ISMERI EUROPA

EXPERT EVALUATION NETWORK DELIVERING POLICY ANALYSIS ON THE PERFORMANCE OF COHESION POLICY 2007-2013

TASK 2: COUNTRY REPORT ON ACHIEVEMENTS OF COHESION POLICY

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A report to the European Commission

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Contents

EXECUTIVE SUMMARY

This report summarizes the main achievements of ERDF and Cohesion Fund in Latvia up to the end of 2009 drawing information from Annual Implementation Reports, the Strategic Report 2007-2009 and interviews with experts from the institutions responsible for the EU fund implementation. The report also and reviews the most important evaluations carried out in the period 2004-2006 and 2007-2013.

Since joining the EU in 2004 Latvia's development policy has been aimed at catching with the rest of EU in terms of living standards. However, as the country hardest hit in Europe by the global economic crisis, Latvia has been thrown back to 2005 levels with a collapse of GDP per capita to just 49% of the EU average in 2009.

In 2008 Latvia received loan from EC and IMF with conditionality that effectively imposed the adoption of a strict pro-cyclical policy. In this situation Cohesion Policy has emerged as the only instrument that provides an element of anti-cyclical measures.

At this phase of implementation of the 2007-2013 programmes there is rather little to report on. The unanticipated crisis developments make it impossible to evaluate Cohesion Policy achievements in the light of targets set in 2007. And to evaluate any real impact of the activities being implemented more time is needed for results to show. Furthermore, the activity and policy priority review in the beginning of 2009 and general uncertainty about available national co-financing in 2009 have caused delays in programme implementation. Thus the report can only summarize some output and result indicators that have been achieved. Section 2 looks more closely on activities that have been particularly supported or created to counter economic crisis. Achievements in this area are mixed, while activities such as “Guarantees for development of enterprise” and “High value-added investments” can be regarded as success stories, the financial instruments developed under JEREMIE initiative can be regarded as disappointments as delays in implementation has meant that to date no real assistance to firms has been delivered.

Nevertheless, by the end of 2009 Latvia could boast stronger financial progress than the EU average and moreover financial progress has been picking up during the first half of 2010 as national co-funding has been secured and the required policy planning documents have been adopted. This can be attributed in part to the government commitment to effectively implement programmes and partly to concessions from the EC and IMF regarding the status of national co-financing within the context of budget consolidation.

The indirect impact of Cohesion Policy on promotion of a real regional development in Latvia is worth noting. For the first time there is EU funding allocated specially to address the specific needs of municipal authorities. Even if at a closer examination it can be said that the EU funding in 2010 is only substituting national funding available before crisis, municipal authorities are working on their development programmes where they can plan investments according to their needs instead of adopting their development programmes to the EU funding available under sector policies. This is a relatively small, but very much needed step in regional development policy in Latvia where disparities among regions remain high.

There is little to draw on from evaluation studies for the period 2007-2013, but the evaluation plan for the period, when it is carried out, will provide quite comprehensive evaluation evidence. Impact evaluation evidence available for the period 2004-2006 suggests that there has been a positive effect of EU funds on GDP growth. However, EU fund impact on regional development at NUTS 3 level requires data on interregional flows that is in practice unavailable.

SECTION 1 – SOCIO-ECONOMIC CONTEXT

The defining background to the current EU Funds programming period is Latvia's third major economic crisis since it regained independence in 1991.

As can be seen from the Table A, Latvia enjoyed fast growth rates after joining EU in 2004 with decreasing unemployment and noticeable convergence EU average living standards. In the middle of 2008 GDP entered a free fall that continued throughout in 2009 and it is estimated to further decrease GDP by 3.5% in 2010. The signs are that as of mid-2010 the fall in GDP has bottomed out. Annual inflation rate has followed, decreasing from 15.2% in 2008 to 3.3% in 2009. The unemployment rate has increased dramatically and in March 2010 had reached 20% (according to Labour Force Survey (LFS) estimates) in stark contrast to the low of 6% just 3 years ago in 2007.[1]

Achieving and surpassing the average EU GDP per capita level has been and still is the overall objective of Latvian development policy but the economic crisis has returned the country to the 2005 relative living standards with a GDP per capita rate at 49% of the EU average.

In 2008 when the crisis hit, Latvia was forced to seek an IMF loan that was rapidly granted in cooperation with the EC. However the loan entailed certain conditions such as strict budget consolidation and expenditure cuts in the public sector and in 2009 national budget was consolidated by EUR 540 million (4.4% of GDP), a similar scale consolidation has been pursued in 2010 and also planned for 2011. This leaves no space for stimulation of economic activity from the state budget. However enough resources have been put aside to successfully absorb EU funds even if though there were some uncertainties in 2009.

Table A – Macro economic indicators

Indicator/year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP growth rate (%)	6.9	8.0	6.5	7.2	8.7	10.6	12.2	10.0	-4.2	-18.0
Inflation (%)	2.6	2.5	2.0	2.9	6.2	6.9	6.6	10.1	15.2	3.3
Unemployment LFS (%)	13.7	12.9	12.2	10.5	10.4	8.9	6.8	6,0	7.5	17.1
GDP per capita as % of EU average	37	39	41	43	46	49	52	56	57	49

Source: EUROSTAT

[1] See Tables 1 and 2 in the Excel folder.

In 2009 the crisis resulted in Cohesion Policy being adapted in two directions: i) to alleviate liquidity squeeze experienced by companies that were basically economically sound and ii) and to support export sectors.

Looking at regional disparities between the 5 NUTS 3 level statistical entities in Latvia GDP per capita in 2007 (the latest data) in the richest Riga region was 138.4% of the average in the country while the remaining regions GDP per capita was ranging between 54-77%[2]. The disparities have only slightly decreased compared to 2003. In 2007 Riga GDP per capita was 2.6 higher than in other regions; in 2003 Riga was 2.7 times richer than the other regions. The poorest region remains Latgale that borders on Russia and Byelorussia. When compared to the average EU development only Riga city had managed to reach a GDP per capita level equal to the EU average.

With recession unemployment has risen more sharply in the regions than in Riga region. Comparing 2005 with the beginning of 2010 unemployment in regions had increased by a factor of between 2.4 and 4. The steepest increase was observed in Latgale.[3]

Latvia's development can be regarded as monocentric where growth has been concentrated in the Riga region. This has led to migration to Riga from rural areas and from other cities. This is certainly regarded as a problem – the regions are losing their human resources, the availability of services to entrepreneurs and inhabitants are lower, underdeveloped infrastructure (including information and communication technology), low entrepreneurial activity and little interest from investors – these are the main issues regions outside Riga are facing.

To address these problems in this planning period a horizontal priority of balanced territorial development in NSRF 2007-2013 was introduced and funding quotas to regions had been introduced especially in infrastructure and services measures, however this was not the case for most activities in RDI and entrepreneurship priorities. According to the Ministry of Regional Development and Local Governments other national policies do not fully recognise nor address the regional disparity problem.

[2] Latvian Central Statistical Bureau data

[3] The State Regional Development Agency data

SECTION 2 – THE REGIONAL DEVELOPMENT POLICY PURSUED, THE EU CONTRIBUTION TO THIS AND THE POLICY ACHIEVEMENTS OVER THE PERIOD

THE REGIONAL DEVELOPMENT POLICY PURSUED

Latvia is a single NUTS 2 region covered by the Convergence objective and, according to NSRF 2007-2013, development policy is concerned with the catching up process with the rest of EU in terms of GDP per capita by improving productivity, investing in R&D, ensuring time savings for travellers, increasing the percentage of entrepreneurs in society, increasing the employment rate and ensuring water and waste management in line with EU and Latvian regulations.

The overall Latvian policy strategic goal according to the Latvian Development Plan (LDP) 2007-2013 is education and knowledge for the growth of the national economy and technological excellence supported by three priorities: an educated and creative individual; technological excellence and flexibility of companies; development of science and research.

There is no regional development policy in Latvia in the sense of EU definition. The territory of the country is divided in 5 statistical NUTS 3 entities but these are not administrative entities. There are some instruments that to some extent address the development problems of municipal authorities at the regional level. These include earmarked subsidies for investment in local municipalities and tax relief and other support instruments in identified specially supported territories.

