



Implementation of the 2009-2014 EEA Financial Mechanism in Lithuania

Strategic Report No.1

Reporting period

18 May 2011 - 31 December 2011

Prepared by the National Focal Point (Ministry of Finance)

Abbreviations

AA	Audit Authority
CA	Certifying Authority
CPMA	Central Project Management Agency
CC	Cooperation Committee
DPP	Donor Project Partner
EEA	European Economic Area
FMO	Financial Mechanism Office
FMC	Financial Mechanism Office
IRA	Irregularities' Reporting Authority
NFP	National Focal Point
NMFA	Norwegian Ministry of Foreign Affairs
MoU	Memorandum of Understanding
PA	Payment Authority
PO	Programme Operator

1 EXECUTIVE SUMMARY

According to the Article 2.2 of the Regulations on the Implementation of the 2009-2014 European Economic Area (EEA) Financial Mechanism (further referred as Regulations), the Ministry of Finance (MoF), acting as the National Focal Point (NFP) for the implementation of the Mechanism in Lithuania prepared the *Annual Strategic Report No. 1 on the Implementation of the 2009-2014 EEA Financial Mechanism in Lithuania* (further referred as the Strategic Report).

The Strategic Report reflects the implementation of the 2009-2014 EEA Financial Mechanism (or EEA Grants) during the period from 18 May 2011 (signing of the Memorandum of Understanding on implementation of the Mechanism) to 31 December 2011 and contains information on the progress made towards the development and functioning of the management and control system, information on preparation and possible impact of the programmes planned to be supported from this Mechanism, also provides work plan for the next monitoring period.

Before submission to the Financial Mechanism Office (FMO) and the Donor States, the report was discussed by the Monitoring Committee for the 2009-2014 European Economic Area and Norwegian Financial Mechanisms according to Part 4.(c) of Article 4.4 of the Regulation on 29 March 2012.

2 ASSESSMENT OF IMPACT AT NATIONAL LEVEL

All programmes and measures planned to be supported from the 2009-2014 EEA Financial Mechanism (or EEA Grants) after successful implementation will contribute to two overall objectives of the mechanisms: reduction of economic and social disparities in the EEA and strengthening of the bilateral relations between donors states and Lithuania.

2.1 Cohesion

The Memorandum of Understanding on 2009-2014 EEA Financial Mechanism (further referred as MoU) signed by Lithuania and Iceland, Principality of Liechtenstein, the Kingdom of Norway, and identifies 7 programme areas for the cooperation. The grants are targeted to the areas and to the measures which during negotiations were agreed to be of urgent need of Lithuania and will considerably contribute to both objectives of the grants. The distribution of the allocations among the programme areas to be supported is presented in the Charts No. 1 and 2. The major funds of the Mechanism were allocated for the Environmental protection and Management (Integrated Marine and Inland Water Management, Biodiversity and Ecosystem Services), Civil Society, Human and Social Development (Children and Youth at Risk) and Protecting of Cultural Heritage (Conservation and Revitalisation of Cultural and Natural Heritage, Promotion of Diversity in Culture) priority sectors.

