



# **DRAFT NATIONAL STRATEGIC REFERENCE FRAMEWORK 2007-2013**

**MINISTRY OF FINANCE OF THE REPUBLIC OF LATVIA  
RIGA  
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## ABBREVIATIONS

UN	–	United Nations Organisation
USA	–	United States of America
FDI	–	Foreign direct investments
CFCA	–	Central Finance and Contracting Agency
CSB	–	Central Statistical Bureau
EEA	–	European Economic Area
EF	–	European funds: ERDF, SF and CF
EC	–	European Commission
EAGGF	–	European Agricultural Guidance and Guarantee Fund
MoE	–	Ministry of Economics
ERDF	–	European Regional Development Fund
EU	–	European Union
EU-10	–	The 10 new Member States acceding to the EU on 1 May 2004
EU-15	–	EU Member States before enlargement of the EU on 1 May 2004
EU-25	–	EU Member States after enlargement of the EU on 1 May 2004
ESF	–	European Social Fund
EUR	–	euro
EUROSTAT	–	Statistical office of the European Communities
MoF	–	Ministry of Finance
HES	–	Hydro-electric power station
HCPI	–	Harmonised consumer price index
SPA	–	Special protection area
GDP	–	Gross domestic product
ICT	–	Information and communication technologies
FP	–	Framework programme
IT	–	Information technologies
SMSAEGA	–	Secretariat of the Minister for Special Assignments for E-government Affairs
MoES	–	Ministry of Education and Science
CF	–	Cohesion Fund
CSG	–	Community Strategic Guidelines for economic, social and territorial cohesion
RDP	–	Rural Development Plan, which includes the terms of the guarantee section of the European Agricultural Guidance and Guarantee Fund
RDS	–	Rural Development Strategy, 2007-2013 (drawn up by the Ministry of Agriculture)
LFTUF	–	Latvian Free Trade Union Federation
LCE	–	Latvian Confederation of Employers
LAT	–	State public limited liability company "Latvian Air Traffic"
MoW	–	Ministry of Welfare
NLP	–	National Lisbon Programme of Latvia
LULRG	–	Latvian Union of Local and Regional Governments
UoL	–	University of Latvia
UoL BMC	–	University of Latvia Biomedical Research and Study Centre
UoL ISSP	–	University of Latvia Institute of Solid State Physics
LVL	–	lats
LCS	–	Latvian Council of Science
CoM	–	Cabinet of Ministers
MVK	–	Small and medium-sized entrepreneurship
SME	–	Small and medium-sized enterprises
NDP	–	National Development Plan, 2005-2013 (drawn up by the MoRDLG)
EMA	–	Emergency medical assistance
NSRF	–	National Strategic Reference Framework
SEA	–	State Employment Agency
NGO	–	Non-governmental organisations
OECD	–	Organisation for Economic Cooperation and Development
OP	–	Operational Programme
OSI	–	Organic Synthesis Institute
R&D	–	Research and development
VEDA	–	Vocational education development agency
PCCSA	–	Professional career counselling State agency
USSR	–	Union of Soviet Socialist Republics

PHC	–	Primary healthcare
VAT	–	Value Added Tax
MoRDLG	–	Ministry of Regional Development and Local Governments
RTU	–	Riga Technical University
ILO	–	International Labour Organisation
SDR	–	Special Drawing Right – a currency basket that includes the US dollar, euro, Pound sterling and Japanese yen
SEArea	–	Special economic area
SF	–	EU Structural Funds
SCDS	–	Market and public opinion research centre "Social Correlative Data Systems"
MoT	–	Ministry of Transport
JES	–	Joint Economic Strategy
USD	–	US dollar
SPLLC	–	State Public Limited Liability Company
SLI	–	State Labour Inspectorate
MoEnv	–	Ministry of the Environment
SIP	–	State Investment Plan
ST	–	State Treasury
SChan	–	State Chancellery
CRM II	–	Currency rate mechanism II
MoH	–	Ministry of Health
HCISA	–	Health Compulsory Insurance State Agency
SPD	–	Single Programming Document
FIFG	–	Financial Instrument for Fisheries Guidance

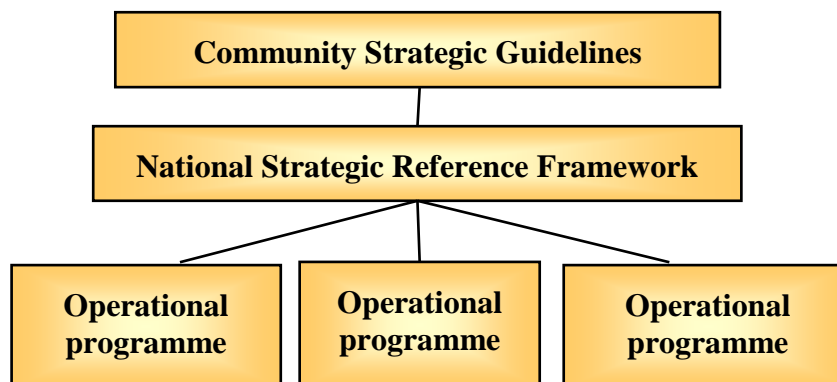
## 1. INTRODUCTION

1. European Union cohesion policy is a common EU policy whose objective is to reduce significant differences in the level of socio-economic development between various regions and the lagging behind of the less developed regions.
2. In joining the European Union, Latvia, as one of the less developed regions of the EU, has the opportunity to be involved in the implementation of the EU regional policy, using the financial aid offered by the EU for economic and social development. In the 2004-2006 programming period, the largest financial instruments from which Latvia is receiving financial aid are the EU Structural Funds (SF) and the Cohesion Fund (CF). In addition to this, Latvia also receives financing within the framework of the European Community Initiatives EQUAL and INTERREG. Funds from all the sources of finance mentioned may be applied for during the period from 2004 to 2006 (and may be used up until 2008 and in the case of the Cohesion Fund up until 2010). This period corresponds to the 2000-2006 EU multiannual financial perspective. For the 2000-2006 period both the SF and CF financing amounts were increased, and legislative acts governing the operation of financial instruments.
3. For the start of the new EU multiannual financial framework for 2007-2013, both new SF and CF financing amounts have been set and a new legal regulation has been drafted for their use, and programming documents have also been prepared in the territories that are to receive support.
4. In view of the fact that Latvia's gross domestic product per capita in 2004 corresponds to only about 40% of the EU average indicator, within the framework of the 2007-2013 programming period the country is able to apply for funding from both the Structural Funds and the Cohesion Fund. According to the decision of the EU Council of Ministers concerning the EU multiannual financial framework for 2007-2013 the cohesion envelope of Latvia in framework of NSRF estimates at 4.53 billion EUR.
5. A series of EU legislation governs the implementation of the Structural Funds in the 2007-2013 period, the most important of which is Council Regulation No 1083/2006 of 11 July 2006, which lays down general provisions on the European Regional Development Fund, the European Social Fund and Cohesion Fund and Regulation (EC) No 1260/1999.
6. For its part, in the Latvian system of legislation the management of the Structural Funds and Cohesion Fund is regulated by the Law on Management of the European Union Structural Funds and Cohesion Fund which came into force on March 1, 2007. The law provides a complete basis for the implementation of requirements for the management of funds, provides the requisite authority to the institutions involved in the organisation of the funds. According to the delegation of the law the Cabinet of Ministers Regulations provides detailed provisions on the management of the funds, including provisions on different stages of the funds management.
7. Corresponding to the task of the Cabinet of Ministers, the Ministry of Finance has drafted a concept for the planning and management system for the European Union's Structural Funds and Cohesion Fund for the 2007-2013 period, which was approved by the Cabinet of Ministers on 18 October 2005.
8. The concept approved by the Cabinet of Ministers provides that Latvia will continue the implementation of the Structural Funds and the Cohesion Fund, using the concentrated management model, providing continuity and coordination in the management of funds. The Ministry of Finance will also fulfil the duties of the managing body in the next programming period.



## 1.1. SF and CF programming documents

9. In the regulations mentioned above it is proposed to implement programming at three levels – an EU-level strategy (Community Strategic Guidelines - CSG), a Member State strategy (National Strategic Reference Framework - NSRF) and Member State operational programmes (OPs).



*Figure 1: Hierarchy of the EU's and Latvia's cohesion policy programming documents*

### 1.1.1. Community strategic guidelines

10. The Community strategic guidelines constitute the EU-level policy programming document in which the priority directions are defined for the use of cohesion policy funding, which are to be demonstrated in the Member States' programming documents that have been drawn up. The Community strategic guidelines have been prepared as a strategic document at Community level which lays down a general framework for investments from the European Union Structural Funds and the Cohesion Fund in the 2007–2013 period. The Community strategic guidelines are also intended to be a reference document, which the Member States and regions will be able to use in preparing their individual EU funds programming documents for the new programming period.
11. On 6 October 2006 the Community Strategic Guidelines on Economic, Social and Territorial Cohesion for 2007-2013 were adopted by the Council.
12. The CSG have the chief objective of ensuring better connection between cohesion policy and the EU common competition policy (the Lisbon Strategy). It is believed that cohesion policy can significantly promote the fulfilment of the Lisbon Strategy, for example by providing a better link between public investment and the corresponding policies, by introducing medium and long-term investment strategies, and by attracting co-financing, for example, from national or private sources of funding.
13. The CSG identify three priorities of Community significance, and within the context of each priority they point to the most suitable sphere for investment, and also in each of the spheres they give guidelines to the Member States to enable them to better prepare their Structural Funds and Cohesion Fund programming documents. At the same time it is acknowledged that each Member State or region must be looked at individually, and that an analysis must be carried out on which to base or to choose the most appropriate investment policy.
14. CSG state that economic growth is closely connected with growth in employment and productivity. In order to achieve this, balanced development needs to be fostered and competitiveness in the knowledge-based economy needs to be strengthened, using instruments such as investment in infrastructure, human capital, innovation and access

to information. The CSG thus proposed concentrating on three priorities:

- making the EU and its regions a more attractive place to invest and work: this priority encompasses investment in infrastructure and in public services in areas such as transport, the environment, energy, health, etc.
- improving knowledge and innovation for growth: this priority is directed towards support for competitiveness and the creation and development of innovative knowledge-based enterprises, as well as better links with scientific and research institutions.
- more and better jobs: this priority includes spheres such as attracting and retaining people in employment, the adaptability of the work force to changes in the economy, and investing in human capital, for example through boosting education and administrative capacity.

15. The CSG lay down the need to resolve problems specific to regions, towns and country areas as a horizontal issue. The CSG also lay down the main strategic directions for territorial cooperation – at the cross-border, transnational and interregional levels.

### **1.1.2. National strategic reference framework**

16. The NSRF is a policy programming document which lays down a common strategy for the obtaining of the EU Structural Funds and Cohesion Fund resources, and provides coordination between the funds and the operational programmes.
17. The NSRF concerns funding from the Structural Funds and the Cohesion Fund which will be accessible to Latvia as a Convergence objective (Objective 1) territory for the 2007-2013 period (with a utilisation period till 2015).
18. The NSRF does not apply to funding from the European Regional Development Fund, which will be accessible to Latvia pursuant to EU cohesion policy objective 3: “Territorial cooperation”. Territorial cooperation will be effected by preparing operational programmes: for cross-border cooperation (direct cross-border cooperation with international and external borders), transnational cooperation (the Baltic Sea region programme) and interregional cooperation (cooperation throughout the territory of the EU). The relevant body for territorial cooperation in Latvia is the Ministry of Regional Development and Local Governments (MoRDLG).
19. The NSRF consists of two main sections:
- the strategic section, which gives the basis for the choice of priorities, and
  - the operational section, which describes the implementation and coordination mechanisms, the number of operational programmes and their content.
20. Pursuant to the general regulation, the NSRF must provide the following essential information:
- An analysis of the country’s development disparities in comparison with the other Member States, weaknesses and potential,
  - the country’s strategy for the use of the Structural Funds and the Cohesion Fund, based on the analysis, including thematic and territorial priorities,
  - a list and short description of the OPs,
  - indicative allocation of funds for each Fund, broken down by operational programme,
  - information on complementarity between the operational programmes and activities funded by the European Agricultural Fund for Rural Development and the European Fisheries Fund,
  - other information which is indicated in the regulations.

21. Latvia prepares the NSRF, which is approved by the European Commission. The Ministry of Finance has undertaken to coordinate the preparation of the NSRF.
22. In preparing the NSRF, account has been taken of the Concept Paper entitled “Model for Growth of Latvia: Individual First”, the National Development Plan and the National Lisbon Programme of Latvia.

### **1.1.3. Operational programmes**

23. Pursuant to the decision by the Cabinet of Ministers of 18 October 2005 concerning the concept for a model for the implementation of the SF and CF for the 2007-2013 period in Latvia, it has been decided to draft three operational programmes: the first is the ESF OP, which is directed towards support for employment and investment in human resources, the second is the ERDF OP, which is directed towards support for entrepreneurship<sup>1</sup>, innovation and science, and research, and the third is the joint ERDF and CF OP, which is directed towards the improvement of infrastructure and public services.
24. Pursuant to the draft general regulation, each OP includes:
  - an analysis of the situation,
  - a justification of the priorities chosen,
  - a quantification of the targets to be achieved,
  - a financing plan, including the provisional allocation of funding to each sphere of support,
  - assurance of complementarity between measures funded by the SF/CF and measures funded by the European Agricultural Fund for Rural Development and the European Fund for Fisheries,
  - implementing provisions for the OPs,
  - a list of major projects,
  - other information which is indicated in the regulations.
25. Latvia prepares the OPs, which are approved by the European Commission. The Ministry of Finance, which has undertaken the functions of the OP Managing Authority, prepares the OPs. Analysis of the situation

## **1.2. General description of the situation**

### **1.2.1. Geographical situation**

26. The Republic of Latvia is situated in north-eastern Europe, in the economically and politically active Baltic Sea region. The area of Latvia is 64 589 km<sup>2</sup>. The State capital is Riga. The State borders Estonia (to the north), Russia (to the east), Belarus (to the south-east) and Lithuania (to the south).

### **1.2.2. Administrative structure**

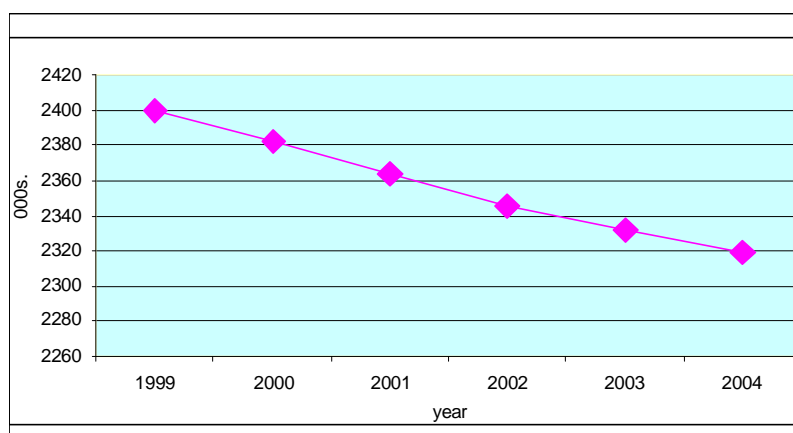
27. In Latvia there are 26 district local authorities and 527 municipal local authorities, including 53 district towns and seven cities, 432 parish authorities and in recent years 35 amalgamated local municipalities have been created with the territorial units that contain them. For planning purposes within the State, five planning regions were created in 2002: Kurzeme, Latgale, Riga, Vidzeme and Zemgale.

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<sup>1</sup>Here and below the term “entrepreneurship” is used as a synonym for the term ‘commercial activity’ in the sense of the Commercial Law.

### 1.2.3. Demographic situation

28. In the period from the beginning of 1999 to the beginning of 2005 Latvia's population decreased by 93 000. The number of inhabitants has fallen since 1989, due to natural movement and also the proportion of emigration of residents as compared to immigration (see Figure 2).



**Figure 2: Changes in the number of inhabitants from 1999 to 2004**

*Source: Central Statistical Bureau (CSB)*

29. In the next decade there will also be a clear decrease in Latvia's population<sup>2</sup>.

**Table 1: Forecasts of changes in populations**

	Number of inhabitants as at 1 January (in thousands)				Increase in number of inhabitants compared with 1 January 2004, %		
	2005 <sup>3</sup>	2015	2025	2050	2015	2025	2050
EU-25	459.5	467.3	470.1	449.8	1.7	2.3	-2.2
EU-15	385.4	394.7	398.8	384.4	2.4	2.4	0.3
New Member States	74.1	72.6	71.3	65.4	-2.1	-3.8	-11.7
Latvia	2.3	2.2	2.1	1.9	-4.4	-8.7	-17.4

*Source: Eurostat*

30. The fertility rate for 2002-2003 shows a slight positive trend, but in 2004 the number of births was 20.3 thousand, i.e. almost 700 children less than in 2003. The birth rate per 1000 inhabitants decreased by 2.2 %. The total fertility rate (the average number of children a woman would have if she experienced the age-specific fertility rates of a particular year for her entire child-bearing years) in 2004 decreased in comparison with 2003 by 3.8% and was only 1.24%. The fertility rate is only just over half the size (2.1 – 2.2) necessary for normal replacement of generations. The low fertility indicators in Latvia have led to a noticeable reduction in workforce resources. Possible reasons for the low birth rate are a feeling of economic instability among parents, the absence or inaccessibility of the necessary infrastructure and the unstable legal environment.
31. In the 1999-2004 period, on average each year 5-6 people per 1000 inhabitants more died than were born in Latvia. During this period there has also been an observable negative gradual reduction in the proportion of natural movement of people. In 1999, the average natural decrease in the population was minus 5.6 people per 1000 inhabitants, whereas in 2003 it was minus 4.9 per 1000 inhabitants.

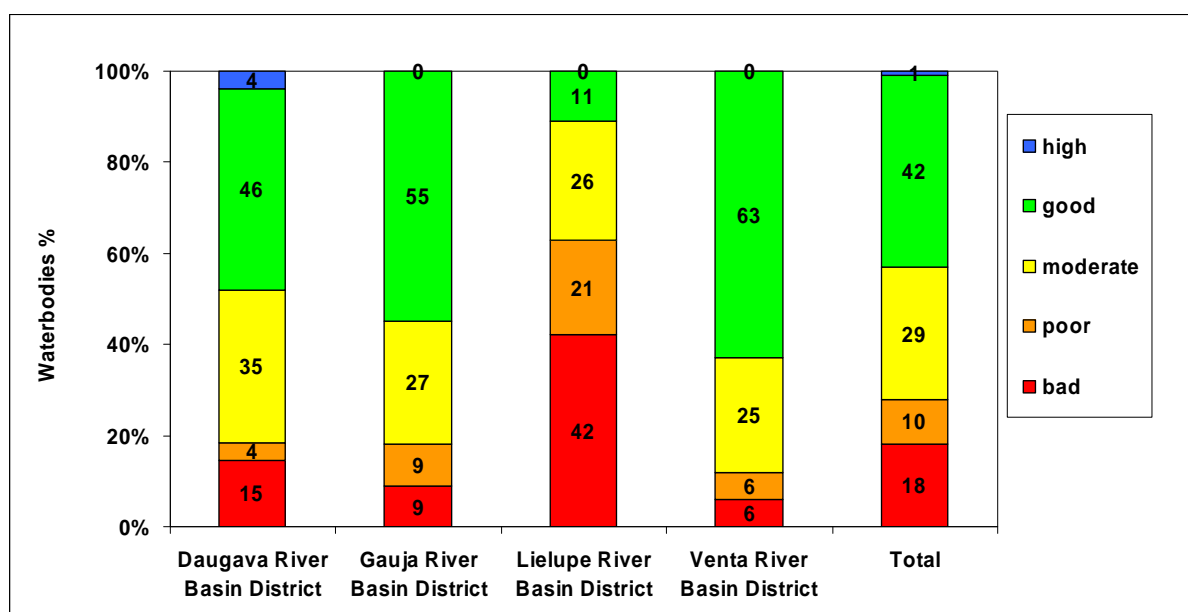
<sup>2</sup> Eurostat forecasts.

<sup>3</sup> 2004: factual data, 2015, 2025, and 2050: Eurostat forecasts.

32. The proportion of men and women in the overall population of the country has not changed significantly in Latvia for over ten years. At the beginning of 2004 the proportion of men and women was respectively 46% and 54%.

#### 1.2.4. Natural resources and quality of the environment

33. Surface water, consisting of more than 20 000 rivers and streams (including almost 800 rivers which are longer than 10 km), more than 3 000 lakes and artificial bodies of water (including approximately 900 with an area of more than 10 ha), take up 3.7% of the State's area. 2004 show that 43% of waterbodies can be considered as in high or good ecological status which is the target to be reached in Water Framework Directive by 2015. 57% of waterbodies did not correspond to the requirements – 29% having moderate status, 28% - poor or bad ecological status (Figure 1).



