



**Expert evaluation network
delivering policy analysis on the
performance of Cohesion Policy 2007-2013
Year 3 – 2013**

**Task 2: Country Report on Achievements of
Cohesion Policy**

Latvia

Version: Final

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**A report to the European Commission
Directorate-General Regional Policy**

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List of abbreviations

- AIR Annual Implementation Report
- EC European Commission
- EEN Expert Evaluation Network
- OP Operational Programme
- MA Managing Authority
- LGA Latvian Guarantee Agency
- LIDA Latvian Investment and Development Agency
- TEN Trans-European Transport Network

Executive summary

The single most appropriate way of describing the achievements of Latvian Cohesion policy in the current programming period is that much has been done; much is being done to ensure that available funding is spent but that little is known about the effects of what has been done.

There are some success stories e.g. the "Access to International Trade Markets-External Marketing" sub-activity where, as result of strong demand, the target has been three times overachieved and the scope of the activity has been extended to include tourism. Arguably, this activity has contributed to the significant growth of Latvian export products and export markets in recent years. The Business Incubator programme has also been a success in terms of demand. Another positive result is that the targets for energy-saving in both renovated multi-dwelling buildings and in social houses has been considerably overachieved reducing energy consumption by 47.7% and 45.6% respectively.

On the other hand the achievements of the priority "Access to Finance" have been dismal. As of end 2012 only 48% of available funds had been lent out and in the venture capital area only 8 out of a targeted 65 SME venture capital investments had been made and only 3 out of a targeted 45 seed capital investments. As a result EUR 34.4 million of ERDF funding has been re-allocated and three new activities have been introduced: 3 new venture capital funds starting from the end of 2013; an increase of ERDF funding for seed capital investments; a new micro loan support programme to be launched at the end of 2013. These are partly in response to perceived gaps and partly to promote more actors in the venture capital field. Nevertheless, one has to wonder if this is the right time to introduce new measures. One lesson here is surely that the way in which "Access to Finance" is provided through the ERDF needs to be rethought for the 2014-20 programming period.

A major factor contributing to lack of knowledge of the effects of interventions is lack of evaluations as such and lack of quality/reliability in those evaluations that have been made. Lack of evaluations per se means that there are no evaluations covering the policy areas: Human Resources, Transport, Environment, or Energy. On the other hand low quality is the result of the low quality of available local evaluators. Low quality is reinforced by a public procurement system that has the effect that the lowest price (and hence the lowest quality) bid will always win. This discourages good quality bidders from making applications and hence reinforces low quality.

Public procurement has been a major problem not just in the delivery of good evaluations but across the board in implementation of projects. Thus public procurement problems, including appeals, have been a major factor in the slow implementation transport projects. In summary, nearly 93% of available funding in the policy areas of this report had been contracted by the end of 2012 and nearly 54% had been paid out to final beneficiaries but we still have a very poor idea of what the effects have been or will be. Most likely we shall never know.

1. The socio-economic context

Main points from the previous country report:

- Regional development in Latvia differs markedly across its regions, with the highest difference in terms of GDP per capita observed between the Riga region, and the Latgale region. Latgale has been afflicted by high emigration, a persistently above average unemployment rate, a low number of newly created companies and a large shadow economy.
- The economic recession exacerbated regional disparities in wages and emigration: Emigration in particular has been very different across regions: between 2000 and 2011 the Riga population declined by only 8.4%, while Latgale lost more than a fifth of its population.
- “Recovery rates” as measured by reductions in unemployment rates have been significantly different.
- Latgale’s problems i.e. high emigration, a persistently above average unemployment rate, a low number of newly created companies and a large shadow economy, have persisted despite large investments from EU funds.

Developments since the 2012 report

In 2012 Latvia continued its recovery from the crisis with real GDP growth of 5.6%. Growth has continued in 2013 (though at a slower pace) with GDP growth rates of 3.6% and 4.4% in quarters 1 and 2 respectively. A notable feature of the recovery has been that Latvia has experienced the fastest export growth in the EU (see Vanags, 2013). However none of this has done much to alter the persistence of considerable regional disparities, especially between Riga and the Latgale region.

There is persistence, even worsening, in some regional indicators. For example, disparities in regional unemployment rates have widened. This is illustrated in Table 1.

Table 1 - Regional unemployment rates in Latvia (%)

	2011	2012
Latvia	16.2	15.0
Riga	16.7	13.9
Near Riga	14.4	12.1
Vidzeme	12.7	15.8
Kurzeme	15.1	13.0
Zemgale	18.5	17.3
Latgale	18.7	20.7

Source: CSB.

It can be seen that while most regions have shared in the general decline in unemployment, in two regions, Latgale and Vidzeme, unemployment has increased.

Disparities in wage developments also remains: the highest 2012 wage growth of 6.8% was observed in Kurzeme while at 1.5% the lowest wage growth was in Latgale, reinforcing Latgale’s position as Latvia’s lowest wage region. This wage growth differential has not been

associated with faster employment growth in Latgale where between 2011 and 2012 the employment rate increased from 48.9% to 49.6% as against 54% to 56.1% for Latvia as a whole.

A recent report by Swedbank (2013) on developments in household incomes by region identifies Vidzeme as performing almost as poorly as Latgale. The report also comments: “A special development plan (funded by Cohesion funds) has been drafted for Latgale, which is a very welcome initiative. Besides other things, it aims to improve infrastructure in already existing industrial parks, thus making it more attractive for investments. However, a plan specifically for Latgale only is not enough” (p. 14). In a longer term perspective the Swedbank Report notes that the dispersion of regional household incomes improved between 2004 and 2011 and disparities consequently were reduced, so not all of the gains from EU accession in this sphere have been eroded in the recession.

There is no evidence that macroeconomic policies including fiscal consolidation have differentially affected Latvia’s regions or that there has been a policy shift regarding concerns about regional disparities.

2. The regional development policy pursued, the EU contribution to this and policy achievements over the period

The regional development policy pursued

Latvia’s development policies

Main points from the previous country report:

- Latvia is a single NUTS 2 region covered by the Convergence objective. Accordingly, EU funding to support regional development focuses on the main economic and structural challenges of the country as a whole.
- The main priorities of Latvia’s development policies are:
 - Enhancing balanced economic development by development of enterprise competitiveness;
 - Enabling access to finance;
 - Promoting innovation;
 - Increasing productivity;
 - The development of infrastructure.
- In addition to the above there is a horizontal priority of balanced territorial development.
- The aims of cross-border activities closely mirror those of OP2 “Entrepreneurship and Innovations” and OP3 “Infrastructure and Services”.
- Support has been provided through both grants and financial instruments to enterprises to improve competitiveness in a variety of ways: development and introduction of new products; high value added investments; business incubators. Infrastructure investments have also been a major instrument of development policy.
- In 2012 the Latvian government considerably increased the scale of over-commitments in order to ensure that all available funding is spent.

Developments since the 2012 report

Shifts in priorities/co-financing rates

At the time of writing (mid-September 2013), the most recent re-allocation of resources proposed by the Managing Authority (MA) in June, 2013 with a shift in funding from the priority "Access to Finance" to the priority "Science and Innovations". The total reallocation is EUR 44.2 million of which EUR 34.4 million is ERDF funding (4.7% of ERDF funding available within the Operational Programme (OP) "Entrepreneurship and Innovations", i.e. 1.4% of total ERDF funding). The reallocation will be used to implement the third call for project proposals within the activity 2.1.2.4. "High value added investments" that has been conceptually approved by the EC, i.e. the planned amendments of OP have been coordinated and informally approved by the EC before submitting official proposal for amendments. The proposed reallocation is based on:

1. The results of DG REGIO's audit report of 23/05/2012 regarding financial correction;
This information is not publically available. However, according to the MA the essence of the issue was that financing was not provided according to EU Regulations as they were differently interpreted by Member States. In 2011 the EC developed guidelines specifically explaining the Articles on FEI of EC Regulations initially approved http://ec.europa.eu/regional_policy/thefunds/doc/instruments/jeremie/guidance2012.pdf
2. The report on SME Access to Finance (Market Gap Analysis) carried out by the Ministry of Economics of the Republic of Latvia (unpublished).
The report recommends a portfolio of complementary measures adapted to the needs of growth oriented SMEs across Latvia to address continuing market imperfection in the provision of access to finance with the intention to:
 - a) develop or transfer new products/technologies;
 - b) support fast growing export oriented companies;
 - c) stimulate creation of start-ups;
 - d) Focus on high risk segments (micro and small companies).

The proposed shift of financing does not affect the total funding of the Operational Programme "Entrepreneurship and Innovations" (OP2) nor the EU co-financing rate within the OP2 which has not changed in 2011 and 2012. The re-allocation, although, adopted by the Latvian Cabinet of Ministers, has not yet been approved by the European Commission (EC).