Chart No. 1. Distribution of the grants among programme areas, in euros

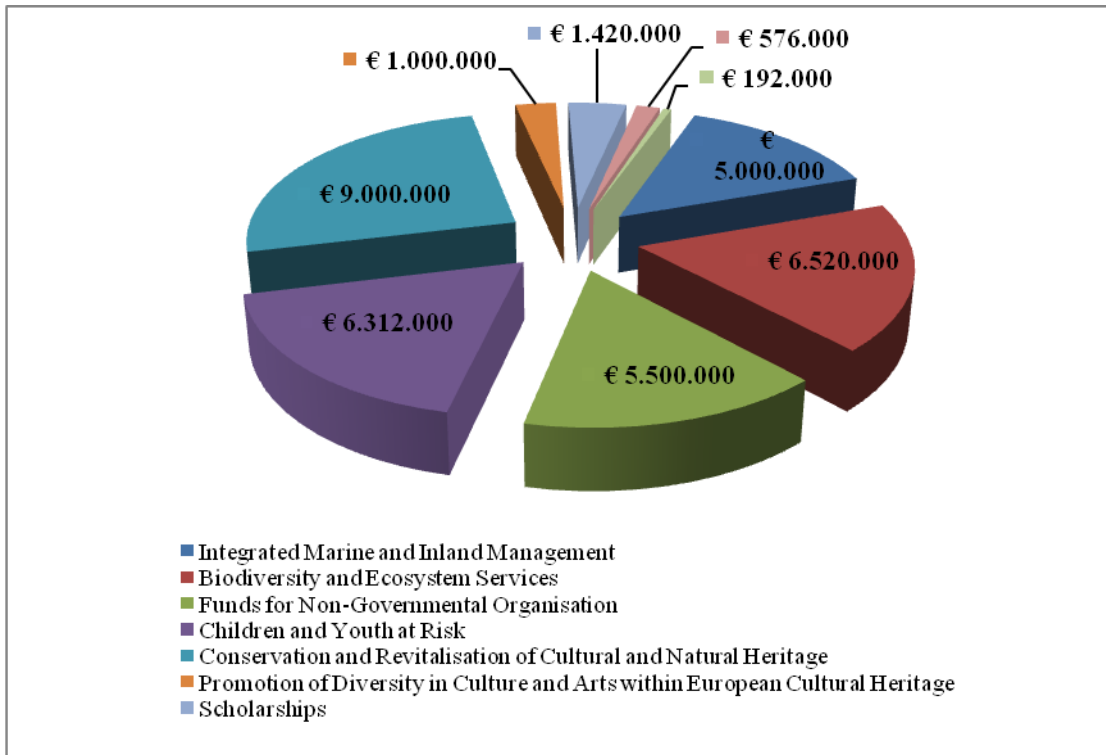
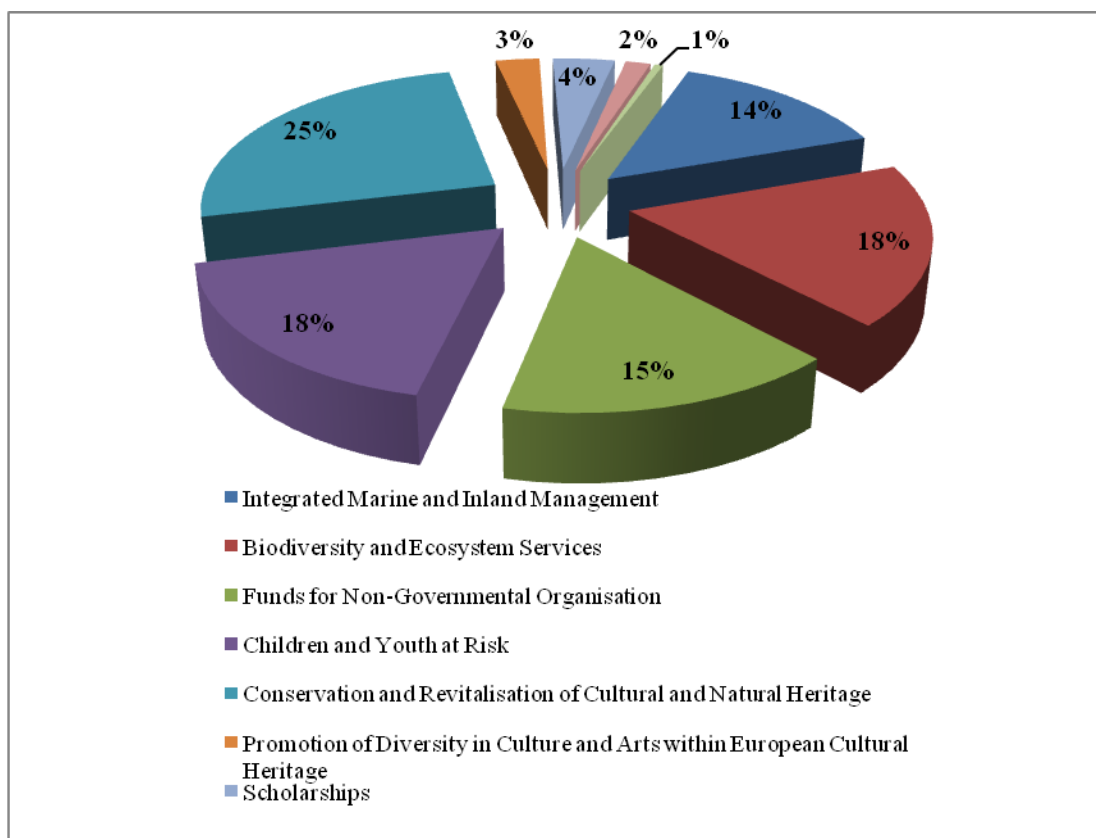


Chart No. 2. Distribution of the grants among programme areas, in percents



During the reporting period the programmes were still under preparation, however based on the draft programme proposals the expected impact of the programmes to the reduction of economic and social disparities could be summarised as follows:

With the help of the EEA Grants it is expected to achieve and maintain a good environmental status in marine and inland waters. The second environmental Programme is aimed to contribute to halt loss of biodiversity and ecosystem services in Lithuania via supporting projects which are designed to effectively increase capacity to manage and monitor Natura 2000 sites and to avoid fragmentation of ecosystems.

The strengthened NGOs in Lithuania via the specifically dedicated NGO Fund should enhance contribution to social justice, democracy and sustainable development. Regarding the Human and Social Development, it is also expected to reduce social and economic disparities while improving well-being of children and youth through effective and efficient measures addressing vulnerable groups of children and youth facing particular risks, prevention of instances of violence, abuse and exploitation

against children and youth, provision of health and social care services to ensure equal access for children and youth.