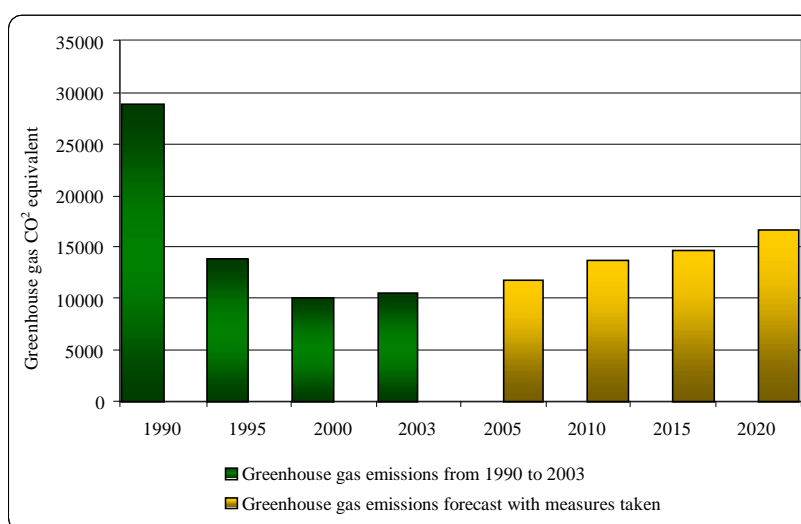
*Figure 3: Summary of ecological status of surface waterbodies in Latvia*

*Source: Latvian Environmental, Geology and Meteorology Agency, 2005*

34. The best surface water ecological status has been observed in Venta River basin district where 63% of examined waterbodies had a good ecological status. In the turn 63% of analysed waterbodies in Lielupe River Basin District showed poor or bad ecological status. The main reason for that is the intensive agricultural activity in the Lielupe River Basin, incl. in the territory of Lithuania.
35. Pollution from individual sources creates a significant burden on surface water and underground water in all Latvia's largest river basins. Because of pollution from individual sources there is a risk that by the end of 2015, as stipulated by the Law on Water Management and EU Directive 2000/60/EC, it will not be possible to guarantee good water quality in 41 river waterbodies and 6 lake waterbodies. In addition there is a potential risk of difficulty to reach at least good ecological status by 2015 in 74 river waterbodies and 9 lake waterbodies.
36. A significant portion of waste water production arrives with urban waste water in surface waterbodies. Of the amount of waste water drained in the State in total, of which only 30% do not require the treatment, in 2004 approximately 50% is created by overflows of urban waste water locations in towns and other inhabited areas (in Gauja River basin district approximately 50%, in Daugava River basin district 50%, in Lielupe River basin district approximately 66% and in Venta River basin district approximately

63%). The largest amounts of organic substances and biogenous elements (nitrogen and phosphorus) are produced by urban waste water treatment facilities. The companies which treat urban waste water have difficulty in observing the rules and regulations laid down on discharge into the environment, since production companies give them waste water without appropriate pretreatment.

37. Throughout Latvia underground water sources are responsible for a centralised supply of drinking water, except in Riga, where underground water and surface water combine to provide a supply. This means that underground water is the most important source of centralised water supply in Latvia. Latvia has sufficient stores of underground water to provide a water of drinking quality. For the centralised water supply artesian water is mainly used, in individual farmsteads and small inhabited areas underground water is widely used. In Riga artificially filtered water from Baltezers and Daugava water taken from Riga's HES reservoir is also used<sup>4</sup>. Therefore, water and its quality is one of the most important natural resources which is required on a daily basis both for residents and enterprises.
38. Air pollution is an environmental factor which has a significant effect on the population's health. Air pollution affects the growth of the proportion of illnesses of the lungs and respiratory tract. Road traffic in large towns in terms of the total emission of various polluting substances has become a significant source of pollution. Emissions arising from industry and cross-border pollution only exacerbate the situation.
39. In comparison with 1990, which in EU air pollution policy is taken as the reference year, a significant reduction in the emission of air polluting substances has taken place (see figure 3). In Latvia in the period from 1990 to 2004 overall sulphur dioxide emissions have decreased by 96.1%, carbon dioxide by 60.8%, methane by 48.9%, monovalent nitrogen oxide by 62.3%, nitrogen oxide by 39.4%, carbon monoxide by 11.7% and non-methane volatile organic compounds by 35.3%, mainly thanks to the restructuring of Latvia's economy, the increasing of energy efficiency, a shift to environmentally cleaner forms of fuel, such as from black oil to natural gas, and through the introduction of EU environmental protection policy.



**Figure 4: Volume of greenhouse gas emissions in Latvia, 1990-2020**

**Source: Latvian Environmental, Geology and Meteorology Agency, 2005**

40. In order to improve air quality and to reduce the cross-border transfer of air pollution it is necessary to reduce emissions of air polluting substances produced by various sectors:

<sup>4</sup> Source: National Environmental Policy Plan 2004-2008, 2003.

energy, industry, agriculture, transport, etc. The main air polluting substances whose emissions need to be reduced are sulphur dioxide, nitrogen oxide, volatile organic compounds (VOCs) and ammonia. The most significant industrial sectors in Latvia which create the largest proportion of atmospheric pollutants are the food industry, timber processing, metal processing and the engineering industry, light industry and chemical industry. Total sulphur dioxide, nitrogen oxide and VOC emissions from industrial production (fuel consumption and industrial processes) in 2004 made up 16.53% of total emissions of these gases in Latvia. Sulphur dioxide emissions from the transport sector made up 12% of total emissions.

41. Emissions arising from transport in 2004 constituted 37% of total CO<sub>2</sub> emissions into the atmosphere, 0.7% of total CH<sub>4</sub> emissions, 6% of total N<sub>2</sub>O emissions, 52% of total NO<sub>x</sub> emissions, 22% of total CO emissions, 15% of total NMVOCs and 12% of total SO<sub>2</sub> emissions.
42. Forecasts for the emissions of greenhouse gases (carbon dioxide, methane, monovalent nitrogen oxide, etc.) (see figure 3) show that by implementing the current policy of reducing climate changes in those sectors which produce the most greenhouse gas emissions – energy, transport, agriculture and waste management – Latvia will be able to meet its commitments for emission reductions laid down in the Kyoto Protocol to the UN Framework Convention on Climate Change for 2008-2012 (in this period total greenhouse gas emissions are to be reduced by at least 8%, in comparison with 1990 levels), but within the context of this policy planned emissions reduction measures will demand large investment.
43. To date states have not yet agreed on emissions reduction commitments after 2012, but the EU has strongly expressed the view that future emissions reductions must be more significant – reductions of at least 20-30% by 2020 and 60-80% by 2050. In view of the rapid growth of Latvia's economy, as well as the comparatively close link between Latvia's economy and greenhouse gas emissions, it is to be expected that in order to achieve the high level of emissions reductions expected, significant additional financial resources will be necessary for implementing measures to reduce greenhouse gas emissions both in terms of State measures and in the private sector.
44. In Latvia, as a result of former political and economic management, abandoned and polluted land has remained. Since the proprietors of the land have changed and the creators of the pollution no longer exist, in many cases it is not possible to apply the "polluter pays" principle. Some of the abandoned and polluted land has come under the authority of the State or local authorities, but some of it has been acquired by private persons, who lack the requisite resources for the management and purification of such land (rehabilitation).

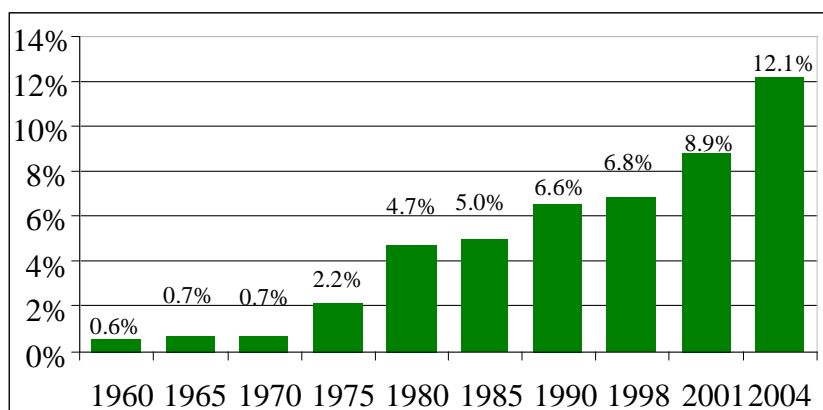
### **1.2.5. Biological diversity**

45. In Latvia to date 27 700 species of plants and animals have been registered, of which 907 species have been assessed as needing special protection and are included in Latvia's red list of endangered species<sup>5</sup>. In Latvia a system of special protection areas has been set up.<sup>6</sup>
46. In Latvia there are 632 special protection areas (including 295 national natural sites), representing 783 000 hectares, or 12.1% of Latvia's land area, not including Ziemeļvidzeme biosphere reserve. In addition to the special protection areas, micro

<sup>5</sup> *Report on Latvia's environment '98, Environmental consulting and monitoring centre, Riga, 1999.*

<sup>6</sup> *Report on the use of state territory, Ministry of Environmental Protection and Regional Development. Riga, 2001.*

reserves have been created for the protection of plant and animal species and also biotopes.



**Figure 5: Proportion of special protection areas, 1960-2004<sup>7</sup>**

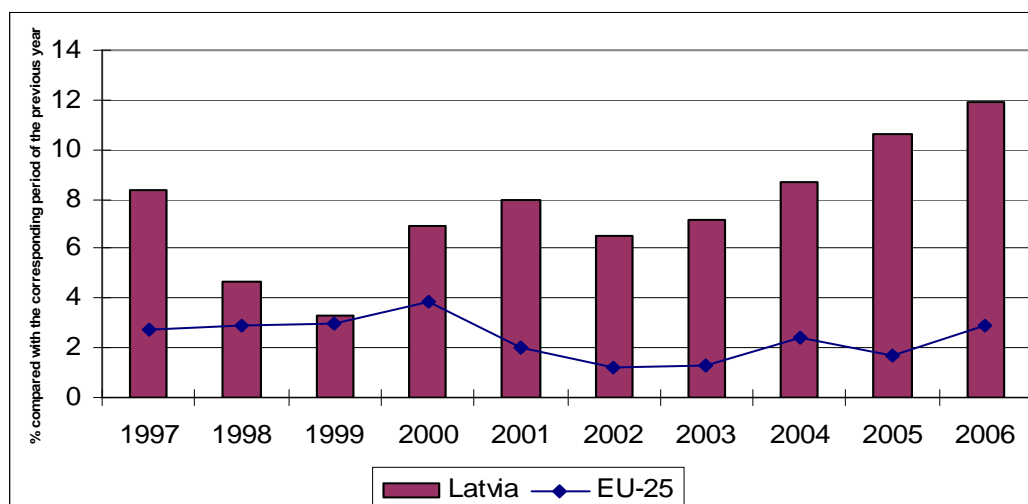
**Source: Latvian Environmental, Geology and Meteorology Agency, 2005**

47. The special protection areas system comprises: four nature reserves, 278 natural restricted areas, 43 nature parks, three national parks, nine protected landscape regions, 295 national natural sites (see figure 4), as well as 1 biosphere reserve. In the special protection areas forests take up the largest area, with 49%, while agricultural land accounts for 24%, bodies of water for 12%, swamps for 14% and other biotopes for 1%.

## 1.2.6. Macro-economic situation

### 1.2.6.1. Gross domestic product

48. In recent years there has been significant rapid and consistent economic growth in Latvia. During the period 2000-2006 the average increase in gross domestic product (GDP) in comparable prices has been 8.5% per year. In 2006 the increase of GDP reached 11.9%.



**Figure 6: GDP trends in Latvia and the EU-25 from 1997 to 2006**

**Source: Eurostat**

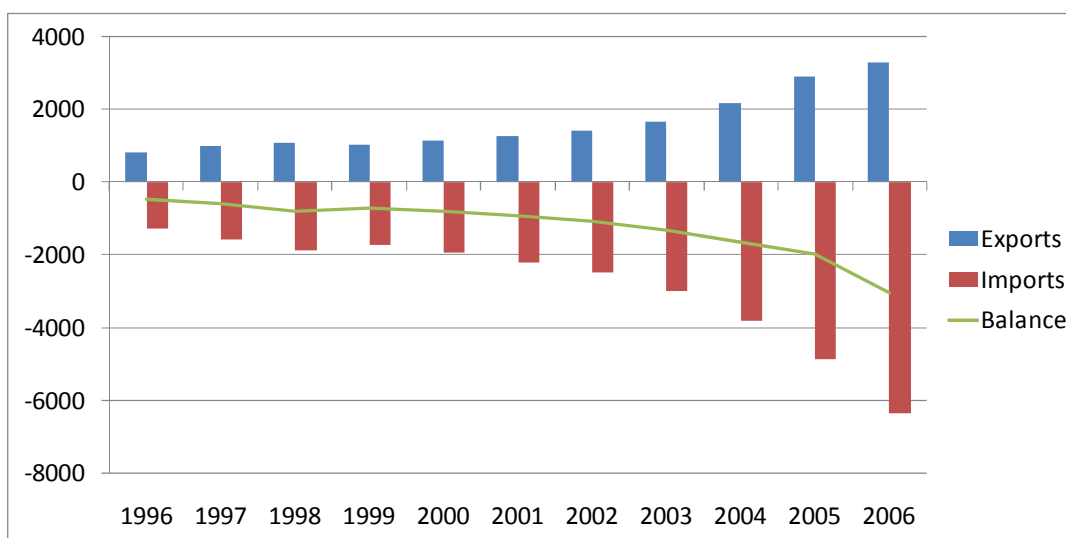
49. These development rates, which significantly exceed the growth of the EU-15 states and

<sup>7</sup> Northern Vidzeme biosphere reserve is not included



are also higher than in the other new Member States, have provided gradual convergence with the European Union's average quality of life indicators. According to Eurostat's evaluation Latvia's per capita GDP, in accordance with the parity of purchasing power standard, in 2005 reached 48.6% of the EU-25 average, which indicates the significant progress made over recent years. However, even despite this positive development, Latvia's indicator is still the lowest in the EU. In addition, in Latvia pronounced disparities in social and economic development between the regions still persist. More than half of Latvia's gross domestic product is produced in the Riga region. In 2004 the proportion of the entire national gross domestic product produced by the Riga region was 58.1%.

50. The growth in gross domestic product is based on stable and rapid development in domestic demand, where the determining part is the creation of growth of private consumption and gross equity capital. The constant growth in the population's incomes, the growth in employment, the dynamic increase in credit and a fall in interest rates are responsible for the growth in private consumption. The modernisation of plant and facilities and a significant increase in the volume of construction are responsible for the high rates of growth in investment.
51. The increase in exports in recent years has also been comparatively high, but export figures are considerably lower than import figures and a negative tendency can be still observed in the balance of foreign trade. In 2006 the amount of import exceeded the amount of export for about 3000 millions of LVL.



**Figure 7: Export and import trends for 1996 – 2006 (mln lats)**

**Source: Central Statistical Bureau (CSB)**

52. Development was also comparatively balanced in the industrial sector, recording rapid growth rates in the private services sectors, processing industry and construction.
53. A rise in productivity and a gradual reorientation of the economy towards production and services sectors with high value added has been the foundation for the stability of growth and the increase in economic potential. An appropriate, well-considered policy on the macro-economic, investment and financial environment, a favourable assessment by international credit rating agencies and positive expectations by residents and enterprises of the development of the situation are fostering an inflow of investment and economic sustainability.

### 1.2.6.2. Inflation

54. The increase in consumer prices during the period from 1999 to 2003 was comparatively low, on average not exceeding the 3% per year level. This low inflation rate confirmed the stable macro-economic foundations of the national economy, provided by an appropriate package of economic policies, a gradual increase in competitiveness and the positive trends in world prices.

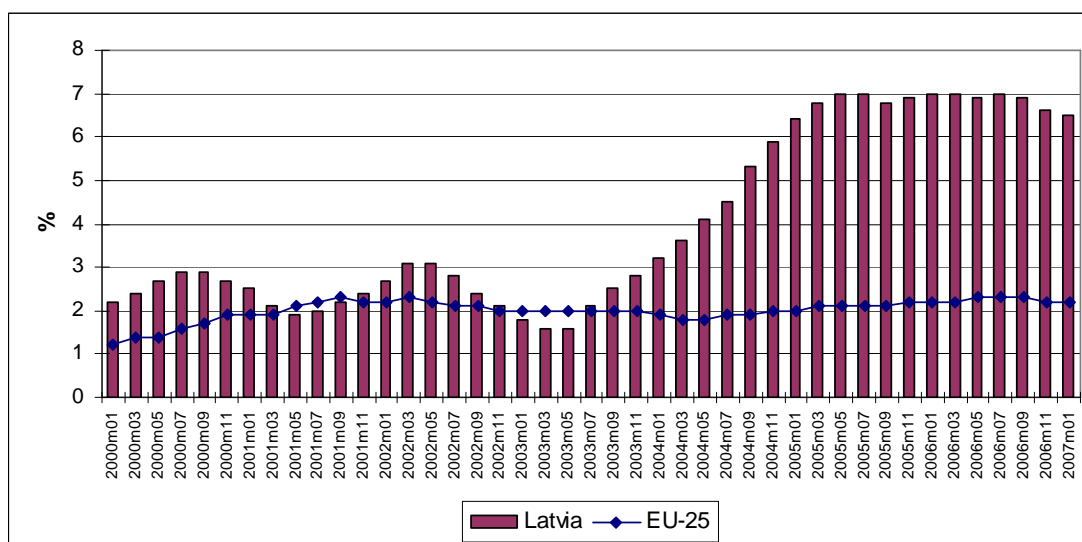


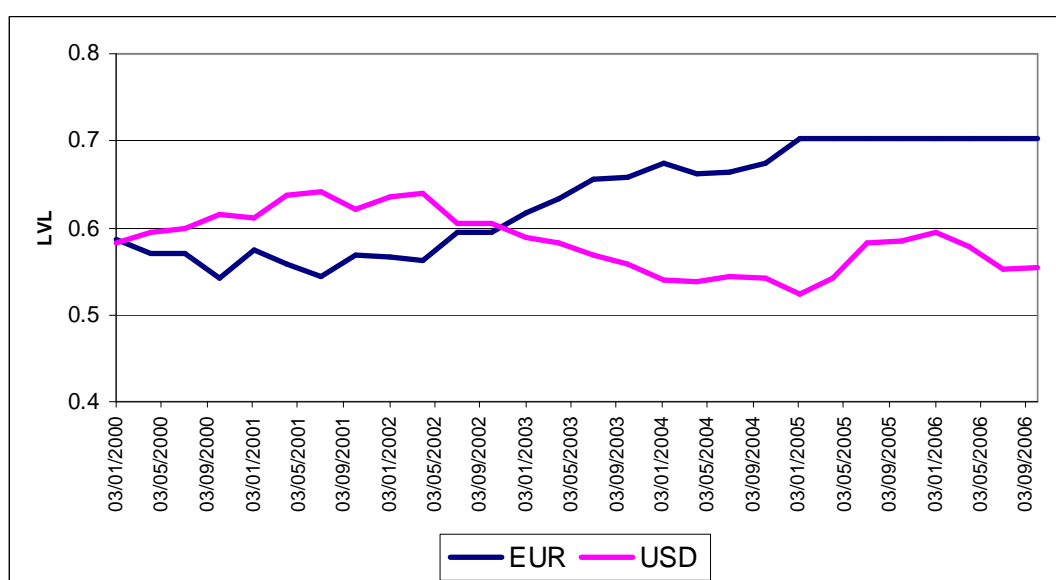
Figure 8: HCPI (12-month average) trend in Latvia and the EU-25 by month

Source: Eurostat

55. Since the second half of 2003 there was observed rapid rise in consumer prices, and at the end of 2004 the average inflation rate reached 6.2%. In 2005 the average rise in the 12-month harmonised consumer price index (HCPI) did not changed significantly, and accounted for 6.9%, but a fall of HCPI was observed in the end of 2006 and in the beginning of 2007. In January 2007 increase of HCPI reached only 6.5%.
56. Supply side factors mainly determined the rise in the level of inflation, and their effects were produced gradually throughout the year. The most significant of them were the rise in administrative prices, changes in tax policy, the increase in excise tax rates and the extension of the VAT base, the rise in the price of imports, including in particular oil product and gas prices, individual institutional changes in connection with membership of the EU (such as the import tariff, changes in designations etc.) and a rise in food prices. During this period supply side factors were the main cause of inflation, but at the same time, with very high rates of growth persisting, the influence of demand side factors also loomed. In Latvia, as distinct from the euro area, to a certain extent the second-order effects of high energy inflation and inflation expectation syndrome also loomed, as demonstrated by the rising level of underlying inflation. In 2005 the high exchange rate of the euro at the end of 2004, when the repegging of the lat from the SDR to the euro took place, also influenced the trend in prices.
57. A significant factor triggering inflation is also the inadequate level of competitiveness in individual sectors of the Latvian economy, which facilitates and speeds up the transfer of the rise in costs to consumer prices. According to Bank of Latvia the major input in the growth of inflation was ensured by the service sector.

### 1.2.6.3. Monetary and exchange rate policy

58. The Bank of Latvia implements monetary policy in Latvia, and it has corresponding legal and practical independence in fulfilling its functions. Pursuant to the law on the Bank of Latvia, the main objective of the Bank of Latvia is price stability.
59. In order to ensure stability, in February 1994 the Bank of Latvia pegged the national currency to the SDR currency basket. There were various explanations for the choice of a fixed exchange-rate policy: the stability of the exchange rate removes currency risk, reduces uncertainty, increases public confidence in the central bank and reduces inflation, fosters inward investment and thus also further economic development. The structure of currencies used in Latvia's foreign trade transactions made the original choice of the SDR a good one, which was the close SDR, as well as the fact that pegging the lat to a basket of currencies made it more stable in relation to individual currencies than would have been possible if it had been pegged to just one currency.
60. Pegging to the SDR was in force until 2005, when in accordance with previously announced plans there was a change in pegging to the euro. Latvia's joining of ERM II<sup>8</sup> and subsequently after meeting the requisite criteria planned joining of monetary union (the euro area) determined the change of pegging of the lat. In addition this step corresponds to the development of Latvia's economy: an ever-increasing amount of Latvia's foreign trade payments and also domestic financial transactions are actually carried out using the euro. ERM II means that at least two years prior to the introduction of the euro the lat must be pegged to the euro and the exchange rate of the lat in relation to the euro may vary only within a band of +/-15% with regard to the rate at which the lat is pegged to the euro. The Bank of Latvia plans to keep to tighter fluctuation limits in relation to the euro than the maximum allowed, thus maintaining greater stability for the lat in relation to the euro.



