



OPERATIONAL PROGRAMME „ENTREPRENEURSHIP AND INNOVATIONS”

CCI: 2007LV161PO001

Amendments: Cabinet Order no. 500 (25.08.2008.)
Amendments: Cabinet Order no. 11 (13.01.2009.)
Amendments: Cabinet Order no. 142 (27.02.2009.)
Amendments: Cabinet Order no. 475 (16.07.2009.)
Amendments: Cabinet Order no. 750 (02.11.2009.)
Amendments: Cabinet Order no. 88 (22.02.2010.)
Amendments: Cabinet Order no. 425 (05.09.2011.)
Amendments: Cabinet Order no. 270 (25.06.2013.)
Amendments: Cabinet Order no. 447 (30.09.2013.)
Amendments: Cabinet Order no. 60 (11.02.2014.)

**MINISTRY OF FINANCE
REPUBLIC OF LATVIA
RĪGA
JULY 2007**

TABLE OF CONTENTS

1. Introduction.....	6
2. Situation Analysis of the Sectors Covered by the Operational Programme „Entrepreneurship and Innovations”.....	8
2.1. <i>Science and Research Potential.....</i>	8
2.2. <i>Promotion of Entrepreneurship and Innovations.....</i>	15
2.3. <i>Balanced Territorial Development</i>	24
2.4. <i>International Competitiveness of Rīga.....</i>	31
3. Strategy of the operational programme „Entrepreneurship and Innovations”	36
3.1 <i>SWOT ANALYSIS OF THE OPERATIONAL PROGRAMME</i>	36
<i>(According to amendments made in 25.08.2008. by order of CM Nr.500).....</i>	41
3.2 <i>Strategy Overview.....</i>	41
4. DESCRIPTION OF PRIORITIES AND MEASURES	48
Measure 2.1.1 „Science, Research and Development”	51
Measure 2.1.2 „Innovations”	57
Priority 2.2 “Access to Finances”	63
Measure 2.2.1 „Accessibility of Financial Resources”	65
Priority 2.3 “Promotion of Entrepreneurship”	72
Measure 2.3.1 „Business Support Activities”	74
Measure 2.3.2 „Business Infrastructure and Improvements to Equipment”	78
Priority 2.4 “Technical Assistance”	83
Measure 2.4.1 “Assistance for the Management of the Operational Programme „Entrepreneurship and Innovations””	85
5. Financial Plan of OP „Entrepreneurship and Innovations”	89
6. ADMINISTRATIVE FRAMEWORK	91
6.1. <i>Institutions Involved in the Management of Funds</i>	92
6.2. <i>Partnership</i>	95
6.3. <i>Implementation</i>	97
6.4. <i>Monitoring.....</i>	102
6.5. <i>Evaluation.....</i>	105
6.6. <i>Controls</i>	107
6.7. <i>Information and Publicity</i>	110
6.8 <i>Coordination of the assistance</i>	118
7. Information on Ex-ante evaluation and SEA process and recommendations taken into the consideration in respect to operational programme “Entrepreneurship and innovations”	119
7.1 <i>Ex-ante evaluation process</i>	119
7.2 <i>Strategic Environmental Assessment</i>	121

LIST OF TABLES

TABLE 1: NUMBER OF ENTERPRISES, AMOUNT OF FIXED ASSET INVESTMENT AND DIRECT FOREIGN INVESTMENT.....	16
TABLE 2: RATIO OF SOCIAL AND ECONOMIC INDICATORS OF PLANNING REGION TO AVERAGE NATIONAL INDICATORS (THE NATIONAL AVERAGE – 100%)	25
TABLE 3: SWOT ANALYSIS OF PRIORITY 2.1 „SCIENCE AND INNOVATIONS”	48
TABLE 4: R&D FUNDING IN 2004 BY SECTOR (% OF GDP)	51
TABLE 5: R&D FUNDING BY SECTOR, % OF THE TOTAL R&D FUNDING (EUROSTAT, CSB)	57
TABLE 6: SWOT ANALYSIS OF THE PRIORITY 2.2 “ACCESS TO FINANCES”	63
TABLE 7: MARKET CAPITALISATION, %GDP	66
TABLE 8: SWOT ANALYSIS OF THE PRIORITY 2.3 “PROMOTION OF ENTREPRENEURSHIP”	72
TABLE 9: SWOT ANALYSIS OF PRIORITY 2.4 “TECHNICAL ASSISTANCE”	83
TABLE 10. FINANCING PLAN OF THE OPERATIONAL PROGRAMME DETAILING THE ANNUAL ALLOCATIONS OF EACH FUND IN THE OPERATIONAL PROGRAMME (EUR)	89
TABLE 11. FINANCIAL PLAN OF THE PROGRAMMING PERIOD DETAILING FINANCIAL ALLOCATIONS FROM EACH FUND, NATIONAL CO-FINANCE AND CO-FINANCE RATE FOR PRIORITIES UNDER THE OPERATIONAL PROGRAMME (EUR)	89
TABLE 12: INDICATIVE DISTRIBUTION OF THE COMMUNITY FUNDING BY CATEGORY FOR OPERATIONAL PROGRAMME 2 (EUR).....	90

LIST OF FIGURES

FIGURE 1. THE NUMBER OF DOCTOR’S DEGREES AWARDED IN LATVIA PER YEAR	11
FIGURE 2: INNOVATION INDEX OF 2004 OF THE NEW EU MEMBER STATES AND CANDIDATE COUNTRIES	20
FIGURE 3: CITIES AND AMALGAMATED MUNICIPALITIES OF LATVIA	27
FIGURE 4: PROJECT SELECTION SCHEME FOR CLOSED PROJECT SELECTION PROCEDURE.....	99
FIGURE 5: PROJECT SELECTION SCHEME FOR SELECTION AT OPEN CALLS FOR PROJECT APPLICATIONS.....	100
FIGURE 6: SCHEME OF PROJECT IMPLEMENTATION	101
FIGURE 7: SCHEME OF PAYMENT FLOWS	102
FIGURE 8: MONITORING PROCESS.....	104
FIGURE 9: EVALUATION SCHEME.....	107
FIGURE 10: CHART ON CONTROLS OF THE ELIGIBILITY OF EXPENDITURE AND AUDITS OF ELIGIBILITY AND EFFICIENCY OF THE SYSTEMS	108
FIGURE 11: ON-THE-SPOT CHECK SCHEME	109
FIGURE 12: ANNUAL REPORT ON THE IMPLEMENTATION AND CONTROLS SYSTEM	109
FIGURE 13: SYSTEM DESCRIPTION AUDIT SCHEME	110

ABBREVIATIONS

AA	–	Audit Authority
UNO	–	United Nations Organisation
USA	–	United States of America
DFI	–	Direct foreign investment
CFCA	–	Central Finance and Contracting Agency
COST	–	<i>Cooperation europeenne dans le domaine de la Recherche scientifique et technique</i>
CSB	–	Central Statistics Bureau
EEA	–	European Economic Area
EF	–	European Funds: ERDF, ESF and CF
EIB	–	European Investment Bank
EC	–	European Commission
EAFRD	–	European Agricultural Fund for Rural Development
EAGGF	–	European Agricultural Guidance and Guarantee Fund
MoE	–	Ekonomikas ministrija
EPO	–	European Patent Office
ERDF	–	European Regional Development Fund
ERASMUS	–	ERASMUS is the higher education Action of SOCRATES II programme. It seeks to enhance the quality and reinforce the European dimension of higher education by encouraging transnational cooperation between universities, boosting European mobility and improving the transparency and full academic recognition of studies and qualifications throughout the European Union.
EU	–	European Union
EU-10	–	10 EU Member States that joined the Union on 1 May 2004
EU-15	–	EU Member States, part of the Union before the last enlargement of 1 May 2004
EU-25	–	EU Member States after the last enlargement of 1 May 2004
ESF	–	European Social Fund
EUR	–	Euro
EURATOM	–	European Atomic Energy Community
EUREKA	–	An international programme aimed at facilitating cooperation in the development of innovative, competitive products, technologies or services predominantly in small, medium-sized and large enterprises
EUROSTAT	–	European Statistics Office
MoF	–	Ministry of Finance
GEANT	–	Gigabit European Academic Network
WPP	–	Water Power Plant
HCPI	–	Harmonised Consumer Price Index
SPNA	–	Specially Protected Nature Area
SAA	–	Specially Assisted Area
GDP	–	Gross Domestic Product
ICT	–	Information and Communication Technologies
FP	–	Framework Programme
IT	–	Information Technologies
SMSAEGA	–	Secretariat of the Minister on Special Assignment for Electronic Government Affairs
MoES	–	Ministry of Education and Science
CF	–	Cohesion Fund
CSG	–	Community Strategic Guidelines for Cohesion
RDP	–	Rural Development Plan that, <i>inter alia</i> , comprises funding conditions of the guarantee section of EAGGF
RDS	–	Rural Development Strategy 2007 – 2013 (drafted by the Ministry of Agriculture)
FTUCL	–	Free Trade Union Confederation of Latvia (LBAS)
LEC	–	Latvian Employers' Confederation
LGS	–	State joint-stock company „Latvijas gaisa satiksme”
MoW	–	Ministry of Welfare
LNRPL	–	Lisbon National Reform Programme of Latvia
ULRGL	–	Union of Local and Regional Governments of Latvia
RL	–	Republic of Latvia
UL	–	University of Latvia
INPS UL	–	Institute of Nuclear Physics and Spectroscopy of the University of Latvia

BRC UL	–	Biomedical Research Centre of the University of Latvia
ISSP UL	–	Institute of Solid State Physics of the University of Latvia
IP UL	–	Institute of Physics of the University of Latvia
LVL	–	Latvian lats
LCS	–	Latvian Council of Science
MHD	–	Magnetohydrodynamics
CM	–	Cabinet of Ministers
SME	–	Small (Micro) and Medium-sized Enterprise
NDP	–	National Development Plan 2007 – 2013 (drafted by MoRDLG)
NATO	–	North Atlantic Treaty Organisation
EMS	–	Emergency Medical Service
NP	–	National Programme
NSRF	–	National Strategic Reference Framework
SEA	–	State Employment Agency
NGO	–	Non-governmental organisation
OECD	–	Organisation for Economic Cooperation and Development
OP	–	Operational Programme
IOS	–	Institute of Organic Synthesis
R&D	–	Research and development
SEDA	–	State Education Development Agency
PCCSA	–	Professional Career Counselling State Agency
USSR	–	Union of Soviet Socialist Republics
PHC	–	Primary health care
VAT	–	Value added tax
MoRDLG	–	Ministry of Regional Development and Local Governments
RTU	–	Rīga Technical University
SCI	–	Science Citation Index
ILO	–	International Labour Organisation
SDR	–	Special Drawing Right – a basket of the following currencies – USD, EUR, GBP, and JPY
CA	–	Certifying Authority
SEZ	–	Special Economic Zone
SF	–	EU Structural Funds
SF/CF MIS	–	Management Information System of Structural Funds and the Cohesion Fund
IB	–	Intermediate Body
SKDS	–	Market and public opinion research centre "Sociāli korelatīvo datu sistēmas"
MoT	–	Ministry of Transport
SOCRATES	–	EU programme on education
TV	–	Television
SSNE	–	Single Strategy for the National Economy
MC	–	Monitoring Committee
USD	–	US dollar
SJSC	–	State joint stock company
SLI	–	State Labour Inspectorate
MA	–	Managing Authority
MoEnv	–	Ministry of Environment
SIP	–	State Investment Plan
MIS	–	Management Information System
ST	–	State Treasury
SC	–	State Chancellery
ERM II	–	Exchange Rate Mechanism II
MoH	–	Ministry of Health
SCHIA	–	State Compulsory Health Insurance Agency
SPD	–	Single Programming Document
MSS	–	Meeting of State Secretaries
WIPO	–	World Intellectual Property Organisation
FIFG	–	Financial Instrument for Fisheries Guidance

(According to amendments made in 25.08.2008. by order of CM Nr.500)

1. INTRODUCTION

1. The European Union has set the objective of becoming the most competitive region in the world, primarily through its potential of research and innovation. Latvia, with its strong and well-established science, innovation and business traditions, can contribute significantly to the achievement of this objective whilst also improving the welfare of its residents.
2. In the long term, competition can be maintained through continuous innovation which, based on competition-related experience, serves as a foundation for further development and ensures leadership in economic competition. Innovation is a complex process involving the provider of a new idea and a person implementing this idea. In order to ensure success in this process, both sides must be ready and able to cooperate. Scientists must be able to provide resources of applied sciences and research at an international level and be aware that only such a model of cooperation will ensure future development of science. Businesses must be aware of the value of innovation, abandoning the old methods used in manufacturing products of the previous century, and seeking opportunities for financing the development of enterprises. To ensure both sides are ready and able to exploit the cooperation results in a sound way throughout this process, the government must provide assistance in strengthening their capacities and be, on some occasions, a mediator helping the partners find each other.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

3. Pursuant to the National Strategic Reference Framework, the Operational Programme shall be co-financed by the European Regional Development Fund.
4. Aid measures under the Operational Programme shall be focused on three main activity areas: development of the capacity of the science and research sector to provide new ideas; encouraging cooperation between researchers and businesses; as well as support to emerging merchants and improvement the competitiveness of existing companies.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

5. First, the OP will enhance Latvia's science and research potential by improving the infrastructure of science and research centres, attracting new and highly-qualified human resources, and will also ensure advanced experience in applied sciences and research by supporting research activities.
6. Second, the OP will improve and establish cooperation mechanisms for researchers and businesses stimulating more active technology transfer and improving the capacity of merchants to invest in innovations and development of new products through increased availability of loans and venture capital.
7. Third, the OP will promote formation and development of new enterprises by establishing assistance mechanisms to business start-ups, and will foster development of the existing enterprises by providing support to business infrastructure and services, as well as ensuring more available financial resources.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

8. In order to improve programming documents and fulfill requirements set by the national and the EU legislation, the Ministry of Finance has signed a contract with an independent consortium of experts on the OP ex-ante evaluation and Strategic Environmental Assessment. According to the EC working documents on ex-ante, as well as taking into consideration experience from 2004-2006 programming period, the Ministry of Finance has closely collaborated with the ex-ante and SEA experts in improvement of the document and has succeeded in ensuring compliance of the document to the ex-ante and SEA recommendations.

The cooperation with ex-ante and SEA experts continued, contributing to the negotiations with the EC and analyzing the comments of the EC on the document and the draft versions of the document elaborated as a result of the negotiations.

2. SITUATION ANALYSIS OF THE SECTORS COVERED BY THE OPERATIONAL PROGRAMME „ENTREPRENEURSHIP AND INNOVATIONS”

2.1. Science and Research Potential

9. Several branches of science in Latvia have achieved a level of global competitiveness (modern materials, information technologies, magnetohydrodynamics, biomedicine, pharmaceutical chemistry and wood chemistry) and the capacity of these branches of science is proven by international patents and publications and by the success scientists have achieved in research and technology development areas of the EU Framework Programmes showing that the Latvian scientific potential is able to compete at a global level. Latvian Research Institutes have established successful long-term cooperation with European and global high-tech companies, especially in pharmaceutical chemistry and biomedicine providing a substantial additional input to State funding to R&D activities.

Institutional Capacity of Science and Research

10. The institutional infrastructure of science in Latvia consists of 11 State Research Institutes, 15 research institutes formally integrated into universities as legally independent institutions, 5 State Universities and 15 University Colleges with their research units. In view of the scope and level of scientific activities, the most significant institutions are the University of Latvia, Rīga Technical University, Rīga Stradiņš University, Latvia University of Agriculture, Daugavpils University and Ventspils University College. Two private research centres also operate in Latvia: The Institute of Economy and The Rīga Information Technology Institute *Dati*.
11. With regard to international recognition and outputs of research activities, the most important institutes are the Institute of Solid State Physics of the University of Latvia (ISSP UL) and Latvian Institute of Organic Synthesis (IOS). The ISSP UL stands out from other institutes with the number of internationally recognised articles published every year and with the level of international prestige (SCI, *Science Citation Index*). The scientists of the ISSP UL published 115 and scientists of the IOS – 63 scientific articles in 2004, including SCI. In the above period, the annual volume of scientific publications of the ISSP UL accounted for 1/4 of the total number of publications written by Latvian scientists. The publication intensity of the ISSP UL is similar to the average publication intensity in the United States of America which is higher than the average figure in the EU (639 publications per 1 million of population).
12. Statistical data on the breakdown of inventions in Latvia by scientific branches show that the most promising „invention branches” in Latvia are medical chemistry and genetic engineering. MHD metallurgy must also be noted as a strong branch (for instance, MHD crystal growing). The IOS and the Latvian Biomedical Research and Study Centres are especially marked out with the number of inventions patented abroad. In the period of 1997-2004, scientists of the IOS have been the main authors of 16 patent applications in medical chemistry submitted by internationally recognised pharmaceutical companies. In the area of genetic engineering scientists of the BRC UL are authors of three patent applications (in 1999, 2001 and 2004) in association with *Citos Biotechnol Ag* (Switzerland), Michigan State University (USA) and *Celltech Pharmac Ltd.* (United Kingdom).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

13. Latvian scientists and institutions have been quite successful in participating in EU Framework Programmes (FP). Active participation commenced in 1999 when the 5th EU FP was launched. The total number of project proposals was 667 and 178 projects were accepted and granted EU co-financing. As a result of the successful participation of Latvian applicants, the amount of project funding allocated by the EU is more than double the membership dues paid by Latvia into the budget of the 5th FP. During the 5th FP, in tough competition with other institutions, the ISSP UL was acclaimed as the EU Centre of Excellence. Since 2002, when the 6th FP of the EU was launched, the average level of success has decreased, but Latvia is still among the most successful of the new EU Member States although performing below the level of the old EU Member States. It should be noted that the Institute of Materials and Constructions of Rīga Technical University has gradually increased its capacity from several projects during the 5th FP up to 5 projects already underway during the 6th FP.
14. With regard to international cooperation, it should be noted that the Institute of Nuclear Physics and Spectroscopy of the University of Latvia is involved in the implementation of 15 international projects (6th FP, NATO Science Programme, EUREKA, COST, etc.).
15. The Ministry of Education and Sciences of Latvia and Lithuania, and Thailand have formed a joint research project support fund. Since 2001, six projects representing the ISSP UL, University of Latvia, RTU, genomics and material sciences of Rīga Stradiņš University have been approved.

Infrastructure of Science and Research

16. From the 1980s to 2004, due to limited funding, scientific infrastructure in State Research Institutes and higher education establishments barely underwent any modernisation. In 2004, the implementation of the National Programme of the Ministry of Education and Sciences „Support for the Modernisation of Scientific Infrastructure in State Research Institutions" was commenced by attracting co-financing of the ERDF. The objective of the National Programme is to modernise the infrastructure in state research institutions, including the regional institutions, implementing research projects in priority research areas, thus, forming an environment for the transfer of technologies and promoting development of human resources in the whole research area of the country. Currently, state-of-the-art research equipment is provided to the IOS, ISSP UL, BRC UL. This ensures successful participation of these institutions in international projects. The lack of a single broadband network between the Latvian higher education centres and research centres has impeded inter-university cooperation and cooperation among research institutions, and the full realisation of their capacity. Moreover, Latvia has the slowest connection with European academic and research networks (Latvia's connection to GEANT, European research and education network, is 155Mbit/s while in Estonia and Lithuania the speed is 622Mbit/s but in other Eastern European countries – 2.5Gbit/s) which is an obstacle for more extensive participation in scientific projects. Laboratories still have insufficient modern equipment required for the implementation of technical projects in the area of nanotechnologies and nanostructures; this problem is particularly apparent in regional research institutions. Currently, it is still complicated to convert a fundamental idea into a practical high-technology solution. This trend is demonstrated by the low share of high technology products in export volumes (in Latvia – 5%, the EU average – 20%).
17. Since Latvia's accession to the EU, local specialists have had the opportunity to use EU research infrastructure. Within the single European Research Area, the 6th FP ensures access to European research infrastructure for all European scientists if the provided scientific qualifications of the respective scientists meet the highest standards. Latvia may participate in activities of the single European Research Area with its research infrastructure, ensuring the effective realisation of research results through high-level technologies, as well as the

operation and development of unique research infrastructure objects, for instance, The Ventspils International Radio Astronomy Centre, The Liquid Metal Laboratory of the Institute of Physics of the UL (including the pilot equipment for studies of the Earth's magnetic field).

Human Resources for Science and Research

18. In 2004, the number of research and development personnel (including full-time and partly employed scientists and other administrative and technical support staff involved in R&D) comprised 8273. 3324 of them were full-time employed scientists. Comparison of statistical data on the proportion of the research workforce as a proportion of total number of labour force, shows that in Latvia it is 0.73% while the average figure in the EU is 1,36%¹. Productive results and development of the R&D sector require at least 2000 scientists per 1 million of population. Thus, by 2010 the number of scientists actively working in the area of R&D in Latvia should be 5000 persons.
19. In total, about 5800 persons possessed a Doctor's degree in Latvia, 3324 of them were engaged in the R&D sector in 2004 but in 2000 - 3814 persons. One of the reasons for this decrease is the flow of scientists to EU and non-EU countries. The total number of research employees includes 802 technicians and laboratory assistants and 977 persons performing service staff functions. Few Latvian scientists work in the private sector (only 13.5% of the total number of scientists which is the lowest ratio among the EU Member States where the average ratio is 49%²).
20. In 2004, the age of most scientists working in universities and state research institutions was above 55 years and the age of 28% of these scientists was above 65 years. Only 7% of scientists working in institutes are aged between 25 and 34 years. This is not a satisfactory age structure of research staff not only with regard to current research activities, but it also threatens further development of science. In several branches of science, there is shortage of highly qualified specialists who could qualify for professor or lecturer positions in Latvian universities and who could be involved in the education of young specialists. The solution for this problem is outlined in one of the targets of the Guidelines for Higher Education, Research and Technology Development up to 2010 elaborated by Ministry of Education and Sciences planning to increase the number of professors to 1000 and the number of persons engaged in research activities – to 12 000 until the year of 2010.
21. One of the development indicators for the scientific system is the annual increase of scientists and the number of persons who have been awarded a Doctor's degree.

¹ 2004.g. Eurostat, *Share of research and development personnel (head count, % of the labour force)*

² 2005.g. Eurostat, OESD (*Towards a European Research Area. Science, Technology and Innovation. Key Figures 2005.*)

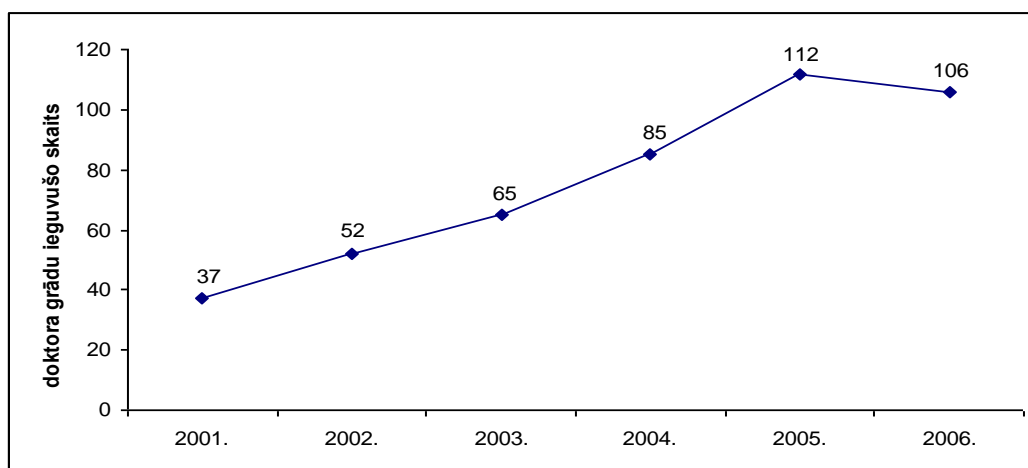


Figure 1. The number of Doctor's degrees awarded in Latvia per year

Source: CSB

22. In Latvia the number of Doctorate graduates is insufficient (only 1.4% in comparison with 5-6% in other EU Member States), in particular with regard to the number of persons who have been awarded a Doctor's degree. In comparison with other EU Member States, Latvia shows considerable underperformance. The number of persons with Doctor's degrees is low not only in comparison with EU Member States, but also with our neighbouring countries Lithuania and Estonia. For instance, in 2004, the number of Doctorate students in Sweden was 18000, amounting to 5.3% of the total number of students, in the Czech Republic – 11500 students amounting to 6.6% of the total number of students. On average in 2004 graduate Doctorate students in Lithuania and Estonia accounted for 2.5% of the total number of students. In 2004, in Latvia there were 1428 Doctor's degree students and only 85 of them have been awarded a Doctorate accounting for 0.4% of the total number of students. Students show an increasing interest in Doctor's degree studies (in 2006 the number of Doctorate students was 1 797, Doctor's degree graduates – 106) but the rate of this increase is still unsatisfactory. This is cause for particular concern due to the problems of the aging of academic staff.
23. The number of Doctorate students has been gradually rising due to several reasons: organisation of public awareness campaigns on the problem of low interest in Doctorate studies, discussions to stimulate public interest and various events for the popularisation of science (TV and radio broadcasts, "science bars", etc.).
24. The number of defended Doctor's theses has been also slowly growing. This could be promoted by the support measures of the MoES for Doctorate and Post-Doctorate research in natural sciences and engineering sciences co-financed by the ESF, as well as by the National Programme of the MoES „Provision of Higher Education Establishments with Modern Equipment and Mainframe Computer Networks for Education and Training” which has been implemented by co-financing of the ERDF.
25. The highest number of Doctorate students is still in the social sciences, business management and law, accounting for 32% of all Doctorate students. Natural sciences, mathematics and information technologies were chosen by only 14% and about the same proportion (16%) of all Doctorate students chose engineering sciences, production-related and construction-related studies.
26. Upon defending their Doctor's theses in natural sciences and mathematics (except for information technologies), most of the young scientists remain working in research institutes and universities and continue their scientific work.

27. Until now important reasons for the low interest in Doctorate studies and further careers in science were the low salaries of research personnel in State Research Institutes, as well as the obsolete scientific infrastructure in these institutes. In 2004, a survey of students of the University of Latvia, Rīga Technical University and Daugavpils University was conducted in order to ascertain students' opinion on Doctorate studies and factors that impede research work and what could motivate students to pursue Doctorate studies. About 25% of the respondents expressed their intention to undertake Doctorate studies, a half of students had not thought about Doctorate studies and 17% of the students had no interest in Doctorate studies. Motivating factors listed by respondents were increased salaries (42%), opportunities for more extensive knowledge in the chosen branch of science (31%), opportunities for academic career (24%) and the high prestige of scientists in society (22%). The survey also indicated the problem of insufficient information about the Doctorate study process. 49% of the students noted that they are not informed about the organisation of Doctorate studies. Students of Daugavpils University more often than students of the capital city pointed out that a motivating factor for Doctor's degree studies would be opportunities to continue studies and find work abroad.
28. In the last three years, up to 700 Latvian students have studied abroad through the EU education programme *Socrates* (Action *Erasmus*) (in the academic year of 2004/2005 – 607 students) though demand for such studies is two times greater.
29. In 2004, in Latvia the average proportion of students completing Doctorate studies was 0.25 per 1000 population aged 20-29 compared to the EU average of 12.3 per 1000 population.³
30. Latvia's R&D potential is to be developed basically through existing and retained science institutions. These include organic chemistry, medical chemistry and genetic engineering, physics, material sciences and information technologies. These schools and their research potential are directly correlated with the above-mentioned data on scientific publications and patents in these branches of science.
31. A significant number of Latvian scientists work abroad. According to approximate calculations, they account for 1/3 of Latvia's scientific potential. There are various reasons for this flow of specialists. Most of the experienced scientists left Latvia just upon its renewed independence due to radical changes in the scientific system and the significant decrease in financial resources allocated to science (in the USSR 5% of the GDP as opposed to 0.3% in independent Latvia). Many young scientists who have just graduated Latvian universities live abroad. The main motivation for them – better work conditions and opportunities for professional growth. However, most of these students are willing to return in Latvia. This would be motivated by modern scientific infrastructure equipment and competitive salaries.
32. 45% of persons with a Doctor's degree are not actively involved in research. They work in public administration, the banking sector and business.

Funding of Science and Research

33. In 2004, the total funding of R&D amounted to 0.47% of the GDP, but in 2003 – only 0.39% of the GDP (EU average – 1.93%). In 2004, state budget funding to science was only 0.18% of the GDP but private sector investment amounted to only 0.2% of the GDP (EU average – 0.76% of GDP). In 2004, State budget funding to science and research was 21 Euro per capita while the EU average is 409 Euro per capita. In addition, the current funding system for research work does not act as a catalyst that would attract private sector investment in research.

³ Eurostat, 2005.

34. In 2003, a World Bank study indicated that the R&D area in Latvia is generally taken by foreign telecommunication operators, and all other companies finance a very small part of R&D activities, and these investments are mainly related to the direct acquisition of technologies in foreign countries.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

35. On 19 May 2005, the new *Law on Research Activities* came into force, requiring that the Government ensure an annual increase of State budget funding to science of 0.15% of the GDP until the total amount of such funding is 1% of GDP.
36. State budget funding is mainly allocated for the following activities:
- Provision of research activities,
 - Implementation of studies in response to market demands,
 - Support to participation in EU Research and Technology programmes.
37. Resources for research activities are mainly allocated through a tender procedure organised by the Latvian Council of Science aimed at supporting the implementation of fundamental and applied research projects. Every year financial aid is granted to 690 projects with a total funding of 4.8 million Lats. In 2004, the average amount of grants of the LCS was 5000-6000 lats. In natural sciences and engineering sciences minimum annual funding required for a medium-scale research project implemented by three persons would be 15000-25000 Lats. This shows a considerable shortage of resources for high-quality work, and performance of studies by Latvian scientists already so few in number.

Sectoral Policy

38. Pursuant to the *Law on Research Activities*, the priority research areas are defined once every four years. In 2006, the government has defined the priority research areas for the next four years. Definition of the priorities is based on the following considerations:
- Situation in the respective branch of economy and development perspectives in Europe and the world, as well as in Latvia,
 - Potential of the areas currently internationally developed and opportunities for further development in Latvia, as well as development opportunities in Latvia,
 - Public administration and legislative measures required for the formation of a business- and investment-friendly environment,
 - Attraction of essential public and private capital, including foreign investment,
 - Impact of economic, social and environmental factors on industrial development and vice-versa,
 - Industry's impact on the national education level and demographic situation in Latvia,
 - Availability of specialists in the industry and provision of appropriate education programmes.
39. For the period of 2006-2009 in order to sustain the fundamental and practical research the following priority research areas are defined in industries essential for the national economy:
- agrobiotechnology – innovative and environmentally friendly technologies of ration yield;
 - biomedicine and pharmacy – gene technologies and technologies of new biologically active substance syntheses;
 - power industry – ways of environmentally friendly renewable energy, energy supply safety and its effective use;
 - information science – safe programming, integrated systems and networks of information and communications, electronic technologies;

- material sciences – nanotechnology functional material output, new age composite materials,
- forest science – sustainability, new products and technologies,
- medicine science - development of clinical medicine based on practical science technologies,
- environment sciences – regional climate changes and their influence on water ecosystems and adoption; sustainable maintenance and protection of the Baltic Sea and the inland water environment;
- Lettonica – researches of the Latvian language, culture and history.

40. In 2001, the Ministry of Education and Sciences prepared the Guidelines for Higher Education, Research and Technology Development up to 2010 envisaging several measures aimed at increasing the number of Doctorate students up to 4500 students in 2010.

The Link between Science and Research, and Entrepreneurship

41. In Latvia several industry clusters can be singled out: wood processing, chemical industry (pharmacy), metallurgy, transport and logistics, information and communication technologies and others. Due to working in timber and medicine production industries Latvia participates in the Technology Platforms within the 7th FP of the EU. Cooperation in the area of information technologies and material sciences has commenced quite successfully (cooperation of the ISSP UL with the glass fibre plant of Valmiera, and cooperation of the INPS UL with *Anda Optec* and *Baltic Scientific Instruments*). Such cooperation will increase the manufacture of value-added products in Latvia.
42. A significant indicator of the quality of applied science and innovation are patents, and their quantity describes the competitiveness of technologies developed and invented in a country, the level of applied research, cross-country transfer of technologies (knowledge), relative innovation level, and openness to foreign-origin technologies, the level of industrial research and general competitiveness of the economy.
43. Every year about 100 – 150 patents are issued in Latvia but most of them are local Latvian patents having low relevance in terms of global competitiveness. According to *Eurostat* data, in 2002 the number of patents submitted from Latvia to the European Patent Office was 5.95 patents per a population of 1 million, while the EU average is 133.59 patents per 1 million. According to *Eurostat* data, no Latvian high-technology patents were registered in 2002 (in 2001 – 0.53 patents per 1 million population) while on average 26 patents per 1 million population were registered in the EU.
44. In view of the fact that Latvian scientists cannot patent their results abroad due to the high patent registration costs, in many cases results are sold to foreign partners simply as *know-how* productions or a foreign company is found which provides financial assistance in registering the invention, and consequently this company acquires all the rights of this invention. In the period of 1999-2005 in the area of medical chemistry the IOS participated in the development of 107 patents, including the development of 82 patents ordered by specific companies and which protected 47 inventions basically in the area of new medicine (mildronat and its derivatives, new medicine for treatment of cancer, medicine for cardiovascular diseases, etc.).
45. The BMC UL has developed close cooperation with *Cytos Biotechnology* (Switzerland) and *Rein Biotech* (Germany) in research on vaccines and biomodulators. Since 2001, scientists of the IP UL have been cooperating with Ferrotec-USA, a leading producer of magnetic fluids, providing services in magnetogranulometry of ferrofluids produced by the company. It should be noted that this Institute has concluded cooperation agreements with the Dutch company

Corus Research Development&Technology, German company *Schott Ag* and the Oak Ridge National Laboratory of the U.S Department of Energy.

46. In order to successfully commercialise the results of R&D activities, it is necessary to promote the development of knowledge transfer infrastructure – technology parks, technology and innovation centres, as well as business incubators. In Latvia, in comparison with other EU Member States, the knowledge transfer infrastructure is weak. Latvia has only one Technology Park and one Technology Centre (Business Incubator) – the Latvian Technology Centre but this is only achieved within the Innovation Relay Centre of the 6th EU FP. In comparison, Lithuania has 7 science/technology parks and 7 business incubators but Estonia – 3 and 7 respectively, which is also below the EU average. Until now, development of such innovation support structures has not been included in national development programmes of Latvia and as a result, Latvia has one of the lowest indicators in the EU. In 2006, the Ministry of Economy plans to support the formation of 5-7 technology transfer sports in universities and research institutes where experts will be attracted in order to promote transfer and exchange of knowledge. In total, more than 20 experts are involved in the area of technology transfer in Latvia. Apparently, this is insufficient and the number needs to become at least five times larger within the next five years. At this point the problem of preparation of technology brokers, technology auditors and technology transfer consultants in line with international experience arises.
47. In order to address the problem of science's commercialisation, particular attention should be devoted to the following issues:
- Development of infrastructure – modernisation of the existing research laboratories and/or formation of new research laboratories, support to the formation of clusters and respective infrastructures, centres of excellence, science/technology parks, technology or innovation centres, business incubators,
 - Promotion of international cooperation among Latvian enterprises, scientists, technology centres and representatives of industries and sciences in other countries (for instance, in order to ensure that Latvian scientists can work with foreign companies and vice-versa),
 - Financial support to investment from the private sector in Latvian innovation companies or in setting up a new or knowledge-oriented manufacturing plant in Latvia (for instance, support to the development of public infrastructure),
 - Financial support to setting up new knowledge-intensive companies (for example, seeds, accrual and venture capital funds, fiscal relief),
 - Development of a harmonized technology transfer system (including support to the protection of intellectual property and formation of competency centres).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

48. Main issues to be addressed:
- Insufficient quantity of workforce in science and research - decrease of the number of scientists, lack of Doctorate students,
 - Shortage of laboratories with state-of-the-art equipment for implementation of technology-oriented projects,
 - Limited opportunities and skills for commercialisation of knowledge.