Latvia has borders both with other EU Member States and two non EU Member States – Russia and Belarus. Cross-border cooperation is of great importance especially where it can promote regional growth alongside Russian and Belarusian border. There are 5 OPs under the Cross-Border cooperation “Estonia-Latvia” (EST-LAT), “Latvia-Lithuania” (LAT-LIT) and “Central Baltic” and 2 OPs under Cross-Border and European Neighbourhood and Partnership Instrument (ENPI) “Estonia-Latvia-Russia” (EST-LAT-RUS) and “Latvia-Lithuania-Belarus” (LAT-LIT-BEL). Total EU funding of EUR 287 million is available to these OPs, with 5 EU member states and 2 non EU Member States as partners.

Cross-border cooperation under the Territorial Cooperation Objective is administrated and implemented separately from the initiatives under Convergence objective. No synergies are sought between the Convergence Objective and Territorial Cooperation Objective interventions. Overall the priorities in cross-border OPs are largely in line with the Convergence objective priorities in Latvia, with more emphasis on physical infrastructure and promotion of entrepreneurship in LAT-LIT and EST-LAT as well as ENPI OPs. People-to-people cooperation is emphasized in the EST-LAT-RUS and LAT-LIT-BEL programmes, but is also present in LAT-LIT and EST-LAT programmes.

The total allocated funding for Latvia for the period 2007-2013 through EU structural and Cohesion funds is EUR 4.5 billion. The ERDF and Cohesion Fund together account for EUR 4 billion that are implemented through 2 operational programmes (OPs). The 2nd OP "Entrepreneurship and Innovations" receiving EUR 0.8 billion and the 3rd OP "Infrastructure and Services" which accounts for EUR 3.2 billion. A further breakdown of the priorities and measures can be found in Annex Table A.

Table B shows the allocation of Community funds as well as the state of fund absorption as of end July 2010. As can be seen 35% of EU funds are directed towards Transport and ICT, the biggest part goes to investment in European transport networks including TEN-T - EUR 857 million; investment in regional transport infrastructure - EUR 322 million and ICT infrastructure and services - EUR 189 million.

Table B - Allocation of Community funds and State of play of fund absorption at 31.07.2010 by policy area

Area	Corresponding priorities and measures from OPs	Available EU funding EUR	Funding contracted %	Paid out to final beneficiaries %
Support to enterprises and R&D	All priorities in 2nd OP	746,195,894 (19%)	53.5%	33.9%
Human capital	Priority 3.1	504,623,236 (13%)	58.9%	14.7%
Transport and ICT	Priorities 3.2 and 3.3	1,368,157,113 (35%)	64%	8%
Environment and energy	Measures 3.4.1,3.4.4 and priority 3.5	938,313,448 (24%)	36.4%	19%
Territorial development	Priority 3.6 and measures, 3.4.2, 3.4.3	329,709,125 (4%)	42.6%	20.7%
Total[4]		3,886,998,816	52.8%	17.6%

Source: VIS - EU unified information system

The second biggest position is investment in Environment and energy - 24% of the total.

EUR 168 million goes to increase efficiency of heating distribution systems, investment in co-generation power plants with renewable energy sources and heat insulation of multi-apartment

[4] Excluding technical assistance

residential buildings. Water and waste management receives – EUR 733 million (3.5.1) in order to bring water and waste management in line with EU and Latvian regulations and EUR 66 million goes to rehabilitation of contaminated areas, Natura 2000 territory development, prevention of environmental risks and floods.

Third biggest position is promotion of RDI and entrepreneurship (20% of total). EUR 452 million goes to R&D and innovations in businesses. The remaining EUR 294 million go to promotion of entrepreneurship and measures envisaged to ease access to financing for companies and in particular SMEs. According to the Head of the EU Fund Implementation Department in the Ministry of Economics entrepreneurship in Latvia at the moment can be promoted only by cutting red tape and measures financed from EU funds.

Investment in Human capital (co-financed by the ERDF) amounts to almost EUR 0.5 billion. The money is being invested in physical capital to improve the quality of all levels of education, social, employment and health services. These investments are complimentary to ESF measures and activities.

Territorial development has been allocated EUR 0.3 billion. The biggest part of it or EUR 274 million goes to promotion of polycentric development in Latvia and the rest of money is aimed at the promotion of tourism and renovation of cultural capital. The priority "Polycentric development" was introduced to encourage economic growth in regions outside Riga by strengthening competitiveness, accessibility and attractiveness of the urban environment and city-regions. The LDP 2007-2013 stresses the importance of cities as growth poles in regions. To support these potential growth centres Planning regions (comparable to NUTS 3 statistical units, but region borders do not coincide) in their development programmes[5] identified national importance cities alongside with regional and local importance centres who will be eligible for EU funding. The idea is to promote territorial cohesion by identifying specific needs and resources of each territory and reflecting them in their development plans, accounting for urban-rural connections and pushing for multi level decision making. Planning regions have increased their capacity by participating in the elaboration of the municipalities' integrated development plans and more active participating in EU funds managing committee. These institutions also receive support under ESF activity to build their human capital. In future these institutions could potentially become decision making bodies for regional policies and take upon executive functions as well.

The LDP 2007-2013 states that modern infrastructure and services, growth in regions and a healthy human being in a sustainable society are prerequisites for economic growth. The large

[5] The programmes are approved by Planning region development council.

investments in infrastructure and environment sector can also be justified by the finding in the study macro-economic impact assessment of EU funds where the ex-ante assessment for 2007-2013 period which suggests that projects aiming at total factor productivity (TFP) growth and augmentation of effective labour seem to have the biggest effect on GDP. TFP oriented investments include investments in basic infrastructure and ecology (pollution).

It could be said that ERDF funding has substituted earmarked subsidies for investment in municipal authorities in 2010 as the budget for this instrument has been cut to 0 and the projects started in 2009 have been transferred to the measure 3.6.1. "Support for sustainable urban environment and urban area development". To a lesser extent one could say the same about the transport sector where EU funding for transport covers activities that are no longer national sector priorities. In March 2010 Latvian Transport Sector Development Guidelines 2007-2013 where amended to take into account the current economic reality by adjusting priorities and concentrating on most pressing needs. Development of railways and public transportation were removed from the national priority list and targets were downplayed in port and airport development. Nevertheless the ERDF and Cohesion Fund will continue supporting railway, port, airport and public transportation projects at initially planned amount[6].

Regional policy adaptation to new economic reality

When the crisis hit at the end of 2008 IMF and Latvia worked out an "Economic Stabilisation and Growth Revival Programme" where the use of funding available from EU Cohesion Policy was an integral part of the plan, specifically singling out support to exporting sectors and continued investment in infrastructure.

In April 2009 the Latvian Strategic Development Plan 2010-2013 (LSDP 2010-2013) was approved by Latvian government taking into consideration the new socio-economic situation and the undertaken commitments towards IMF and EU. The plan can be seen as adapting the Latvian Development Plan 2007-2013 by providing new targets and re-considering priorities without actually amending the original LDP.

In December 2008 the Latvian government undertook a review of most of the activities in the OPs in the context of the 2009 national budget consolidation of EUR 540 million (4.4% of GDP) and the need to adjust Cohesion Policy to support economic recovery. A special working party

[6]The expenditure targets set in agreement between LV and EC on additionality will most likely not be met. During mid-term review in 2011 the structural expenditure targets will most probably be changed to reflect current economic situation. This is in line with regulation 1083/2006 stating that the level of expenditure shall be determined with reference to the general macroeconomic conditions in which the financing is carried out and taking into account certain specific or exceptional economic situations. National structural expenditure targets were set under a macroeconomic scenario with yearly GDP growth at around 7%.

reviewed 83 out of 150 EU fund activities that did not directly contribute to economic revival. These activities accounted for 20% of the total public funding (EU and national public) for the period 2007-2013 or EUR 1 billion. This meant stopping the activities in question until a government decision to re-start them and delaying the implementation of most activities for half a year. For some few activities it is still unclear if they will be resumed or closed permanently.

