ISMERI EUROPA

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

YEAR 1 – 2011

TASK 2: COUNTRY REPORT ON ACHIEVEMENTS OF COHESION POLICY

LATVIA

VERSION: FINAL

ALF VANAGS AND IEVA VALTMANE

BALTIC ECONOMIC CENTRE FOR ECONOMIC POLICY STUDIES

A report to the European Commission
Directorate-General Regional Policy

CONTENTS

LIST OF ABBREVIATIONS

- ERDF European Regional Development Fund
- ESF European Social Fund
- OP Operational Programme
- MoE Ministry of Economics
- MoES Ministry of Education and Science
- LFS Labour Force Survey
- R&D Research and developments
- ICT Information and communication technologies
- NSRF National Strategic Reference Framework
- TEN-T Trans-European Transport Networks
- EC European Commission
- JEREMIE Joint European Resources for Micro to Medium Enterprises
- CBC Cross Border Cooperation

EXECUTIVE SUMMARY

Latvia is a single NUTS 2 region and development policy is aimed at catching up and surpassing average EU living standards as measured by GDP per capita adjusted for price levels. In 2010 GDP per capita in Latvia was 52% of the average in EU.

In the middle of 2010 Latvian economy began to an export based recovery from the crisis. The government continues has pursued major the budget consolidation in 2009, 2010 and 2011 and further consolidation is expected in 2012. In this context Cohesion Policy has provided the only serious anti-cyclical element in the economy. Unemployment remains one of the highest in EU at 17%. To ensure sufficient funding for active labour market measures in 2012 EU funding of EUR 32.5 million is to be transferred from OP "Infrastructure and services" to OP "Human resources and Employment".

A Foreign Direct Investment Promotion Strategy 2011-2015 was adopted in 2011 and as a result the goals of the activity 'Support to marketing for export market penetration' now include attraction of foreign direct investment. The activity 'High value-added investments' has been presented to potential investors and a new activity 'Mezzanine loans' (EUR 15 million) has been created.

To offset national budget cuts funding was additionally shifted to an optimization plan in vocational education and to improvement of transit streets in cities.

To achieve better cost efficiency funding was re-allocated in the energy area and new activity was created to provide support for improvements for heat production in businesses for production needs.

Financial progress accelerated in 2010 and while not reaching the forecast of likely payments targets, targets set in the memorandum of understanding were overachieved. Financial targets set in the memorandum for 2011 are also expected to be achieved. However, there is still little physical output to report on since most projects are in their implementation phase. Output and result indicators lag from planned in most activities. The main delays in this period have been caused by problems with public procurement procedures and by a lack of private and national public co-funding. This is especially true for Infrastructure projects. The deteriorating financial situation of final beneficiaries has emerged as a problem for innovation and high value-added investments activities. Already signed contracts have had to be abandoned because of a lack of finance or because company priorities had changed.

There is still no financial progress in activity 'Support to science infrastructure' nor in some activities in ICT, but calls for projects are open and contracts are expected to be signed by the end of 2011. Very good progress has been made in the activity 'Apartment building insulation' where demand picked up considerably as the first evidence of actual energy savings in insulated houses emerged. Guarantees and high risk loans have also shown good progress and the training programme to encourage entrepreneurship has been very popular with an output indicator that is overachieved by a factor of four. Physical progress is slow in the environment and transport sectors.

Since the last report 3 ex-post evaluations for period 2004-2006 have been published. We look closer at "Evaluation of results and impact of EU funded investments in the field of support to business during the programming period 2004-2006" and "Ex-post evaluation of results and impact of EU funded investments in the field of education and science during the programming period 2004-2006". Recommendations of these evaluations are aimed at the next planning period 2013-2020, the main message is to better plan and coordinate policy planning documents with actual measures and activities. So far all the evaluations have produced more technical recommendations which are rigorously implemented. First policy and strategic recommendations for this and next planning period are expected when mid-term evaluation on implementation efficiency of National Strategic Reference Framework (NSRF) priorities, measures and activities in the EU funds programming period 2007-2013 is published.

In the next years there could be problems with attracting enough private funding to successfully implement innovation and scientific infrastructure projects. Also the success of these projects will depend on achieving cooperation between businesses and research centres which so far has not been very forthcoming.

1. THE SOCIO-ECONOMIC CONTEXT

Main features of the socio-economic situation

- As a result of the deep economic contraction in 2008-2009 living standards as measured in GDP per capita in PPS terms have decreased from 56% of the EU average in 2006 to 52% in 2010.
- GDP growth resumed in the middle of 2010, but recovery is slower than in the other Baltic countries.
- Unemployment was 18.7% in 2010 but has fallen to about 16% in the second quarter of 2011.
- Budget consolidation is ongoing and to support the commitment to join Eurozone in 2014.

After joining the EU in 2004 Latvia enjoyed fast growth rates and falling unemployment and noticeable convergence towards EU average living standards. GDP growth peaked at 12.2% with a fairly low (for Latvia) unemployment rate of 6.6% in 2006. Inflation followed and reached 15.2% in 2008. Later in the middle of 2008 GDP entered a free fall that continued throughout in 2009 until the middle of 2010.

Latvia is recovering from the crisis thanks to strong export growth and the latest quarterly flash estimates show that GDP growth in the first and second quarters of 2011 compared with the same quarters of the previous year was respectively 3.4% and 5.7%. Estimated GDP growth for 2011 is 3.3% which is still lower than expected growth in Estonia - 8%and Lithuania -6.1%.

During the crisis the unemployment rate increased dramatically, reaching its peak at 20.1% at the end of 2009 (according to Labour Force Survey (LFS) estimates), since then it has slowly decreased to 16.2% in March 2011. However this is the second highest unemployment rate in EU. Following wage cuts and weak domestic demand Latvia experienced 1.2% deflation in 2010. Inflation is expected to pick up in 2011 as a result of higher taxes and increases in energy and food prices.

Achieving and surpassing the average EU GDP per capita level remains the overall objective of Latvian development policy but the economic crisis has returned the country to 2006 relative living standards with a GDP per capita rate at 52% of the EU average. Table A illustrates the sharp fluctuations in the main macro economic indicators since 2001.

Table A – Macro economic indicators

Indicator/year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP growth rate (%)	8	6.5	7.2	8.7	10.6	12.2	10.0	-4.2	-18.0	-0.3
Inflation (%)	2.5	2.0	2.9	6.2	6.9	6.6	10.1	15.2	3.3	-1.2
Unemployment LFS (%)	12.9	12.2	10.5	10.4	8.9	6.8	6,0	7.5	17.1	18.7
GDP per capita as % of EU average	39	41	43	46	49	52	56	56	52	52

Source: EUROSTAT

In 2008 when the crisis hit, Latvia was forced to seek an IMF loan that was rapidly granted in cooperation with the EC. The loan entailed certain conditions such as major budget consolidation and expenditure cuts in the public sector. It was also agreed to keep the Latvian currency pegged to euro and aim for a fast euro adaption. The government succeeded in consolidating the national budget by EUR 540 million (4.4% of GDP) in 2009. A similar scale of consolidation has been pursued in 2010 and 2011. To meet the 3% Maastricht criterion of 3% further cuts by EUR 215 million (1.1% GDP) are planned for 2012. 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.