2.2.Promotion of Entrepreneurship and Innovations

49. The business environment in Latvia is gradually improving which is indicated by the economic growth and increased economic activity – increase of the number of enterprises, increase of investment in fixed assets, growth of direct foreign investment (DFI). However,

Latvian enterprises will only be able to maintain the rate of economic development and create new well-paid jobs if they become competitive at the international level, involve in the innovation process, accrue knowledge and use new technologies, as well as capture a high value-added niche in the European or global markets. Assessing the available data from this viewpoint, competitiveness of the Latvian economy must be improved significantly.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Table 1: Number of enterprises, amount of fixed asset investment and direct foreign investment

	2000	2001	2002	2003	2004
Number of enterprises, unit	41992	40668	42549	45300	50070
Capital investment, mln Lats	989.2	1055.7	1204.5	1393.1	1773.3
DFI, mln Lats	250.5	82.6	156.6	167.7	377.6

Source: The Ministry of Economy

(According to amendments made in 25.08.2008. by order of CM Nr.500)

50. Factors promoting economic competitiveness are the following:

- Production factors,
- Competitiveness, business strategy and business structure,
- Demand structure and specific features of demand,
- Related and supporting industries.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

51. Market supply competition that ensures meeting the market demands is one of the most important preconditions for the development of innovations and technologies. The current competition is ineffective if the level of business activity is low and a small and static number of enterprises operate on the market. In order to promote the development of this essential market element – competition- , it is necessary to pursue a well-directed Government policy. In Latvia, competition policies are aimed at the minimisation of losses to consumers and market participants that could be incurred by possible market distortions. But they may not be limited to an indication of distortions only in the activities of market players. Increased attention should be paid to State Aid measures, including activities funded from Structural Funds, in order to prevent any possible distortions of competition at this level. When implementing State Aid activities concerning businesses in the period of 2007-2013 funded from Structural Funds, it is necessary to clearly substantiate and prove that they are aimed at elimination of the existing market gaps and that the Aid measures are commensurate with the importance of the problem in question.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

52. The following factors, analysed more detailed in the following sections, can be identified as the key problems and obstacles for economic development:

- Low business activity,
- Insufficient investment in innovations, R&D and increasing the added value; insufficient transfer of technologies and their application,
- The market does not ensure proper availability of financial resources and various financial instruments,
- The current State Aid measures are fragmented and do not provide a complex solution for increasing competitiveness,
- Weak cooperation of the private sector and public sector (need to encourage private-public partnerships),
- Shortage of highly-qualified workforce meeting the labour market requirements,
- Unbalanced business activity in regions.

Promotion of Business Activity

53. A high level of business activity is one of the preconditions essential for the growth of the economy. Similarly to the EU countries, 74.9% of Latvian enterprises are micro-sized enterprises, 20.9% are small-sized enterprises and 4.2% are medium-sized enterprises, thus, 99.3% of the enterprises are SMEs. However, Latvia has one of the lowest number of enterprises among the EU countries. The number of new enterprises changes considerably every year and in 2004 the increase was 33% or 10221 enterprises. In year 2004 the growth of the number of new enterprises decreased – 7,7% or 11009 enterprises, however in year 2006 the growth was 22,6% or 13500 enterprises. The number of SMEs per 1000 population in Latvia (20) is considerably below the EU average (about 50)⁴. Thus, the relatively high amount of emerging enterprises and the low total amount of enterprises per capita indicate that only a small proportion of new enterprises survive.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

54. Analysis of these data by gender shows that the potential of women as possible entrepreneurs is not adequately pursued in Latvia. Only ¼ of the employers in the new enterprises are women. A more active involvement of women could increase the number of active enterprises up to 30 enterprises per 1000 population.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

55. Business start-ups face insufficient knowledge needed for the successful operation of a business. Shortage of financial resources is often considered the main impediment for business start-ups. This is also true in Latvia as in most cases serious ideas on establishing an enterprise are not realised due to the fact that the financial market does not offer opportunities to attract funds to a new enterprise without a proper security.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

56. The planning period of 2004–2006 of the SF covers activities providing training on starting a business to the unemployed and socially excluded groups. The SPD for 2004-2006 has been changed in order to allow granting financial aid to business start-ups for training when starting a business and preparing a business plan. Without additional financial support, such training has low impact on the quantity of business start-ups.

57. In order to promote the establishment of new enterprises, it is necessary to take measures aimed at strengthening motivation to start a business at all levels of education, including primary education. Business start-ups should be provided with assistance starting from the moment when a person expresses an intention to establish a business up to the moment when this enterprise is able to independently compete in the market. Such assistance should include training and funding for the implementation of business start-up plans.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

58. Key problems:

- The low amount of enterprises,
- The low ratio of new enterprises able to survive,
- Insufficient knowledge of business beginners,
- Insufficient availability of funding for business start-ups.

⁴ National Development Plan 2007-2013, p. 168.

Investment in Enhancement of Productive Capacity and Development of Clusters

59. Long-term advancement of competitiveness of the economy which has been developing on the basis of country's comparative advantages requires investment and innovations. High investment dynamics has been observed in the country for several years based on the stability of the micro-economic and financial environment, as well as investment-friendly Government policies. During the last three years the investment growth rates in the Baltic States are several times higher than the average rate in other new EU Member States. These high growth rates were mainly achieved by investment in the private sector. In the period of 2000-2005 they increased by 150,3% while in the public sector the increase was 40%.
60. Both the structure of investments and the structure of exports show that currently the Latvian economy is dominated by industries with a low added value, i.e., industries based on processing of natural resources and use of low-cost labour which cannot ensure rapid growth of the economy. In 2004, work productivity in Latvia was about one sixth of the EU average. Moreover, work productivity in Latvia is lower than in all the EU Member States, and Latvia is just ahead of new member states Bulgaria and Rumania.
61. Latvia shows underperformance in attracting foreign investment when compared with other new Member States. At the end of 2004 the amount of accumulated direct foreign investment in Latvia was 2 360.8 mln Lats or 32% of GDP. There are too few so-called "greenfield" projects implemented in Latvia in which foreign investors provide the invention of modern and state-of-the-art technologies. Even in those Latvian industries that have the strongest capacity for implementation of projects, only those projects which require a relatively low-qualified workforce are successful. In order to ensure long-term development of the country's economy, it is necessary, in the process of attracting foreign investment, to further develop the infrastructure, invest in education and ensure other preconditions for foreign investment in knowledge-based and high-technology industries.
62. According to industry surveys, several industries with active cooperation or clusters can be singled out – wood processing, chemical industry (pharmaceutical industry), metal processing, transport and logistics, communications (information communication technologies), etc.
63. Mechanical engineering and metal processing create 3.2% of the economy's added value and the average development rates of the industry in 2002-2004 reached 10%. Export volumes of this industry account for about 73% of the total amount of production.
64. Wood processing is one of the biggest processing industries in Latvia and accounts for 2.8% of the economy's added value which is about 1/5 of the added value of the Latvian processing industries. During the past three years, growth of the industry has been rapid, on average 9.1% per year. The industry is characterised by a high proportion of exports – almost 70% of its production is exported.
65. The chemical industry has well-established traditions in Latvia, highly-qualified specialists, long-term experience in the production of a wide range of products both for end-consumers and resalers and a high-level research base. The chemical industry accounts for about 6% of the added value of Latvian processing industries. Exports of the industry are almost equally divided among Latvia's main export partners, which, however, first of all show the low competitiveness of the industry in markets of developed countries, for about 2/3 of exports to the EU go to Lithuania and Estonia.
66. The transport and communications industry grew by 15.4% in 2006, and together in period 2004-2006 grew by 31.22%. Upon accession to the EU, the highest increase was observed in

freight transportation, as well as in passenger transportation, including air transport services. The high growth rates in this period in the transport and communications industry were ensured by the increase in freight transportation and passenger transportation services, as well as by the development of the communication industry. In the area of freight transportation, a considerable increase was observed in the turnover of freight shipped by road transport which constituted the main growth. Meanwhile, transit cargoes are dominated by the export of raw materials from the Eastern neighbouring countries. The volumes of such cargoes may decrease due to Russian transport policies. Thus, it is necessary to foster the invention of new and modern logistics solutions, as well as the provision of new services to new market participants within international logistics chains. This means that it is necessary to promote private investment in freight transportation logistics and the formation of goods' distribution centres.

67. Formation of clusters ensures more rapid improvement of the economy's competitiveness. Therefore, aid instruments specified in the previous sections require not only horizontal development but also vertical development, in order to attain the best-targeted aid aimed at solving the problems faced by the most important clusters.
68. A significant problem in Latvia is the considerable regional disparities in terms of business activity and employment. In order to encourage economic activities in the underdeveloped regions, it is necessary to improve the business environment and public infrastructure. In the period of 1999-2004, the number of economically active enterprises in the Rīga region has increased by 11 enterprises per 1000 population, but in the other four regions the increase is considerably lower (by 2-2.5 enterprises in every region). In the Kurzeme Planning Region, the increase was only 2.4 enterprises per 1000 population, in the Vidzeme Planning Region – 2.0, in the Zemgale Planning Region – 1.8 but in the Latgale Planning Region – 1.6. According to the CSB, in 2003, the number of economically active enterprises in Latvia amounted to 45300, including 45014 enterprises (or 99.4%) with less than 249 employees but the enterprises with 250-289 employees accounted for 0.6%. In Latvia, a high concentration of business is observed in the main development centres of national importance but in the rest of Latvia's territory, the rate of business development is considerably slower creating gaps between the biggest cities and the rest of the country. 70.4% of the SMEs are located in the main cities and 79.6% of them – in Rīga. Similarly, 77.6% of the big enterprises are also located in the main cities and 76.1% of them – in the capital city.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

69. In the planning period of 2004-2006 of SF funding was allocated to activities related to the modernisation of business infrastructure (introduction of standards, connections and formation of laboratories). Grants were awarded to consultation services and continuing education of employees, as well as to individual businesses which significantly increased the respective bureaucratic procedures faced by entrepreneurs when applying for funding and which often reduced the level of their activity in applying for State Aid. The Aid instruments for the planning period of 2007-2013 should be formed as combined Aid instrument portfolios.
70. In order to promote competitiveness of enterprises, it is necessary to further provide assistance in training of employees by elaborating the grant scheme for the planning period of 2004-2006 of the SF and providing industry-specific training courses, development of new technologies and their transfer both into the high-technology industries and into the promising Latvian industries of low-level and medium-level technologies. It is important to foster the development of industries with a low intensity of natural resources consumed which are based on intellectual property (a comment – according to the WIPO study on Latvia in 2004, the main copyright areas in Latvia are: radio and television, software and databases, advertising services, publishing works – periodicals and literature, movies and video, music industry,

photography art, visual and graphical works accounting for 4% of Latvia's GDP in 2000 and employing 4.4% of the total employment though in the developed counties these industries account for about 8% of GDP).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

71. Key problems:

- The low activity of enterprises in industries with high added value and relatively low intensity of labour and natural resources consumed,
- Insufficient application of new technologies in various areas of business with special emphasis on the technologies with the biggest share in GDP structure.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Innovations

72. A key factor in a knowledge-based economy is the development of innovations in all industries of the economy. A high-quality and fast process of knowledge acquisition, accumulation and application has become the main competitive factor and source of added value for countries, regions and businesses. The European Commission has published the European Innovation Scoreboard 2004 which examines progress of the EU Member States in the implementation of innovation policies. The third lowest ratio (index) among the EU Member States indicates that currently Latvia's national innovation system is weak and considerably performs under the EU average. The index comprises 20 indicators that describe the development of human resources, the processes of creating and introducing new knowledge, as well as the provision of necessary funding. According to the Innovation Survey in Latvia, conducted by the Central Statistical Bureau in 2004, on average about 18.6% of enterprises are innovative while in the EU countries the average proportion is 45%.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

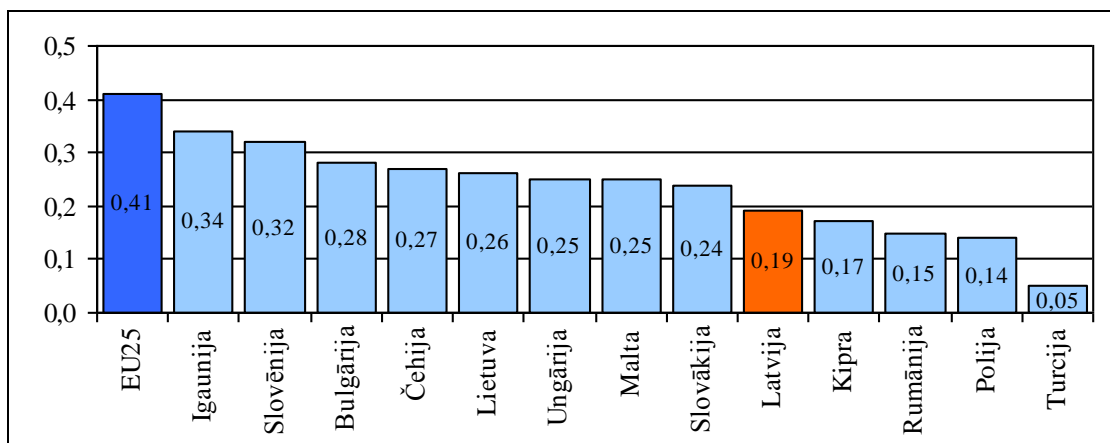


Figure 2: Innovation index of 2004 of the new EU Member States and candidate countries

Source: European Commission, European Innovation Scoreboard 2004

73. Analysis of the CSB Innovations Survey, which describes the structure of business expenditures on innovations, shows that 64% of expenditures on innovations are invested in acquisition of new machinery and equipment and only 12% - in research and development works. These statistics also show that the private sector in Latvia finances only 1/5 of R&D activities while, on average in the EU, business investment in research, accounts for more than a half of all Government expenditure in this area. It could be assumed that the level of business investment in R&D is satisfactory in respect of the GDP of Latvia. However, the in

its study of 2003, the World Bank points out the fact that R&D activities in Latvia are only performed in some pharmaceutical companies and ICT companies (mainly with foreign-origin capital) but all other enterprises finance a very small part of R&D and these investments are generally aimed at the transfer of technologies from abroad.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

74. Such a situation could be explained by a lack of bilateral dialogue between the local private sector and research sector. No cooperation improvement has been observed during recent years. As a result, the Latvian research sector has not been supported by local demand and the private sector is unaware of the potential of R&D solutions and respective opportunities.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

75. Increased funding of R&D will not have significant impact on the development of the economy if changes in R&D funding amounts are not accompanied by changes in the funding structure and procedures for granting such funding. In Latvia only 0.8% of the employees are engaged in R&D and about 60% of them work in the higher education sector and about 13% - in the private sector. In the EU the proportion of the employees working in research is above 1.4% and almost a half of them are employed in business and about 40% - in the higher education sector. In order to promote invention and development of innovations, it is necessary to intensify cooperation among the education, research, production sector and private sector funding to R&D, as well as to expand R&D activities in private enterprises.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

76. The quantity of national patents is small (every year about 100-150 patents are issued) and their significance in terms of international competitiveness is not high. The European-level patents are much more significant but their quantity per population of 1 million in Latvia is considerably lower than in countries with a high level of innovations – the quantity in Latvia is 50 times less than in Finland and Sweden. On average, Latvia has 0.4 EPO patents per 1 million population every year while Finland – more than 200 such patents.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

77. A survey of Latvian innovations indicates that the organisational capacity of enterprises is an essential prerequisite for creative processes in companies. In addition, enterprises with intensive foreign or international contacts engage in the innovation process more frequently. It is necessary to take measures to assist enterprises in enhancing their management structures and develop wider international contacts. Impediments for the development of innovations at enterprises are a lack of the awareness of the role of innovations in business development and ensuring their competitiveness and insufficient availability of financial resources, in particular with regard to seed capital and venture capital.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

78. In view of the objective factors – the size of the Latvian economy and amount of R&D, it is also essential for Latvian enterprises to use knowledge created abroad. Undeveloped capacity for the transfer of knowledge and technologies will reduce the ability of Latvian enterprises to compete on the local and international markets. Currently, this capacity of Latvian enterprises is limited. Even by the simplest ratio of the use of technologies – of knowledge licensed abroad, Latvia's position is at the bottom of the list among the EU Member States.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

79. In order to ensure the development of the Latvian innovation system, it is first necessary to promote a general awareness of the role of innovations in the development of the national economy and human resources development, for instance, by supporting training in the commercialisation of technologies. It is also necessary to support the formation of mentor networks, as well as the formation of business angels networks, as in both cases the

commercialisation process could involve the attraction of both resources and practical business expertise from people who have performed commercialisation of similar new brand-new products or technologies. It is necessary to increase investment of the public sector and private sector in R&D, as well as to foster closer cooperation, first, among local enterprises and Latvia's R&D potential, second, among local enterprises and the international technology market, and, third, among SMEs and dynamic large enterprises in Latvia and abroad. Strengthening of contacts is required in all the above areas.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

80. Aid measures should promote the transfer of knowledge and technologies in production:

- By forming centres of knowledge transfer/commercialisation that would promote cooperation between researchers and businesses, including joint applied research by businesses and researchers and product development projects,
- By developing and implementing support programmes for technology incubators and research and technology parks that would promote the formation and development of new, competitive and innovative enterprises in the production and service industries with high technologies and medium-level technologies by providing infrastructure and funding (seed capital, venture capital),
- By developing and implementing an innovation business incubator for the preparation of programmes for business start-ups and promotion of entrepreneurship in regions.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

81. Further support is needed for enterprises developing and transferring new products and technologies by elaborating the grant scheme under the SF planning period for 2004-2006 and by ensuring support at earlier development stages. It is necessary to encourage cooperation of Latvian enterprises with educational establishments, to promote industry-related Doctorate theses, as well as encourage the cooperation of enterprises with students of natural sciences and engineering sciences.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

82. Key problems:

- Low number of innovative enterprises,
- Low R&D funding (public and private),
- Insufficient number of employees working in the R&D area,
- Research is not business-oriented, research is not stimulated by local demand,
- Insufficient participation of enterprises in international technology transfer projects,
- Low activity in the area of transfer of technologies.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Capturing External Markets

83. The objective of the Latvian external trade policy is the promotion of Latvia's competitiveness on foreign markets and the growth of exports. Increasing export capacity is highly important for Latvia considering its relatively small internal market and open economy. Surveys of those companies exporting their production indicated that the obstacles for the development of exports are the lack of information on export markets, insufficient business assets, insufficient export guarantees, the shortage of a highly-qualified workforce and high marketing costs.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

84. It is necessary to provide aid measures aimed at the active promotion of international competitiveness of Latvian enterprises, capturing new markets and strengthening positions in current markets.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

85. Promotion of business competitiveness is set as a priority by fostering external markets that involve interrelated aid solutions with the following elements:

- Support to the participation of Latvian enterprises in international exhibitions and fairs, promotion of products to foreign markets, realisation of marketing activities and market research and their purchase,
- Professional education and training programmes specifically focused on enhancing export capacity.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

86. Key problems:

- Shortage of highly-qualified production workforce significantly impeding more rapid growth of export volumes, shortage of highly-qualified marketing specialists in enterprises,
- The main proportion of enterprises (or at least the main part of their production) is oriented to the EU internal market, the number of activities in non-EU markets is low,
- Insufficient funding, understanding and motivation of Latvian enterprises in order to commence export.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Availability of Funding

87. The availability of financial resources is a favourable impetus for a country's development as it opens more opportunities for increasing efficiency and competitiveness through investment and restructuring of the economy, thus, ensuring more rapid growth without distorting competition by market mechanisms. In the period of 2000-2003 the annual weighted average rate in Lats for long-term loans to domestic private enterprises decreased from 10.3% to 7.5%, till 2006 increasing to 10,6%, but at the end of 2003 the balance of long-term loans to domestic private enterprises exceeded 2.9 times the balance at the end of 2000, and it increased by 25.6% in 2003. Although in 2004 the annual weighted average rate in Lats for long-term loans was 9.2%, i.e., almost by 2 percentage points higher than in 2003, in view of a higher inflation level, the actual rates were lower than in 2003 and at the end of 2004 the balance of long-term loans to domestic private enterprises increased by 36%.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

88. Although recently opportunities for acquisition of external funding have increased significantly, availability of asset and capital funding is a serious obstacle for increasing business activity and the competitiveness of small- and medium-sized enterprises, as well as of business start-ups, in particular with regard to innovative and fast-growing companies. The problems of availability of external funding are especially considerable outside Rīga. The company survey of the Latvian market and public opinion research centre *SKDS* „Environment of Small- and Medium-sized Entrepreneurship in Latvia” shows that a significant obstacle for the development of SMEs is the complicated acquisition of funding. Three of the seven most important problems identified by entrepreneurs concerning availability of funding to SMEs are the shortage of business assets (27% of all respondents), lack of seed capital (23%) and insufficient investment finances (20%). Acquisition of funding is especially complicated for business start-ups – it is complicated for them to meet the

requirements set by banks (due to insufficient base security, short credit histories or low credit rating).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

89. Funding of venture capital is also important for the development of fast-growing and innovative companies for which loans of commercial banks are often not available. Without a well-developed modern financial market in which funding from commercial banks complements financing of various venture capital, it will not be possible to successfully solve the above-mentioned problems concerning the development of a successful innovation system, transfer of technologies, productivity and increasing exports.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

90. Though several venture capital funds are operating in Latvia, they cover only the Baltic States, and in terms of the quantity and amount of investment, Latvia underperforms Lithuania and Estonia. Therefore it is necessary to ensure state assistance to the development of the Latvian financial market that would provide businesses various financing instruments and seed capital to business start-ups, fast-growing and innovative companies.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

91. Activities concerning the development of venture capital in Latvia and granting of guarantees and credits have been started in the planning period of 2004-2006 of the SF. It is necessary to enhance these activities in the planning period of 2007-2013 by envisaging more extensive development of venture capital instruments that would suit various business needs for funding.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

92. In order to promote availability of funding, it is necessary to encourage venture capital investments of private investors in enterprises, inter alia, by implementing aid measures for the creation of the so-called 'business angels' network. High-risk projects should be funded through venture capital and credits (e.g. mezzanine loans, etc.). It is necessary to promote development of credit guarantee system and access to unsecured loans to business start-ups, as well as to facilitate access to other type of funding for business development.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

93. Key problems:

- Insufficient availability of financial resources to business start-ups,
- Insufficient collaterals,
- Short credit history,
- Shortage of venture capital and similar financial instruments.

2.3.Balanced Territorial Development

94. The territory of Latvia is divided into five planning regions: Kurzeme Region, Latgale Region, Rīga Region, Vidzeme Region and Zemgale Region. At the end of 2006 there were, in total, 553 Local Governments in Latvia: 527 Local Governments (7 cities and 53 towns, 432 rural municipalities, 26 amalgamated municipalities) and 26 District Local Governments

95. There are approximately 74 000 populated areas in the populated areas network of Latvia. According to legislation, populated areas are divided into cities/towns and rural populated areas (homesteads, villages). At the beginning of 2006 there were 77 cities/towns in Latvia that were divided into separate administrative territories (7 cities and 53 towns, of which 20 are district centres and 19 are towns with rural territories) and amalgamated municipal

territorial units (17 towns of amalgamated municipalities). At the beginning of 2004 there were 453 rural Local Government territories in Latvia (including 441 rural municipalities and 12 amalgamated municipalities that do not comprise urban territories).

96. The Regional Development Law (in effect as of 23 April 2002) sets forth the objective of regional development – to promote and ensure balanced and sustainable national development considering the specifics and opportunities of the country as a whole and its separate areas, reducing disparities between various areas, and preserving and facilitating the characteristic natural and cultural heritage features and development potential of each area. Due to geographical location, cultural, historical and economic traditions, different areas may pursue different development models taking full advantage of their features or potential characteristic of the particular location. Failure to harness the above potential to the full extent has resulted in unfavourable socio-economic disparities between different regions that at the same time hamper the competitiveness of Latvia in the European Union.
97. According to CSB data, the Rīga Planning Region is the most advanced according to the social and economic development due to the influence of the capital city, Rīga. Of the total GDP, 85% is accounted for by the Rīga Planning Region.⁵

Table 2: Ratio of Social and Economic Indicators of Planning Region to Average National Indicators (the National Average – 100%)

Social and economic indicators	Kurzeme Planning Region	Latgale Planning Region	Rīga Planning Region	Vidzeme Planning Region	Zemgale Planning Region
GDP per capita in LVL 2004.	88.41	46.46	142.96	59.61	51.71
Non-financial investments per capita LVL 2005.	96.80	47.60	135.30	67.90	66.90
Level of demographic load 2005.	104.55	102.29	95.70	109.09	101.34
Number of economically active companies per 1000 inhabitants 2005.	67.60	102.00	147.40	62.00	52.80
Unemployment rate in % 2005.	110.40	198.00	63.40	105.30	103.20

Source: State Regional Development Agency (SRDA)

(According to amendments made in 25.08.2008. by order of CM Nr.500)

98. One of the key complex indicators of economic development of regions is the gross domestic product (GDP). The GDP is the total value of all goods and services produced within a country in a year. In 2000 the GDP per capita in Rīga Planning Region was 2.9 times higher than in Latgale Planning Region, in 2002 – 3.0 times, in 2003 – 2.7 times but in 2004 – 3.1 times.
99. In 2004 the average amount of non-financial investments was 880.00 LVL per capita. In Rīga Planning Region this indicator (1190.00 LVL) exceeded the average national level but in the other four regions it was considerably below the average. The lowest amount of non-financial

⁵ 76% of all the non-financial investments and 82% of the region's economically active enterprises and companies are concentrated in Rīga. 72% of the personal income tax in the Rīga region is paid by the residents of the Rīga City.

investments per capita was registered in Latgale Planning Region which was 2.3 times below the average and 3.1 times below Rīga Planning Region.

100. Though in the period of 1999-2004 the amounts of non-financial investments increased in all the planning regions, regional disparities had still remained. Insufficient financial capacities have impeded structurally and regionally efficient economic and social development of the country. Special attention should be paid to a regionally-oriented financial investment policy aimed at promoting opportunities for balanced development of every region and at exploiting the specific development.
101. Business activity in Latvia is still insufficient. In Latvia in the period of 1999-2004 the number of economically active enterprises and commercial companies had increased by 13.8 thousand entities or by 36.7%. In Rīga Planning Region this increase amounted to 49.7% but in other regions – 11-16% (in Zemgale Region – 15.8%, Kurzeme Region – 14.7%, Vidzeme Region – 12.0% and in Latgale Region – 11.3%).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

102. The proportions of economically active enterprises and business activity in the total number of companies in various planning regions are very different. In 2004 in Rīga Region the proportion was 70.2% of the total number of enterprises and commercial companies, in Kurzeme Region – 9.1%, Latgala Region – 7.5%, Vidzeme Region and Zemgale Region – 6.6%. In 2004, in comparison with 1999, the proportion of enterprises of Rīga Region in the total number of companies in the country increased by 6.1% but in each of all the other four regions – decreased by 1-2%.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

103. Analysis of changes in the unemployment level showed that at the beginning of 2005 the unemployment was reduced in all the regions when compared with the beginning of 2000. When compared with 2004, the unemployment level had increased only in Rīga Region by 0.1 percent point; in Latgale Region the level remained unchanged but in Vidzeme Region, Kurzeme Region and Zemgale Region it slightly decreased by 0.1-0.5 percent points.
104. During the period of six years the highest unemployment level among the planning regions remained in Latgale Region. Regional disparities during the above period had even increased: at the beginning of 2000 the unemployment level in Latgale Region was 2.9 above the indicator in Rīga Region but at the beginning of 2005 – even 3.1 times higher.
105. Regional disparities are considerable, and they are constituted by various factors, including GDP per capita, unemployment levels, amounts of personal income tax and other indicators included in the development index parameters. Disparities in social and economic development of the planning regions have slightly increased during the period of six years. The relation between the development index of Rīga Planning Region and the lowest indicator, the development index of Latgale Planning Region, was 2.690 in 1999, and 2.833 in 2002, and 2.982 in 2004.
106. According to the economic development level, disparities among the planning regions have increased in all indicators in the period of 1999-2004. The most outstanding region is Rīga Planning Region. Its development is mainly promoted by the capital city, Rīga.
107. Rīgas city also leads in economic development at the national level, which is partially determined by the high concentration of population in the capital: 31.7% of the population of Latvia lived in Rīga at the beginning of 2004. Due to the concentration of economic activities in Rīga and its vicinity, the development of a monocentric settlement structure is facilitated.

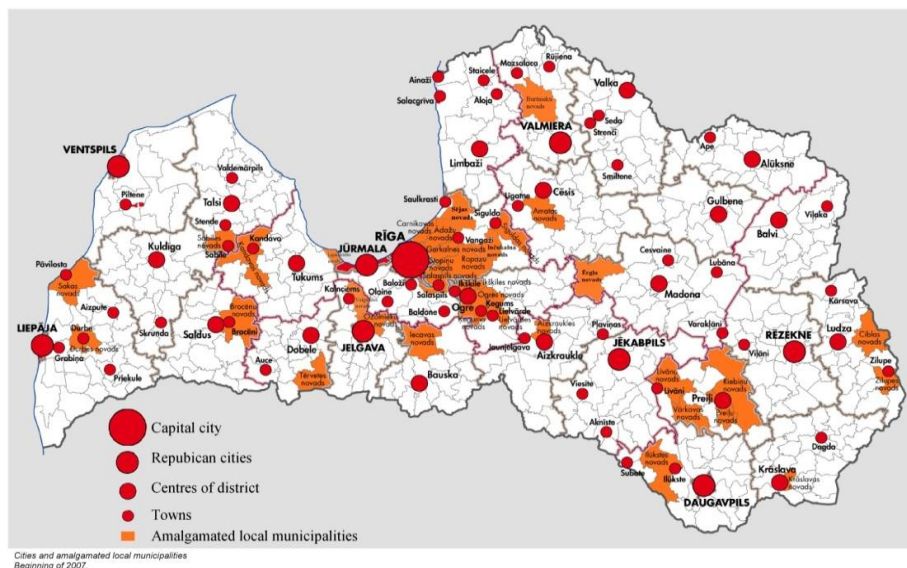


Figure 3: Cities and Amalgamated Municipalities of Latvia

Source: Data of MRDLG at the beginning of 2007

108. Balanced and sustainable development of the State and its specific territories can be reached by facilitating polycentric development. Polycentric development is based on the exploitation of the economic and social potential of development centres, as well as its increase with the aim of establishing a network of development driving forces in the region. A development centre is a populated area, where resources (including human resources), social and economic activities, and services are concentrated facilitating the development of the surrounding territory. A network of development centres is established by differentiation of the above centres according to their significance in the regional/national population system and specialising in particular economic activities, as well as the activation of mutual cooperation and amalgamation of the surrounding rural territories around itself.⁶ Taking into consideration the above, the capital of Latvia – Rīga - can be assessed as a development centre of international significance, whose development is important in strengthening the competitiveness of Latvia on an international level. The cities (excluding Rīga) and towns are at the level of development centres of national and regional significance. Towns, amalgamated municipalities, rural municipalities and villages, in turn, are at the level of development centres of amalgamated municipality and local significance.
109. When analysing of the development potential of planning regions, it was concluded that the Kurzeme Planning Region is crossed by major transport corridors – motorways and railways, as well as main natural gas and oil pipelines. There are vigorous and evenly distribute towns in the region that are linked by a territorially developed motorway network. However, due to the relatively long distances between the development centres, the quality of road infrastructure connecting them must be significantly improved. Liepāja and Ventspils can be regarded as the most significant development centres of the Region, while Kuldīga, Talsi and Saldus could become significant development centres in the future. As Kurzeme is a coastal region, its small and large ports are to become complex development centres of entrepreneurship. The development potential of the region is facilitated by the infrastructure of large and small ports, fishing, fish farming and fish processing, as well as the manufacturing industry, information technologies, tourism, limestone and clay deposits that ensure favourable preconditions for the production of construction materials.

⁶ *Latvian National Development Plan 2007-2013*

110. In the Latgale Planning Region good transportation routes have developed with large centres in the neighbouring countries. As Latgale is crossed by such major transport corridors as the main national highways and railways, main natural gas and oil pipelines, good linkage and transport opportunities in the directions West – East and North – South are ensured. The economic activity of the region is concentrated in Rēzekne and Daugavpils. Towns, such as Krāslava, Balvi, Ludza, Preiļi and Līvāni could transform into new development centres of the region. The development potential of the region is the traditions of industrial production and crafts, low production cost and preserved machine building industry. The climatic conditions of the Latgale Planning Region create preconditions for the development of specialised agriculture. The ecologically clean environment, in turn, and varied natural resources, facilitate the development of tourism, including ecclesiastical tourism.
111. The advantage of the Rīga Planning Region is its convenient geographic location both in comparison with other planning regions and internationally. The Rīga Region is a significant transport hub at a national and international level facilitating the development of logistics centres. The systems of links and communication in the Rīga Region comply with modern requirements, and information technologies are widely used. The Rīga Planning Region stands out among other regions with the concentration of population, services and manufacturing, ensured by the influence of Rīga as a significant development centre. In order to ensure balanced development of the region, it is essential to strengthen the social and economic activity of the following development centres: Tukums, Limbaži, Ogre, Jūrmala, Olaine and Sigulda. The region is characterised by high potential of science and technology: such highly qualified specialists as scientists, engineers, technicians, workers and managers are concentrated in the region and work in particular knowledge intensive and high technology sectors – software engineering, machine building, pharmacology, biotechnology. The Rīga Region attracts qualified workforce from other regions of Latvia as well. In the future, the Rīga Planning Region will have a leading role in the orientation of the development of the national economy towards a knowledge-based production (information and communication technologies, biotechnologies, pharmacology, ecologically clean food and deep wood processing) and services with high added value (transit, tourism, financial services, business management, distribution of goods and services). In the future, the Rīga Planning Region will have a major role in the promotion of international competitiveness of Latvia.
112. The Vidzeme Planning Region is crossed by major national motorways and railways, as well as the main natural gas pipeline. The territory is crossed by highways of international significance linking the region with the Republic of Estonia and the Russian Federation. Thus, support to the transit infrastructure could promote entrepreneurial activity. There are several economically active towns in the region: Valmiera, Cēsis, Alūksne, Gulbene, as well as Smiltene, that all together form a basis for a balanced, polycentric settlement structure. Valmiera is presently developing rapidly and could strengthen to become a powerful centre of economic development in the future. The potential of the region is facilitated by agricultural traditions, well-developed processing of agricultural products and food processing, as well as tourism infrastructure and tourism objects – an almost unchanged natural environment and the Gauja National Park.
113. The Zemgale Planning Region is crossed by major transport corridors that provide a gateway from the West to East (Rīga – Moscow) and from north to south (VIA Baltica). At the same time, one must note the poor condition of the road and bridge infrastructure, hampering the development of transport and populated areas. Jelgava and Jēkabpils can be regarded as economic and social development centres of the region. Bauska, Aizkraukle and Dobele also have significant development potential that ensures the preconditions for polycentric development based on the existing district towns and small towns. The scientific and research

potential of the Agricultural University of Latvia, the vicinity of Rīga, the richest agricultural land in Latvia and high industrial production form the development potential of the region.