In the cultural sector the funds from the EEA Mechanism are planned to be allocated to ensure favourable conditions for preserving wooden cultural heritage buildings by restoring, conserving, adapting and upkeeping them with the use of traditional technologies and traditional building materials. Wooden heritage buildings can be considered an important factor of Lithuanian identity and are the most vulnerable and disappearing cultural heritage in Lithuania due to the vulnerability of their main construction material. In addition, implementation of the international co-production and co-operation projects envisaged to be supported from the EEA grants will complement to the reduction of disparities within Europe and the country as would reduce nationalist tendencies, facilitate cultural dialogue and accelerate better involvement of the Lithuanian regions in creative and artistic activities

2.2. Bilateral relations

Strengthening bilateral relations between the beneficiary country and the donor states is one of the objectives of the 2009-2014 EEA Financial Mechanism – equal to the goal of reducing social and economic disparities. To facilitate achievement of this objective several instruments are used – partnerships at programme and project level, separate funding schemes at national and programme level.

5 out of 6 programmes (the LT04 NGO Fund is managed directly by the FMO) planned to be supported by the 2009-2014 EEA Mechanism in Lithuania will be implemented with the donor programme partners (DPPs). During reporting period the DPPs actively participated in the development of the programme proposals. It is expected that involvement of the DPPs from the very beginning stage not only will have positive impact to quality and the added value of the programmes but also would enable long-term strategic cooperation between respective Programme Operators (POs) and their counterparts in donors' states.

To provide advice on the preparation and implementation of the programmes and in line with the Article 3.3 of the Regulations, POs of the donor partner programmes established respective Cooperation Committees (CC, see Table No.1) Representatives from the Financial Mechanism Committee (Norwegian Embassy in Lithuania) and the NFP are involved in the work of the CCs as observes.

Table No.1. Co-operation Committees

Programme	PO	DPP	Date of establishment of the CC	Members
LT02 Integrated marine and inland water management	Ministry of Environment	Norwegian Directorate for Nature Management	31 JAN2012	5 members (PO, DPP)
LT03 Biodiversity and ecosystem services	Ministry of Environment	Norwegian Directorate for Nature Management	31 JAN2012	6 members (PO, DPP)
LT06 Conservation and Revitalisation of Cultural and Natural Heritage	Ministry of Culture	Norwegian Directorate for Cultural Heritage	24 OCT 2011	7 members (PO, DPP, Cultural Heritage Department of Lithuania)
LT07 Promotion of Diversity in Culture and Arts within European Culture Heritage	Ministry of Culture	Arts Council Norway	24 OCT 2011	5 members (PO, DPP)
LT08 Scholarship Programme	Ministry of Education and Science	The Norwegian Centre for International Cooperation in Higher Education	2 NOV 2011	7 members (PO, DPP, Education Exchange Support Foundation)

Partnership projects between entities in the donor states and Lithuania are encouraged or compulsory in all the programmes planned under the 2009-2014 EEA Grants. To facilitate partnerships a separated funding is available from the programme budget.

In addition to the instruments directly related to the bilateral aspect of the programmes - a National Bilateral Fund should be established at the national level and managed by the NFP according to the Regulations. The detailed activities to be supported and procedures of implementation are under development by the NFP in consultation with the Financial Mechanism office (FMO) and donors. It is planned that a part of the funds available will be allocated to cover expenses of participation in the

events important for the development of the programmes and sharing of experience during their implementation. Major part of this Fund is planned to be directed to initiatives that are not directly related to the agreed programmes but are linked to any of the 32 possible programme areas under this and Norwegian Financial Mechanism and important for bilateral relations between Lithuania and Norway. It is planned to agree on the main directions of the content of this Fund during 1st annual meeting with donors (18 April 2012) after consultation with the relevant Lithuanian stakeholders.