Public sector consolidated debt has increased sharply from 9% in 2007 to 44.7% of GDP in 2010, but is still low relative to the EU average of 80%.

GDP data at NUTS 3 level show a slight convergence among regions before the crisis over 2007 to 2008. There are 5 NUTS 3 level statistical entities in Latvia. In the richest Riga region GDP per capita in 2008 was 137.7% of the average in the country, down from 138.4% in 2007, while the remaining regions GDP per capita was ranging between 55-78% (54-77% in 2007)[1].

The disparities were only marginally less than in 2003 when Riga was 2.7 times richer than the other regions. In 2008 Riga GDP per capita was 2.5 higher than in other regions (2.6 in 2007). The poorest region remains Latgale that borders on Russia and Belarus. When compared to the average EU development only Riga city had managed to reach a GDP per capita level equal to the EU average.

More recent regional data are available on registered unemployment. With the recession unemployment has risen more sharply in the regions than in the Riga region. Comparing the beginning of 2010 with 2005 unemployment in regions had increased by a factor of between 2.4 and 4.

Latvia's development can be regarded as monocentric with growth concentrated in the Riga region. This has led to migration to Riga from rural areas and from other cities. This is

[1] Latvian Central Statistical Bureau data

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 the current planning period a horizontal priority of balanced territorial development in NSRF 2007-2013 was introduced. There are regional funding quotas 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 Environment Protection and Regional Development other national policies do not fully recognize nor address the regional disparity problem, but no steps have been taken to address the problem.

Under the EU and IMF financial assistance programme Latvia has committed itself to fiscal, financial and structural reforms in the areas of education, employment, management of national assets, business environment, state administration, public procurement, and a sustainable welfare system.

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

THE REGIONAL DEVELOPMENT POLICY PURSUED

The main points made in the 2010 country report were:

- The main goal of development policy is to catch up with the rest of EU in terms of GDP per capita by increasing productivity, investment in R&D, and increasing the prevalence of entrepreneurs in society. This is planned to be achieved by:
    - Investment in physical capital – 35 % of the total ERDF and CF funding, with the lion's share going to TEN-T projects;
    - Support to enterprises and R&D – 19% of total funding;
    - Compliance with EU regulations in waste and water management, although not directly arising from the development goals, has a large share (18%) of total funding.
- Measures and activities not directly contributing to the economic revival were suspended at the end of 2008.
- In the mid 2009 funding was reshuffled to support economic recovery. A total of EUR 130 million was shifted and additional funding was granted to activities that would:
    - alleviate the liquidity squeeze experienced by companies during the crisis and promote exporting sector;

    - improve energy efficiency in housing and provide support for construction sector;
    - Allow continued investment in municipalities following the national budget cuts.
- National co-funding was ensured in 2010 by an EIB loan and an increased EU funds co-funding rate for Infrastructure and Services operational programme.

Latvia is a single NUTS 2 region covered by the Convergence objective. 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 CF together account for EUR 4 billion that are implemented through 2 operational programmes with the 2nd OP "Entrepreneurship and Innovations" receiving EUR 0.8 billion and the 3rd OP "Infrastructure and Services" EUR 3.2 billion.

Latvia's development policy is laid out in the Latvian Development Plan 2007-2013 and the NSRF 2007-2013. However, since 2009 the state administration has mainly focused its resources to meet the commitments undertaken as a condition of the loan from IMF and EU. The Economic Stabilization and Growth Programme agreed on at the end of 2008 is ongoing and entails fiscal, financial and structural reforms as a condition of receiving loan instalments. To date four addenda to letter of intent and memorandum of understanding have been signed setting very specific deadlines and targets for structural changes in education, employment and energy sectors, as well as management of national assets, improving the business environment, state administration, public procurement system and creating a sustainable welfare system.

Absorption of EU funds is an integral part of the programme which not only stipulates how much money should be paid out to final beneficiaries by the end of the year, but also sets very specific targets regarding implementation of activities and measures. In 2010 special attention was given to the export sector and continued investment in infrastructure, in the latest addendum of the memorandum of understanding June 2011 specific expenditure targets are set for the ERDF activity "Development of Research Infrastructure" for 2011, 2012 and 2013 where no progress has been made to date. It also calls for better quality evaluations to assess how EU funds support contributes to the achievement of expected results. Faster progress in the TEN-T project Rail Baltica is also expected. Latvia has also undertaken to implement a 'Foreign direct investment promotion strategy 2011-2015' to improve capital formation in Latvian companies.

There is no regional development policy in Latvia in the sense of the EU definition. The territory of the country is divided into 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 with two EU Member States and two non EU Member States – Russia and Belarus. Cross-border cooperation is of great importance especially to promote regional growth alongside Russian and Belarus border. There are 5 OPs under the Cross-Border cooperation involving Estonia, Lithuania, Sweden, Finland, Russia and Belarus with available funding of EUR 287 million.

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 promotion of entrepreneurship, infrastructure, joint management of public services and resources and cooperation activities within local communities.

Following stabilization of the economic situation in the middle of 2010 EU funds have again been reshuffled in June 2011. In order to address the employment situation EUR 32.5 million has been reallocated from OP "Entrepreneurship and Innovations"[2] (high value-added investments) to the ESF OP "Human resources and employment" to ensure sufficient funding for active labour market policies in 2012 and 2013. Secondly, as EU funds are the only means to implement the 'Foreign direct investment promotion strategy 2011-2015' the aims of measure 2.3.1. were broadened to include promotion of foreign investment. Measure 2.3.1. "Business support activities" has EUR 27.6 million ERDF funding available. Thirdly, unused funding in the ERDF and CF activities was focused and redirected towards:

- increased availability of financial resources to businesses – EUR 15 million to mezzanine investment loans; EUR 4.8 million to cluster creation;
- vocational education infrastructure to contribute towards finalizing the vocational education optimization plan – EUR 3.9 million (national funding for this reform has been cut by 35% and the EU funding partly compensates for this);
- national importance roads and transit roads in the cities to address the critical state of the infrastructure that no longer can support the traffic load – EUR 9.2 million;
- broadband connection – EUR 0.4 million.
- An activity (which is aimed at companies that produce and use heat in their production process e.g. paper, plywood) to improve in-house heat production efficiency: EUR 18 million.

The additional funding to roads of national importance and transit roads in the cities can be seen as filling in for the cuts made in national budget line for road maintenance. National funding available for road construction and maintenance in 2011 is 65% of what it was in 2009 (EUR 328 million)[3]. Minister of Transportation has publicly announced that they will

[2] The reallocations among priorities within the OP Entrepreneurship and Innovations have taken place based only on national planning documents; EC approval has not been granted.