According to the 2012 Annual Implementation Report (AIR) the relatively minor changes in the allocation of the ERDF funding since 2011 have mainly occurred within activities and sub-activities of OP priorities. These include:

- Under the 2nd OP "Entrepreneurship and Innovations" Priority 2.1 "Science and Innovation" EUR 10.9 million (1.5% of ERDF funding available within OP "Entrepreneurship and Innovations", i.e. 0.5% of total ERDF funding) has been reallocated from sub-activity 2.1.2.2.2 "New Product and Technology Development – support for introducing new products and technology in production" to sub-activity 2.1.2.4 "High Value-added Investments" in order to ensure more support in the second round of project applications for this sub-activity

- Under the 2nd OP “Entrepreneurship and Innovations” Priority 2.3 “Promotion of Entrepreneurship”, marketing campaigns and other activities aimed at the attraction of tourists have been added to the list of activities supported under the 2.3.1.1.2 sub-activity “Access to International Trade Markets - Strengthening the international competitiveness of industries” and EUR 5.07 million ERDF financing (0.7% of ERDF funding available within OP “Entrepreneurship and Innovations”) was re-allocated from 2.3.1.1.1 “Access to International Trade Markets-External Marketing”. In addition, national public financing of 2.3.1.1.2 activity (“Access to International Trade Markets - Strengthening the international competitiveness of industries”) was increased by EUR 3.4 million while decreasing private financing by the same amount in order to ensure more effective absorption of the funds. According to Ieva Alhasova from the Ministry of Finance, private financing has been decreased in these areas for ‘technical reasons’. As both the Latvian Investment and Development Agency and Latvian Tourism Development Agency are state institutions, their co-financing is treated as state co-financing. By increasing EU funding for these activities state co-financing was increased. In order to ensure that total national co-financing (state budget and private financing) does not change, private co-financing was simultaneously decreased. However, this does not mean that the total amount of private co-financing will decrease simply that the minimum amount of private co-financing necessary to declare the specific amount of EU funds is smaller.
- While implementing 3.2.1.1 activity “National importance road routes arrangement” under OP3 “Infrastructure and Services” priority 3.2 “Availability and Access to the Territory”, EUR 11.2 million have been saved and thus reallocated to 3.2.1.2 activity “Arrangement of transit streets in cities” to finance the projects that had been rejected due to the lack of funding. As a result of the increase in financing and the over-commitments made, the targets of this activity have been significantly exceeded (27.6 km of reconstructed roads while the initial OP goal was 20 km).

National budget constraints and SME finance

There is limited concrete evidence on how far the ERDF helped to offset national budget constraints and the consequences of fiscal consolidation or how far ERDF-support helped SMEs to overcome constraints on finance resulting from the credit squeeze. It is widely believed that the effect has been significant. During the recession gross fixed capital formation fell from over 30% of GDP in 2007 to a low of just over 18% in 2010. It has recovered somewhat to stand at 23.5% in 2012. Cohesion policy contributed EUR 748 million expenditure in 2012 or the equivalent of about 14% of gross fixed capital formation or 3.3% of GDP. This is a significant share. However, would investment have been 14% lower in a counterfactual where there were no funds? The answer is probably no – there are theoretical reasons to believe that a significant part of expenditures financed by Cohesion policy resources would have been made anyway, both by public and private sectors. That is the funds ‘crowd out’ other expenditures both public and private. Ultimately, this is an empirical issue and the Finance Ministry has just published a study which suggests that over 2008 Q3 – 2009 Q4 the estimated crowding out effect was 41% and for 2010 Q1 – 2013 Q1 it was 49%. (See Ministry of Finance, 2013).

ERDF-support to SMEs through financial guarantees, loans and equity instruments were expected to provide an important source of financing for SMEs as banks cut back on lending in

the crisis. Unfortunately, this has proved not to be the case. The achievements of the priority "Access to Finance" have to date been dismal. As of end 2012 only 48% of available funds had been lent out and in the venture capital area only 8 out of a targeted 65 SME venture capital investments had been made and only 3 out of a targeted 45 seed capital investments. The AIR freely admits that these targets are unlikely to be achieved. Representatives of the MA argue that a number of factors explain this performance: firstly, seed capital investments envisage transfer of ownership/of shares of the company to the seed capital provider and many owners of the business are not ready to do this; and secondly the low level of activity could partially be explained the low willingness of people to take risks and borrow money in the aftermath of the financial crisis. Many people in Latvia fear taking any sort of credit after the massive defaults experienced in the crisis.

The following new activities are being implemented within the "Holding fund for the investment in guarantee, high-risk loans, and venture capital funds and other financial instruments" activity:

- 3 new venture capital funds with a total ERDF funding of EUR 30 million to be invested starting from the end of 2013;
- An increase of ERDF funding for seed capital investments by EUR 1.8 million;
- A micro loan support programme (approved in June, 2013) with planned ERDF funding of EUR 5 million, to be launched at the end of this year under an agreement with Latvian Guarantee Agency.

According to MA representative Ieva Alhasova new activities are a response to changes in the economic situation or to market needs analysed in the Market Gap analysis. In particular the new financial engineering instruments are motivated by the following factors:

The new risk capital funds

These are motivated by:

- a) The aim of increasing access to finance for fast growing export oriented companies
- b) The aim of introducing new Venture Capital teams to the Latvian market (enhance competition among risk capital funds)

Seed capital

The EUR 1.8 million is for accelerator type financing and provides finance for the pre-start-up phase with investments up to 50 000 EUR not covered by the original programme where this sum represented the minimum investment.

Micro loan support programme

This was developed as a result of the Market Gap analysis which found that high administrative costs for the finance provider have led to an insufficient supply of micro-loans by regular credit institutions. The new programme will support institutions specialising in micro financing.

There was no change in the EU co-financing rate in 2011 and 2012 and hence planned expenditure by policy area was unaffected.

Policy implementation

Main points from the previous country report:

- Good progress overall: in July 2012 overall funding contracted was 88.4%, which is by 10.8 percentage points higher than in July 2011.
- Road infrastructure improvements face persistent problems with procurement; problems in obtaining land (land owners are reluctant to sign agreements about the transfer of the rights of land use); and also higher prices have led to increased costs. As a result of on-going problems with procurement the financial targets have also not been achieved.

Developments since the 2012 report

Table 2 shows progress at the end of 2012. It can be seen that there is progress across the board policy areas. However, contracted funding of more than 100% in transport and ICT together reflects the use of over-commitments in order to ensure that no funding is lost. As of 30.06.2013 over-commitments stood at just over EUR 418 million or 8.4% of EU funding. There is considerable concern on this issue within the government. Moreover, there is evidence of cancelled projects in 2013 including the notorious passenger train project (highlighted in last year's report) in which EUR 142 million of EU funding was involved. The reason for project cancellation was a long-lasting dispute regarding the procurement procedure. The core of the problem was that the final agreement signed with the suppliers was invalid because it was inconsistent with the contract envisaged and published in the original procurement documents.

Table 2 - State of play of fund absorption at 31.07.2012 and 31.12.2012 by policy area

Area	Corresponding priorities and measures from OPs	Available EU funding EUR million		% of total EU funding	Funding contracted % of available		Paid out to final beneficiaries % of available	
		End 2011	End 2012		End 2011	End 2012	End 2011	End 2012
Support to enterprises and R&D	All priorities in 2 nd OP "Entrepreneurship and Innovations"	736.7	736.7	19.0	80.3	91.9	45.3	55.6
Human capital	Priority 3.1	504.6	504.6	13.0	98.0	90.6	47.2	62.4
Transport and ICT	Priorities 3.2 and 3.3	1,368.2	1,368.2	35.3	89.6	100.06	32.9	43.5
Environment and energy	Measures 3.4.1, 3.4.4 and priority 3.5	940.2	940.2	24.2	72.0	82.3	43.9	55.3
Territorial development	Priority 3.6 and measures, 3.4.2, 3.4.3	327.8	327.8	8.5	90.6	94.0	57.5	72.9
Total		3,877.5	3,877.5	100	84.8	92.7	41.8	53.6

The main reasons for delay in the funds absorption process have not changed since last year's report: there are still problems with procurement and procurement procedures such as many appeals. Also, a serious challenge for implementation of the EU funds in 2012 has been the increase in construction costs in transport and other sectors, and increasing issues related to contract amendments as well as contract termination.