3 MANAGEMENT AND IMPLEMENTATION

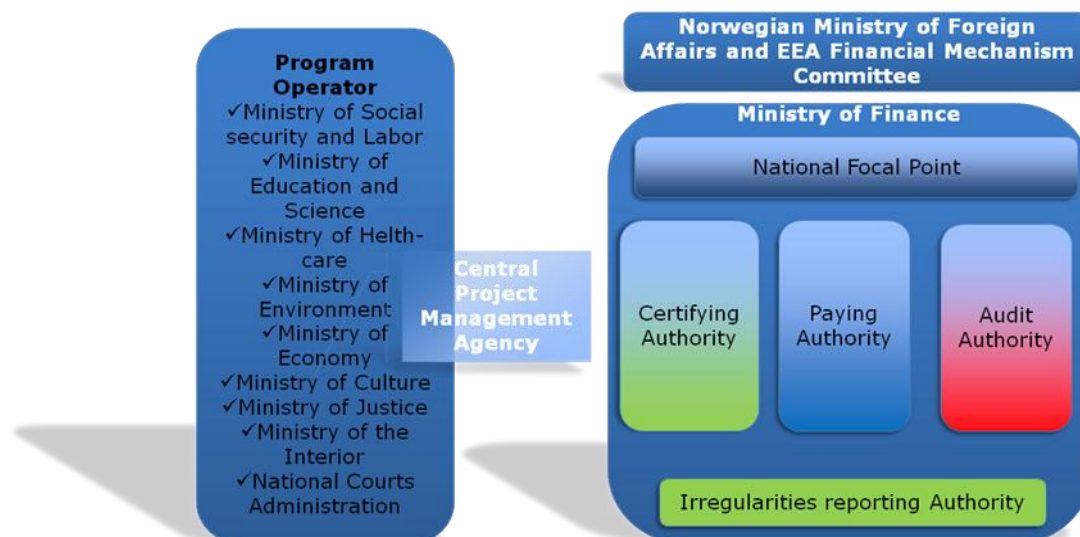
3.1 Management and control systems

The legal framework of implementation of the 2009–2014 EEA Financial Mechanism in Lithuania consists of:

- MoU on the implementation of the 2009–2014 EEA financial mechanism,
- Regulation on the implementation of the 2009–2014 EEA financial mechanism with Annexes,
- Governmental resolution No. 57 (approved on 18 January 2012) (Official Gazette, 2012, No. 10-393) on Management of 2009-2014 EEA and Norwegian Financial Mechanisms in Lithuania.

The set-up of the implementation (i.e. responsible national authorities: NFP, Certifying Authority (CA), Payment Authority (PA), An appropriate national public entity responsible for the preparation and submission of irregularities reports (Irregularities Reporting Authority, IRA), Programme Operators (POs), Central Project Management Agency(CPMA)) of the 2009-2014 EEA Financial Mechanism (and common also for the 2009-2014 Norwegian Financial Mechanism) in Lithuania is defined in the above mentioned MoU. As was agreed in the MoU, parties through exchange of letters (letter of the NMFA of 30 November 2011 and letter of the NFP of 8 December 2011) agreed to designate the Internal Audit and Financial Control Methodology Department of the MoF as the Audit Authority (AA). The agreed management set-up was fixed in the national legislation by the above-mentioned Governmental Resolution (which designated the mentioned competent authorities and defined institutional composition of the Monitoring Committee). The management and control in Lithuania for both Mechanisms is presented below in the Chart No.3.

Chart No.3. Management and Control System for the 2009-2014 EEA and Norwegian Financial Mechanisms in Lithuania

