5.THE COMING YEAR 2015

National entities	Overview of the principal tasks planned to be implemented
1.National Focal Point	Overall management and monitoring of the FMs. Organization of the Annual Meeting 2015 in Riga. Participation in seminars/workshops/conferences initiated, organized or co-organized by the donor states. Media monitoring of the FMs performed. Publicity activities carried out.
2.Certifying Authority	The principal tasks will remain the same as in 2014
3.Audit Authority	Carrying out audits on: 1) effective functioning of the MCS – one audit is planned in relation to public procurement system; 2) effective functioning of the PMCS– audits are planned for following programmes –LV07 / LV02, LV08 and LV05; 3) the projects which expenditures have been reported in the programmes' IFR#4, #5 and #6. Preparation and submission to the FMO: 1) Annual Audit Report till 31.12.2015 on the basis of the controls and audits mentioned before; 2) Opinion till 31.12.2015 as to whether the MCS functions effectively.

4. Other entities (Procurement Monitoring Bureau)	Will continue to develop plans of ex-ante checks of procurements and will perform them as well as will perform random of procurements relating with programme administration. It is planned to carry out at least 36 ex-ante checks and develop conclusions of procurements.
5. Entity responsible for irregularity reporting	Regular reporting will be continued in accordance with procedures set in the Regulation.

## Annex 6.9 Improvements and updates of the PMCSs<sup>32</sup>

PO/ Programme	AA`s Opinion date	AA`s opinion and identified necessary improvements and recommendations	Actual status of recommendations	Justification for updated description of PMCS	Date of approval of PMCS`s updated version <sup>33</sup>
MoEPRD and SRDA/ Capacity- Building Programme	10 December 2013	<b>The PMCS in all the material respects has been established in accordance with the assessment criteria.</b>	There were no recommendations provided.	Updated because the information about the MoEPRD and SRDA internal procedures and other information related to the implementation of the programmes have been updated. Updated version was evaluated by the AA in the follow-up of the implementation of the recommendations of the compliance assessment audit, <u>the changes in the MCS are not considered significant.</u>	17 September 2014
MoE/ Innovation Programme	6 January 2014	<b>The PMCS in all the material respects has been established in accordance with the assessment criteria.</b> 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.	The separation of the structural unit of the LIDA responsible for verification of payment claims from other structural units responsible for the implementation of the programme was ensured. The LIDA has developed the procedures for selection and approval of the OC and the SGS projects, performance of the on-the-spot checks, conclusion of the trilateral contracts of the predefined-, the OC and the SGS projects as well as the procedures for data input into the	Updated due to the changes made in the internal procedures of the MoE and the LIDA, as well as in accordance with recommendations made by the AA. Updated version was evaluated by the AA during the MCS audit of the programme performed during the AAR period, <u>the changes in the</u>	22 October 2014

<sup>32</sup> In accordance with information included in the AA`s AAR for the period 01.07.2013 – 30.06.2014 and actual information received from the POs and the AA by March 2015

<sup>33</sup> Date of approval of updated PMCS (and/or date of order of changes) in the PMCS during the AAR period.

			DoRIS system, for accounting and recovery of the non-eligible costs. The LIDA has developed the templates and the guidance note of interim and final project reports for the predefined project, OC and SGS projects. In February 2015 the LIDA has developed procedure for monitoring and control of implementation of the pre-defined project, OC and SGS projects (the last recommendation).	<u>PMCS are not considered significant.</u>	
MoES/ Research and Scholarships Programme	21 February 2014	<b>The PMCS in all the material respects has been established in accordance with the assessment criteria.</b> The AA identified that two Programme Regulations (Research/ Scholarships) are not approved by the CoM as well as the MoES has not developed internal procedures on implementation of the programme, inc. cooperation process with the SEDA, monitoring process of the SEDA's functions, process of reporting on progress and irregularities. The AA issued respective recommendations to improve the system with the deadline - by June 2014.	The Regulations on Scholarships Activity inc. also the project cost eligibility conditions and procedure for selection and approval of the projects have been developed and approved by the CoM during the set deadline. The Regulations on Research Activity inc. also the project cost eligibility conditions and procedure for selection and approval of the projects, process for selection and approval of the independent project appraisers have been developed and approved by the CoM during the set deadline. <u>All recommendations have been implemented, except one</u> – the internal procedure of the MoES for programme implementation inc. also the procedure for cooperation between the MoES and the SEDA, the procedure for monitoring of functions delegated to the SEDA, procedure for preparation of programme reports, procedure for reporting irregularities is still under development and planned to be elaborated and approved until the end of April 2015.	N/A	N/A
MoJ and MoI/ Correctional Services	31 January 2014	<b>The PMCS in all the material respects has been established in accordance with the assessment criteria.</b>	The Programme Regulations were approved on 8 April 2014 by the CoM inc. procedure for the actions of the MoJ and the MoI in the event of detection of irregularities within the pre-	N/A	N/A