[3] National budget line "State road fund"

use EU money as a substitute to national funding for road re-construction and construction. Resources have been shifted away from guarantee schemes whose scope was narrowed in January 2011 by excluding companies who faced financial hardship as a result of crisis. The creation of Mezzanine investment loans is the response to stricter commercial bank credit policies and will allow companies who do not have enough collateral to expand their production potential and capital base. The activity supporting cluster creation was re-opened in 2011 receiving part of the funding from activity supporting development of new products and technology as many contracts in the latter had been terminated as a result of the deteriorating financial situation of beneficiaries. The activity will promote cooperation between public and private research institutions and businesses. Lastly, unused ERDF finance was carried forward in 'Support to science and research' – EUR 3.5 billion and EUR 10.9 million to 'High value-added investment'.

Funding to activity 'Support to science and research' was not fully absorbed (less than 8% were not absorbed) in the first round of calls because of a lack of private funding (2 projects) and one of the projects found money elsewhere. In order to contribute to reaching the R&D investment target of 0.9 % of GDP by 2013 money has been carried forward and another round of call for proposals will take place. There has been a high demand for 'High value-added investment' from companies and contracts have been signed, but during the process private banks adopted stricter credit policies and refused to issue loans or guarantees to co-fund the ERDF projects. This was the case for investment in innovation as well. To promote capital base expansion of businesses the funding of this activity was carried forward. This activity is also expected to attract direct foreign investment and was presented to the Foreign Investors Council.

Not all money was used in the 'activity to develop co-generation plants' as projects submitted did not meet the required efficiency standards and the left-over funding was used to create an activity that will increase the efficiency of heat supply systems for entrepreneurs. The rationale behind this shift is that it will be a more cost efficient way to improve energy efficiency as co-generation technology is more expensive per one energy unit saved.

It is clear that given the major public budget consolidations of 2009, 2010, 2011 most of the public investment co-funded by the EU funds would otherwise not have been possible.

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 CF will continue supporting railway, port, airport and public transportation projects at initially planned amounts. National budget funding for roads has been cut and the current priority is maintenance and preservation of existing roads, meaning, in practice, no improvement in roads could have been possible without ERDF and CF.

It could be said that ERDF funding has partly substituted earmarked subsidies for investment in municipal authorities in 2010 as the budget for this instrument has been cut to zero and the projects started in 2009 have been transferred to the measure 3.6.1. “Support for sustainable urban environment and urban area development”. No additional funding is available for 2011.

Also more EU funding will be necessary to carry out the optimization plan of vocational education institutions as national budget resources have been cut. The Ministry of Education and Science (MoES) plans to reallocate more funding within its activities to finalize this reform.

POLICY IMPLEMENTATION

The main points made in the 2010 country report were:

- Slow implementation in the beginning of 2009 as a result of the review of activities and uncertainties about availability of national co-finance at the beginning of 2010.
- Nevertheless a relatively good absorption rate as compared with the EU average by the end of 2009 and substantial acceleration of the fund implementation rate up to mid 2010.
- A prerequisite of continued financial assistance is effective EU fund implementation.
- No financial progress in the priority “Science, Research and Development” (EUR 219 million) up to mid 2010.

The managing authority monitors the implementation pace monthly so as to reach the target levels of absorption as agreed in the financial assistance programme between EU and Latvia. Implementation picked up in 2010 and the absorption targets set in the memorandum of understanding were slightly overachieved. 2011 promises to be one of the most productive years in terms of financial progress.

Table B shows the allocation of Community funds as well as the state of fund absorption as of end July 2011 compared with the same period in 2010. A 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. The column “paid out to final beneficiaries” corresponds to the rate at which actual spending is taking place.

Overall by July 2011 contracts were concluded for 77.6% of available EU funds, up from 52.8% a year ago and 33.3% had been paid out to final beneficiaries up from 17.6%

In last year’s country report we drew attention to the alarmingly slow preparations for the implementation of the activity “Support to science infrastructure”. Also this year progress has been slower than planned, but the first financial progress is expected at the end of 2011. Experts from the MoES explain this by the slow reforms in the sector. It takes time to change the mindset of science and research institutions. In the past these institutions have almost exclusively relied on national budget funding. The notion of diversifying their income sources to commercial research is accepted with some reluctance. It has taken time to come to an agreement with all involved parties that ensures ensure the ownership of the reform and that can achieve a good impact. It will be possible to judge how far science institutions have taken on board the reform by the implementation pace of the measure “Innovation” and activity “Support to science infrastructure” that depends on cooperation among research institutions and businesses.

Table B – Allocation of Community funds and State of play of fund absorption at 31.07.2010 and 31.07.2011 by policy area

Area	Corresponding priorities and measures from OPs	Available EU funding EUR million		Funding contracted %		Paid out to final beneficiaries % (including advance payments from national budget)	
		2010	2011	2010	2011	2010	2011
Support to enterprises and R&D	All priorities in 2nd OP	746.2	713.7[4]	53.5	71.7	33.9	42.9
Human capital	Priority 3.1	504.6	504.6	58.9	82.7	14.7	37.5
Transport and ICT	Priorities 3.2 and 3.3	1368.2	1368.2	64.0	89.9	8.0	21.0
Environment and energy	Measures 3.4.1,3.4.4 and priority 3.5	938.3	938.3	36.4	63.0	19.0	37.1
Territorial development	Priority 3.6 and measures, 3.4.2, 3.4.3	329.7	329.7	42.6	73.5	20.7	46.8
Total[5]		3887.0	3854.5	52.8	77.6	17.6	33.3

Source: VIS – EU unified information system

The main reasons for delays in 2011 and 2010 have not changed from those identified in the last years report. However problems with public procurement procedures and lack of private funding have become more acute. In public procurement results being challenged

[4] EU funding available is actually reduced in the Transport and ICT sector, this will be reflected when EC accepts amendments in OPs.

[5] Excluding technical assistance

and irregularities in preparing public procurement tenders have delayed the physical implementation of projects especially in infrastructure. Measures to support businesses, energy efficiency, innovation and science have experienced lack of co-funding from private sector. Also financial planning at national and line ministry level has delayed project implementation. Cooperation with EC also has been slow when OPs were changed or interpretation on state aid and financial instrument regulations was needed.

To address the procurement problems measures have been taken to strengthen human capacity by providing more training and consulting assistance and more pre-checks of prepared tenders are being carried out to reduce challenges to public procurement results. When it comes to ensuring adequate private funding dialogue with the Association of Latvian Commercial Banks has been initiated. The Association participates in the EU fund monitoring committee and in drafting of implementation regulation and its members participate in project evaluation.

ACHIEVEMENTS OF THE PROGRAMMES SO FAR

The main points made in the 2010 country report were:

- Few pre-set targets were achieved by the end of 2009 as a consequence of crisis and its implications.
- There was and is disappointment with the pace of implementation process of JEREMIE financial instruments (EUR 91.5 million from ERDF).
- The guarantee scheme seems to have had the best success in counteracting the economic crisis although substantial financial corrections might be applied in this area (EUR 47.7 million has been issued to 133 companies.)