114. In the network of development centres, it is important to develop cities that at both the level of the European Union and nationally (Member States) are acknowledged to be significant driving forces ensuring balanced territorial development (Cohesion Policy), as well as largely contributing to achievement of growth and employment objectives (Lisbon Strategy). At the same time it is important to ensure the development of rural territories in the network of development centres because these territories concentrate resources (human resources, production resources, natural resources, etc.) that facilitate the growth of cities.
115. Latvia is characterised by a high level of urbanisation, i.e. the population is concentrated in cities (in January the rural population in the Rīga Region accounted for 48% of the total population of the region, in the Vidzeme Region – 42.1%, in the Kurzeme Region – 62.1, in the Latgale Region 57.6%, whilst in the Zemgale Region – 47.8%). However, in some cities and planning regions of Latvia, negative social and economic development trends can be observed hampering polycentric development opportunities. One of the major indicators of economic activities characterising the disparities between cities/towns is the budget income of urban Local Governments. For example: in 2005, the budget income of 7 urban Local Governments (Rīga, Daugavpils, Liepāja, Jelgava, Rēzekne, Ventspils, Jūrmala) accounted for 54% of the total Local Government budget income⁷. In 2004, 7 towns (Rīga, Daugavpils, Liepāja, Jelgava, Rēzekne, Ventspils, Jūrmala) together accounted for 73%⁸ of the GDP of Latvia.
116. Disparity in the unemployment rates in cities with the highest and the lowest rate during a five year period has been considerable, with the trend to increase; at the beginning of 2000 – 9.2 times, but at the beginning of 2004 – 12.6 times. The biggest differences and changes during five years according to the proportion of personal income tax, can be observed in the group of small and average towns according to the number of inhabitants. In general, a correlation between the number of inhabitants and the value of the development index⁹ can be observed. The average development index with the highest negative value is found in groups of towns with the lowest number of inhabitants.
117. Rural territory accounts for 89% of the total territory of the country, however, only 32% of the total population lives in rural areas. Structural changes in rural economy, especially in agriculture, can be observed in rural areas. The proportion of agriculture in the GDP is low (4% in 2004). In rural areas, as in the country in total, the level of entrepreneurial activity is low. Entrepreneurship is developed in such sectors as trade, transport services, agro-service, processing, wood-processing and crafts, as well as rural tourism. Non-traditional agricultural and non-agricultural entrepreneurial activities are undeveloped. Food and wood processing companies, being the most significant and economically strongest companies in rural areas, are the major investors and creators of new jobs.
118. At the beginning of 2004, the unemployment rate in the rural municipalities of Latvia accounted for 8.0% in average, which was by 0.9 percent lower than at the beginning of 2000 (8.9%), and 0.6 percent higher than at the beginning of 2003 (7.4%). The average unemployment rate in the rural municipalities of Latvia in the period 2000-2003 was by 1.5-1.8 percent higher than the unemployment rate in towns.

⁷ *Programme for Latvian Cities. Strategies for the Economic Development of Cities „A Quick Audit of Local Government Data”, The World Bank, Regional Studies Centre Ltd, 2004.*

⁸ *Latvia's Regions in Figures. CSB . Rīga, 2004.*

⁹ *The population in 12 Latvian towns is below 2 thousand, in 19 towns it is 2-4 thousand, in 15 towns – 4-8 thousand, in 18 towns – 8-16 thousand, in 6 towns – 16-32 thousand, in 3 cities – 32-64 thousand and in Rīga – 700 thousand.*

119. The low level of income, as well as lack of financial capital and economic experience, have influenced migration of economically most active inhabitants from rural to urban areas and abroad. The above facilitates the development of sparsely-populated territories affecting the total development of rural territories¹⁰. The migration of inhabitants from rural to urban areas creates the need for access to additional services in cities/towns (job, place of residence, transport, etc.), as well as for support for renovation and development of wornout infrastructure.
120. The aim of a polycentric country is to ensure the economic and social activity of its population, as well as the availability of services in all regions of Latvia at a distance acceptable to each inhabitant, implementing the scenario of balanced development providing for balanced development of the different areas of the country, accounting for their specifics and opportunities, and preserving their characteristic features. In order to implement the balanced development scenario in Latvia, it is necessary for the overall national policy to aim towards an increase of economic and social potential of the development centres. This can be accomplished by the implementation of measures aimed at the preservation of human resources, promotion of economic activity and the provision of availability and accessibility of varied services that, in turn, would provide for the attractiveness of the populated area and its standard of living.
121. Availability of services is determined by several factors:
- sufficient capacity of human resources;
 - infrastructure necessary for the organisation of provision of services,
 - distance to service centres requiring optimum and arranged networks of roads and developed public transport,
 - access to services without leaving the place of residence (e-services);
 - cost of receiving services.
122. Additional factors facilitating the attractiveness of a residential area and the standard of living are the following:
- favourable preconditions for entrepreneurship;
 - entertainment and recreation opportunities;
 - well-organised system of housing;
 - well-organised culture infrastructure, availability and good quality of culture services;
 - education opportunities, including preschool education establishments.
123. In order to ensure support opportunities for the growth of all areas of the country, facilitating attractiveness of residential areas and an increase in the standard of living, it is necessary to provide for a mutually complementing set of support instruments that would ensure mutual coordination of regional and sectoral policies. The instruments provided should be differentiated by territories and prioritised by themes.
124. The analysis of the statistical data according to the levels of development centres shows that development centres of national and regional significance are characterised by a high concentration of inhabitants (62% of all inhabitants), a concentration of higher education establishments (100%) and a lower demographic load (~545). For comparison: in development centres of amalgamated municipality significance, the demographic load accounts for ~655. Only in the development centres of national significance does the

¹⁰ In the period of 2000-2004, the changes in the proportion of urban and rural population differed by region. In the Rīga region, the proportion of the urban population decreased by 0.9%, in the Latgale region – by 0.1% but in the Vidzeme region its urban population increased by 0.6%, in the Zemgale region – by 0.5% and in the Kurzeme region – by 0.2%..

proportion of economically active enterprises account for ~65%. Also the number of employees having principal work is high in these centres (67% of all persons employed in principal work). Based on the data analysis, it can be concluded that in the development centres of national and regional significance, the emphasis should be put on support activities aimed at increasing the economic competitiveness nationally (for example: promotion of science development, knowledge-based economy, intellectualisation of economy, technological excellence, development of road infrastructure linking development centres, increase in qualification of the employed, etc.).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

125. Taking into consideration the fact that the concentration of inhabitants, entrepreneurial activity and availability of public services in the development centres of amalgamated municipality and local significance is lower in comparison with the development centres of national and regional significance and migration indicators are higher, it is essential to put the emphasis on support activities aimed at the creation of an attractive living environment and preconditions for economic development in development centres of amalgamated municipality and local significance (for example: facilitating favourable preconditions for entrepreneurial development, ensuring availability of different services, including social care and rehabilitation, ensuring entertainment and recreation opportunities, ensuring availability of quality housing, promoting activities that would decrease unemployment, etc.).
126. Main problems to be solved:
 - increasing socio-economic disparities between the capital Rīga and the remaining territory of Latvia;
 - negative socio-economic development trends in cities hampering polycentric development opportunities;
 - monocentric development of the country;
 - insufficient development of the structure of development centres, where development centres of national significance and development centres of regional, amalgamated municipality and local significance are equally important, thus facilitating the polycentric development of the country;
 - inability of development centres to ensure adequate level of services to entrepreneurs and inhabitants, as well as their insufficient attractiveness to investors;
 - lack of human resources and its low capacity;
 - low entrepreneurial activity in regions and underdeveloped infrastructure, information and communications technologies including;
 - weak coordination of activities of state and municipal institutions;
 - weak cooperation of state and municipal institutions, entrepreneurs and educational establishments.

2.4. International Competitiveness of Rīga

127. At present Rīga is already the centre of political, economic and cultural life of Latvia, as well as the central metropolis of the Baltic States region, but its role in the context of wider regions, for example: the Baltic Sea Countries or the European Union, is significantly less. Although Rīga has several key preconditions for becoming a metropolis in a broader geographical context, for example: advantageous geographical location between the East and the West and the most important centre of transport, communications, economic activities and culture in the Baltic States, there is a need for purposeful investment that would strengthen Rīga as a socio-economic and cultural centre, thus developing it as the metropolis of business transactions, science and cultural excellence in the broader region. Currently Rīga is already

the driving force of the Latvian economy, thus strengthening its international competitiveness will make a significant contribution to the socio-economic development of Latvia as a whole in the future, facilitating creation of a larger tax basis to be used for decreasing socio-economic disparities in regions.

128. The National Development Plan 2007-2013 sets forth that promotion of Rīga as the centre of business transactions, science and cultural excellence in Europe and the Baltic Sea region is essential for the strengthening of Latvia's global competitiveness. Further transfer of excellence, potential and resources created in Rīga to other regions of Latvia is a key precondition for balanced development and improved standard of living.
129. Strengthening of the international competitiveness of Rīga includes two mutually interlinked directions of development:
 - The development of Rīga as a metropolis of the Baltic Sea region;
 - The development of Rīga as one of the most powerful capitals of the EU.
130. Currently the position of Rīga in comparison to such metropolis of the Baltic Sea region as Stockholm and Copenhagen, is characterised by the following indicators.
131. The geographic advantage of Rīga as well as Stockholm and Copenhagen is their location on the Baltic Sea. Although Copenhagen is closer to the political and geographical centre, and to the largest metropolis of Europe, the advantage of Rīga is its location at the cross point of the East-West and South-North transit corridors. But due to development of transport technologies, Rīga may lose its geographic advantages.
132. At the beginning of 2005, the number of inhabitants in Rīga accounted for 731 762, that is 31.7% of the total population of Latvia. The average number of inhabitants in other capitals and large cities of the EU is much higher, but among metropolis and regional centres there are such capitals of the Baltic Sea Countries, such as Copenhagen with 500 000 inhabitants and Stockholm with 750 000 inhabitants. However, such a high concentration of population in one city is not characteristic to other large cities of the European Union.
133. The total area of Rīga accounts for 307 km², which is larger than Copenhagen (88 km²) and Stockholm (216 km²).
134. The population density in Rīga is one of the lowest among the largest cities of the Baltic Sea region (in 2004 the population density in Rīga was 2845 persons per km², in Stockholm – 4048, but in Copenhagen – 5871). But in the Rīga City the natural land-surface territory and natural surface water systems account for 16 652 ha or 54.2%, which creates an ecologically clean environment and advantages for inhabitants.
135. In 2004, the unemployment rate in Rīga accounted for 3.4%. Comparatively, at the same time it was 7.1% in Copenhagen and 4% in Stockholm.
136. The majority of employed, work in the trade sector (in 2004 18.8% of the total number of the employed), the second largest number of inhabitants is employed in industry (in 2004 18.3% of the total number of the employed). In Stockholm and Copenhagen, respectively, the majority of employed (almost 50%) work in sectors such as financial transactions and real estate (20 – 24%), trade, transport and communications (20-23%).
137. The number of companies per 1000 inhabitants in Rīga is almost 40, which amounts to the average number in the EU, including among the states of the Baltic Sea region. Besides, 56% (data of 2003) of all companies registered in the country are registered in Rīga, which is the highest rate among the states of the Baltic Sea region.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

138. The port of Rīga is the fourth largest port on the eastern coast of the Baltic Sea with regard to cargo turnover. Cargo turnover has the trend to increase reaching almost 25 000 000 tons in 2004. However, the port of Rīga shows one of the lowest indicators among the cities of the Baltic Sea region concerning passenger traffic.
139. Rīga Airport is the largest airport among the Baltic States, according to the number of passengers served. The number of passengers served at the Rīga International Airport accounted for 1 878 000 in 2005, but for 17 000 000 at the Arlanda Airport in Stockholm in 2004 and for 20 000 000 in the Kastrup Airport in Copenhagen.
140. The majority of foreign investment made in Latvia is concentrated in Rīga and at the beginning of 2005, investments in the share capital of companies registered in Rīga reached almost 1 billion lats and the above investments were made by more than 12 thousand investors from various countries.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

141. Rīga is the most often visited place in Latvia by foreign tourists. In 2004 Rīga was visited by 50% of all visitors. In 2004 in comparison with the year 2000, the number of tourists to Rīga increased by 32%. In 2004 Rīga was visited by more than 1 million visitors. Copenhagen was visited by 15 million tourists in 2004, but Stockholm by approximately 17 million. Besides, the number of business tourists visiting Rīga is increasing, it has increased by 15% reaching 350 000 business tourists in 2004. Copenhagen and Stockholm as business tourism destinations have been more attractive and the number of business tourists is even eight times higher.
142. Rīga is the largest centre of science and higher education in Latvia due to the fact that major scientific and research centres are concentrated there, and the number of students in higher education establishments of Rīga is 80% of all students. In comparison with other metropolis of the Baltic Sea region, the concentration of state scientific, research and education potential in Rīga is much higher.
143. Rīga is the major cultural centre of Latvia due to the fact that major national cultural centres are located there and more often not only national, but also regional international cultural, sports and business events are organised there.
144. In comparison with Stockholm and Copenhagen, the urban environment in Rīga City is presently not as attractive as in Copenhagen or Stockholm. The above is due to many aspects, for example: environment pollution, security, quality of public services infrastructure, as well as other aspects.
145. Taking into consideration the above, it can be concluded that the strong points and growth possibilities of Rīga as an international development centre are determined by its growing economy and tourism, science and research potential, vacant area, as well as the development of Rīga as an international transport junction.
146. Major factors hampering the international competitiveness of Rīga are its underdeveloped infrastructure, high inflation and low GDP in comparison with other metropolis of the Baltic Sea region.
147. According to the assessment of experts, the technical condition of the main streets in Rīga can be evaluated as good in 35% of cases, in 51% of cases as satisfactory, but in 14% of cases as poor. As the traffic intensity in streets of Rīga is 15 times higher than the average in the country, the lifetime of road surfacing built according to single standards and using the same technologies and materials is shorter than for motorways. There are 100 bridges, cross-overs

and pedestrian tunnels in Rīga, 36 of them are in good condition, 46 in poor condition but 17 objects are in an unsatisfactory condition.¹¹

148. When planning the development of the Rīga City as a development centre of international significance, it should be noted that Rīga is a significant centre maintaining the link between the Eastern market and the market of the EU and vice versa; thus, during the development, significant attention should be paid to the development of the transport and communications infrastructure, thereby increasing the significance of Rīga as the gateway-city of the Eastern part of Europe. Taking the above into consideration, it is important to modernise the transport infrastructure that would facilitate development of the city as a logistics and trade centre. At the same time it is important to be aware of the fact that the sphere of functional activities and the influence of Rīga stretches beyond its administrative borders, thus the development of Rīga is to be analysed in the context of the development of the Rīga agglomeration, as well as the development of Latvia and the Baltic Sea Region.
149. In 2004 the inflation rate was the highest during the last six years reaching 7.3%. Prices for goods increased by 7.8%, while the prices for services – by 6.1%. The comparatively high inflation rate has an adverse impact on the entrepreneurial environment due to the fact that both entrepreneurial planning and the credit liabilities are burdened.
150. The GDP per capita in Rīga is 1.4 times higher than the average in Latvia, but at the same time it is up to seven times less than in other cities of the Baltic Sea region. Although the GDP growth in the Rīga City starting from 1998 was more rapid than in Latvia in total, the GDP rate still lags behind the average GDP in capitals of the European Union. Low GDP rates prevent production of sufficient financial resources for the necessary investment.
151. The main factors facilitating the international competitiveness of Rīga are its convenient geographical location with access to the sea, its location at the junction of the East-West transit corridor, its multicultural society as well as a developed Rīga City Development Plan.
152. The Rīga Passenger Port is a very convenient shipment hub both for traffic towards the Scandinavia and Western Europe. During the last eight years the cargo volume dispatched and received has almost tripled.
153. The population in Rīga is multinational. Rīga is one of the few cities, where the majority of inhabitants have a good command of three languages (Latvian, Russian and English).
154. The Rīga Long-term Development Strategy to 2025 has been developed, as well as the Rīga Development Plan 2006-2018, consisting of the Development Programme (for 7 years) and the Spatial Plan (for 12 years). The Rīga Development Plan defines the main objectives and tasks to be reached in the long-term.
155. In order to strengthen the competitiveness of Rīga internationally, the following is to be done using the strengths and opportunities of Rīga:
 - adjustment of the existing transport infrastructure, as well as creation of new transport systems;
 - development of the economy based on the East-West linkage;
 - transfer of the city administrative centre beyond its historic centre and making the Old Town more attractive to tourists;
 - development of public and private partnership;
 - promotion of development of small and medium sized enterprises;
 - improvement of cooperation of other metropolis of the Baltic Sea region with Rīga;

¹¹ Data of the Ministry of Transport and Communications

- development of Rīga as one of the administrative centres of the European Union;
- development of business tourism;
- development of science, technologies and innovations.
- Promotion of the Rīga City image and improvement of the marketing strategy.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

3. STRATEGY OF THE OPERATIONAL PROGRAMME „ENTREPRENEURSHIP AND INNOVATIONS”

3.1 SWOT ANALYSIS OF THE OPERATIONAL PROGRAMME

156. The SWOT analysis (strengths, weaknesses, opportunities and threats) is a widely applied method that enables a concentrated layout of findings and conclusions reached .
157. The following SWOT analysis is organised in accordance with the framework of fund assistance covering the areas of support and the horizontal priorities, and it revises the principal issues, a part of which are specified as sub-themes under the above areas and priorities.

Areas	Strengths	Weaknesses	Opportunities	Threats
Innovations and entrepreneurship				
- entrepreneurship and access to finance	<ul style="list-style-type: none"> ▪ Location in an economically and politically active region providing the necessary preconditions to attract new cooperation partners ▪ Integration of Latvia in the common market of the European Union, free movement of goods, services, capital and the labour force ▪ The regulatory framework of entrepreneurship complies with the European Union requirements ▪ The corporate income tax (and other costs) are the lowest in the EU ▪ Stable development of the traditional and new service and manufacturing sectors with high export potential, e.g., ICT, wood 	<ul style="list-style-type: none"> ▪ Low business activity ▪ Low initiative and lacking basic skills to start a business ▪ A large proportion of enterprises in sectors of low value added and high consumption of natural resources ▪ A large share of enterprises mainly produce for the internal (Latvian) market ▪ Investments are accumulated in the traditional sectors (with low value added and high labour intensity and consumption of natural resources) ▪ Inflexible financial instruments for promoting entrepreneurship ▪ Location on the periphery of the EU 	<ul style="list-style-type: none"> ▪ Promotion of applied research to encourage the development of sectors of national importance ▪ Highly developed financial instruments to start up and develop businesses ▪ Optimisation of technological processes and work organisation in enterprises 	<ul style="list-style-type: none"> ▪ Increase in competition in the traditionally leading sectors of Latvia ▪ Private investment outflow to potentially more resilient and active markets ▪ Shortage of workforce

Areas	Strengths	Weaknesses	Opportunities	Threats
	processing, mechanical engineering industry, electronic industry, food processing, pharmaceutical industry, biomedicine and biotechnologies, financial services and logistics			
- innovations	<ul style="list-style-type: none"> Specific sectors feature highly-qualified human resources and scientific potential 	<ul style="list-style-type: none"> A small share of innovative enterprises Weak cooperation of the private sector with research institutes, scientists and universities A low proportion of entities involved in research and development activities Weak transfer of technology Low private investment in research and development, as well as innovations Poorly developed specialised infrastructure to promote innovative activities 	<ul style="list-style-type: none"> Strengthening and promoting transboundary and international cooperation in the field of innovations Development of a national innovations systems encouraging cooperation between scientists and entrepreneurs, facilitating technology transfer, R&D activities in the private sector thus both increasing the amount of available R&D funding and diversifying its structure 	<ul style="list-style-type: none"> The exodus of educated professionals and scientists to abroad
- science	<ul style="list-style-type: none"> Traditions of scientific activity Successful operation of science institutions in the EU FP and other international cooperation programmes Internationally acknowledged inventions and patents in medical chemistry, genetic engineering UoL ISSP awarded the EU Excellence centre status 	<ul style="list-style-type: none"> Obsolete scientific infrastructure Insufficient cooperation among private sector, science institutions and universities Small number of patents and internationally acknowledged publications (SCI) Insufficient number of employees in science and research, contrary age structure and disproportional 	<ul style="list-style-type: none"> The development of culture of science management Scientific infrastructure meets the R&D needs of the private sector Increasing number of doctor degree awarded Investment in science infrastructure Increasing state budget investment in science and 	<ul style="list-style-type: none"> The emigration of educated professionals and scientists to abroad Decreasing number of higher education students

Areas	Strengths	Weaknesses	Opportunities	Threats
	<ul style="list-style-type: none"> ▪ Successfully initiated cooperation between science/research and entrepreneurs in the sector of woodworking and timber industry, pharmacy, IT and material sciences 	<ul style="list-style-type: none"> ▪ division of higher education and research sector ▪ Insufficient number of practical research and weak transmission of technologies ▪ Limited possibilities 	<ul style="list-style-type: none"> ▪ research ▪ Science institution status enlarge its capacity ▪ Further participation in Framework and other international cooperation projects ▪ Development of science and industry cooperation branch – clusters in the fields of woodworking, chemistry, pharmacy, IT, material sciences 	
Sustainable development	<ul style="list-style-type: none"> ▪ High-quality, environmentally clean, sparsely-populated environment ▪ Sufficient forest, land and water resources ▪ Preserved biodiversity 	<ul style="list-style-type: none"> ▪ Weak integration of the environmental policy in sectoral policies ▪ A considerable proportion of environmental infrastructure is incompliant with the EU requirements 	<ul style="list-style-type: none"> ▪ Prospecting new oil and gas deposits 	<ul style="list-style-type: none"> ▪ Lack of a strategy and assessment of technogenic risks ▪ Transboundary pollution
Macroeconomic stability	<ul style="list-style-type: none"> ▪ High GDP growth ▪ Low budget deficit ▪ Low public debt 	<ul style="list-style-type: none"> ▪ Rapidly increasing inflation 	<ul style="list-style-type: none"> ▪ A favourable environment for investment and rapidly accelerating private investment 	<ul style="list-style-type: none"> ▪ Risks of overheating the economy
Balanced territorial development	<ul style="list-style-type: none"> ▪ Even distribution of urban areas ▪ Even distribution of transport infrastructure ▪ The favourable geographical location of the capital city of Riga ▪ Republican cities are located close to primary transport 	<ul style="list-style-type: none"> ▪ Significant disparities in socioeconomic development trends observed comparing the capital city of Riga and the rest of Latvia, as well as among planning regions ▪ The migration of human resources from rural areas to cities , other countries. 	<ul style="list-style-type: none"> ▪ Rīga – the metropolis of the Baltic Sea region ▪ Cooperation between Euroregions, transboundary cooperation ▪ Strengthening of urban network ▪ Integrated territorial development 	<ul style="list-style-type: none"> ▪ Continued decrease in population in particular areas of the country ▪ Increasing/ non-reducing social-economic development gap between Riga and the rest of Latvia's territory ▪ High competition with capital city Riga

Areas	Strengths	Weaknesses	Opportunities	Threats
	corridors	<ul style="list-style-type: none"> ▪ Insufficient opportunities for inner mobility of work – force ▪ Outdated and insufficient transport infrastructure <p>Weak regional development of centre</p>		
Equal opportunities	<ul style="list-style-type: none"> ▪ A high female employment rate compared to the EU average ▪ Improved legislation to ensure equal rights and opportunities 	<ul style="list-style-type: none"> ▪ Comparatively low public awareness of the role of various gender equality aspects in different areas ▪ Environment that is not adapted to the needs and requirements of persons with functional disabilities (including education and employment) 	<ul style="list-style-type: none"> ▪ Professionals of various backgrounds educated on gender equality issues and their role ▪ Preconditions set for the implementation of an integrated approach towards gender equality (a mechanism created) ▪ Active non-governmental organisations addressing issues related to disabled people and groups of population at risk of social exclusion ▪ A coordinated, concerted and strategic approach to encourage social inclusion 	<ul style="list-style-type: none"> ▪ Insufficient awareness of policy-makers of the need to apply an integrated approach towards gender equality ▪ A growing share of the population at risk of social exclusion ▪ Employers are not encouraged to recruit disabled people, ex-convicts and individuals of other groups at risk of social exclusion
Information society	<ul style="list-style-type: none"> ▪ A stable growth rate in the IT sector ▪ A high growth rate of Internet users ▪ The development of information systems of the main national registers has been completed ▪ Active development of e-commerce 	<ul style="list-style-type: none"> ▪ Unevenly developed ICT infrastructure, limited availability of Internet access, especially to broadband networks ▪ The limited range of e-government services is a disincentive for the promotion of the information society ▪ Shortage of ICT skills of those to become part of the information society processes 	<ul style="list-style-type: none"> ▪ The availability and quality of ICT services are expected to improve as a result of increasing competition 	<ul style="list-style-type: none"> ▪ The monopolisation of the electronic communications sector ▪ Widening of the “digital gap”

Areas	Strengths	Weaknesses	Opportunities	Threats
International competitiveness of Rīga	<ul style="list-style-type: none"> ▪ Together with its satellites, Riga is the largest city by population in the Baltic-Scandinavian region ▪ Rīga is an important crossing point of transportation routes and communications channels ▪ Growing economy and tourism ▪ A low unemployment rate ▪ Spatial development opportunities ▪ A large share of foreign investments is concentrated in Riga ▪ Scientific and research potential is concentrated in Riga ▪ Rīga is a port city ▪ Multicultural environment ▪ Recreation potential 	<ul style="list-style-type: none"> ▪ Low GDP per capita ▪ High inflation ▪ Unattractive infrastructure ▪ Absence of local energy sources 	<ul style="list-style-type: none"> ▪ Rīga as the central metropolis of the Baltic states ▪ Rīga as a city of well-maintained and organised urban environment and public infrastructure ▪ Rīga as a cultural, business and tourism centre ▪ The development of services and production areas focussed on the international market ▪ Commercialisation of results produced by applied sciences, innovations and the transfer of technology ▪ A centre attractive to foreign investment ▪ 	<ul style="list-style-type: none"> ▪ The development of international transport corridors bypassing Riga ▪ Emigration of the skilled labour force ▪ The decreasing role of geographic advantages to due to technological developments ▪ Overheating economy ▪ Deteriorating conditions in the field of foreign policy

3.2 Strategy Overview

158. The task of the OP strategy is to define the absorption objectives and priorities of the ERDF funded programmes for the programming period of 2007-2013. The strategy is based on the main principles and guidelines of the Community Strategic Guidelines for Cohesion (CSG), National Development Plan 2007-2013 (NDP), Lisbon National Reform Programme of Latvia (LNRPL), and the Single Strategy for the National Economy (SSNE).
159. The OP strategy covers only those priorities that will be implemented through attracting the ERDF co-finance. However, the implementation of the strategy must not be viewed separately from the overall national development policy and measures identified for implementation under the remaining two Operational Programmes co-financed by Structural Funds and the Cohesion Fund, and measures completed independently from assistance derived from the EU funds, e.g., measures to be financed from national, municipal and other sources of funding, or measures not directly related to financial investments, but rather to modifications and changes in sectoral policies, legislation, or administration. The above measures are detailed in the NDP, LNRPL, SSNE and other policy planning documents.
160. The analysis of strength and weaknesses, as well as opportunities and threats identifies a number of challenges and development problems in the country's economy. Latvia's integration into Europe has been a strong impetus for the national economy through access to new markets and the alignment of business-related legislation. However, the level of economic activity is still low and the competitiveness of enterprises is limited. The economy is currently based on the traditional industries characterised by the high intensity of labour and natural resources consumed and low value added. Though several Latvian industries possess a potential for science- and research-intensive, as well as innovation- and knowledge-based production, their share in the Latvian economy is too small. In Latvia the transition to the "new economy" is impeded by the insufficient transfer of knowledge and the insufficient quantity of innovations. Therefore, special attention should be paid to those preconditions of development that would encourage economic activity and enhance competitiveness, promote restructuring of the economy and progress towards a knowledge-based economy.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

161. The Main Principles of the Strategy
162. **Continuity** – by commencing the implementation of the Structural Funds in 2004, Latvia has set achievable medium-term and long-term objectives, as well as a range of priorities that are detailed in the Single Programming Document (SPD) for the financing period of 2004 – 2006. The SF interventions have to continue the commenced investment effort in areas where the set restructuring goals have not been accomplished yet. The SF assistance for the period of 2007 – 2013 must function as logical continuation of investments already made or being made during the OP drafting phase, furthermore, the assistance has to be based on experience and results of the 2004 – 2006 period.
163. **Strategic approach and multi-annual planning** – the funding absorption strategy must be based on a seven-year policy planning cycle and derived from the analysis of current situation, identified problem areas, on the basis of which a development investment strategy is elaborated, as well as measurable objectives and results to be achieved are identified.
164. A strategic approach to the absorption of the EU funds may be ensured only on the condition that the **principle of concentration** is observed. Although the financial assistance of the EU made available to Latvia is substantial, it is still aimed at providing co-finance to national financial contributions committed to address development issues of concern. Consequently, to

ensure maximum efficiency and increased impact of the SF-supported investments on the economic and social growth of the country, Latvia must ensure targeted and focussed application of funding made available by prioritising the supported areas and concentrating the EU fund assistance in the areas of highest necessity and, at the same time, most considerable return. It must be acknowledged that both financial resources and administrative capacity, and time resources for the period of 2007 – 2013 are limited, hence the inevitable requirement to select a specific number of key measures for assistance where the potential of achieving the set development goals is the highest.

165. **Additionality** – the SF investments for national development may not substitute national investment efforts financed from the state budget up to the current period. The SF assistance must act as additional support in areas, where the state is currently making investments, or in areas, where the state has defined a clear reform and development strategy aimed at economic and social growth, the implementation of which can be leveraged by the SF resources.
166. **Public-private partnerships** – the limited national and municipal finance for the implementation of public investment projects translate into insufficient maintenance and development of infrastructure that may cause negative economic consequences, thus reducing the public sector efficiency, value of national assets and their economic returns. By seeking potential resources for further development of infrastructure and services, a new public and private cooperation model has evolved – public-private partnerships (PPP) that are based on the capacity of the model to combine the strengths of both sectors through harnessing the innovative potential of a private entrepreneur in providing services and rationally using the budgetary finance. Furthermore, due to scarcity of public funding it is of critical importance to promote efficient management and application of the above financial resources by exercising the advantages of the private sector. Consequently, the application of the PPP model must be promoted in the SF and CF absorption process.

Single Strategy for the Absorption of the EU Funds

167. A single Strategy for the Absorption of the EU funds (Structural Funds and the Cohesion Fund) is defined in the National Strategic Reference Framework (NSRF). The task of the EU funds assistance in the period of 2007 – 2013 is to facilitate faster economic growth of the country, approaching the average level of welfare in the EU member states. This aim shall be measured as the desire to reach the average per capita level of gross domestic product (GDP) of the EU member states. In order to achieve the set target, Latvia for the period 2007 – 2013 sets the following attainable indicators for the EU funds intervention:
 - retain an annual GDP growth rate of 6-8% (baseline of 2006 – 11.9%);
 - increase the employment rate to 70%, inter alia the employment rate for women to 66% and for older people to 55% (baseline of 2006 – 66.3%, the employment rate for women – 62.3%, the employment rate for older people – 53.3%);
 - decrease the unemployment rate under 6% (baseline of 2006 – 6.8%);
 - reach at least 53% of EU average productivity indicator (GDP by PPS per employee) (baseline of 2005 – 47.9%).
168. Beside this Latvia sets the impact indicators for the evaluation of the EU funds intervention:
 - decrease the long-term unemployment rate to 2.0% as of the number of economically active inhabitants (baseline of 2006 – 2.5%);
 - reach an expenditure level of 1.5% from GDP to the research and development (baseline of 2005 – 0.57%);
 - have the economically active entrepreneurs for 1000 inhabitants – 32 (baseline of 2004 – 22);

- established working places in framework of OP “Entrepreneurship and Innovations” – 5000 (women – 2500, men – 2500).
169. For Latvia to attain the development level of the rest of the EU through the fund assistance, it will implement the National Development Strategy defined by the Government in the National Development Plan (hereinafter – the NDP). The Development Strategy of the NDP emphasises an educated, creative and ambitious individual, and sets the development of an economy based on education, science and competitive businesses as the main goal. Therefore, EU funds aid in 2007 – 2013 will primarily be focussed on education, technological excellence and the flexibility of companies, as well as the development of science and research, thus facilitating the development of a knowledge-based economy in the country. In addition to the above strategic goal it is essential to strengthen other preconditions for sustainable economic growth and life of individuals in general.
- (According to amendments made in 25.08.2008. by order of CM Nr.500)*
170. In order to achieve the aforementioned overall goal, the investments of EU funds have been planned according to three thematic axes:
- development and efficient use of human resources,
 - strengthening competitiveness and progress towards a knowledge-based economy,
 - improvements in public services and infrastructure as a precondition for balanced territorial (regional) and national development.
171. Along with these three thematic axes, horizontal priorities are also important in the absorption of SF and the CF – balanced territorial development, international competitiveness of Rīga, facilitation of macro-economic stability, equal opportunities, sustainable development, as well as the development of an information society.
172. Basically, investments from the OP “Entrepreneurship and Innovations” of the ERDF should be linked with the second thematic axis “Strengthening competitiveness and progress towards a knowledge-based economy”. However, at the same time it is also important to ensure additionality with the first and third thematic axes for which funding will be provided from the ESF, as well as from the OPs funded by the ERDF and CF.

The Strategic Objectives of the OP

173. One of the main economic policy objectives of Latvia is the establishment of an efficient and competitive structure of sectors that operate on the basis of locally available resources. For the period 2007-2013, it is essential to secure that total GDP includes an increased proportion of knowledge-based products with high value added. To achieve the set objective it is necessary to increase productivity, high value-added-production, export capacity among the existing manufacturers and service providers, as well as encourage the formation of new knowledge-based and technology-intensive enterprises.
- (According to amendments made in 25.08.2008. by order of CM Nr.500)*
174. The conducted analysis suggests that the national innovations system is underdeveloped and strengthening the system is one of the most important strategic goals. In this context the NDP sets a priority to promote technological excellence and flexibility in enterprises and proposes the following measures to implement the above priority:
- commercialisation of applied science, transfer of innovations and technology,
 - formation of new and competitive enterprises,
 - application of knowledge to increase the competitiveness of enterprises,

- development of creative industries,
- sustainable and efficient use of natural and energy resources.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

175. The NDP as priority sets to develop science and research, proposing the following measures thereunder:

- excellence of academic science;
- reestablishment of fundamental and applied science potential,
- updating scientific infrastructure in institutes and higher educational establishments.