*Figure 9: Exchange rate of the lat to the euro and the US dollar, 2000-2006*

*Source: Bank of Latvia*

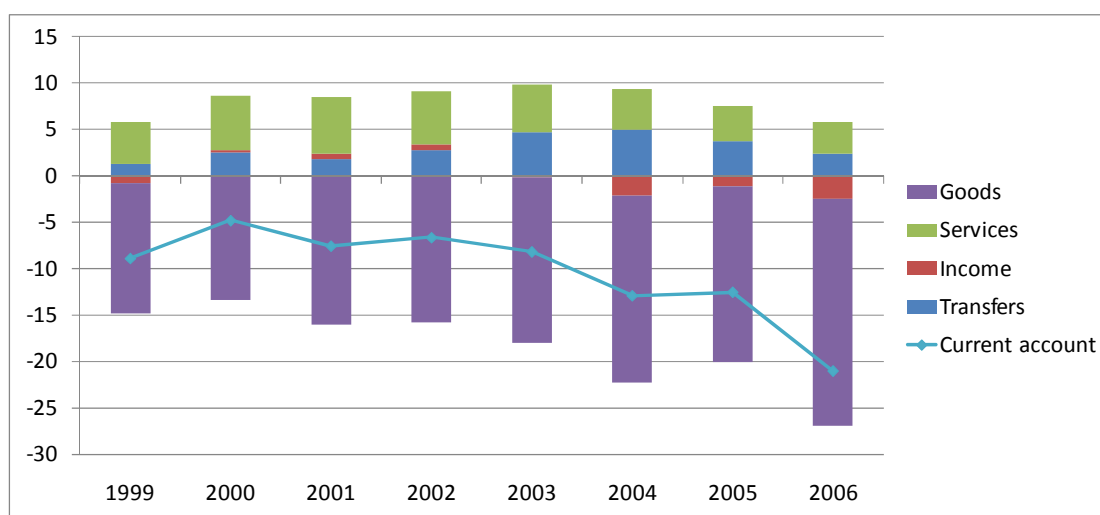
### 1.2.6.4. Balance of payments

61. Latvia's deficit in the current account of the balance of payments in the period from

<sup>8</sup> Latvia joined the European Monetary System Exchange Rate Mechanism II in April 2005.

2000 to 2005 was comparatively high and this will also continue in the next few years, mainly reflecting necessary domestic reserves in order to ensure investment in connection with economic restructuring. The main factor influencing the high current account deficit is the ever-increasing foreign trade deficit.

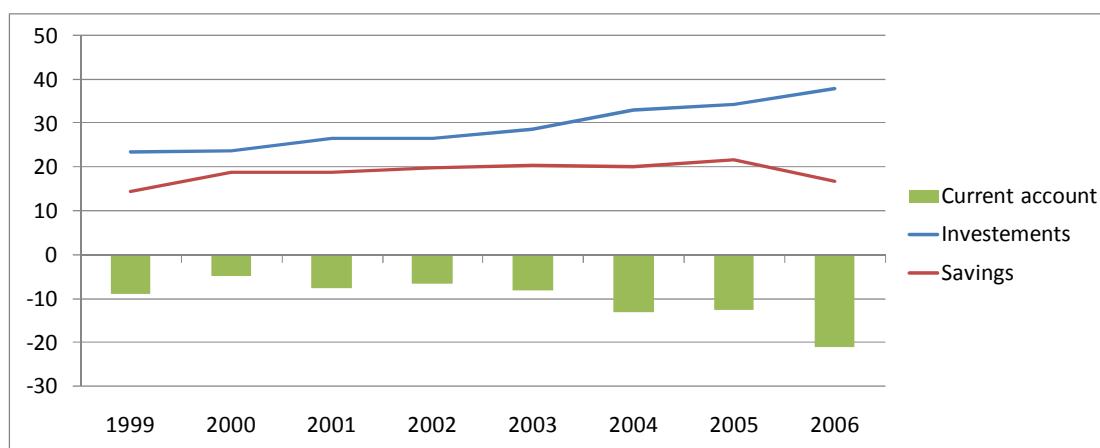
62. In 2000 the current account deficit decreased, but in 2001, with a worsening in the foreign trade balance, it began to increase again. From 2000 to 2002 the positive services balance covered almost 40% of the foreign trade deficit. In the following years, with an increase in the amounts of services imported, the positive services balance decreased. In this period the balance of revenue did not significantly affect the current account balance, but in 2006, when the revenue of direct investment by non-residents and the revenue of other investments by non-residents in Latvia grew rapidly, it reached  $-2.5\%$  of GDP. The positive balance in regular transfers during this period increased significantly, mainly in connection with the accessibility of EU funds resources and an inflow of private financial resources from abroad. The balance of the negative current account in the main finances direct foreign investment and other long-term capital flows. The structure of funding of the current account deficit testifies to foreign investors' confidence in further development of the economy and the policies implemented by the State in Latvia.



**Figure 10: Balance of payments current account, % of GDP**

*Source: CSB*

63. In Latvia domestic demand exceeds domestic demand, and a current account deficit has been created. This means that in order to fund domestic investment, it is necessary to use foreign reserves too. The level of savings as share of GDP in the Latvian economy is comparatively constant (at approximately 20%), although in 2006 economic development was promoted by larger use of foreign savings. A more rapid increase in gross capital formation as compared to the rest of the increase in internal demand items points at strengthening of the productive capacity of Latvia's economy and economic competitiveness.



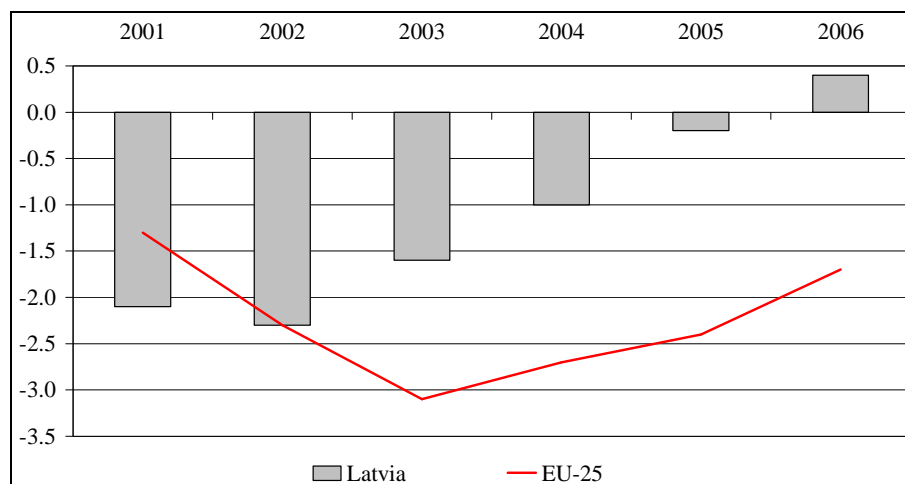
**Figure 11: Current account, investment and savings, % of GDP**

**Source: CSB and Eurostat**

64. In 2005 the current account balance improved, following the rapid increase in exports and the more positive balance of revenue, but the level of the deficit still remains high. In 2006 increase in trade deficit deteriorated current account balance of balance of payment.

#### 1.2.6.5. Fiscal policy

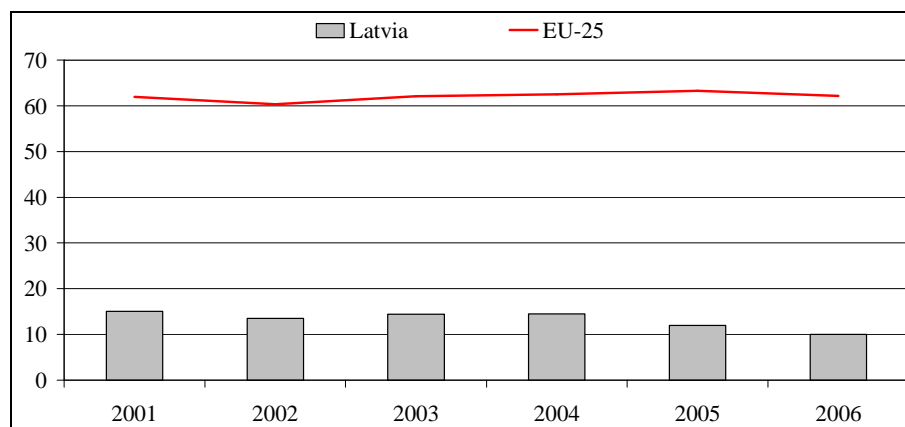
65. The fiscal policy implemented in Latvia is aimed at fostering stable macro-economic growth and restricting the growth in the inflation rate. Fiscal policy needs to achieve sustainable and balanced economic development, further implementation of structural reforms and the reduction of social and economic discrepancies. Within the framework of fiscal policy it is necessary to achieve the best possible balance between the level of the national budget's revenue and payments.
66. A gradual improvement in the fiscal situation can be observed in Latvia: since 2000 the national budget deficit has not exceeded 3% of GDP, and since 2003 Latvia's budget deficit has been significantly lower than the average for EU states. At the basis of the reduction in the deficit of the general government budget has been the surplus in the social security budget, as well as a gradual improvement in the fiscal situation of the local government budget. One factor standing in the way of even more rapid reduction in the size of the budget deficit is the limited amount of resources allocated under the national budget. At the same time the need to finance the State's existing functions, as well as new priorities, increases considerably every year.
67. The law on the national budget for 2007 (adopted at the *Saeima* on 19 December 2006) provides for income in the amount of 4 218.5 million lats for the national consolidated budget, while planned total expenditure from the State budget is 4 396.4 million lats. The planned fiscal budget deficit is 177.8 million lats, which is 1.4 % of gross domestic product.
68. The budget for 2007 includes extra funding for socially vulnerable areas – for health care sector, the minimum monthly wage will be increased from 90 lats to 120 lats starting from 1 January 2007, the salaries for judges and justiciaries will be raised, investment in educational infrastructure will be made, scholarships for professional education institutions students will be raised and salaries for the stage artists will be increased. In view of the fact that expenditure from the State budget on welfare needs has significantly increased, assistance from the Structural Funds during the period from 2007 to 2013 will have to be directed more towards those spheres in which it is possible to foster productivity and growth.



**Figure 12: Balance of the general government budget from 2001 to 2006, % of GDP**

**Source: Eurostat**

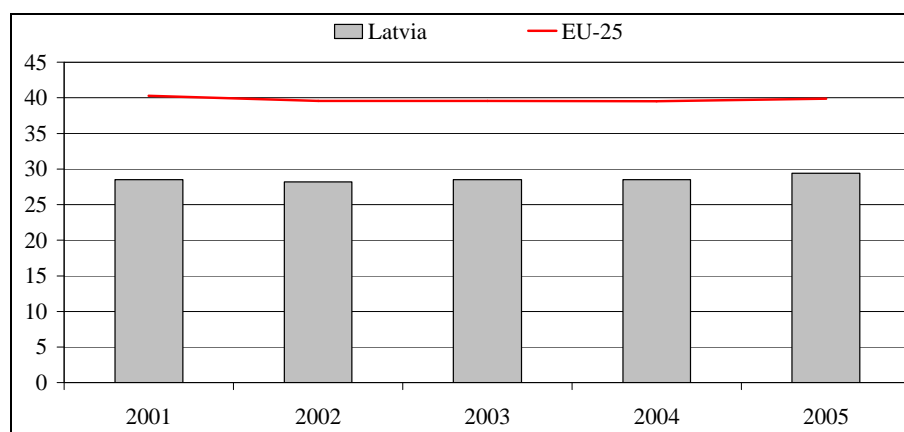
69. The level of State debt in Latvia in recent years has been one of the lowest of the Member States and its level was significantly below the criterion laid down in the Maastricht Treaty for the amount of total government debt, which is 60% of GDP.



**Figure 13: General government debt for 2001 to 2006, % of GDP**

**Source: Eurostat**

70. One of the government's important tasks is to make the country competitive. One of the tools for increasing national competitiveness is the taxation policy implemented within the framework of fiscal policy. In previous years taxation policy has been basically directed towards reducing the corporate tax burden, and at the same time great attention has been paid to improving tax collection. As a result of the tax policy implemented in the State the total tax burden in Latvia (according ESA95 methodology) has reduced to 29.4% of GDP in 2005, which is one of the lowest indicators of all the Member States.



**Figure 14: Tax revenue in 2001-2005, % of GDP**

*Source: Eurostat*

71. Trends in local government budgets over recent years show that basically the fiscal deficit of the consolidated local government budget has fallen, but there are still discrepancies in the capacities of local government to fund necessary functions. In the region of Vidzeme, per capita expenditure exceeds the national average indicator by 15.4%, while in the region of Latgale per capital expenditure accounts for only 91.8% of the national average figure.

**Table 2: Local government budget indicators<sup>9</sup>**

	2001		2002		2003		2004	
	Fiscal balance (in 000 lats)	Per capita expenditure (in lats)	Fiscal balance (in 000 lats)	Per capita expenditure (in lats)	Fiscal balance (in 000 lats)	Per capita expenditure (in lats)	Fiscal balance (in 000 lats)	Per capita expenditure (in lats)
Country as a whole	-28 118	224	-36 498	279	-12 932	305	648	347
- Riga region	-23 039	251	-28 673	287	-7 455	300	13 283	396
- Vidzeme region	-1 501	220	-1 039	304	-1 181	352	-2 028	399
- Kurzeme region	259	226	-4 154	286	-1 403	299	-2 633	367
- Zemgale region	-1 751	203	230	262	-311	302	-3 300	365
- Latgale region	-2 085	180	-2 862	244	-2 582	280	-1 972	333

*Source: Annual CSB publication entitled 'Latvia's regions in figures'*

#### 1.2.6.6. Employment

72. An upwards trend in the numbers of people employed in Latvia has been apparent since 2000, despite negative demographic indicators, as a result of which Latvia's population is constantly decreasing. In total, from 2000 to 2006 the number of people in employment increased by 15.6% reaching 1 088 000.
73. The growth in employment is closely linked to the rapid development of the economy and the growing demand for workers, as well as the restructuring of employment taking

<sup>9</sup> Including transfers from central government and inter-local government accounts and cash accounting budget, according to statistical regions.

place in the industrial sector. The proportion of the economically active population seeking jobs has fallen from 14.4% in 2000 to 6.8% in 2006. At the same time the size of the economically active population has also grown, and this has in part been affected also by the increase in retirement age being introduced currently.

74. The employment rate in Latvia is rising each year and in 2004 reached 62.3%, but in 2006 the employment rate reached 66.3%. In comparison with the 2000, the employment rate has risen by almost 9 percentage points.

**Table 3: Employment rate (%)**

	2000	2001	2002	2003	2004	2005	2006
Employment rate (15-64)	57.5	58.6	60.4	61.8	62.3	63.4	66.3
Employment rate for women (15-64)	53.8	55.7	56.8	57.9	58.4	59.5	62.3
Employment rate for older people (55-64)	36.0	36.9	41.7	44.1	48.0	49.5	53.3

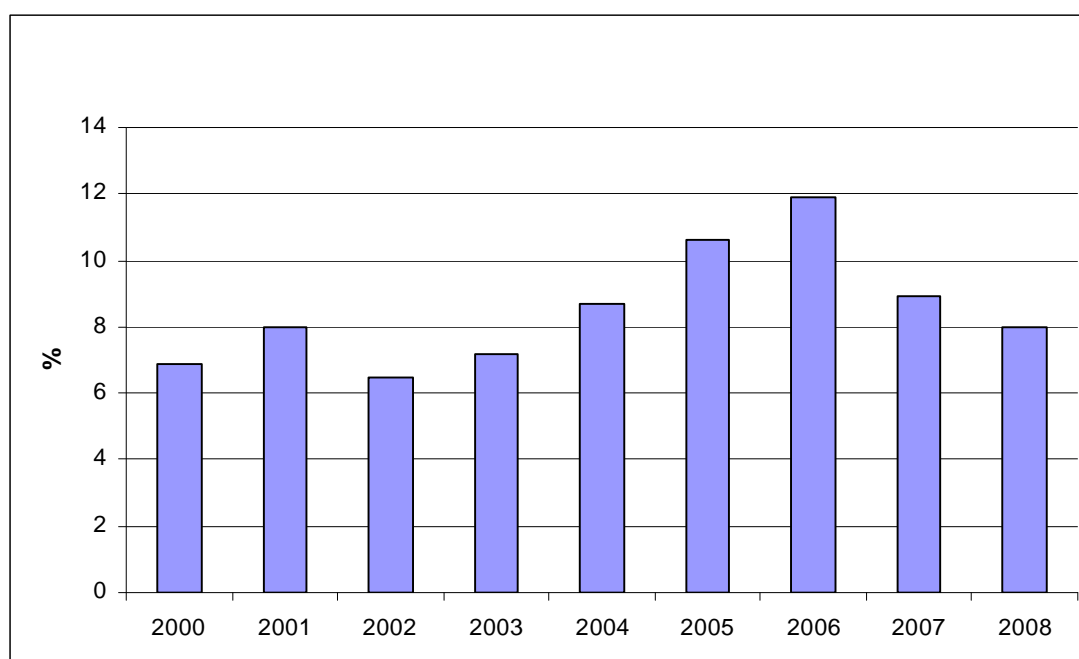
*Source: CSB*

75. The main problems on Latvia's employment market which are delaying a more rapid improvement in the situation are connected with pronounced regional discrepancies on employment and unemployment: there are high levels of unemployment in the regions far from Riga, especially, in Latgale, while at the same time there is a lack of specifically qualified labour in Riga. The high unemployment rate for young people, those who have taken leave after having children, those with weak Latvian language skills and other population groups at the risk of social marginalisation is another of the current problems of Latvia's employment market. The problems are also connected with the relatively high level of undeclared employment in certain sectors of the economy, which reduces social insurance benefits and prevents the reduction of the tax burden, which has a particularly negative effect on low-paid workers. In addition it can be seen that the qualifications of certain groups in the workforce do not meet the demands of the labour market. Similarly, it should be acknowledged that one significant problem is the emigration of workers to other Member States, prompted by low pay.

#### **1.2.6.7. Medium-term growth and risks**

76. An analysis of the economic situation shows that Latvia has good prospects of maintaining the current high growth rates in the medium term. Both the accumulation of capital stock and the high rates of growth in productivity confirm this. The calculations made show that Latvia's potential growth rate in the coming years is expected to be 8-9% per year.





**Figure 15: GDP growth in the medium term, increase in comparable prices**

*Source: Eurostat (forecasts for 2007-2008)*

77. Economic growth in the coming years will be determined by the situation of the external economic state of affairs both in the EU and worldwide, as well as the way in which Latvia's competitiveness in the single market is strengthened, and how successfully Latvia is in acquiring EU structural funds. High domestic demand and the growth in exports and investments will continue to affect economic growth in the medium term.
78. The negative demographic changes in the medium term will not significantly affect the labour market, and the reduction in the level of unemployment and the growth in the rate of the population's economic activity will bring about a gradual increase in the number of people in employment. Achieving the Lisbon employment target would make a significant contribution to bringing about sustainable growth.
79. Some of the significant factors which will positively affect the growth of Latvia's economy in the period under review are the inflow of resources from the EU funds and Latvia's expected membership of monetary union. These factors may considerably improve both the rate of potential growth and the actual convergence process, in promoting Latvia's productive capacity and competitiveness. Rapid growth is revealing more new deficiencies in the existing infrastructure, the need for more investment in human resources and in research, and the reduction of regional discrepancies. An increase in the amount of investment, including from the structural funds, in line with Latvia's growth rates together with qualitative planning would make it possible during the coming decade to increase the level of per capita GDP to 70% of the EU average in accordance with the parity of purchasing power standard.
80. In order for the economy to be able to develop close to its potential level, an important factor is the macro-economic policy measures implemented by the State, as well as timely and appropriate structural policy measures. With rapid economic growth taking place, significant risks arise which are connected with macro-economic stability: inflation and external balance. Government has committed to implement measures restricting inflation, especially prevent a budget deficit in 2007 and provide a balanced central government budget position in 2008 and project budget surplus in 2009 and

2010. One can expect that in the coming years the level of inflation will gradually fall and getting to the inflation level below 3% in the medium term, with a gradual harmonisation in price levels taking place. It can be expected that the current account deficit of the balance of payments will in the next few years remain high, despite the rapid growth rates in export goods, which will be determined by Latvia's significant predominance of imports over exports and the dependence of exports on imported intermediate goods. In speaking about such a small and open economy as Latvia's, one cannot omit the possible influence of factors and risks arising from the external environment, which in many cases may exceed the effect of internal factors. In addition, when speaking about external risks, it is necessary emphasise the role of well thought out, sufficiently strong and coordinated fiscal and monetary policies in averting and reducing the possible consequences of such risks.

### 1.3. EU assistance during the 2004-2006 programming period

81. During the 2004-2006 programming period Latvia can obtain assistance from the EU, under the Cohesion Fund, the Structural Funds and the Community Initiatives EQUAL and INTERREG. Latvia also has access to financing under the guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF).

#### 1.3.1. EU Structural Funds during the 2004-2006 programming period

82. Latvia as an Objective 1 region has access to financing within the framework of the Structural Funds – the European Regional Development Fund, the European Social Fund, the guidance section of the European Agricultural Guidance and Guarantee Fund and the Financial Instrument for Fisheries Guidance.
83. Implementation of the Structural Funds in Latvia is laid down in EU and Latvian legislation, and in the Single Programming Document and the Programming Complement.
84. The table below shows the scope of available financing for 2004-2006.

**Table 4: Financing under the Structural Funds, 2004-2006**

Fund	Overall financing (EUR)
ERDF (59.96%)	497 595 291
ESF (21.47%)	176 936 156
EAGGF (14.68%)	138 643 255
FIFG (3.89%)	44 062 205
Total (100%)	857 236 907

*Source: Ministry of Finance*

85. Three main objectives were laid down in the 2004-2006 programming period for receiving Structural Funds: fostering competitiveness and employment, developing human resources and developing infrastructure. Five priorities were put forward on the basis of these objectives.

#### 1.3.1.1. Priority 1 "Fostering sustainable development"

86. This priority comprises 32.6% of financing available during the 2004-2006 SF programming period. This priority is co-financed from the ERDF.
87. This priority includes measures for upgrading environmental infrastructure and fostering tourism, developing access and the transport system, developing information

and communication technologies, and developing education, healthcare and social infrastructure. Water management and solid waste management infrastructure development projects are being implemented, gravel roads are being asphalted, asphalt road surfaces are being improved and bridges are being reconstructed (not included in TEN); there are also a number of projects to update the infrastructure and equipment in social welfare facilities, such as creating and developing an information system, or creating public information and communication access points.