There is no evidence yet whether expenditure financed is having the intended effects in the different policy areas since these will be only observable when the projects and activities are finished. We have some indications about the effects of expenditure in energy efficiency and guarantee scheme to provide assistance to economically sound companies who faced financial difficulties as result of crisis.

The AIRs contain practically no qualitative information about programme outcomes; they concentrate on reporting progress in monitoring indicators. In the field of Enterprise Support and RTDI we have drawn information on programme objectives from presentations and minutes of the ERDF and CF monitoring committee as well as from semi-annual implementation reports from intermediary institutions rather than the OPs as these sources better reflect intentions after programmes were adjusted in response to the crisis.

Support to enterprises and RTDI

The main objectives of Cohesion Policy in this area are:

- to foster innovation by promoting cooperation between science institutions and businesses in clusters and competence centres, to develop science infrastructure base that can be used commercially and to promote applied research in form of grants (EUR 452 million);

- to shift the Latvian economy towards high-value added production and increase productivity by facilitating investment in production capital, new technologies and transfer of technologies in form of grants, loans, guarantees and direct investment (EUR 217 million, from these EUR 83 million allocated for JEREMIE financial instruments);
- to promote the export sector and raise the morale of entrepreneurship by facilitating participation in trade fairs, trade missions, conferences in form of grants and motivational training to encourage people to start their own business and teaching the importance of innovations in business (EUR 27 million);
- The objectives of reviving economic growth, to helping businesses survive the crisis and supporting the export sector were added in 2009.

Result and output indicators measuring investments to support enterprises and R&D fall behind the schedule set in 2007, with exceptions in activities “Motivational measures to promote innovation and entrepreneurship” and “Guarantees to strengthen business competitiveness” Demand is high for entrepreneurship training programmes and services provided by business incubators, resulting in better outcome indicators than expected. It is too early to tell if these activities will help to achieve the entrepreneurial activity target of 32 entrepreneurs per 1,000 people by 2013.

Implementation has been slow in science as described in the previous section as well as in innovation activities leading to few indicators that show progress. The measure “Access to Finance” has fared considerably better with the exception of the JEREMIE financial instruments where implementation was very slow in the beginning thus the overall impact of the initiative is less than it might have been. Now concerns have emerged about whether all the allocated funding will reach final beneficiaries. The Latvian Guarantee Agency will take over the implementation of these financial instruments as the managing authority has not been satisfied with the work of European Investment Fund.

There is some evidence, although inconclusive, that the credit and export guarantees issued under the measure “Accessibility of Financial Resources” have provided significant support to companies during the crisis. See the Annex for more detail. From January 2011 the target group – companies in hardship – was no longer eligible under the measure. Consequently funding EUR 15 million has been reallocated to the creation of the activity “Mezzanine loans”.

For outcome and result and impact indicators see Table C.

Human capital

The objective of EU funds is to facilitate sectoral reforms in health, education, employment and the social sphere by improving infrastructure renovating buildings and purchasing technical equipment. Out of a total of EUR 504.6 million 41% goes to supporting health care structural reforms and almost 50 % goes to the education sector (tertiary, vocational and general education). The biggest share of EU funding in health sector, EUR 171, goes to supporting development of stationary health care centres which is in line with the national policy to shift health care services from hospitals to stationary health centres. In tertiary and higher education projects most of the funds go to infrastructure development, while allocated funding for general education concentrates on investment in a technical base for natural sciences. This is thought to encourage young people to pursue education in natural sciences in tertiary education institutions after they leave school. However there is no indicator measuring this effect.

Projects are ongoing and there is relatively little physical outcome to report on, with the exception of the construction and reconstruction of pre-school educational institutions. Savings in project costs have made it possible to over-achieve physical targets. Also lack of public co-funding from municipalities has slowed down the implementation process. Municipalities do not have enough financial resources to profit from all the activities and it seems that they have prioritized reconstruction of pre-school educational institutions.

The MoH admits that result indicator values have been achieved because of the structural reforms and not as a result of EU fund investments. We do not report on these indicators – "Average number of patients per primary health care practitioner", "Bed utilization rate in hospitals", "Time needed for an ambulance to reach patient".

There are no impact indicators defined for activities supporting educational institutions even though they receive the biggest part of the funding.

Transport and ICT

The main goal of Cohesion Policy in the transport sector is to improve transport infrastructure and to integrate it with the common transport system of Eastern Europe so as to 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 in Eastern Latvia (Latgale). The remaining 30% is devoted to improvement of accessibility in different regions within the country. Little physical progress has been achieved since last year due to changes in project costs. Last year projects experienced a decrease in costs, but this year the trend has reversed and increasing project costs are now an issue. In particular it is not clear how the projects can be amended, what is the acceptable levels in cost increases taking into consideration the inflationary processes and Latvia's wish to join Eurozone in 2014 which implies holding inflation under control. This has been an issue also in other infrastructure projects in Human resources area.

Investments in the ICT sector are aiming 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 the 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 - broadband access, public internet access points, PCs for schools. Project implementation has started in all activities with the exception of the activity aiming to provide broadband access in rural areas. It is expected that project implementation will start in the end of 2011. There are no physical outputs to report on. The slow progress is explained by problems in procurement procedures where tender results have been challenged and annulled. Since no projects have finished there are no physical outcomes to report on.

Environment and energy

ERDF and Cohesion Fund investments in environment are driven by commitments undertaken 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 the EU. Implementation has been slower than planned in the environment sector because of the crisis, problems with procurement procedure, and lack of funding from municipalities.

Cohesion policy funding in the energy sector has focused on apartment building insulation (EUR 73 million), improvement of heat system efficiency (EUR 70 million) and support to co-generation plants (EUR 30 million). The main objective of investment in the sector is to decrease energy consumption in most cost efficient way. For this reason more funding has been reallocated from activities that promote use of renewable energy sources to improvements in heat production efficiency in businesses which produce heating in-house. So far 10 contracts have been signed to invest in co-generation plants, money that was left over was redirected to other activities.

A less than expected number of social houses were insulated and demand has not been very high for improvements in the heating distribution system due to financial constraints, but companies have expressed an interest to keep this activity open until the end of the programming period. On the other hand many projects have been submitted and approved for apartment house insulation as people have seen the economic value of these projects. Also the efficiency gains per building are higher than expected since people choose to insulate the whole building and change the windows which, while more expensive, is also more effective. See table C for physical indicators.

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 the priority “Polycentric development” representing 7% of total ERDF and Cohesion Fund funding. The biggest part or EUR 263 million has been allocated to 16 municipal authorities to support their city development. 76% of the funding has been contracted and 60 projects have been finished or are being implemented. When budget subsidies for investment in municipalities ceased in 2010 a new activity was created activity to support complex growth in municipalities with total allocated EU funding of EUR 11.5 million. The first call of project will end in October 2011. The Ministry of Environment Protection and Regional Development is looking for more funding to support this activity.