176. Attainment of these objectives can be ensured through the attraction of resources from the SF for the development of the science and research potential, transfer of knowledge and enhancement of the innovation level, as well as by purposeful support to businesses in improving their competitiveness. Support from the SF is particularly important for Latvian industries in which a certain growth potential is developed and which are able to market internationally competitive products and services. The most promising “invention sciences” in Latvia are medical chemistry, gene engineering and MHD metallurgy. In the business area, several promising industries with active cooperation or clusters can be singled out – wood processing, chemical industry (pharmaceutics), metal processing, transport and logistics, communications (information and communication services). Other promising Latvian industries are industries characterised by low intensity of natural resources consumed and are based on intellectual property (including creative industries).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

177. For efficient application and future development of the scientific and research (R&D) potential of Latvia, it is crucial to make use of the SF funding to revive and extend human capital of R&D and to create preconditions for scientific research in prospective sectors. A precondition of high importance requiring the SF funding is the development of relevant scientific infrastructure, as well as a research support system. For the SF funding to achieve the set objective and ensure earlier return on investments, it is crucial to focus allocations to research centres and sectors clearly demonstrating, inter alia, international potential, as well as prospects of development. At the same time, support must be provided for the commercialisation of applied science and transfer of technologies, as well as for the attraction of private capital to conduct applied research in science.

178. In order to achieve higher indicators of productivity and high value-added production in the existing enterprises, as well as a general increase of knowledge-based economic activity, it is essential to increase not only the public sector funding to R&D but also create preconditions for more extensive R&D activities in businesses by increasing the private sector funding to R&D, absorption of modern technologies and introduction of state-of-the-art technologies and products in manufacturing.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

179. In order to enhance economic competitiveness, it is necessary to provide not only horizontal aid instruments, but also a more rapid development of the industries possessing the highest potential. It is important to strengthen competitiveness of clusters in the traditional and new manufacturing and services industries with an export potential by ensuring such industries as ICT, wood processing, mechanical engineering, electronics, food industry, creative industries, pharmaceutics, biomedicine and biotechnologies, finance, transport and logistics, medical and tourism services opportunities to receive support in preparing clusters’ development strategies and in performing joint projects.

180. The improvement of economic activity indicators by promoting new enterprise births, self-employment, strengthening competitiveness and fostering the development of existing companies, is a priority of equal importance, especially applicable to remote geographical areas outside the capital city of Rīga. To increase competitiveness, it is essential to foster the reorganisation of enterprises to focus on high technology products or products of high added value. The objective of the EU funds in this area is to provide solutions to issues such as the improvement of business infrastructure, availability of financial resources, access to information and advisory services, strengthening export capacity. Strengthening competitiveness and promoting the development of a knowledge-based economy is closely interrelated with measures aimed at the development of human resources and infrastructure.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

181. At the same time it is essential to increase the availability of financial resources (seed capital, guarantees, high-risk credits, venture capital), to ensure comprehensive development of the system of financial instruments in accordance with various business needs. The strategic objective of the Operational Programme is to optimally replace funding through grants by instruments aimed at increasing availability of finances. Thus, the State Aid measures, including the activities financed by Structural Funds, decrease the possibility of competition distortions.

182. In the framework of the "Regions for Economic Change" initiative the Managing Authority in cooperation with MRDLG commits itself to:

- Make the necessary arrangements to welcome¹² into the mainstream programming process innovative operations related to the results of the networks in which the region is involved;
- Allow in the Monitoring Committee (or programming committee) the presence of a representative (as an observer) of the network(s) where the Region¹³ is involved, to report on the progress of the network's activities;
- Foresee a point in the agenda of the Monitoring Committee (or programming committee) at least once a year to take note of the network's activities and to discuss relevant suggestions for the mainstream programme concerned;
- Inform in the Annual Report on the implementation of the regional actions included in the "Regions for Economic Change" initiative.

182¹ The Action Plan annexed to the Communication of the Commission on the EU Strategy for the Baltic Sea Region (published on 10 June 2009) identifies a set of priority areas and flagship projects. When necessary new cooperation mechanisms, in addition of which that are already established in the implementation and monitoring process of this Operational Programme, will be used concerning activities with relevance for the Baltic Sea Region Strategy within the framework of each priority axis of this Operational Programme. A number of projects in the relevant activities of this Operational Programme contribute or will contribute to the implementation of the Baltic Sea Region Strategy Action Plan. Each year in the Annual Report of the Operational Programme, the contribution of the activities under the different priority axes, including the number of projects and their corresponding financial amounts (total planned costs and amounts of payments made) to the relevant priorities and subpriorities of the Baltic Sea Region Strategy Action Plan will be described and commented.

(According to amendments made on 22.02.2010. by order of CM Nr.88)

¹² Create the channel to appropriate priority for financing.

¹³ A Region can be a Region (NUTS 2) or a Member State (e.g. when no Regional level foreseen in the OP).

Interrelation of the OP Strategy and the Priorities

183. In order to achieve the above-mentioned strategic objectives and to ensure efficient management of the ERDF, the Operational Programme covers the following priorities:

- *Research and Innovations.* This priority is aimed at strengthening the country's scientific and research potential, enhancing international competitiveness, as well as promoting the transfer of knowledge and its commercialisation. These objectives should be attained by investing in equipment of scientific and research centres, promoting research and by developing a knowledge transfer infrastructure and aid mechanisms, as well as by offering a number of activities aimed at providing the necessary knowledge and technologies for the development of the enterprises.
- *Access to Finances.* This priority is aimed at promoting access to finances necessary for the business development. This objective should be attained by facilitating forming of thorough system of financial instruments, which include guarantee, credit, venture capital, and other financial instruments.
- *Promotion of Entrepreneurship.* This priority is aimed at promoting economic activity and the enhancement of competitiveness by forming new enterprises and strengthening existing enterprises. These objectives will be attained by promoting development of new enterprises, as well as by facilitating national and international competitiveness of the enterprises.
- *Technical Assistance.* This priority is aimed at providing support to efficient management of the programme.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Link between the OP and Horizontal Priorities of the NSRF

184. *Balanced territorial development* – to ensure balanced territorial and sustainable development of the nation, it is of critical importance to reduce unfavourable disparities between the levels of development in various areas of the country, particularly disparities between the capital city region and other areas, by implementing a polycentric development model. The task of the ERDF OP is to foster a balanced territorial development by promoting formation of new enterprises at the regional level, as well as by paying attention to the development of new companies in the territories with a low level of economic activity.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

185. *International competitiveness of Rīga* – a strong position of Rīga as a centre of excellence in business, research and culture in the Baltic Sea region is a critical factor for a rapid growth of the whole country. Strengthening the economic potential and international competitiveness of the capital city, as well as transferring the effects of city's growth to the rest part of the country are also the tasks of investments from the EU funds. Within the framework of the ERDF OP, by developing science and technology park in Riga special attention will be paid to strengthening Rīga's position as an internationally recognised-level centre of excellence of research and technologies.

186. *Macroeconomic stability* – the macroeconomic stability of the country is dependent on economic capacity to maintain the growth rate and ensure the sustainability of such growth. Consequently, investments of the EU funds should primarily be focused on the productive industries capable of contributing to the overall growth of the economy in a medium-term and long-term perspective. The investments under the ERDF OP must be aimed at promoting

restructuring of the economy in order to considerably increase the share of knowledge-based and high value added production in the gross domestic product, thus, ensuring the preconditions for sustainable growth of the economy.

187. *Equal opportunities* – eradication of any kind of gender, race, ethnic, religious, belief-based, disability, sexual, or age discrimination and ensuring equal opportunities for all groups is a horizontal principle to be respected in all areas of intervention of the EU funds. Through specifically targeted project selection criteria the ERDF OP should ensure that aid measures have a positive or neutral impact on the attainment of priority's objectives.
188. *Sustainable development* – rational use of natural resources and protection of environment for the next generations is a pre-condition for national development. Consequently, the implementation of programmes financed from the EU funds must be in line with the necessity to reconcile the economic growth and use of natural resources, to avoid economic and social progress being made at the expense of overexploiting natural resources and degrading environmental quality.
189. *Information society* – the development of an information society is closely related to the progress towards a knowledge-based economy and knowledge-based society, as it determines access to knowledge as the main resource for national development. The task of the ERDF OP is to promote use of ICT in enterprises and application of ICT advantages in order to increase competitiveness of enterprises.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

190. Within the framework of every priority of the OP, measures and activities will be supported in compliance with the support areas permitted in the regulations and the strategy outlined herein. In implementing each of the priorities, achievement of the horizontal priorities must be ensured. Compliance to and implementation of the horizontal priorities are achieved by foreseeing special activities focussed on a particular horizontal priority in each measure, developing specific project selection criteria, as well as ensuring monitoring of result indicators of the achievement of horizontal objectives.

4. DESCRIPTION OF PRIORITIES AND MEASURES

Priority 2.1 „Science and Innovations”

190.¹ (Deleted according to amendments made on 11.02.2014. by order of CM Nr.60)

191. The priority is aimed at strengthening the country’s scientific and research potential, enhancing international competitiveness, as well as promoting the transfer of knowledge and its commercialisation. These objectives should be attained by investing in equipment of scientific and research centres, promoting research and by developing a knowledge transfer infrastructure and aid mechanisms.

Justification of the Priority

192. The analysis of the current situation indicates strengths and weaknesses, as well as threats and opportunities that provide justification of investments in this priority.

Table 3: SWOT analysis of Priority 2.1 „Science and Innovations”

Strengths	Weaknesses
<ul style="list-style-type: none"> - 2 internationally recognised research institutes with highly productive research performance - Internationally recognised inventions and patents in medical chemistry and genetic engineering - Successful activities of research institutes within the EU FP and other international cooperation programmes - ISSP UL was granted the status of an EU Centre of Excellence - Traditions of research activities - Successful cooperation of scientists, researchers and businesses in the wood processing and wood industry sector, pharmaceuticals, information technologies and material sciences - Science branches which researches are able to compete in the world – information technologies, magnetohydrodynamics, modern materials, biomedicine, pharmaceutical chemistry, timber chemistry 	<ul style="list-style-type: none"> - Obsolete scientific infrastructure - Insufficient number of employees engaged in science, research and development, unsatisfactory age structure of employees and disproportion between the higher education and private sectors - Low quantity of transnationally acknowledged publications (SCI) and patents - Low proportion of innovative enterprises - Insufficient cooperation of the private sector with research institutes, scientists and higher educational establishments - Insufficient number of practical researches and weakly developed transfer of technologies - Limited possibilities and skills of knowledge commercialisation - Low amount of private sector investments in R&D and innovations - Insufficiently developed innovation-oriented infrastructure
Opportunities	Threats
<ul style="list-style-type: none"> - Increasing proportion of doctorates in 	<ul style="list-style-type: none"> - Decrease of number of students in

<p>previous years</p> <ul style="list-style-type: none"> - Investments in science infrastructure - Increasing state budgeted investment in science and research - New inventions with a commercialisation potential in the promising “invention industries” – medical chemistry, genetic engineering, MHD metallurgy - Further development of branches of science and industries with developed cooperation – clusters in the industries with the highest potential – wood processing, chemical industry, information technologies, material sciences - Development of cross-border and international cooperation in the area of science and innovations - Latvian enterprises use knowledge originating in foreign countries - Development of a research management culture 	<p>the higher education</p> <ul style="list-style-type: none"> - Flow of educated specialists and researchers to foreign countries - Lack of awareness of the role of innovation in the national economy - As a result of increasing international competitiveness in the area of science and R&D, Latvia might lose its advantages
---	--

(According to amendments made in 25.08.2008. by order of CM Nr.500)

193. In the environment of globalisation, competitive advantages do not ensure sustainable growth of the economy – changing market conditions require further development and the search for new driving forces of growth – innovations. Therefore, it is essential to invest in strengthening the scientific and research potential and promoting transfer of knowledge and its dissemination among producers and service providers.

Objective of the Priority

194. The objective of the priority is to promote the development of internationally competitive research sustaining the capacity of science and research potential as well as giving support in the modernisation of science infrastructure, promote transfer of knowledge to the national economy and the strengthening of knowledge-based entrepreneurship.

Description of Measures

195. It is planned to undertake two measures under the priority. Under the measure “Science, Research and Development”, assistance will be provided for the development of scientific and research potential in leading scientific and research institutes by supporting applied research, improving research infrastructure and equipment, promoting creation of new jobs in the research area, enhancing the capacity for popularisation of research and innovations, as well as by supporting the development of local and international contacts and the improvement of cooperation. The measure “Innovations” will focus on supporting the formation of a knowledge-based economy by promoting transfer of technologies to the national economy, creation of Riga Science and Technology Park and the manufacturing of new products.

Synergy

196. The priority is directly related to the ERDF support in promoting entrepreneurship, in particular concerning availability of funding. The priority's measures will give a positive impose on the development of higher education and sciences supported by ESF Operational programme "Human Resources and Employment" Priority "Higher Education and Research" providing the effect of synergy. By sustain of science and research infrastructure improvements in higher educational establishments and science institutions, there will be given a positive impose on the development of human resources in science and research, promoted new scientists' involvement in scientific research providing new labour places and research operations.

Indicators¹⁴

197. Outputs:

- Number of research projects supported – 200 (target in 2009 – 80);
- Number of cooperation¹⁵ projects enterprises – research institutions – 50 (target in 2009 - 10).

198. Results¹⁶:

- Increased number of internationally acknowledged publications (including SCI) per year – 800 (base value in 2004 -350, target in 2009 – 450);
- Growth of patent registration applications per year – 43 (base value in 2004 – 11, target in 2009 – 15);
- Research jobs created – 50 (base value in 2004 – 0, target in 2009 – 10).

¹⁴ The main target for all indicators is provided for the year 2015

¹⁵ Cooperation as research ordering

¹⁶ Result indicators will be achieved with support of the assistance provided within this OP

Measure 2.1.1 „Science, Research and Development”

Introduction

199. The Lisbon Strategy sets the development of science and research as a key factor fostering the country’s economic development and its competitiveness, as well as improving the welfare of its residents. Outputs of scientific research provide significant discoveries and inventions, and new technologies furthering the development of the economy and society. Applied research on modern technologies promotes a country’s competitiveness within the global economy. The competitiveness of companies is directly dependent on their ability to offer new products and services that can be secured through applied research. Appropriate technical equipment is a prerequisite for any productive research activity to reach its potential of science and research, in particular in the area of the natural and engineering sciences. Since 2004 when Latvia gained access to the EU funding, the situation in modernising the scientific equipment has improved, though the situation in this field is still insufficient in Latvia.

Objective of the Measure

200. The objective of the measure is to strengthen the capacity of scientific and research potential by promoting the implementation of practical research projects according to the priorities, by modernising scientific institutions, improving public awareness and interest in research and innovations.

Justification and Description of the Measure

201. The current situation shows that Latvia considerably underperforms the EU countries in such research and development (R&D) criteria as the amount of State investment in R&D in relation to the gross domestic product (GDP), private capital investment, the number of scientists, the number of scientific publications, the quantity of patented inventions, etc. One of the reasons for this is the inability of research to attract funding which has been significantly reduced since late 1980s. This has resulted in the reduced capacity of Latvian research potential: the scientific infrastructure was not renewed, the number of people employed in research decreased several times, the number of contracts with local and foreign companies is small and, consequently, the number of inventions is low. A criterion characterising the R&D area is the proportion of State and public capital invested in funding R&D. In 2004, funding of R&D in Latvia amounted at only 0.42% of the GDP. In 2004, State funding of research amounted at 0.18% of the GDP but the amount of private sector investments in this area was 0.20% of GDP (data of the MoES).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Table 4: R&D funding in 2004 by sector (% of GDP)

	Total funding	State budget funding	Business sector funding
EU 25	1.90*	0.67***	1.27***
E15	1.95*	0.69***	1.30***
Latvia	0.42**	0.18**	0.20**

*-Eurosta;

** - statistical date of the Ministry of Education and Science;

*** - European innovation scoreboard 2004.

202. The country has several potentially strong branches of science with well-developed scientific schools that are able to compete on the global market; however, use of this competitive scientific potential is impeded by the current research bases (scientific infrastructure, human resources) that do not meet the modern requirements. The Latvian research infrastructure was established 20-30 years ago and has not been properly modernised since the early 1990s. As a

result of insufficient investment in some branches of science, depreciation of its infrastructure is as much as 95% of the initial value.

203. Although the implementation of the National Programme “Support for Modernisation of Scientific Infrastructure in State Research Institutions” started in 2004, attracting ERDF funds, only a part of the most urgent modernisation measures, most of which are on a large scale, have been taken. In this measure’s framework, it is planned to provide further support for the renovation of research institutions and the modernisation of research equipment, as well as to the enhancement of availability and modernisation of ICT that will also promote increased human resources for the research area.
204. Latvian scientists and institutions take active part in the EU Framework Programmes (FP). Active work commenced in 1999 with the 5th EU FP when 667 project applications were submitted and 178 projects were accepted and awarded the EU co-financing. As a result of successful participation of Latvian applicants, the total amount of project funding allocated by the EU exceeds double the membership dues paid by Latvia into the budget of the 5th FP.

Indicative Target Groups of the Measure

205. The indicative target groups of the measure are research institutions (research institutes, higher educational establishments and other institutions which are engaged in research activities according to their Statutes) that are listed in the register of research institutions, governmental authorities participating in the tenders of the EU research and technology development programmes, research and development personnel.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

Framework of Planning Documents

206. The development of the scientific and research potential is stipulated in several policy documents of the EU and Latvia. The National Strategic Reference Framework (NSRF) for 2007-2013 indicates that for the productive use of the Latvian R&D potential and its further development, acquisition of SF funds is of critical importance in order to support the research centres and branches of sciences demonstrating their research potential on an international scale, as well as their development perspectives.
207. The Decision of the European Parliament and the Council concerning the 7th Framework Programme of the European Community for research and technological development (2007-2013) and concerning the EURATOM 7th Framework Programme for research and demonstration activities (2007-2013) that stipulate the structure and principles of the 7th Framework Programme.
208. The Law on Research Activities which is aimed at strengthening the Government’s support to science as an essential factor for national development and which assigns to increase the amount of public sector investment up to 1% of GDP, as well as to promote international research cooperation.
209. The Lisbon National Reform Programme of Latvia (LNRPL) for 2005-2008 stresses the significant role of R&D and the formation of enterprises in the development of the national economy, and states that the innovation system is weakly developed and does not ensure the country’s competitiveness.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Previous Assistance

210. Since 1993 the Ministry of Education and Sciences has implemented the Market-oriented Research Programme aimed at promoting the integration of research and production, the use

of research results, development of the knowledge-based industries, formation of technologically-oriented small- and medium-sized enterprises, enhancement of the quality assurance system and the creation of new jobs for qualified workforce.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

211. In 1999, active work within the EU Framework Programmes (FP) commenced – 178 projects were supported under the 5th FP of the EU. In 2002, the 6th FP of the EU was launched in which the level of success has decreased.
212. Since 2004 the resources of the EU Structural funds to the amount of 25 000 000 EUR have been available for the development of science by implementing projects in the period of 2004-2006. On 17 June 2004 the National Programme “Support for Modernisation of Scientific Infrastructure in State Research Institutions” was endorsed under which 15 800 000 EUR would be invested in the development of research in Latvia. The remaining funding, 9 200 000 EUR, will be used in the period of 2006-2008 in supporting applied research projects accepted through an open tender procedure which ended in 2005.

Synergy

213. The measures aimed at developing the potential of science and research will contribute to the attainment of the objectives under the second thematic axis “Strengthening competitiveness and progress towards a knowledge-based economy” of the NSRF. The measure is closely interrelated with the measure “Innovations” within the OP “Entrepreneurship and Innovations”. Support to applied research projects and the development of the potential of science and research, as well as the promotion of the development of scientific infrastructure will foster the creation of innovations and their practical use in entrepreneurship, as well as promote sustainable economic development.
214. The direct objective of the measure aimed at developing the capacity of the scientific and research potential and infrastructure – modernisation of the scientific and research infrastructure and development of the potential of science (second thematic axis) – will contribute to the measures financed from the European Social Fund in relation to the improvement of the employment level, and human resources development (the first thematic axis), thus, achieving the synergy effect. Support to the improvement of the scientific and research infrastructure of universities and research institutes will contribute to the human resources development by achieving the synergy effect with the activities under the measure “Development of the Science and Research Potential” and the measure “Development of Higher Education” of the OP “Human Resources and Employment” aimed at implementing Doctorate study programmes and support to post-Doctorate research.
215. In order to increase the possibility of mutual additionality, this measure is coordinated with the activities envisaged under the measure “Higher Education Infrastructure” (first thematic axis) of the OP “Infrastructure and Services” to provide research infrastructure in higher educational establishments, thus improving the coherence between higher education and research strengthening the capacity of higher educational establishments and research.
216. In projects there will be appraised the overlay preclusion of activities and measures in other operational programmes: “Entrepreneurship and Innovations”, “Human Resources and Employment” and “Infrastructure and Services”, including “ICT Infrastructure and Services”.

Compliance with the Horizontal Priorities

Balanced territorial development

217. Assistance is mainly focused on science institutions capable of competing in the international academic environment as a guarantee for the development of Latvia, that is, on the development centres of national significance. In order to provide the development of science in the regional area and promote the capacity of regional higher educational establishments and the implementation of polycentric development model, there is planned the assistance also of the development centres of regional significance, offering project selection criteria in the frames of activities which will give privilege for science institutions in the regions of Latvia as well as Riga. Though, it is foreseen that notwithstanding the EU fund investments and territorial distribution, the main focus of the science potential will remain in Riga.

Macroeconomic stability

218. The measure is aimed at developing a knowledge-based economy which will increase the number of innovative companies and this, in turn, will promote increasing export volumes and the improvement of the external balance.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Sustainable development

219. The investment measures will increase the capacity of human resources and promote the development of the national economy by implementing practical research projects and ensuring sustainable development.

Equal opportunities

220. In general, the measure will not result in a direct impact on the attainment of the objectives of the equal opportunities' priority. Within the third activity it is planned to ensure special ways for accessing research centres, thus, ensuring access opportunities for the physically disabled.

Information society

221. The ICT will be used actively in science, research and innovations, promoting the cooperation, integration and transnational competitiveness of science institutions. There will be promoted the output of innovative approach for IT use and development by giving support to the practical research in IT sphere. In the terms of third activity there is provided the improvement of information system in the science institutions and higher educational establishments and formation of the next generation data transmission network for the provision of science operation (academic network of Latvia), thus promoting the involvement of science institutions and higher educational institutions in the unitary European academic network.

International competitiveness of Rīga

222. In terms of this measure the assistance is mainly concentrated on the competitiveness of science institutions in the international academic environment. Since 80-90% of world class scientific potential of Latvia is focused in Riga (partially in its area), there will be promoted Rīga's position as the education and research development centre of Latvia and its international competitiveness.

Indicative Activities

223. Indicative Activity 2.1.1.1. Support to science and research.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
224. The indicative objective of activity: To support practical research projects promoting the integration of research and production and the use of research results according to the research priorities nominated by the government (such as agrobiotechnology, informatics, biomedicine and pharmaceuticals, energy sector, material science, forest science, medical science and environmental science), ensuring public access to the research results.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
225. The indicative target group of activity: Research institutions (research institutes, higher educational establishments), research and development personnel.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
226. Indicative final beneficiaries: Research institutions (research institutes, higher educational establishments, research institutions of higher educational establishments) listed in the register of research institutions.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
227. Indicative Activity 2.1.1.2. Support to international cooperation projects in research and technologies (EUREKA, 7th FP, etc.).
(According to amendments made in 16.07.2009. by order of CM Nr.475)
228. The indicative objective of the activity: To ensure the development of the capacity of research institutions, development of new cooperation projects and participation in technological platforms. Ensure the participation of state science institutions in international exhibitions, fairs, science congresses, thus promoting the recognition of Latvia science in the EU and the world.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
229. The indicative target group of the activity: Research institutions (research institutes, higher educational establishments and other institutions which are engaged in research activities according to their Statutes) which are listed in the register of research institutions, governmental authorities participating in the tenders of the EU research and technology development programmes, research and development personnel.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
230. Indicative final beneficiaries: Research institutions (research institutes, higher educational establishments, research institutions of higher educational establishments) listed in the register of research institutions and the governmental authorities participating in the tenders of the EU research and technology development programmes.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
231. Indicative Activity 2.1.1.3. Development of the scientific and research infrastructure.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
232. The indicative objective of the activity: To improve scientific and research equipment and to provide the relevant infrastructure in order to ensure a modern material and technical base for research activities at the leading national and regional research centres, develop information system, data basis and academic data transmission network of Latvia, provide science and

research resources and their accessibility, thus, promoting the development of the intellectual potential of research and involvement of Latvia science in the unitary European science.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

233. The indicative target group of the activity: Research institutions (research institutes, higher educational establishments and other institutions which are engaged in research activities according to their Statutes) which are listed in the register of research institutions, research and development personnel.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

234. Indicative final beneficiaries: Research institutions (research institutes, higher educational establishments, research institutes of higher educational establishments) and other higher educational establishments.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

Measure 2.1.2 „Innovations”

Introduction

235. Currently, the Latvian economy is dominated by industry with low value added, i.e., industries based on processing natural resources, and the advantages of low-cost labour. Sustainable economic development requires increasing value added and productivity of work through various innovation processes. These processes involve not only the development of technologies and products or R&D, but also the practical use of innovations. The Community Strategic Guidelines stipulate that one of the three cohesion policy priorities and investment areas is the promotion of investment and growth of a knowledge-based economy by increasing the R&D capacity. The National Programme of Latvia for 2005-2008 sets the promotion of investment as a key priority in fostering Latvia's competitiveness.

Objective of the Measure

236. The objective of the measure is to promote entrepreneurship with higher value added by providing aid in developing and producing new products and technologies, ensuring highly-qualified human resources in enterprises, as well as cooperation of the research and business sectors.

Justification and Description of the Measure

237. The current data show that the national innovation system in Latvia is considerably underperforming not only in relation to the EU-15 but also EU-10 – the new EU Member States. According to the European Innovation Scoreboard 2004, Latvia has the third worst indicator among the EU Member States. On average, only 18.6% of all Latvian enterprises are innovative while the EU average is 45%. Moreover, the statistical data show that the private sector funds only about 1/5 of the R&D activities while on average in the EU business investment in research accounts for more than a half of all Government expenditure on this area. In 2004, the total amount of funding of research and development was only 0.42% of GDP (the EU-25 average – 1.93% and the EU-15 average – 1.99%).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Table 5: R&D funding by sector, % of the total R&D funding (Eurostat, CSB)

	Latvia			EU-25		
	Higher education	State	Business	Higher education	State	Business
2003	20.4	46.4	33.2	8.5	34.9	54.3

238. On average, in recent years the private sector investments amounted at only 33% of the total R&D investments (the EU-25 average – 54%).

239. Analysis of human resources in the R&D area shows that in Latvia only 0.8% of the employees are engaged in R&D, about 60% of them work in the higher education sector and only about 14% - in the private sector. In the EU more than 1.4% of all employees are engaged in research and about a half of them (49-53%) work in the private sector.

240. In order to ensure sustainable competitiveness of the country, it is necessary to promote the use of knowledge and technology-intensive investment in the economy. Currently, a very small proportion of enterprises correspond to the definition of high- and medium-technology companies according to the OECD. Therefore, purposeful state aid is needed for strengthening the national innovation system and progressing towards a knowledge-based economy. At the same time it is necessary to increase R&D funding and to restructure it by

promoting greater involvement of the private sector, cooperation among education, research and industrial sectors and companies, as well as by improving access to the international technology market and ensuring that a greater proportion of R&D activities are performed at private companies.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Indicative Target Groups of the Measure

241. The indicative target groups of the measure are institutions, bodies, societies, entrepreneurs, business companies, universities and research institutes.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

Framework of Planning Documents

242. The priority will promote attainment of the objectives under the second thematic axis “Strengthening competitiveness and progress towards a knowledge-based economy” of the NSRF – development of the scientific and research potential, transfer of knowledge and enhancement of the innovation level, as well as the purposeful improvement of business competitiveness.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

243. In the spring of 2005, the Heads of the EU countries met at the European Council and agreed on the measures required for more efficient implementation of the Lisbon Strategy and stated that the main objectives of the Strategy would be the promotion of growth and employment in Europe. The European Council approved the Integrated Guidelines for Growth and Employment urging the Member States to pay special attention to the promotion of all types of innovation, strengthening competitive advantages of the industrial base, strengthening synergy of industry and environmental protection, promotion of business culture and the formation of an environment friendly to SMEs.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

244. In 2003, the Cabinet of Ministers approved the Latvian National Investment Programme in order to ensure an innovation-friendly environment in Latvia and promote the formation of a knowledge-based economy. The Programme sets forth the objectives, tasks and main measures of innovation policies aimed at increasing the national innovation capacity.

245. The Lisbon National Reform Programme of Latvia for 2005-2008 set innovations as a key priority in fostering Latvia’s competitiveness. The following priority tasks are set for enhancing the national innovation capacity:

- To form an innovation-friendly institutional environment;
- To encourage cooperation of the research, public and private sectors;
- To support transfer of knowledge and technologies;
- To promote development of new products and technologies, including enhancement of business knowledge concerning intellectual property and its protection.

Previous Assistance

246. In the programming period of 2004-2006, the amount of SF aid granted to enterprises for the development and transfer of new products and technologies, was 5.66 million EUR. Within this activity 45 projects were supported. According to signed contracts, private sector investments in R&D for these projects is 8.1 million EUR. In order to ensure more successful use of new products and technologies in manufacturing products with a higher value added, it

is necessary to further support enterprises in developing and transferring new products and technologies by elaborating the grant scheme for the planning period of 2004-2006 of the SF while also providing support at the early development stages and assisting in adapting the production processes and lines for manufacturing the respective new product.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

247. A similar activity to the planned activity “Centres of knowledge transfer / commercialisation” was performed in the programming period of 2004-2006 of the SF when the formation of contact spots for the transfer of technologies at universities and state research institutes was financed using state budget funds. The total programme funding for this activity amounted at 767 thousand EUR, and within the activity it is planned to prepare 95 commercialisation proposals, initiate at least 70 cooperation agreements with businesses and prepare 15 patent registration applications. The implementation of the programme should be continued in view of the fact that due to the limited funding of the current programme not all state research institutions and universities are covered. It is necessary to improve and diversify the services provided by the existing SME contact spots, as well as to ensure a maximum amount of private sector funding to applied research and the development of new products.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Synergy

248. The measures aimed at promoting the transfer of knowledge and technologies will contribute to attaining the objectives under the second thematic axis “Strengthening competitiveness and progress towards a knowledge-based economy” of the NSRF. The measure is also closely interrelated with the measure “Science, Research and Development” within the OP “Entrepreneurship and Innovations”. Increased amount of innovations and their use in business will foster practical application of the resources invested in the research infrastructure and the demand for research results, as well as promote awareness of the role of research in ensuring sustainable economic development.
249. Support to competence centres ensures additionality to the activity “Development of the scientific and research infrastructure” within the measure “Science, Research and Development” as it will promote the use of modern laboratories and research equipment for creating the innovations needed for business development.
250. According to their objective, the grants to enterprises for development and transfer of new products and technologies, grants for introduction of the products and technologies in production and support to entrepreneurship with a high value added are interrelated with the measures “Modernisation of Agricultural Holdings”, “Adding Value to Agricultural products” and “Support for creation and development of micro-enterprises (including diversification into non-agricultural activities)” within the European Agricultural Fund for Rural Development and activities “Productive investments in aquaculture”, “Processing and marketing of fishery and aquaculture products” and “Collective operation actions” within the European Fisheries Fund. However there is a strict demarcation line between the ERDF, European Agricultural Fund for Rural Development and European Fisheries Fund co-financed measures and activities preventing possible double-funding. The European Agricultural Fund for Rural Development will co-finance non agricultural business projects in rural territory only for small (micro)-sized enterprises as well as processing and further manufacture of products mentioned in Annex 1 to the Treaty establishing the European Community (with exception of fisheries products). European Fisheries Fund will co-finance activities related to processing of fisheries products only. Conversely, the ERDF will support the development

and introduction of new products, processes and technologies and innovations (including products mentioned in Annex 1 of the Treaty establishing the European Community.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Compliance with the Horizontal Priorities

251. The measure “Innovations” will directly contribute to national economic development and progress towards a knowledge-based economy, thus, promoting attainment of the horizontal priorities set forth in the NSRF.

Balanced territorial development

252. Measure will not directly affect horizontal priority’s objectives, however while implementing the activities information on the projects territorial allocation will be analyzed and in case of necessity additional activities to facilitate availability of finance in regions will be made.

Macroeconomic stability

253. The measure is aimed at developing innovations which is an essential tool for promoting the development of the national economy, facilitating high value-added creation and strengthening competitiveness of business companies and the State within the global economy. Criteria for the evaluation of projects will not be used, as the impact on the stability of macroeconomics is defined by the content of activities.

Sustainable development

254. Investments within the measure will promote the enhancement of R&D capacity, development of research potential and its interrelation with production, as well as the use of technological inventions, thus promoting movement towards knowledge based economy what ensures attaining aims of horizontal priority.

Equal opportunities

255. Both in the administration of the priorities and the implementation of the projects compliance with the aims of horizontal priority will be ensured. It will be a requirement that the objectives and results of projects are to have a positive or neutral impact on the attainment of the objectives of the equal opportunities’ priority.

Information society

256. By developing awareness within society of the role of innovations in the development of the national economy, this will also increase business awareness of the necessity to use ICT solutions in enterprises, thus, contributing to this priority.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

International competitiveness of Rīga

257. The largest part of the target group is located in Rīga, thus, the measure will promote Rīga’s position as an economically competitive metropolis of the Baltic Sea region by developing cooperation of the business and research sector and facilitating high value-added product and services manufacture. Moreover, it is considered to provide financial assistance to the development of Science and Technology Park in Riga.

Indicative Activities

258. Indicative Activity 2.1.2.1. Commercialisation of science and transfer of technologies.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
259. The indicative objective of the activity: Enhancement of business competitiveness by establishing Competence Centres and Centres of Knowledge transfer and commercialisation. The Competence Centres will encourage cooperation of the research and industry sector in the implementation of projects of industrial research (applied research) and the development of new products and technologies. The centres of knowledge transfer and commercialisation will ensure a systematic framework for promoting commercialization of research as well as studying research competence (capacity) and purposeful development in universities and institutes.
(According to amendments made in 25.08.2008. by order of CM Nr.500)
(According to amendments made in 16.07.2009. by order of CM Nr.475)
260. The indicative target group of the activity: Enterprises, higher educational establishments, research institutes.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
261. Indicative final beneficiaries: Legal entities which unite research institutions, higher educational establishments, entrepreneurs, as well as higher educational establishments, entrepreneurs, research institutes, Investment and Development Agency of Latvia.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
262. Indicative Activity 2.1.2.2. Development of new products and technologies.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
263. The indicative objective of the activity: To promote the development of new or significantly improved products or technologies by providing aid, also to introduce successfully developed products, services and technologies in production and by awarding grants to enterprises for the development, patenting and transfer of new products and technologies and their introduction in production.
(According to amendments made in 25.08.2008. by order of CM Nr.500)
(According to amendments made in 16.07.2009. by order of CM Nr.475)
264. The indicative target group of the activity: Enterprises.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
265. Indicative final beneficiaries: Entrepreneurs (excluding support for industrial rights – the beneficiary is only SME).
(According to amendments made in 25.08.2008. by order of CM Nr.500)
(According to amendments made in 13.01.2009. by order of CM Nr.11)
266. Indicative Activity 2.1.2.3. Science and Technology park.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
267. The indicative objective of the activity: The project of science and technology park envisage establishment of training, R&D and business infrastructure with the aim of fostering cooperation between those sectors as well as to facilitate innovations and technology transfer.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

268. The indicative target group of the activity: Enterprises, research institutes.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

269. Indicative final beneficiaries: a legal entity established by universities.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

(According to amendments made in 13.01.2009. by order of CM Nr.11)

269.¹ Indicative Activity 2.1.2.4. High value-added investments.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

269.² The indicative objective of the activity: To promote entrepreneurship with a high value added by encouraging local enterprises to invest in knowledge-based and/or technology-intensive projects and by attracting foreign investment to the industries with a high value added in order to foster transfer of the state-of-the-art technologies from abroad. This would ensure strengthening international competitiveness of the enterprises involved and the respective industry, increasing export volumes and the promotion of innovations and manufacturing of products with a high value added. The selection criteria will exclude the transfer of jobs from other Member States to Latvia with the help of this activity.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

269.³ The indicative target group of the activity: Enterprises.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

269.⁴ Indicative final beneficiaries: Enterprises.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

State Aid

270. State aid is planned for the measure. Any public support under this programme must comply with the procedural and material State aid rules applicable at the point of time when the public support is granted.