The results of the working party were reflected in several Government decisions in the second and third quarters of 2009. The intention was to give additional funding to activities that more directly contributed to revival of economic activity and would contain the economic downturn.

In the OP "Entrepreneurship and Innovations" 6 activities were stopped and funding was decreased for 2 other activities. Funding intended to strengthen science and innovation institutions was diverted to scientific infrastructure, financial instruments and investment projects in businesses. Additional public funding was allocated to the following activities:

- Development of the scientific and research infrastructure – EUR 7.1 million;
- High added value investment in companies – EUR 21.3 million;
- Guarantees for development of enterprise competitiveness – EUR 28.4 million;
- Access to international trade markets-external marketing – EUR 6.2 million.

In the OP "Infrastructure and Services" 5 activities were stopped and public funding was decreased in 6 activities. Funding of investment in environment, cultural capital and education infrastructure was directed towards energy efficiency activities and investment in local authority infrastructure. Funding was increased in following activities:

- Cogeneration power plants with renewable energy sources – EUR 10 million;
- Support of amalgamated municipalities[7] to promote complex growth – EUR 13.4 million;
- Energy efficiency of housing – EUR 42.9 million.

The process is ongoing with more Government decisions on funding re-examination and redistribution taken in February 2010 and more are to follow.

POLICY IMPLEMENTATION

Despite the national budget consolidation and deep recession financial progress made so far is satisfactory in nearly all areas. At the end of 2009 Latvian EU fund (ESF, ERDF and Cohesion

[7] Amalgamated municipalities (*novadi*) refers to the larger municipalities created by the 2009 territorial reform that reduced the number of municipalities from 522 to 109 plus 9 so called republican city authorities

Fund) absorption rate was at 36.9% as opposed to the EU average of 27%. Since then the absorption rate of all EU funds has increased to 54.7% for contracted funding and 18.5% for payments to final beneficiaries (July 2010). Partly this can be explained by the commitments undertaken to use cohesion funding effectively as a condition of the EC and IMF loans. However, in general, Latvia is following the Baltic country trend of a fast EU fund financial absorption rate.

Table B illustrates financial progress as of July 31, 2010. Further breakdown by measures and priorities can be found in Annex Table A. The rate at which concrete decisions are being made is illustrated in the column "funding contracted" – contracts signed between intermediate body and final beneficiary. Approved projects not always result in contracts as in this planning period Latvia has introduced the possibility to approve projects on condition and if the applicant can not comply the project loses funding. The column "paid out to final beneficiaries" corresponds to the rate at which actual spending is taking place.

Financial absorption was slowed down by the review process that started at the beginning of 2009 and the uncertainty about availability of national co-financing in 2009.

The good results in Transport and ICT can be explained by the introduction of the auto-financing mechanism[8] and a fast project approval rate once national co-financing was secured.

The absorption pace is good for activities in investments in human capital. Financial absorption indicators are relatively slower in the health sectors as sector reforms are prolonging the implementation process. The education sector was a laggard in 2009 as government was late approving necessary policy planning documents. For example, Vocational educational institution optimization guidelines for 2010-2015 were approved only in December 2009. Financial absorption has picked up considerably at the first half of 2010 for vocational and higher education activities with respectively 22% and 96% of funding contracted as compared with the end of 2009 when there was literally zero finance committed for these activities.

Water and waste management projects have been implemented rather swiftly as they were not subject to the review process, however they also suffered from delays as the final beneficiaries

[8] The managing authority and intermediate authorities are typically short of cash as a result of the state budget consolidation process. According to the rules these institutions could not sign contracts with final beneficiaries unless they had money allocated in their budget to pay out the EU funding part of the project that they would later receive back from EC after project expenses have been approved. To address this cash flow problem government regulation No 415 of 26th of June 2007 was amended allowing signature of contract and commencement of implementation if the final beneficiary could cover the expenses on its own and wait for the arrival of the EU funds later. This usually means that the final beneficiary takes a short-term loan. It will then take 5 to 6 months for the final beneficiary to receive EU fund money. This amendment is mainly targeted at big projects where state owned companies or local governments could find the needed money. The aim of the amendment is to speed up the EU fund absorption by circumventing the cash flow bottleneck.

are uncertain about their budget situation and procurement decisions are challenged. Activities concerning infrastructure development in *Natura 2000* territories and development of environmental monitoring and control system were delayed by the review process, but have been resumed with slightly reduced funding.

The absorption rate in priority Science, Research and Development, which received additional funding in 2009, is alarming with absolutely no financial progress. Also there are no clear sign of progress in the future since the implementation regulation is still in process of drafting for the activity "Development of research infrastructure" which has been allocated 67% of Science, R&D priority funding. Additional funding was granted to ensure funding for a pharmaceutical technology centre and a biopharmaceutical laboratory.

Under measure 3.6.1 "Support for Sustainable Urban Environment and Urban Area Development" in the activity "Sustainable development of Riga" there is also no financial progress since Riga municipality has so far submitted only 1 project and one project idea. Accordingly, the call for projects has been extended to October 2010. The high rate of absorption and actual money received by final beneficiaries in the measure "Support for Sustainable Urban Environment and Urban Area Development" can be partially attributed to the service orientated approach towards customers in State Regional Development Agency that manages the activity "Growth of national and regional development centres" implementation. The Agency reaches out to applicants by consulting them and easing the bureaucratic process as much as possible, including such a simple thing as allowing communication via e-mail is not the case for many other activity implementations.

The good financial progress in the priority "Access to financing" should not be misinterpreted as the 100% paid to final beneficiaries only indicates that contracts have been concluded with intermediate bodies that administer the activities rather than actual assistance to businesses. More detailed analysis is set out in section Achievements of the programmes.

In some activities demand for assistance from firms have been lower than anticipated, this is the case for the activity aiming at assisting SMEs in specially assisted territories and also the high risk loan product under the JEREMIE instrument. It is hard to judge how far the recession is responsible for the lack of demand in the activities mentioned. For example in the last month of activity (December 2009) for specially assisted territories interest from companies was very high and only 50% of "good" projects received funding. This indicates that people were waiting until the last moment to apply, unfortunately for many of them it was too late. When it comes to Jeremie loans, companies did refuse them after they were granted due to strict conditions, they found funding elsewhere. This points to two other possible causes 1) product/activity is not adequate to the needs; 2) lack of "encouraging" marketing and promotion of the product.

Some activities under the measure “Innovation” have suffered from deteriorating demand while others have experienced high demand. In low demand are activities supporting development of new products and introduction of new technologies as contracts that had been concluded had to be terminated because the financial situation of firms worsened, however it is expected that demand for these activities will pick up as soon as the activity “Development of research infrastructure” under the measure “Sciences, research and development” is be implemented. These two measures are designed to complement each other by providing funding to research institutions from the priority “Sciences, research and development” while firms would get funding from the measure “Innovations” thus enabling them to carry out projects together. The opposite situation has developed for the activity “High value-added investments” where demand from firms has been high. This could indicate that companies are willing to pursue only more secure investments in their already existing product and technology development, while developing new products and technology seem too risky at the current situation.

National co-financing for the year 2010 has been secured so as to permit implementation of EU funds at the planned pace. Arrangements have been made to finance 2011 co-financing needs from IMF funding essentially by excluding this from the calculation of the national budget deficit, for which there is a target set at 6% of GDP as a condition of continued financial assistance in 2011.

Comments on financial progress for activities particularly supported or newly created to counter the economic downturn are included in the section on Achievements of the programmes.

Financial progress in cross border cooperation programmes can be judged as satisfactory for EST-LAT, Central Baltic and LAT-LIT where the economic crisis has not had such a large impact as was feared and it is expected to fully implement these programmes. In the EST-LAT programme little activity of private enterprises has been observed up to the end of 2009 (constituting only 8% of all partners). The EST-LAT-RUS and LAT-LIT-BEL programmes have just had their first call for projects so there is no financial progress yet. See Annex I for financial progress and programme priorities.