#### **1.3.1.2. Priority 2 "Fostering entrepreneurship and innovations"**

88. This priority comprises 25% of financing available during the 2004-2006 SF programming period. This priority is co-financed from the ERDF.
89. Within the framework of this priority, assistance will be provided to develop innovations, develop business infrastructure, strengthen support measures for SMEs, ensure access to financing for SMEs and support for State research.
90. Measures will include providing assistance to forge links between enterprises and research bodies, in order to foster the national innovation system; assistance will also be provided for consultations to new and existing enterprises, as well as for consultations in the area of financial management; financial aid will also be provided to enterprises with new product innovation capabilities in priority economic areas, and also for the renewal of sites and premises used for business. There will also be business incubator, industrial, technology and science park development projects, consultations and training regarding compulsory and voluntary quality requirements, as well as opportunities for taking out loans (including micro-loans) to support new enterprises, or credit line subsidies for SMEs.

#### **1.3.1.3. Priority 3 "Fostering the development of human resources and employment"**

91. This priority comprises 21.2% of financing available during the 2004-2006 SF programming period. This priority is co-financed from the ESF.
92. This priority includes fostering employment, developing education and continuing education and reducing social exclusion. Activities include requalification opportunities for the employed, fostering the improvement of qualifications, developing active employment measures for the unemployed, providing training for starting out in business and self-employment, providing subsidised staff positions and increasing the supply of social rehabilitation programmes. In the 2004-2006, the ESF is also focusing on developing entrepreneurship and self-employment, developing study programmes in the areas of science and technology, increasing opportunities for adult education and training, and developing professional development courses and modular programmes.

#### **1.3.1.4. Priority 4 "Promotion of Development of Rural Areas and Fisheries"**

93. This priority comprises 14.6% and 3.9% of financing available during the 2004-2006 SF programming period, with co-financing from the EAGGF and FIGG.
94. This priority includes assistance from the EAGGF for investments in agricultural enterprises, improving the processing and marketing of agricultural produce, fostering the development and transformation of rural areas and developing forestries. Assistance will also be provided to young farmers and for local action, which is a Community Initiative LEADER+ measure. Activities include, for example, acquiring new production equipment used in processing agricultural produce, as well as IT and software, constructing, reconstructing and renovating buildings and facilities needed for

manufacturing, seeking out new markets, selling agricultural produce, improving marketing procedures, constructing State and communal drainage systems, supporting the creation of new jobs, investing in forests, thereby increasing the economic or ecological value of forests, clearing overgrown agricultural land, fostering rural development activities at the local level, and providing training in organisation and management, as well as business-plan development.

95. FIG investments are to be used for balancing the intensity of fishing, for fleet renewal and the modernisation of fishing trawlers, for improving the processing and marketing of fishing and aquaculture products, developing fishing port equipment and aquaculture and developing in-shore fishing, as well as for socio-economic measures, such as help in finding new markets and support for producer organisations. These measures will include support for activities such as reducing the intensity of fishing, modernising fishing trawlers, fish processing, technical modernisation of aquaculture enterprises, creating a modern port infrastructure, support schemes for fishermen who are forced to leave the industry when trawlers are scrapped, support for projects that foster the production of market-oriented produce, and support for the creation of producer organisations and fostering of activities.

#### 1.3.1.5. Priority 5 "Technical assistance"

96. This priority comprises 2.7% of financing available during the 2004-2006 SF programming period. This priority is co-financed from the ERDF, ESF and EAGGF.
97. This priority strengthens the administrative capacity of the public administration and other institutions engaged in administering the SF, and is a significant factor in the successful implementation of the funds.

*Table 1: The institutional system for implementing Structural Funds*

Managing Authority	Ministry of Finance
Payment Authority	State Treasury
First Level Intermediate Bodies	Ministry of Economics, Ministry of Transport, Ministry of Health, Ministry of Agriculture, Ministry of Education and Science, Ministry of Welfare, Ministry of the Environment, Ministry of Culture, Ministry of Regional Development and Local Governments, Secretariat of the Minister for Special Assignments for E-government Affairs
Second Level Intermediate Bodies	State Employment Agency, Vocational Education Development Agency, Central Finance and Contracting Agency, Rural Support Service
Beneficiaries	National authorities, local authorities, State and local authority enterprises and agencies, enterprises and associations of enterprises, sole entrepreneurs, natural persons, unions, NGOs

*Source: Ministry of Finance*

#### 1.3.1.6. Conclusions on effectiveness of implementation of the EU structural funds

98. The 2004-2006 programming period is the first time Latvia has received assistance under the SF, and with that there are a number of problems that should be taken into account during the subsequent 2007-2013 programming period. Most importantly, there is a risk that SF financing will be lost if the n+2 commitment is not met, because repayment has been irregular during the first few years, and is dependent on seasonal influences.
99. A conference entitled "A year with the Structural Funds – what has been learned and challenges for the future" was held on 5 and 6 July 2005, during which the conference delegates identified several problem areas in the SF management system, specifically the burden of the system, the increase in project costs and the low quality of projects. In

order to resolve the situation, the conference delegates made recommendations to continue improving good practice, to optimise the SF implementation system, to simplify the SF implementation system and to gather information on regional needs. Successful partnerships, particularly with NGOs, the provision of information and training seminars, as well as opportunities for attracting financial resources, were given as examples of good practice in the SF management system.

100. The projects for 95.73% of total available SF financing were approved by SF steering committees for the end of 2006, including, within ERDF – 95.08% out of available financing, within EAGGF – 98.97% out of available financing, within ESF 96.93% out of available financing and within FIFG – 87.38% out of available financing. 32.16% out of available SF financing were paid to receivers of SF financing. SF financing repayments from EC were demanded for 27.55% out of total financing allocated to the country.
101. Many evaluations are conducted in the planned period – of the whole implementation system of EU Structural Funds; of the implementation of a particular activity and problems related to it; strategic evaluations of sector policies, mutual interactions and uniformity among them; examined problems that have showed up during the implementation of EU structural funds, affect the progress of implementation, and could be significant in the 2007 - 2013 planning period. The conclusions of evaluations allow judging the efficiency of different planning and implementation mechanisms of EU structural funds.
102. The purpose of the „Efficiency evaluation of SPD implementation system” carried out in the middle of 2006 was to evaluate the efficiency of SPD implementation system as a whole, the efficiency of institutions involved on each stage of the management process of structural funds (document preparation for the implementation of structural funds, implementation of structural funds, control of financial flow, audit, monitoring and evaluation).
103. In 2004 582 workers and in 2005 – 753 workers were directly involved in the first and second level intermediate bodies and in the aid scheme manager institutions to ensure the SPD implementation. The increase in the amount of workers indicates that institutions apart from their weekday duties simultaneously have to ensure the training of the large amount of new workers. The large number of workers also means that many institutions can be affected by the changes in their organizational structures and in the inner cultural environment in order to adapt to the work in larger collective. Therefore, special attention should be paid to the training of the leading staff and improvement of skills in change management and in establishment of organizational culture.
104. After May 1 2004 the preparation of implementation documents was on average delayed by 3 month. The reasons were late coordination of Program complement, the agreement about institutional structure of implementing system was reached late, and the capacity of line ministries involved was not sufficient. The coordination of the implementation was delayed for another 2 month. The reason was the rare meetings of the steering committees, in which these documents had to be coordinated, and the amount of documents they had to examine before a particular meeting was too large within the time limit. Application selection process was too slow and it lasted 11 months on average, mainly taking into account division of responsibility among different institutions to ensure the application selection, voluminous explanation on the requirements determined and the scarce capacity of institutions involved in the project selection.

105. The speed of making amendments in the agreements was considerably decreased by the need of coordination of changes in the project information in the steering committees. Although amendments in the legislative base are made recently in order to simplify the procedure of making amendments, realization of amendments in the agreements is still slow.
106. The allocation of EU Structural Funds financing has been slow, reaching 24% in the end of 2004 and in the end of 2005 – 70% out of total available financial flow. The amount of payments to receiver reached only 25% out of available financing in the end of 2005.
107. Initially approved implementation documents were amended 2.5 times on average mainly due to their insufficient quality and initially missing document layouts, in which a minimum information amount is defined.
108. Although institutions have organized many informative seminars to help the financing receivers to understand the predetermined requirements for project implementation, large part of the submitted requests for financing is not approved due to shortcomings, nonconformities and inaccuracies founded in them.
109. Human resource contribution of the institutions involved on different implementation process stages has been in line with the results of the actions they have taken. However the comparison among different institutions points out insignificant peculiarities in the amount of workers involved in realization of certain tasks, and the overall trend is that, while the number of signed agreements for the realization of projects is increasing, the efficiency of the invested human resources by institutions constantly decreases.
110. From the SPD implementation system evaluation one can conclude that the main attentions in the institutions involved must be devoted towards speeding-up the SPD activity implementation process by carrying out improvements in this field in almost all stages of the process.
111. In the field of quality the main attention should be devoted to improvement of institutional activity in the field of client service both performing analysis of client needs and adjusting the activity for satisfying these needs.
112. From the perspective of resource investment experts suggested, in turn, periodically measure the yield on resources invested in order to position the drop in activity efficiency over different stages of the implementation process and to perform the analysis of affecting factors.
113. The objective of „the evaluation of the implementation the activities of the SPD” carried out in 2005 was to assess the progress and efficiency of implementation of the SPD activities, their obstructive and coefficient factors.
114. The experts suggested for the 2004-2006 programming period to regularly monitor the activities with low financial absorption if compared to the planned in order to operatively prevent the factors obstructing the implementation and to ensure timely absorption of structural funds financing, as well as the activities with low project applicant action, before considering redistribution of finances to a more ‘popular’ programmes.
115. Independent experts asked to consider a possibility to review activity implementation provisions and mechanisms in order not only securing a timely absorption of financing, but also reaching the set targets and planned impact.
116. In respect to he planning period 2007-2013 the experts suggested setting all open calls for tenders a fixed application date with specific frequency by distributing the total financing available in the activity over years and particular financial ‘baskets’,

developing objective project selection criteria that would allow to select project applications drafted in the most qualitative manner, as well as simplifying the project application forms and list of documents claimed additionally depending on the financial amount attracted at the maximum.

117. The objective of „The Evaluation of The Development of European Union Structural Funds Planning Documents 2004-2006 and Activities Included in The Documents” performed in year 2006 was to provide assessment on the effectiveness of the development process of the European Union Structural Funds planning documents for the period of 2004 – 2006, inter alia, the quality of the documents prepared and the justification of activities included in these documents.
118. Experts noted that during the development process of the EU SF planning documents the substantial and country’s balanced development obstructive problems and solving of needs were taken into account, nevertheless there were cases not identifying all substantial problems. Some of the problems were described too general, for instance, insufficient financing for generation of new enterprises, therefore it is hard to evaluate the impact of the solution. Not always the true mechanisms solving the needs were chosen that would suit the most to the Latvian situation and its development possibilities (for instance, innovations). In few cases the basic needs in the country (for instance, institutional capacity, renovation of buildings) were solved with the EU structural funds resources that is not always the most effective way of using EU structural funds because according to the EU regulations the EU structural funds’ financing must be directed towards the most substantial needs existing in the country.
119. Not always the activities defined do solve the problems defined in the SPD the best. For instance, not always sufficient emphasis was on the enhancement of regional development in the activity identification and further in the distribution of finances because in the identification of activities directed towards reduction of regional disparities sectoral priorities prevailed. The activities in the framework of measures were not always defined so as to use EU structural funds financing in the most efficient manner for solving existing problems. For instance, activities financed from European Social fund resources (for instance, measure 3.1. “Enhancement of Employment” and its activities) were to a great extent directed towards the raise of institutional capacity. The institutional capacity is hence raised, however in the result the true problems – effective reduction of unemployment existing in the country, was not addressed.
120. EU SF planning documents and the Latvian state budget has different planning periods. Planning of EU structural funds is envisaged for a longer period than the planning of state budget that foresees planning for a single year, thus both planning processes are impossible to be compared. In many cases it is hard to forecast the final date of the activity when the payment should be made (both part of the state co-financing and EU financing), therefore the planning of state budget resources is made difficult, in addition in the later periods the budget amendments should be prepared.
121. In separate cases insufficient consideration of potential structural funds beneficiaries’ capacity to absorb financial resources because frequently activities were identified with loose evaluation on how much the potential financial beneficiaries would be ready and capable of absorb the finances in the current situation. The aforementioned is testified by the fact of having cases when the potential financial beneficiaries absorption capacity was evaluated too high, for instance, activity “Support to development of new products and technologies” of the Ministry of Economics where the resources were too much, likewise there have been cases when the potential financial beneficiaries absorption capacity and interest was evaluated too low, for instance activity “Infrastructure” of the

Ministry of Economics where the willingness and the capacity to acquire EU structural funds resources was high.

122. Taken into consideration that the 2004-2006 programming period was the first for Latvia when the institutions and social partners did lack previous experience, having development process of the EU SF planning documents made the planning capacity growing. At the same time one must note that still not all the sectors have long-term development policy documents prepared that could substantially affect the development process of 2007-2013 planning documents.
123. The experts of „The evaluation of the impact of the EU structural funds on regional development in Latvia”, the objective of which was to clarify how important is the availability of structural funds resources for the development of Latvian planning regions and the bringing together to development indicators, suggested to the Managing Authority to ensure operative overview on the EU structural funds implementation situation in the territorial aspect for the remaining 2004-2006 programming period. The main expert conclusion were as follows.
124. SPD has a major role in regional development or development of separate territories of Latvia. SPD promotes the development of Specially Assisted territories (less developed territories).
125. There is coherence between the division of the total funding and development level of region. Kurzeme region, Vidzeme region and Zemgale region can increase the development level close to the development level of Riga region. The difference in development level between the less developed region – Latgale and other regions will increase. In overall, the differentiation of the support intensity is not enough implemented within the SPD activities. The representation in regions of institutions involved in implementation of SPD affect positively the activity of final beneficiaries and project applicants. Regional planning documents are overall and wide. Regions have not defined a limited number of targeted priorities. Priorities of regions differ.
126. Riga region points the necessity for more funding for HRD infrastructure development, in particular crucial is a lack of investments in pre-school educational institutions. Kurzeme, Zemgale and Latgale regions have marked the lack of investments in the business related public infrastructure (e.g. business, technological and industrial parks, business incubators). The development of the Public – private partnership should be promoted by SPD. Lack of funding in health care infrastructure has been issued by Zemgale region. Vidzeme region has planned to attract more funding for tourism and Latgale region highlights the necessity of promotion of the development of international airport within the region.
127. Within the SPD implementation system, there is no proper monitoring system reflecting operational information about the implementation of SPD measures by regions/territories although it has been planned.

### **1.3.2. ISPA and Cohesion Funds, 2000-2006**

128. After joining the EU, all project financing received by Latvia under the Instrument for Structural Policies for Pre-Accession (ISPA) became Cohesion Fund financing, and all ISPA projects are now administered within the framework of the Cohesion Fund. The Cohesion Fund is similar to ISPA, both in its objectives and principles, only there is a larger amount of funding available under the Cohesion Fund and the scope of possible projects is far broader.
129. Implementation of the Cohesion Fund in Latvia is governed by EU and Latvian legislation and in the Reference Framework for the Cohesion Fund, 2004-2006.



130. The table below shows the scope of available financing for 2000-2006

**Table 2: ISPA and Cohesion Fund financing, 2000-2006**

Total CF financing (EUR)	Financing for approved ISPA projects (EUR)	Financing for new CF projects (EUR)
Environment sector (50%)		
257 933 331	38 864 826	219 068 505
Transport sector (50%)		
257 933 331	76 447 053	181 486 278
Total (100%)		
515 866 662	115 311 879	400 554 783
ISPA (2000 – 2003)		
194 900 872		
Total		
710 767 534		

**Source: Ministry of Finance**

131. Latvia participates in project implementation with co-financing, which, depending on the type of project, ranges from 15-40%, therefore, the overall investments in the transport and environment sectors, within the framework of the Cohesion Fund, cannot be identified prior to the end of the implementation period. The Commission approved projects totalling EUR 310 million within the framework of ISPA 2000-2003. EUR 195 million were included in the EU budget prior to Latvia joining the EU and were provided under ISPA, while EUR 115 million were included in the EU budget for 2004-2006 and therefore provided under the CF.
132. Cohesion Fund financing is used for large-scale infrastructure development measures (projects) in the environment and transport sectors. In the environment sector financing is provided for water supply projects in areas with over 2000 inhabitants, for sewage treatment, solid waste management and hazardous waste management projects, as well as for projects to reduce air pollution. In the transport sector financing is provided for road and railway projects, as well as port and airport projects.
133. Large-scale projects in the transport sector include the construction of the Saulkrasti bypass, modernisation of signalling systems on the East-West rail corridor, improvements to the TEN road network and replacement of sections of the East-West rail corridor. Large-scale projects in the environment sector include water management development in Riga, Ventspils, Liepāja and other towns, as well as several solid waste management projects.
134. It should be noted that a number of significant development projects have been prepared, but due to limited financing they have not been approved for assistance under the CF during the 2004-2006 period.

**Table 3: The institutional system for implementing the Cohesion Fund**

Managing Authority	Ministry of Finance
Payment Authority	State Treasury
Intermediate Body	Ministry of the Environment, Ministry of Transport
Implementing Body	Public administration, local authority, legal person registered in Latvia responsible for implementing a specific project, including CF financial beneficiaries which can also perform the functions of the Implementing Body, and which are responsible for the effective management and maintenance of project resources.

**Source: Ministry of Finance**

135. Until March 31, 2007 298,8 million EUR – 42,04% of CF finances approved for Latvia in this programming period are received from the EC, and 232,1 million EUR or 32,65% of finances have been paid out to the beneficiaries in the framework of signed contracts. All financing (100%) must be up taken appropriations until the end of 2010. By analyzing the payment data and comparing them to 1st quarter of the previous year, a notable progress can be observed in the claimed and received payments to the EC.
136. From the projects carried out in the environmental field the benefits of Latvian inhabitants are clean drinking water, arranged drainage system, advanced household waste management system and heat supply system. Due to Cohesion fund project carried out in the transportation field Latvia's main motorways, railway, airport and ports are being improved. For instance, Saulkrasti bypass the construction of which was financed from the Cohesion fund is the first motorway built entirely anew since the time Latvia gained independence.
137. The implementation of almost all projects is in line with the plans. The problems arising during the project implementations are being solved effectively. During the programming period the Managing Authority has carried out several evaluations with respect to the implementation of the Cohesion fund, nevertheless relatively small number of projects have been concluded since the implementation lasts until 2009 and therefore the evaluation has not covered the impact assessment of the Cohesion fund, rather it has focused on the pending issues linked to the day to day implementation.
138. The main outcome of the EC auditors' system audit was that the existing management and control system meets the Regulation requirements (Council Regulation No 1164/1994 and The Commission Regulation No 1386/2002).
139. The "Cohesion fund project control system evaluation developed and maintained by the Cohesion fund Managing Authority" carried out by external independent experts indicated that both inter-institutional bodies – Ministry of Transport and Ministry of Environment – have enough competence and experience, sufficient specialist support or resources for outsourcing experts for tackling technical issues in the project implementation and making controls are available, necessary procedures and standard documentation for carrying out appropriate controls are being developed.
140. Pending problem in the implementation of large scale infrastructures projects still is the shortage of competitiveness in the construction sector. That leads to inappropriate growth of expenses and project contract deadline delays. In this respect a study in the framework of project "Technical assistance for Cohesion fund Managing Authority in Latvia" is carried out about the impact of growth in expenses and the impact of economic indicators in the field and other factors on the implementation of Cohesion fund projects.
141. One of the preliminary conclusions is that the project implementation periods are relatively long and substantial risk of changes in expenses exists and, taken them into account contractors include large project risk premiums that make raise the total project costs. In addition the slow reaction of contractors and suppliers to the demand change has created distortion in the field of competitiveness. The total level of competitiveness in the last years has substantially dropped.
142. In the interim report experts noted that in the project preparation one must take into account the time difference among project realization phases. It would not be acceptable to have expenses older than half a year in the organization of open call for tenders because planned expenses would always be smaller than the ones offered by contractors. The experts suggest evaluating the necessity of organizing large scale open calls for tenders if the practice indicates being helpful having large amounts divided into

smaller plummets because then not only large building companies rather also small and medium sized enterprises can apply that successfully carries out the construction plans as opposed the initial doubts on the quality of performance.

143. Due to the growth in project expenses the physical indicators on Cohesion fund projects do not correspond to the ones initially planned because the rapid growth in project costs is being reduced at the cost of quantity.

### 1.3.3. Community Initiatives during the 2004-2006 programming period

144. As mentioned above, LEADER+ activities are implemented within the framework of priority four "Promotion of Development of Rural Areas and Fisheries".

#### 1.3.3.1. Community Initiative EQUAL

145. The Community Initiative EQUAL is an international cooperation programme that aims to fight against all forms of discrimination and inequality in the labour market, and to support people at risk of social exclusion when entering the labour market. Funding is provided by the ESF, the State budget and by the project applicant.
146. The Community Initiative EQUAL programme in Latvia for 2004-2006 has been approved by the Commission decision of 29 June 2004. Procedures for implementation are laid down in Cabinet Regulation No 309 of 15 April 2004 "Regulations on the Community Initiative EQUAL".

**Table 4: Financing under the Community Initiative EQUAL, 2004-2006**

Overall financing (EUR)
10 701 046

*Source: Ministry of Welfare*

147. Latvia has set out the following priorities for the EQUAL programme during the 2004-2006 period: "Fostering working skills" (53% of the programme budget), "Equal opportunities for women and men" (34% of the programme budget), "Support for asylum seekers" (5% of the programme budget) and technical assistance (8% of the programme budget).
148. These priorities include fostering research and training on discrimination and inequality in the labour market, fostering understanding of the causes and consequence of discrimination, implementing information and publicity measures, providing guidelines, consultations and training, developing employment services and fostering work experience and the creation of jobs.

**Table 5: Institutional system for implementing the Community Initiative EQUAL**

Managing Authority and Implementing Body	Ministry of Welfare
Payment Authority	State Treasury
Beneficiaries	Partnerships – public administration, including local authorities, NGOs, social partners, educational establishments, private enterprises that have formed a group

*Source: Ministry of Welfare*

149. The basic principles of the EQUAL Initiative that have been integrated into the new ESF regulation for 2007-2013, are:
- the principles of innovation, which means developing new approaches and demonstrating their advantages,
  - the principle of cooperation or partnership, which means the involvement of interested parties,

- the integrated approach principle, which means the distribution of best practice and results and influencing policy and practice,
- the principle of international cooperation, which includes learning from the experience of other Member States,
- implementing the integrated approach principle to gender equality will make gender equality an integral part of every policy and practice.