Investment in tourism infrastructure has been allocated EUR 55 million. 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 recently municipalities have admitted the lack of public co-funding on their side.

We do not include information from Cross Border Cooperation (CBC) programmes as their AIRs report on numbers of projects completed rather than their physical outcome. For programme description and financial progress please see Annex Table B and C.

Table C - Outcome and result indicators and main impact indicators in different policy areas as of December 2010 if not specified otherwise

Policy area	Main indicators	Outcomes and results
Enterprise support and RTDI	Number of entrepreneurs per 1,000 people (planned 32 in 2013) % of high technologies in manufacturing industry 13.7% in 2010 (18.5% planned for 2013)	122 research projects are being implemented in research and scientific institutions (200 planned for 2013).* 20 international cooperation projects ongoing (30)* 11 international patent applications submitted (26% of planned for 2013) 133 technology transfer projects prepared (37%) EUR 13.9 million private funding to R&D attracted 70 businesses adapted new technologies 177 companies received guarantees and high risk loans (71%) and EUR 115 million attracted from private sector. 395 projects finished aiming at marketing for export market penetration (120%) and EUR 2.2 million private funding attracted 9.6 thousand people in entrepreneurial motivational programmes (428%) 320 economically active businesses have received assistance in business incubators. 91 SME businesses received investment grants in specially supported territories [6] JEREMIE financial instruments 5 new start-ups in high technology sector (5% from planned for 2013) EUR 5.4 million invested in risk capital in 4 SMEs

* Results as of August 2010.

[6] Many projects are facing irregularities, final beneficiaries are buying used rather than new equipment, they abandon the project altogether or use money for other investments than agreed in the contract. Checks on the spot up to the end of 2010 resulted in 84 negative conclusions leading to termination of contracts.

Policy area	Main indicators	Outcomes and results
		(8%) 13 companies received high risk investment loans and guarantees (5%)
Human Resources (ERDF only)	Average treatment time per patient 8.7 days in 2010 (7 days by 2013 planned) % decrease in number of people with disabilities as a result of improved system for granting disability status (3% decrease planned for 2013).[7]	4.61 % ((90 %) planned for 2013) of total students in prior study programmes in Latvia are provided with modern education infrastructure and training equipment, 5 completed projects. 120 (454) educational institutions supported with modernized infrastructure and training equipment 12 health care centres supported with infrastructure 3 radiology treatment equipment sets installed 12 pre-school educational institution built or extended and 16 renovated (3 times more than planned for 2013) 14% decrease in number of children waiting for place in pre-school educational institutions relative to 2004 (2 times more than planned for 2013) 9 supported alternative care centers 19 (1.5 times more than planned for 2013) gave access to alternative care to 5,844 people (10 times more than planned for 2013)
Transport and telecommunications	Broad band connection per 100 people (28% planned for 2013) Time saving value EUR/year from newly constructed and reconstructed roads for passengers – EUR 25.6 thousands per year in 2009 (EUR 10 million per year planned for 2013)	23.5 km TEN-T reconstructed road 0.3 km of pedestrian side walk built lights on juncture – 5 (number) 1 reconstructed bridge 1 road junctures built 5.6 km newly constructed roads leading to highway 20.8 km national importance roads asphalted 0.5 km reconstructed transit streets in the cities 3 public electronic services created (150 planned for 2013)
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 2013); 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	Additional 0.11 million people covered by Water management projects (1.6 million planned for 2013) Additional 0.18 million people benefiting from waste management projects: (1 projects finished) (1.3 million planned for 2013) Implemented 4 EC and EEC directives concerned with air and water quality monitoring (100% of planned for 2013) Number of landfills rehabilitated: 24 (30 planned for 2009) 49 buildings have received support to heat insulation (30%) and achieved 45% reduction in heat consumption per sq. m.

[7] No impact indicators set for spending in educational sector even if most of the ERDF funding for human capital was directed to education. However there are plentiful of result indicators.

Policy area	Main indicators	Outcomes and results
	distribution systems in country – 15.5% in 2009 (14 % planned for 2013)	2.5 heat distribution pipe lines reconstructed with 83% increase in heat production efficiency.
Territorial development	GDP per capita dispersion among NUTS 3 regions 45.2 % in 2009 (42.1 % planned for 2013)[8]	17 projects finished aimed at sustainable development of cities (26 planned for 2013) 3 tourist routes developed in cities

The number of indicators is not proportional to allocated funding. Some ministries are more eager to set indicators than others. Also the quality of indicators varies. This does not permit easy assessment of whether spending is achieving policy goals. Though broadly it can be concluded that, so far, the outcomes of expenditures seem to be in line with the policy objectives set.

3. EFFECTS OF INTERVENTION

The main points made in the 2010 report were:

- In a context of budget discipline and low confidence in the private sector Cohesion Policy has been the counter cyclical policy single instrument.
- Continued investment in transport, water and waste management that under budget consolidation would not have been possible without the intervention.
- Interventions have had indirect effects such as:
  - promoted for faster optimization in education and science sector;
  - adoption of development plans in municipalities.

It is still too early to judge what have been the effects of Cohesion Policy on the economy as a whole and to what extent contributed to counteracting economic crisis. There is no evaluation base to judge the policy effects on indicators such as GDP, employment, entrepreneurship, life quality and the cohesion of NUTS 3 regions.

Cohesion Policy has helped realise the structural changes in the economy shifting from construction and retail trade to the production of tradeable goods and thus increasing export potential. It is too early to tell to what extent Cohesion Policy has assisted in helping Latvia become more competitive. The impact indicator of the OP “Entrepreneurship and Innovation” – high technology percentage in total exports has been overachieved in 2010 percentage being 14.5 % as opposed to the planned for 2013 10%. This result has probably more to do with the drop in total exports than Cohesion Policy interventions.

ERDF and CF measures are unintentionally responding to climate change by improvements in energy efficiency. The two biggest sources of green house gasses in Latvia are the housing heating system and the transport sector. ERDF and CF measures directly address

[8]We do not include impact indicators for culture as they are already overachieved without any physical progress to report on.

heating system inefficiencies where there is a large stock of energy inefficient housing and inefficient centralized heating systems that supply the heat. There are also activities promoting use of renewable resources in co-generation plants (electricity and heat) and in-house heat production for business production needs. All these above mentioned measures also have an effect on energy security in Latvia since it will reduce demand for gas imports and promote use of local resources. However the overriding goal of these activities is to reduce energy costs in economy to households and businesses.