Priority 2.2 “Access to Finances”

271. The priority is aimed at promoting access to finances necessary for the business development. This objective should be attained by facilitating forming of thorough system of financial instruments, which include guarantee, credit, venture capital, and other financial instruments.

Justification of the Priority

272. The analysis of the current situation indicates strengths and weaknesses, as well as threats and opportunities that provide justification of investments in this priority.

Table 6: SWOT analysis of the Priority 2.2 “Access to Finances”

Strengths	Weaknesses
<ul style="list-style-type: none"> - Latvia is integrated in the EU single market, free movement of goods and services, capital and labour is ensured - The regulatory base of entrepreneurship complies with EU requirements - The corporate income tax (and other expenditure) is one of the lowest in the EU 	<ul style="list-style-type: none"> - Low business activity - Low level of enterprise, low level of initiative and lack of knowledge in starting a business - A great portion of enterprises operating in the low-value added industries with high consumption of natural resources - Investments are accumulated in the traditional industries (labour-intensive, with high intensity of natural resources consumed and a low added value) - Inflexible financial market for promotion of entrepreneurship - Uneven distribution of economic activity through the country
Opportunities	Threats
<ul style="list-style-type: none"> - Highly developed financial instruments to start up and develop businesses - Development of industries with a low intensity of natural resources consumed based on intellectual property rights 	<ul style="list-style-type: none"> - Increasing competitiveness in the traditional leading Latvian industries - Flow of private sector investments to the potentially more active markets - Increasing territorial disparities in terms of business activity and employment

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Objective of the Priority

273. The objective of the priority is to facilitate access to financial resources to enhance business development, at the same time reducing the negative effects of direct State aid on market

competition and achieving a more efficient use of State aid assets by exploiting them repeatedly for the business development or applying a multiplier.

Description of Measures

274. One measure is planned within the priority – “Access to Finances”, which will enhance access to financial capital for new enterprises, SMEs and large enterprises by offering guarantees, high-risk financial instruments, as well as will develop financial market.

(According to amendments made in 27.02.2009. by order of CM Nr.142)

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Synergy

275. The priority is closely interrelated with support of the ERDF and ESF for research and innovations by providing additional support for the implementation of ideas in entrepreneurship. The aid under this priority is supplementary to the aid of the European Agricultural Fund for Rural Development to entrepreneurship without the overlapping of aids and ensuring territorial and thematic separation of aid.

Indicators¹⁷

276. Outputs:

- The number of enterprises which have received venture capital investments – 65 (target in 2009 – 8).

277. Results:

- Number of SC investments passing on to successive investment stages – 45 (base value 2004 – 0, target value in 2009 – 10);
- Improved turnover in supported enterprises 2 years after investment/loan received – 20% (base value in 2004 – 0%, target value in 2009 – 0%).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

¹⁷ The main target for all indicators is provided for the year 2015

Measure 2.2.1 „Accessibility of Financial Resources”

Introduction

278. The accessibility to financial resources is crucial for economic development, as investments in entrepreneurial activity increase economic efficiency and competitiveness, thus accelerating growth. Access to current and capital assets presents considerable difficulties to small and medium-sized enterprises attempting to improve their business activity and competitiveness, as well as among business start-ups, particularly those of innovative nature or characterised by rapid growth potential.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Objective of Measure

279. The objective of the measure is to facilitate access to financial resources to enhance business development, at the same time reducing the negative effects of direct State aid on market competition and achieving a more efficient use of State aid assets by exploiting them repeatedly for the business development or applying a multiplier.

Justification and Description of Measure

280. Although over the last years (2004 – 2006), opportunities for receiving foreign funding have increased substantially, the requirements for collaterals in commercial banks and the high cost for making venture capital investments, limit access to financing for SME. Therefore, the improvement of access to financial resources over the entire life cycle of the company, especially by forming proper conditions of credit and venture capital accessibility, has been set as one of the priority measures.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

281. Significant capital investment in the national economy is required to develop business and modernise production and the provision of services. SMEs and large enterprises face difficulties when trying to provide financing for the development of business that would facilitate the growth of the national economy. New entrepreneurs are the ones who most often encounter insufficient access to financing. This can be seen from the data gathered in 2004 on the number of businesses and individual entrepreneurs, that was 22.7 per 1000 residents¹⁸. New entrepreneurs in high technology fields where the capital for development is traditionally provided by venture capital investments face significant difficulties in access to financing.

(According to amendments made in 27.02.2009. by order of CM Nr.142)

282. With regard to the supply of financial tools that could provide financing for starting up and developing enterprises, Latvia lags behind the indicators of the European Union. For example, in 2004 venture capital investment in development and restructuring phases in the EU-15 was 0.085% of GDP. In 2004, venture capital investment in the early phases in the EU-15 was 0.023% GDP¹⁹. According to a survey carried out by the Latvian Venture Capital Association in 2004, only eight venture capital funds have invested in Latvian companies and risk capital investment in the development and restructuring phase in 2004 was about 0.05% GDP. After surveying members of the venture capital market the main problems were found to be the small market in Latvia and even the Baltic States (high costs

¹⁸ Source: Central Statistics Bureau.

¹⁹ Source: Eurostat, www.epp.eurostat.ec.eu.int.

per transaction), lack of information on market risks (small number of transactions in the market) and limited exit possibilities.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

283. The level of market capitalisation is one of the commonly used indicators to give an overall description of the role of private sector investors in the national economy. In Latvia it is noticeably lower than the EU average, and that of Lithuania and Estonia.

Table 7: Market Capitalisation, %GDP

	2000	2001	2002	2003	2004
EU-25	100%	81.8%	54.8%	63%	66.8%
Latvia	7.2%	8.7%	7.1%	9.1%	9.9%
Lithuania	26.6%	22.1%	19.3%	25.5%	33.7%
Estonia	32%	25.5%	30.8%	36.9%	48.7%

Source: Eurostat, www.epp.eurostat.ec.eu.int

284. With regard to access to funding stimulating foreign trade, a survey conducted out by SKDS in 2004 found that there is a need for export credits. 22.4% entrepreneurs said that access to export-encouraging financial tools (credits, guarantees) would promote export growth.

Indicative Target Groups of the Measure

285. The indicative target groups of the measure are new enterprises, small, medium-sized and large companies and investors.

(According to amendments made in 27.02.2009. by order of CM Nr.142)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

Framework of Programming Documents

286. The measure “Accessibility of Financial Resources” promotes the achievement of tasks set out in the NSRF Thematic axis 2 „Strengthening competitiveness and progress towards a knowledge-based economy”, i.e., to reach higher indicators of economic activity, promote the formation of new enterprises, as well as to develop small and medium-sized companies and increase their competitiveness and provide access to funding.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

287. Latvia’s long-term policy planning document, the Single Strategy of National Economy sets market capitalisation as one of the indicators to reach the EU-15 level of about 150% GDP by 2030. Latvia’s Small and Medium-sized Company Development Policy Guidelines (2004 – 2013) state promotion of access to finances for the development of small and medium-sized entrepreneurship as a priority action. In accordance with the decisions made in Lisbon, EU member states at the Feira European Council of 19 and 20 June 2000 approved the European Charter for Small Enterprises, which states that one of the priorities is to improve accessibility to financial resources over the entire life cycle of the company, especially by laying down appropriate conditions for the accessibility to credit and venture capital and introducing initiatives to increase the financing available for starting new companies and high technology companies, including the equity tools. NLPL envisages improving SME access to financing by issuing middle and long-term loan guarantees to SME providing allocation of funding for the development of entrepreneurship in the early phase and promoting accessibility of finances to SME in the form of venture capital.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

288. The allowed State aid to its companies in the forms of export credit and guarantees, stated in the EU legislation is accessible in almost all Western European and Central European countries. By adopting the EU directives in the area of export credit guarantees into the legislation of the Republic of Latvia (LR) and introducing the system of export credit guaranteeing, Latvian entrepreneurs will be assured of equal competition with other EU exporters in the markets of third countries.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Previous Assistance

289. In the SF programming period of 2004 – 2006, activities providing support in financial measures with the total funding of about 34.6 million EUR were carried out.

290. Within the framework of the Guarantee System Development Programme, it is envisaged to allocate financing to develop a loan guarantee system, to provide the possibility for SME to receive a loan in situations when their own collateral is insufficient to attract the necessary amount of credit resources. The total funding of the programme is 7.6 million EUR.

291. The objective of the Venture Capital Financing Programme is to facilitate SME access to financial resources in cases when the equity is insufficient, but the risk of the business is too high to be granted a credit. Within the framework of the programme three venture capital funds, with the total financial resources marked for investments of 31.14 million EUR, have been established. 46% of the financing is provided by the state budget and ERDF, and 54% is provided by private investors. These assets will be invested by the above funds in small and medium-sized enterprises (SME) that have high growth potential and value added by investing it in the equity of the company or allocating it in the form of equity-related financial tools, and as a result the attracted additional financing will be used to expand current operation and develop new products or technologies. It is anticipated that investments of around 714 thousand EUR will be received by 40-50 SME.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

292. To facilitate SME access to funding, the national programme “Loans (including micro credits) for Starting a Business” (hereinafter the Programme) and its project “Development of New Business Loan System” was developed and approved on September 15 2005. Within the framework of the programme it is envisaged to form a public sector co-financed financial tool that would allow SME to receive loans, including micro credits, with preferential conditions. To implement the Programme, resources in the amount of 29.98 million EUR have been attracted. The recipient of the financing and the introducer of the Programme is the State joint-stock company “Latvijas Hipotēku un Zemes banka” (hereinafter *Hipotēku banka*). Within the framework of the Programme *Hipotēku banka* will provide SME with the option of receiving loans, including micro loans, for starting a business.

Synergy

293. Measures facilitating accessibility of finances will promote the goals set out in the thematic axis No 2 “Strengthening competitiveness and progress towards a knowledge-based economy” of the NSRF. Financial tools provide a mechanism for the stimulation of investments in the development of business by using tools almost identical to those used in the financial market as an alternative to grants, thus reducing distorted competition. Measures facilitating accessibility of finances offer not only funding for developing companies, but also serve as incubators for the development of financial tools in the national economy by facilitating upskilling of private sector professionals in the financial market and providing investors with examples of return on venture capital investment.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

294. Furthermore, financial tools supplement the activities within the framework of the operational programme “Human Resources and Employment” that are aimed at business start-ups, by providing financial resources in further phases of entrepreneurship.
295. Support for measures facilitating accessibility of finance will not be provided under the European Agricultural Fund for Rural Development and the Financial Instrument for Fisheries Guidance, conversely this support for enterprises operating in agriculture and fishing industries will be provided under the measure “Accessibility of Financial Resources” of ERDF preventing possible double-funding and ensuring the additionality principle of Funds.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Compliance with Horizontal Priorities

296. The measure will directly facilitate economic growth of the country, thus facilitating the achievement of horizontal priorities set out in the NSRF.

Balanced territorial development

297. Balanced territorial development will be promoted by improving the funding accessibility for companies in regions where the value of collateral is often lower than in Rīga and the Rīga region.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Macroeconomic stability

298. The horizontal priority will be implemented by facilitating business development and forming of new enterprises. Especially the growth of the competitiveness of venture capital financed companies and the number of employees is traditionally a couple of times higher than the average indicators in the national economy. All investment directions within the framework of the measure envisage attracting substantial private financing.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Equal opportunities

299. Both in the administration of the priority and the implementation of the projects compliance with the aims of horizontal priority will be ensured. It will be a requirement that the objectives and results of projects are to have a positive or neutral impact on the attainment of the objectives of the equal opportunities’ priority.

Sustainable development

300. The implementation of the sustainable development priority will be achieved with the help of several mediated activities within the priority, therefore, the resources available to companies for the development of entrepreneurship will be promoted, which can be used to implement environment requirements and standards in business.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Information society

301. No direct connection with the horizontal priority has been planned within the framework of the measure, but the improvement of accessibility of funding will provide entrepreneurs with

possibilities to master new technologies. Especially venture capital financed companies traditionally have a higher knowledge capacity.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

International competitiveness of Rīga

302. Within the framework of the priority in Rīga the growth of the city will be facilitated, making it into a competitive metropolis of the Baltic Sea region by developing cooperation between entrepreneurs and research and promoting a flexible and capable entrepreneurial environment.

Indicative Activities

303. Indicative Activity 2.2.1.1. Holding fund for the investment in guarantee, high-risk loans, and venture capital funds and other financial instruments.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

304. The indicative objective of the activity: To provide access to financial resources to SMEs for starting up and developing business by taking loans or venture capital in situations when their own collateral is insufficient to attract the necessary amount of credit resources, as well as to facilitate the competitiveness of Latvian companies in foreign markets, promote entrance to new markets and strengthening positions in the current markets by developing and providing for Latvian entrepreneurs the financial tools such as export guarantees to facilitate exports.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

305. The indicative target group of the activity: Business start-ups, SMEs, investors.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

306. Indicative final beneficiary: Holding fund.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

(According to amendments made in 13.01.2009. by order of CM Nr.11)

307. Indicative Activity 2.2.1.2. Attraction of strategic investors.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

308. The indicative objective of the activity: The objective of this activity is to promote a system for trading with the shares of small and medium-sized companies, thus increasing the access to finance for SMEs and the exit possibilities for investors. Using this mechanism stock exchanges try to attract SMEs, that are unable to meet all listing requirements immediately. At the same time the stock exchange attracts additional investors, who are interested in securities with higher profitability than the traditional shares of listed companies. Another goal of the activity is to promote accessibility to financial resources for enterprises, by facilitating information exchange between the potential private investors and enterprises that require equity financing as well as by increasing knowledge about such investments among investors and enterprises.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

309. The indicative target group of the activity: Investors and entrepreneurs.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

310. Indicative final beneficiaries: Entrepreneurs, State Agency.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

310.¹ Indicative Activity 2.2.1.3. Guarantees for development of enterprise competitiveness.

(According to amendments made in 27.02.2009. by order of CM Nr142)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

310.² The indicative objective of the activity: To provide access to financial resources to entrepreneurs for business development and implementation of European Union fund's projects by receiving guarantees in situations when their own collateral is insufficient to attract the necessary amount of credit resources and business is considered too risky to receive funding from banks, as well as to facilitate the competitiveness of Latvian companies, promote entrance to new markets and strengthening positions in the current markets.

(According to amendments made in 27.02.2009. by order of CM Nr142)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

310.³ The indicative target group of the activity: Entrepreneurs.

(According to amendments made in 27.02.2009. by order of CM Nr142)

310.⁴ Indicative final beneficiaries: Latvian Guarantee Agency.

(According to amendments made in 27.02.2009. by order of CM Nr142)

310.⁵ Indicative Activity 2.2.1.4. Loans for development of enterprise competitiveness.

(According to amendments made in 27.02.2009. by order of CM Nr142)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

310.⁶ The indicative objective of the activity: To provide access to financial resources to entrepreneurs for business development and implementation of European Union fund's projects by receiving loans in situations when their own collateral is insufficient to attract the necessary amount of credit resources and business is considered too risky to receive funding from banks, as well as to facilitate the competitiveness of Latvian companies, promote entrance to new markets and strengthening positions in the current markets.

(According to amendments made in 27.02.2009. by order of CM Nr142)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

310.⁷ The indicative target group of the activity: Entrepreneurs.

(According to amendments made in 27.02.2009. by order of CM Nr142)

310.⁸ Indicative final beneficiaries: Latvian Mortgage and Land Bank

(According to amendments made in 27.02.2009. by order of CM Nr142)

Financial instruments

311. The activity "Holding fund for the investment in guarantee, high-risk loans, and venture capital funds and other financial instruments" of the measure "Accessibility of Financial Resources" will be implemented using the holding fund mechanism according to the Article 44 of Council Regulation No 1083/2006. As the Latvian authorities have established well-working collaboration with the JEREMIE team, Latvia will appreciate EIB admising assistance for implementation of activities using holding fond mechanism.

State Aid

312. State aid will be provided within the framework of the measure. Any public support under this programme must comply with the procedural and material State aid rules applicable at the point of time when the public support is granted.

Priority 2.3 “Promotion of Entrepreneurship”

313. The priority is aimed at promoting economic activity and enhancing competitiveness by setting up new enterprises and strengthening existing enterprises. To attain this objective, business start-ups, as well as national and international competitiveness of the enterprises will be fostered.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Justification of the Priority

314. The analysis of the current situation indicates strengths and weaknesses, as well as threats and opportunities that provide justification of investments in this priority.

Table 8: SWOT analysis of the Priority 2.3 “Promotion of Entrepreneurship”

Strengths	Weaknesses
<ul style="list-style-type: none"> - Location in a region with a high level of economic and political activity being a favourable precondition for attracting new cooperation partners - Latvia is integrated in the EU single market, free movement of goods and services, capital and labour is ensured - The regulatory base of entrepreneurship complies with the EU requirements - The corporate income tax (and other expenditure) is one of the lowest in the EU - Stable development of the traditional and new service and manufacturing sectors with high export potential, e.g., ICT, wood processing, mechanical engineering industry, electronic industry, food processing, pharmaceutical industry, biomedicine and biotechnologies, financial services and logistics 	<ul style="list-style-type: none"> - Low business activity - Low level of enterprise, low level of initiative and lack of knowledge in starting a business - A great portion of enterprises operating in the low- value added industries with high consumption of natural resources - Production of a great share of enterprises is aimed at the domestic (Latvian)market - Investments are accumulated in the traditional industries (labour-intensive, with high intensity of natural resources consumed and a low added value) - Inflexible financial market for promotion of entrepreneurship - Uneven distribution of economic activity through the country
Opportunities	Threats
<ul style="list-style-type: none"> - Development of cooperation in the existing clusters of wood processing, chemical industry, metal processing, transport, communications (ICT) industries, as well as formation of new clusters - Use of applied research and knowledge in entrepreneurship 	<ul style="list-style-type: none"> - Increasing competitiveness in the traditional leading Latvian industries - Flow of private sector investments to the potentially more active markets - Shortage of workforce - Increasing territorial disparities in terms of business activity and

<ul style="list-style-type: none"> - Development of industries with a low intensity of natural resources consumed based on intellectual property rights - Optimisation of technological processes and work organisation in enterprises 	<p>employment</p>
--	-------------------

(According to amendments made in 25.08.2008. by order of CM Nr.500)

315. Business activity is one of the key indicators of a country's development, characterising the level of liberalisation, competition and competitiveness, as well as the quality of the working environment. Business activity also characterises the level of enterprise and financial independence of residents. Therefore, investment is necessary in promoting business activity and ensuring the preconditions for starting new businesses and attracting investment, as well as in strengthening competitiveness of the existing enterprises.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Objective of the Priority

316. The objective of the priority is to promote the formation of new enterprises and enhance competitiveness of the existing enterprises.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Description of Measures

317. Two measures are planned within the priority. The measure "Business Support Activities" will facilitate increase of business activity and access to international trade markets. The measure "Business Infrastructure and Improvements to Equipment" will enhance business development in regions, foster cooperation between enterprises and industry associations (cluster development), as well as facilitate development of high value added entrepreneurship.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Synergy

318. The priority is closely interrelated with support of the ERDF and ESF for research and innovations by providing additional support for the increase of business competitiveness. The aid under this priority is supplementary to the aid of the European Agricultural Fund for Rural Development and of the Financial Instrument for Fisheries Guidance to entrepreneurship without the overlapping of aids and ensuring territorial and thematic separation of aid.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Indicators²⁰

319. Outputs:

- Incubator space created - 18 000 m² (target in 2009 – 4000 m²).
- The number of supported projects facilitating access to international trade markets – 330 (target in 2009 – 40).

²⁰ The main target for all indicators is provided for the year 2015

- The number of enterprises located in specially assisted areas which have been granted aid – 360 (target in 2009 – 65).

320. Results:

- The number of economically active enterprises supported in business incubators – 82 (base value in 2004 – 0, target in 2009 – 10).
- Improved turnover in supported enterprises 2 years after investment received²¹ – 20% (base value in 2004 – 0%, target in 2009 – 0%).

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Measure 2.3.1 „Business Support Activities”

Introduction

321. High business activity is a primary pre-condition for economic growth. Increased competition on the supply side among producers and service providers results in necessity to enhance competitiveness of every individual enterprise, thus, contributing to the general development of competitiveness of the national economy.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Objective of the Measure

322. The objective of the measure is to promote access to international trade markets, to attract foreign investments, as well as to inform and encourage as large part of the society as possible to start-up business and promote application and creation of innovations in order to sustain long-term development.

(According to amendments made in 05.09.2011. by order of CM Nr.425)

Justification and Description of the Measure

323. In 2004, 74.9% of all Latvian enterprises were micro-sized enterprises, 20.9% - small-sized enterprises and 4.2% - medium-sized enterprises. In total, 99.3% of all enterprises are SMEs – similarly to the EU countries. In 2006, in Latvia the number of business companies and individual merchants was 22.7 per 1000 inhabitants, but in the EU-15 countries – 40-60 per 1000 inhabitants. Such business activity correlates with low motivation to start a business; motivation to start a business is particularly low among women. This motivation should be increased at all levels of education, starting from primary education. Business start-ups also lack knowledge in successful management of businesses. Furthermore, data indicate that Latvian companies and young Latvians lack the awareness of the role of innovations in the development of enterprises, enhancement of competitiveness and increasing social welfare.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

324. When promoting manufacturing products with a higher value added, it is necessary to take into account their potential sales market as Latvia’s internal market is too small. In 2004, the export volume of Latvian goods and services accounted for 43.6% of GDP, however the most part of them are low- value add products (in 2004, the share of high-value added goods accounted for only 7.9% of the total exports in Latvia but in Ireland – for 62.1%). In order to ensure attainment of the objectives set by the Latvian external trade policies, it is necessary to actively promote international competitiveness of Latvian enterprises, encourage them to

²¹ Refers to activity „Co-financing to the initial investments in micro, small and medium-sized enterprises operating in the specially assisted areas” and activity „High value – added investments”

create new markets, as well as strengthen their positions on the current markets. The main export problems are closely interlinked with the shortage of qualified human resources that should be addressed through aid to training, as well as to export marketing activities.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Indicative Target Groups of the Measure

325. The indicative target groups of the measure are the potential business start-ups, local governments, enterprises, and industry associations.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

Framework of Planning Documents

326. The priority will contribute to the attainment of the objectives under the second thematic axis “Strengthening competitiveness and progress towards a knowledge-based economy” of the NSRF – to ensure higher indicators of economic activity by promoting the formation of new enterprises, as well as the development of enterprises and enhancement of competitiveness.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

327. The Latvian long-term policy planning document “Single Strategy of National Economy” sets forth that an indicator of favourable conditions for a well functioning economy is the increase in the number of economically active enterprises and business companies per 1000 inhabitants which should reach the EU-15 average – about 50 enterprises – by 2030. The guidelines for SME development policy in Latvia for 2004-2013 set forth, that encouraging initiative of the potential and existing enterprises is a priority activity by reducing the general level of risk and promoting availability of the financial capital and its efficiency in order to foster the development of Latvian enterprises and their competitiveness in the market. According to the Lisbon decisions, on 19 and 20 June 2000 at the Feira European Council, the EU leaders approved the European Charter for Small Enterprises in which a priority is availability of education and training for entrepreneurship. Latvia has joined the charter and the action plan for its implementation – the Multi-annual Programme for Enterprise & Entrepreneurship, in particular for small and medium-sized enterprises 2001-2005.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

328. The framework of the national policy for the promotion of external trade is the Latvian Export Promotion Programme (EPP) that defines the objectives, main tasks and measures for attainment of the planned results. International trade, including exports, is a significant element of the Lisbon strategy. Currently, the EU is well presented on the stable export markets with constant demand. However, it is not so well positioned in the rapidly growing markets when compared with the exports of the USA and Japan. Consequently, developing the EU competitiveness within the global economy is emphasised.

329. The National Development Plan singles out the following tasks: to encourage creation of new export markets and to strengthen international competitiveness of Latvian enterprises, to reach the average productivity level in the EU in the traditional industries, to improve business competence in creating external markets, to promote the integration of Latvian exporters in global supply chains, to ensure uniform and efficient aid to business start-ups, to particularly promote setting up enterprises in Latvia’s regions.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Previous Assistance

330. In the planning period of 2004-2006 of the SF aid, 1.66 million EUR was provided for participation of SMEs in international exhibitions, fairs and trade missions. 95 projects are supported within the activity. In order to enhance business competitiveness, it is necessary to expand aid to creation of new markets by envisaging that the measures promoting the creation of new markets are participated not only by separate enterprises but also by organisations unifying enterprises – industry associations.

Synergy

331. The entrepreneurship activities and activities aimed at strengthening competitiveness will contribute to the attainment of the objectives under the second thematic axis “Strengthening competitiveness and progress towards a knowledge-based economy” of the NSRF.
332. Activity “Measures to encourage innovations and business start-ups” will complement the activity financed by ESF “Reinforcing motivation of scientific activities”.
333. ERDF co-financed activity “Access to international trade markets” complements the activity “Promoting of new trade markets and advertisement campaigns” of Financial Instrument for Fisheries Guidance, the objective of which is encouraging product consumption growth and the expansion of trade market, however in order to avoid the overlapping of aids, Financial Instrument for Fisheries Guidance will co-finance enterprises operating only in fishing and aquaculture industries.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Compliance with the Horizontal Priorities

334. The measure aimed at promoting business activity and competitiveness will directly foster the development of the national economy, thus contributing to the attainment of the horizontal priorities of the NSRF.

Balanced territorial development

335. Measure will not directly affect horizontal priority’s objectives, however while implementing the activity “Measures to encourage innovations and business start-ups” special attention will be paid to business activity in regions.

Macroeconomic stability

336. The priority will be implemented through the promotion of enhanced business activity and business creation. An increased number of enterprises will lead to stronger competition that will motivate enterprises to enhance their competitiveness in various ways (by improving productivity or by manufacturing high-value added products, etc.) contributing to sustainable economic growth. A similar effect can be expected from the external marketing measures that will help enterprises to improve their competitiveness on external markets.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Equal opportunities

337. Both in the administration of the priorities and the implementation of the projects compliance with the aims of horizontal priority will be ensured. It will be a requirement that the objectives and results of projects are to have a positive or neutral impact on the attainment of the objectives of the equal opportunities’ priority.

Sustainable development

338. Measure will not directly affect and will be neutral in relation to consummation of the horizontal priority's objectives.

Information society

339. Activity "Measures to encourage innovations and business start-ups" will raise the awareness of the role of innovations, inter alia, ICT skills, in the development of enterprises, enhancement of competitiveness and increasing social welfare.

International competitiveness of Rīga

340. The largest part of the target group is located in Rīga, thus, the measure will facilitate consummation of the horizontal priority's objectives.

Indicative Activities

341. Indicative Activity 2.3.1.1. Access to international trade markets and attraction of foreign investments.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

(According to amendments made in 05.09.2011. by order of CM Nr.425)

342. The indicative objective of the activity: To introduce foreign customers to the advantages of Latvian goods and services, to encourage participation of Latvian enterprises in national stands at international exhibitions and trade missions, to promote the integration of Latvian enterprises in the international supply chains, as well as attraction of foreign investments. It is especially planned to promote creating sales markets for high value added products and services.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

(According to amendments made in 05.09.2011. by order of CM Nr.425)

343. The indicative target group of the activity: Enterprises, industry associations.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

344. Indicative final beneficiaries: Performers of economic activity, associations listed in the Register of Associations and Foundations, partnerships of performers of economic activity, LIDA.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

(According to amendments made in 13.01.2009. by order of CM Nr.11)

345. Indicative Activity 2.3.1.2. Measures to encourage innovations and business start-ups.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

346. The indicative objective of the activity: To inform and encourage as large part of the society as possible to start-up business, to promote prestige of entrepreneurship, to raise understanding of the role of innovations in sustaining long term development, to inform society about progress with innovations and its potential, therefore promoting application and creation of innovations.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

347. The indicative target group of the activity: Students, potential business start-ups, local governments, as well as society in general.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

348. Indicative final beneficiaries: Investment and Development Agency of Latvia.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

State Aid

349. State aid is planned for the measure. Any public support under this programme must comply with the procedural and material State aid rules applicable at the point of time when the public support is granted.

Measure 2.3.2 „Business Infrastructure and Improvements to Equipment”

Introduction

350. The high growth rate of the Latvian economy should be strengthened by purposeful progress towards a knowledge-based economy. Though the rate of GDP growth has not decreased and private investment in fixed assets has been rapidly growing, long-term economic development requires enhancement of the value added and competitiveness on local and foreign markets.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Objective of the Measure

351. The objective of the measure is to enhance business competitiveness at the national and international level, as well as to ensure business development in regions.

Justification and Description of the Measure

352. Considerable disparities are observed in the number of enterprises per 1000 inhabitants among the regions: the ratio in the Rīga region is 32.9, in the Vidzeme region – 13.8, the Kurzeme region – 15.1, the Zemgale region – 11.8, the Latgale region – 10.8 enterprises per 1000 inhabitants (data of the CSB). However, for sustainable development it is not sufficient to only promote the formation of new businesses. In order to enhance competitiveness, business start-ups must be viable. The number of new enterprises considerably changes year by year and in 2004 the increase was 33% or 10 221 enterprises. In year 2004 the growth of the number of new enterprises decreased – 7.7% or 11 009 enterprises, however in year 2006 the growth was 22.6% or 13 500 enterprises. Statistics show that the increase in the total number of enterprises is just about a half of the number of business start-ups highlighting viability problems. In addition, the above data also show an increasing level of business activity, however, it is not rapid enough in order to approach the EU-15 average in the nearest future. Therefore, it is essential to undertake measures that would both increase motivation to start a business and promote competition among businesses and ensure a higher rate of economic growth.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

353. Strengthening the cooperation of businesses and their cooperation with research and educational establishments is an internationally recognised approach in promoting business competitiveness, productivity, ensuring the critical mass and development of innovations. In

Latvia, the cooperation culture of enterprises is weakly developed, cooperation is also insufficient in various industries among associations and entrepreneurs, suppliers of products and traders and service providers. Such cooperation would foster exchange of experience, implementation of joint activities, such as marketing and surveys/research, performance of joint projects and development of common infrastructure leading to an increased amount of high value added production and enhanced business competitiveness.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Indicative Target Groups of the Measure

354. The indicative target groups of the measure are local governments, enterprises and industry associations.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

Framework of Planning Documents

355. The priority will contribute to the attainment of the objectives under the second thematic axis “Strengthening competitiveness and progress towards a knowledge-based economy” of the NSRF – to ensure higher indicators of economic activity by promoting the formation of new enterprises, as well as the development of enterprises and enhancement of competitiveness.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

356. The Latvian long-term policy planning document “Single Strategy of National Economy” sets forth that an indicator of favourable conditions for a well functioning economy is the increase in the number of economically active merchants and business companies per 1000 inhabitants, paying special attention to regions with relatively low index of social-economical development, which should reach the EU-15 average – about 50 enterprises – by 2030.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

357. The Lisbon National Reform Programme of Latvia sets forth that a key measure for 2005-2008 with regard to strengthening industrial competitiveness is promotion of the development of clusters, examination of their potential and support to the potentially strongest clusters. With regard to the development of small- and medium-sized enterprises, a key policy priority is enhancement of competitiveness by promoting use of the new technologies and modernisation of production.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

358. The National Development Plan singles out the following tasks: to develop new forms for cooperation of producers, suppliers and service providers by promoting the formation of clusters and enhancing competitiveness in the traditional and new manufacturing and services industries with an export potential, to ensure uniform and efficient aid to business start-ups (business incubators, support to the business angels networks, venture capital funds, investment guarantees, etc.), to particularly promote setting up enterprises in Latvia’s regions.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Previous Assistance

359. The activities in the planning period of 2004-2006 of the SF are aimed at ensuring aid to the development of entrepreneurship in the specially assisted areas, and their total funding amounts to 12.82 million EUR, co-financed by the private sector funds amounting – 13.48 million EUR. The programme provides funding to 173 projects. Thus 420 jobs will be created and maintained. It is planned to continue the activities by providing co-financing to the initial

investments in small-sized enterprises operating in the specially assisted areas. By now, the amount of funding has been insufficient in order to reduce regional disparities in business activity.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

360. In 2000-2001 the first initiative for the promotion of clusters was implemented in Latvia – Phare project “Support to Business Cluster Restructuring” which provided consultation support to the development of three potential clusters, two of which are still functioning (the information system cluster and the cluster of the forest industry and associated industries). Thus, only consulting support was provided to a small number of the potential clusters without ensuring adequate tools for cooperation among companies. Therefore, it is necessary to further support the cluster programmes by considerably expanding the range of activities and clusters supported.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Synergy

361. The entrepreneurship activities and activities aimed at strengthening competitiveness will contribute to the attainment of the objectives under the second thematic axis “Strengthening competitiveness and progress towards a knowledge-based economy” of the NSRF.
362. Within the cluster programme additional aid is available for the implementation of common projects in the field of promotion of the cooperation and increase of competitiveness within industry, thus complementing activity financed by ESF “Enhancement of the competitiveness of residents in working age (age group of 15 to 64), including retraining and active employment measures”.
363. Aid to the investments for the development of SMEs in the specially assisted areas (SAA) will complement the measures “Modernisation of Agricultural Holdings”, “Adding Value to Agricultural products” and “Support for creation and development of micro-enterprises (including diversification into non-agricultural activities)” co-financed by the European Agricultural Fund for Rural Development and measures “Productive investments in aquaculture” and “Processing and marketing of fishery and aquaculture products” co-financed by the European Fisheries Fund. The co-financing of the European Agricultural Fund for Rural Development will be used in order to fund non-agricultural entrepreneurship of only small (micro)-sized enterprises in rural territories as well as processing and further manufacture of products under the Annex 1 to the Treaty establishing the European Community (with exception of fisheries products), which is a sector not supported by the respective ERDF activity, hence ensuring the partition from the ERDF co-financed activity. The co-financing of the European Fisheries Fund will be used in order to fund enterprises operating only in fishing and aquaculture industries, which are not supported by the respective ERDF activity.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

Compliance with the Horizontal Priorities

364. The measure aimed at promoting business activity and competitiveness will directly foster the development of the national economy, thus contributing to the attainment of the horizontal priorities of the NSRF.

Balanced territorial development

365. Balanced territorial development will be supported by two activities. Within the activity “Business incubators” in each region necessary business infrastructure for the start-up and development of the business will be created – business incubator. Second, the activity “Co-financing to the investments in micro, small and medium-sized enterprises operating in the specially assisted areas” will be implemented only in the specially assisted areas.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

Macroeconomic stability

366. Macroeconomic stability will not be directly promoted by several activities, through the promotion of enhanced business activity and business creation. An increased number of enterprises will lead to stronger competition that will motivate enterprises to enhance their competitiveness in various ways (by improving productivity or by manufacturing high-value added products, etc.) contributing to sustainable economic growth.