### 1.3.3.2. Community Initiative INTERREG

150. The Community Initiative INTERREG is financed under the ERDF and aims to strengthen economic and social cohesion, by supporting and fostering cross-border, interregional and transnational cooperation throughout Europe, and fostering balanced development throughout the EU.

**Table 6: Financing under the Community Initiative INTERREG, 2004-2006**

Overall financing (EUR)
20 115 040

*Source: MoRDLG*

151. The 2004-2006 period is the third Community Initiative INTERREG programming period, entitled INTERREG III, and is made up of three strands: A – cross-border cooperation with 70.8% of overall financing, B – transnational cooperation with 24.3% of overall financing, and C – interregional cooperation with 4.9% of overall financing.

**Table 7: Institutional system for implementing the Community Initiative INTERREG**

Managing Authority	Investitionsbank Schleswig Holstein
Payment Authority	Investitionsbank Schleswig Holstein
National Authority	MoRDLG
Implementing Body	INTERREG programme secretariat

*Source: MoRDLG*

152. During the 2007-2013 programming period the Community Initiatives EQUAL and INTERREG will not be separated, but will be integrated into measures under priority one and three.

### 1.3.4. Financing under the guarantee section of the EAGGF

153. The Commission gave its approval to the implementation of the Latvian Rural Development Plan (RDP) for 2004-2006 on 23 June 2004. The RDP incorporates the rural development measures set out in Council Regulation (EC) No 1257/1999 that are financed under the guarantee section of the EAGGF.

154. The table below shows the scope of available funding for 2004-2006.

**Table 8: Financing under the guarantee section of the EAGGF, 2004-2006**

Overall financing (EUR)
410 125 001

*Source: RDP*

155. Two priorities have been set out within the framework of the RDP:

#### 1.3.4.1. Priority 1 "An effective, flexible and sustainable rural economy"

156. Based on the sustainable use of resources available in rural areas, this priority aims to ensure effective and flexible economic activity in all rural areas, and to ensure improvements to the living standards of all rural inhabitants. Assistance is provided for measures such as achieving standards, supporting semi-natural farms, early retirement

and producer groups.

**1.3.4.2. Priority 2 "Preserving the biological diversity of the rural environment"**

157. This priority aims to support sustainable rural activities, by preserving the biological diversity of the environment and the landscape, as well as fostering the preservation of rural lifestyles. Support is provided for agri-environmental measures, as well as for farming in less favourable regions and in regions with environmental restrictions.
158. In addition the LDP also finances technical assistance measures and the single area payment scheme.

**Table 9: Institutional system for implementing the guarantee section of the EAGGF**

Managing Authority	Ministry of Agriculture
Payment Authority	State Treasury
Implementing Body	Rural Support Service

**Source: RDP**

## 2. STRATEGY

### 2.1. SWOT ANALYSIS

159. The SWOT analysis (strengths, weaknesses, opportunities and threats) is a widely applied method that enables a concentrated layout of findings and conclusions reached.

160. 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.

<i>Area</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
<b>Human resources and employment</b>				
<b>- demographic trends</b>	<ul style="list-style-type: none"> <li>▪ A high proportion of population in the economically active age group</li> </ul>	<ul style="list-style-type: none"> <li>▪ The level of emigrations remains high</li> <li>▪ The net natural rate of population growth demonstrates a negative trend</li> </ul>	<ul style="list-style-type: none"> <li>▪ The increasing government-funded benefits to families with children will improve the demographic situation</li> <li>▪ The return to Latvia of the emigrant labour force is expected as a result of the economic growth</li> </ul>	<ul style="list-style-type: none"> <li>▪ An increase in emigration rates due to the removal of administrative barriers</li> </ul>
<b>- qualifications and competitiveness of the labour force</b>	<ul style="list-style-type: none"> <li>▪ A highly-qualified labour force is available in specific sectors</li> <li>▪ Low labour costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low productivity of the labour force</li> <li>▪ Mismatch of skills and qualifications with the current labour market requirements</li> <li>▪ Entrepreneurs are not motivated to make investments in training their current and potential staff</li> </ul>	<ul style="list-style-type: none"> <li>▪ The development of a national life-long learning strategy and its six regional counterparts will promote the quality and mobility of the labour force</li> <li>▪ Employers are encouraged to provide qualification strengthening measures to their staff as a result of various national initiatives</li> <li>▪ The competitiveness of unemployed persons and jobseekers is strengthened as a result of measures implemented by the State Employment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Influenced by globalisation trends, the low labour force costs become an advantage of short-term development</li> <li>▪ Inability of low-skilled employees to acquire new skills to be able to adapt to changeable labour market needs</li> </ul>

Area	Strengths	Weaknesses	Opportunities	Threats
<b>- employment, social inclusion and unemployment</b>	<ul style="list-style-type: none"> <li>▪ High female employment rate</li> <li>▪ A stable and sustainable system of social security, social assistance and social services</li> </ul>	<ul style="list-style-type: none"> <li>▪ A high proportion of the long-term unemployed</li> <li>▪ A high youth unemployment ratio (15-24 year olds)</li> <li>▪ A low self-employment rate, insufficient knowledge to start a business</li> <li>▪ Undeclared employment</li> <li>▪ Considerable social exclusion and risks related thereto</li> <li>▪ Discrimination by gender is observed</li> <li>▪ Limited possibilities to establish work-life balance</li> <li>▪ Distinctive gender segregation in studies leading to subsequent gender segregation in occupations and the labour market</li> <li>▪ Insufficient capacity and infrastructure of institutions involved in the elaboration and implementation of employment and social policy.</li> <li>▪ Weak local partnerships for implementation of effective and integrated employment policy</li> </ul>	<p style="text-align: center;">Agency</p> <ul style="list-style-type: none"> <li>▪ The development of social services as an alternative to those provided by state and municipal institutions</li> <li>▪ An integrated approach to gender equality and age equality in all national policies</li> <li>▪ The results and efficiency of active employment measures are improving thus contributing to the reduction of unemployment</li> <li>▪ Business activity is increasing as a result of national measures and initiatives</li> <li>▪ Implementation of flexicurity principles (flexible labour contracts, part time jobs, increase of role of social partners etc)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increasing social exclusion may result in growing numbers of children without primary education</li> <li>▪ Substantial increase in the proportion of persons receiving social services and social care</li> </ul>
<b>- education and training</b>	<ul style="list-style-type: none"> <li>▪ A developed network of higher and vocational education establishments in the whole territory of Latvia</li> <li>▪ A high general educational level of the population</li> <li>▪ A large density of higher school</li> </ul>	<ul style="list-style-type: none"> <li>▪ No systematic analysis of the medium term economic demand for vocational and higher education, national qualification system and educational programmes are not correspondent to the labour</li> </ul>	<ul style="list-style-type: none"> <li>▪ Application of international (especially EU) experience and practices to improve the educational system</li> <li>▪ Increasing the quality of education in Latvia and improving its conformity to the</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continued inability of the education system to align with the labour market needs and requirements</li> <li>▪ Negative natural population growth rapidly decreasing number of students in all levels of</li> </ul>

<i>Area</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
	<p>students (one of the highest indicators in Europe and the world)</p> <ul style="list-style-type: none"> <li>▪ A qualitative, available and competitive education preferred to be one of the most important priorities of the state and government</li> <li>▪ Elaborated national project documents of the politics to develop education and lifelong education in the period of 2007 – 2013</li> <li>▪ Experience in the implementation of the bilingual education and the national minorities'</li> <li>▪ A contemporary normative bases of educational system</li> </ul>	<p>market requirements</p> <ul style="list-style-type: none"> <li>▪ Limited capacity of the educational system due to ageing infrastructure in all levels of education</li> <li>▪ Insufficient qualification and number of the secondary school teachers</li> <li>▪ Insufficient qualification strengthening and upskilling activity of the teaching staff, as well as ageing of the teaching staff</li> <li>▪ Insufficient number of students and graduates in the masters and doctors programmes</li> <li>▪ Insufficiently developed career counselling schemes for young people</li> <li>▪ Inefficient cooperation among vocational education establishments and employers</li> <li>▪ A low prestige of vocational education and insufficient quality of it, unsatisfactory number of the vocational students</li> <li>▪ A low density of students in the fields of natural sciences, technologies, engineering and health care</li> <li>▪ Limited opportunities of life-long learning (continuing education), as well as limited</li> </ul>	<p>labour market requirements by strengthening cooperation between educational institutions and employers and making investments in the development of the educational system of the country</p> <ul style="list-style-type: none"> <li>▪ The improved content of education in natural sciences and the implemented centralized exam system</li> <li>▪ Demand for qualified branch specialists promoting development and improvement of education supply.</li> <li>▪ A great investment of students and credit resource means in graduation process verifying education supply and prestige in the state</li> <li>▪ Possibilities of out of school education and education of interests</li> <li>▪ Lifelong education guidelines and implementation of action projects, developed continuing education supply</li> <li>▪ Available education infrastructure for lifelong education needs</li> </ul>	<p>education</p> <ul style="list-style-type: none"> <li>▪ Teaching staff ageing and possible deficiency of teachers</li> <li>▪ Prepared young specialists' emigration to another countries</li> <li>▪ Increase of education service expenses</li> </ul>



Area	Strengths	Weaknesses	Opportunities	Threats
		<p>educational opportunities for groups at risk of social exclusion, e.g., prisoners</p> <ul style="list-style-type: none"> <li>▪ Insufficient infrastructure and qualifications of the teaching staff to integrate students with special needs</li> <li>▪ Long-term incapacity of the education system to adapt to labour market needs.</li> </ul>		
<b>- health care</b>	<ul style="list-style-type: none"> <li>▪ There is established the state policy in development of health care services providers, ensuring further development of integrated health care system.</li> <li>▪ Successful implementation of the health care system reform</li> <li>▪ The high medical scientific potential</li> <li>▪ There is adopted health care human resources state policy and health care human resources long term development plan</li> <li>▪ There is established state policy in tuberculosis and HIV infection localization, in tobacco goods demand reduction and limitation of its supply, in public education about wholesome food and in alcohol usage reducing and limitation of alcoholism.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Poor health of the general population.</li> <li>▪ Increase of occupational diseases, a high rate of accidents at work.</li> <li>▪ Unequal accessibility of primary, secondary and emergency medical assistance care.</li> <li>▪ Insufficient emphasis on health promotion and preventive measures in the health care system</li> <li>▪ Lack of human resources in health care sector, qualification according needs, number and placing</li> <li>▪ Insufficient accessibility of health care services enjoyed for social exclusion groups</li> </ul>	<ul style="list-style-type: none"> <li>▪ By improvement of understanding population about healthy lifestyle, there will be higher quality of the labor force and more persons will stay longer in labor market.</li> <li>▪ Researching and evaluating situation in public health sector, will increase effectiveness of investment, in human resources and in health promotion measures in health care infrastructure.</li> <li>▪ Development of health care and health promotion personal will ensure the better quality of health care services and will promote cooperation between health care institutions and employers.</li> <li>▪ Improvement of primary, secondary and tertiary health care and emergency medical assistance, will ensure better quality and accessibility of health care services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Insufficient financing of the implementation of activities of policy planning documents in public health sector</li> <li>▪ Lack of continuity and succession of implemented public health measures.</li> <li>▪ Change of political “players”, would change state priorities: diminishing public health importance</li> <li>▪ Disagreement between institutions, which are involved in implementation of public health goals</li> </ul>

<i>Area</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
<ul style="list-style-type: none"> <li>▪ Public administration</li> </ul>	<ul style="list-style-type: none"> <li>▪ Up-to-date reforms have been implemented in numerous areas of public administration</li> <li>▪ An effectively operating policy planning system has been established in public administration</li> <li>▪ Improved and developed dialogue between the national and municipal level</li> <li>▪ Established cooperation structures to interact with social partners; Intense activities of NGOs in regions</li> <li>▪ Several e-government elements are well-developed in public administration</li> <li>▪ The status of the planning region in public administration system is strengthened</li> </ul>	<ul style="list-style-type: none"> <li>▪ Insufficient professional qualifications of employees in the public administration system and local governments</li> <li>▪ A common system of human resource development and management has not been introduced in public administration</li> <li>▪ Insufficiently coordinated continuing education schemes for staff of public administration bodies</li> <li>▪ No quality management system introduced</li> <li>▪ Shortcomings in the alignment of policy-making with long-term planning documents</li> <li>▪ Insufficient public participation in the processes of public administration</li> <li>▪ No comprehensive information available about the level of public satisfaction with public services</li> <li>▪ Regional and municipal administrations lack knowledge, skills and know-how in planning development</li> <li>▪ Social partnerships are underdeveloped</li> </ul>	<ul style="list-style-type: none"> <li>▪ A transfer to a medium-term planning scheme for the state budget.</li> <li>▪ Establishing the EU initiatives and priorities in the area of public administration</li> <li>▪ Participation in the public administration networks of the EU countries</li> <li>▪ The exchange of experience with other countries and organisations in issues related to public administration.</li> <li>▪ Support of the EU and other cooperation partners aimed at improving the performance of public administration</li> <li>▪ Development of better regulation policy instruments</li> <li>▪ Increasing importance of the planning regions in planning of state development and introduction of support activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ The migration of public sector employees to other sectors or countries</li> <li>▪ The slow progress of the administrative-territorial reform</li> </ul>
<b>Innovations and entrepreneurship</b>				
<b>- entrepreneurship</b>	<ul style="list-style-type: none"> <li>▪ Location in an economically and politically active region</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low business activity</li> <li>▪ Low initiative and lacking basic</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promotion of applied research to encourage the development of</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase in competition in the traditionally leading sectors of</li> </ul>

<i>Area</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
	<p>providing the necessary preconditions to attract new cooperation partners</p> <ul style="list-style-type: none"> <li>▪ Integration of Latvia in the common market of the European Union, free movement of goods, services, capital and the labour force</li> <li>▪ The regulatory framework of entrepreneurship complies with the European Union requirements</li> <li>▪ The corporate income tax (and other costs) are the lowest in the EU</li> <li>▪ 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</li> </ul>	<p>skills to start a business</p> <ul style="list-style-type: none"> <li>▪ A large proportion of enterprises in sectors of low value added and high consumption of natural resources</li> <li>▪ A large share of enterprises mainly produce for the internal (Latvian) market</li> <li>▪ Investments are accumulated in the traditional sectors (with low value added and high labour intensity and consumption of natural resources)</li> <li>▪ Inflexible financial instruments for promoting entrepreneurship</li> <li>▪ Location on the periphery of the EU</li> </ul>	<p>sectors of national importance</p> <ul style="list-style-type: none"> <li>▪ Highly developed financial instruments to start up and develop businesses</li> <li>▪ Optimisation of technological processes and work organisation in enterprises</li> </ul>	<p>Latvia</p> <ul style="list-style-type: none"> <li>▪ Private investment outflow to potentially more resilient and active markets</li> </ul>
<b>- innovations</b>	<ul style="list-style-type: none"> <li>▪ Specific sectors feature highly-qualified human resources and scientific potential</li> </ul>	<ul style="list-style-type: none"> <li>▪ A small share of innovative enterprises</li> <li>▪ Weak cooperation of the private sector with research institutes, scientists and universities</li> <li>▪ A low proportion of entities involved in research and development activities</li> <li>▪ Weak transfer of technology</li> <li>▪ Low private investment in</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strengthening and promoting transboundary and international cooperation in the field of innovations</li> <li>▪ Development of a national innovations systems encouraging cooperation between scientists and entrepreneurs, facilitating technology transfer, R&amp;D activities in the private sector thus both increasing the amount</li> </ul>	<ul style="list-style-type: none"> <li>▪ The exodus of educated professionals and scientists to abroad</li> </ul>

<i>Area</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
		<p>research and development, as well as innovations</p> <ul style="list-style-type: none"> <li>Poorly developed specialised infrastructure to promote innovative activities</li> </ul>	<p>of available R&amp;D funding and diversifying its structure</p>	
<b>- science</b>	<ul style="list-style-type: none"> <li>Traditions of scientific activity</li> <li>Successful operation of science institutions in the EU FP and other international cooperation programmes</li> <li>Internationally acknowledged inventions and patents in medical chemistry, gene engineering</li> <li>UoL ISSP gaining the EU Excellence centre status</li> <li>Successfully initiated cooperation between science/research and entrepreneurs in the sectors of woodworking and timber industry, pharmacy, IT and material sciences</li> </ul>	<ul style="list-style-type: none"> <li>Obsolete scientific infrastructure</li> <li>Insufficient cooperation among private sector, scientific institutions and universities</li> <li>Small number of patents and internationally acknowledged publications (SCI)</li> <li>Insufficient number of employees in science and research, contrary age structure and disproportional division of higher education and research sector</li> <li>Insufficient number of practical research and weak transmission of technologies</li> <li>Limited possibilities of knowledge commercialization and skills</li> </ul>	<ul style="list-style-type: none"> <li>The development of culture of science management</li> <li>Scientific infrastructure meets the R&amp;D needs of the private sector</li> <li>Increasing number of doctors</li> <li>Investment in science infrastructure</li> <li>Increasing state budget investment in science and research</li> <li>Science institution status enlarge its capacity</li> <li>Further participation in Framework and other international cooperation projects</li> <li>Development of science and industry cooperation branch – clusters in the fields of woodworking, chemistry, pharmacy, IT, material sciences</li> </ul>	<ul style="list-style-type: none"> <li>The emigration of educated professionals and scientists to abroad</li> <li>Decreasing number of higher education students</li> </ul>
<b>Infrastructure and services</b>				
<b>- energy</b>	<ul style="list-style-type: none"> <li>A high level of renewable energy sources in use</li> <li>A well developed electricity distribution grid and international electric power</li> </ul>	<ul style="list-style-type: none"> <li>Inefficient and environmentally-unfriendly heat production technologies</li> <li>Low energy efficiency</li> <li>Insufficient use of local and</li> </ul>	<ul style="list-style-type: none"> <li>Harnessing public-private partnership opportunities to encourage and accelerate the development of infrastructure</li> <li>Opening the electricity and gas</li> </ul>	<ul style="list-style-type: none"> <li>Dependence on foreign energy sources</li> </ul>

<i>Area</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
	<p>transmission lines</p> <ul style="list-style-type: none"> <li>Naturally formed underground gas repositories of strategic importance</li> </ul>	<p>alternative energy sources</p>	<p>markets</p>	
<b>- environment</b>	<ul style="list-style-type: none"> <li>High-quality natural resources, including groundwater resources</li> </ul>	<ul style="list-style-type: none"> <li>Low accessibility to and quality of centralised water distribution services</li> <li>Insufficient and inefficient waste water treatment</li> <li>Insufficient waste collection, sorting and recycling effort</li> <li>Insufficient infrastructure for solid and hazardous waste management</li> <li>A considerable number of inherited polluted areas and degraded industrial sites</li> <li>Insufficient tourism infrastructure, especially in protected nature areas</li> </ul>	<ul style="list-style-type: none"> <li>Harnessing public-private partnership opportunities to encourage and accelerate the development of infrastructure</li> <li>Well-organised spatial planning</li> </ul>	<ul style="list-style-type: none"> <li>Lack of a complex assessment scheme and a strategy of technogenic and environmental risks, limited possibilities of environmental monitoring and control</li> <li>Increased pressure on the environment due to the extensive development of the capital city</li> </ul>
<b>- cultural and tourism infrastructure</b>	<ul style="list-style-type: none"> <li>Rich and internationally relevant tangible and intangible heritage, manifestations of high-quality traditional and modern culture</li> <li>Well-preserved diversity identity of the local culture</li> <li>Culture ranks comparatively high in the hierarchical system of values of Latvian society</li> <li>Diverse and unpolluted environment, abundant landscape assets</li> </ul>	<ul style="list-style-type: none"> <li>Insufficiently exploited socio-economic potential of the cultural environment, functionally out-dated and obsolete cultural infrastructure</li> <li>Concentration of cultural life in the capital city of Rīga; disproportionate supply of cultural products</li> <li>An insufficient range of internationally competitive and recognized products on offer</li> <li>Lack of evenly distributed, high-capacity and premium-quality tourism services and</li> </ul>	<ul style="list-style-type: none"> <li>Cultural heritage and cultural services are important resource for promotion of life quality and cultural tourism as well as sustainable socio economic development of regions</li> <li>Increasing demand for cultural products in the regions of Latvia</li> <li>Growing intensity of international cultural exchange and exports</li> <li>Growing tourism market</li> <li>Growing demand for health, recreational, cultural and active tourism products</li> </ul>	<ul style="list-style-type: none"> <li>Brain drain from the regions, decrease of economic activity, depopulation, social segregation, lack of shared values</li> <li>Decreasing international competitiveness of Latvian culture products</li> <li>Degrading cultural environment and irreversible deterioration of heritage sites and values</li> <li>Stalling tourism development rates</li> <li>Growing competition in the international tourism market</li> </ul>

<i>Area</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
		<p>infrastructure</p> <ul style="list-style-type: none"> <li>▪ Distinctive seasonal fluctuations of tourism services</li> </ul>		
<b>- transport</b>	<ul style="list-style-type: none"> <li>▪ Optimum distribution of transport infrastructure</li> <li>▪ A large proportion of significant transport infrastructure is included in various projects of the EU importance</li> <li>▪ Rapid passenger turnover growth in „Riga” airport</li> </ul>	<ul style="list-style-type: none"> <li>▪ A large number of traffic accidents</li> <li>▪ Deteriorating technical conditions of road and rail infrastructure</li> <li>▪ Inefficient and non-competitive public transportation services in cities and commuter areas</li> <li>▪ A decreasing coverage of the railway network used for passenger carriage</li> <li>▪ Insufficient capacity of the sea passenger terminal of Riga</li> <li>▪ Non-optimum capacity of port access roads</li> <li>▪ Outdated small port infrastructure</li> <li>▪ Outdated infrastructure of regional airports</li> <li>▪ A low proportion of vehicles adjusted for use by persons with disability (mobility impairment)</li> <li>▪ Insufficient funding for the development of air transport infrastructure</li> <li>▪ Insufficient capacity of „Riga” airport terminal</li> </ul>	<ul style="list-style-type: none"> <li>▪ Harnessing public-private partnership opportunities to encourage and accelerate the development of infrastructure</li> <li>▪ Development of a common port policy aimed at diversification and more efficient use of ports</li> <li>▪ Developing „Riga” airport into an important European air transportation hub boasting stability in high quality passenger and freight services, thus creating preconditions for the development of other industries.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Competition of the neighbouring countries in providing transit services</li> <li>▪ Introduction of an aviation fuel tax</li> </ul>
<b>Sustainable development</b>	<ul style="list-style-type: none"> <li>▪ High-quality, environmentally clean, sparsely-populated environment</li> <li>▪ Sufficient forest, land and water resources</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weak integration of the environmental policy in sectoral policies</li> <li>▪ A considerable proportion of environmental infrastructure is</li> </ul>	<ul style="list-style-type: none"> <li>▪ Prospecting new oil and gas deposits</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lack of a strategy and assessment of technogenic risks</li> <li>▪ Transboundary pollution</li> </ul>