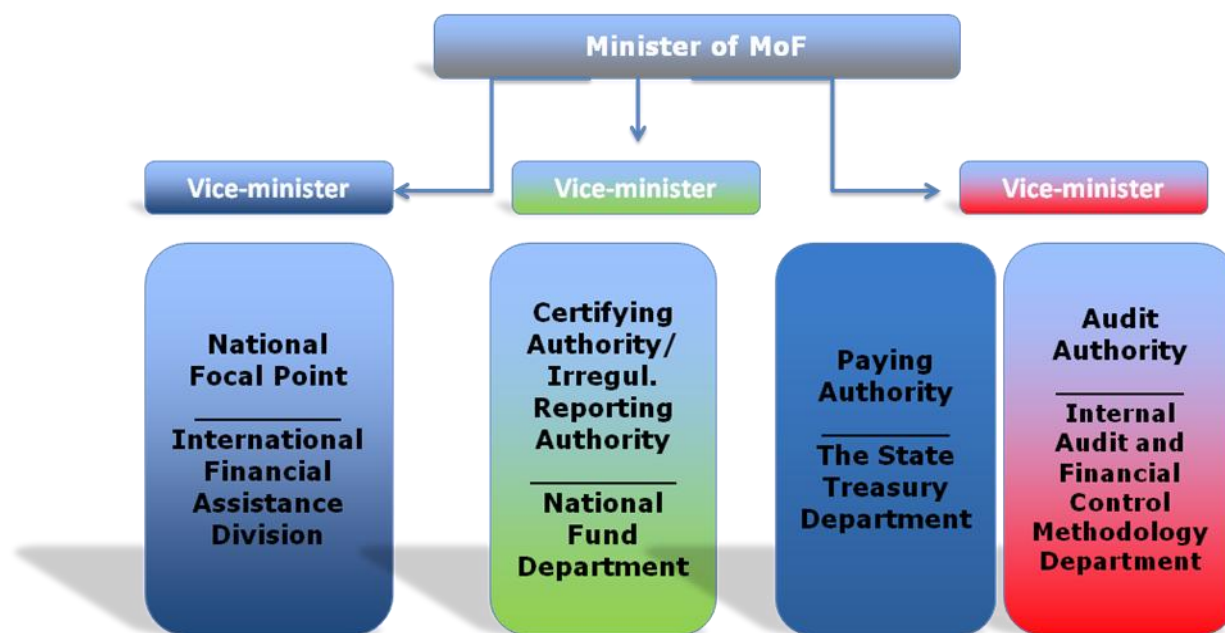


According to the above mentioned Governmental Resolution, the Monitoring Committee for the supervision of the effectiveness and quality of the implementation both of the 2009-2014 EEA and Norway grants consists of the representatives from the following institution: NFP (chairmen and co-chairmen of the Committee), POs, Ministry of Foreign Affairs of Lithuania, CPMA, Association of the Local Authorities in Lithuania, National coalition of the non-governmental organisations, Lithuanian Confederation of Industrialists, Lithuanian Business Employers' Confederation, Lithuania Trade Unions organisations. (The personal composition of the Committee was approved by the order of the Minister of Finance No. 1K-042 of 7 February 2012 (Official Gazette, 2012, No. 21-980), after the end of the reporting period of this Strategic Report).

It should be also mentioned that programmes will be supervised by the Committees: CC in the programmes implemented with DPP/DPPs and Steering Committees in remaining programmes.

As functions of the NFP, CA, IRA, PA, AA are implemented by the MoF, respective measures were taken to secure proper separation of the functions. The functions were allocated to the different structural units of the Ministry which reports to the different vice-ministers, as shown in the Chart No.4. below.

Chart No.4. Separation of Norway Grants management functions inside the MoF



Referring to the Regulation and the MoU for the 2009-2014 Norway Grants, main functions and responsibilities of the national competent institutions are as follows:

NFP:

- Overall responsibility for implementation and reaching the objectives of the 2009-2014 EEA Financial Mechanism,
- Establishment and supervision of the management and control system,
- Establishment of the general administrative, payment and monitoring rules and procedures both on the level of programs and projects,
- Establishment and organisation of the work of the Monitoring Committee,
- Regular monitoring of implementation and progress of the mechanism (annual and final Strategic Reports)
- Preparation and implementing of the Information and Publicity Strategy for the mechanisms,
- and other as indicated in the Regulations.

Certifying Authority (CA):

- Submission of the certified interim financial and final programme reports to donors,

- Submitting a forecast of likely payment applications,
- Ensuring that amounts recovered and amounts withdrawn are reimbursed prior to the closure of the programme,
- and other as indicated in the Regulations.

Paying Authority (PA)- exclusively technical payment function:

- Opening a separate account for Norway Grants,
- Receiving funds from donors,
- Transferring payments (grants and national co-financing at programme level) to the project promoters and POs & CPMA (funds for the programme implementation),
- Transferring to donors interest earned and recovered amounts.

Irregularities Reporting Authority (IRA):

- Collecting reports on irregularities,
- Reporting to donors.

Audit Authority (AA):

- ensuring that audits are carried out to verify the effective functioning of the management and control system at the level of the Beneficiary State;
- ensuring that at least one audit is carried out of each programme to verify the effective functioning of its management and control system;
- ensuring that audits are carried out on projects on the basis of an appropriate sample to verify expenditure declared;
- submitting to the FMC an annual audit report setting out the findings of the audits carried out and issuing an opinion to the FMC, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular;
- submitting to the a closure declaration assessing the validity of the application for payment of the final balance claimed in the final programme report.

POs - political, strategic and bilateral level of the management of the programmes:

- Preparation of Programmes,
- Planning Funds for the Programmes,
- Setting up the requirements for the calls for proposals and pre-defined projects,
- Establishment of Selection Committee and selection of the projects,
- Supervision of programme implementation (annual and final programme reports),
- Preparation and implementation of Information and Publicity measures on a programme level,
- Bilateral relations on a programme level,
- and other as indicated in the Regulations.

CPMA - technical tasks of the management of the programmes:

- Collecting and appraisal of applications,
- Verifying eligibility of expenditure declared by the project promoters with the payment claims,
- Supervision of implementation of the projects,
- On-the- spot checks,
- Drawing up and submitting to the CA the interim financial reports,
- Investigation of irregularities and making suggestions to the POs to recover ineligible sums,
- Reporting to IRA – entity responsible for the preparation and submission of irregularities reports.

The detailed description of functions and responsibilities of the above mentioned authorities is developed by the NFP together with the other responsible authorities (CC, PA, AA, IRA). It is planned that the description will be approved by the Order of the Minister of Finance in April 2012 after co-ordination with POs and CPMA. The NFP and other authorities also started developing general administrative, payment and monitoring rules and procedures both on the programmes and projects level. It is planned to finalise, co-ordinate with relevant stakeholders and approve the procedures by the Order of the Minister of Finance in 3rd quarter 2012 (see also Chapter 3.7 Work Plan). It should be noted that coordination of the above mentioned legal acts with quite a number of institutions involved (12 POs for both EEA and Norway grants plus other involved authorities) is a challenging task for the NFP.