ACHIEVEMENTS OF THE PROGRAMMES

Rather few of the preset targets have been achieved by the end of the 2009 and little documented evidence on achievements of the Cohesion Policy in the period 2007-2013 to report on. This is the result of several factors. Firstly, the economic crisis made most of the impact and context indicators set in 2007 irrelevant for the current situation (GDP and employment targets). In 2008 EU funding had been redistributed among activities to revive economic activity in the country and the effects of these measures are hard to account for. Secondly, the review process of public spending started in late 2008 delayed many activities by up to 6 months. Thirdly, structural changes especially in state administration, health and education sector have slowed the process of implementation because they have delayed the process of adoption of national policy planning and implementation documents. Finally, financial uncertainty about national budget funding to different sectors and local authorities in late 2008 and 2009 delayed many applicants.

There is almost nothing that can be drawn from evaluation studies as ex-post evaluation of the period 2004-2006 has not been yet finished. And there are no sector policy studies carried out that would be of interest in evaluating the achievements of the EU funds in this report.

In the next section we summarise the main achievements by policy area up to the end of 2009 if not otherwise specified. Overall there are few output and result indicators to report on at the moment. Moreover most of the result and all the impact indicators will permit evaluation of the measures in, at best, a couple of years of time.

Special attention is given to the initiatives particularly supported and newly created as a response to the economic crisis identified in section "Regional policy adaptation to new economic reality".

Support to enterprises and R&D

After the funding reshuffling under the priority "Access to financing" two new activities that were introduced in 2009 to alleviate the liquidity squeeze experienced by economically sound companies, can demonstrate tangible output results. The activities "Guarantees for development of enterprise competitiveness" and "Loans for development of enterprise competitiveness" were allocated EUR 133. 4 million of ERDF funding and have been available to companies since April 2009.

The activity "Guarantees for development of enterprise competitiveness" was partly already developed in the period 2004-2006 and was introduced to provide guarantees for loans to companies for investment in their business, to secure loans for EU Structural Funds funded project implementation and export guarantees when banks would consider them as being too risky. This activity can be considered as most successful activity to counter economic crisis as it was timely and issued the most credit guarantees when the demand for them was highest in the middle of 2009.

The activity "Loans for development of enterprise competitiveness" aims to grant loans to both SMEs and also bigger companies to support them in times of need. The activity is targeted on manufacturing industry and companies who need a loan to carry out EU funded projects. The progress has been slow, but has started to pick up in the first half of 2010. However, in 2009 7 clients had refused the loans granted to them of total value of EUR 18.1 million because of dissatisfaction of the company or their bank/investors with the conditions of the loan or because they had lost funding from other sources. There is a lack of good quality applicants and the financial intermediary plans to develop an information campaign to promote the product. The Hipotēku Bank which is the intermediate body predicts that the allocated funding will be invested fully by the end of 2013.

Additional funding was directed to “Development of the scientific and research infrastructure” however there is no financial or result progress to report on. Policy priorities and priority areas have been identified in the Science and technology development guidelines 2009-2013 that were approved in government only in September 2009. The implementation process has been significantly delayed also by the fact the activity has to comply with the state aid rules which will significantly increase the co-finance rate from research institutes. The MoES predicts that the first projects will be approved at the end of 2010 and funding will be fully absorbed by the end of the planning period. Meanwhile, the LSDP 2010-2013 has downgraded the targets for investment in R&D as a % of GDP to 0.6% for 2012 and 0.9% of for 2013 as opposed to target set in NSRF 2007-2013 of 1.5% of GDP by 2013.

The measure “Access to international trade markets-external marketing” received additional funding under the review and by the end of 2009 contracts had been concluded for 20% of allocated funding and output targets for 2009 where overachieved. It is planned to redirect part of the remaining funding to re-open an activity where businesses have expressed an interest.

The activity “High value-added investments” received additional EUR 21.3 million in the review and has been highly popular among firms. Although there are output indicators to report, for result and impact indicators to show more time is needed.

Latvia is taking advantage of the opportunities provided by the European Investment Fund (EIF) to provide financial instruments supporting SMEs from the EU Structural Funds. EUR 91.5 million from ERDF has been allocated to the JEREMIE initiative and which together with the EUR 63.4 million of private funding raised altogether makes EUR 150.1 million available to SMEs through seed and risk capital funds and funded risk sharing loan products. To date very little money has been transferred to the actual final beneficiaries - the SMEs. The EIF predicts that EUR 18.6 million will be given as a loan or invested in SMEs in 2010.

Latvia started negotiations with the EIF when crisis was looming at the beginning of 2008 and signed an agreement on June 2008 to provide fast response to companies facing financial constraints due to economic crisis. However, the process of finding intermediate financial institutions and raising the required private capital has taken longer than expected and this has resulted in delays delivering money to the intended final recipients and thus delayed the impact of the initiative. Overall this innovative financial instrument initiative can be regarded as disappointing as in terms of counteracting economic crisis – it was initially hoped that the equity finance could partially replace the collapse of bank lending but in practice it has proved difficult to raise the private finance for the funds so the real impact has to date been minimal. Nevertheless, the instruments are expected to show positive impact over a longer time period.

Results:

Output indicators only

Up to June 2010

- 395 agreements have been concluded on guarantees to promote competitiveness and 24 on export guarantees for the corresponding amounts of EUR 70.5 million and EUR 1.8 million;
- Guarantees amounting to EUR 47.7 million have been issued to 133 companies;
- Issued EUR 40.4 million worth of loans to 25 companies;
- EUR 63.4 million private funding raised under JEREMIE initiatives;
- 29 contracts concluded for projects of total amount of EUR 96.4 million under "High value-added" activity.

Up to the end of 2009

- Number of entrepreneurs who have introduced new products or technologies: 10 (8% of planned for 2009);
- Number of projects supported targeting international market penetration: 49 (planned for 2009- 40);
- Number of people involved in motivational programmes to encourage innovation and business start-ups: 2,310 (900 planned for 2009);
- Number of businesses which received assistance in business incubators: 19 (10 planned for 2009);
- Number of SMEs which have received support in specially assisted areas: 29 (40% of target for 2009).

Human capital

ERDF investment in human capital is directed towards improvement of infrastructure and equipment to provide high-quality services in the field of education, employment, social and health care sectors. The biggest part of funding goes to supporting health care and higher education infrastructure (41% and 25% respectively of funding available for human capital). Achievements in this field must be analyzed together with ESF investments. ERDF investments have been complementary to reforms taking place in the health and education sectors and also social policy reforms where decision was taken that each local authority has to provide a social service office where people can learn about their rights and solve other important issues which is regarded as particularly important in times when social tensions may be higher than usual.

National health services have experienced 25% budget cuts in 2010 as compared with 2008. The ongoing health reform is aiming at consolidation and better use of existing resources thus the number of hospitals is being decreased: 133 in 2003, 59 in 2009 and 39 in 2010. EU financing is mainly helping to develop stationary health care and emergency medical assistance that will be completely centralized by the end of 2010 and will shorten the time for people to receive the assistance they need.

Also reforms in education sector are directed towards consolidation and more efficient use of available resources. The number of general educational institutions has been decreased from 948 in 2008 to 842 in 2009. The secondary education teaching programme has been improved and higher quality natural sciences classrooms are needed and these are co-financed from ERDF. Also the activity aimed at bringing more PCs to 729 general education institutions are an integral part of carrying out the reforms (included in transport and ICT area).

In August 2010 government adopted the “Action plan on reforms in higher education for 2010-2012” that aims to improve quality of higher education and academic activity; modernization of the technical base; internationalization of higher education by promoting export potential in education sector; integration between industry and science. ERDF funding plays an important role in modernizing the technical base and in integration between the industry and science that will be covered in more detail in the paragraphs covering R&D and innovation. As most of funding was allocated in 2009 and 2010 results are still to materialize.

Results:

Output indicators

- Number of supported social services providers where accessibility of services has been ensured for persons with functional disorders: 2 (13% of planned for 2009);
- Number of pre-school educational institution built or renovated: 10 (9 planned for 2009);

Result indicator

- Number of children waiting for place in pre-school educational institutions has declined by 4% relative to 2004 (3% decline planned for 2009).