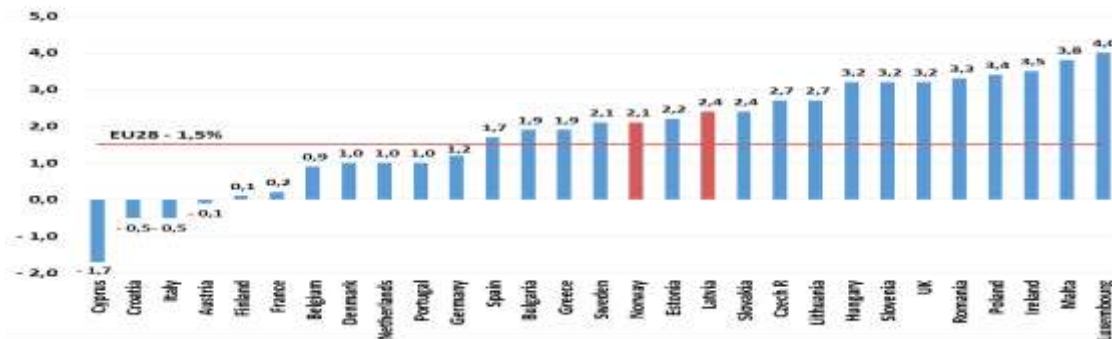
<p>Reform Programme</p>		<p>The AA identified that the Regulations on implementation of the programme activities was not submitted to the CoM for approval, the MoJ has not fully elaborated internal procedures for projects on-the-spot and for ex-ante verifications as well as for preparation of programme reports. The MoJ has not elaborated internal procedure on functions of the MoJ as national programme partner. There is no internal procedure on activities in case of irregularities, as well as responsible ministry for final decision on irregularity. The MoJ has not fully elaborated procedure on revision and summarizing of identified risks and mitigation actions before preparation of annual reports. <u>The AA has issued recommendations to improve the system by the end of the 3<sup>rd</sup> quarter of 2014.</u></p>	<p>defined project of the State Police, as well as it is also prescribed, which of the ministries would adopt the final decision on the irregularity.</p> <p>The MoJ has developed the Procedure for the ex-ante procurement verifications, procedures for performance of the on-the-spot checks, for preparation of the programme reports and the Procedure for aggregation and review of information about the identified risks and mitigation measures.</p> <p>As well as the MoI has developed the internal regulations on implementation of the tasks of the national programme partner.</p> <p>All the recommendations were implemented until the end of 2014.</p>		
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## Annex 6.10 Economic background of EU, Latvia and cooperation with Norway