For the effective management of the EEA (and Norway) Grants and for proper supervision and financial control of the supported projects and prevention of the double financing it is planned to develop a specialised IT system. For that purpose a successfully functioning Structural Funds Management Information System (SFMIS) will be adapted to include a new subsystem on EEA and Norway Grants (planned start of the functioning of the system – year 2013).

The detailed description of the management and control system will be developed by the NFP and submitted to donors together with the required AA's report and opinion. Assessment of the compliance, efficiency and the effectiveness of the management and control system (at national and programmes level) will be performed by the AA in line with the Article 4.8 of the Regulation during the next monitoring period (see also Chapter 3.7 Work Plan).

3.2 Compliance with EU legislation, national legislation and the MoU

The national legal acts for the implementation and administration of the 2009-2014 EEA Financial Mechanisms, and respective programme proposals are developed in compliance with the MoU and the Regulation (except the payment model as explained below), also with other relevant national and EU legislation. Programmes are developed also taking into account relevant mid and long term national and sectoral priorities and strategies.

Taking into consideration national legislation and practice, a slightly different as described in the Regulation, but more efficient and cost-saving model of payments to the programmes is planned by the national responsible authorities and consulted with the FMO.

According to the national laws EEA Grants will be included (by respective programme) into the budgetary programmes of the respective POs and management of these programmes will have to follow national rules of budgeting, accounting and payment. According to the respective MoU, funds shall be made by the donors to the State Treasury accounts. State Treasury Department (PA) opens a separate (interest bearing) individual State treasury account within the Bank of Lithuania for the Norway Grants. Referring to the Order of Minister of Finance of the Republic of Lithuania No. 195 “On the Approval of the Rules for Disbursement of the State budget funds from the State Treasury Account” of 21 July 2000, EEA Grants would be transferred directly to Project Promoters (including POs as well for their own expenditures) from the State Treasury per 3 working days as of the date of receipt of the

request for payment by the State Treasury and using Government budget accounting and payment system (GBAPS)¹ (see also Annex No.1).

Thus, according to this model, all funds intended for regrating would be not held in the POs' accounts, but in the State Treasury accounts. POs would receive only the management funds necessary to cover their own expenditures. The NFP and other responsible national authorities strongly believe that this payment model is more rational and efficient cash flows management method, although the different payment system is stated in the Article 8.1.2 of the Regulations, which says that “*subject to contrary provisions in national law, the Beneficiary State shall transfer the payments to the Programme Operator within 15 working days from reception of the payment*”. The new set-up would not have a negative impact with regards to the timing of transfers, contrary, the IT based centralized payment system (GBAPS) will ensure, that payment dates will be controlled more strictly and there will be less needs for additional administrative and human recourses at POs level. It should also be mentioned that this payment model is successfully functioning and used for all the budget funds, including all the EU assistance programmes, Swiss contribution, also was used for 2004-2009 EEA and Norwegian grants. Moreover, disbursement to project promoter via POs accounts (as currently stipulated in the Regulation) would be outside this system and would require additional resources.

The proposed model will be included into detailed description of the management and control system and submitted to the donors.

3.3 Status of Programmes

With regard to programmes agreed in the MoU, the main activity during reporting period was related to the development of the proposals by the respective POs. The FMO, directly managing the LT04 NGO Fund was implementing procedures to select PO from Lithuania via open call. By the end of reporting period only none of the 6 agreed programmes were approved by the NFP and submitted to the FMO for appraisal.

According to the Paragraph 4 of the article 5.1 of the Regulations on the implementation of the 2009-2014 EEA Financial Mechanisms programme proposals have to be submitted to the donors within eight months of the date of the designation of the PO. As all Lithuanian POs were designated in the MoU, which were signed on 18 May 2011, therefore the deadlines for the submission of Lithuanian

¹ IT based government information system, designed for planning, accumulation and disbursement of the State cash resources, handling of accounts, carrying out of control of the use thereof, as well as preparation of reports and monitoring the State cash flows.

programme proposals should have been 18 January 2011. However, preparation of some programmes were more complicated than it was expected. The main reasons were as follows:

- As the MoUs were signed in late spring of 2011, it was extremely difficult to gather all the stakeholders and DPPs to properly discuss possible programme content during vacation period. It impeded the preparation process as involvement of related stakeholders is crucial factor in the beginning stage when all the needs and courses of action are to be defined;
- Due to Lithuanian national budgetary rules that allow to allocate funds to appropriation managers strictly according to programmic and yearly basis, the newly assigned POs had no funds to pre-finance programme preparation (funds for the year 2011 for responsible institutions were approved by the Parliament in December 2010 when it was not yet known who will perform responsibilities of Programme Operators in Lithuania and no funds could be planned for that purpose) and could not start some of the preparation activities requiring financial input until the advance payments from the donors were received in October 2011;
- Some POs do not have extensive experience in programming of financial assistance.

Due to above mentioned, a consultation meeting between the NFP and the FMO took place on 21 December 2011 regarding the programme preparation status and problems in Lithuania. It was agreed that the NFP will ask for the extension of submission deadlines for some Lithuanian programmes. After reporting deadline of this Strategic Report, upon requests of the NFPs extension of the submission deadlines were approved by the donors for the programmes.