<i>Area</i>	<i>Strengths</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
	<ul style="list-style-type: none"> <li>Preserved biodiversity</li> </ul>	<ul style="list-style-type: none"> <li>incompliant with the EU requirements</li> </ul>		
<b>Macroeconomic stability</b>	<ul style="list-style-type: none"> <li>High GDP growth</li> <li>Low budget deficit</li> <li>Low public debt</li> </ul>	<ul style="list-style-type: none"> <li>Rapidly increasing inflation</li> </ul>	<ul style="list-style-type: none"> <li>A favourable environment for investment and rapidly accelerating private investment</li> </ul>	<ul style="list-style-type: none"> <li>Risks of overheating the economy</li> </ul>
<b>Balanced territorial development</b>	<ul style="list-style-type: none"> <li>Even distribution of urban areas</li> <li>Even distribution of transport infrastructure</li> <li>The favourable geographical location of the capital city of Riga</li> <li>Republican cities are located close to primary transport corridors</li> </ul>	<ul style="list-style-type: none"> <li>Significant disparities in socioeconomic development trends observed comparing the capital city of Riga and the rest of Latvia, as well as among planning regions</li> <li>The migration of human resources from rural areas to cities, other countries</li> <li>Insufficient opportunities for inner mobility of work - force</li> <li>Outdated and insufficient transport infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening of urban network</li> <li>Territory development according integrated approach (i.e., urban-rural cooperation, cross-sectoral coordination)</li> <li>Rīga – the metropolis of the Baltic Sea region</li> <li>Cooperation between Euroregions, transboundary cooperation</li> </ul>	<ul style="list-style-type: none"> <li>Continued decrease in population in particular areas of the country</li> <li>Increasing/ non-reducing social-economic development gap between Riga and the rest of Latvia's territory</li> <li>High competition with capital city Riga</li> </ul>
<b>Equal opportunities</b>	<ul style="list-style-type: none"> <li>A high female employment rate compared to the EU average</li> <li>Improved legislation to ensure equal rights and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Comparatively low public awareness of the role of various gender equality aspects in different areas</li> <li>Environment that is not adapted to the needs and requirements of persons with functional disabilities (including education and employment)</li> </ul>	<ul style="list-style-type: none"> <li>Professionals of various backgrounds educated on gender equality issues and their role</li> <li>Preconditions set for the implementation of an integrated approach towards gender equality (a mechanism created)</li> <li>Active non-governmental organisations addressing issues related to disabled people and groups of population at risk of social exclusion</li> <li>A coordinated, concerted and strategic approach to encourage social inclusion</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient awareness of policy-makers of the need to apply an integrated approach towards gender equality</li> <li>A growing share of the population at risk of social exclusion</li> <li>Employers are not encouraged to recruit disabled people, ex-convicts and individuals of other groups at risk of social exclusion</li> </ul>
<b>Information society</b>	<ul style="list-style-type: none"> <li>A stable growth rate in the IT</li> </ul>	<ul style="list-style-type: none"> <li>Unevenly developed ICT infrastructure, limited</li> </ul>	<ul style="list-style-type: none"> <li>The availability and quality of ICT services are expected to</li> </ul>	<ul style="list-style-type: none"> <li>The monopolisation of the electronic communications</li> </ul>

Area	Strengths	Weaknesses	Opportunities	Threats
	sector <ul style="list-style-type: none"> <li>▪ A high growth rate of Internet users</li> <li>▪ The development of information systems of the main national registers has been completed</li> <li>▪ Active development of e-commerce</li> </ul>	availability of Internet access, especially to broadband networks <ul style="list-style-type: none"> <li>▪ The limited range of e-government services is a disincentive for the promotion of the information society</li> <li>▪ Shortage of ICT skills of those to become part of the information society processes</li> </ul>	improve as a result of increasing competition	sector <ul style="list-style-type: none"> <li>▪ Widening of the “digital gap”</li> </ul>
<b>International competitiveness of Rīga</b>	<ul style="list-style-type: none"> <li>▪ Together with its satellites, Riga is the largest city by population in the Baltic-Scandinavian region</li> <li>▪ Rīga is an important crossing point of transportation routes and communications channels</li> <li>▪ Growing economy and tourism</li> <li>▪ A low unemployment rate</li> <li>▪ Spatial development opportunities</li> <li>▪ A large share of foreign investments is concentrated in Riga</li> <li>▪ Scientific and research potential is concentrated in Riga</li> <li>▪ Rīga is a port city</li> <li>▪ Multicultural environment</li> <li>▪ Recreation potential</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low GDP per capita</li> <li>▪ High inflation</li> <li>▪ Unattractive infrastructure</li> <li>▪ Absence of local energy sources</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rīga as the central metropolis of the Baltic states</li> <li>▪ Rīga as a city of well-maintained and organised urban environment and public infrastructure</li> <li>▪ Rīga as a cultural, business and tourism centre</li> <li>▪ The development of services and production areas focussed on the international market</li> <li>▪ Commercialisation of results produced by applied sciences, innovations and the transfer of technology</li> <li>▪ A centre attractive to foreign investment</li> </ul>	<ul style="list-style-type: none"> <li>▪ The development of international transport corridors bypassing Riga</li> <li>▪ Emigration of the skilled labour force</li> <li>▪ The decreasing role of geographic advantages to due to technological developments</li> <li>▪ Overheating economy</li> <li>▪ Deteriorating conditions in the field of foreign policy</li> </ul>



## 2.2. NSRF STRATEGY

161. The task of the NSRF strategy is to define the absorption objectives and priorities of the SF and CF for the 2007-2013 programming period.
162. The NSRF strategy is based on the main principles and guidelines of Community Strategic Guidelines for Cohesion (CSG), National Development Plan 2007-2013 (NDP), Lisbon National Reform Programme of Latvia (LNRPL), and the Joint Economic Strategy (JES). However, the directions of assistance identified in the NSRF does not cover in full the areas of assistance mentioned in these documents.
163. The NSRF strategy is aimed at efficient attraction of the SF and CF funding for the promotion of economic and social development of the country, as well as for the encouragement of balanced territorial development, hence pursuing the common national development goals and contributing to the implementation of the EU strategies for growth and jobs (Lisbon), as well as promoting sustainable growth (Göteborg).
164. The NSRF strategy covers only those priorities that will be implemented through attracting the EU fund co-finance. However, the implementation of the strategy must not be viewed separately from the overall national development policy and measures set for implementation 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, regulatory enactments, or administration. The above measures are detailed in the NDP, LNRPL, JES and other policy planning documents.

### 2.2.1. The main principles for the Strategy

165. *Continuity* – by commencing the implementation of the SF and CF in 2004 Latvia has set achievable mid-term and long-term objectives, as well as a range of priorities that are detailed in the SF Single Programming Document (SPD) and the CF Reference Framework for the 2004 – 2006 financing period. The SF and CF interventions have to continue the commenced investment effort in areas where the set restructuring goals have not been accomplished yet. The SF and CF assistance for the period 2007 – 2013 must function as logical continuation of investments already made or being made during the NSRF drafting phase, furthermore, the assistance has to be based on experience and results of the 2004 – 2006 period.
166. *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.
167. A strategic approach to the absorption of the EU funds may be ensured only on condition that the *principle of concentration* is observed. Although the financial assistance of the SF and CF made available to Latvia is substantial, it is still aimed at providing co-finance to national financial contributions committed to address 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 the SF and CF funding, administrative capacity and time resources for the 2007 – 2013 are limited, hence the inevitable requirement to select a limited number of key measures for assistance where the potential of achieving

the set development goals is the highest.

168. *Additionality* – the SF and CF investment for national development may not substitute national investment effort financed from the state budget up to the current period. The SF and CF 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 and CF funds.
169. *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.

### **2.2.2. Interrelation of the Strategy and SWOT Analysis**

170. Analysis of Current Situation and SWOT Analysis sections of the NSRF identify a range of challenges and socio-economic development problems of the country. The function of the NSRF strategy is to explain how the nation could respond to the identified situation by using the SF and CF assistance and eliminating the detected problems, reducing potential threats, as well as building the future growth on the foundation of strengths and development potential. According to the SWOT analysis, the main challenges for development, which the nation is expected to address in the 2007 – 2013 period, are the following:
171. As for the human resource area, Latvia will have to pay due regard to unfavourable demographic conditions, high unemployment rate and risks of social exclusion that demonstrate a range of current or future problems of human capital. The labour market trends also suggest that the Latvian labour force demonstrate weak readiness to work for the low salaries and wages offered to unskilled labourers and public sector employees. At the same time the labour force lack skills, qualifications, information and mobility options to fill the open vacancies requiring high qualifications. Exercising the human resource potential efficiently and at full scope is impeded by the imbalance between labour supply and demand caused by shortcomings and deficiencies in the education system. Furthermore, the poor population health status looms large as a threat to the overall quality of human resources. As the national development strategy is based on the framework of the long-term document “Model for Growth of Latvia: Individual First”, which was approved by the Saeima, creating preconditions for the development and efficient utilisation of human resources is one the central elements of the NSRF strategy.
172. As regards economic development, Latvia has gained considerable benefits from the integration in the European Union, having better access to markets, and improving business legislation. However, the economic activity rate is still low in the country, business competition is limited, the economy is currently based on the traditional sectors featuring high labour-intensity and consumption of natural resources, as well as low value added. Although the economy of Latvia represents a number of sectors with high potential of scientific activity, research, innovation- and knowledge-based production, their share in the

economy is still too small. Consequently, the NSRF strategy must particularly address those conditions of development that exhibit high potential of stimulating economic activities and increasing competitiveness, fostering economic restructuring and progress towards a knowledge-based economy.

173. In general terms, Latvia has favourable preconditions for balanced and sustainable development, e.g., even geographical distribution of urban areas in the territory of the country, a pre-requisite for the development of a polycentric state, high-quality and sparsely-populated environment, satisfactory conditions of local natural resources, and optimum distribution of transport infrastructure. At the same time the further growth of economy and sustainable territorial development are impeded due to deteriorating infrastructure, inability to meet quality requirements set by the economic growth, low quality and availability of public services. The NSRF strategy is aimed at reducing the risks posed by infrastructure and public service gaps that threaten the rapid future growth of the economy and have a negative impact on quality of life of communities in different areas of the country.

### 2.2.3. Objectives and Priorities

174. The tasks of the SF and CF support for the 2007 – 2013 period is to foster accelerated economic growth of the nation and approaching the average EU level of welfare. The above objective is measured in terms of determination to achieve the average EU level of gross domestic product (GDP) per capita. In order to achieve the set target, Latvia for the period 2007 – 2013 sets the following attainable context indicators both in the LNRPL and 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%).

175. Besides this Latvia sets the following impact indicators for 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 87% of youth age 20 – 24 with at least secondary education (baseline of 2005 – 79.9%);
- to increase the percentage of population provided with waste water management services in compliance with legislation provisions till 62% (baseline of 2004 – 9%);
- to reach the time saving for passengers 10.9 million EUR per year due to the built and reconstructed roads.

176. For Latvia to catch up and align with the rest of the EU in development, the fund assistance should be applied to leverage the implementation of the national development strategy, defined by the government in the National Development Plan (NDP). The NDP has put an educated, creative and motivated individual at the centre of the national development strategy; the main objective of the NDP is an economy that is based on education, science and competitive enterprises. Consequently, the SF and CF support in the period 2007-2013 will primarily be committed to educational measures for the general population, technological excellence and flexibility of enterprises, as well as the development of science

and research activities to promote the formation of a knowledge-based economy. In addition to the achievement of the strategic objective, it is also crucial to apply the SF and CF assistance to strengthen other important preconditions of sustainable economic development, as well as improve the overall living conditions for the population in Latvia.

177. Joining the European Community progress towards becoming the most dynamic and most competitive knowledge based economy in the world, Latvia provisionally forecast up to 61% of available EU co-financing to be channelled to reach the Lisbon development and employment policy targets. The forecast level is below that stipulated as mandatory for the countries that were Member States before 1 May of 2004, while appreciating the specific situation of smaller and less economically developed new Member States the requirement was positioned as optional allowing those lower targets. For Latvia with its deficit of infrastructure and low economic indicators targeting more than half of all the funds into the Lisbon objectives is a very significant step towards higher position on value cration chain as well as clear signal of support to Lisbon agenda.
178. The EU assistance would be particularly important to those economic sectors that have a certain potential developed in Latvia and that can deliver an internationally competitive commodities and services. Medical chemistry, genetic engineering, as well as MHD mettallurgy could be identified as perspective “innovation sectors” in the science sector in Latvia. Whereas in the field of entrepreneurship one can underline several perspective cooperation sectors or clusters – wood-working, chemical industry (pharmacy), metal working, transports and logistics, communication (information and communication services). The sectors with small natural resource capacity and those based on intellectual property (creative industries) are also considered perspective in Latvia.
179. In order to ensure most efficient utilisation of EU funds the Latvian authorities will actively explore new ways of implementing assistance and look for up-to-date methods, therefore the system will always be open for innovations and experimentation including absorbtion of results of the initiative Regions for Economic Change.
180. One of the ways to ensure more efficient implementation is to look for economies of scale, and one of such approaches might foresee coordinationa and even collaboration with the neighbouring countries in such areas as research and development, transport, including public transport, financial engineering, tourism, environment, and administrative capacity. In this respect the cooperation with the Estonia and Lithuania has a sound basis to build upon as the three countries held regular consultation meetings on utilisation of the EU funds for more than five years.
181. In order to achieve the above mentioned overall objectives, the SF and CF investments are planned under the following three thematic axes:
  - development and efficient utilisation of human resources;
  - strengthening competitiveness and progress towards a knowledge-based economy;
  - improvements in public services and infrastructure as a precondition for balanced national and territorial development.
182. In addition to the above thematic axes in the application of the SF and CF funding, horizontal priorities are of critical importance, such as balanced territorial development, international competitiveness of Riga City, fostering macroeconomic stability, equal opportunities and sustainable development, as well as the promotion of information society.

#### **2.2.4. Thematic Axis 1 – Development and Efficient Utilisation of Human Resources**

183. Latvia has undertaken to achieve the over-arching employment objectives of the Lisbon

Strategy: employment close to full, higher quality and productivity at work, as well as strengthening social cohesion and inclusion. At the same time, the NDP has identified assistance to an educated and creative person as a priority that is based on the following measures:

- high-quality primary education, mandatory secondary education and accessible higher education;
- modernisation of the educational infrastructure;
- training of the workforce according to the labour market requirements;
- efficient utilisation and life-long development of the creative potential of an individual.

184. Whereas the NSRF strategy has acknowledged education and knowledge as the most important resources to drive the future economic growth of the country and the current demographic situation suggests no quantitative increase of the population in the coming decades, special attention must be paid to efficient utilisation and further development of human resources in the period 2007-2013.
185. The axis is supported by both the ESF and the ERDF, providing a sound mix of soft and hard investments in the domain of human resources and employment. The priority axis receives as much as 38.34% of the Structural Funds' financing, therefore it clearly represents movement towards greater importance of the human resources and effective utilisation as such as the most important factor in the new programming.
186. The ESF has seen an increase of funding resulting from negotiations with the European Commission services. The share of ESF in the total 4.5 billion EUR allocation of the Funds has grown by 93 million EUR from 11.42% to 12.15%, thus demonstrating that also the soft intervention in the education, employment and inclusion are valued highly on the Latvian policy agenda.
187. As for the efficient utilisation of human resources, providing adequate education, increasing qualifications and upskilling, and ensuring training for the young workforce are important preconditions. For the period 2007-2013 the most important task is to increase the adaptability of the education system to the constantly changing labour market requirements, as well as ensure its capacity to produce a labour force meeting the needs and trends of future economic development and progress towards a knowledge-based economy. To implement the above task, substantial improvements are required both in the quality and accessibility of education, including the accessibility of education to people at risk of social exclusion. Improvements to the quality of education require considerable EU assistance for educational curricula, infrastructure, materials and technical facilities (teaching materials, utilities, facilities, equipment) and for the teaching staff and their qualifications, especially reviving the academic and applied science personnel. Sufficient amount of highly qualified specialists and workers is a critical issue for both the development of higher education and the strengthening of scientific potential, and for ensuring effective knowledge transfer, therefore the EU fund assistance should be made available to reduce the drain of these specialists from the country, to promote comeback of the emigrated specialists, as well as to attract additional human resources from abroad. In this area, the assistance for improvements in public services and infrastructure and soft investments in human capital must be mutually coordinated and complementary to each other. To foster territorial development in the entire area of the country, development centres for human capital must be strengthened also outside the capital city of Riga.
188. The SF contribution to the national infrastructure is a critical measure for its development that, consequently, ensures the development of human capital. In this case, the modernisation

of educational infrastructure is the most important factor to foster the development of human resources, as well as educational attainment and skills of the labour force (Thematic axis 1) that are critical for growth and progress towards a knowledge-based economy. Investments in educational infrastructure, materials and technical facilities (teaching materials, equipment, facilities, hardware) must ensure that vocational education, study activities and research are provided an adequate material and technical environment commensurate with updated educational curricula and comparable to working circumstances at innovative enterprises of the specific sector. The above is expected to make substantial improvements to the educational quality thus fostering education and training of highly qualified professionals meeting the current labour market requirements. At the same time, investments are also required in the infrastructure of such service sectors as employment, social protection, health care and health promotion – the above play a role in the development of human resources.

189. The promotion of upskilling of the economically active population is of equally high importance, as it contributes to increasing competitiveness of individual enterprises and the country in general. The above task can be achieved by fostering work-based retraining and continuing education, support to upskilling the staff members of companies in various training programmes and courses, as well as promoting support provided by enterprises to its employees for receiving academic education. To increase productivity at work and the economic activity of the population, the SF assistance is important also in sectors such as education and motivation measures for business start-ups. In this area the support for strengthening competitiveness (Thematic axis 2) and investments in human capital (Thematic axis 1) must be mutually coordinated and complementary to each other.
190. The need to maintain the employment growth rate and ensure a labour force participation indicator of 70% by 2013 requires Latvia to implement inclusive labour market measures. For the purpose of maximising the efficiency and utilisation of the entire economically active population as a national development resource, it is essential to utilize the SF support for the integration of economically inactive, unemployed persons, especially young unemployed persons, those with weak Latvian language skills and other groups at risk of social exclusion, jobseekers in the labour market, as well as for stimulating the economic activity of persons at pre-retirement age. To achieve the target, it is necessary to improve the quality and diversify the range of active employment measures, as well as to develop such a system of social services that would enable better integration of the relevant target groups in the labour market. Eradication of any type of discrimination in the labour market is an efficient measure to increase the employment rate. Furthermore, there is a need to reduce the employment and unemployment rate disparities characteristic to different geographical areas of the country. In order to respond to anticipated effects of demographic trends on labour market, flexible services have to be developed that are based on the results of long-term forecasting. In addition to the above measures, relevant technical support (Thematic axis 3) must be granted to the main institutions providing employment, social inclusion and social care services, in order to improve their efficiency.
191. An important factor in providing the necessary labour force to the economy is the health of people. By using the SF support to leverage the implementation of workforce health promotion measures and preventive measures, as well as measures aimed at improving the quality and availability of health protection services, costs incurred by the country's labour force and human resources in general due to the health-related problems would be gradually decreased. In this area the support to improvements in public services and infrastructure and soft investments in human capital must be mutually coordinated and complementary to each other.

192. Capacity strengthening of institutions - national, regional and local, involved in public administration, development planning, as well as implementation of development planning documents, their supervision, interrelation and interrelation with national level planning documents is a critical precondition for the national development. Consequently, it is important to provide the SF assistance for the administrative capacity building process to be implemented through investments in the human capital of public administration. For the 2007-2013 period, particular attention must be paid to the administrative capacity building in the institutions that elaborate and implement policies determining the country's and its territories' development and progress towards a knowledge-based economy. At regional level, it is necessary to strengthen capacity of planning regions in order to strengthen their role in public administration. At local level, special attention must be paid to institutions that will evolve and develop as a result of the administrative-territorial reform. In order to implement the strategy of polycentric development, stated in the Latvia's National Development Plan 2007-2013, it is very important to concentrate investments in cities as the driving force for regional development to ensure their growth and competitiveness, following an integrated territorial development strategy (principles of territorial and cross - sectoral integration). Regarding the above mentioned, cities need additional incentives for their development, allowing them to implement innovative solutions to their development problems that would effectively complement support provided to education, social and health care services and to the administrative capacity under this thematic axis.

#### **2.2.5. Thematic Axis 2 – Strengthening Competitiveness and Progress towards a Knowledge-based Economy**

193. 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. The possibility to achieve the set objective is conditional upon the ability to increase productivity, high-value-added production, export capacity among the existing manufacturers and service providers, as well as the formation of new knowledge-based and technology-intensive enterprises.
194. In this context as one of priorities NDP sets promotion of 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.
195. Also development of science and research is highlighted in the NDP as one of priorities, proposing the following measures thereunder excellence of academic science:
- revival of academic and applied science potential;
  - updating scientific infrastructure in institutes and higher educational establishments.
196. The achievement of the above objectives can be leveraged by the SF support for the development of scientific and research potential, transfer of knowledge and increasing the level of innovations, as well providing focused assistance to strengthening the competitiveness of enterprises.
197. The second priority axis is supported with 23.78% share of the Structural Funds. The support will be made more efficient by greater leverage effect since large part of the funding within

this axis is to be implemented within the state aid regulation therefore intensity of public support is significantly lower than that of traditional employment or infrastructure interventions. Another opportunity to generate leverage to the resources utilised in this domain is use of financial engineering settings, foreseeing support to take a revolving nature allowing for funding to be used again and again resulting in a greater efficiency with comparatively smaller public funding.