While the MA is keen to simplify procedures it has commented that initiatives to accelerate implementation have to be balanced with maintaining a sufficient degree of control. According to Normunds Strautmanis from the Finance Ministry's EU Funds Strategy Department, improving procedures is an on-going and never-ending process i.e. each quarter there take place various activities aimed at improving procedures. However, the MA representative has commented that currently the focus is more aimed at strengthening of control, since if procedures are too lax, they may fail to comply with the requirements. Nevertheless, when possible the MA attempts to use simplified expenditure methods i.e. lump-sum payment with the results checked at a later stage. Overall, according to the MA, problems in this area should properly be addressed at a higher than national level, i.e. the EC should introduce a unified control principle that would be effective. Importantly, starting with June 2011 the principle of partial compliance has been used to decide whether a project complies with the requirements or some corrections need to be done. This means that if a lack of conformity is detected, the co-financing assigned is reviewed and instead of cancelling the project, a decision is made on reducing co-financing by a percentage of the initially planned amount. When applying the financial corrections procedure, both the risk of loss and the principle of proportionality are applied when deciding on the financial corrections rate. On average the corrections rate is 15%.

Achievements of the programmes so far

Main points from the previous country report:

- The quality of indicators is very variable: the core indicators, where monitoring commenced only in the middle of 2010¹, are a problem because many of these indicators do not correspond to the targets set by the OPs. The regular indicators as set out in the OPs were set prior to the crisis and some are no longer suitable for analysing the progress of projects.
- In the core indicators reported the MA has included data both from projects that are completed and projects that are still being implemented.
- 2011 was the first year of solid implementation to achieve long-term structural goals, but the number of completed projects reported continued to be rather low.

Developments since the 2012 report

Assessment of the indicators

Problems with some of the core indicators persist. Although some numbers had been adjusted, most of the indicators did not change, particularly in OP2 "Entrepreneurship and innovations". The MA representatives explain this by seeing no necessity to update targets with each and every change. However, there is a plan to review the indicators ahead of the next AIR for operational programme Entrepreneurship and Innovations". There is particular concern about the indicators in this programme, because some do not reflect the changes in financing that occurred in the crisis when resources were reallocated towards employment-supporting activities. As a result some of the initially set targets are outdated and cannot be met simply because the amount of funding available has decreased. In addition, some indicators have been

¹ Reporting on the core indicators was not required at the beginning of the programming period.

significantly over-fulfilled because when they were set expected interest in the activities the indicators monitor was underestimated. For example, interest from businesses in the activity aimed at searching for new export markets has proved to be much higher than initially expected. Additionally, for this activity the average size of project was less than expected initially so the same budget could finance more projects.

Enterprise support and RTDI (incl. ICT and access of SME to finance)

The aims of Cohesion policy in this area remain:

- to increase Latvia's scientific and research potential
- to create and improve cooperation mechanisms between researchers and entrepreneurs
- to promote productivity growth, innovation and exports
- to promote the formation of new businesses

Achievements as against baseline values

Achievements as against baseline values are more difficult since either baseline values for many indicators are zero or are hard to interpret. Where they are defined baseline indicators refer to 2004 values of the indicator. For example, for the indicators "Submitted international patent applications" and "Number of internationally acknowledged publications per year" the base line (2004) values are 11 and 350 respectively and the achieved results as of end 2012 were 24 for patents i.e. growth of 118% and for publications it was 289 or a decline of 17%. The only other indicator with a non-zero baseline value is the output indicator for the number of business receiving guarantee or high risk support in the Access to Finance Measure, where the baseline value is 20 (not clear what period this refers to) and the end 2012 outcome was 306.

Achievements: physical and financial against target values

Most projects in the "Support to enterprises and RTDI" policy area have started (1,786 projects with a total value of 91.9% of the available funding have been approved. By the end of 2012 1,273 projects with the total amount of EUR 86.8 million (11.6% of funding available within OP "Entrepreneurship and Innovations") had been completed (mostly small scale projects in the sub activity "Access to International Trade Markets-External Marketing"). However, the value of on-going projects amounts to EUR 591.6 million (80.3% of funding available within the OP "Entrepreneurship and Innovations"). This is a signal that the projects which involve the biggest financial resources are some way short of being fully implemented.

From the financial perspective, the most significant progress, accounting for 70.5% the total amount of completed projects, is observed in activity 2.1.2 "Innovations" where projects for the sum of EUR 53.0 million, i.e. 23.3% of the EU financing available for this activity (or 7.2% of EU funding for OP "Entrepreneurship and Innovations"), had been finished by the end of 2012.

As in 2011, the 2012 leader in the number of completed projects is the priority "Promotion of Entrepreneurship" and particularly 2.3.1 activity "Business Support Activities" (984 completed projects with 418 finished in 2012, i.e. 42.5% progress). This is explained by the specifics of one of the sub-activities - "Access to International Trade Markets-External Marketing" where project applications are accepted on a continuous basis because there is no application deadline (on average 25-40 applications are submitted per month) and the project implementation period is short. Taking into account that the average size of the projects is smaller than initially planned,

the target has been overachieved², reaching 298.2% of the planned value, and the saved financing has been used to implement additional projects.

Another overachieved target under the priority “Promotion of Entrepreneurship” is the number of enterprises that have received Business Incubator support – 535 active firms (620.7% of the planned value). The area covered by incubators has reached 28,367 square metres (157.6% of the target). This is an area where support has been extended of because of higher than anticipated interest from entrepreneurs.

Although the targets for “Submitted international patent applications” and “Number of internationally acknowledged publications per year” have achievement rates of 55.8% and 36.1% respectively significant progress has been observed in 2012: the number of patents increased by 7 and publications - by 210 as compared with 2011. In the activity “Science, Research and Development” 2 projects have been completed in 2012 and 1 has been suspended. In addition, 20 international cooperation projects approved in 2012 within activity 2.1.1.2 are not yet completed. The financial flows for some of these projects may not go strictly according to plan because of the essence of activities (participation in international conferences depends on the time when the conferences are organised, which is an externally determined factor). Progress in the priority “Science and Innovation” overall has been quite slow, and the delays in implementation can largely be explained by long and complicated procurement procedures, the need to change technical specifications in public tenders, etc.

It is clear that some of the initial indicators will not be achieved, e.g., number of seed capital investments passing on to further investment stages and the number of enterprises which have received venture capital investments will not reach initial goals since the implementation of most projects already submitted has been completed and no new application rounds are planned. Loans given to micro and small enterprises by end 2012 were EUR 6.5 million (16.2% of the available funding for this activity, which represents only 31% of the target outcome for end 2012.) Failure to meet the original targets is explained by the developments in the economic situation and the unwillingness of private capital markets to participate, thus delaying the implementation of financial instruments. Also, according to the MA some businesses appear to prefer using their own funds and are unwilling to take any credit obligations and commercial loans as well as ERDF financed instruments.

The target for new work places within the framework of OP2 “Entrepreneurship and Innovations” has by the end of 2012 been achieved only by 32.6% (1,632 work places) with progress of 5.4 percentage points (272 places) since the end of 2011. Thus some acceleration in jobs created is needed to meet the target, but current expectations of the MA are that the target will be achieved.

The previously reported poor implementation of ICT targets within the horizontal priority “Information society” has improved. During 2012 4 communication networks have been upgraded or established, 19 information systems have been created or improved; 30 units of computers have been acquired and 192 people have undergone studies in ICT sphere. Most of

² It seems that the cost of an individual market acquiring activity was less than expected and this may have contributed to the over-achievement of the target. In addition, this was an activity where demand exceeded expectations.

these people were educated within the sub-activities 2.1.2.1.1 “Competence centres”, 2.1.2.2.2 “New Product and Technology Development – support for introducing the new products and technology in production” and 2.1.2.4 activity “High Value-Added Investments”. Improvements in information systems and the increase in the number of acquired computers were also mostly achieved in terms of 2.1.2.4 activity “High Value-Added Investments”.

Overall 7 projects have been completed in the first round of the activity “High Value-Added Investments”. One success story is JS “Latvijas Finieris” which, as a result of ERDF supported innovations, has become the most efficient high quality birch veneer producer in the world with capacity of 160,000 m³ per year. Another success story is “Malmar Sheet Metal” Ltd. which has built a new plant with high technology facilities for producing powder ink and achieved an increase in turnover, profit and export volumes within the framework of the “High Value-Added Investments” activity.

Also, in order to facilitate ICT development, projects applications under 2.3.1.1.1 sub-activity “Access to International Trade Markets-External Marketing” are assigned additional points if the project applicant operates in the ICT sphere. Out of 66 approved projects where the activities are connected to ICT, 26 projects have been completed in 2012.

In December 2012 a new sub-activity “New products and technology development in SMEs” was started.

The achievements of the measure “Innovation” are below expectations since many projects are still in the implementation stage. Falling behind the schedule is generally explained by the reallocation of financing from this area in the crisis but not adjusting the targets to reflect the changes in available financing.