3.4 Irregularities

As the implementation process of the EEA Grants is in the initial stage, no irregularities have been detected during the reporting period.

3.5 Audit, monitoring, review and evaluation

As the implementation process of the grants is in the initial stage, no audit, reviews and evaluations have been undertaken by the NFP. For the next reporting period the AA plans to perform the evaluation of the management and control system as requested in the Regulations of the 2009-2014 EEA Financial Mechanism (Article 4.8.). Detailed information on the planned audits is provided in the Annex No 2.

3.6 Information and publicity

During the reporting period the information and visibility activities were not intensive. The NFP provides basic information about the Grants in the website of the MoF; important steps during this initial stage were reported via press releases (signature of the MoU, etc). Main communication was directed towards institutions, responsible for the administration and implementation of the EEA Grants.

The Communication Strategy for the EEA Financial Mechanism was under development by the NFP and is planned to achieve the following objectives:

- Promote awareness and understanding of Lithuanian society about the role of the donors and the impact of Grants to the reduction of economic and social disparities in the country and in the Europe.
- Promote possibilities and results of the Grants in strengthening bilateral co-operation with Norway.
- Promote awareness of donor's society and other relevant stakeholders about benefit of use of the Grants in Lithuania.
- Proactively and timely provide easily accessible, comprehensive and relevant information for the potential applicants about possibilities and procedures to use Grants.
- Ensure transparency and openness of the whole process of use of the Grants: administration, planning, distribution, implementation and results.
- Ensure timely and effective communication and cooperation between Norway Grants administration bodies.

While developing programme proposals POs also developed Communication plans at the programmes level.

Communication measures and means planned to be implemented by the NFP and POs will be in line with the Regulations' Annex 4 "Information and Publicity Requirements. The NFP reserved domain www.eeagrants.lt, which will be used for the dedicated websites at the EEA Financial Mechanism level, and supported programmes level.

It should be noted that the NFP's information and publicity activities are closely co-ordinated with the ones planned and implemented by the Norwegian Embassy avoiding overlapping and seeking to complement the efforts of both institutions and have the best result.

3.7 Work plan

The work plan is provided in Annex No.2.

4 REPORTING ON PROGRAMMES

None of the programmes agreed in the MoU were approved and started implementation during the reporting period.

5 SUMMARY LISTING OF ISSUES AND RECOMMENDATIONS

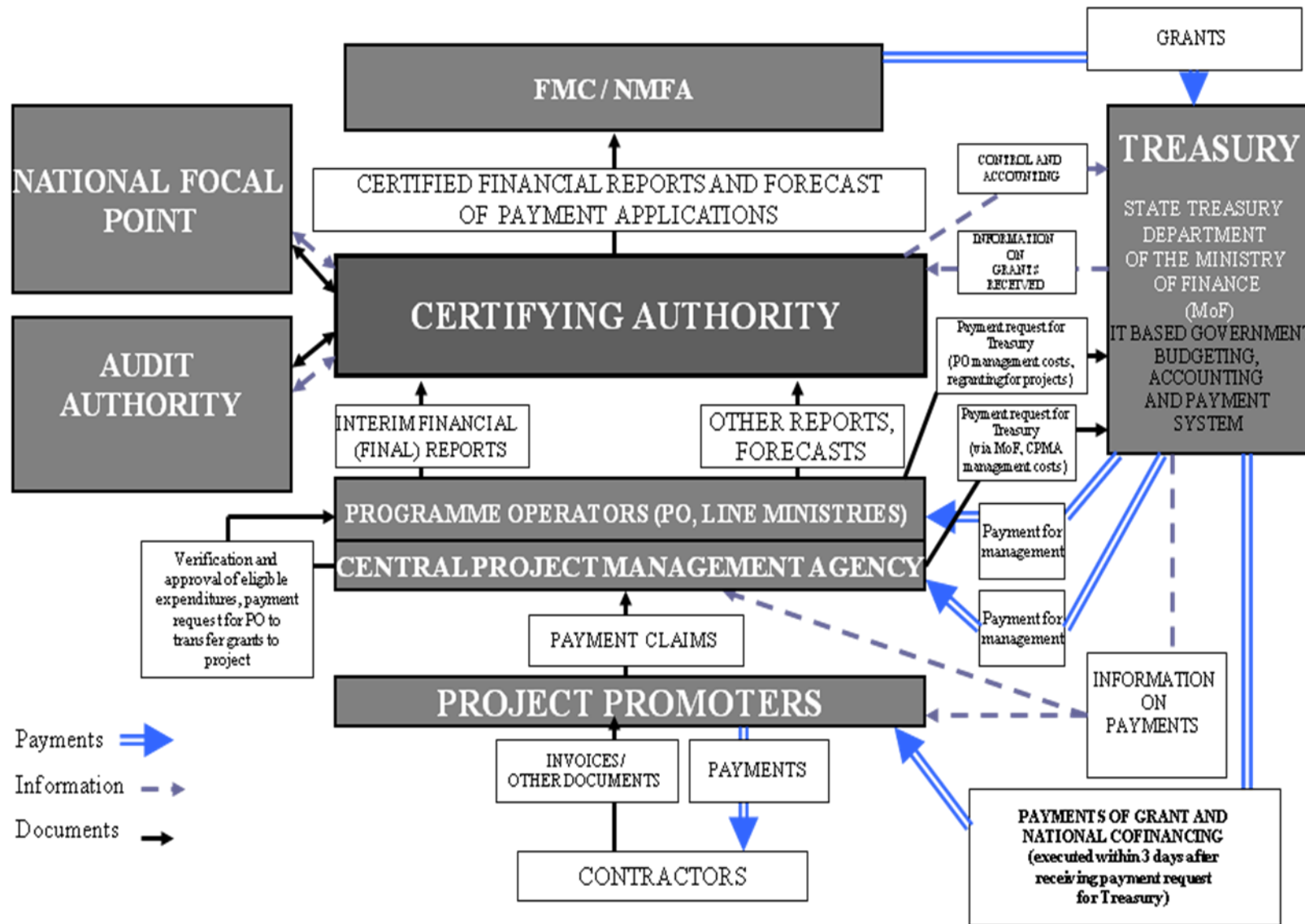
Taking into consideration all that is mentioned above, it could be stated, that the initial stage of the implementation of the 2009-2014 EEA Financial Mechanism was not as smooth and quick as anticipated. Preparation of management and control system as well as development of programme proposals involves a number of actors at national and donors level and co-ordination of all the processes and interests requires considerable time, resources and co-operative attitude. The most outstanding tasks for the NFP and other responsible national authorities for the next reporting period are finalisation of all the needed legal acts and procedures and preparation of high quality proposals in order to start practical implementation of the programmes.