We would like to draw attention to another indirect effect of Cohesion Policy. To alleviate implementation of the measure "Energy efficient housing" and make it easier to insulate houses a number of changes in Latvian legislation were made. Changes were made to: the Law on the Management of apartment houses, general construction regulations, fire safety regulations. Simplified technical specifications were introduced for building reconstruction and insulation, simplified regulations were adopted about window replacement in historical central in Riga, where replacing windows to gain energy efficiency was a fairly difficult bureaucratic task until recently. The Ministry of Economics (MoE) under-secretary of state believes these changes would not have happened would it not have been for the necessity to effectively absorb EU funds. He also believes these changes in legislation will bring about more investment in energy efficiency in housing besides ERDF grants. Furthermore Latvia's Energy strategy 2030 which is currently in draft form and is to be adopted by the end of this year sets an ambitious target to decrease housing heat energy consumption by more than a half by 2030. It is possible to set such high targets as there are already very positive examples from ERDF funded activity that have created interest from housing occupants, as well technical standards worked out and tested that can be used as tools in Energy action plan 2011-2015 that will follow the adoption of the strategy.

During last year's interview with experts from Ministry of Transportation it was mentioned that the project preparation requirements for CF (ex-ante evaluation, cost-benefit evaluation and evaluation of the project viability in the long term) were a novelty in the sector, but the practice has been adopted in all national investment projects thus improving the rationality of decision making.

It would be interesting to further explore the extent of these indirect effects of Cohesion Policy on different sectors and the state administration in general.

4. EVALUATIONS AND GOOD PRACTICE IN EVALUATION

The managing authority in Latvia, the Ministry of Finance, has worked out an EU funds evaluation plan for the period 2007-2013[9]. The evaluation process is centralized with the exception of Ministry of Environment Protection and Regional Development that will carry out evaluation of impact on balanced territorial development and on EU funds impact on the environment.

[9] http://www.esfondi.lv/upload/Petijumi_un_izvertejumi/ES_fondu_izvert_plans_2007-2013.doc

The plan is comprehensive, however many evaluations have been delayed. Please see Annex Table D for an updated evaluation plan. In 2010 a contract for the "Evaluation on the amount of income generated to state budget from implemented EU projects" was terminated because of low quality and more detailed technical specifications were worked out and a new public procurement procedure was started in 2010 for the evaluation of "Impact of EU funds on the economy".

Latvia has created a systematic approach in assessing and implementing recommendations from evaluation reports. A special working group consisting of managing authority, intermediary bodies and other parties meets several times a year, and written procedures are also used. The working group evaluates recommendations and assesses to what extent these are relevant and decides on their implementation. Participation of institutions not directly involved in EU fund planning and implementation is essential to move forward the implementation of recommendations that do not concern EU fund management. The recommendations that have been recognized as relevant are included in the implementation plan. Up to the end of 2010 there were all together 119 recommendations put forward for 2007-2013. 74% are already implemented and 14% were judged not to be relevant or had already been implemented before they were included in the implementation plan.

The system works fairly well, however so far the recommendations have been of a technical nature aiming to optimize implementation procedures and amend national regulations that have hampered EU fund implementation. It remains to be seen how the system will respond to policy and strategic recommendations involving funding reallocation between programmes or priorities. This will involve the political level, and a government coalition working party on EU funds will have to give the green light to implement policy recommendations and use the evaluation results in policy planning. We have to point out that policy evaluation is a relatively new concept in Latvia and Cohesion Policy was the first policy in Latvia that had a component of policy evaluation embedded in it.

Very few evaluations have been carried out for the period 2007-2013 and none of them measure the outcome of the expenditure and its effectiveness in achieving the policy objectives set for the period 2007-2013. No new evaluations have been published since the last report for period 2007-2013.

In spring of 2011 three ex-post evaluations were finished for the period 2004-2006. "Evaluation of results and impact of EU funded investments in the field of support to business during the programming period 2004-2006", "Ex-post evaluation of results and impact of EU funded investments in the field of education and science during the programming period 2004-2006", "Evaluation of results and impact of EU funded investments in the field of employment during the programming period 2004-2006". The aim of these evaluations was to give recommendations for the 2014-2020 period. In this report we will look more closely on the first two ex-post evaluations in Table D.

Table D Cohesion Policy evaluations

Title and date of completion	Policy area and scope	Main objectives	Main findings	Full reference or link to publication
"Evaluation of results and impact of EU funded investments in the field of support to business during the programming period 2004-2006"	Ex-post evaluation	Asses impact of the activities on the economy Asses the effectiveness of activities promoting business, innovations and new start ups Describe experience of other regions in promoting business at activity level Feedback from the beneficiaries	- EU funding had a positive impact on the business environment -LVL 1 invested from the EU funding made an increase of LVL 1.65 to the GDP of Latvia -Support to innovations has been chaotic across activities -Need for better planning at all levels and improved indicator system -Activities with small financial investments in business start ups do not give significant investment in economy	http://www.esfondi.lv/upload/01-strukturfondi/petijumi/2011_BK_zinojums.pdf
"Ex-post evaluation of results and impact of EU funded investments in the field of education and science during the programming period 2004-2006"	Ex-post evaluation	Asses the impact of the EU funds at all levels of education (general, professional, vocational, doctoral studies) and science	- Little funding allocated to science - Impact on the R&D has been positive but less so than planned - Result and impact indicators do not allow to asses effectively if the desirable effects in R&D have been achieved	http://www.esfondi.lv/upload/ISC_Izvertejuma_zinojums-FM-Final1.pdf

In the "Evaluation of results and impact of EU funded investments in the field of support to business during the programming period 2004-2006" the following methodologies were claimed to have been used: desk analysis of the activities (aims, indicators, achievement of these indicators), telephone survey of final beneficiaries, quasi-experimental approach - difference in differences - to asses the impact of EU funds on the performance of businesses. The main message of the ex-post evaluation is the need to improve the policy planning and setting indicators that reflect the desired change in policy field for the next 2014-2020 planning period. Recommendations suggest identifying problems at policy level, set impact indicators one wants to achieve, select activities that can contribute to reaching impact indicator, set outcome and result indicators at activity level that contribute to achievement of impact indicator, approve project selection criteria that ensure achievement of result indicators. The evaluation also recommends concentrating funding on fewer priorities. It is not clear if this is motivated by the need to make the impact more measurable or assessment that this will increase the effectiveness of the policy.

"Ex-post evaluation of results and impact of EU funded investments in the field of education and science during the programming period 2004-2006" mainly analyses the effects of ESF interventions, ERDF funding allocated to science was relatively small. The evaluation does not provide relevant recommendations for science and innovations for 2014-2020 period. Methodology used is desk analysis of activities and cost-efficiency analysis. Assumptions made in cost efficiency analysis are not justified, so it leaves doubts about its reliability.

Experts of the MoES were dissatisfied with the ex-post evaluation quality in the field of education and science. The MoES had the opportunity to comment on the evaluation before it was adopted and they found a number of factual mistakes and contradictions in the conclusions.

In the beginning of 2011 MoES has been finally granted funding to carry out external evaluation of Latvia's science and innovation policy. The main tasks are to evaluate the performance of scientific institutions; to develop methodology for evaluating the quality of scientific institution activities; ex-post evaluation of science and innovation policy (including EU funded policy measures); recommendations for further reforms in the sector. They are keen to use the results from this study in their policy making process.