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

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

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



Source: Eurostat, Central Statistical Bureau of Latvia

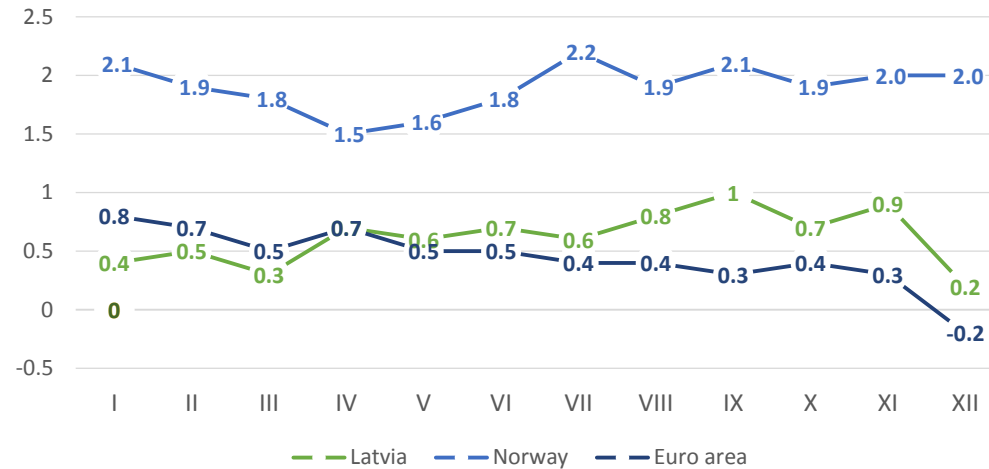


In Latvia, after 3 years of strong economic growth, expansion of the economy has become slower in 2014. In 2013, GDP increased by 4.2%, but in 2014 it slowed down to 2.4%, however it still exceeds the EU average growth rate by 1.1 percentage point.

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

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

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



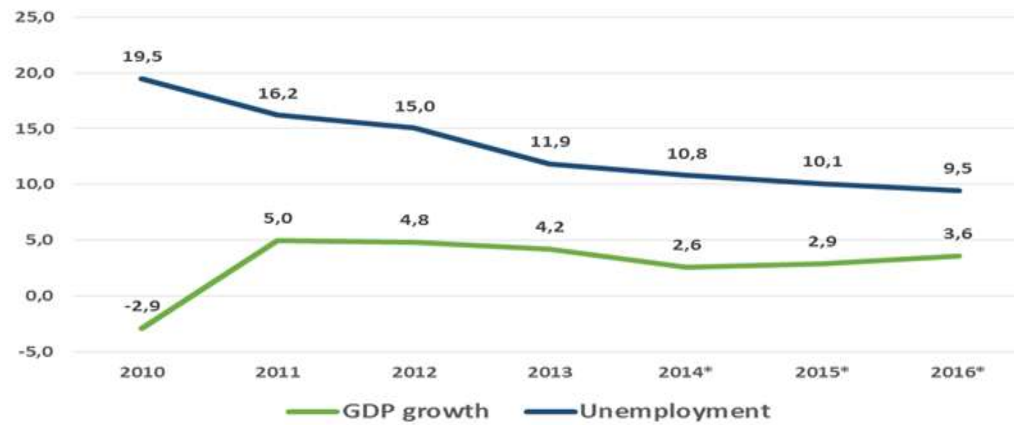
Source: Eurostat, Central Statistical Bureau of Latvia

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

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

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

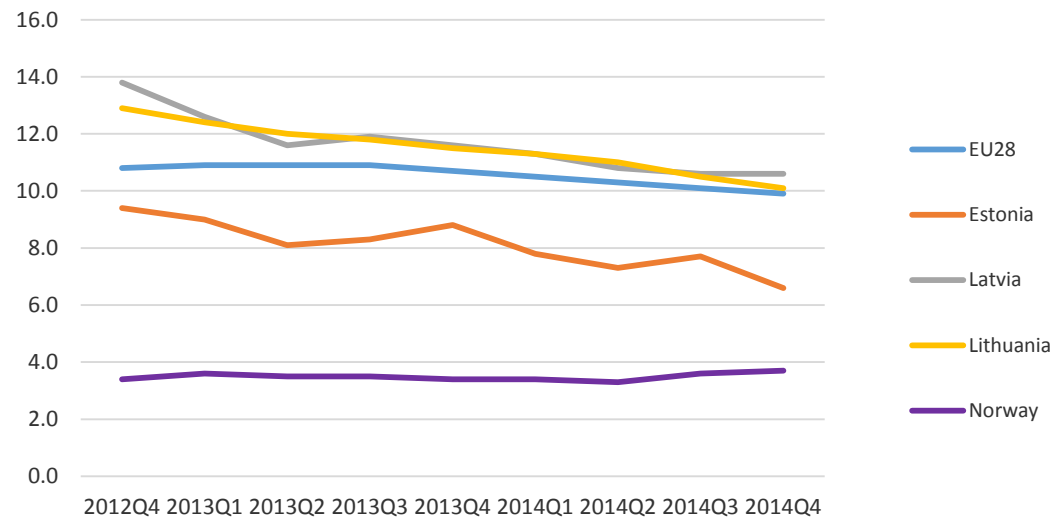
Chart 3 GDP growth rate and unemployment dynamics in Latvia