Human resource development and youth unemployment

Achievements as against baseline values

Again there are many indicators where the baseline is zero i.e. the value of the indicator in 2004 was zero. Thus achievements at end 2012 against baselines include the following:

- Share of professional education students receiving education in a modernised environment: result is 12.8% against a baseline of 1%.
- Share of higher education students enjoying modernised infrastructure and equipment: 19.2% against a baseline of 10%
- Share of students with special needs studying in an improved environment: 87% as against a baseline of 0%
- Share of general education institutions adapted for persons with disabilities: 9.94% against a baseline of 0%.
- Average increase in number of persons benefitting from supported social and employment institutions: baseline 1,558 increase in 2011 was 105 no data yet for 2012.
- Average number of patients per primary healthcare physician: 1559 against a baseline of 1728 (see below for some explanation)

Achievements: physical and financial against target values

The objectives of EU funds in this policy area are to achieve effective use of human capital, and increase competitiveness by improving infrastructure and renovating buildings in education, employment, health and the social spheres.

Overall there is good progress in this area, particularly in education and healthcare although assessment is complicated by changes in the underlying national policies in these areas.

Thus the original objective of having 454 education establishments with modernized technical equipment and infrastructure had been reviewed as a result of changes in the number of institutions after education reforms. The revised plan included in AIR 2012 is to have 383 modernised institutions by 2015 (expected to be achieved). As of the end of 2012 the number of modernized education establishments was 270 (59.5% of the initial target). On September 26th 2013 the number of the institutions was revised by the directive of the Cabinet of Ministers and the target is now set at 428. Since the actual expected number of modernised institutions is 383, the new target might not be met.

There are 158 general education institutions with modernized science classrooms of which 34 were finished in 2012. For 2013 216 schools are planned to be renovated and taking into account the reorganizations of schools, implementation is going according to the plan; 14 projects for Higher Education Institutions with a modernized infrastructure and training equipment are completed, 8 of which were completed in 2012 (28 are planned for 2013 so the target of 31 will be met by 2014). 58 pre-schools in national and regional development centres have been renovated or upgraded, of which 19 were upgraded in 2012. This represents 483% of the initial target of 12.

The share of students provided with modern equipment and educational infrastructure in spheres that are important for national development is only at the level of 19.2% as against a target of 90%. However, it should be noted that most infrastructure projects take 2-3 years to complete; as the projects are completed it is expected that the share of students with modernised equipment will rise to 81% in 2013 and 90% in 2014.

On the other hand, the predicted value for the number of supported healthcare institutions has been changed from 142 to 639. Current progress is 63 (44.4% of the initial target), which means that many projects that have already been started need to be completed in the near future. The expected number of completed projects for 2013 is 576.

The average number of patients per doctor (primary healthcare) has already been reduced by more than was targeted, down from 1728 to 1559, (initial target: 1691). To achieve this the measure 3.1.5 "Health Care Infrastructure" was used with its activities 3.1.5.1 "Development of Ambulatory Health Care", 3.1.5.2 "Development of Emergency Medical Assistance", 3.1.5.3 "Development of providers of stationary health care". The result is explained by a combination of population decline and significant improvements within these activities. Overall 65 projects have been completed within the "Health Care Infrastructure" measure (funding sum of EUR 55.2 million, 26% of EU funding available for this measure), which is by 37 projects more than in the end of 2011.

22 stationary (in-patient) health care centres have finished infrastructure improvements, 15 of them in 2012, reaching 48% of the target. A further 41 projects are planned already in 2013 and

the goal is expected to be met in the first quarter of 2015. 11 outpatient healthcare centres development projects were completed in 2012 in total amounting to 24 improved centres and with one remaining centre expected to be completed in 2013, the target of 25 will have been met.

In the sphere of employment and social service institutions major institutional reorganizations have reduced the number of such institutions. Accordingly due to reorganisations and decrease in financing only 14 Institutions for Assessing Capacity to Work and Providing Social Services (such as services for people with various disorders) now receive support and the original target of 40 is no longer relevant.

Transport

Achievements as against baseline values

Very few meaningful results are reported in this Policy Area. One exception is the share of reconstructed city transit streets where from a baseline of 0% the 2012 result is 10.91%. On the other hand no result indicator is available time savings from improved roads in the TEN network.

Achievements: physical and financial against target values

Transport policy is aimed at improving the transport and communications infrastructure including integration of Latvia with the common transport system of Eastern Europe in order to enhance economic growth. The main implementation problems have been associated with procurement and numerous prolongations of deadlines for construction works.

This is an area - because of anticipated procurement problems - over-commitments have been applied and projects for a value of 108% of available funding have been contracted, of which 19.8% were contracted 2012. The highest achievements can be observed in activity 3.2.1.2 "Reconstruction of transit streets in city territories, where 27.6 km of streets had been reconstructed by the end of 2012, with 14.48 km constructed in 2012 This is against an original target of 20 km, and because of the high number of contracted projects (54 out of which only 9 were completed by the end of 2012), 62 km are expected to be constructed by the end of 2013. Progress has also been made in the reconstruction of national importance roads with an additional 68.49 km completed in 2012, reaching in total 249.59 km (76% of the initial target of 330). By 2014 the target is expected to be overachieved.

There are noticeable gains in the total length of reconstructed Trans-European Transport Network (TEN) roads in activities 3.2.1.1. and 3.2.1.2. (Length of roads where the capacity or quality of the road, including safety standards, have been improved). The total length of reconstructed TEN roads is 277.2 km (79.2% of the target), with 83 km completed in 2012 and with a reduction in costs (the price of 1 km of road turned out to be by around 60% lower than the original estimate) of some projects and 16% over-commitments it is expected that the target will be overachieved already in 2013.

A major project in this Policy Area was the Riga suburban passenger train project which was planned to increase the annual passenger capacity of the suburban rail system by about 50% above the baseline value of 23.9million. However, the project was cancelled as a result of procurement failure. Essentially the problem was that that the contract signed between the

Latvian side and the Spanish suppliers of the trains did not comply with the initial tender requirements set by Latvia. As a result the procurement was invalid.

Environment and energy

Achievements as against baseline values

Again baseline values refer to 2004.

- Share of inhabitants with wastewater management services according to legal requirements:
- Share of inhabitants with drinking water management services according to legal requirements: 61.97% against a baseline of 44%
- Reduction in heat consumption in renovated multi-dwelling buildings: 47.68% as against a baseline of 0%
- Reduction in heat consumption in social houses: 45.6% against a baseline of 0%
- Effectiveness of centralised heat generation: 88% against a baseline of 60%.
- Renewables in electricity production as a share of all energy produced in Latvia: 0.22% against a baseline of 0.8% (target is 2.5%)

Achievements: physical and financial against target values

Progress is good in this policy area, though many environment projects are still in the process of implementation. One project with funding of EUR 1.6 million within sub-activity “Reconstruction of hydraulic structures for decreasing and preventing the risks of floods” was finished in 2012. Although we see progress in “Activity Development of Water Management Infrastructure in Populated Areas where Number of Residents is up to 2,000”, where 137 out of 291 projects have been finished (64.5% of the available EUR 143.5 million funding was contracted, 28.8% of which accounts for completed projects), the result of the programme reached 66.6 thousand people, but so far only 62% of the 2013 target has been reached. In the 3rd quarter of 2012 a new (7th) round of applications for this activity was started, this time without regional quotas, which is likely to improve the rate of EU funding absorption. Overall progress within Priority 3.4 has been adequate with projects for total sum of EUR 250 million contracted and for EUR 70 million (19.2% of available funding) finished as compared to EUR 17.8 million (5.5% of funding) in 2011, increasing the share of inhabitants with access to sewage and water supply facilities of the required standard to 57.3% and 61.97% respectively (90 and 91% of the initial targets).

The implementation of energy efficiency raising projects however has made good progress in 2012: the activity “Improvement of heat resistance in apartment houses” has already overachieved by 22% as compared with the planned value with total expenditures amounting to EUR 17.4 million which corresponds to finished projects in 146 houses, of which 90 were completed in 2012. In total EUR 109.1 million (2.8% of total EU funding available) is available for the measure “Energy”, which is higher than in 2008 because of over-commitments. The high interest from residents to improve the heat insulation has been stimulated by growing thermal energy prices. However the activity level differs significantly by region. In the Kurzeme region

193 projects were submitted and 43 of them completed, but in Latgale, where activity had been lowest, only 31 projects were submitted and only 9 buildings have been renovated.

However, the target for improving Heat Insulation of Social Residential Buildings will not be reached. This is a result of weak financial planning by the municipalities who have been unable to provide a sufficient level of co-financing because actual costs are higher than anticipated. As a consequence a number of projects have been suspended. Nevertheless, in 2012, 20 social houses were renovated for heat insulation reaching a total of 34 buildings (47% of the final target) and amounted to EUR 4.9 million (71% of funding for this activity).

A positive result is that the target for energy-saving in renovated buildings has been considerably overachieved, with heating consumption in social houses reduced by 45.6% and in multi-dwelling buildings by 47.7% as against targets of 2% and 15% respectively.