The MoE feels that the most valuable insights have come from the previous planning period and the lessons had been learned before the ex-post evaluation. There is particular interest in learning from experiences of other countries and regions at the activity level.

Taking into considerations recommendations from ex-post evaluations the Ministry of Finance has agreed on a time table for major policy planning documents for the next period to ensure more coherent and timely policy planning document adoption.

Recommendations from both ex-post evaluations are being reviewed by the working group and accordingly will be included in the implementation plan.

In the second half of 2011the mid-term evaluation on implementation efficiency of NSRF priorities, measures and activities in the EU funds programming period 2007-2013 will be published. A public procurement procedure has been initiated for evaluation of EU fund impact on the balanced territorial development and its relevance to the national territorial planning policy priorities. Both studies are expected to give relevant policy recommendations for this and the next planning period.

In the Strategic report 2007-2009 Ministry of Finance drew attention to the flaws in the indicator system. In 2011 an internal evaluation "Analysis of EU fund indicators in 2007-2013" has been commissioned. The aim of this study is to evaluate how far the indicators set in the beginning of the planning period permit an evaluation of the effectiveness and impact of EU funding on a particular sector of economy and economy as a whole. It will also shed light on logic of the indicators and the interconnection between outcome, result and impact indicators. Recommendations and best and worst practice examples for the next planning period are expected.

The 4th addendum to memorandum of understanding between Latvia and EU asks for steps to improve the quality of evaluation by the end of 2011. There are two main reasons for the relatively low evaluation quality. First is the lack of resources in the managing authority and intermediate institutions, and the second is the lack of expertise in policy evaluation among Latvian consulting and research companies. To address these problems managing authority has organized a conference presenting *ex-post* evaluations in Latvia in May 2011, organized an educational seminar for evaluation working group in September 2011, is going to organize conference on the mid-term evaluation in November 2011 and a seminar on evaluation methods in December 2011. All these activities are intended to raise the expertise of involved parties -institutions and companies who carry out evaluations.

All of the evaluations are carried out by private companies and considerable amounts of managing authority's human resources are invested in commenting the draft evaluations to improve the quality. Another option in improving quality of evaluations would be to contract a single institution that would carry out all or most of the evaluations thus rising expertise of a single company. For example Ministry of Agriculture has signed a contract with a research centre that is carrying out all of the on-going evaluations for European Rural Development Fund for period 2007-2014, however in practice evaluations are further subcontracted to different companies and quality does not improve. To carry out evaluations internally by experts of Ministry of Finance is not viable at the time due to lack of human resources.

To circumvent the lack of expertise in Latvia Ministry of Finance is considering attracting some foreign companies to participate in tenders for evaluations.

5. CONCLUDING REMARKS – FUTURE CHALLENGES

The main points made in the 2010 country report were:

- Slow progress in measure "Science, research and development".
- Latvia is exposed to socioeconomic risks of prolonged high unemployment such as deteriorating human capital, increased inequality and crime rates and continuing emigration.

Implementation problems at regulation level in measure "Science, research and development" have been solved. All the necessary regulations are in place.

However there is a potential concern that lack of co-funding from project applicants could further delay full implementation of the activity "Support to science infrastructure". The activity will support high risk projects (new start ups in R&D) that will demand relatively high investment from companies own resources or bank loans which are hard to come by these days.

We feel the same concern could be expressed for activities in measure “Innovation”. MoE expert notes that companies in Latvia are already highly leveraged and taking up another loan to implement EU funded project could be problematic. The MoE has involved the Association of Latvian Commercial Banks in drafting implementation regulation as well as their credit analysts in project evaluation to ensure that the projects approved will receive loan as a co-funding.

Moreover successful implementation of the measure “Innovation” and activity “Support to science infrastructure” will depend on cooperation among research institutions and businesses, so far this cooperation has been reluctant.

When it comes to macro-economic challenges unemployment remains one of the biggest issues facing Latvian economy for the coming years. Increased funding to the OP “Human resources and Employment” is addressing unemployment by active labour market measures in form of training programmes and temporarily work placements in municipalities.

The Latvian economy is particularly vulnerable to the developments in the world. The country’s recovery is based on export growth that highly depends on successful structural change in the economy and developments in its export markets in the EU and rest of the world.

REFERENCES

www.em.gov.lv

www.varam.gov.lv

www.fm.gov.lv

www.mk.gov.lv

www.esfondi.lv

http://komitejas.esfondi.lv/Dokumenti/Forms/AllItems.aspx?RootFolder=%2fDokumenti%2f2007%20-%202013&View={891B9B05-E11F-48BB-8B73-BA7E31F29B09} Monitoring committee minutes

http://komitejas.esfondi.lv/AI%20uzraudzbas%20ziojumi/Forms/AllItems.aspx Atbildīgo iestazu pusgada ieviešanas zinojumi

http://www.estlatrus.eu/eng/programme/financing

http://www.enpi-cbc.eu/

www.latlit.eu

www.estlat.eu

http://eu.baltic.net/Funding.113.html

INTERVIEWS

Ministry of Economics

Edmunds Valantis – Head of EU Fund Implementation Department

Gatis Ābele – Deputy Secretary of State

Ministry of Education and Science

Edīte Pavlovksa – Head of EU SF Department

Santa Šmīdlere –Head of Planning and Methodology Division /EU SF Department

Ministry of Finance

Iruma Kravale –Deputy Head of EU Fund Strategic Department

Aija Jaunmuktāne –Head of EU Fund Strategic Planning Division

Gunta Līdaka (phone interview) –Deputy Head of Entrepreneurship and Innovation Planning Division /EU Fund Strategic Department

TABLES

See Excel file for Tables 1-4

Table 1 – Regional disparities and trends

Table 2 – Macro-economic developments

Table 3 – Financial allocation by main policy area

Table 4 – Commitments by main policy area (by end-2010)

Annex Table A – State of play of fund absorption at 31.07.2011 compared to 31.07.2010

Priority/Measure	EU funding according to decisions of Cabinet of Ministers (EUR million)		Contracted (% of EU funding)		Payments to final beneficiaries % of EU funding	
	2010	**2010**	**2010**	**2011**	**2010**	**2011**
2. Operational programme "Entrepreneurship and Innovations" ERDF	769.2	736.7	53.7	71.0	33.5	42.5
2.1. Priority „Science and Innovations"	452.5	452.5	28.0	53.3	6.4	16.5
2.1.1. Measure „Science, Research and Development"	219.1	219.1	0.0	31.4	0.0	6.1
2.1.2. Measure „Innovations"	233.4	233.4	54.4	73.9	12.4	26.4
2.2. Priority "Access to Finances"	216.7	216.7	100.0	117.6[10]	100.0	117.6
2.2.1. Measure „Accessibility of Financial Resources"	216.7	184.3	100.0	117.6	100.0	117.6
2.3. Priority "Promotion of Entrepreneurship"	77.0	77.0	72.4	70.6	9.8	19.2
2.3.1. Measure „Business Support Activities"	21.6	27.6	30.9	46.2	5.5	11.2
2.3.2. Measure „Business Infrastructure and Improvements to Equipment"	55.4	49.4	88.5	84.2[11]	11.5	23.6
2.4. Priority "Technical Assistance"	23.0	23.0	59.1	46.3	18.4	29.3
3. Operational programme "Infrastructure and Services"	3210.6	3210.6	52.7	78.1	13.7	31.0

[10] Commitments exceed available funding as funding has been reduced for guarantee scheme.