Source: Central Statistical Bureau of Latvia, EC forecast\*

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

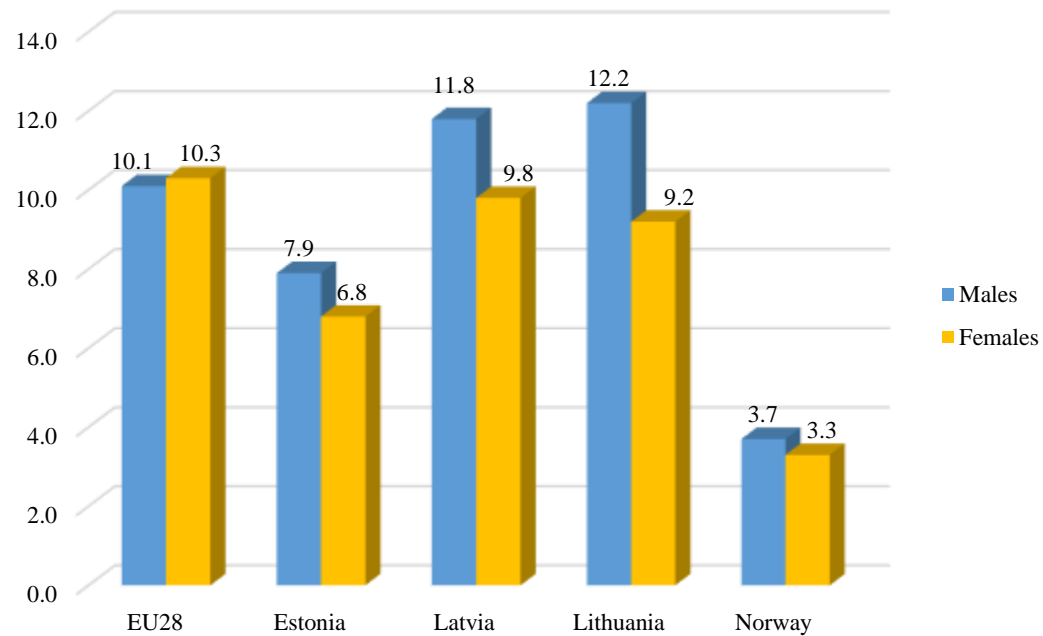
Chart 4 Seasonally adjusted unemployment rate 2012-2014, %