The objectives and procedures of the National Bilateral Fund should be agreed with relevant national stakeholders and donors and made available for use of the potential applicants.

6 ATTACHMENTS TO THE STRATEGIC REPORT

1. Annex No.1. Proposed payment model of the EEA and Norway Grants.
2. Annex No 2. Work Plan for the next reporting period.

Annex No.1. Proposed payment model of the EEA and Norway Grants



Annex No.2. Work Plan for the next reporting period (1 January 2012 – 31 December 2012)

Milestone	Planned implementation deadline	Responsible Institution
<i>Management and control system</i>		
Approval of detailed description of functions and responsibilities of the authorities responsible for implementation and management of the EEA and Norway grants (Order of the minister of Finance)	April 2012	Responsible NFP, involved: CA, IRA, PA, AA, POs, CPMA
Preparation and submission to donors detailed description and management control system (I stage, Article 4.8.1. of the Regulations)	May 2012	Responsible – NFP, involved CA, IRA, PA, AA
Developing, co-ordination and approval of the general administrative, payment and monitoring rules and procedures both on the programmes and projects level (Order of the minister of Finance)	3Q 2012	Responsible -NFP, involved: CA, IRA, PA, AA, POs, CPMA
Preparation and submission to donors detailed description and management control system (II stage, Article 4.8.2. of the Regulations)	4Q 2012	Responsible – NFP, involved CA, IRA, PA, AA, POs, CPMA
Preparation of the specifications and other relevant documents for the EEA/Norway grants management IT system	By the end of 2012	Responsible – NFP, involved CA, POs, CPMA
<i>Preparation and Implementation of Programmes</i>		
Finalise programme proposal and submit to the FMO for appraisal	May 2012	NFP, POs, DPPs, CPMA
Co-ordination and conclusion of the programme agreements	2Q-3Q 2012, as soon as possible after approval of the programme by the donor	NFP

Preparation, co-ordination and approval of the programme implementation agreements	3Q 2012	NFP, POs, CPMA
Launching of the National Bilateral Fund	3Q 2012	NFP
<i>Audit, monitoring, review and evaluation</i>		
Preparation of Audit Strategy, Methodology and other relevant documentation	2012	AA
Compliance evaluation of the management and controls system (I stage, Article 4.8.1. of the Regulations)	May 2012	AA, External auditor for assessment of the AA procedures
Compliance evaluation of the management and controls system (II stage, Article 4.8.2. of the Regulations)	4Q 2012	External Audit (procured by the AA)
<i>Visibility and Publicity at national level</i>		
Relevant information provided in the website of the NFP (MoF website as interim solution) on the Grants	Constantly during 2012	NFP
Press Releases on important events, such as approval of the programmes	After important event	NFP
Launching event of the EEA Financial Mechanism and Norwegian Financial Mechanism	September 2012	NFP together with the Norwegian Embassy
Printed promotional material	4Q 2012	NFP