As noted above these results should be viewed in conjuncture with ESF achievements.

Peculiar indicator values

Two indicators for health services showed peculiar results, but these can be connected to developments in health service sector rather than interventions/non-interventions from EU funds. Result indicator "Average number of patients per primary health care practitioner" has been overachieved by 860% due to wrong assumptions about population migration from rural to urban areas. The result indicator "Time necessary for ambulance to reach patient in rural areas" achieved 100% even if no actual EU fund investment took place. The result indicator "Bed utilization rate in hospitals" was 69% in 2009 as opposed to 2009 target of 80%. This can be attributed to the increase in the patient charges and the fact that hospital numbers were decreased more slowly than anticipated.

Transport and ICT

Transport

Continuing investment in infrastructure is considered of great importance as it both provides immediate work for construction businesses, but also has good prospects creating more jobs and build a base of infrastructure needed to support transportation sector that constitutes a large part of Latvian GDP (11.4% of GDP in 2009 NACE 1.1 transportation and communication).

The aim of the Cohesion Policy in the transport sector is improving transport infrastructure integrated with the common transport system of the Eastern Europe that would facilitate economic growth and to which more than 70% of the funding available for transport is dedicated. In this planning period funding is concentrated on the transport corridor Ventspils – Riga – Moscow and most investments will be taking place in Eastern Latvia (Latgale). The remaining 30% is devoted to improvement of accessibility in different regions within the country.

The big projects funded by Cohesion Fund in railway, port and airport development have prospects of creating 2,300 temporary jobs and 1,400 permanent jobs. As well the increased traffic capacity in the transit corridors would make the transportation sector more efficient. This is a realistic projection since national co-financing has been secured for all infrastructure projects and they are moving swiftly through approval process and in two big projects actual construction is taking place.

Results:

Output and result indicators

- 20.8 km asphalted 1st priority national roads (21% of planned by 2009) and accordingly the value of time savings for passengers is 25,653 EUR/year (12% of planned by 2009);

- 14.5 km constructed/reconstructed TEN-T roads (153% of the planned by 2009 because as project costs decreased longer sections of road could be reconstructed). Value of time saved for passengers not available;
- 29 projects were approved to improve traffic safety outside Riga (97% of planned by 2009). Result indicators will follow as actual investment takes place.

ICT

The intention behind ERDF investments in ICT sector is to improve the availability of information and services to residents in all regions. More than 70% of the funding is intended for development of electronic services and information systems of public administration to accelerate the accessibility of public e-services.

The remaining 30% of funding allocated to ICT are intended to provide the technical base – broad band access, public internet access points, PCs for schools and establishment of safe electronic communications network of national significance.

Progress in this area has been slow as structural changes in the authorities responsible for the implementation of this activity and territorial land reform have delayed the implementation process and a broad policy document covering the ICT sector in Latvia for the period 2010 – 2015 is currently in drafting phase. As of the end of 2009 no actual investment had taken place so there are no results to report on.

Results:

Explaining peculiarities in result indicators

Two indicators are overachieved as technological progress did its work without extra help. For example the indicator "Households with broad band connection" has been overachieved even though project implementation has not yet started. According to the experts of Ministry of Transportation this is due to the broad band connection increase in the cities, while the measure will aim to improve connectivity in rural areas. We must note that the indicator has been criticized by sector experts as not being sufficiently concrete on technical specifications of what is considered to be a broad band connection.

Environment and energy

Three energy efficiency activities received extra funding to counteract the worsening economic conditions with the following reasoning: it would reduce energy imports; support construction business; promote investment in modern technologies in the energy sector. These were "Development of cogeneration power plants utilising renewable energy sources"; "Improvement of heat insulation of multi-apartment residential buildings" and "Improvement of Heat Insulation of Social Residential Buildings". To date there is no real output to report on

"Development of cogeneration power plants". 50% of the available funding has been contracted but no actual project implementation has been started yet. The activity has attracted much attention as the guaranteed "green" electricity tariffs are a lucrative business (i.e. provide a good and virtually risk free profit).

Financial absorption has been rather slow in heat insulation activities. Reasons for this include a lack of information and good examples for possible applicants. The responsible authority is planning information campaign to address the problem. Response from the Latgale region that was specially targeted at the beginning of activity has been low. Public utility debts in large bloc buildings limit possibilities to take a loan in a bank to co-finance the projects. The absorption rate is a bit higher for heat insulation in social houses where the local municipality is the final beneficiary. But with no direct support from the state for the improvement of social houses local authorities do not always prioritize heat insulation projects. With this in mind we can conclude that the activity has not contributed as fast as expected to counteract the worsening of economic conditions; however it is an activity that will be operational during the whole planning period and has prospects of delivering good results in the longer term. The overall judgment on theses activities will be possible only in due time.

Results:

Output indicators

Until June 2010

- 6 multi-apartment building insulated and in 79 buildings renovation commenced. Contracted funding was 8.8% of the available in the activity;
- 10 social housing buildings insulated and insulation works started for another 23 buildings. Contracted funding was 35% of the available in the activity;

ERDF and Cohesion Fund investments in environment are largely driven by the undertaken commitments in water supply and treatment quality when Latvia joined the EU that have to be fulfilled by the end of 2015 (Council Directive 91/271/EC and 98/83/EC). Water management alone has been allocated EUR 573 million to ensure the fulfilment of Latvian obligations towards EU. Waste management systems are not in line with the current regulation and thus have received funding to ensure that 100% of people living in urban areas and 80% living in rural areas have access to qualitative public waste management services by 2013.

Results:

Output results

- Additional number of people who benefit from approved water management projects: 315,233 (1,458,000 planned for 2009) this is explained by delays in water management project in Riga;
- Additional number of people who benefit from approved waste management projects: 270,000 (1,300,000 planned for 2009) deviation from the target are explained by the postponing of Riga region waste management project;
- Number of landfills rehabilitated: 1 (30 planned for 2009).

Territorial development

This is the first planning period when part of EU cohesion funding has been given to local authorities to decide on further investments according to their development plans and special needs. EUR 275 million has been allocated to priority “Polycentric development” representing 7% of total ERDF and Cohesion Fund funding, however this is a first step. This move was possible after the completion of land reform in the middle of 2009. The outcome of the reform has been a reduction in the number of local municipalities from 522 to 118 and consolidation of resources available to authorities that has made them more functional.

The biggest part or EUR 263 million has been allocated to 16 municipal authorities to support their city development while the newly created activity to support complex growth in amalgamated municipalities with total allocated EU funding of EUR 11.5 million is intended for development of rural areas in the 18 biggest municipal authorities that have approved their own integrated development plans. The actual implementation of activity to support complex growth in local municipalities will start only in the second half of 2010 as development plans of municipalities must be elaborated and approved. In the meanwhile the Ministry of Regional Development is seeking to further increase funding for this activity as the LSDP 2010-2013 has downgraded targets for the regional GDP per capita dispersion expressed in percentage points. The new target for 2013 is to keep it at 2007 levels – 44%. To achieve this, regions will need all the help available considering that the unemployment increase has been much more pronounced in regions outside Riga, especially Latgale. The effectiveness of theses measures should be judged together with ESF investments in human capital in the planning regions and municipal authorities.

We do not report on results in tourism and culture areas as the implementation of the activities were significantly delayed by the review process and allocated funding to these is relatively small.

Results:

Output indicator

Up to June 2010

- 3 projects finished improving streets in cities under the measure "Development and revitalization of cities of regional importance".

To conclude this section we can only echo the Ministry of Finance which has drawn attention to the flaws in the indicator system. There are numerous output and result indicators at activity level, but there is a lack of reference points at higher levels – measure, priority. Moreover, impact indicators are only set for a couple of sectors – education, entrepreneurship, environment and transport and also in these instances much more weight is given to quantitative data rather than qualitative. In the indicator system there is a missing link between the OPs macroeconomic and impact indicators and result indicators specified at priority and activity level. In brief an organized "tree" of indicators where each indicator could be connected to higher level indicator is absent thus making evaluation and assessment of achievements quite difficult.