198. For efficient application and future development of the research and development (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 commercialization of applied science and transfer of technologies, as well as for the attraction of private capital to conduct applied research in science.
199. In order to improve the indicators of productivity and high-value-added production in the existing companies, creation of new competitive firms, as well as boosting knowledge-based economic activities in general, it is essential to create preconditions for the transfer of knowledge and technologies, absorption of modern technologies, introduction of modern products and technologies in production practices. It requires the application of the SF support to lay the necessary intellectual, institution and financial foundation for innovations and transfer of knowledge, to promote the development of clusters that, apart from their entrepreneurial constituent elements, involve scientific, research and educational bodies. It would also comprise support to develop a dialogue among entrepreneurs, educational establishments, scientific institutions and public administration, as well as assistance for poles of technological excellence (scientific institutes capable of conducting world-class research activities and thus attracting interest from international enterprises), as well as competence centres that ensure cooperation among research institutes, higher educational establishments and enterprises of one particular sector in a specific geographical area.
200. 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 Riga. To increase competitiveness, it is essential to foster the reorganisation of enterprises to focus on high technology products or products of high value added. The objective of the EU funds in this area is to provide solutions to issues such as the improvement of business infrastructure, availability of new technologies, strengthening export capacity. An important objective in the development of entrepreneurship is to foster investments in the introduction of environment-friendly manufacturing technologies and compliance with environmental standards in business activities. 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. Consequently, Thematic axis 2 must be strongly associated with Thematic axis 1 and Thematic axis 3.
201. In view of limited resources available from the Funds as well as the government decision to ensure fiscal discipline it is especially important to find more efficient ways of promotion of entrepreneurship and innovations. Another important consideration is necessity to safeguard competition and ensure that any public assistance provided to entrepreneurs does not distort



competition of newly liberalised markets. Therefore Latvian authorities constructed the support to business in a more subtle manner opting for greater portion of support to be provided through indirect support e.g. financial engineering measures rather than direct support in the form of grant co-financing. In order to capitalise on experience gained elsewhere Latvia collaborated with the European Commission, European Investment Fund and other international financial institutions in the framework of JEREMIE initiative exploring opportunities to establish a holding fund for financial engineering measures.

202. In order to implement the strategy of policentric development, stated in the Latvia's National Development Plan 2007-2013, it is very important to concentrate investments in cities as the driving force for regional development to ensure their growth and competitiveness, following an integrated territorial development strategy (principles of territorial and cross - sectoral integration). Regarding the above mentioned, cities need additional incentives for their development, allowing them to implement innovative solutions to their development problems, that would effectively complement support provided to science and entrepreneurship under this thematic axis.
203. At the same time Riga remains one of the most successful places for concentrated development effort in the Baltics. Latvia has established a horizontal priority of International competitiveness of the Riga City. Riga being the capital of Latvia and the largest city in the three Baltic States managed to concentrate a very significant part of both scientific and entrepreneurial capacity of the country and the region therefore it is in a unique position to gain from concentration and economies of scale pulling the two capacities together to create a cluster for science, research and development as well as innovation and growth of innovative and high technology businesses. One of the significant projects under elaboration simultaneously with programming the Funds is establishment of Riga Science and Tehcnology Park to provide grounds for conecentrated interface between science, R&D and businesses.

#### **2.2.6. Thematic Axis 3 – Improvements in Public Services and Infrastructure as a Precondition for Balanced National and Territorial Development**

204. The accessibility of the country and its attractiveness to both entrepreneurs and general public is a precondition for sustainable development of Latvia and progress towards a knowledge-based economy. In the aspect of human resources, it is of critical importance to ensure adequate quality of education, work and life to people irrespective of their area of residence. In the economic development perspective, a potential situation, when insufficiently developed infrastructure and public services hamper rapid economic growth, must be strictly avoided. The NDP sets an objective to create preconditions for life, social and economic activities of people and proposes the development of infrastructure as a priority.
205. Considering the high investment absorption capacity of infrastructure, vast time resources required for the implementation procedures, as well as the focus of the national development strategy on economic development based on education, science and competitive enterprises, special attention for the period 2007-2013 must be paid mainly to investments in infrastructure and services that have a direct and immediate impact on the implementation of this strategy.
206. Taking into account the collected maintenance deficit as well as comparatively high standards put forward by the European regulation the needs in the infrastructure domain are enormous in Latvia. It is these investments that are also most expensive and difficult to plan because they take a lot of time to provide necessary technical expertise and planning before actual works and deliveries take place, thus the period between planning and actual spending

tend to be comparatively longer, which in the situation of inflationary pressure results in even higher costs. These factors provided the rationale for the infrastructure type investments being the greatest in also in the next programming period.

207. The priority axis is supported by both the ERDF and the Cohesion Fund, providing the 37.88% of the Structural Funds' support and 100% share of the Cohesion Fund support, or 58.99% share in the total Funds.
208. The existence of effective and widely available information exchange mechanisms is a precondition for the development of information society and knowledge-based economy. It is an argument in favour of new, efficiently coordinated investments for the development of ICT infrastructure and services, increasing the availability of public networks, as well as improving ICT and information processing skills. In this area, assistance provided for the ICT infrastructure and services (Thematic axis 3) and investments in human capital (Thematic axis 1) must be coordinated and complementary.
209. The SF and CF assistance in the transport sector must be aimed at increasing the accessibility of the country in general and its various areas in particular. At the same time it must be ensured that the increase in the capacity, quality and safety of transport infrastructure is commensurate with requirements set by the growing economy. To observe the above condition, quality improvements and developments are necessary in transport infrastructure of international importance (roads, railways, ports, airports), in regional and local transport infrastructure (mainly roads), as well as in the public transportation system.
210. The public transport becomes an ever more important aspect of development of Latvia as a sparsely populated country, as well as its importance grows in view of necessity to promote low carbon economy. In the process of negotiations between the Latvian authorities and the services of the European Commission the agreement was reached that Latvia makes significant effort to develop public transport in the form of both support to traffic organisation as well as support to actual provision of public transportation. It is especially important to attain the goal of polycentric development of the country to ensure public transportation is developed not only in immediate surrounding of the Riga City but also outside it – in the larger territory of Latvia.
211. Taking into account growing importance of the rail transportation the NSRF and the respective programme endeavours to provide a significant financing to development of this mode of transportation. It is important also in the view of the fact that the pan-European project *Rail Baltica* is the only one Trans-European Network Transport project possibly taking place on the territory of Latvia. The Latvian authorities have expressed support to the idea of *Rail Baltica* and are in favour of further elaboration of this initiative. In case the *Rail Baltica* proves to be financially feasible and economically justified, support from the Funds can be made available for a portion of the project.
212. Investments in environmental and energy infrastructure, including heat supply infrastructure, must be made to ensure substantial improvements in the coverage, quality, cost efficiency and sustainability of the services provided. In addition to the need to implement the EU legislative requirements and objectives pertaining to environmental protection, it is important to secure that investments increase the economic attractiveness of specific geographical areas to investors and visitors, as well as provide adequate quality of life for communities in these areas. Environmental risks and historically polluted areas might have a substantial influence on the possibility of territorial development. Therefore it is necessary to make prerequisites reducing these risks and their unfavourable influence.
213. Pristine natural areas, biodiversity, cultural and historical heritage represent a resource that

can be adapted to increase the economic potential of the country and its specific areas, to increase economic activity, as well as to improve inhabitants' life quality indicators. Consequently, the SF and CF support in this field should leverage infrastructure and public service improvements related to the above resources, thus enabling the attraction of further investments (especially private investments) and increase in economic activity of the surrounding areas. Environmental risks and inherited contaminated sites have serious implications in the territorial development processes. Investments in these fields could facilitate the development of tourism sector, where a greater number of visitors to the country in total and to separate its territories might be attained by framing and improving touring products.

214. In order to implement the strategy of policentric development, stated in the Latvia's National Development Plan 2007-2013, it is very important to concentrate investments in cities as the driving force for regional development to ensure their growth and competitiveness, following an integrated territorial development strategy (principles of territorial and cross-sectoral integration). Regarding the above mentioned, cities need additional incentives for their development, allowing them to implement innovative solutions to their development problems, that would effectively complement support provided to infrastructure under this thematic axis.

### **2.2.7. Horizontal Priorities**

215. *Balanced territorial development* – to ensure balanced territorial and sustainable development of the nation, it is of critical importance to reduce disparities between the levels of development in various areas of the country, especially, disparities between the capital city region and other areas, by implementing a polycentric development model. Enforcing a homogenous distribution of urban areas enables the formation of a structure where development centres of national importance are complemented by important regional, municipal and local development centres. The task of development centres is to serve as drivers of social and economic growth in their respective areas, as well as fulfil the functions of public service centres. The SF and CF assistance must aim to reduce the unfavourable socio-economic trends by providing support to national, regional, municipal and local development centres.
216. *International competitiveness of Riga City* – strengthening Riga City as the center of transaction, science and culture excellence in the Baltic Sea region is a crucial factor for the whole country's rapid development. One of the tasks of the EU funds assistance is also the fortification of capital city's economic potential and international competitiveness, as well as the transfer of city's rapid development to the rest of the county. Being one of the major cities in the Baltics and the capital of Latvia, Riga is uniquely positioned to gain from Funds.
217. *Macroeconomic stability* – the macroeconomic stability of the country is dependant on the economic capacity to maintain the growth rate and ensure the sustainability of such growth. Consequently, the SF and CF investments must focus mainly on the productive sectors capable of contributing to overall growth of the economy in a medium- and long-term perspective. The SF and CF interventions for improvements in public services and infrastructure must play an essential role in promoting the cost efficiency of the above sectors thus strengthening the financial sustainability of the nation. Application of public-private partnership solutions in various development projects of public interest will be an important condition for a sustainable financial policy in the period 2007-2013. To this end, special support must be provided to those SF and CF co-financed initiatives that mobilise private funding in addition to public funding (EU and Latvian). Moreover a number of initiatives is to be utilised to mitigate the price-push-effect of massive inflow of the EU

Funds into the Latvia's economy, including study on reasons for price increases, Latvia will try and avoid launching major procurements simultaneously, support to business will to a large extent switch from grants to participative methods such as financial engineering and others.

218. *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 the SF and CF intervention. A very specific attention was paid by the ESF regulation towards gender equality and Latvia undertakes to ensure this aspect of equal opportunities will be at the heart of the horizontal priority.
219. *Sustainable development* – for the purpose of the NSRF and the programming of Funds is viewed in a focused manner as protection of environment. Rational use of natural resources and protection of environment for the next generations is a precondition for national development. Consequently, the application of the SF and CF funding must consider the necessity to reconcile the economic growth and use of natural resources, to avoid the economic and social progress being made at the expense of overexploiting natural resources and degrading environmental quality. To achieve the above objective, the provision of the SF and CF support requires environmental impact assessment for all major investments in infrastructure, promotion of environment-friendly technologies in projects co-financed by the SF and CF, introduction of environmental standards in production processes, as well as innovations in the environmental sector.
220. *Information society* – the development of the information society is closely related to the progress towards a knowledge-based economy and knowledge society, as it determines access to knowledge as the main resource for national development. Consequently, an important SF priority for the period 2007-2013 is to improve the availability of public services through ICT, to apply ICT solutions to create new jobs, foster the development of innovations and entrepreneurship. Action must be taken to bridge the “digital gap” in the society, which is determined by inaccessibility of informational and knowledge resources due to remoteness of residence, limited incomes, or insufficient skills of certain groups in the society. To this end, the SF funding must increase availability of ICT in terms of infrastructure and ICT user skills.
221. The following indicators for monitoring of horizontal priorities will be used:
- Balanced territorial development – territory development index (baseline of 2005: Riga region 1.003, Vidzeme region -0.877, Kurzeme region -0.431, Zemgale region -0.59, Latgale region -1.346).
  - International competitiveness of Riga City - GDP per capita in Riga as % of average GDP per capita of Baltic Sea region capital cities (Copenhagen, Stockholm, Helsinki, Vilnius, Tallinn, Riga) (baseline of 2004: 29%).
  - Macroeconomic stability – annual GDP growth rate is not below 3% (baseline of 2006: 11.9%).
  - Equal opportunities – employment level:
    - between gender (baseline of 2006 in age between 15 and 64: men – 70.5%, women – 62.3%),
    - older people (baseline of 2006 in age between 55 and 64: 53.3%),
    - disabled persons (baseline of percentage for disabled persons in age between 15 and 64 is estimated via evaluation at the beginning of programming period 40-52%).

- Sustainable development – proportion of renewable energy resources in balance of primary energy resources (baseline of 2005: 35%).
- Information society – internet availability in households as % of total number of households (baseline of 2006: 42.2%).

### **2.2.8. Link between the Strategy and OPs**

222. To achieve the above objectives, the SF and CF investments will be managed through three operational programmes:

- ESF OP “Human Resources and Employment”,
- ERDF OP “Entrepreneurship and Innovations”,
- ERDF and CF joint OP “Infrastructure and Services”.

223. Each OP comprises priorities and measures that contribute to the implementation of the NSRF strategy in accordance with the specific requirements of the relevant fund (CF, ESF, ERDF) and regulatory restrictions pertaining to eligible areas of assistance. Although the structure of OPs largely corresponds to that of the NSRF strategy with its 3 thematic axis, OPs also include measures that seek the implementation of objectives under more than one thematic axis. Each OP is designed to ensure the horizontal priorities are met in accordance with the specifics of the relevant fund. The compliance with and implementation of the horizontal priorities must be ensured through the introduction in each OP of appropriate measures or activities, developing specific project selection criteria, as well as securing an adequate monitoring scheme for verifiable indicators pertaining to the horizontal priorities.

224. The three OPs thus contribute to attainment of objectives related to more than one strategic axis, at the same time it is always possible to clearly see relation between a measure in the OP and the specific priority axis supported by it. Therefore it is possible to identify funding devoted to each of the priority axis, and see the strategic justification for each of the measures included in the OPs. The three priority axis are supported by such funding:

- Thematic Axis 1 – Development and Efficient Utilisation of Human Resources receives 1.14 billion EUR of the total 4.5 billion EUR allocation, therefore 25.31% of the funding can be attributed to it, while seen against the background of the Structural Funds the percentage is higher – 38.34%.
- Thematic Axis 2 – Strengthening Competitiveness and Progress towards a Knowledge-based Economy receives 0.71 billion EUR or 15.7% of the total allocation.
- Thematic Axis 3 – Improvements in Public Services and Infrastructure as a Precondition for Balanced National and Territorial Development is the only axis receiving contribution by both the Structural Funds (namely the ERDF) and the Cohesion Fund, which estimates at 2.67 billion EUR or 58.99% of the total.

225. At the same time the distribution of available funding by Operational Programmes is as follows:

- ESF OP “Human Resources and Employment” - 550 million EUR;
- ERDF OP “Entrepreneurship and Innovations” - 736 million EUR;
- ERDF and CF joint OP “Infrastructure and Services” - 3 243 million EUR.

### **2.2.9. Coordination of the assistance**

226. 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.

227. 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.
228. 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.
229. The coordination of SF and CF operational programmes with the instruments for implementing the common agricultural policy and the joint 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.
230. 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.

### 3. DESCRIPTIONS OF OPERATIONAL PROGRAMMES

#### 3.1. “HUMAN RESOURCES AND EMPLOYMENT”, EUROPEAN SOCIAL FUND OPERATIONAL PROGRAMME

231. Article 158 of the Treaty sets out one of the main objectives of the European Community, namely, to promote its overall harmonious development and to strengthen the economic and social cohesion of the Community. The above objective of Article 158 is in line with Article 146 of the Treaty that provides for the establishment of the European Social Fund, the main task of which is to support the economic and social cohesion in the area of human resources.
232. Investments made in human resources by fostering employment, developing education, social inclusion, social dialogue and social partnership, serve to promote the economic and social cohesion and thus also contributes to the objective of harmonious development of the Community.
233. Community Strategic Guidelines regard investments in human resources as a key factor to achieve the Lisbon agenda. In the context of the European Social Fund, CSG provides for investing in the drivers of growth and employment, as well as in the promotion of improved governance.
234. The Lisbon National Reform Programme of Latvia sets out priority activities aimed at the following areas – promotion of an inclusive labour market, fostering economic activities in backward regions, addressing the problem of undeclared work, improving educational and training opportunities.
235. In the communication of the European Commission “Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines for 2007-2013” improvement of quality and efficiency of public administration activities is perceived as an important aspect for economic development of territories, promotion of co-operation among the territories.
236. The priority activities of CSG and LNRPL are also set out in the National Development Plan by defining the development of an individual as the central objective and, for the purpose of national development, requiring the implementation of measures directly or indirectly fostering the development of an individual and thus also of the entire society.
237. The National Development Plan of Latvia for 2007-2013 states that it is necessary to accomplish administratively territorial reform by establishing capable local governments, it is necessary to ensure that strategic management principles are applied in local governments and involvement of local governments and regions in social dialogue should be promoted.
238. In addition to the above strategic documents, the EU and Latvian policy on employment and investments in human resources is set out in the following documents:
- Community Lisbon Strategy;
  - EC Memorandum on Life-long Learning;
  - National Report on Strategy for Social Protection and Social Inclusion;
  - Regional Development Guidelines
  - Education Development Guidelines for 2007-2013
  - Life-long Learning Policy Guidelines for 2007-2013
  - Development Guidelines for Higher Education, Science and Technology 2002-2010 and other documents;
  - Policy Guidelines on Disability and Reducing its Consequences 2005-2015.

### 3.1.1. OP Objective

239. In order to promote sustainable development of Latvian economy (Göteborg Strategy) and achieve the employment objectives of the LNRPL, support of the European Social Fond will be provided to activities aimed at achievement of full employment, fostering of productivity at work, social cohesion and inclusion, strengthening of the social dialogue and reinforcing the capacity of social partners, as well as ensuring accessibility of education and training at all levels.

### 3.1.2. OP Areas

240. The OP is focussed on the following areas:

- Higher education and science,
- Education and skills,
- Promoting employment and health measures,
- Promoting social inclusion,
- Administrative capacity building.

#### 3.1.2.1. Higher Education and Science

241. One of the main objectives of Latvia economic policy is to establish an effective, competitive and knowledge based economics. In order to promote the development of Latvia economics prerequisites should be made for transition from the model of low-qualified labour employment and the industry of low added value production to an innovative (knowledge-based) development model. In order to implement this objective there is a necessity to improve quality of the higher education, thus providing the preparation of highly qualified specialists, correspondent to the requirements of labour market, promote the development of human potential in the field of science and research, investing into elaboration of progressive technologies, products and services.

242. The main identified problems in the development of higher education and science in Latvia are the following:

- Lack of systematic analyses of the medium-term demand of the national economy in the field of vocational and higher education;
- Insufficient quality of the higher education, and insufficient cooperation between higher education establishments and the employers to promote preparation of qualified specialists, whose skills and knowledge correspond to the labour market demand;
- Low proportion of students in natural sciences, technologies, engineering and health care;
- Insufficient number of students and graduates in master and doctor study programmes;
- Ageing of the academic staff and its unsatisfactory activity in the qualification improvements;
- Insufficient number of employees in science and research, contrary age structure of the employed and disproportional division between higher education and research sectors.

243. The development of the higher education and science is coherent to employment promotion and national economy development in the Community Strategic Guidelines, and in order to implement this objective the following goals are determined: to adjust the system of education and training to the demands of knowledge, modernization of higher education and



the development of human potential in the field of science, research and innovations.

244. NLP sets the following priorities in the field of education development:

- Increase the accessibility and quality of higher education correspondent to the labour market demands;
- Promote the modernization of vocational, higher education and practical training system; equal acquisition of knowledge, qualification and skills in the significant national economy fields of the state and regions;
- Promote cooperation among science, higher education and entrepreneurship;
- Consolidate the leading role of universities in the development of science and research;
- Provide the development of the scientific intellectual potential, improving the grant system for doctors' degree study programmes and creating the prerequisites for scientific research.

245. Above mentioned priorities are also marked by NDP, emphasising the modernization of the higher education correspondent to the contemporary demands and the improvement of quality and accessibility, the development and integration of science potential in the unitary context of science in the EU. NSRF area of education development investments meets the following NDP strategic measures and sub-measures: Educated and Creative Individual (also, Qualified and Accessible Higher Education, Training the Workforce to Meet Requirements of the Labour Market) and the Development of Science and Research (also Excellence of Academic Science, Revival of Academic and Applied Research Potential).

246. The main areas of higher education and science development in Latvia provide Education Development Guidelines for 2007-2013 and Higher Education, Science and Technology Guidelines for 200-2010, as well as other strategic documents of Latvia and Europe.

247. In order to address the issues mentioned above, the European Social Fund will contribute to the following investment areas: the improvement of science and innovation policy elaboration and implementation, the development of intellectual potential, sustaining the studies in masters' and doctors' degree study programmes and human resource involvement in science, including the establishment of new scientific groups for researches, activities for the improvement of higher education quality and its correspondence to labour market needs, improving the qualification of the academic personnel, the content of study programmes and quality of implementation and providing the preparation of qualified specialists in the prior areas of the national economy development.

### **3.1.2.2. Education and Skills**

248. The development of education is vital providing its adequacy to the economic growth and meeting the increasing market demands for professional qualification in order to promote stable growth, human resource competitiveness, quality and productivity according to the objectives of Lisbon strategy. The main identified problems in the field of education are the following:

- Lack of systematic analyses of the national economy medium-term demand in the field of vocational and higher education, inconformity of the system of national qualifications and educational programmes with the requirements of labour market;
- Insufficient cooperation between educational establishments and employers, insufficient social dialogue on the level of regions and specific branches;

- Significant number of youngsters involving in the labour market without qualification and correspondent general knowledge and skills for the continuing education;
- Insufficient involvement of youngsters in the secondary education, disproportion between the opportunities of secondary and vocational education, low prestige of vocational education and unsatisfactory quality of education;
- Insufficient professional orientation and career-related education for youngsters;
- Unsatisfactory qualifications of secondary and vocational school teachers, lack of teaching staff and its ageing;
- Insufficient life-long learning, retraining and professional development opportunities for people of different age groups;
- Insufficient accessibility of education and acquisition possibilities of working and social skills for persons at risk of social exclusion, including insufficient resources for educating the disabled.