Source: Eurostat

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

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



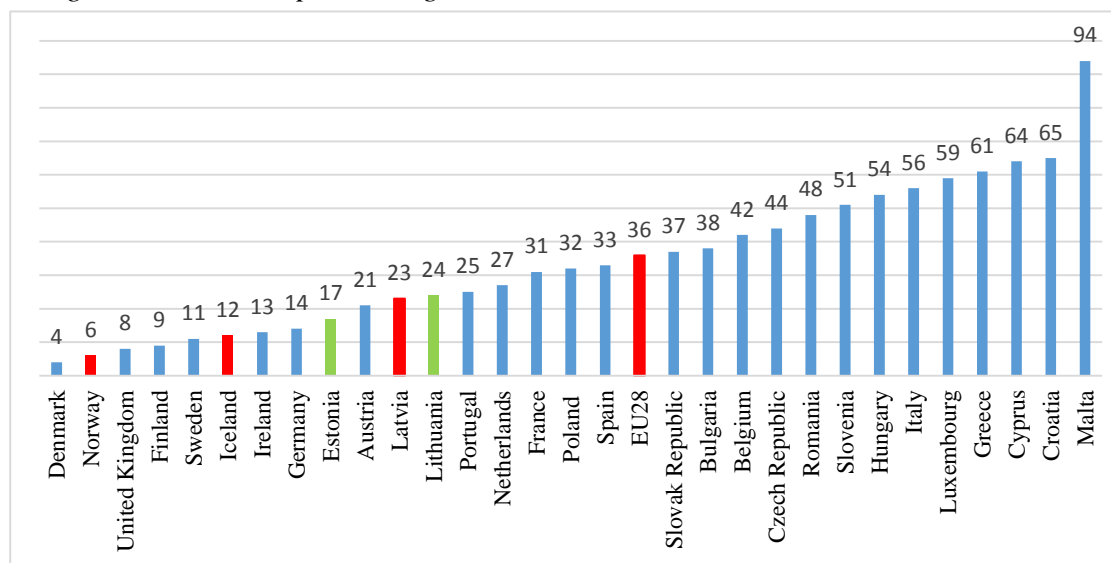
Source: Eurostat

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

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

Evaluation results of different international organizations as well testifies about development of Latvian economy. For example, Latvia has achieved high score in the annual report *Doing Business*<sup>34</sup>, where it ranks in the 23<sup>rd</sup> place among 189 states and is in the 9<sup>th</sup> place among EU28. The rank has increased comparing to the report *Doing Business 2013* when Latvia was in the 25<sup>th</sup> place among 185 states. Latvia has substantially improved rating in procedures of reception of the building permits; connection to energy; tax pay off ratio, nevertheless on progress major problems still are related with effective operation of the courts system.<sup>35</sup>

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



Source: [www.doingbusiness.org](http://www.doingbusiness.org)

Latvia ranks in the 42<sup>nd</sup> place (year ago the 52<sup>th</sup> place and the year before the 55<sup>th</sup> place) among 144 states in evaluation of the *Global Competitiveness Index (GCI)*<sup>36</sup> 2014-2015. Relevant improvement are in fulfilment of base requirements (institutional environment, quality of the public infrastructure,

<sup>34</sup> The report *Doing Business* is published annually by the World Bank since 2003 ([www.doingbusiness.org](http://www.doingbusiness.org)) and provides objective measures of business regulations and their enforcement across 189 economies

<sup>35</sup> Data in *Doing Business 2015* as of 1 June 2014

<sup>36</sup> *Global Competitiveness Report* is a yearly report published by the World Economic Forum, webpage: <http://www.weforum.org/reports/global-competitiveness-report-2014-2015> Data of the GCI gives possibility to determine advantages and disadvantages of states competitiveness in specific indicators which identify competitiveness

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

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

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

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

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

On 13 November 2014 the EC approved officially *Operational Programme “Growth and Employment” for the EU Funds 2014-2020* programming period<sup>38</sup>, in which there will be 4.4 billion euro available for Latvia. Latvia is among the first Member States having the operational programme officially approved. The most significant investments are planned in order to reduce the number of citizens under the poverty risk by providing appropriate training, improving their health condition and integrating them into the labor market, as well as to facilitate the employment by integrating long-term unemployed persons and young people in the labor market. With the support of EU Funds it is also planned to reduce the consumption of primary energy by improving