In the 2009 in the Strategic Report 2007-2009 the Ministry of Finance proposed revised targets taking into consideration the economic situation thus now there are two parallel planning documents the LDP and NSRF 2007-2013 versus the LSDP 2010-2013 and parallel target and indicator sets one adopted in 2007 together with operational programmes and the newly proposed ones in Strategic report 2007-2009.

However observing actual implementation and decisions made on allocation of EU funds, there does not seems to be a master plan behind it leading the process and ensuring that decisions are made to achieve pre-set targets and priorities. Each sector channels its share of EU funds to the activities that make the most sense in the current situation. This could be caused by the poor quality of target indicator system. Evaluation of the EU Structural Funds – Evaluation of the monitoring indicators of the EU Structural Funds carried out for period 2004-2006 concluded that indicator system was poorly designed and the relevance of indicators was quite low and by looking at indicators presented in AIRs we have little ground to state that the situation has changed significantly. Furthermore, EU fund planning documents are distanced from national planning documents, for example NSRF for 2007-2013 was approved before NDP 2007-2013 while the latter was supposed to give guidance and directions to the NSRF. This is also reflected in situations when sector policy documents indicating the priorities and the way forward are adopted after EU funding has been allocated to the sector. This inevitably slows the implementation process as was the case with Vocational training and Science and technology development guidelines.

SECTION 3- EFFECTS OF INTERVENTION

There are no measurable effects of ERDF and Cohesion Fund interventions at the moment and it is far too early to make any judgments on the effects of Cohesion Policy in counteracting the economic crisis. However, the presence of Cohesion Policy during the economic downturn in Latvia is important when strict budgetary discipline and low confidence in private sector has led to decrease in investment in the real economy. It is the single instrument that in the current situation can be regarded as a serious anti-cyclical policy.

EU Cohesion Policy has allowed continued investments in projects that would have otherwise been stopped especially in transport, water and waste management. Not only do these projects serve as a life support to construction industry until economic activity resumes they also ensure long term investment in physical capital in the transport sector which constitutes a considerable part of Latvian GDP.

The indirect effect of Cohesion Policy on promotion of a real regional development in Latvia should be noted. For the first time there is EU funding allocated specially to address the specific needs of municipal authorities. Even if at a closer examination it can be said that the EU funding in 2010 is substituting national funding available before crisis, municipal authorities are working on their development programmes where they can plan investments according to their needs instead of adopting their development programmes to the EU funding available under sector policies. This is a relatively small, but very much needed step in regional development policy in Latvia where disparities among regions continue to be high, but national policies do not fully recognize this.

Another positive side effect of Cohesion Policy is that policy planning and difficult decisions are pushed forward especially in education and science sector were optimization is needed. And the EU funds that can be effectively absorbed only if policy planning documents provides for priorities in the sector serves as a motivation for sector to come to an agreement.

SECTION 4 – EVALUATION AND GOOD PRACTICE IN EVALUATION

Evaluations of EU funds aim to improve the quality, effectiveness and consistency of the assistance, the strategy and implementation of operational programmes with respect to the specific structural problems affecting the Member States. To this end the managing authority in Latvia, the Ministry of Finance, has worked out an EU funds evaluation plan for the period 2007-2013[9].

[9] http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/IZV_PLANS_20092009.pdf

The evaluation process is centralized with the exception of Ministry of Regional Development and Local Governments that will carry out evaluation on the fund's impact on balanced territorial development and Ministry of Environment that will carry out study on EU funds impact on environment. Refer to Annex III for the list of evaluations planned. There are 3 planned studies focusing on EU fund impact on sector policies -education, labour market and support to entrepreneurship that have not been done until now and are very much needed to fill the gap in evaluation of EU funds on different economy sectors and policies.

Few evaluations are concerned with the outcome of the expenditure and its effectiveness in achieving the policy objectives set. We have identified 2 studies from the planning period 2004-2006, there is still little to draw from the experience in 2004-2006 period as ex-post evaluation for the period is due at the end of 2010. For the period 2007-2013 1 major evaluation has been finished that gives valuable insight in fund planning structure and implementation.

There is little evaluation done so far for the period 2007-2013. There are two studies commissioned by managing authority concerned with management and control procedures that have been finished: "An assessment of effectiveness of EU funds financial management and control system"[10] that resulted in 39 recommendations on potential efficiency improvements (method – quantitative data analysis and interview in focus groups) and "Preliminary study on the possibilities of EU funds management system simplification"[11] put forward 71 recommendations (method – quantitative and qualitative data analysis and interviews). The later study concluded that the fund management system advances towards simplification, nevertheless many aspects can be improved. The 3 main recommendation blocks of the report were the following: the EU structural fund programming is isolated from long-term state development planning, from industry focus or prioritization and from financial planning that municipalities and businesses carry out. Final beneficiaries have trouble planning their development in the context of Structural Funds available and delays in program introduction creates substantial losses to the final beneficiaries in form of cancelled orders or cost increases. The second recommendation group stated that fund management institutions should harmonize their procedures and cooperate better to avoid situations when the final beneficiaries face large amount of different requirements, to reduce the amount of required documentation that the institutions can easily obtain themselves from each other or public registers and to disseminate best practice among intermediate bodies. The third finding was that administrative culture of fund management institutions is at times unacceptable when the

[10] http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/PWC_zinojums_2009-10-28.pdf

[11] http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/GF_Konsultacijas_prieksizpetes_zinojums_3103.pdf

institutions see the support applicant as an unreliable suppliant rather than as a valuable partner whose activates actually contribute to the country development. Such attitude is demonstrated by formal, at times excessive requirements regarding quantity and designs of documents for submission. It also shows in lack of enthusiasm to reconcile project amendments quickly, even if those amendments do not materially affect the project substance and do not impede achieving project goals.

The "Assessment of effectiveness of EU funds financial management and control system" focused on management verifications, certification of expenditure, system audits and sample checks, declaration at winding-up of the assistance. The final report proposes a risk based approach for administrative checks, setting an error amount under which control costs are considered as cost inefficient, allowing to submit payment claims and supporting documentation electronically.

Two public opinion poll studies were carried out in 2008[12] and 2010[13] on the society's awareness about EU funds in Latvia. The people interviewed were a sample of the general population and the number of respondents who have heard about possibilities offered by EU fund increased to 92% in 2010 as compared to 66% in 2007. In the period 2007-2013 8.7% of respondents expressed the intention to apply for EU grants, those are mainly people with higher education and good financial situation.

For the period 2004-2006 there are altogether 21 evaluations completed and the large majority was concentrating on the management and control procedures. There are 3 evaluations that can be classified as impact studies and only 2 of them are relevant for this report as one of the studies are evaluating impact of ESF interventions on socially excluded groups in the society.

The study on Macroeconomic impact assessment of EU funds[14] (method- macroeconomic modelling) finished on June 2008 offers an initial assessment of the macroeconomic impact of the EU funds on Latvia for the programming periods running from 2004-2006 and 2007-2013. For 2004-2006 the report concludes that the effect on aggregate demand varied from a boost of 2.4% of GDP in 2004 to a boost of 4.5% of GDP in 2005 and 2006, while the boost to aggregate supply was 1.0% in 2004, 2.9% in 2005 and 6.5% in 2006. This reflects the fact that demand effects are immediate but supply effects take longer to have an impact. The report stressed that both the inflation process and the development of the external balance have been dominated by factors other than the EU funds.

[12] http://www.esfondi.lv/upload/01-strukturfondi/petijumi/SKDS_rezultati_12-2008.pdf

[13] http://www.esfondi.lv/upload/01-strukturfondi/petijumi/LF_rezultati_02-2010.pdf

[14] http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/Phase_2_report_final_020708.pdf

Impact evaluation of EU Structural Funds on the regional development in Latvia[15] (method – quantitative and qualitative data analysis and interviews) carried out on May 2006. Main findings were the following: implementation of the Single Programming decreases differences in development level between Riga region and Kurzeme, Vidzeme, Zemgale, but increase differences between Latgale region and other planning regions, at the same time the study pointed out that the impact of Single Programming Document activities realized in 2004-2006 can be assessed only 2 -4 years after the end of the planning period.