A key reason for the generally slow implementation of energy efficiency projects is poor quality project applications that require many corrections and clarifications before a project can be accepted. There are also procurement issues; low technical quality of many projects; problems with obtaining credit and prolongation of construction period; as well as the inability of residents to agree on implementation of energy saving activities and doubts about the return on such an investment.

The Ministry of Economics and the Latvian Investment and Development Agency (LIDA) have launched an information campaign "Live warmer" to inform society about the benefits of energy saving, to increase awareness and educate the public about the impact of energy saving projects. Lecturers from local and foreign universities take part in seminars organised as part of the campaign.

Territorial development

Achievements as against baseline values

The only results indicators here relate to improvements in the Territorial Development Index for national and regional development centres and no results are reported.

Achievements: physical and financial against target values. The Territorial development policy area consists of the priority "Polycentric development" and the measures "Tourism" and "Socio-economic Impact of the Cultural Environment".

The most visible progress in "Polycentric development" is within the activity "Support for amalgamated municipalities to promote complex growth" where the first 13 contracts for project implementation have been signed, with a total value of projects equal to EUR 6.9 million (60.1% of the funds available for this activity). These are projects aimed at the regeneration and revitalisation of the urban environment. One project has been completed so far while 12 projects are still being implemented.

An example of a successful project within the framework of this priority may be found in the historic town of Kuldīga where a former synagogue has been turned into a public library and day-care centre for persons with disabilities. The eligible costs for completed projects in the activity "Support for Sustainable Urban Environment and Urban Area Development" have reached EUR 61.8 million (22.3% of available EU funding for this measure, 1.7% growth compared to 2011). Outcome indicators set for this priority do not really inform about

achievements since most of the indicators are defined simply as “Number of projects”, but the absorption of funds continues.

Table 3 - Main physical indicators and achievements

Policy area	Main indicators	Actual outcomes and results (physical outcomes plus brief note on what has been achieved)
Enterprise support including ICT	No. of entrepreneurs per 1,000 people (Goal of 32 had been reached already by 31.12.2011, the value for 2012 will be available only on 29.11.2013)	535 economically active enterprises supported in business incubators (out of which 114 in 2012); 7 projects with high added value have been supported (3 during 2012); 15 thousand people in entrepreneurial motivational programmes (3 thousand of which in 2012); 8 SMEs cumulatively have received venture capital investments (3 during 2012), which is 12.3% of the target of 65. This target will not be reached because of reduction of available financing; As of end 2012 85 SMEs located in specially assisted areas have been granted aid, 23.6% of the target (9 (up from 76 in 2011) The target of 360 will not be reached because the activity has been closed and there are no new calls for projects planned. 8 improved/created communication networks (progress by 4 in 2012); 26 improved/created information systems (progress by 19 in 2012); 73 units of acquired computer machines (progress by 30 in 2012); 407 people who have been educated in ICT sphere (progress by 192 in 2012)
RTDI	Broad band connection per 100 people, value on 31.12.2011, data for 2012 is not available – 20.4% (25% planned for 2014, 28% for 2015); % of high technology output in manufacturing industry 18% in 2011 (19% planned for 2013) (no update for 2012 available for this indicator)	122 research projects supported (the total value did not change during 2012, staying at the same level of 122 (61% of the target) as it was on 31.12.2011), Riga and Riga region accounts for 103 out of 122 research projects; 24 patent applications (out of which 20 in 2012), no. of international patent applications – 18 (out of which 7 in 2012); 289 internationally acknowledged publications (increased by 210 in 2012);
Human Resources (ERDF only)	Average treatment time per patient 7 days by 2013	Average treatment time per adult 8.4 days* (according to AIRs: 8.00 days) (improvement by 0.3 days in 2012, in 2011: 8.7) 22 Stationary health care centres with improved infrastructure (increased by 15 in 2012; 41 planned for 2013); 4 hospitals with set up radiotherapy treatment equipment (target fully completed in 2011%); 58 pre-schools were renovated or upgraded (increased by 19 in 2012); 158 general education institutions with modernized science classrooms (increased by 34 in 2012; 216 planned for 2013); 14 Higher education institutions with a modernized infrastructure and training equipment (increased by 8 in 2012; 28 planned for 2013); 9.9% of secondary education institutions adjusted for students with disabilities (increased by 2.5% in 2012; 12% planned for 2013)
Transport	Time saving value EUR/year from newly constructed and reconstructed roads for passengers – EUR 25.6 thousands per year in 2009 (EUR 10.9 million per year planned for 2015)	28 km of reconstructed transit streets (progress by 15 in 2012; 62 planned for 2013; 106 for 2015); 250 km of national importance roads asphalted (out of which 70 km in 2012; of the 313 km planned for 2013; 427 for 2015) Total length of reconstructed TEN roads: 277.2 km (increased by 83 in 2012) (79.2% of the target; final target 350 km)

Policy area	Main indicators	Actual outcomes and results (physical outcomes plus brief note on what has been achieved)
Environment and energy	Provide water quality that is safe for people, % of water providing points with good and high quality water, 50% in 2009 (60% planned for 2015); Average heat consumption per sq. m. in residential buildings 237 kWh in 2009 (232 kWh per sq. m. planned for 2013) Average heat loss in heat distribution systems in country – 15.5% in 2009 (14 % planned for 2013)	146 apartment houses with improved heat insulation (out of which 90 in 2012; planned 400 by the end of 2013; 1000 by 2015); 57.3% of the population provided with sewage management services which are in accordance with regulatory requirements (3.1% more than in 2011; 62% planned in 2014); 61.97% of the population provided with water supply services in accordance with regulations (increased by 3.07% in 2012; initial target 44%; planned to achieve 66.7% by 2015 ; Capacity of wind farms and cogeneration plants using renewable energy resources – 20.53MW (all progress made in 2012 as value in 2011 was 0; final target planned – 77 MW)
Territorial development (urban areas, tourism, rural development, cultural heritage, health, public security, local development)	GDP per capita dispersion among NUTS 3 regions 45.2 % in 2009 (42.1 % planned for 2013)	3 implemented projects facilitating increase of the competitiveness of cities /towns, including the promotion of entrepreneurship and technology development (increased by 1 in 2012; planned 6 by 2015); 29 implemented projects ensuring sustainability and improving the attractiveness of cities/towns (increased by 9 in 2012; initial target: 26, plan to achieve 71 by 2015); 53.56 km built of bicycle roads (increased by 40 km in 2012; initial target: 49; planned 64 by 2015)

Note: (*) According to the Centre for Disease Prevention and Control in 2012; for children the indicator varies from 5.9 to 8.2 days (in 2011: 6.4 - 8.5 days).

3. Effects of intervention

Main points from the previous country report:

- Lack of a sound evaluation base to judge the effects of policy on indicators such as GDP, employment, entrepreneurship, life quality etc.
- On the basis of macroeconomic modelling without ERDF and Cohesion Fund expenditures the crisis would have been more severe than it was. However, the wider effects on regional development, innovation and competitiveness remain unclear.

Developments since the 2012 report

Nothing has really changed since last year's report. The two new evaluations that have become available in 2013 and are discussed in the next section have not added much to our knowledge of the effects of interventions.

However, as was mentioned in previous reports Latvia has posted particularly strong export performance since the recession. According to Vanags (2013) if we compare exports today with the pre-recession peak then Latvia's export growth has been the highest in the EU. Moreover there has been strong growth in the diversity of export products and export markets. While not conclusive it is interesting to note that the sub-activity -"Access to International Trade Markets-External Marketing" has been very popular with businesses and the activity has overachieved by a factor of nearly three. Also reported before but still relevant is the impact of the energy efficiency programme which has reducing heating costs by an average of 47.68% in insulated dwellings.

Other areas of good performance based on indicators are business incubators the use of internet by households. Thus the number of firms receiving Business incubator support is more than 600% above target and in household use of the internet from a base line value of 7% in 2004 the share of households using electronic services has risen to 41% at end 2012, or the share of households subscribing to broadband has risen from a baseline of 20.5% to 67% in 2012. In both areas it would be desirable to undertake proper evaluations: What difference have Business Incubators made to the performance of small businesses? How much of the increase in internet usage can be attributed to considerable Cohesion policy interventions in this area? We do not really know without a serious evaluation.

However, hard evidence on effects from proper evaluations remains thin on the ground but the Ministry of Economics is planning to make an overall impact assessment most likely when the programming period is over.

4. Evaluations and good practice in evaluation

Main points from the previous country report:

- The strategy for evaluating ERDF and Cohesion Fund interventions is largely centrally organised under the direction of the MA (Ministry of Finance).
- Evaluations are outsourced to independent evaluators on the basis of a competitive tender.