Equal opportunities

367. Both in the administration of the priorities and the implementation of the projects compliance with the aims of horizontal priority will be ensured. It will be a requirement that the objectives and results of projects are to have a positive or neutral impact on the attainment of the objectives of the equal opportunities’ priority.

Sustainable development

368. Measure will not directly affect and will be neutral in relation to consummation of the horizontal priority’s objectives.

Information society

369. The activities aimed at promoting the regional development of Latvia will indirectly contribute to acquisition of ICT skills and their use in entrepreneurship

International competitiveness of Rīga

370. The largest part of the target group is located in Rīga and Rīga region therefore in activities where will not be set territorial limits, entrepreneurs’ activity to apply for support will be high. . Therefore will be encouraged the development of Rīga, making it into a competitive metropolis of the Baltic Sea region by developing cooperation between entrepreneurs and research and promoting a flexible and capable entrepreneurial environment.

Indicative Activities

371. Indicative Activity 2.3.2.1. Business incubators.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

372. The indicative objective of the activity: Enhance development of new, competitive and viable enterprises in regions providing them appropriate business environment and business support services, e.g. infrastructure and consultations.

(According to amendments made in 25.08.2008. by order of CM Nr.500)

(According to amendments made in 16.07.2009. by order of CM Nr.475)

373. The indicative target group of the activity: Local governments, incubator operators, and enterprises located in business incubators and other support received enterprises.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

374. Indicative final beneficiaries: Entrepreneurs (operators of incubators), Investment and Development Agency of Latvia.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
375. Indicative Activity 2.3.2.2. Co-financing to the investments in micro, small and medium-sized enterprises operating in the specially assisted areas.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
(According to amendments made in 16.07.2009. by order of CM Nr.475)
376. The indicative objective of the activity: Promote business development in specially assisted areas. As a result unfavourable conditions between regions will decrease and balanced territorial development will be facilitated.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
377. The indicative target group of the activity: Micro and small-sized enterprises.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
378. Indicative final beneficiaries: Micro and small-sized enterprises that are registered and operates in specially assisted areas.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
379. Indicative Activity 2.3.2.3. Cluster program.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
380. The indicative objective of the activity: This activity is aimed at promoting the preparation and implementation of efficient cluster development strategies, including implementation of joint projects, thus, ensuring, more rapid growth of competitiveness of industries and, indirectly, businesses themselves.
(According to amendments made in 16.07.2009. by order of CM Nr.475)
381. The indicative target group of the activity: Clusters – cooperation networks of enterprises, research institutions, educational establishments and other institutions.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
382. Indicative final beneficiaries: Associations or foundations – existing sectoral association or specially established institutions for coordination of clusters.
(According to amendments made in 13.01.2009. by order of CM Nr.11)
383. *(Deleted according to amendments made on 13.01.2009. by order of CM Nr.11)*
384. *(Deleted according to amendments made on 13.01.2009. by order of CM Nr.11)*
385. *(Deleted according to amendments made on 13.01.2009. by order of CM Nr.11)*
386. *(Deleted according to amendments made on 13.01.2009. by order of CM Nr.11)*

State Aid

387. State aid is planned for the measure. Any public support under this programme must comply with the procedural and material State aid rules applicable at the point of time when the public support is granted.

Priority 2.4 “Technical Assistance”

388. Within the framework of the priority, support will be granted to ensure the management functions of the programme.

Justification of the Priority

389. The analysis of the current situation allows for identification of the following strong and weak points, as well as threats and opportunities that act as justification for investments within the framework of this priority.

Table 9: SWOT Analysis of Priority 2.4 “Technical Assistance”

Strengths	Weaknesses
<ul style="list-style-type: none"> - An operational ERDF management system has been developed for 2004 – 2006. - High levels of funding attracted to projects and satisfying progress of payments - High activity of project applicants 	<ul style="list-style-type: none"> - The unwieldy nature of the ERDF management system – lengthy appraisal project applications, payment delays - Insufficient qualification of employees, inadequate number of highly qualified employees and extensive workload of qualified employees in institutions involved in ERDF management - Poorly prepared projects, frequent changes in approved projects
Opportunities	Threats
<ul style="list-style-type: none"> - Growth of overall public administration capacity - Application of best practice, introduced in the management of ERDF, to the management of other public financial resources 	<ul style="list-style-type: none"> - Inadequate administrative load and “bottlenecks” in institutions involved under the management of ERDF when the amount of financing to be absorbed increases and two programming periods overlap - Staff turnover in institutions involved in the management of ERDF. - The effect of increased costs and other external factors on the implementation of ERDF projects.

390. To improve ERDF management, ensure its streamlining, efficiency and at the same time the reliability of the management system, it is necessary to provide for technical assistance to ensure programme management functions, as well as implement support functions.

Objective of the Priority

391. The objective of the priority is to support effective and reliable management of the operational programme.

Measures of the Priority

392. One measure “Assistance for the Management of the Operational Programme „Entrepreneurship and Innovations”” will be implemented within the framework of the priority. It will finance costs directly connected with ensuring the programme management

functions – preparation of programmes, selection, management, control, record keeping, audit, monitoring, evaluation and implementation. This measure will also finance costs connected with support measures for programme management functions - implementation of training, seminars, information and publicity, consultations, research studies and evaluation.

Synergy

393. The priority is complementary with the OP “Human Resources and Employment” co-financed priority “Administrative Capacity Building” within the framework of which reinforcement of administrative capacity in the public administration has been planned.

Indicators²²

394. Outputs:

- The number of institutions receiving support – 13 (target in 2009 – 13).

395. Results:

- Ratio of Latvia resident valuation on EU funds successful acquisition – 42% (base value in 2004 – 38%, target in 2009 – 40%).

²² The main target for all indicators is provided for the year 2015.

Measure 2.4.1 “Assistance for the Management of the Operational Programme „Entrepreneurship and Innovations””

Introduction

396. For the successful absorption of the EU Structural Fund assets earmarked for Latvia, it is essential to increase the capacity of institutions involved under the management of EU Structural Funds. For this purpose there is a separate priority developed in the OP for building administrative capacity in public administration institutions involved in the management process of Structural Funds.

Objective of the Measure

397. The objective of the measure is to support effective and reliable management, implementation, monitoring, evaluation and control of the operational programme “Entrepreneurship and Innovations”.

Justification and Description of Measure

398. The measure has been created to support institutions involved in the management of Structural Funds and ensure efficient and relevant Structural Fund management. Taking into account, that relevant and efficient implementation of Structural Funds largely depends on the quantity and qualifications of human resources involved in Structural Fund management, support measures should also be provided for the increase of human resource capacity in institutions involved in Structural Fund management.

399. A survey conducted at the beginning of 2006 in institutions involved in Structural Fund management, found that during 2005 institutions involved in Structural Fund management have seen an average 12% staff turnover against the current number of employees. Furthermore, if it is taken into consideration that new employees vis-à-vis current employees account for 24.5% and not all of the planned positions were filled, the number of new employees in 2005 would be 44.4%. The aforementioned situation in institutions involved in Structural Fund management shows that the implementation of target-oriented and coordinated training and development measures for current and new employees, when they become specialists in Structural Fund-related fields, is one of the main factors for successful management and implementation of Structural Funds in Latvia.

400. In addition, for the competition in employee attraction between the institutions in the management and implementation of EU Structural Funds to be based on the specifics of the field and not on basic motivators, thus ensuring a more efficient use of human resources for implementing EU Structural Funds in Latvia in the long-term, this measure will provide equal opportunities for the institutions involved in Structural Fund management to carry out measures that develop human resources.

401. By implementing the aforementioned activities, the efficiency of institutions involved in the administration of Structural Fund financed measures will be improved due to the increased possibility of attracting relevant specialists and be able to compete on the labour market, as well as ensure the necessary management, control and monitoring mechanisms of Structural Funds.

Indicative Target Groups of the Measure

402. The indicative target group of the measure is public administration institutions involved in the management, implementation, monitoring and control of the OP “Entrepreneurship and Innovations”.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

Framework of Programming Documents

403. According to the Council Regulations (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 technical assistance resources of the Funds may finance the preparatory, management, monitoring, evaluation, information and control activities of operational programmes together with activities to reinforce the administrative capacity for implementing the Funds. Since Latvia is in a convergence region, the financing amount of technical assistance should not exceed 4% of the total financing allocated by the funds.

Previous Assistance

404. In 2004 – 2006 programming period, funding of 22.68 million EUR was allocated within the framework of the Single Programming Document under Priority “Technical Assistance”. Within this framework, support has been envisaged for the provision of fund management functions for institutions involved in Structural Fund administration, as well as for covering indirect Structural Fund management costs. The support was received by the Managing Authority, Paying Authority, 10 First Level Intermediate Bodies, 4 Second Level Intermediate Bodies and 4 Grant Scheme Managers.

Synergy

405. The measure “Assistance for the Management of the Operational Programme “Entrepreneurship and Innovations”” is complementary with the measures in the priority “Administrative Capacity Building” in the OP “Human Resources and Employment”. Within the framework of the priority “Administrative Capacity Building”, assistance schemes have been designed for strengthening the capacity of public administration institutions, while the measure “Assistance for the Management of the Operational Programme “Entrepreneurship and Innovations”” envisages co-financing to ensure Structural Fund management functions in OP “Entrepreneurship and Innovations” in institutions involved in Structural Fund management.
406. The measure is also complementary with the priority “Technical Assistance” under OP “Human Resources and Employment”, the priorities “Technical Assistance” of OP “Infrastructure and Services”.

Compliance with Horizontal Priorities

Balanced Development of Territories

407. The measure does not concern this area.

Macroeconomic stability

408. The measure will have a favourable effect on macroeconomic stability. By co-financing the provision of EU Structural Fund management functions from the resources of EU funds complete and efficient absorption of EU funds is facilitated.

Sustainable development

409. The measure does not concern this area.

Equal opportunity

410. Within the framework of the measure it is envisaged to support employees of public administration institutions regardless of their gender, race, ethnical origin, religion or beliefs, disability, sexual orientation or age ensuring equality between men and women and non-discrimination principles are applied during all the stages of the implementation of the programme.

Information society

411. Taking into account that an essential part of Structural Fund management is the provision of high quality and timely information to beneficiaries, institutions involved in Structural Fund management and the society as a whole, the measure will have a favourable effect on the development of an information society.

International competitiveness of Rīga

412. The measure does not concern this field.

Indicative Activities

413. Indicative Activity 2.4.1.1. Ensuring programme management and support.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

414. The indicative objective of the activity: Support the institutions involved in programme management in provision of programme management functions and direct programme management processes. Another objective of the activity is to assist the institutions involved in programme management in providing the support functions through financing of various services. The activity will also support the regional information centres.

(According to amendments made in 16.07.2009. by order of CM Nr.475)

415. The indicative target group of the activity: Public administration institutions involved in the management, implementation, evaluation and control of the OP "Entrepreneurship and Innovations".

(According to amendments made in 13.01.2009. by order of CM Nr.11)

416. Indicative final Beneficiaries: Ministry of Finance as Managing Authority and Audit Authority, State Treasury as Paying Authority and Certifying Authority, Responsible Institutions and Cooperation Institutions for OP "Entrepreneurship and Innovations" activities, regional information centres of planning regions, Procurement Monitoring Bureau.

(According to amendments made in 13.01.2009. by order of CM Nr.11)

Declared expenses

416¹. If the EU funds final beneficiary receives funding from several EU funds technical assistance activities, then when preparing the declaration of expenditures, individual proportion of declaration of expenditures is applied for each of the EU funds final beneficiaries according to proportions of technical assistance funding set at national level for each OP and fund, taking into account Point 1(a) and Point 3 of Article 46 of Council Regulation (EC) No 1083/2006.”

(According to amendments made in 05.09.2011. by order of CM Nr.425)

417. *(Deleted according to amendments made on 25.08.2008. by order of CM Nr.500)*

418. *(Deleted according to amendments made on 25.08.2008. by order of CM Nr.500)*

419. *(Deleted according to amendments made on 25.08.2008. by order of CM Nr.500)*

5. FINANCIAL PLAN OF OP „ENTREPRENEURSHIP AND INNOVATIONS”

Table 10. Financing plan of the operational programme detailing the annual allocations of each fund in the operational programme (EUR)²⁴

	Structural Funds (ERDF or ESF) (1)	Cohesion Fund (2)	Total (3) = (1)+(2)
2007	80 478 333	0	80 478 333
2008	87 978 834	0	87 978 834
2009	96 083 145	0	96 083 145
2010	104 533 758	0	104 533 758
2011	113 293 243	0	113 293 243
2012	122 433 486	0	122 433 486
2013	91 480 835	0	91 480 835
Total 2007-2013	696 281 634	0	696 281 634

(According to amendments made on 22.02.2010. by order of CM Nr.88)

(According to amendments made in 05.09.2011. by order of CM Nr.425)

(According to amendments made on 30.09.2013. by order of CM Nr.447)

Table 11. Financial plan of the programming period detailing financial allocations from each fund, national co-finance and co-finance rate for priorities under the operational programme (EUR)

	Community Funding (a)	National co-finance (b) (= (c) + (d))	Indicative breakdown of the national co-finance		Total funding (e) = (a)+(b)	Co-financing rate (f) ²⁵ = (a)/(e)	For information	
			Public funding (c)	Private funding (d)			EIB	Funding from other sources
Priority 2.1 "Research and Innovations" (ERDF)	451 884 038	235 576 951	11 910 624	223 666 327	687 460 989	65,73%	0	0
Priority 2.2. "Access to Finance" (ERDF)	147 515 386	42 478 222	15 505 217	26 973 005	189 993 608	77,64%	0	0
Priority 2.3 "Promotion of Entrepreneurship" (ERDF)	73 897 154	49 405 563	9 934 603	39 470 960	123 302 717	59,93%	0	0
Priority 2.4 "Technical Assistance" (ERDF)	22 985 056	0	0	0	22 985 056	100%	0	0
Total	696 281 634	327 460 736	37 350 444	290 110 292	1 023 742 370	68,01%	750 000 000*	0

*Total amount of EIB loan for ensuring the national funding for implementation of projects within operational programme "Human Resources and Employment", operational programme "Entrepreneurship and Innovations" and operational programme "Infrastructure and Services".

²⁴ According to Article 37 of Council Regulation (EC) No 1083/2006 of July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) NO 1260/1999.

²⁵ Co-financing rate defined on the basis of the total eligible expenditure (e)

(According to amendments made on 25.08.2008. by order of CM Nr.500)
 (According to amendments made on 13.01.2009. by order of CM Nr.11)
 (According to amendments made on 16.07.2009. by order of CM Nr.475)
 (According to amendments made on 02.11.2009. by order of CM Nr.750)
 (According to amendments made on 22.02.2010. by order of CM Nr.88)
 (According to amendments made in 05.09.2011. by order of CM Nr.425)
 (According to amendments made on 25.06.2013. by order of CM Nr.270)
 (According to amendments made on 30.09.2013. by order of CM Nr.447)
 (According to amendments made on 11.02.2014. by order of CM Nr.60)

Table 12: Indicative Distribution of the Community funding by category for Operational Programme 2 (EUR)

Dimension 1 Priority themes		Dimension 2 Type of funding		Dimension 3 Area	
Code*	Co-finance**	Code*	Co-finance**	Code*	Co-finance**
01	210 963 075	01	548 766 248	01	688 333 161
03	73 070 006	02	80 350 120	05	7 948 473
05	29 772 659	03	67 165 266		
07	159 792 568				
08	30 935 839				
09	168 762 431				
85	17 238 792				
86	5 746 264				
Total	696 281 634	Total	696 281 634	Total	696 281 634

* Categories pursuant to the standard classification.

** Estimated amount of the Community funding.

(According to amendments made on 16.07.2009. by order of CM No.475)
 (According to amendments made on 22.02.2010. by order of CM Nr.88)
 (According to amendments made in 05.09.2011. by order of CM Nr.425)
 (According to amendments made on 25.06.2013. by order of CM Nr.270)
 (According to amendments made on 30.09.2013. by order of CM Nr.447)

6. ADMINISTRATIVE FRAMEWORK

420. Pursuant to the Concept Paper on Planning and Management Systems of the EU Structural Funds and Cohesion Fund in Latvia 2007-2013, approved by the Cabinet of Ministers on 18 October 2005, the concentration model has been chosen for the management of Structural Funds and the Cohesion Fund in Latvia for the 2007-2013 programming period. It provides for the continuity of management systems of Structural Funds for the 2004-2006 programming period by maintaining a single Managing Authority, a single Paying Authority, and a single Monitoring Committee. In comparison with the 2004-2006 programming period, the number of Intermediate Bodies is optimised by abandoning the principle of having Second Level Intermediate Bodies. Therefore, the institutional framework of the management of Structural Funds and the Cohesion Fund for the period of 2007-2013 contains both the elements of continuity, which were successful during the implementation of the Structural Funds, and improves the main shortcomings of the management systems for the 2004-2006 programming period.
421. The following institutions are involved in the management of OP „Entrepreneurship and Innovations”:
- the Ministry of Finance as the NSRF Coordinating Authority and the OP Managing Authority,
 - the State Treasury as the Payment Authority,
 - Ministry of Economy, Ministry of Education and Science and Ministry of Finance as Responsible Authorities according to their policy sectors,
 - State Education Development Agency, Central Finance and Contracting Agency, Investment and Development Agency of Latvia as Cooperation Authorities according to the scope of delegation of functions of Intermediate Bodies,
 - the State Treasury as the Certifying Authority,
 - the Ministry of Finance as the Audit Authority,
 - Procurement Monitoring Bureau as performer of ex-ante controls for procurement documentation of the EU funds projects.
422. Although the Ministry of Finance performs the functions of Managing Authority, Responsible Authority and Audit Authority, there will be ensured a clear separation of functions within the ministry. Also within the State Treasury there will be ensured a clear separation of functions of Paying Authority and Certifying Authority. Obligations and rights of the MA, CA and AA are clearly stipulated in the Law of EU Structural funds and Cohesion fund management. It is also clearly stated that functions of the MA, as well as of the AA, must be separated from the other functions of the MoF, which is ensured by internal decrees.
423. The Minister for Special Assignments for Administration of the European Union Funds is in charge of coordination of the EU structural funds and Cohesion Fund in Latvia.
424. The management of Structural Funds and the Cohesion Fund in Latvia is regulated by the Community Strategic Guidelines, Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999, Regulation (EC) No 1081/2006 of the European Parliament and of the Council on the European Social Fund and repealing Regulation (EC) No 1784/1999, Council Regulation (EC) No 1084/2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94, Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation

of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund.

425. For implementation of Structural Funds and the Cohesion Fund, the Managing Authority draws up a unified legislative framework in order to provide for a unified and uniform implementation of the Structural Funds and the Cohesion Fund. The major legal act governing the EU Funds management in order to provide efficient and transparent implementation of the EU funds in Latvia according to sound financial management is Law on the Management of the European Structural Funds and Cohesion Fund (binding from March 1, 2007). The Law defines the rights and obligations of the institutions involved in the management of the EU funds, rights and obligations of the final beneficiary, as well as order of decision making, challenge and appeal of the institutions involved in the management of the EU funds.
426. In order to provide the EU funds management the Cabinet of Ministers according to the delegation of the Law issues so-called horizontal regulations of the Cabinet of Ministers which governs the different stages of the EU funds management cycle and determines the EU funds implementation system. The Law provides the delegation in order to issue the Cabinet of Ministers regulations as follows:
- The order of programming and implementation of the EU funds, including the ex-ante verification of procurement documentation;
 - Order of monitoring and evaluation of the EU funds implementation;
 - Order on reporting on irregularities;
 - Order of provision of functions of Audit Authority for the EU funds management;
 - Order on provision on-the-spot checks;
 - Order on the planning of the EU funds financing into the State budget;
 - Order of publishing of information related to the projects co-financed by the EU funds;
 - Order of provision of publicity and visual identity requirements of the EU funds;
 - Order of establishment and operation of the EU funds management IT system;
 - Requirements for the establishment of the management and control system of the EU funds;
 - The rules of procedure of the Monitoring Committee.
427. In order to implement the EU funds co-financed activity or sub-activity the Cabinet of Ministers according to the delegation of the Law issues the Cabinet of Ministers regulation – the order on implementation of the EU funds activity, defines the Project selection criteria, requirements for final beneficiary, Responsible Authority and Cooperation Authority, division of competence and order of cooperation between them, as well as the form of functional subordination of Responsible Authority and Cooperation Authority.

6.1. Institutions Involved in the Management of Funds

Managing Authority

428. The obligation of Managing Authority is to ensure the management and implementation of the EU funds. The Managing Authority, in cooperation with Intermediate Bodies and consulting social, non-Governmental and regional partners, develops the National Strategic Reference Framework and Operational Programmes, thus ensuring compliance with the principle of partnership during the preparation of programming documents, as well as ensuring inter-sectoral coordination between the interventions of the Structural Funds and the Cohesion Fund. In addition to preparation of the programming documents as provided by the legislative acts of the European Community, the Managing Authority also ensures the preparation of the

Programme Complement for the Operational Programmes which is approved by the Cabinet of Ministers. The Programme Complement for the Operational Programmes lays down the eligible expenditures of the activities, the type of assistance, the beneficiaries, funding plans with breakdowns by activities and years, implementation provisions of the activities, monitoring indicators at the measure level, as well as their division by planning regions.

429. The Managing Authority also provides for the development and maintenance of the single Management Information Systems (MIS) of the Structural Funds and the Cohesion Fund.

430. The Managing Authority performs the following additional functions:

- ensure organisation of evaluation of the EU funds,
- ensure the implementation of information, publicity and communication measures,
- ensure the management of the EU funds technical assistance management and effectiveness of implementation;
- manage the Monitoring Committee and Sub-Committees and ensure monitoring of the Operational Programmes,
- draw up annual and final reports,
- draw up the chapter on the EU funds investments for the annual report on national reform programme implementation,
- approximate and submit the large-scale projects to the European Commission,
- evaluate the information on irregularities disclosed and reported to the Managing Authority, inform the national contact point on the irregularities to be reported to the European Anti-Fraud Office and the European Commission and, if necessary, initiate or perform additional controls and audits of the EU funded operations or implementation systems; elaborate the Cabinet of Ministers regulation to ensure the implementation of the provisions of the Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests,
- ensure that public contracts or concessions awarded, concerning projects benefiting from the assistance of the European Regional Development Fund programmes comply with the provisions of Directives 2004/17/EC, 2004/18/EC, Regulation (EC) No 1564/2005 or the Treaty principles where applicable.

431. The Ministry of Finance performs the functions of the Managing Authority.

Paying Authority

432. The Paying Authority carries out:

- payments to the Final Beneficiary,
- checks the payments and the advance payments received from the European Union,
- ensures that amounts wrongly paid and recovered are reimbursed to the account of the respective Fund,
- reimburses the amounts wrongly paid to the European Commission.

433. The State Treasury performs the functions of the Paying Authority.

Responsible Authorities and Cooperation Authorities as performers of functions of Intermediate Bodies

434. The Intermediate Bodies represent a set of functions performed by a Responsible Authority or the Responsible Authority in conjunction with a Cooperation Authority together fulfilling the functions of the Intermediate Body.

435. It is planned that during the programming period of 2007-2013 the Intermediary Bodies will perform the following functions:
- draw up the Operational Programmes within sectoral competences (analysis, strategy, priorities, measures, etc.),
 - draw up the implementation provisions (criteria, eligible expenditure, applicable activities, etc.),
 - perform financial planning,
 - perform monitoring functions at the measure level, submit quarterly activity implementation progress reports to the Managing Authority, including the information on the achievement of output and result indicators,
 - selection and approval of projects,
 - management of project implementation, entering into agreements, monitoring implementation thereof,
 - perform control and on-the-spot checks ,
 - check and authorise payment requests, prepare expenditure declarations,
 - information and publicity measures at the level of priorities and measures,
 - ensure that public contracts or concessions awarded, concerning projects benefiting from the assistance of the European Regional Development Fund programmes comply with the provisions of Directives 2004/17/EC, 2004/18/EC, Regulation (EC) No 1564/2005 or the Treaty principles where applicable
 - report to the Managing Authority on the irregularities disclosed on a quarterly basis and keep records on each irregularity disclosed,
 - recover the amounts wrongly paid to the Final Beneficiary and account the irregular expenditures (recovered and recoverable).
436. Functions 1-4 may not be delegated and are performed by the Responsible Authority itself, however, implementation of the functions 5-9 may be delegated to the Cooperation Authority.
437. Other functions of the Intermediate Body, taking into consideration the scope of functions delegated to a Cooperation Authority are the following:
- verify compliance of the goods and services delivered and costs,
 - ensure electronic recording of accounting data on every project, as well as the necessary information for financial management, monitoring, control and evaluation,
 - ensure that the Final Beneficiaries or institutions which ensure implementation of Operational Programmes use separate accounting systems,
 - ensure documentation storage.

Audit Authority

438. The Audit Authority verifies efficient functioning and compliance of the Management and Control Systems of the Operational Programme:
- lays down requirements for audits carried out in the systems of the Intermediate Bodies, the Managing Authority and the Certifying Authority and organise audits by verifying that the Management and Control Systems of the Operational Programme comply with requirements laid down in the legislative acts of the EC and the legislation of the Republic of Latvia,
 - verifies the effective functioning of the Management and Control Systems of the Operational Programmes and its compliance during the implementation process of Operational Programmes,
 - verifies eligibility of expenditures,
 - presents to the European Commission an audit strategy covering the bodies which will perform audit on effective functioning and compliance of the systems and will verify

- compliance of expenditures, the method to be used, the sampling methods to be used for audit of expenditures and the indicative planning on audits and controls,
- prepares and presents to the European Commission:
 1. an annual control report on the Management and Control System,
 2. an annual opinion on the effective functioning and compliance of the Management and Control System,
 3. a closing expenditure declaration together with final report on the Management and Control System,
- ensures that audit is carried out in compliance with internationally recognised audit standards.
- reports to the Managing Authority on the irregularities disclosed on a quarterly basis and keeps records on each irregularity disclosed.

439. The Ministry of Finance performs the functions of the Audit Authority.

Certifying Authority

440. The Certifying Authority certifies the statements of expenditure to the European Commission:
- drawing up and submitting to the European Commission expenditure declaration in electronic form,
 - certifying that the information included in the expenditure declaration is correct, based on verifiable supporting documents, as well as it results from reliable accounting systems,
 - certifying that the declared expenditure complies with European Union and national legislation, and that the expenditure has been incurred within the scope of the respective projects,
 - ensuring that the received information on the procedures and verifications carried out is adequate for certification of expenditure,
 - for the purpose of certification evaluates results of all audits and verifications carried out by the Audit Authority,
 - providing records of the requested expenditures in electronic form to the European Commission,
 - keeping an account of recoverable amounts, repaying to the European Commission, where possible, by deducting them from the next statement of expenditure to the EC.
441. The State Treasury performs the function of the Certifying Authority.

Procurement Monitoring Bureau

442. The obligation of Procurement Monitoring Bureau is to ensure the ex-ante control of procurement documentation of the projects co-financed by the EU funds and ex-ante random check for procurement procedure.
443. The Procurement Monitoring Bureau has right to demand the information necessary for execution of its functions to the institutions involved in the management of the EU funds, as well as final beneficiary.

6.2. Partnership

444. Latvia acknowledges the partnership principle as one of the core principles in preparation and implementation of NSRF and OPs. Latvia's objective was to involve all the relevant parties, including socio-economic partners, regional partners (planning regions, local municipalities and their associations) and respective NGOs in elaboration process of NSRF and OPs, thus

ensuring the transparency and visibility of the process, as well as respecting the interests of partners and potential beneficiaries of the EU funds.

445. In implementing partnership principle during elaboration of the NSRF and OPs several instruments were used – such as involvement of partners (mostly industry associations, regional partners, municipalities) in elaboration of the respective description of OPs' priorities and measures, debate on NSRF and OPs in the meetings of 'shadow' Monitoring Committee, organization of public discussions on planning documents, publishing the draft NSRF and OPs on the web page already starting from the very early drafts of those documents.
446. By establishing the 'shadow' Monitoring Committee in November 2005, the priority was to ensure involvement of the partners in the discussion forum for NSRF and OPs. Thus, the participants from councils of planning regions, Association of Local Governments, Labours' Union, Employers' Confederation, as well as the respective NGOs were asked to nominate their representatives to participate in the 'shadow' Monitoring Committee. The meetings of the Committee, where the draft NSRF and OPs were discussed, took place on December 2, 2005 and June 2, 2006.
447. In order to ensure transparency of the elaboration process of planning documents and to provide an opportunity to become acquainted with the most recent draft of the documents starting from the middle of November 2005 all the draft documentation of NSRF and OPs was published on the EU funds web page www.esfondi.lv.
448. For each of the programming document a public discussion was organized. The discussions were launched for the partners and wider public by organizing the press conference. Within the framework of public discussions the documents were published on the EU funds web page www.esfondi.lv. All the interested organizations and individuals were asked to submit their comments. The discussions were concluded by the meetings of all the stakeholders, where the comments and proposals were discussed with their authors. After that the agreed comments were incorporated into the documents. The Cabinet of Ministers was informed about those comments, where the common understanding was not reached during the discussions.
449. The public debate on the NSRF was launched on November 16, 2005 and continued till December 9, 2005 – in parallel with the official approximation of the NSRF. Within the framework of public discussions there were 358 comments received from more than 20 institutions (including development agencies of planning regions, local municipalities, NGOs, ect.). On January 10, 2006 the Ministry of Finance organized the meeting on the comments received during the public discussion, and, subsequently, 114 or 44.4% of all comments were agreed for incorporation into the NSRF.
450. In addition to that on January 25, 2006 the Ministry of Finance organised a round table discussion with the most active NGOs (European Movement – Latvia, Centre for Public Policy *Providus*, Latvian Adult Education Association, Latvian Green Movement) with regard to the non-agreed comments provided by the mentioned NGOs. Most of the discussion was focused on ESF issues. As a result of the public discussion on NSRF the focus from infrastructure to education and science and human resources was changed.
451. The public debate on three OP ("Human Resources and Employment", "Entrepreneurship and Innovations", "Infrastructure and Services") was launched on May 16, 2006 – also in parallel with the official approximation of the OPs. Altogether during the public discussions 453 comments were received on OPs, and 240 or 53% of them were agreed for incorporation into the OPs.
452. Dynamics of the comments as per OP is as follows - 177 comments were received on the OP "Human Resources and Employment" (89 or 50.3% of them were agreed for incorporation into the OP), 102 comments were received on the OP "Entrepreneurship and Innovations" (46

or 45.1% of them were agreed for incorporation into the OP), and 174 comments were received on the OP “Infrastructure and Services” (105 or 60.3% of them were agreed for incorporation into the OP).

453. By assistance of Regional Structural Funds Information Centres five public discussions in five planning regions of Latvia about the OPs were organised. In addition to that the minister’s round table discussion with field experts of human resources, entrepreneurship, macroeconomics, infrastructure, regional development and EU funding issues was hold on June 26, 2006. The discussion included the investment priorities as set by the EU funds planning documents for 2007-2013 and the discussion was covered by the internet policy portal www.politika.lv.
454. Finally on September 6, 2006 the Ministry of Finance organised an open discussion about the EU funds implementation issues in 2007-2013 with governmental, non-governmental, regional and social partners, as well as Structural Funds beneficiaries in current programming period where the system changes in 2007-2013 were introduced and discussed in several working groups.
455. The planning regions have been involved in several discussions with the Responsible authorities organized by the Ministry of Regional Development and Local Governments in order to identify the territorial criteria (specific activities for particular territories, specific project selection criteria, regional quotas, differential co-financing rates) for activities, stipulating the observation of horizontal priority for balanced territorial development.
456. Taking into account the aforementioned the partnership principle was ensured also during the negotiation process of the OPs - the negotiation delegation approved by the Cabinet of Ministers included representatives from socio-economic and regional partners, as well as from the NGOs. In such a way the partners as well as the representatives of Responsible authorities and other line ministries during the March and April 2007 had an opportunity to participate in all negotiation rounds with European Commission on the adoption of the EU funds programming documents.
457. The principle of partnerhip will be observed also during the implementation, monitoring and evaluation stages of the EU funds – involving the partners in elaboration of implementation, monitoring and evaluation documentation of the EU funds, organizing the public discussions of implementation provisions of the EU funds activities (project selection criteria, Cabinet of Ministers regulations on implementation of activities), involving of partners into the project appraisal commissions, participating into the Monitoring Committee meetings, as well as monitoring the financial and physical progress of programme implementation. Thus, the principle of partnership will be ensured, as well as implemented the needs of planning regions taking into account the development traits and potential of each territory.

6.3. Implementation

458. Implementation of projects co-financed by EU Structural Funds or the Cohesion Fund is to be applied the following horizontal principles:
 - The principle of simplification: appraisal of a project application and a decision on providing assistance for project implementation within the scope of the Structural Funds and the Cohesion Fund is adopted by a single authority;
 - The principle of effectiveness: the time period from submission deadline of an application until adoption of a decision on the project approval must not exceed three months, except for large-scale projects. Specific final beneficiaries are defined in the national level planning documents and national legislation.

(According to amendments made in 13.01.2009. by order of CM Nr. 11)

Project Selection

459. In the programming period of 2007-2013 the following two schemes are planned for the selection of projects for co-financing from Structural Funds of the Cohesion Fund:
- closed project selection procedure,
 - open call for applications.
460. As regards the closed project selection procedure as a selection method of projects co-financed by the Structural Funds and the Cohesion Fund, it is a method of project selection developed by the Line Ministries for implementation of policy within an established area of investments for a restricted range of beneficiaries that are invited to submit the project proposal. All the projects which comply with the project selection criteria are approved and financed.
461. The open call for applications as a selection method of projects co-financed by Structural Funds provides for competition among project applications, as a result of which projects to be co-financed by Structural Funds are selected.
462. The OP Programme Complement, which is to be approved by the Cabinet of Ministers, lays down the implementation method applicable for the OP activities.

Closed project selection procedure

463. The Managing Authority draws up the Cabinet of Ministers Regulations on project selection within the closed project selection procedure, providing unified criteria for project selection of within the closed procedure (The order of programming and implementation of the EU funds, including the ex-ante verification of procurement documentation) (1). The Cabinet of Ministers approve the drafted CM Regulations (2).
464. The Intermediate Body establishes a working group which develops an activity implementation scheme (3).
465. The Intermediate Body shall develop the criteria for the closed project selection procedure (4), which shall be submitted to the Managing Authority. The Managing Authority shall forward it to the MC for approval (5).
466. The Intermediate Body draws up a draft Cabinet of Ministers Regulation on the implementation of the specific activity (6).
467. After drawing up the draft Regulation of the Cabinet of Ministers on the implementation of operation, the Intermediate Body submits it for announcement to the Meeting of State Secretaries (MSS), where the Managing Authority and other Line Ministries the draft CM Regulations. The Intermediate Body submits to the Cabinet of Ministers for approval the a draft CM Regulation (7).
468. The Intermediate Body sends an invitation to a limited group of potential tenderers to submit their project applications.
469. SF/CF beneficiary develops a project (8) and submits it to the Intermediate Body. The Intermediate Body evaluates and approves the project (9) and enters into an agreement with the beneficiary (10).
470. In the event of large-scale projects, the Intermediate Body presents the closed procedure project to the Managing Authority (11) who forwards it to the European Commission (12). The European Commission approve the large-scale project (13) and the Intermediate Body enters into an agreement with the beneficiary (10).