Separately evaluations were carried out for the Cohesion fund altogether 13 studies and 5 of them are concentrating on cost benefit analysis of the projects. List of those and other main studies carried out are listed in Annex II.

Valuable lessons can often be drawn from EU fund implementation from other countries. For this purpose there are meetings organized among three Baltic countries twice a year to discuss problems and solutions to EU fund implementation. For example, the activity "Competence centres" under measure "Innovations" was copied and adopted in Latvia from Estonia where this activity had produced good results.

Good practice in Evaluation

Latvia has developed a quite innovative approach towards evaluation that could be of interest to other regions and countries. The approach involves a systematic way of assessment and implementation of recommendations stemming from evaluation reports in a specially created working group[16]. The working group evaluates the recommendations and assesses to what extent these can be implemented and finally decides on concrete recommendation implementation. The unique part of the approach is that institutions outside of the realm of EU fund implementation are invited to the working group to discuss and move forward implementation of recommendations contained in the evaluation reports. This is necessary as usually the problems indicated in the evaluation reports cannot be solved alone by the bodies responsible for EU fund administration and implementation and action is needed from other parts of the state administration.

So far the following recommendations approved by EU fund evaluation working party have been implemented:

- Development of lobbying legislation in Latvia to ensure balanced public interest reflection in planning documents (regulatory acts soon to be adopted);

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[15] http://www.esfondi.lv/upload/01-strukturfondi/petijumi/PKC-Zinojums-2008augusts.pdf

[16] http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/TIKDG_reg_04112009.pdf

- Regulation on financial accounting of volunteer work (regulatory acts soon to be adopted);
- Specification of public procurement procedure to be followed by foundations and organizations (necessary regulatory act adopted).

This institutional framework creates a base to promote an efficient learning wheel and recommendation implementation stemming from the upcoming planned policy evaluations in 2007-2013 where more difficult decisions will be needed.

Moreover, spread of an “EU fund culture” to other state sectors can be observed when the scope of the evaluation study “Effectiveness of EU funds financial governance and control systems” was broadened to include state budget control systems, thus allowing comparison between the two and a possible unified approach to error levels in financial management. The complementary study is due at the end of the year.

SECTION 5 - CONCLUDING REMARKS - FUTURE CHALLENGES

The single biggest challenge in the coming months and years is a successful implementation of priority “Science and Innovations”. Particularly alarming is the situation with the measure “Science, research and development” where as of July 2010 no contracts have been concluded. Although the implementation process has started for some of the activities under this measure, the most important activity “Development of the scientific and research infrastructure” is still stalling.

There are some indications that the situation will resolve positively as Cohesion Policy investments in R&D have been emphasized in the 3rd amendment of memorandum of understanding between Latvia and EU/IMF on 5th July 2010. Necessary government policy decisions have been taken and according to Ministry of Education and Science there is agreement among research institutions and the Ministry of Education and Science on the project implementation regulation. Furthermore, national co-financing has been ensured.

When it comes to economic developments, prolonged high unemployment at close to 20% means that Latvia will be exposed to the risks that this brings such as deteriorating human capital, increased inequality and crime rates as well as continuing emigration. Furthermore, the vulnerability of the economy to outside developments will remain high and economic recovery will be strongly contingent on developments in the EU and rest of the world.

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INTERVIEWS

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TABLES

See Excel file for Tables 1 and 2

Table 1: Regional disparities and trends

Table 2: Macro-economic developments

Annex Table A - State of play of fund absorption at 31.07.2010

Priority/Measure	EU funding according to decisions of Cabinet of Ministers EUR	Contracted (EU funding) EUR	Contracted % of EU funding	Payments to final beneficiaries (EU funding) EUR	Payments to final beneficiaries % of EU funding
2. Operational programme "Entrepreneurship and Innovations" ERDF	769,180,950	412,889,654	53.7%	257,531,932	33.5%
2.1. Priority „Science and Innovations”	452,480,756	126,864,741	28.0%	29,021,927	6.4%
2.1.1. Measure „Science, Research and Development”	219,084,169	0	0.0%	0	0.0%
2.1.2. Measure „Innovations”	233,396,587	126,864,741	54.4%	29,021,927	12.4%
2.2. Priority “Access to Finances”	216,735,138	216,735,136	100.0%	216,735,136	100.0%
2.2.1. Measure „Accessability of Financial Resources”	216,735,138	216,735,136	100.0%	216,735,136	100.0%
2.3. Priority “Promotion of Entrepreneurship”	76,980,000	55,701,730	72.4%	7,538,730	9.8%
2.3.1. Measure „Business Support Activities”	21,620,947	6,682,527	30.9%	1,186,768	5.5%
2.3.2. Measure „Business Infrastructure and Improvements to Equipment”	55,359,053	49,019,203	88.5%	6,351,961	11.5%
2.4. Priority “Technical Assistance”	22,985,056	13,588,047	59.1%	4,236,139	18.4%
3. Operational programme "Infrastructure and Services"	3,210,612,967	1,690,684,301	52.7%	440,398,856	13.7%
3.OP - ERDF	1,670,836,414	840,380,673	50.3%	180,805,021	10.8%
3.OP - Cohesion Fund	1,539,776,553	850,303,627	55.2%	259,593,835	16.9%
3.1. Priority "Infrastructure for Strengthening Human Capital"	504,623,236	297,060,649	58.9%	74,351,389	14.7%
3.1.1. Measure "Vocational Education Infrastructure" *	83,582,292	18,741,525	22.4%	0	0.0%
3.1.2. Measure "Tertiary (Higher) Education Infrastructure"	124,145,194	119,206,530	96.0%	0	0.0%

Priority/Measure	EU funding according to decisions of Cabinet of Ministers EUR	Contracted (EU funding) EUR	Contracted % of EU funding	Payments to final beneficiaries (EU funding) EUR	Payments to final beneficiaries % of EU funding
3.1.3. Measure "Ensuring Educational Infrastructure for General Skills"	41,537,105	37,650,558	90.6%	15,793,546	38.0%
3.1.4. Measure "Employment and Social Services Infrastructure"	48,086,065	40,002,036	83.2%	26,164,179	54.4%
3.1.5. Measure "Health Care Infrastructure"	207,272,580	81,460,000	39.3%	32,393,664	15.6%
3.2. Priority "Promotion of Territorial Accessability"	511,190,662	288,054,774	56.3%	20,565,542	4.0%
3.2.1. Measure "Promotion of Accessibility and Transport System"	322,114,430	210,972,679	65.5%	13,063,817	4.1%
3.2.2.Measure"ICT Infrastru cture and Services"	189,076,232	77,082,094	40.8%	7,501,725	4.0%
3.3. Priority "Development of Transport Network of European Significance and Promotion of Sustainable Transport"	856,966,451	587,370,745	68.5%	88,340,472	10.3%
3.3.1. Measure "Improvements and Development of Large Scale Transport Infrastructure"	714,566,451	444,970,746	62.3%	88,340,472	12.4%
3.3.2. Measure "Development of Sustainable Transport System"	142,400,000	142,399,999	100.0%	0	0.0%
3.4. Priority "Quality Environment for Life and Economic Activity"	322,906,364	114,207,742	35.4%	13,183,262	4.1%
3.4.1. Measure "Environment"	194,767,383	74,415,681	38.2%	6,869,230	3.5%
3.4.2. Measure "Tourism"	22,000,000	18,175,188	82.6%	2,736,318	12.4%
3.4.3. Measure "Socio-economic Impact of Cultural Environment"	33,203,018	12,649,223	38.1%	2,060,260	6.2%
3.4.4. Measure "Energy Efficiency of Housing"	72,935,963	8,967,650	12.3%	1,517,454	2.1%
3.5. Priority "Promotion of Environmental Infrastructure And Environmentally Friendly Energy"	670,610,102	258,454,914	38.5%	170,118,245	25.4%
3.5.1.Measure "Infrastructure of Environmental Protection"	575,710,102	231,473,736	40.2%	167,929,774	29.2%
3.5.2. Measure "Energy"	94,900,000	26,981,178	28.4%	2,188,471	2.3%
3.6. Priority "Polycentric Development"	274,506,107	109,633,895	39.9%	63,574,872	23.2%