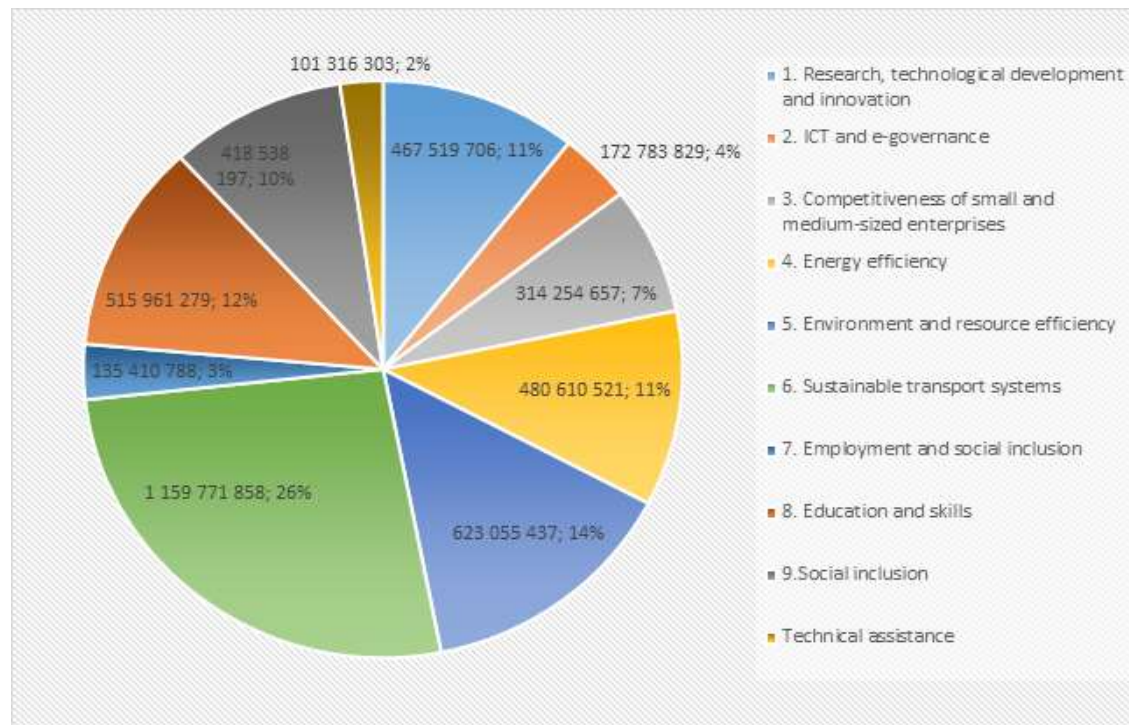
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<sup>37</sup> *Index of Economic Freedom* is an annual index and ranking created by the Heritage Foundation since 1995, webpage: <http://www.heritage.org/index/>

<sup>38</sup> More information on EU Funds 2014-2020 implementation in Latvia are available on webpage <http://www.esfondi.lv/events.php?id=496>