- Evaluations are meant to be integrated into policy-making through the so-called 'thematic evaluation working group' consisting of the MA, intermediary bodies and other parties that assess recommendations made in evaluations and decide on their implementation.
- The reporting period for the 2012 Report was relatively rich in evaluations.

Developments since the 2012 report

There have been no changes in the evaluation strategy as such – not just since the 2012 report but in fact not since the strategy was originally developed in 2007. The MA plans to update the strategy in the near future but as of now there is no timetable for this. In this context, there is funding for six new evaluations of the current programming period covering all three OPs. The policy areas to be evaluated will be identified as part of the revision of the strategy.

Generally, there is increased government awareness of the need for and usefulness of evaluations. Understanding of the role of evaluations has been enhanced by participation of the officials involved with EU funds in seminars/workshops on “Measuring Tools and Evaluation Techniques for EU funds” and on the issues involved in defining good indicators for the 2014-20 programming period.

Thus capacity at the level of officials has been strengthened. What remains the biggest obstacle to meaningful evaluation is the capacity/quality of the private sector evaluators to whom most evaluations are outsourced. Here, the inherent shortage good quality evaluators is exacerbated by public procurement practices which while notionally having a quality component *de facto* have the consequence that the lowest price bid always wins. This is an absolute guarantee that the lowest quality always wins. Officials who are the clients for evaluations are fully aware of this but to date have been powerless to do anything about it.

New evaluations since the preparation of the 2012 Report

Two new evaluations have been carried out since the 2012 Report, both delivered in the spring of 2013. These have been added to the table of evaluation summarised below. Both make some attempts at using counterfactual methodology, but only limited reliability can be attached to the results because in both cases no attempt was made at statistical inference and also because the frequently the results are mutually contradictory.

Table 4 - Evaluations of the 2007-13 programming period

Title and date of completion	Policy area and scope (*)	Main objective and focus(*)	Method used (*)	Main findings	Link to publication
Evaluation of the impact of entrepreneurship and innovation support programmes and recommendations for improving the support system April 2013	2	3	1,3 &4	(1) The aim of this evaluation was to assess the impact of structural funds support mainly through the OP 'Entrepreneurship and Innovations' (OP2) for entrepreneurship and innovation. (2) Eight programmes were evaluated: four managed by the Latvian Investment and Development Agency; two by the Latvian Guarantee Agency and two by the Latvian Mortgage and Land bank. (3) The results for most programmes are mixed e.g. profits of supported enterprises have appeared to go down as a result of support; for turnover, it has gone up in half the cases and down in the other half; similarly with employment. (4) Because no analysis of statistical significance has been carried out, the reliability of the results is questionable.	Link
Evaluation of the impact of EU Funds 2007-2013 on Latvian territorial development April 2013	7	3	1,3&4	(1) This evaluation is aimed at assessing the direct and indirect impact of EU funds on the horizontal priorities 'Balanced territorial development' and 'International competitiveness of Riga'. Both regional (the five planning regions) and local projects have been analysed. (2) The methodological instruments employed are: an analytical device (analītiskais rīks) used for data processing device, interviews with various stakeholders and experts, and a survey of local authority planners; some basic counterfactual methods. (3) The impact of interventions is summarised in terms of indicators of operational efficiency, functional efficiency indicators and several results indicators. (4) The most easily interpreted indicators are jobs created (1,075 over 2007 -2010 and jobs saved (9,727). However, other indicators such as wage growth/tax revenue growth or jobs created/change in unemployment border on the meaningless.	No link at present
Mid-term evaluation of implementation efficiency of priorities, measures and activities of national strategic reference framework of EU funds for the planning period of 2007 - 2013 October 2011	9	2	3+4	(1) Though majority of activities/sub-activities are still in the process of implementation, the already achieved results show that in general Latvia will be able to achieve the aims and indicators set for it in current EU funds planning period. (2) From the total seven context indicators, achievement of six of the seven is practically impossible due worsened economic situation. (3) Burdens of administrative procedure or mistakes in implementation of the procedure, as well as complaints about public procurement procedures are the most significant factors that have hindered the implementation of EU funds.	Link
Report on the implementation of "Balanced Territorial Development" and "International competitiveness of Riga" (2007 - 2011) July 2012	7	2	3	(1) From the reports by responsible institutions on the implementation of the EU funds, one cannot conclude whether the principles of horizontal priorities have affected the regional allocation of available funding. (2) Comparable information on implementation results of EU funds is not available for the evaluation on the impact of EU funds on the regional development. (3) Territory Development Index is negative for all regions (except Riga), which	Link (In Latvian only)

Title and date of completion	Policy area and scope (*)	Main objective and focus(*)	Method used (*)	Main findings	Link to publication
				suggests that these areas are below the average socio-economic development level. (4) However, in the past years Riga region has been losing its dominance (TDI has declined) over the other regions, which is a prerequisite for balanced territorial development. Latgale continues to have the lowest TDI.	
Evaluation of the impact of EU funds on the economy of Latvia December 2011	9	3	3	(1) Overall estimates of policy multipliers for the 2007-2013 programming period were greater than 1 e.g. at a 5% discount rate the policy multiplier was 1.18. (2) Transport was the priority area with the highest policy multiplier – 2.09 when a 5% discount rate is used. Priority areas Education, Innovations and Energy all had policy multipliers less than 1. (3) The model analysis suggested that in 2008 and 2009 the funds offset the crisis by 3.9 and 4.0 percentage points of GDP.	Link
Study on horizontal priority "Information society" December 2011	2	1	3	(1) Overall, the implemented projects contribute to achieving the priority's objectives. (2) Implemented projects are largely concentrated (Riga region and education sector having the largest share of funding) (3) Comparison of the project indicators in the priority level is impossible because of the lack of consistent indicators	Link
Evaluation of the EU funds impact on implementation of Horizontal priority "Equal Opportunities" defined in planning documents October 2011	10	1	3+4	(1) Active aging is the least considered of the priority's aspects. (2) Insufficient number of projects regarding the education and employment for persons with disabilities. (3) Lack of specific objectives and indicators prevents adequate evaluation.	Link
Midterm evaluation of the efficiency of the communication measures of EU funds priorities, measures and activities for the 2007 – 2013 programming period November 2011	9	2	4	(1) Improved communication in the 2007-2013 planning period. (2) The advantages of the communication system are the information flow and speed, while the quality of information should be improved.	Link

Note: (*) Legend:

Policy area and scope: 1. RTDI; 2. Enterprise support and ICT; 3. Human Resources (ERDF only); 4. Transport; 5. Environment; 6. Energy; 7. Territorial development (urban areas, tourism, rural development, cultural heritage, health, public security, local development); 8. Capacity and institution building; 9. Multi-area (e.g. evaluations of programmes, mid-term evaluations); 10. Transversal aspects (e.g. gender or equal opportunities, sustainable development, employment)

Main objective and focus: 1. assess the arrangements and procedures for managing or administering programmes; 2. support monitoring, or check the progress made in implementing programmes, such as many mid-term evaluations; 3. assess the outcome or effects of programmes in terms of the results achieved and their contribution to attaining socio-economic policy objectives

Method used: 1. Counterfactual; 2. Cost-benefit analysis; 3. Other quantitative; 4. Qualitative.

The main features of the new evaluations

“Evaluation of the impact of entrepreneurship and innovation support programmes and recommendations for improving the support system” (Uzņēmējdarbības un inovācijas atbalsta programmēmu ietekmes izvērtējums un priekšlikumu izstrāde atbalsta sistēmas pilnveidošanai)

The aim of this evaluation was to assess the impact of structural funds support mainly through the OP ‘Entrepreneurship and Innovations’ (OP2) for entrepreneurship and innovation. The following OP2 programmes were evaluated:

Managed by LIDA

1. Developments of new products and technology (sub-activity 2.1.2.2.1.);
2. Support introduction of new technologies in production (sub-activity 2.1.2.2.2.);
3. High value added investments (sub-activity 2.1.2.4.);
4. Investment support for micro, small and medium sized enterprises in the special assistance territories (sub-activity 2.3.2.2.).

Managed by the Latvian Guarantee Agency (LGA)

1. 1. Guaranties to support the improvement of business competitiveness (sub-activity 2.2.1.3.);
2. 2. Short term export credit guarantees (sub-activity 2.2.1.3.).

Managed by the Latvian Mortgage and Land Bank³

1. Loans to improve competitiveness (sub activity 2.2.1.4.)

The methodological approaches used include the following:

- Assessment of how far goals of the programme have been achieved i.e. targets achieved.
- Before and after support analysis of enterprise performance.
- Difference in differences analysis of enterprise performance.
- Beneficiary surveys.
- Case studies (to identify good practice).