Priority/Measure	EU funding according to decisions of Cabinet of Ministers EUR	Contracted (EU funding) EUR	Contracted % of EU funding	Payments to final beneficiaries (EU funding) EUR	Payments to final beneficiaries % of EU funding
3.6.1. Measure "Support for Sustainable Urban Environment and Urban Area Development"	263,035,286	109,633,895	41.7%	63,574,872	24.2%
3.6.2. Complex support to promote growth of amalgamated municipalities	11,470,821	0	0.0%	0	0.0%
3.7. Priority “Technical Assistance of ERDF”	57,610,045	31,423,614	54.5%	9,129,955	15.8%
3.8. Priority “Technical Assistance of Cohesion Fund”	12,200,000	4,477,968	36.7%	1,135,118	9.3%

Source: VIS - EU unified information system

ANNEX I

List of Cross-border cooperation programmes where Latvia is a partner

Programme	**Priorities**
Estonia-Latvia	Priority 1. Increased cohesion of the Programme area Reducing isolation through improved internal and external connectivity of the Programme area; Enhancing joint management of public services and resources. Priority 2. Higher competitiveness of the Programme area Facilitating business start-up and development; Increasing the attractiveness of the Programme area; Enhancing employable skills and human resources. Priority 3. Active, sustainable and integrated communities Improving the environment for active and sustainable communities; Promoting grass-root level actions.
Latvia-Lithuania	Priority 1. Encouragement of socio-economic development and competitiveness of the region Facilitating Business, Labour Market and Research and Technology Development; Improvement of Internal and External Accessibility of the Border Region. Priority 2. Attractive living environment and development of sustainable community Enhancing Joint Management of Public Services and Natural Resources; Increasing Attractiveness of the Border Region; Development of Active and Sustainable Communities (small project facility).
Central Batlic	Priority 1. Safe and healthy environment Priority 2. Economically competitive and innovative region Priority 3. Attractive and dynamic societies
Estonia-Latvia- Russia	Priority 1. Socio-economic development Fostering of socio-economic development and encouraging business and entrepreneurship; Transport, logistics and communication solutions; Tourism development. Priority 2. Common challenges Joint actions aimed at protection of environment and natural resources; Preservation and promotion of cultural and historical heritage and support of local traditional skills; Improvement of energy efficiency and promotion of renewable energy sources. Priority 3. Promotion of people to people cooperation Development of local initiative, increasing administrative capacities of local and regional authorities; Cooperation in spheres of culture, sport, education, social and health.
Latvia-Lithuania-Belarus	Priority 1. Promoting sustainable economic and social development Promotion of socio-economic development and encouragement of business and entrepreneurship; Enhancement of local and regional strategic development and planning; Improvement of cross border accessibility through the development of transport and communication networks and related services; Preservation and promotion of cultural and historical heritage, promotion of cross border tourism; Strengthening of social-cultural networking and community development. Priority 2. Addressing common challenges Protection and sustainable development of environmental and natural resources; Enhancement of education, health and social sphere development; Improvement of infrastructure and equipment related to the border crossing points; Improvement of border management operations and customs procedures.

Financial progress as of 30 July 2010

Programme	Approved projects total ERDF (EUR)	Latvian partner ERDF budget of the projects approved	Total ERDF funding
EST-LAT	26,945,361	11,566,323	38,228,549
LAT-LIT	46,568,282	23,566,725	63,917,517
Central Baltic	34,592,192[17] (13,388,605[18])	2,723,950	102,179,011
EST-LAT-RUS	July 2010 Russia ratified the agreement and in August first call for projects was launched		55,874,707
EST-LAT-BEL	First decisions on projects on October 2010		41,736,666

Source: Ministry of Regional Development and Local Government

[17] Data at the end of 2009.

[18] ERDF and national co-financing for the projects with Latvia as a partner on July 2010.

ANNEX II

Evaluations carried out for the period 2007-2013

Evaluation	Date
An assessment of effectiveness of EU funds financial management and control system	October 2009
Evaluation "Preliminary study on the possibilities of EU funds management system simplification"	April 2009
Ex-ante evaluation of NSRF and OPs 2007-2013	December 2007
Public awareness about EU funds in Latvia	March 2010
Public awareness about EU funds in Latvia	January 2009

Source: www.esfondi.lv

Main evaluations for the period 2004-2006

Evaluation	Date
Impact assessment	
Evaluation of the EU Structural Funds – Impact evaluation of EU SF on the regional development in Latvia	May 2006
Investment of aid schemes administered by Society Integration Foundation into the improvement of life quality of persons under the risk of social exclusion	August 2008
Macroeconomic impact assessment of EU funds	June 2008
Financial management	
Cost of controls of EU funds	February 2008
Evaluation of conformity and effectiveness of expenses certification process	December 2007
Sector policies and EU funds[19]	
Project applicant potential demand for financial support in the entrepreneurship and innovation activities in 2007 – 2013	November 2017
Analysis of training in agriculture, forestry and entrepreneurship in rural areas	January 2007
Evaluation of the Coherence of the European Union Structural Funds and the Employment Policies stated in the EU and National Strategic Documents	December 2006
Significance of cultural sector in Latvian national economy and role of EU Structural Funds	April 2006
Planning and Supervision	
Evaluation of the compliance of horizontal priorities	February 2007
Evaluation on the Single Programming Document activity ‘Support to productive investments in specially assisted areas’	August 2005
Evaluation of The Development of European Union Structural Funds Planning Documents 2004-2006 and Activities Included in The Documents	June 2006
Evaluation of the EU Structural Funds – Evaluation of the monitoring indicators of the EU Structural Funds	May 2006

Source: www.esfondi.lv

[19] All evaluations concerning sectoral policies to some extent are listed.

2004-2007 Cohesion fund major projects

Project	Date	Conclusions
Cost benefit analysis re-calculation for Cohesion fund project „Improvement of Via Baltica motorway. Saulkrasti bypass from Lilaste to Skulte ”	September 2009	financial value lower, while economic value higher as initially planned
Cost benefit re-calculation for Cohesion fund „TEN motorway improvement, I project”	November 2009	financial value considerably lower as planned also economic gains lower than anticipated
Cost benefit analysis re-calculation for Cohesion fund project „Water management improvement in Olaine and Jaunolaine”	February 2010	financial value lower that planned, while economic gains are higher than anticipated
Cost benefit analysis re-calculation for Cohesion fund project „Littoral house hold waste management “	July 2010	financial value slightly lower than planned and economic value slightly lower as well

Source: www.esfondi.lv

ANNEX III

Evaluations planned for the period 2007-2013

Project	**Initially planned delivery date**
An assessment of effectiveness of EU funds financial management and control system.	finished 2008
Preliminary study on the possibilities of EU funds management system simplification.	finished 2009
Evaluation of the income to the state budget form the EU funds implemented projects.	2009 (in progress, but contract might be terminated due to low quality)
EU funding investment in education sector in the period 2004-2008, impact assessment and further investment analysis.	2010 (postponed until 2011)
EU fund investment in the active labour policy measures in the period 2004-2008, impact assessment and further investment analysis.	2010 (postponed until 2011)
EU fund investment in support to entrepreneurship in the period 2004-2008, impact assessment and further investment analysis.	2010 (postponed until 2011)
Impact on environment of EU fund planning documents.	2010
EU fund impact on the balanced territorial development.	2010 (in progress)
Midterm NSRF evaluation.	2010 (in progress due in 2011)
EU fund supervision system and assessment of monitoring indicators, including vertical and horizontal priorities.	date not specified
Financial and control system management and efficiency, permissible error level.	date not specified
Study on the possibilities of EU funds management system simplification.	date not specified
Evaluation of selection criteria for projects co-financed by the EU SF.	date not specified
Project procurement system auditing evaluation.	date not specified
Consultation services in EU fund evaluation.	date not specified
EU fund planning document 2014-2020 ex-ante evaluation.	date not specified

Source; www.esfondi.lv