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

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

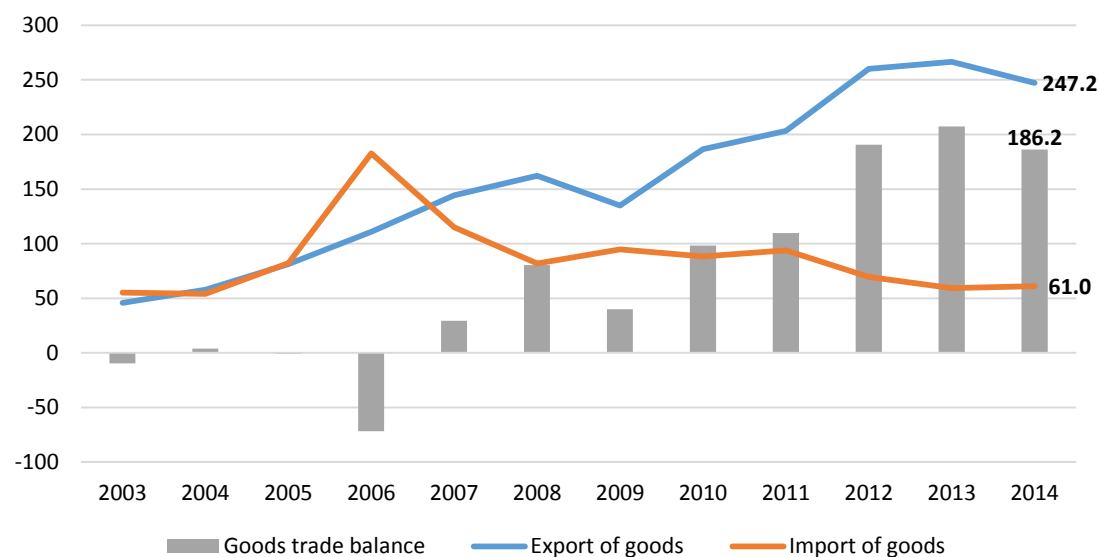


*Economic cooperation between Latvia and Norway*



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

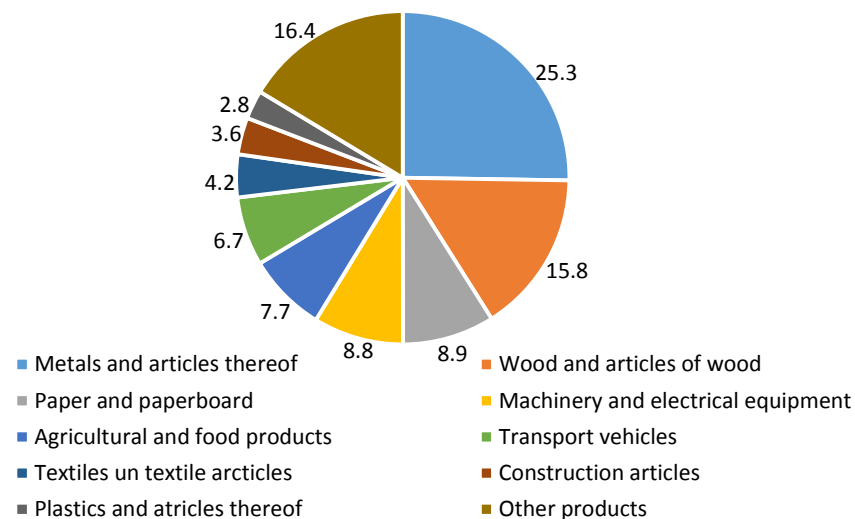
*Chart 8 Latvian and Norwegian foreign trade of goods 2003-2014, M EUR*



*Source: Central Statistical Bureau of Latvia*

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

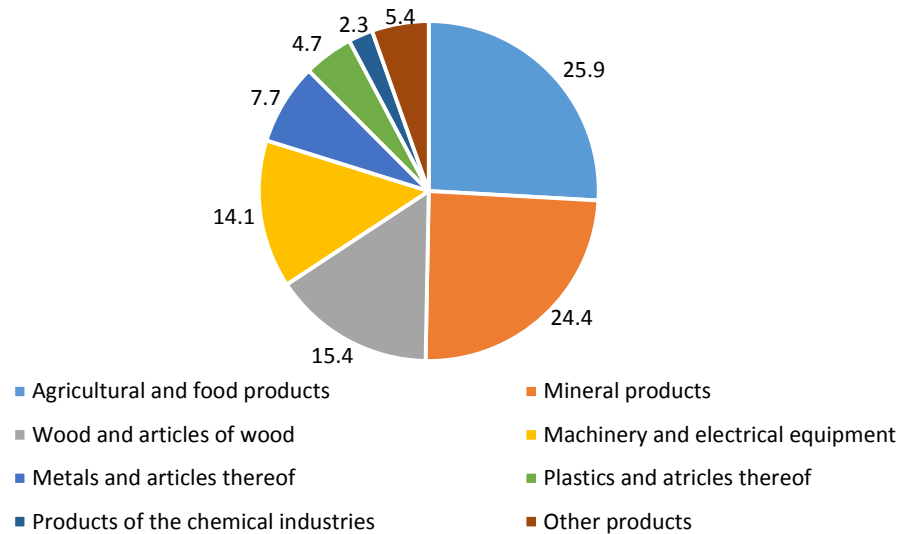
Chart 9 Structure of exports, % of total exports of goods to Norway in 2014