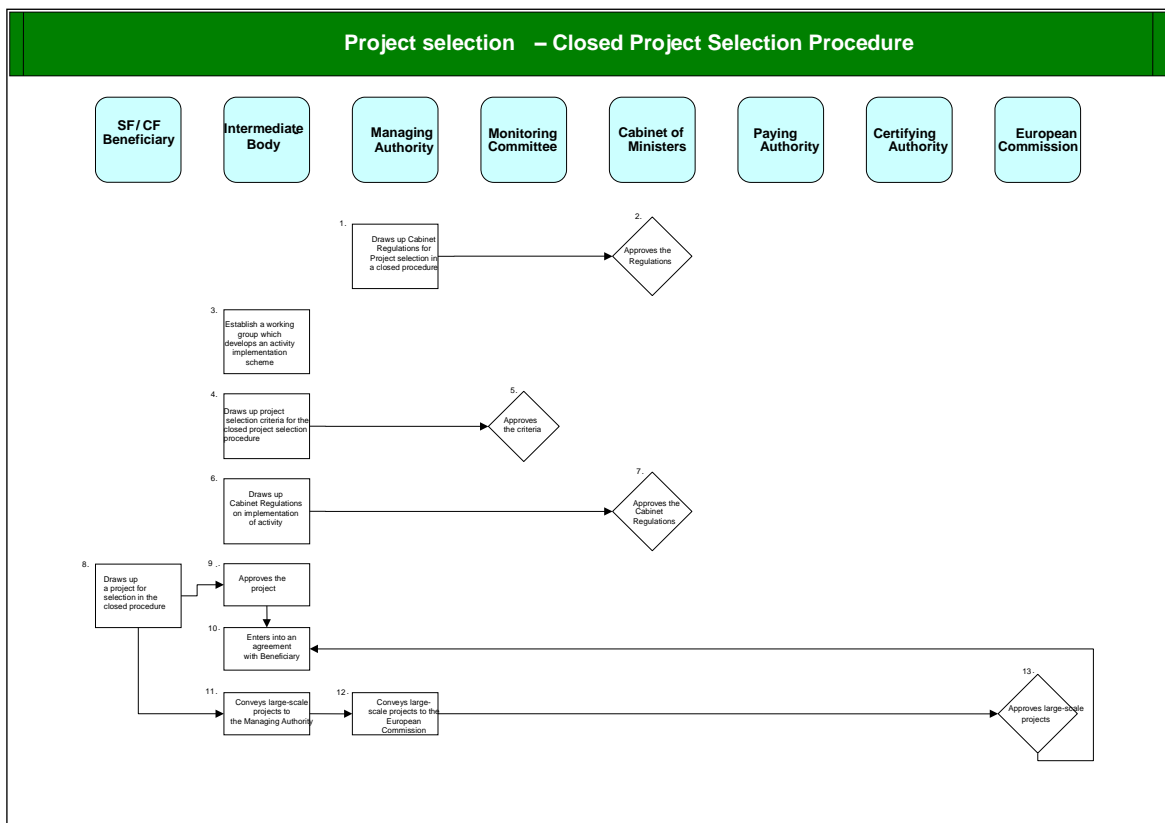


Figure 4: Project Selection Scheme for Closed Project Selection Procedure

Open Calls for Project Applications

- 471. The Intermediate Body draws up draft Cabinet of Ministers Regulation on the implementation of activity (1).
- 472. The Intermediate Body submits the project selection criteria included in the draft Cabinet of Ministers Regulation to the Managing Authority for approval at the MC. The MC approves the project selection criteria (2).
- 473. After approving the criteria at the MC, the Intermediate Body forwards the draft Cabinet of Ministers Regulation for approval to the Meeting of State Secretaries, where the Managing Authority and other Line Ministries provide opinions on the draft Cabinet of Ministers Regulation. The Intermediate Body submits to the Cabinet of Ministers for approval the agreed draft Cabinet Regulation (3).
- 474. After approval of the Cabinet of Ministers Regulation Intermediate Body announces an open call for applications (4).
- 475. The Intermediate Body establishes an Evaluation Commission for the open call for applications (5). The Evaluation Commission evaluates the projects (6), after which a decision on providing funding for projects (7) is made.
- 476. The Intermediate Body enters into an agreement with the beneficiary on implementation of an open call project (8).

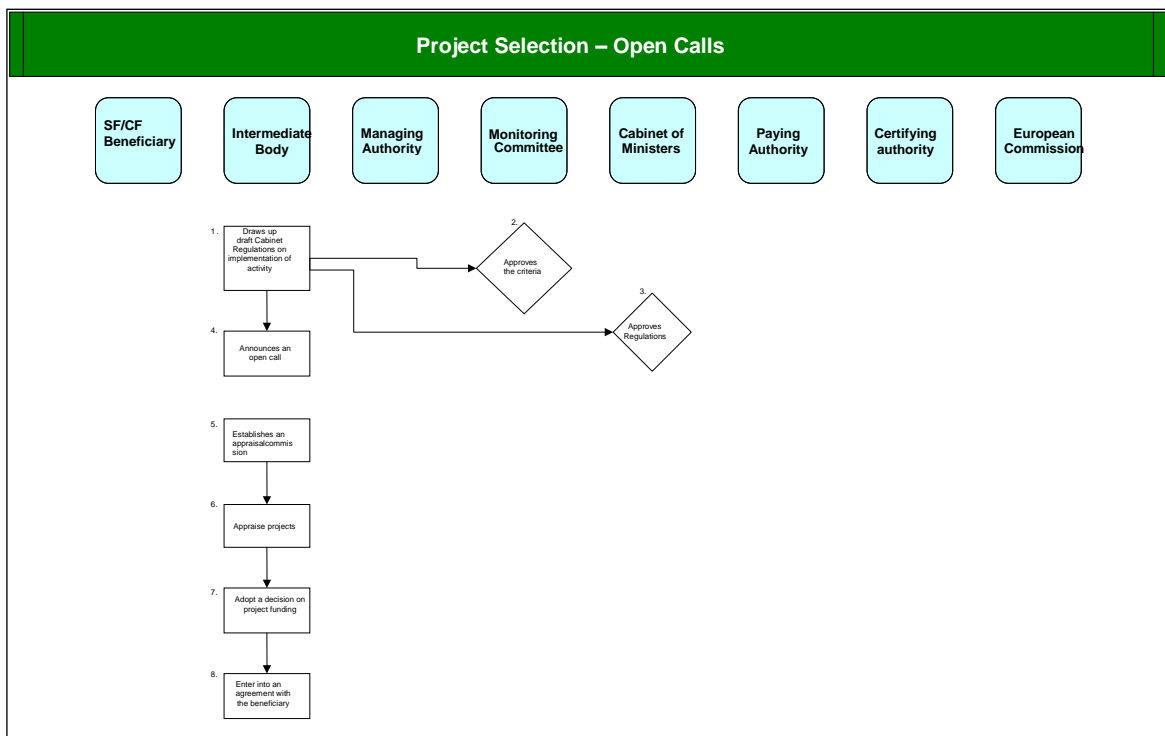


Figure 5: Project Selection Scheme for Selection at Open Calls for Project Applications

Project Implementation

477. The Managing Authority draws up draft Cabinet of Ministers Regulations on the requirements for standard agreements (The order of programming and implementation of the EU funds, including the ex-ante verification of procurement documentation) (1). The Managing Authority forwards the draft Cabinet of Ministers Regulation for approval to the Meeting of State Secretaries, where the other Line Ministries provide opinions on the draft CM Regulation. The Managing Authority submits the agreed draft CM Regulation for approval by the Cabinet of Ministers. The Cabinet of Ministers approve the CM Regulations on the basic requirement for standard agreements (2).
478. The Intermediate Body draws up a standard agreement (3), based on which it enters into an agreement with the beneficiary (4).
479. The beneficiary implements the project (5). The beneficiary carries out a procurement procedure and ensure the procurement process is in compliance with national legislation. The beneficiary enters into a contract with a contractor on works, supplies or services, and ensure operational monitoring of the implementation of projects in accordance with contracts concluded.

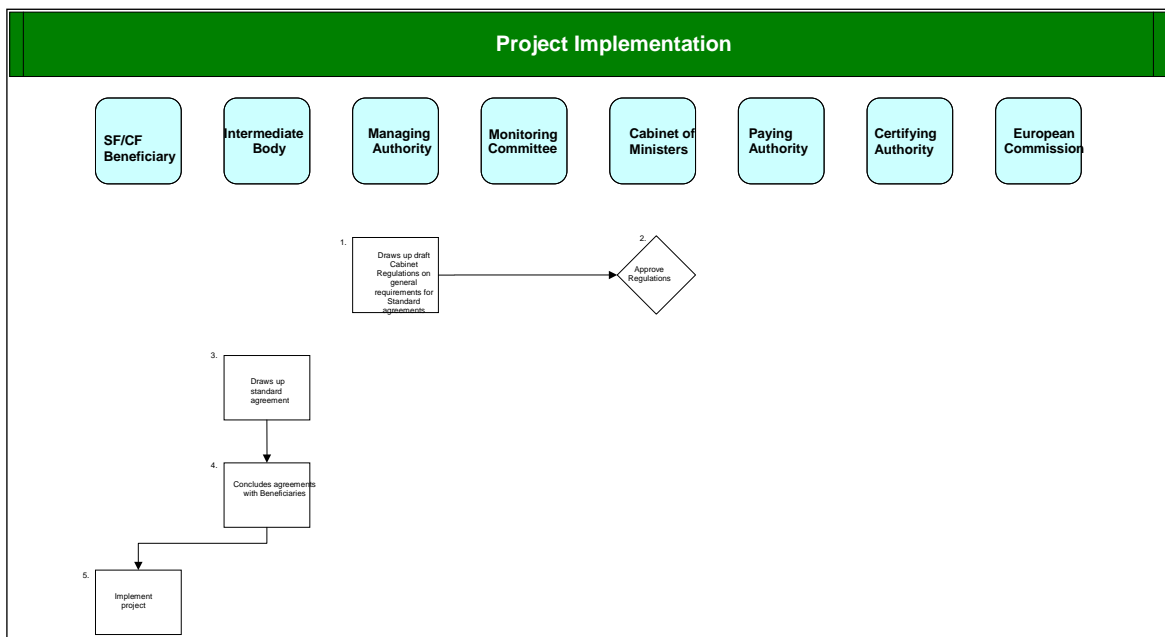


Figure 6: Scheme of Project Implementation

Payment Flow

480. The European Commission makes an advance payment (2), the Paying Authority accounts the advance payments (1).
481. The Beneficiary fulfils the preconditions before receiving an advance payment (3) and informs the Intermediate Body, after which the Intermediate Body carries out control on preconditions for receiving an advance payment (4). The Intermediate Body plans an advance payment to the Beneficiary in the budget and makes an advance payment to the Beneficiary (5).
482. The Beneficiary makes a payment to the Contractor (6). The Contractor receives the payment (7). The Beneficiary prepares a payment request for funding from the SF/CF and submits it to the Intermediate Body (8).
483. The Intermediate Body reviews the payment request for funding from the SF/CF (9), approves the amount of the assigned expenditures and prepares the payment order, by deducting already made an advance payments (10). The Intermediate Body sends the payment order to the Paying Authority (11). The Paying Authority makes a payment to the Beneficiary (12).
484. The Intermediate Body prepares a statement of expenditure and send it to the Managing Authority for verification (13). The Managing Authority verifies the statement of expenditure and send it to the Certifying Authority (14) which certifies the expenditures (15).
485. The Certifying Authority submits the statement of expenditure to the European Commission. The European Commission make a payment to the state budget (16). The Paying Authority accounts the received payments (17).

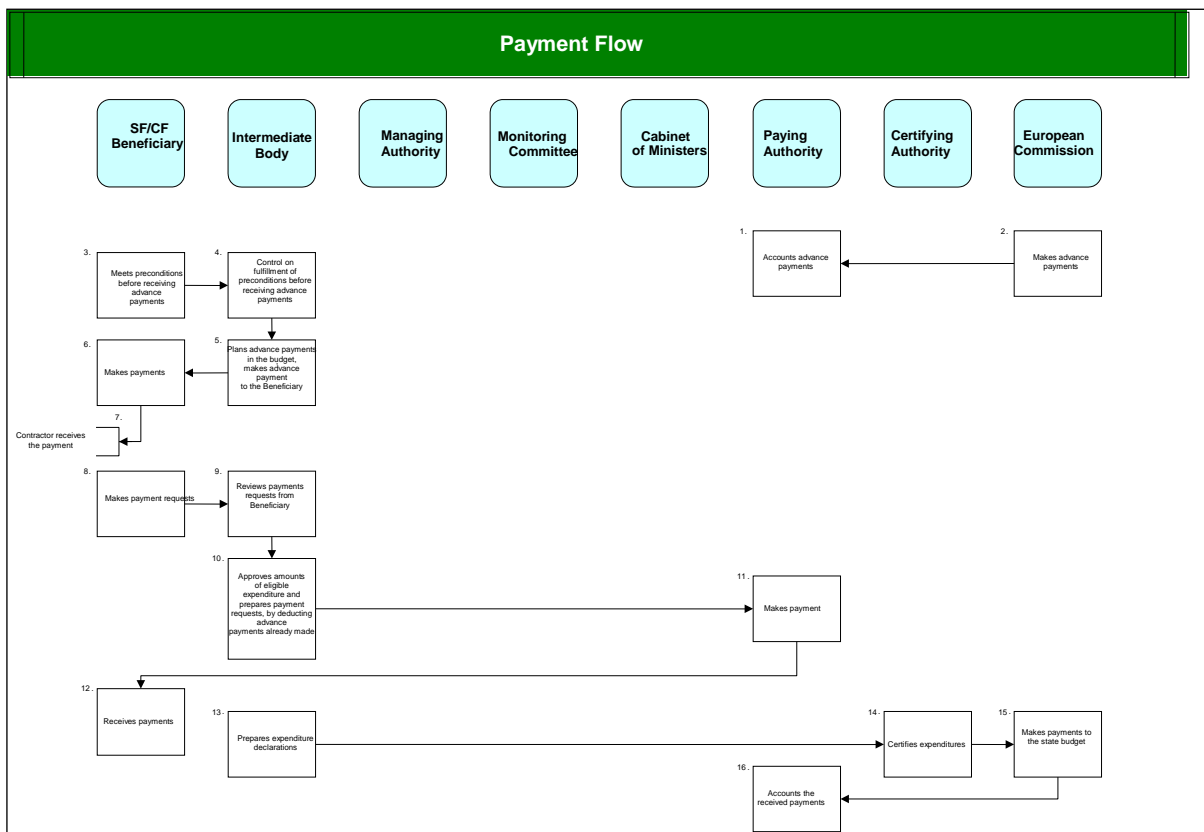


Figure 7: Scheme of Payment Flows

6.4. Monitoring

486. The aim of monitoring is to ensure regular control of the implementation of the Structural Funds and the Cohesion Fund in compliance with the priorities and aims provided at the OP. Monitoring of Operational Programmes will ensure implementation quality and efficiency by evaluating the financial and physical progress as defined in the OP and on implementation progress on programme.
487. In order to ensure effective use of funds from Structural Funds and the Cohesion Fund, the Managing Authority establishes a monitoring system of implementation of the OP.
488. In order to ensure regular monitoring and analysis of indicators specified in the OP, the Managing Authority, in cooperation with the Intermediate Body, develops evaluation indicators for the programme. The OP lays down outcome and result indicators at the priority level. In order to collect the necessary information, the OP Complement shall lay down outcome and result indicators at the level of measures.
489. Monitoring of the OP begins at the lowest - project level. The basic element of the analysis is the project, where the necessary information for monitoring is collected. Information on projects is collected by illustrating the activities of the implementation progress at the operational, priorities and the OP level.

Monitoring Committee

490. In accordance with Council Regulation 1083/2006 which lays down the general provisions of the European Regional Development Fund, the European Social Fund and the Cohesion Fund, the Monitoring Committee of the OP is established at most three months after approval of the Operational Programme.

491. In accordance with the Concept Paper on Management and Control Systems of EU Structural Funds and the Cohesion Fund in Latvia for the 2007-2013, a single Monitoring Committee is established for all the Operational Programmes. The Rules of Procedure of the Monitoring Committee shall be approved by the Cabinet of Ministers. The Monitoring Committee is chaired by the Head of the Managing Authority, and it consists of a member from the Managing Authority, Paying Authority, Intermediate Body, Implementation Bodies, Audit Authority, Certifying Authority. Members from regional, non-governmental (those working with such issues as environmental protection, equal opportunities, information society and others), economic and social partners (Free Trade Union Confederation of Latvia, Latvian Employers' Confederation), as well as members from the Ministry of Agriculture, Ministry of Foreign Affairs, Saeima Commission of European Affairs participating as observers at the Monitoring Committee, a representative of the Ministry of Welfare as body responsible for co-ordination of the horizontal policy „Equal opportunities” and a representative of Ministry of the Environment as body responsible for co-ordination of protection of environment issues within the scope of the horizontal policy „Sustainable development”. Members from the European Commission and international financial institutions also participate in the work of the Monitoring Committee.
492. The Monitoring Committee establishes two sub-committee – a separate sub-committees for monitoring of ERDF and CF co-financed Ops, and a separate sub-committee for monitoring of ESF co-financed OP.
493. The Monitoring Committee verifies the efficiency and quality of implementation of the OP. For these reasons the Monitoring Committee is obliged to carry out the following tasks:
- periodically review progress made towards achieving the specific targets of the OP and examine the achieved results;
 - examine achieved targets at the priority and operational levels;
 - review and approve proposals for amendments to the OP ;
 - approve the criteria for project appraisal under each measure;
 - review and approve annual and final reports before sending them to the European Commission;
 - be informed of the annual control report or part of the report and of any relevant comments made by the Commission;
 - approve the Communication Strategy of the management of Funds;
 - initiate an evaluation;
 - approve the evaluation plan,
 - monitor the horizontal priorities, including the horizontal policy „Sustainable development” and the implementation of the environment protection policy .

Management Information System

494. In order to provide an effective monitoring system in Latvia, an information system for management of the Structural Funds and the Cohesion Fund – MIS is to be established, which is one of the mechanisms implementing the monitoring of the Structural Funds and the Cohesion Fund. In order to ensure operational information flow, the Managing Authority is responsible for the development and maintenance of the MIS.
495. The aims of using the MIS are as follows:
- to store information on activities funded by the EU Structural Funds/Cohesion Funds;
 - to make account of the payments made by the EU Structural Funds/Cohesion Funds within the scope of the funded projects;
 - to store information on the implementation of monitoring indicators;
 - to collect output, result indicators and impacts and to generate output data;

- to carry out electronic information exchange with the Commission, carry out data processing by making different reports etc.

496. The MIS is used to store information on financial indicators (invested and disbursed amounts), as well as implementation impact indicators (outputs, results and impacts).

Arrangement of the Monitoring Process

497. In order to ensure circulation of operational information, the Beneficiary ensures data collection on the progress of the project and its submission to the relevant Intermediate Body (1). The Intermediate Body checks the information received from the Beneficiary and enters information on project implementation into the MIS(2). The Intermediate Body analyses problems encountered throughout implementation of the Funds and provide suggestions to the Managing Authority on improvements of the implementation of SF/CF projects. The Managing Authority reviews the information received from the Intermediate Body and evaluate the use of Funds in compliance with the priorities and targets specified at the OP and the NSRF (3). The Managing Authority sends the above-mentioned information, together with the evaluation of use of Funds, to the Cabinet of Ministers and the Commission (EC) (4,5).

498. In order to ensure effective exchange of information between the authorities involved in the administration of the ERDF and ESF and the authorities involved in the administration of EAFRD and EFF on the projects and Beneficiaries, who have applied for or have received support from the funds, MIS will be interconnected with the management information system of Rural Support Service. This is seen as an effective tool to monitor and prevent possible overlapping of ERDF and ESF projects and Beneficiaries with the EAFRD and EFF projects and Beneficiaries in addition to the co-ordination mechanisms set at the programming level.

499. The Managing Authority ensures the organisation and management of the MC (6). The Managing Authority prepares and submits an annual report on the implementation of the OP, which provides information on financial and physical progress of programme implementation (7) for the approval by the MC. The MC approves the annual report on the implementation of the OP (8) and the Managing Authority submits it to the Commission (9).

500. Based on the monitoring information, the Managing Authority prepares a report on the implementation of the NSRF (10). After approval has been received from the Cabinet of Ministers (11), the Managing Authority submits the report on implementation of the NSRF to the Commission (12).

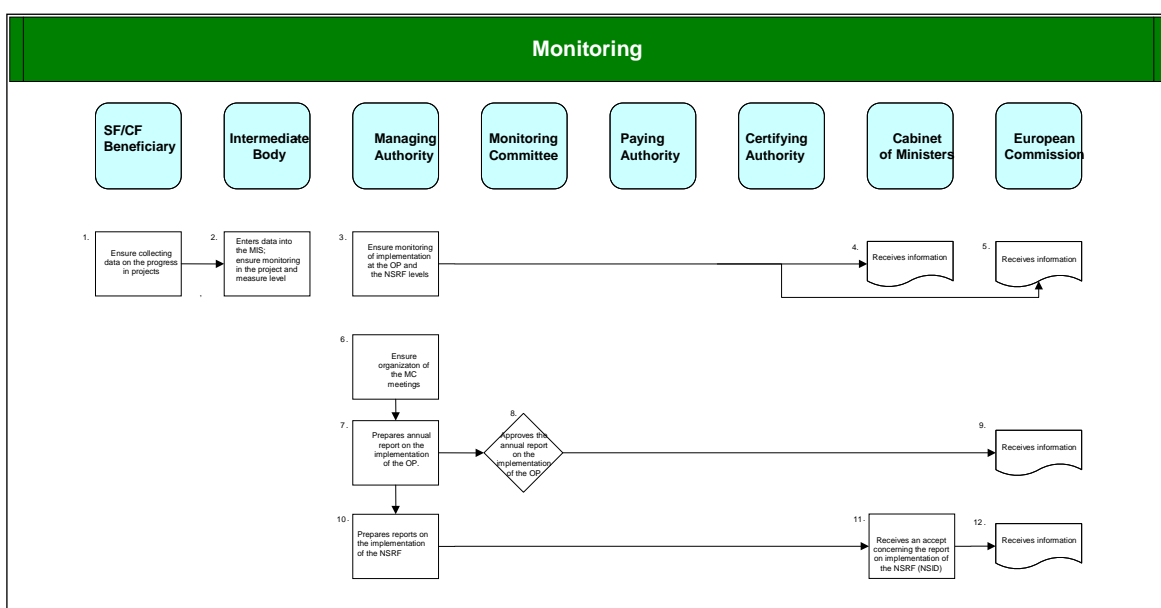


Figure 8: Monitoring Process

6.5. Evaluation

501. In accordance to Article 47 of the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, and in accordance to the general practice the aim of an evaluation is to improve the quality, effectiveness and consistency of the assistance from the Funds and the strategy and implementation of operational programmes with respect to the specific structural problems affecting the country and regions concerned.
502. Managing Authority in collaboration with institutions involved in the EU funds management ensures the implementation of evaluation by establishing an inter-institutional working group that ensures a qualitative implementation of evaluations (functions of the working groups are laid down in its regulations) and that constitutes of delegated representatives from all institutions involved in EU Funds management.
503. There exist evaluations carried out before (ex-ante), after (ex-post) and during (thematic/ on-going) the programming period.
504. Evaluations are carried out by independent experts.
505. Evaluations are financed from the budget for technical assistance.
506. The evaluation results are made public in accordance with the existing normative acts on the access to documentation. The Monitoring Committee is being informed about the results from the accomplished evaluations, as well as implementation status of recommendations suggested by evaluators, and can also suggest an evaluation.
507. Managing Authority develops evaluation plan which in respect to evaluation issues contains indicative evaluation activities. Managing Authority in collaboration with inter-institutional working group ensures that areas of potential difficulties in the implementation are addressed by the evaluation activities and that conclusions and recommendations expressed by independent experts are reviewed and introduced in practice.
508. Evaluation plan will be verified by the Monitoring Committee until July 2008.

Ex-ante evaluation

509. Ex-ante evaluation is carried out under the responsibility of institution accountable for the development of programming documentation.
510. The aim of the ex-ante evaluation is to ensure the development of qualitative EU funds programming documents 2007 – 2013 in conformity with EU and Latvian legislation, as well as in conformity with state development needs and EU and Latvian programming documents.
511. In accordance to Article 48 of the aforementioned regulation the aim of the ex-ante evaluation is to optimize the allocation of budgetary resources under operational programmes and improve programming quality. Evaluation reports shall identify and appraise the disparities, gaps and potential for development, the goals to be achieved, the results expected, the quantified targets, the coherence, if necessary, of the strategy proposed for the region, the Community value-added, the extent to which the Community's priorities have been taken into account, the lessons drawn from previous programming and the quality of the procedures for implementation, monitoring, evaluation and financial management.
512. Ex-ante evaluation happens in parallel with development of the EU funds programming documents. During the evaluation independent experts provides the developers of the programming documents with an evaluation and recommendations on the elaboration of

documents, they also participate in the discussions with European Commission representatives on the validation of programming documents.

513. Within the strategic environmental impact assessment being a part of the ex-ante evaluation process an analysis of the EU and Latvian environmental policy documents and normative acts is performed, activities foreseen in the programming documents are analyzed from the environmental protection and sustainable development perspective, the probable environmental impact if programming documents are implemented is assessed, possible alternatives if proposed are being analyzed, as well as the recommendations to reduce the environmental impact of activities foreseen in the programming documents and to facilitate sustainable development are provided.
514. The detailed description of the ex-ante evaluation and SEA of the EU funds programming documents is available in chapter on ex-ante evaluation process.

Ex-post evaluation

515. In accordance to Article 49 of the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, the European Commission in close cooperation with the Member State and Managing Authority carries out and completes the ex-post evaluation by 31 December 2015.
516. Ex-post evaluation covers all the operational programmes under each objective and examine the extent to which resources were used, the effectiveness and efficiency of Fund programming and the socio-economic impact, draws conclusions for the policy on economic and social cohesion. The factors contributing to the success or failure of the implementation of operational programmes and the good practice is identified.

Strategic and operational evaluation

517. The aforementioned regulation foresees the evaluations of a strategic nature in order to examine the evolution of a programme or group of programmes in relation to Community and national priorities, and of an operational nature in order to support the monitoring of an operational programme.
518. Evaluation can be organized according to themes, policy fields, priority axis, of a part of or the whole programming document; there can be joint evaluations on several EU Funds related issues and other evaluations on a specific policy field covering several sources of financing, not only the EU Funds.
519. In cases when amendments or changes are needed in the programming documents an evaluation effort is provided.
520. Among evaluation implementation both horizontal policy impact and programme impact, inter alia, values of context indicators and impact indicators of NSRF, values of outcome and result indicators of OPs, is to be assessed.
521. Justification of evaluation of operational nature is a deviation of 25% from the annual target value that is set out proportionally distributing the annual 2009 and 2013 target values over years, bearing in mind the inception date of the respective activity and the respective indicator. In case of deviation of 25% the Monitoring Committee and the inter-institutional working group is notified that reviews the existing situation and makes decision on the inception of operational evaluation. Monitoring Committee and the inter-institutional working group can make a decision on the strategic and operational evaluation based on other reasons.

522. Evaluation is concluded within the programming period in order to secure a possibility for the Managing Authority to take measures for improvement of operational programmes or to acquire useful conclusions for the preparation of next programming period.

Arrangement of the Evaluation

523. The Managing Authority organises the ex ante evaluation of the OP (1) and use its results for improving the OP.

524. The Intermediate Body draws up suggestions for the evaluation theme and submits it to the Managing Authority, which organises thematic evaluation and draws up a plan for thematic evaluation (2). The Managing Authority reviews and collects the evaluation themes received from Intermediate Bodies, if necessary identify additional evaluation themes, and draws up a plan (3) according to which the thematic evaluation is organised. The Managing Authority organises thematic evaluation (4) and, after receiving evaluation results, informs the OP Monitoring Committee (5) and the European Commission (6).

525. With assistance from the Managing Authority, the European Commission organises the ex post evaluation of the OP (7), the results of which are conveyed to the Monitoring Committee of Operational Programmes and the Cabinet of Ministers (8,9).

526. The Managing Authority shall ensure data storage on the evaluations carried out and their results (10).

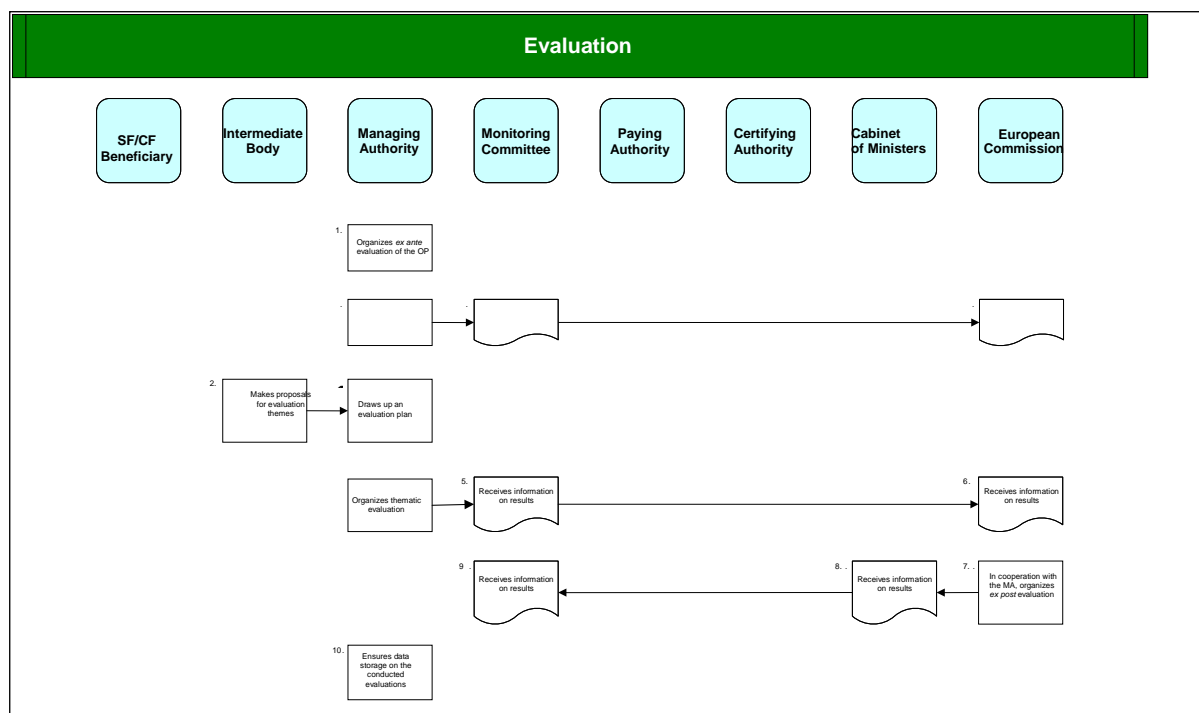


Figure 9: Evaluation Scheme

6.6. Controls

Controls of the Eligibility of Expenditure and Audits of Eligibility and Efficiency of the Systems

527. The AA draws up draft Regulations of the Cabinet of Ministers on basic requirements for carrying out controls of the eligibility of expenditure (1). After approval of the above Regulations by the Cabinet of Ministers (2), the IB develops a method (instructions and

procedures) for carrying out controls of the eligibility of expenditure and audits of eligibility and expenditure of the systems (3). The relevant unit of the IB, the functions of which are separated from functions of the units which are responsible for implementation of the Structural Funds and the Cohesion Fund, carries out controls of eligibility of expenditure and audits of eligibility and expenditure of the systems (4). The AA is also eligible to carry out controls of eligibility of expenditure and audits of eligibility and expenditure of the systems (5). The AA receives reports on all the controls of eligibility of expenditure and audits of eligibility and expenditure of the systems carried out by the IB, and evaluates them (6). Copies of the reports and evaluations carried out by the AA are sent for information to the MA and the CA (7;8).

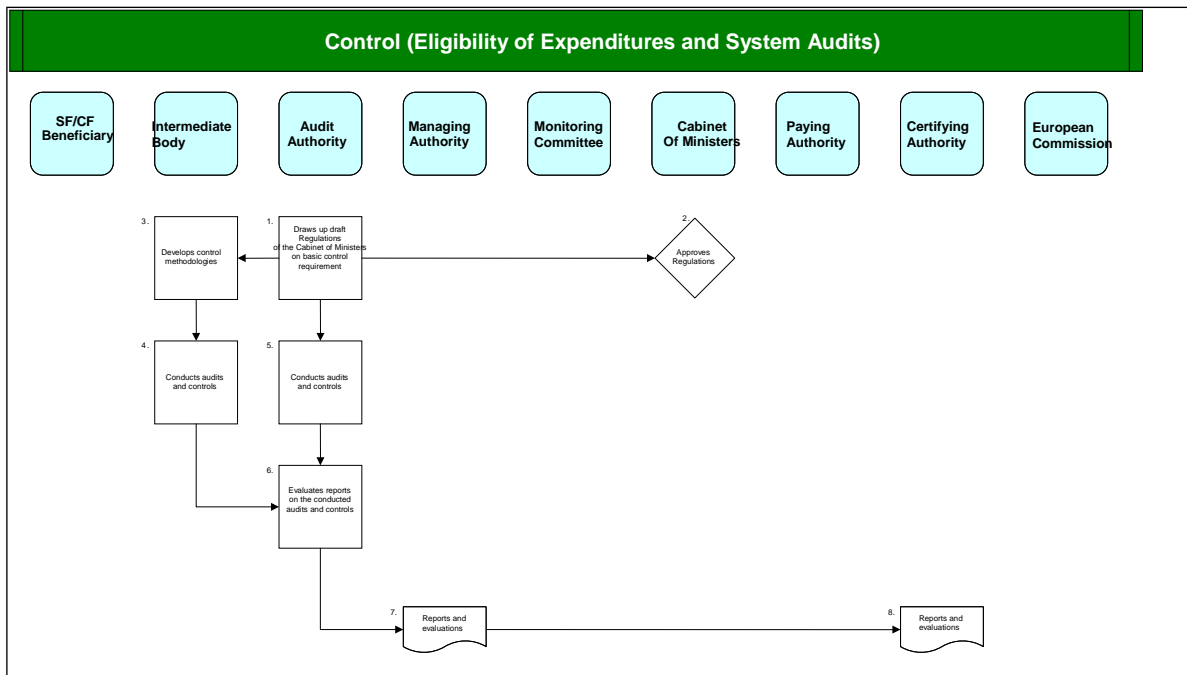


Figure 10: Chart on Controls of the Eligibility of Expenditure and Audits of Eligibility and Efficiency of the Systems

On-the-Spot Checks

528. The MA draws up the draft Regulations of the Cabinet of Ministers on the basic requirements for carrying out on-the-spot checks (1). After approval of the above regulations by the Cabinet of Ministers (2), the IB draws up a method (instructions and procedures) for carrying out on-the-spot checks (3). The relevant unit of the IB carries out on-the-spot checks (4). The MA receives reports on all the on-the-spot checks carried out by the IB, and evaluates them (5). Copies of the reports are sent for information to the AA and the CA (6,7).