For the assessment of how far programme targets have been achieved it is noted that of the 20 targets set in the evaluated programmes 6 have been achieved (some of them by large margins) and 14 have not been achieved and that by the end of 2013 40% of targets are expected to be achieved. The main reason for non-achievement is claimed to be the effect of the economic crisis.

The most interesting contribution is the counterfactual analysis using both a “before and after” and “difference in differences” approaches: here a total of 481⁴ recipients of support were surveyed together with a control group of 350 who had not received support. The assessment included the following indicators of enterprise performance:

- Profit
- Turnover

³ The Mortgage and land bank also manages a programme to support self-employment and business start-ups which has also been evaluated but this is funded by the ESF.

⁴ Here it should be noted that this group included 293 newly self-employed or start-ups.

- Long-term investment
- Employment
- Administrative costs
- Share of exports in turnover
- Research and development expenditures
- Productivity

Two things need to be noted: firstly, the “before and after” support performance indicators have well known problems in terms of causal interpretation; secondly, the “difference in differences” analysis undertaken reported only average differences and no attempt was made to assess whether differences were statistically significant.

That said, some of the results of the four instruments implemented by LIDA are as follows:

- Profit: profit was lower in the difference in differences analysis for three of the four instruments.
- Turnover: was higher in the difference in difference analysis for two of the four instruments and lower for the other two.
- Long term investments were higher for all instruments as compared with the control group.
- Employment: was up as compared with the control group for two instruments and down for the other two.

Export share, R&D expenditure and productivity were not calculated in terms of difference in differences, but on a before and after basis these indicators tended to be up for most instruments after support (when the data was available). The exception was ‘support for the introduction of new technologies’ where both productivity and R&D expenditures were down after receipt of support.

Overall the LGA programme of credits to support increase in competitiveness had the best results with only administrative expenses showing a negative before and after support tendency.

In general, there is no clear evidence on the direction of effects. However, it must be emphasised that because the evaluations offer no analysis of statistical significance the reliability of these results is questionable.

The ‘good practice’ case studies did not reveal anything surprising. Good practice included: having a realistic business plan, having good knowledge of the market and having a pro-active co-operation with the institution administering the support.

“Evaluation of the impact of EU Funds 2007-2013 on Latvian territorial development”
(Eiropas Savienības fondu 2007. – 2013. gadam ietekmes uz Latvijas teritoriju attīstību izvērtējums)

The aim of this evaluation was to assess the impact of EU funds expenditures on Latvian territorial development. Specifically, the aim was to analyse the impact of projects which directly or indirectly have affected the horizontal priorities ‘Balanced territorial development’ and ‘International competitiveness of Riga’. Both regional (the five planning regions) and local projects have been analysed.

The methodology employed in this evaluation is eclectic: firstly, the project developed what the project calls an analytical device (analītiskais rīks) which seems to be some kind of data processing device, beyond that the analysis involved fairly simplistic counterfactual methods, interviews with various stakeholders and experts, and a survey of local authority planners.

The impact of interventions is summarised in terms of a number of indicators, sometimes divided into indicators of operational efficiency, functional efficiency indicators and results indicators. The results indicators are rather easily interpretable e.g. newly created jobs as share of total jobs⁵, increased turnover of supported enterprises as share of total change in turnover or wage growth in supported enterprises relative to wage growth in the region/territory.

However, some indicators are hard to interpret: the indicator wage growth/relative to changes in tax revenues in the region is impossible to interpret. The results are also strange: the highest value for this indicator (0.049%) is in Vidzeme and the lowest (0.006%) is in the Riga planning region. In the text, this is interpreted as the impact of changed wages on tax revenues, so presumably a higher ratio is better. Similarly, the other functional efficiency indicator is the number of jobs created relative to the change in numbers unemployed. This indicator is reported for only one region where it is interpreted as the impact of jobs created on the fall in unemployment in the region – in the other regions where unemployment grew, it is not reported! This also turns out to be the case with a number of other indicators.

The time period of comparison is typically between either 2007 or 2009 and end 2011 and end 2010. The counterfactual methodology compares supported enterprises with a random sample of 10 enterprises from each of the planning regions. Where money values are used as indicators e.g. wages or turnover, there is no evidence of any adjustment for price levels and, since comparison is over the period from the beginning of 2007 to the end of 2010, interpretation is again problematic because inflation was rather high for part of this period. Other results are also curious and unexplained - e.g. nonfinancial investment is reported to have grown in the Riga region by 41% between 2007 and end 2010 but by no less than 39745% in Kurzeme and this goes uncommented!

Similar analysis has been performed at more local levels again with strange results. For example, the wages/tax revenue indicator is for municipalities on average 0.065% but for one municipality (Vecpiebalgas novads) it is reported as 1.935%, again uncommented.

The beneficiary surveys and expert interviews mainly concerned process issues.

Recommendations for implementing territorial objectives in the next programming period came mainly from beneficiary and expert surveys and from EC documents e.g. interventions should focus on roads, other infrastructure, business incubators, technology parks, smart specialisation and integrated territorial investment.

⁵ For example, between 2007 and end 2010 the average number of jobs created per planning region was 210, with the largest number (384 representing 0.4% of the total workplaces in the region) in Vidzeme planning region and the lowest (108 representing just over 0.1% of total workplaces) in Zemgale. The total number of jobs created by the evaluated interventions was 1,075. By contrast, the total number of jobs saved over the period was 9,727 and the total number of workplaces where qualifications were improved was 2,296.

What has been learned about the results and effects of Cohesion policy interventions in the present programming period?

The most consistent theme that comes from the evaluations that have been made in Latvia is the inadequacy of the indicators for making a proper evaluation. This has occurred for two reasons: either because no consistent indicators have been defined in the first place - e.g. the horizontal priority 'Information Society' or horizontal priority 'Equal Opportunities' - or because targets have not been adjusted to reflect changed programmes, e.g. the Mid-Term evaluation. The latest evaluation on 'Support for entrepreneurship and innovation' also identifies inadequacy of indicators as a problem.

Only the two most recent evaluations have made some attempts to use standard methodological approaches - e.g. counterfactual or theory based - to assess the effectiveness of interventions. Lessons by policy area are hard to identify: firstly because there are no evaluations addressing Human Resources, Transport, Environment, or Energy and secondly because both the Enterprise Support and the Territorial Development evaluations (reported above) do not contain reliable results generated by the core research. For example, the recommendations of the Territorial Development evaluation come from beneficiary and expert surveys and from EC documents rather than the analysis of data.

The most rigorous exercise undertaken has been the modelling project aimed at assessing the macroeconomic impact of the funds. This of course was not an evaluation in the classical sense but in fact was rather successful in predicting the role of the EU funds in the economic recovery of 2010-2012 and has been widely used by the authorities to demonstrate the positive impact of funds expenditures.

The evaluation strategy has been unchanged since 2007. There is no reason to doubt the independence of the evaluation process as such. However, there is a major and growing problem with the procurement procedure. Public procurement of evaluations and other research services in Latvia is usually done using a scoring system with price counting for anything between 10% and 70% of the score - the remainder being allocated to a variety of 'quality' components. The contract is then awarded to the bidder with the 'best value for money' as measured by the score achieved. In practice, the maximum quality score is extremely easy to achieve. Basically the scoring rule is as follows: suppose the component requires comparison of three countries then if the tenderer promises to consider 3 countries the top score (say 15 points) is awarded, if only 2 then 10 points and if only 1 then 5 points. This kind of 'quality evaluation' is applied across the board. The result of this is that in practice the lowest price bid will always win. This is a recipe for ensuring the lowest quality.

What use has been made of the results of evaluations and their recommendations?

This is rather difficult to assess. There are several channels by which evaluations may affect policy or action implemented by the authorities. Formally, the 'Thematic evaluation working group' is charged with considering the results and recommendations of evaluations and in 2012 no less than 133 recommendations were considered in its Recommendation Implementation Plan of which 99 were implemented. However, 30 of the 133 came from evaluations of the 2004-2006 programming period, another 91 from evaluations of the effectiveness of the management and control system of the EU funds in Latvia and the remaining 12 were from the

Mid-term Evaluation and even here the recommendations are all mainly procedural. Thus the evaluations and recommendations that exist have been integrated into the policy process through this route. It is too early to say what use may be made of the two evaluations delivered in 2013.

Aside from this formal route, research (including evaluations) has a role in raising awareness of both officials and the public which then may lead to changes in policy. For example, the Latvia Competitiveness Report (originally published in Latvia in 2012), although not an evaluation as such, drew the attention of both officials and the public to poverty and inequality as a major issue and thus contributed to this becoming a major government priority in 2013. Other recommendations of the Latvia Competitiveness Report have found their way into the Latvia's National Development Plan.