Source: Central Statistical Bureau of Latvia

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

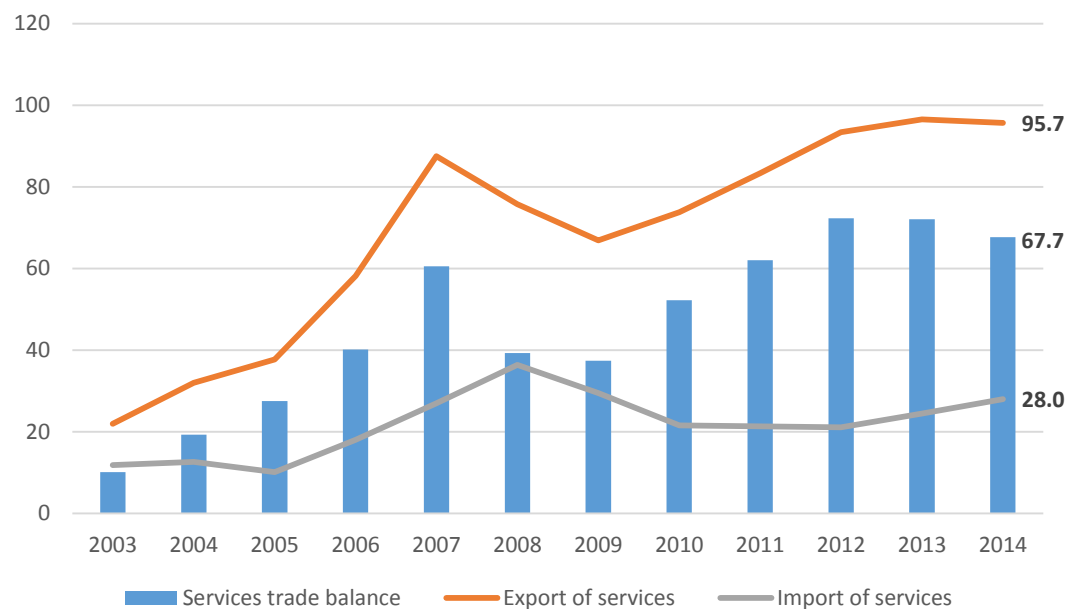
Chart 10 Structure of imports, % of total imports of goods from Norway in 2014



Source: Central Statistical Bureau of Latvia

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

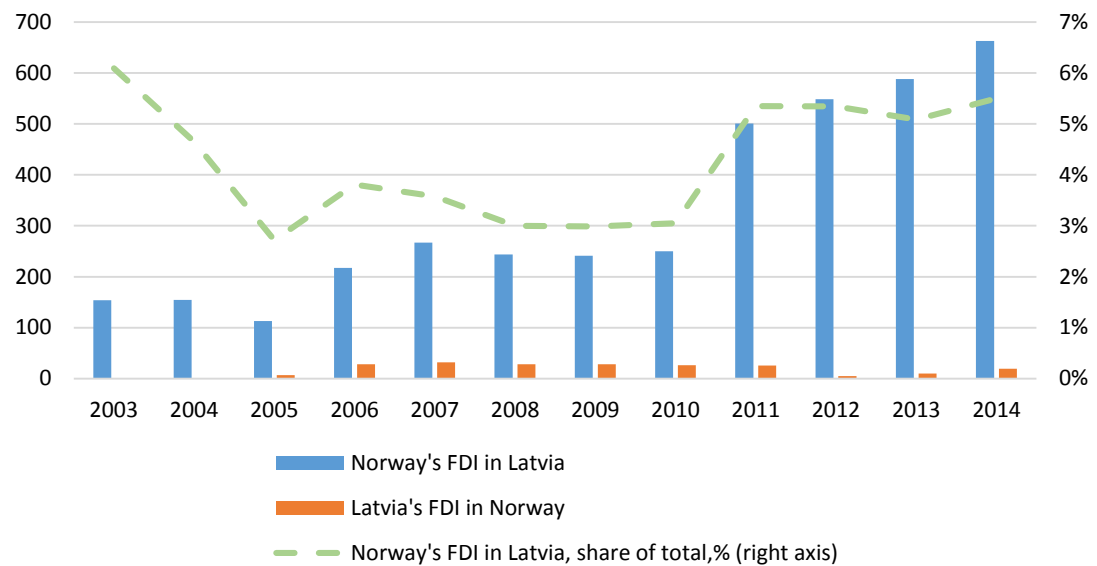
Chart 11 Latvian and Norwegian foreign trade of services 2003-2014, M EUR



Source: The Bank of Latvia

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

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



Source: The Bank of Latvia