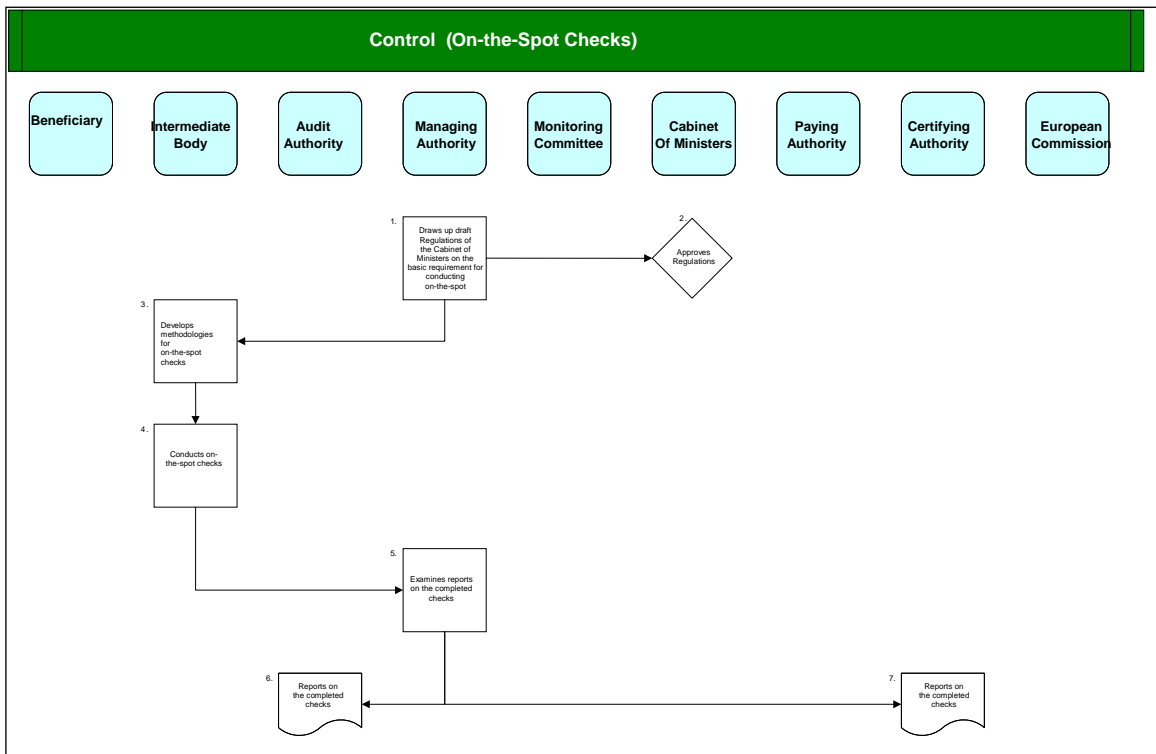


Figure 11: On-the-spot Check Scheme

Annual Report on the Implementation and Control System

529. The AA lays down the requirements for drawing up an annual report on the Implementation and Control System (1). After receiving the necessary information from the MA and the IB (2,3), the AA draws up the annual report on the Implementation and Control System (4) and send it for information to the MA, CA and the European Commission (5,6,7).

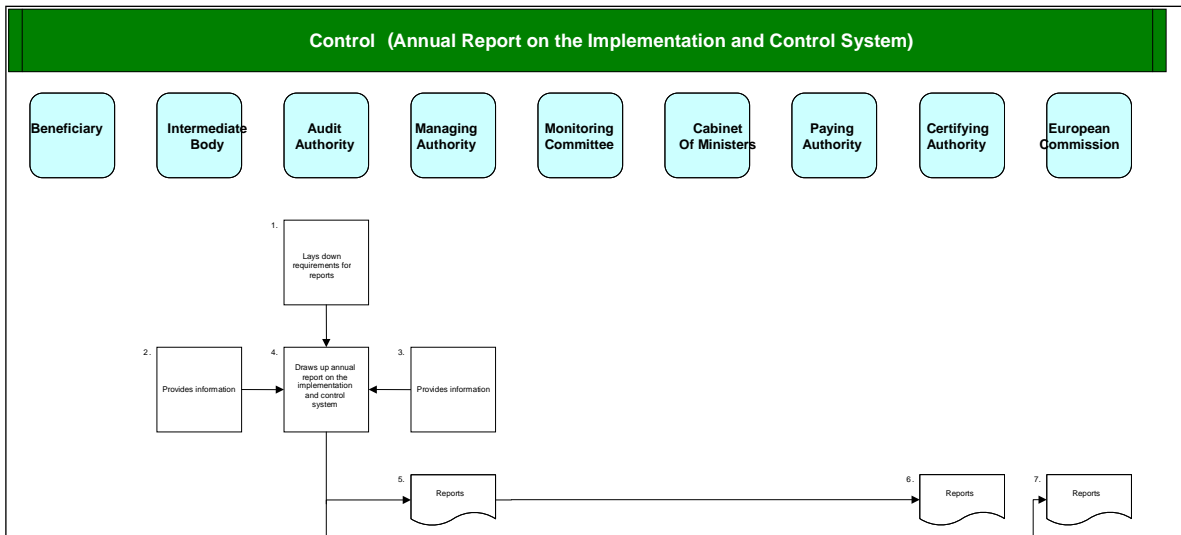


Figure 12: Annual Report on the Implementation and Controls System

Audit of the Description of the Management and Control System

530. The MA prepares a description of the Management and Control System for all the OP (1). The AA provides requirements for carrying out the audit of the Management and Control Systems created by the MA and the CA, and organises the audit (3). The AA sends the report on the audit of the MA and the CA systems to the MA (4). The MA, in cooperation with the CA and the AA, lays down the requirements for the creation of the Management and Controls Systems

by the IBs (5). The audit of Management and Controls Systems created by the IB is outsourced to an independent audit company on the systems for all the OPs under the supervision of the AA. Compliance Assessment Body will be chosen according to an open tender procedure. There is no involvement of the MA and CA in this procurement process and evaluation of offers, as well as in performing of audits. Moreover, MA and CA will be audited as well as all other institutions involved in the management of EU funds in 2007-2013 by the Compliance Assessment Body during the compliance assessment process. (6) the outsourced independent auditor prepares a report on audits of all the OPs Management and Control Systems, which after review by AA are sent to the MA (7). The MA sends the report on audits of all the OP Management and Control Systems (8) and descriptions on all the OP Management and Control Systems to the European Commission (2). The European Commission approves the description of Management and Control Systems on all the OP (2).

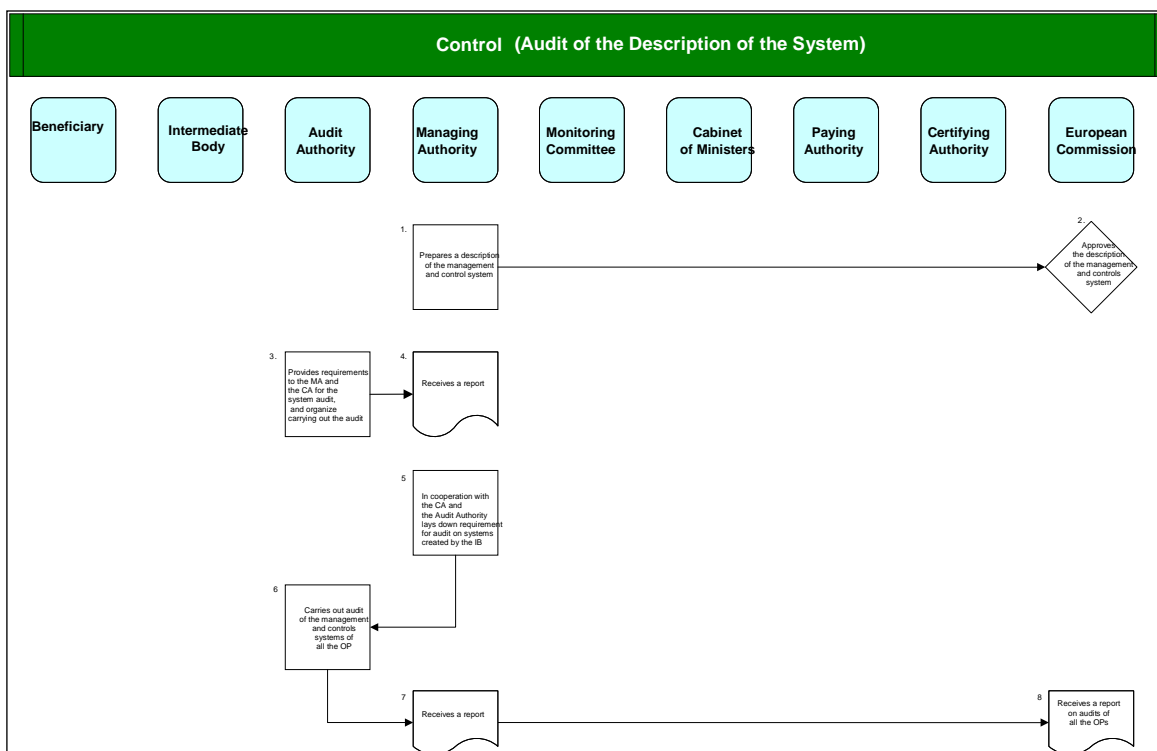


Figure 13: System Description Audit Scheme

6.7. Information and Publicity

531. In order to ensure transparent implementation of the Operational Programmes and to meet the publicity requirements of Structural Funds and the Cohesion Fund laid down by the European Commission, the EU Funds Communication Strategy for 2007-2015 is drafted. The strategy lays down communication objectives and tasks for the given time period, the division of responsibilities and communication competences among the institutions involved in the management of EU Funds, as well as the necessary activities for carrying out the communication tasks. The Strategy includes publicity plan for EU funds project application and implementation period and evaluation of the communication efficiency after closure of the Operational Programmes.
532. The EU Funds Managing Authority draws up the Communication Strategy within 4 months of approval of the Operational Programmes at the European Commission. The European Commission provides its conclusion on the Communication Strategy within 2 months, the Member State, within 2 months after receiving the comments from the European Commission

will improve the Strategy and again submit it to the European Commission, which is expected to provide the final conclusions in 2 months.

Communication Objectives

533. The communication objectives are as follows:

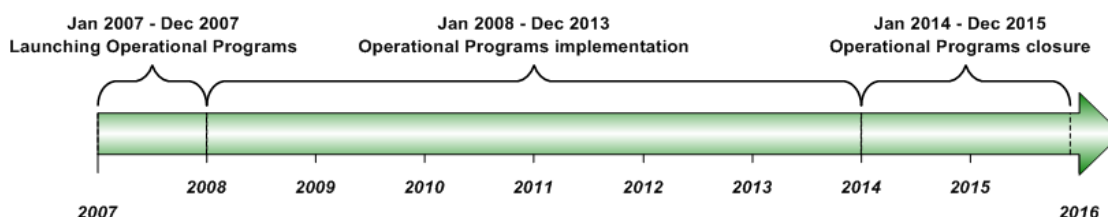
- To promote public awareness of the investments EU Funds in the socio-economic development of Latvia and general public benefit,
- To promote participation of social, regional and non-governmental partners in drafting EU funds planning documents and project implementation conditions,
- To ensure timely, clear and comprehensive information for potential EU funds project applicants and final beneficiaries,
- To promote transparency in the use of EU Funds by ensuring transparency of EU Funds utilisation and traceability,
- To ensure access to information in planning regions by facilitating active participation of inhabitants of planning regions in EU Funds implementation,
- To promote cooperation among institutions involved in the management of EU Funds and information intermediates

Target Groups

534. The communication target groups are:

- Potential project applicants and and final beneficiaries as laid down in the Operational Programmes: (Local Governments, NGOs, entrepreneurs, the education sector, public authorities) etc.;
- Potentially and actually benefiting groups;
- Information intermediates:
 - National and local media
 - Regional Structural Funds Information Centres in 5 planning regions;
 - Information providers on EU issues, such as The Latvian Rural Advisory and Training Centres, EU Information Agency, EU Information Points, *Europe Direct*, libraries at local governments;
 - Local governments, Latvian Association of Local and Regional Governments, The Association of Large Cities;
 - Non-governmental organisations
- Journalists;
- Opinion leaders;
- Institutions involved in the management of EU Funds;
 - General public.

Information and Publicity Activities



Stage 1: Launching Operational Programs: January 2007 – January 2008

Measure type	Content	Target groups	Institutions involved
MEASURE 1: Mass media relations			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - EU funds TV and radio programmes - Press releases - Interviews, comments, opinions - Press conferences 	<ul style="list-style-type: none"> - EU funds availability - Launching open calls - Launching restricted calls - Major projects - Economic sectors development in context of EU funds implementation - Project implementation - Contact information etc. 	<ul style="list-style-type: none"> - Potential Project applicants - Final beneficiaries - Latvian society - Information intermediates 	<ul style="list-style-type: none"> - Managing Authority - Responsible Institutions - Co-operation Institutions - Regional SF information centres (5)
MEASURE 2: Mass media monitoring			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - media monitoring 	<ul style="list-style-type: none"> - LR national and local press reviews and content analyses 	<ul style="list-style-type: none"> - Institutions involved in EU funds management 	<ul style="list-style-type: none"> - Managing Authority - Responsible Institutions - Co-operation Institutions - Regional SF information centres (5)
MEASURE 3: Regional conferences about EU Funds			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - Regional conferences (5) 	<ul style="list-style-type: none"> - EU funds projects in 5planning regions 	<ul style="list-style-type: none"> - Final beneficiaries in planning regions - NGOs, social and regional partners - Institutions involved in EU funds management - Latvian society 	<ul style="list-style-type: none"> - Regional SF information centres (5)
MEASURE 4: Publicising and dissemination information materials and			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - Information materials in line of Cabinet of Ministers regulation „EU Funds publicity and visibility” 	<ul style="list-style-type: none"> - NSRF - OPs - OPs complements - Activities under responsibility of Responsible Institution - Other information materials, content correspondent with the target group (s) 	<ul style="list-style-type: none"> - Potential project applicants - Information intermediates - Public administration institutions - Local authorities - NGOs, social and regional partners 	<ul style="list-style-type: none"> - Managing Authority - Responsible Institutions - Co-operation Institutions - Regional SF information centres (5)
MEASURE 5: Consultations, information measures for potential applicants including informative support in planning regions			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - Seminars, consultations etc. 	<ul style="list-style-type: none"> - EU funds availability - Practical information to potential applicants and final 	<ul style="list-style-type: none"> - Potential project applicants, especially in regions 	<ul style="list-style-type: none"> - Responsible Institutions - Co-operation Institutions

	beneficiaries - Contact information etc.	- Final beneficiaries, especially in regions - Information intermediates	- Regional SF information centres (5)
MEASURE 6: Promoting involvement of potential applicants and partners in drafting and discussion of project selection criteria			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- Any form of promoting society's participation	- EU funds project selection criteria	- NGOs, social and regional partners - Potential project applicants,	- Responsible institutions
MEASURE 7: Development of a single network in the EU Funds web-page www.esfondi.lv among home pages of institutions involved in EU Funds management			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- Development of a single home pages network - Unified contact information of contact persons of EU funds institutions	- Information support to potential applicants and final beneficiaries	- Potential project applicants - Final beneficiaries - Information intermediates - Web page visitors	- Managing Authority in co-operation with responsible and co-operation institutions and Regional SF information centres (5)
MEASURE 8: Flying EU flag at the Managing Authority on 9th of May			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- Flying EU flag		- Inhabitants of Latvia	- Managing Authority

Stage 2: Operational Programs implementation: February 2008 – December 2015

Measure type	Content	Target groups	Institutions involved
MEASURE 1: Mass media relations			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- EU funds TV and radio programmes - Press releases - Interviews, comments, opinions - Press conferences	- EU funds availability - Launching open calls - Launching restricted calls - Major projects - Economic sectors development in context of EU funds implementation - Project implementation - Contact information etc.	- Potential Project applicants - Final beneficiaries - Latvian society - Information intermediates	- Managing Authority - Responsible Institutions - Co-operation Institutions - Regional SF information centres (5)
MEASURE 2: Mass media monitoring			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- media monitoring	- LR national and local press reviews and content analyses	- Institutions involved in EU funds management	- Managing Authority - Responsible Institutions - Co-operation Institutions

			- Regional SF information centres (5)
MEASURE 3: Annual conference on EU Funds			
1	2	3	4
Annual conference on EU Funds	- EU funds implementation with a focus on reached indicators	- Final beneficiaries in planning regions - NGOs, social and regional partners - Institutions involved in EU funds management - Latvian society	- Managing Authority in co-operation with responsible and co-operation institutions and Regional SF information centres (5)
MEASURE 4: Dissemination of specific information			
1	2	3	4
- Information materials in line of Cabinet of Ministers regulation „EU Funds publicity and visibility”	- EU Funds implementation process and results - EU Funds project examples - Reached indicators - Project implementation experience etc.	- Final beneficiaries in planning regions - NGOs, social and regional partners - Institutions involved in EU funds management - Latvian society - Public administration institutions	- Managing Authority - Responsible Institutions - Co-operation Institutions - Regional SF information centres (5) -
MEASURE 5: Public opinion poll (1x year) about society’s awareness of EU Funds			
1	2	3	4
- Public opinion poll	- Society’s awareness of EU Funds	- Latvian inhabitants (random choice / 1000)	- Managing Authority
MEASURE 6: Placement of Billboards and permanent information plaques and posters			
1	2	3	4
- Billboards and permanent information plaques and posters at project sites	- Information on EU funding in EU Funds projects	- Final beneficiaries - Inhabitants of Latvia	- Responsible or co-operation institutions
MEASURE 7: Updating homepages			
1	2	3	4
- Home pages	- Actual EU funds information	- Potential project applicants - Final beneficiaries - Information intermediates - Home pages visitors	- Managing Authority - Responsible Institutions - Co-operation Institutions - Regional SF information centres (5) -
MEASURE 8: Consultations, information measures for potential applicants and final beneficiaries including informative support in planning regions			

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - Seminars, consultations etc. 	<ul style="list-style-type: none"> - EU funds availability - Practical information to potential applicants and final beneficiaries - Project implementation experience 	<ul style="list-style-type: none"> - Potential project applicants, especially in regions - Final beneficiaries, especially in regions - Information intermediates 	<ul style="list-style-type: none"> - Responsible Institutions - Co-operation Institutions - Regional SF information centres (5)

MEASURE 9: Conferences, seminars of technical nature on major project implementation

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - conferences - Seminars - Exchanging experiences and good practice 	<ul style="list-style-type: none"> - Practical information to major project applicants and beneficiaries 	<ul style="list-style-type: none"> - major project applicants and beneficiaries - information intermediates 	<ul style="list-style-type: none"> - Managing Authority - Responsible Institutions - Co-operation Institutions - Regional SF information centres (5) -

MEASURE 10: Publicising list of EU Funds beneficiaries

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - list of EU funds beneficiaries in line with the Cabinet of ministers regulation “Publicising information about EU funds project” 	<ul style="list-style-type: none"> - Content in line in line with the Cabinet of ministers regulation “Publicising information about EU funds project” 	<ul style="list-style-type: none"> - Final beneficiaries - Inhabitants of Latvia 	<ul style="list-style-type: none"> - Responsible Institutions - Co-operation Institutions -

MEASURE 11: Flying EU flag at the Managing Authority on 9th of May

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - Flying EU flag 		<ul style="list-style-type: none"> - Inhabitants of Latvia 	<ul style="list-style-type: none"> - Managing Authority

MEASURE 12: Qualitative research in 2010 about the impact of publicity measures

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - Qualitative research 	<ul style="list-style-type: none"> - Reached indicators and impact of information and publicity measures 	<ul style="list-style-type: none"> - Inhabitants of Latvia - Institutions 	<ul style="list-style-type: none"> - Managing Authority

Stage 3: Operational Programmes closure 2014-2015

Measure type	Content	Target groups	Institutions involved
MEASURE 1: Qualitative research in 2010 about the impact of publicity measures			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> - Qualitative research 	<ul style="list-style-type: none"> - Reached indicators and impact of information and publicity measures 	<ul style="list-style-type: none"> - Inhabitants of Latvia - Institutions 	<ul style="list-style-type: none"> - Managing Authority

Funding

535. The institutions involved in the management of EU Funds and Regional Structural Funds Information Centres will receive EU funding from technical assistance in order to ensure the implementation of information and publicity activities. The indicative funding of the EU funds for the implementation of the communications strategy for 2007-2015 is estimated at 7.5 million EUR.

Management and Monitoring of Communication of EU Funds

536. Responsible institutions or other line ministries and State Chancellery ensure the management and information measures for activities financed by EU Funds, in accordance with the sector policy and the priorities laid down in the National Strategic Reference Framework. Responsible institutions ensure that the target groups receive information on EU Funds activities in the sector concerned and explain their importance within the developmental context of the sector. Bearing in mind that implementation of the European Social Fund, European Regional Development Fund and the Cohesion Fund activities is simultaneously managed by several Responsible institutions, their primary informational responsibility is to provide information on the activities under their supervision, as well as progress and results thereof. The overall information which covers activities supervised by several Responsible institutions within the framework of a single Fund must be mutually coordinated and supplementary.

537. The informational support to project applicants and final beneficiaries is ensured by Cooperation institutions or Responsible institutions in accordance with the delegation of functions as laid down by the Responsible institution. Co-operation or Responsible institutions provide information on open and restricted calls; carry out the necessary informational tasks related to encouraging project applications, and ensure explanation of implementation requirements and informational support to final beneficiaries.

538. In addition to the informational support provided by the Cooperation institutions or Responsible institutions, the Regional Structural Funds Information Centres provide general information and consultations to potential project applicants, provide support and supplement the informational activities carried out by other institutions and their regional offices involved in the management of the EU Funds; coordinate the EU Funds information activities in five planning regions, thus promoting awareness of potential project applicants and their activity in the planning regions.

539. The Managing Authority is responsible for implementation of the communication strategy and provides general information on the overall absorption of the EU Funds. Coordination and monitoring of the EU Funds communication activities is ensured by the EU Funds Communication Management Group, where communication specialists of all the institutions involved in the management of the EU Funds and 5 Regional Structural Funds Information Centres are represented.

Summary of Responsibilities and Communication Competences of the Institutions Involved in Management of the EU Funds

Institution	Primary target group	Primary responsibility
Monitoring Committee	Institutions involved in the management of EU Funds	Approval of the EU Funds Communication Strategy for 2007-2015 and its implementation monitoring
Managing Authority	General public	Implementation of the EU Funds in general

Responsible Institutions	General public	Implementation of EU Funds activities; EU Funds impact on sector policy
Cooperation Institutions <u>or</u> Responsible Institutions	Potential applicants and Beneficiaries	Practical information for project applicants and implementers
5 Regional Structural Funds Information Centres	Potential project applicants, especially less active EU Funds target groups in the regions	Informing, encouraging and orientating potential project applicants and less active EU Funds target groups in order to attract funding from the EU Funds in the regions

540. The Managing Authority, Responsible Institutions, Cooperation Institutions and regional Structural Funds information centres draw up their communication plans independently, by evaluating their own resources and competence. However, they are drawn up in compliance with the Communication Strategy. If the information provided by the institution ranges beyond its established competence and concerns activities of other institutions, then the information is mutually agreed. Detailed division of responsibilities and communication competences of institutions involved in the management of the EU Funds is laid down in the Communication Strategy.

Indicators for Evaluating Implementation Progress of Information and Publicity Measures

541. Results:

- Indicators of information dissemination to the public (source of information – opinion polls),
- Level of awareness within target groups (source of information – public opinion polls),
- Indicators of the efficiency of the delivery of information – conformity of the chosen communication channels with the needs of the target groups (source of information – opinion polls),
- Level of popular support on the EU Fund targets and achieved results (source of information – opinion polls),
- Manner of media coverage (source of information – content analysis of the media publications).

Measure	Outputs
Websites	<ul style="list-style-type: none"> - Number of users (average per day and the total number) - Number of electronic requests for information - Registrations to receive information electronically
Information to the Media	<ul style="list-style-type: none"> - Number of releases - News reflected in national and local media (number of publications)
Press briefings	<ul style="list-style-type: none"> - Number of press conferences - Coverage in national and local media (number of

	publications)
Informational events (seminars, conferences, etc.) and informational/consultative support	<ul style="list-style-type: none"> - Number of informational events - The reached audience (number of participants) - The reached area - Number of individuals who were provided consultations
Publications	<ul style="list-style-type: none"> - Number of publications, copies/circulation - The reached audience - The reached area

6.8 Coordination of the assistance

542. The coordination of SF and CF operational programmes is important for mutual harmonization and separation of sectors of assistance, and for alignment with horizontal objectives. In order to ensure coherence between the three OPs to achieve the strategic goals set at the level of the NSRF, the coordination mechanisms are put in place.
543. The mutual coordination of SF and CF operational programmes is ensured by the Ministry of Finance as the Managing Authority, as well as by the OP Monitoring Committee. The concentrated implementation model, whereby all OPs have a joint Managing Authority, fosters better coordination between OPs. A joint Monitoring Committee has also been established for the OPs, which allows for optimum coordination of OPs by concentrating information on all OPs in one place. In the negotiations with the European Commission services it was agreed to establish also two dedicated Sub-Committees – one for ESF and the other for ERDF and the CF.
544. In order to avoid overlap in SF and CF investments, as well as the situation whereby financing for a particular sector cannot be provided by any financial instrument, it is important to coordinate the SF and CF with the European Agricultural Fund for Rural Development and the European Fisheries Fund. This is particularly important when complying with the cohesion policy objectives as complemented by the common agricultural policy objective to ensure a fair standard of living for the rural community.
545. The coordination of SF and CF operational programmes with the instruments for implementing the common agricultural policy and Common Fisheries Policy will be ensured by the Ministry of Finance as the Managing Authority of SF and CF. During the elaboration of the OPs, the Ministry of Finance consulted the Ministry of Agriculture on the measures to be included in the programming documents and conditions for receiving financing. Coordination will also be ensured during implementation with the participation of a representative from the Managing Authority in the European Agricultural Fund for Rural Development and European Fisheries Fund monitoring committees (management groups), as well as with the participation of a representative from the Ministry of Agriculture in the SF and CF operational programme Monitoring Committee.
546. In addition, according to the national legislation the Ministry of Regional Development and Local Governments will ensure coordination of the OPs with the National Development Plan, while the Ministry of Economy will ensure coordination of the OPs with the Latvian National Lisbon Programme, thereby ensuring harmonization of investments under the SF and CF with the national development programming documents. All of the institutions mentioned are members of Monitoring Committee.

7. INFORMATION ON EX-ANTE EVALUATION AND SEA PROCESS AND RECOMMENDATIONS TAKEN INTO THE CONSIDERATION IN RESPECT TO OPERATIONAL PROGRAMME “ENTREPRENEURSHIP AND INNOVATIONS”

7.1 Ex-ante evaluation process

547. According to second part of Article 48 of the Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 Member State shall carry out an ex ante evaluation for planning documents.
548. Ex-ante evaluation of operational programme “Entrepreneurship and Innovations” altogether with the operational programmes “Human Resources and Employment” and “Infrastructure and Services” and National Strategic Reference Framework commenced in July 2006 by preparing four reports – one report for each programming document. Via an open call procurement procedure SIA „PricewaterhouseCoopers” was chosen to be the ex-ante evaluator.
549. The main objective of the ex-ante evaluation is to ensure a preparation of qualitative EU funds planning documents for the period 2007–2013 in accordance with the EU and national legislation, as well as in compliance with the country’s development needs and provisions laid down in the EU and Latvian planning documents.
550. According to the Article 48 of aforementioned Regulation the aim of the ex-ante evaluation is to optimize the allocation of budgetary resources under operational programmes and improve programming quality. The evaluation should contain identification and appraisal of the disparities, gaps and potential for development, the goals to be achieved, the results expected, the quantified targets, the coherence, if necessary, of the strategy proposed for the region, the Community value-added, the extent to which the Community's priorities have been taken into account, the lessons drawn from previous programming and the quality of the procedures for implementation, monitoring, evaluation and financial management.
551. Ex-ante evaluation is carried out in parallel with the preparation of the EU funds planning documents. During the process of ex-ante evaluation the experts provide their opinion and recommendations about the prepared planning documents to their authors, they do participate also in the negotiations process with the European Commission on the approval of the planning documents.
552. Until the end of October 2006, when the draft reports were prepared, discussions on each planning document took place on a regular basis among the parties involved in the preparation of planning documents – representatives of the respective line ministries, Managing Authority and independent experts. After the reports were received a public hearing was held (see information about the Strategic Environmental Assessment) when the opinion on the reports prepared by the experts could be expressed by the whole society, inter alia, social, regional and non-governmental sector partners. After the reports were received discussion on each comment took place among the involved parties, consequently the reports were updated.
553. Experts were helpful in preparation of planning documents that ensure clear and constructive layout of issues and lucidity.

Conformity assessment of socioeconomic analysis and elaborated strategy to the needs identified

554. Main conclusions and recommendations expressed by experts were in respect to insufficient data analysis on the necessity of intervention in the specific area, as well as the lack of country's policy planning documents in the specific area that would, for instance, classify the industries by priority. Evaluators asked the conclusions in the analytical part and weaknesses identified to be justified by statistical information and analysis. This was taken into consideration when updating the planning documents by drafting more precise activity descriptions, and providing more comprehensive information in the OP complements.
555. Draft OP version prescribed that currently Latvia is substantially behind other EU countries according to such R&D criteria as the number of scientists, number of scientific publications, number of patented inventions; OP prescribes also that small and medium merchants face difficulties in securing finances for the development of business, nevertheless the experts pointed out that at the same time the document lacks the statistical justification for these statements. In updating the data the line ministries used the most outstanding statistical data and unprejudiced information from studies within their limits.
556. Activity "Support to science and Research" in the draft OP "Entrepreneurship and innovations" foresees facilitating research projects of practical nature that would contribute towards integration of science and production and implementation of research products. Target group for this activity includes the scientific institutions that are registered in the register of scientific institutions. In order to secure the transfer of research projects of practical nature to the production enterprise for their implementation, the experts suggested either to improve this activity or to create a new activity directed towards creation of conditions encouraging enterprises to cooperate with scientific institutions. Regarding the justification of activities more detailed explanatory notes were included in the final OP version.

Conformity assessment of developed strategic justification to strategy

557. Experts were asking to consider a possibility to provide more detailed information on the necessity of assistance in respect to the specific activity. One must note that the OP complements cover the areas where assistance is offered in more details by setting the priority areas.
558. Draft OP "Human resources and employment" measure "Employment" foresees synergy to the activities "Cluster programme", "Mastering foreign markets", "Support for investments in SMEs' development in specially assisted areas" and "Measures for development of entrepreneurship and innovations" of measure "Enhancement of Business activities and competitiveness" of the draft OP "Entrepreneurship and Innovations", however this is not mentioned in the draft OP "Entrepreneurship and Innovations" version. The final version of the planning documents the synergy part is significantly enhanced.
559. There was an invitation expressed to provide a more detailed description on how the horizontal priorities' targets are met within each measure, for instance, by marking the particular activities that target these priorities or by marking the target groups that are involved in the implementation of activities, or by defining a specific set of project selection criteria that would allow to meet the horizontal priorities' targets. Thus OP complements provide description of the implementation of horizontal priority. For instance, horizontal priority "International competitiveness of Riga city" is implemented by having a large part of the target group positioned in Riga or its surrounding.

Conformity assessment of the developed strategy to the Community Cohesion strategic guidelines and Latvian line policies

560. Independent experts certified that the developed planning documents are altogether in line with the Community Cohesion strategic guidelines, scenario laid down in the National development plan and the respective line basic positions for the period 2007 – 2013.

Assessment of the anticipated results and impact

561. It was recognized that in the development phase of the documents no target indicators were set for the horizontal priorities; thus a risk was identified to lack the possibility to evaluate the horizontal priority targets. There was an appeal from the experts to develop evaluation criteria on the programme level (outcome, impact) in order to create an opportunity to evaluate the results achieved by the programme in total, avoiding going deeper till the priority level, to review a possibility to include baseline values for all the indicators, thus providing an opportunity the targets achieved to be conveyed in relative values and making it easier to interpret the results achieved in the particular context, as well as review the possibility to indicate the data sources and the period of reconstruction for the indicators included in the document, as well as indicating the method used for data calculation. Experts invested rather much effort in the development of indicators.
562. On the initiative of the Managing Authority an inter-institutional working group on the indicators was organized, which considered all the comments expressed by the experts and which results are visible in the final version of the planning documents – indicators are defined in a comprehensive and logic manner ensuring the evaluation of targets achieved, in the OP complement the data sources and method used for its calculation is depicted.

Assessment of the implementation system

563. Experts expressed a suggestion to indicate specific financial beneficiaries. This information is included in the OP by indicating the groups of financial beneficiaries for each activity.

7.2 Strategic Environmental Assessment

564. In accordance with the Law “On Environmental Impact Assessment” and the Directive 2001/42/EC of the European Commission on the assessment of the effects of certain plans and programmes on the environment independent experts (SIA “VentEko”) within the contract on ex-ante evaluation carried out the environmental impact assessment of the aforementioned four planning documents by preparing four environmental reports – one for every planning document.
565. In the environmental reports analysis of the respective planning document level EU and Latvian environmental policy documents and normative acts is performed, activities proposed in the planning documents are analyzed from the environment protection and sustainable development perspective, possible environmental impact if implementing the planning documents is assessed, possible alternatives if there are such are analyzed, and recommendations to reduce the environmental effect of the activities mentioned in the planning documents and enhance sustainable development are given.
566. In the preparation of environmental reports the transparency principle was obeyed by effectively publishing the most outstanding information on the Ministry of Finance administered web site, thus making the information publicly available. Public hearing of the environmental reports took place from October 31, 2006 until December 14, 2006. On November 6, 2006 seminar was organized to attract the public attention to the fact that the public hearing for the environmental impact assessment commenced. Institutions involved in the EU funds implementation and the development of planning documents, social, regional and non-governmental sector representatives participated in the seminar. Overall there were around 50 participants. The aim of the seminar was to give an overall insight and the most

outstanding information on the ex-ante evaluation and on strategic environmental assessment of the EU funds planning documents, as well as to repeatedly pay partners attention that the EU funds planning documents environmental reports commenced. The meeting of the public hearing during which an opportunity was provided to express comments and make a discussion on the comments took place on December 6, 2006.

567. Managing Authority by making adjustments to planning documents have taken into consideration the comments expressed and made respective changes (for the detailed information see the Annex No 2 on Strategic Environmental Assessment – Report on Statement foreseen by Article 9(1)(b) of the SEA Directive summarizing how environmental considerations and opinions expressed have been taken into account in the OP).
568. In accordance with the provisions of the national legislation on strategic environment assessment Managing Authority within 14 days after the approval of the respective planning documents prepares and publishes the information note on the web site www.esfoni.lv administered by the Managing Authority. The information note indicates how the environmental report and the statement of Environment State Bureau have been considered in the planning document and information on the analysis of the alternatives and the reaction to the comments received during the public consultation process. Within 5 days after publishing of the information note, the statement on the approval of the State level planning document is to be published in the web site administered by the Managing Authority, in the official newspaper „Latvijas Vēstnesis” and sent to the Environment State Bureau electronically for publishing on the web site administered by the bureau. The statement has to be sent also to the institutions and organizations that have expressed their comments during the preparation of planning documents, thus making the information publicly available.
569. In the beginning of March 2007 positive opinions on the four environmental reports were received from the Environment State Bureau– the competent authority. The managing authority plans to implement the recommendations of the competent authority into practice.