[11] Contracted funding decreased because of terminated contracts in the period.

Priority/Measure	EU funding according to decisions of Cabinet of Ministers (EUR million)		Contracted (% of EU funding)		Payments to final beneficiaries % of EU funding	
	2010	2010	2010	2011	2010	2011
3.OP – ERDF	1670.8	1670.8	50.3	72.3	10.8	29.8
3.OP – Cohesion Fund	1539.8	1539.8	55.2	84.5	16.9	32.4
3.1. Priority "Infrastructure for Strengthening Human Capital"	504.6	504.6	58.9	82.7	14.7	37.5
3.1.1. Measure "Vocational Education Infrastructure" *	83.6	87.4	22.4	94.2	0.0	6.0
3.1.2. Measure "Tertiary (Higher) Education Infrastructure"	124.1	121.5	96.0	100.0	0.0	38.2
3.1.3. Measure "Ensuring Educational Infrastructure for General Skills"	41.5	41.5	90.6	98.4	38.0	75.5
3.1.4. Measure "Employment and Social Services Infrastructure"	48.1	47.1	83.2	99.3	54.4	78.7
3.1.5. Measure "Health Care Infrastructure"	207.3	207.3	39.3	60.8	15.6	33.3
3.2. Priority "Promotion of Territorial Accessibility"	511.2	511.2	56.3	79.3	4.0	18.2
3.2.1. Measure "Promotion of Accessibility and Transport System"	322.1	329.2	65.5	90.0	4.1	16.3
3.2.2.Measure"ICT Infrastr ucture and Services"	189.1	182.0	40.8	60.1	4.0	21.6
3.3. Priority "Development of Transport Network of European Significance and Promotion of Sustainable Transport"	857.0	857.0	68.5	96.2	10.3	22.7
3.3.1. Measure "Improvements and Development of Large Scale Transport Infrastructure"	714.6	714.6	62.3	95.4	12.4	22.7
3.3.2. Measure "Development of Sustainable Transport System"	142.4	142.4	100.0	100.0	0.0	22.3
3.4. Priority "Quality Environment for Life and Economic Activity"	322.9	322.9	35.4	49.5	4.1	17.8
3.4.1. Measure "Environment"	194.8	194.8	38.2	48.8	3.5	22.0
3.4.2. Measure "Tourism"	22.0	19.2	82.6	89.1	12.4	24.2

Priority/Measure	**EU funding according to decisions of Cabinet of Ministers (EUR million)**		**Contracted (% of EU funding)**		**Payments to final beneficiaries % of EU funding**	
	2010	**2010**	**2010**	**2011**	**2010**	**2011**
3.4.3. Measure "Socio-economic Impact of Cultural Environment"	33.2	36.0	38.1	66.4	6.2	16.4
3.4.4. Measure "Energy Efficiency of Housing"	72.9	561.5	12.3	32.7	2.1	6.3
3.5. Priority "Promotion of Environmental Infrastructure And Environmentally Friendly Energy"	670.6	670.6	38.5	70.5	25.4	45.0
3.5.1.Measure "Infrastructure of Environmental Protection"	575.7	561.5	40.2	72.4	29.2	53.0
3.5.2. Measure "Energy"	94.9	109.1	28.4	60.7	2.3	8.9
3.6. Priority "Polycentric Development"	274.5	274.5	39.9	73.4	23.2	52.5
3.6.1. Measure "Support for Sustainable Urban Environment and Urban Area Development"	263.0	263.0	41.7	76.6	24.2	54.7
3.6.2. Complex support to promote growth of amalgamated municipalities	11.5	11.5	0.0	0.0	0.0	0.0
3.7. Priority "Technical Assistance of ERDF"	57.6	57.6	54.5	41.4	15.8	25.7
3.8. Priority "Technical Assistance of Cohesion Fund"	12.2	12.2	36.7	31.6	9.3	17.6

Source: VIS – EU unified information system

Annex Table B –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 Baltic	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.

Annex Table C – Financial progress as of 30 December 2011

Programme	Approved projects total ERDF (EUR million)	Total ERDF funding (EUR million)	% committed from total ERDF funding
EST-LAT	24.2	35.9	67.0
LAT-LIT	42.7	60.1	71.1
Central Baltic	74.4	102.2	73.0
EST-LAT-RUS	First call on projects ended on November 2010, first allocation decisions in July 2011	55.9	0.0
EST-LAT-BEL	Council of Ministers of the Republic of Belarus in August 2011 approved most of the applicants for the 1st call on projects. 1st contract signed on September 2011.	41.7	0.0

Source: AIRs and programme websites

Annex Table D – Evaluations planned for the period 2007-2013, updated in 2010.

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.	contract terminated due to low quality, new study in progress
EU funding investment in education sector in the period 2004-2008, impact assessment and further investment analysis.	Finished 2011
EU fund investment in the active labour policy measures in the period 2004-2008, impact assessment and further investment analysis.	Finished 2011
EU fund investment in support to entrepreneurship in the period 2004-2008, impact assessment and further investment analysis.	Finished 2011
Impact on environment of EU fund planning documents.	Postponed to 2012
EU fund impact on the balanced territorial development.	in progress, due in 2011
Midterm NSRF evaluation.	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

ANNEX

The MoE and Association of Latvian Commercial Banks have publicly claimed that the credit and export guarantees issued under the measure “Accessibility of Financial Resources” have provided significant support to companies during the crisis. The claim is based on the first quantifiable results that have emerged for Guarantee schemes intended to help economically sound companies survive the crisis. According to information as of August 2011 altogether 12 companies received credit grantees for new loans, 8 of the projects are finished and 6 companies have repaid their loan, 3 of the companies are servicing their loan and 3 have failed to meet creditors’ demands. 279 credit holiday guarantees were issued, 149 projects have been finished, from these 7 compensations from guarantee fund have occurred and 3 have been initiated. The other credit holiday projects run successfully as indicated by the fact that for most companies the amount covered by credit holiday guarantees is decreasing, which means they have started to service their loans sooner than expected. More than EUR 27 million was issued in guarantees for companies in hardship (35% of funding available in the activity) and of these EUR 20.6 million remain outstanding and EUR 1.7 million have been paid out in compensations. The evidence is not yet conclusive, but the MoE is convinced that the guarantees worked to avoid many bankruptcies.