The lack of reliable counterfactual or theory based evaluations of cohesion policy interventions in Latvia has meant quite simply the evaluation evidence is not available to inform policy in Latvia let alone to generate substantive changes in policy. Accordingly, evaluations have not led shifts in expenditures. Shifts in expenditures have typically been either demand driven or driven by changed circumstances i.e. funding was shifted in response to the crisis or been shifted away from activities where demand has been low, such as financial instruments.

What evaluations are underway, or have been commissioned?

Currently, an internal evaluation by the Ministry of Economics "SME Access to Finance Market Gap Assessment" is underway⁶. This is intended to inform the development of FEIs for the next programming period. Also, under way in Finance Ministry for a project to evaluate data availability in the context of evaluation in the 2014-2020 programming period. The project aims to assess data needs for both counterfactual and theory based evaluation for the next programming period. This underlines the general impression that the MA intends to address evaluation more actively in the next programming period. There is also a call for another assessment of the Horizontal Priority 'Equal Opportunity' with the aim of improving effectiveness in the next programming period.

What are the plans for carrying out evaluations over the remainder of the programming period?

As already noted, resources are available during the remainder of the programming period for six evaluations (over all three OPs). The policy areas/interventions to be evaluated are to be decided in a revised evaluation plan. The Finance Ministry intends to implement an ex post evaluation of the EU funds implementation system with the aim of improving effectiveness in the next programming period.

Important policy areas or issues which are not covered, or are not sufficiently covered, by the evaluations which have been completed or are planned

FEIs are a specific area where, given the low take-up, evaluation would also be highly desirable - e.g. FEIs vs. grants. Interventions in education and science have not been evaluated nor in transport and other infrastructure.

⁶ It seems that this has influenced the reallocation of resources mentioned in Section 2 above

Good practice evaluations

Neither of the two new evaluations really exemplifies good practice and the territorial development evaluation is in no way good practice. However, the 'Entrepreneurship and innovations' is a sufficient step forward in the Latvian context in terms of attempting to apply counterfactual methods to be marginally included as such.

Quality and reliability of evaluation results

Quality and reliability issues have already been discussed above in the 'what has been learned section'. The problem is that even when 'sound' methods appear to have been used the applications are largely mechanical, without an understanding of how to test for reliability, e.g. there is no attempt to use statistical inference to evaluate the significance of results.

How evaluation activity in Latvia could be improved

- A necessary condition for improving the quality of evaluations in Latvia is to change the procurement system which either does not take account of the quality of proposals i.e. is explicitly lowest price procurement or which effectively is lowest price procurement because the "quality" criteria are easy to satisfy. I would recommend that at least for major evaluations the procurement procedure should include an interview of short-listed proposals by a panel that includes external experts in the field.
- It would be highly desirable if the 'clients' of evaluations understand why an evaluation is being undertaken. This requires that they understand the theory of change that supports an intervention and this in turn requires the planning of interventions is based on a theory of change. I would recommend more and better training of officials in these areas.

5. Further Remarks - New challenges for policy

The biggest challenge for policy makers is to bite the bullet and devise an evaluation strategy and ways of implementing it that produces results that actually inform the making of policy. This can partly be addressed by commissioning the right kind of evaluations (which is being addressed at least in principle) but the main bottleneck is the procurement process which guarantees that the lowest quality bidder always wins. This is something which I fear has to be addressed at the Commission level because at the Latvian government level there seems to be an unwillingness to act even though the problem is well understood by officials.

The main policy area where major action is needed is transport. Despite some improvements Latvia's land transport infrastructure is visibly behind what might be expected of a developed European country. On almost all fronts there is either no progress or slow progress e.g. Rail Baltica or the cancelled passenger train project. Interurban-rail transport is almost non-existent and roads are a disaster. According to "Latvian Roads", which manages the state road network, in 2012, the state of 50% of asphalted roads in Latvia was either 'bad' or 'very bad'.

Also the "Access to Finance" programme needs to be further rethought for the next programming period. This is an area where interventions which cover, say the Baltic States as a whole, might prove to be desirable but this seems not to be feasible within the constraints of nationally based Cohesion policy.

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See Table 4 in the text

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Annex 1 - Tables

See Excel Tables 1 -4:

Excel Table 1 – Regional disparities and trends

Excel Table 2 – Macro-economic developments

Excel Table 3 - Financial allocation by main policy area

Excel Table 3cbc - Financial allocation by main policy area – cross border cooperation

Excel Table 4 - Commitments by main policy area (by end-2012)

Excel Table 4cbc - Commitments by main policy area (by end-2012) – cross border cooperation

Annex Table A -Broad policy areas and correspondence with fields of intervention (FOI)

Policy area		Code	Priority themes
1. Enterprise environment	RTDI and linked activities	01	R&TD activities in research centres
		02	R&TD infrastructure and centres of competence in a specific technology
		05	Advanced support services for firms and groups of firms
		07	Investment in firms directly linked to research and innovation (...)
		74	Developing human potential in the field of research and innovation, in particular through post-graduate studies ...
	Innovation support for SMEs	03	Technology transfer and improvement of cooperation networks ...
		04	Assistance to R&TD, particularly in SMEs (including access to R&TD services in research centres)
		06	Assistance to SMEs for the promotion of environmentally-friendly products and production processes (...)
		09	Other measures to stimulate research and innovation and entrepreneurship in SMEs
		14	Services and applications for SMEs (e-commerce, education and training, networking, etc.)
		15	Other measures for improving access to and efficient use of ICT by SMEs
	ICT and related services	11	Information and communication technologies (...)
		12	Information and communication technologies (TEN-ICT)
		13	Services and applications for citizens (e-health, e-government, e-learning, e-inclusion, etc.)
	Other investment in firms	08	Other investment in firms
	2. Human resources	Education and training	62
63			Design and dissemination of innovative and more productive ways of organising work
64			Development of special services for employment, training and support in connection with restructuring of sectors ...
72			Design, introduction and implementing of reforms in education and training systems ...
73			Measures to increase participation in education and training throughout the life-cycle ...

Policy area		Code	Priority themes
	Labour market policies	65	Modernisation and strengthening labour market institutions
		66	Implementing active and preventive measures on the labour market
		67	Measures encouraging active ageing and prolonging working lives
		68	Support for self-employment and business start-up
		69	Measures to improve access to employment and increase sustainable participation and progress of women ...
		70	Specific action to increase migrants' participation in employment ...
		71	Pathways to integration and re-entry into employment for disadvantaged people ...
		80	Promoting the partnerships, pacts and initiatives through the networking of relevant stakeholders
3. Transport	Rail	16	Railways
		17	Railways (TEN-T)
		18	Mobile rail assets
		19	Mobile rail assets (TEN-T)
	Road	20	Motorways
		21	Motorways (TEN-T)
		22	National roads
		23	Regional/local roads
	Other transport	24	Cycle tracks
		25	Urban transport
		26	Multimodal transport
		27	Multimodal transport (TEN-T)
		28	Intelligent transport systems
		29	Airports
30		Ports	
31		Inland waterways (regional and local)	
32		Inland waterways (TEN-T)	
4. Environment and energy	Energy infrastructure	33	Electricity
		34	Electricity (TEN-E)
		35	Natural gas
		36	Natural gas (TEN-E)
		37	Petroleum products
		38	Petroleum products (TEN-E)
		39	Renewable energy: wind
		40	Renewable energy: solar
		41	Renewable energy: biomass
		42	Renewable energy: hydroelectric, geothermal and other
		43	Energy efficiency, co-generation, energy management
	Environment and risk prevention	44	Management of household and industrial waste
		45	Management and distribution of water (drink water)
		46	Water treatment (waste water)
		47	Air quality
		48	Integrated prevention and pollution control
		49	Mitigation and adaption to climate change
		50	Rehabilitation of industrial sites and contaminated land

Policy area		Code	Priority themes
		51	Promotion of biodiversity and nature protection (including Natura 2000)
		52	Promotion of clean urban transport
		53	Risk prevention (...)
		54	Other measures to preserve the environment and prevent risks
5. Territorial development	Social Infrastructure	10	Telephone infrastructure (including broadband networks)
		75	Education infrastructure
		76	Health infrastructure
		77	Childcare infrastructure
		78	Housing infrastructure
	Tourism and culture	55	Promotion of natural assets
		56	Protection and development of natural heritage
		57	Other assistance to improve tourist services
		58	Protection and preservation of the cultural heritage
		59	Development of cultural infrastructure
		60	Other assistance to improve cultural services
	Planning and rehabilitation	61	Integrated projects for urban and rural regeneration
	Other	82	Compensation of any additional costs due to accessibility deficit and territorial fragmentation
		83	Specific action addressed to compensate additional costs due to size market factors
	6. Technical assistance		84
81			Mechanisms for improving good policy and programme design, monitoring and evaluation ...
85			Preparation, implementation, monitoring and inspection
86			Evaluation and studies; information and communication