249. The provision of qualitative and accessible education for all levels of knowledge and all age groups of people is stated as the central goal of the development of education in Community Strategic Guidelines, thus promoting the employment.

250. NLP sets the following policy priorities in the area of education:

- Improve the quality of education and ability to adjust to the demands of labour market; promote the partnership of municipality and employers and the responsibility for the provision of education accessibility;
- Improve the accessibility of all levels education;
- Decrease the number of discharged pupils;
- Develop and improve the system of life-long education.

251. The above priorities are also highlighted in the National Development Plan, placing special emphasis on the task of developing vocational education, especially in the regions of Latvia currently providing its correspondence to the demands of labour market. NSRF area of education development investments corresponds to the following NDP strategic measures and sub-measures: Educated and Creative Individual (also, Qualitative Primary Education, Compulsory Secondary and Accessible Higher Education, Training the Workforce to Meet Requirements of the Labour Market and Full Exploitation of Human Creative Potential and its Life-Long Development).

252. To address the above issues, the European Social Fund assistance will be channelled to support the following main areas of investment: the development of vocational education, improving the cooperation between social partners and employers, the improvement of the vocational education and general skill acquisition quality, accessibility and attractiveness, including the improvement of curricula and teachers' competence correspondent to the current demands, the development of professional orientation and career education, life-long education and the promotion of accessibility, including the groups at risk of social exclusion, capacity and collaboration promotion of the responsible institutions for education and life-long education policies.

### **3.1.2.3. Promoting Employment and Health Measures**

253. This area is of critical importance for the national development, as the development of employment, including improvements to the labour force health, facilitate overall economic progress, growth, competitiveness, productivity, as well as welfare of the society and individual.

254. In the sphere of employment Latvia predominantly faces such issues of concern as mismatch of skills with the current labour market requirements, labour shortages of several professions, declining working age population, ageing population in general and unsatisfactory labour force health, including a high proportion of occupational diseases, undeclared employment, low proportion of the self-employed in the total number of the employed population, considerable regional disparities, limited professional and geographical mobility of labour force, insufficient flexibility of work organization forms, high unemployment rate of low-skilled people, horizontal professional segregation, gender pay gap, insufficiently developed support and control system of safety at work, insufficient administrative capacity and weak local partnerships for elaboration and implementation of effective and integrated employment policy.
255. In accordance with Community Strategic Guidelines, Member States are set the following policy priorities in the area of employment:
- Attract and retain more people in employment and modernise social protection systems;
  - Improve adaptability of workers and enterprises and the flexibility of the labour market;
  - Increase investment in human capital through better education and skills.
256. Based on the above priorities of Member States and CSG provisions, due regard must be given to investments in the capacity building of public administration.
257. The LNRPL sets the following priorities for employment:
- Promotion of an inclusive labour market;
  - Stimulating economic activities in regions lagging behind;
  - Increased efforts to solve the problem of undeclared work and stimulating people to embrace the formal economy.
  - Education and training, increasing opportunities for retraining and improving qualifications.
258. The above priorities are also highlighted in the National Development Plan, placing special emphasis on the task of reducing poverty and social segregation. The NSRF investments in employment correspond to the following NDP strategic measures and sub-measures: Efficient Application and Life-long Development of the Creative Potential of an Individual, and Inclusive and Retaining Labour Market (including Access to Jobs and Their Diversity in Regions, and Support for Promotion of Employment).
259. The employment policy of Latvia is closely related to and based on the EU policy. Based on the Integrated Guidelines for Growth and Jobs, approved by the Council on 12 July 2005, Latvia has developed its Lisbon National Reform Programme 2005 – 2008. Employment Policy Guidelines represent an integral part of the document thus aligning the measures to achieve the Lisbon objectives with the current socio-economic situation of Latvia and its specific problems.
- 260.
- 261.
262. Proposed fields of assistance from the Structural Funds are in line with the priorities set in the European and national policy documents.
263. To address the aforementioned issues, the European Social Fund assistance will be channelled to the following main areas of investment: tackling the current labour market

problems of Latvia by increasing competitiveness of the working age population, and raising qualification of the employed, supporting self-employment and business start-ups, stimulating adherence to gender equality, employment relations and occupational safety principles, supporting implementation of local employment plans, reinforcing the capacity of labour market institutions, introducing innovative solutions in the labour market, addressing issues of flexicurity and migration policy in the context of employment, as well as implementing preventive measures to improve labour force health, including efforts to increase availability of health care services to groups of population at risk of social exclusion.

#### **3.1.2.4. Promotion of Social Inclusion**

264. This area is essential for the national development, as support to various measures of social inclusion promotes the development of an inclusive labour market, reduces social segregation, and increases individual and community welfare.

265. The main problems of social inclusion in Latvia are the following:

- Insufficient amount, diversity, quality and accessibility of social care, social and professional rehabilitation services;
- Insufficient number of professionally educated social care specialists in social assistance services and institutions providing social care services;
- Limited opportunities for persons with potential disabilities to assess individual requirements and capacity for work;
- Insufficient accessibility to education, professional and social skills training for groups at risk of social exclusion, economically inactive persons and persons with addiction problems.

266. Community Strategic Guidelines establish a close of link between the employment promotion policy and addressing issues of social exclusion. CSG call for an even broader range of support to build pathways to integration and combat discrimination, by proposing the following tasks in the area of social inclusion:

- Enhancing participation of groups of people at risk of social exclusion in vocational education and training programmes;
- Developing appropriate rehabilitation programmes and social services;
- Combating discrimination and promoting tolerance and the acceptance of diversity in the workplace through diversity training and awareness-raising campaigns for the public.

267. The LNRPL sets the following priorities for social inclusion:

- Promotion of an inclusive labour market to increase the competitiveness of unemployed persons, especially groups of people at risk of social exclusion;
- Stimulating economic activities in regions lagging behind;
- Increasing the availability of professional and social rehabilitation services;
- Education and training of social service professionals.

268. In addition to the above priority tasks, the National Development Plan puts special emphasis on the necessity to implement preventive measures by eradicating or reducing the underlying causes of social exclusion, i.e., poverty and segregation of income, long-term unemployment, regional disparities and disparities between urban and rural areas. The NSRF investments for social inclusion correspond to the NDP sub-measure Reduction of Long-term Unemployment and Integration in the Labour Market of Groups of People at Risk of Social Inclusion.

269. National Report on Strategy for Social Protection and Social Inclusion 2006-2008 sets the following tasks in the field of social inclusion:
- to improve access for children and young people subjected to the risk of poverty and social exclusion to education and labour market services, facilitate permanent employment of young unemployed persons and disabled unemployed persons aged 15 to 25 by improving their working skills and competencies, to facilitate employment of young convicts and ex-convicts,
  - to improve accessibility of social services to retired persons and to develop care services alternative to institutional care, thus facilitating regaining of their social status and their social inclusion, as well as enhancing the employment opportunities of their family members.
270. Joint memorandum on social inclusion defines the following measures to reduce poverty and social exclusion:
- Overcome educational disadvantage;
  - Formation of an inclusive labour market and promotion of employment;
  - Developing social services.
271. Since 2002, Latvia participates in the Community Action Programme to Combat Social Exclusion and the implementation of the national social inclusion programme is compliant with the overall social inclusion process in Europe aimed at substantially reducing the level of poverty in the EU by 2010.
272. To address the above issues, the European Social Fund assistance will be channelled in the following main areas of investment: increasing employment opportunities for economically inactive, unemployed, persons facing difficulties in entering Latvian labour market after their residing abroad, other groups of population at risk of social exclusion, improving the system of assessing capacity for work, development of social rehabilitation services for persons with functional impairments, homeless persons and other groups of population at risk of social exclusion.

### **3.1.2.5. Administrative Capacity Building**

273. Administrative capacity building is an essential precondition for stable, balanced and focussed development of public administration and social partners, as well as for the increase of efficiency of public administration and public service institutions, thus achieving the objective of improved governance that will promote the application of better regulatory principles in public administration, consequently ensuring more efficient development policies and achievement of objectives set by Latvia and the European Union.
274. Considering the analysis of the current administrative capacity and governance features of public administration, the following issues are regarded as the main problems:
- Insufficient interrelation between policy planning efforts and long-term policy planning documents, especially in the aspect of defining priorities, conducting impact assessment and financial planning;
  - Weak interrelation of development planning documents of regional and local administration level, as well as their interrelation with the state development priorities defined at the national level;
  - Insufficiently developed strategic planning system at the national, regional and local administration;
  - Low quality of the elaborated territory and development planning documents and lack of integrated vision regarding development of territories;

- Insufficient qualifications of the public administration personnel;
  - Lack of development planners at regional and local level;
  - High turnover of the personnel;
  - Absence of a common human resource management system;
  - Low initiative of public administration bodies to establish and introduce quality management systems;
  - Lack of a systematic approach to assessment and elimination of the administrative barriers;
  - Unsatisfactory quality and accessibility of public services;
  - Limited improvement and diversification options for continuing education programmes;
  - Insufficient cooperation of public administration bodies and social partners and society;
  - Insufficient cooperation of public administration bodies and higher educational establishments.
275. Community Strategic Guidelines identify governance as an integral part of the cohesion policy. Pursuant to CSG, special regard must be paid to improvements in institutional capabilities in policy design, implementation, impact assessment, the dissemination of evaluation culture, transparency of public administration processes.
276. The Lisbon National Reform Programme of Latvia has defined the administrative capacity building, improving the quality and availability of public services as a priority in every area.
277. Furthermore, the National Development Plan emphasises the goal to establish a rational structure and division of governmental and municipal functions, clearly defined national and municipal responsibilities, effective horizontal and vertical coordination, professional public administration with high ethical standards. The NSRF measure „Capacity Building of Public Administration and Social Partners, and the Introduction of Principles of Better Regulation in Public Administration” corresponds with the NDP measure Good Governance as a Constituent Part of Sustainable Growth Policy (including sub-measures: Improvement of Planning and Forecasting System, Capacity of Municipalities and Regions, Cooperation of the Public, Private and Non-governmental Sectors, Integration and Representation of Latvian National Interests in International Processes), and also partly – Infrastructure and Services for Various Types of Human Activity and Lifestyle.
278. Several lines are set in the Regional Policy Guidelines to attain policy goals and results which determine necessity to strengthen activity capacity and planning capacity of planning regions and local governments, develop and implement mutually co-ordinated sectoral and regional policy; develop co-operation mechanisms in the area of regional development; provide support to regional and local level institutions to increase their capacity.
279. The public administration development policy for the period until 2013 was defined in the Public Administration Reform Strategy 2001 - 2006, Implementation Programme of the Public Administration Reform Strategy, Action Plan for the Implementation of Public Administration Reform Strategy, Guidelines for Development of the Policy Planning System, Concept Paper on Introduction of the Strategic Planning and Mid-term Budgetary Planning in public administration , Order of the Cabinet of Ministers “On the Mid-term Budgetary Goals and Priority Areas of Development for 2008-2010” ,Guidelines for Results and Performance Indicators, as well as the Concept Paper on the Common Salary System of Public Sector Employees.
280. To address the above issues, the European Social Fund assistance will be channelled in the following main areas of investment: development and improvement of better regulation

policy instruments and methods through assessing the impact of current policies in areas such as budgetary and financial policies, industrial and service policies, business policy, transport and communications policies, regional policies, public administration policies, tertiary (higher) education, science and innovations, judicial policies, and improving the policy planning and implementation system on the basis of the above assessment results. Concurrently with improvement of policy planning and impact assessment a number of activities will be carried out to reduce administrative barriers, to improve the quality of public services, and to increase the quality and efficiency of public administration bodies, especially, in the fields of tax administration, financial planning, management and accounting, as well as social services. A key area of the ESF investments is the reinforcement of human resource capacity in both, public authorities and social partners, NGOs, planning regions and local governments (regions) which will emerge as a result of administratively territorial reform.

281. Within the framework of the European Social Fund, the support will be provided for the planning regions and local governments of the regions to strengthen administrative and development planning capacity, promoting attraction of appropriate experts and qualitative elaboration of development planning documents, as well as development of co-operation networks.

### **3.1.3. OP Implementation**

282. The Operational Programme is co-financed from the European Social Fund.
283. The Operational Programme constitutes 100% of finance available under the European Social Fund.
284. The Ministry of Finance is the Managing Authority of the Operational Programme, whereas the Ministry of Welfare, the Ministry of Education and Science, the Ministry of Health, the Ministry of Regional Development and Local Governments, the State Chancellery, the Ministry of Economics, and Ministry of Finance fulfil the functions of Intermediate Bodies. The scope of authority of each IB within the framework of the Operational Programme is determined on the basis of policy-making remit of each body at the national level.

### **3.2. “ENTREPRENEURSHIP AND INNOVATIONS”, EUROPEAN REGIONAL DEVELOPMENT FUND OPERATIONAL PROGRAMME**

285. Article 158 of the Treaty sets out one of the main objectives of the European Community, namely, to promote its overall harmonious development and to strengthen the economic and social cohesion of the Community. The most effective way to achieve the above objective is to provide assistance for the improvement of economic activities and development of entrepreneurship – facilitating the creation and development of new firms and raising productivity in the existing businesses. In addition to that, innovative business activities must be supported, thus enabling the achievement of an appropriate level of welfare in the reference period through the utilisation of limited public resources.
286. CSG place special emphasis on the development of entrepreneurship, improvement of R&D and innovation capacities as the main elements of growth strategy. It is highlighted that only by changing the economic structure and shifting innovative production of high added value the objectives of Lisbon Council can be achieved.
287. The LNRPL highlights the decisive role of R&D and enterprise births for economic development. The analysis part of the programme presents a number of positive trends in the development of SMEs, however, it also notes the unsatisfactory development of business environment in the largest part of Latvia. It is concluded the system of innovations is weak and cannot ensure adequate competitiveness of the country.
288. The NDP identifies a number of shortcomings in the functioning of the scientific and innovative system and gives a low rating for the overall condition of innovations in Latvia. The NDP concludes that the business environment is of low quality and there is a wide range of barriers for start-up enterprises, including administrative, financial, personnel, public infrastructure obstacles and other hampering factors.

#### **3.2.1. OP Objective**

289. To ensure progress towards the average EU standards of welfare, the fund will leverage the national resources of Latvia to provide support for the development of science, innovations and entrepreneurship, stimulating the transfer of R&D technologies, strengthening the R&D support and scientific infrastructure, facilitating research activities of practical nature, fostering cooperation among entrepreneurs and researchers, supporting the creation of new firms and improving access to finance.

#### **3.2.2. OP Areas**

290. The OP is focussed on the areas of investment as follows:

- Science and innovations;
- Access to finances;
- Promotion of entrepreneurship.

##### **3.2.2.1. Development of Scientific and Innovative Potential**

291. Assistance to science, applied research and innovations is an important instrument of economic development and strengthening competitiveness. Applied research and innovations facilitate the competitiveness of a nation in the global economy, as well as business competitiveness by providing state-of-the-art technology, products and services in the market.



292. The main problems for the development of scientific and innovative potential in Latvia are the following:

- Insufficient cooperation between the private sector and scientific institutes, scientists and higher educational establishments;
- Insufficient number of practical researches and weak transfer of technology;
- A low number of internationally acknowledged publications and patents;
- Limited possibilities and skills of knowledge commercialization;
- Scarce investments in R&D (public and private) and insufficient availability of financial resources for the development of innovative ideas into actual products (proof-of-concept, technical feasibility studies, testing etc.);
- Obsolete scientific infrastructure, unsatisfactory innovation support infrastructure, insufficient number of modern laboratories to implement technology-related projects;
- Small number of innovative enterprises;
- Uneven distribution of scientific potential in the territory of Latvia.

293. CSG propose the following measures to promote innovative activities:

- Strengthening cooperation among businesses and between businesses and public research centres;
- Supporting R&D activities in SMEs and enabling SMEs to access R&D services;
- Support for regional cross-border and trans-national initiatives aimed at strengthening research collaboration;
- Strengthen R&D capacity building, including ICT, research infrastructure in areas with significant growth potential.

294. The LNRPL proposes the following measures to stimulate R&D and innovations:

- Consolidate the scientific intellectual potential and develop the innovative research in the field of innovative technologies, create the prerequisites for scientific researches in the branches which have correspondent potential and the perspectives of development;
- To improve innovation support structures and national development programmes, establishing a technology agency, elaborating support schemes, establishing a national programme for the protection of intellectual property, as well as implementing a range of measures to increase corporate awareness of the significance of industrial property and its protection;
- To support the transfer of knowledge and technology, facilitate the development of innovative products and technology by elaborating and implementing a programme of technology incubators, continuing the formation of a technology transfer network, developing and implementing a support programme for the establishment of business incubators, industrial (scientific and technological) parks, as well as attracting investments to regions.

295. The National Development Plan has established that the low level of public and private investments in research and development is one of the main factors hampering the development of applied research, commercialisation of research results and formation of innovative businesses in Latvia. The NSRF investments in the Development of scientific and innovative potential corresponds to the following NDP strategic measures and sub-measures:

- Technological Excellence and Flexibility of Enterprises (including Commercialisation of Applied Science, Transfer of Innovations and Technology,

Application of Knowledge to Strengthen Competitiveness of Enterprises, Creation of New Competitive Enterprises, Development of Creative Industries), and

- Development of Science and Technology (including, Excellence of Academic Science, Revival of Academic and Applied Research Potential, Modernisation of Scientific Infrastructure in Institutes and Higher Educational Establishments).

296. Apart from the above-mentioned strategic and planning documents, the development of scientific and research potential is set out in a range of policy documents of the European Union and Latvia – National Programme for Competitiveness and Innovations, National Innovations Programme 2003 -2006, as well as the Lisbon National Reform Programme of Latvia.

297. In order to apply a complex approach to solving the problem of scientific development and commercialisation, particular attention will be paid to the following issues: the development of scientific potential in the prospective disciplines of science, including the facilitation of international cooperation; the formation and development of innovative, scientific and technological infrastructure, mainly on the basis of the existing potential of scientific institutes and higher educational establishments; the establishment of a coordinated technological transfer system; increasing access to funding and granting funding for the creation of new knowledge-based enterprises; the provision of support for the formation of clusters and centres of excellence, establishment and modernisation of scientific laboratories; support for purchasing facilities and equipment to launch the manufacturing process of new and innovative products; the formation of “business angel” and advisory (mentor) networks; the promotion of R&D in the private sector by implementing awareness campaigns and granting access to funding.

#### **3.2.2.2. Access to finances**

298. Availability of financing is crucial to economic development, as investment in enterprises raises effectiveness and competitiveness as well as ensures higher growth of economy. Difficulties in access to working capital and capital investment funding is a substantial obstacle for raising entrepreneurial activity and competitiveness to SME's and start-ups. This difficulty is especially relevant for innovative and high growth enterprises and companies located outside Riga region.

299. The main problems in the area of availability of financing are as follows:

- lack of financial instruments available for business development;
- high requirements for collateral in commercial banks;
- insufficient access to funding for start-ups.

300. CSG determine that one of the key elements in knowledge and innovation promotion process is improving accessibility to financial resources. CSG advises the following:

- supporting non-grant instruments such as loans, secured debt financing for subordinate debt, convertible instruments (mezzanine debt) and risk capital (e.g. seed capital and venture capital). Grants should be used to build and maintain infrastructures that facilitate access to finance (e.g. technology transfer offices, incubators, ‘business angels’ networks, investment readiness programmes). Guarantee and mutual guarantee mechanisms could also be supported to facilitate access to micro-credit by SMEs;
- developing an integrated approach that simultaneously supports innovation, its transfer into new commercial activity and the availability of risk capital.

301. Concerning access to financial resources the LNRPL identifies several issues that need to be

tackled:

- facilitate availability of venture capital;
- improve the availability of funding by granting loan guaranties;
- ensure allocation of financing for business development in the early stage;
- develop program of technology incubators aimed at encouraging the establishment and development of new competitive enterprises.

302. Furthermore, the NDP also concludes that, irrespective of the favourable tax system, the process of starting a business is hampered and proposes a range of measures to address the following problems, which are essential for the development of SMEs and export capacity: changing business regulations, access to financing (investment and operating capital), lack of human resources, lack of knowledge in generating innovations, limited cooperation of enterprises. Thus, the NSRF investments in the promotion of entrepreneurship correspond to the following NDP strategic measures and sub-measures: technological excellence and flexibility of enterprises (including application of knowledge to strengthen competitiveness of enterprises, creation of new competitive enterprises, development of creative industries).

303. In order to apply a complex approach to facilitate availability of funding for business development, particular attention will be paid to the following issues: establishing technology incubators (aimed at encouraging the establishment and development of new competitive enterprises), development of guarantee, loan and venture capital instrument development, as well as other external financing possibilities.

### **3.2.2.3. Promotion of Entrepreneurship**

304. In order to ensure a long term growth of the economy, it is necessary to expand the competitiveness of existing enterprises and create new firms. The open economy and the free movement of resources require that it is essential to ensure the attractiveness and competitiveness of the business environment.

305. The main problems in the area of entrepreneurship are as follows:

- low business activity;
- a large share of enterprises mainly producing for the internal (Latvian) market;
- a limited number of enterprises operating in sectors with high added value and low consumption of natural resources;
- insufficient scale of manufacturing final products ready for consumption (enterprises compete in the industrial market with products of a comparatively low added value);
- unattractive business development infrastructure in regions;
- inflexible financial instruments for promoting entrepreneurship.

306. CSG propose member states to promote entrepreneurship and innovations, at the same time respecting competition rules. CSG advises the following:

- making R&D innovation and education supply more efficient and accessible to firms, in particular SMEs;
- providing business support services;
- promoting entrepreneurship, facilitating the creation and development of new firms by entities involved in R&D activities.

307. The LNRPL identifies a low track record in a range of crucial entrepreneurship indicators and proposes the following:

- development and analysis of sectoral policy initiatives, taking into account specific problems of various sectors including promotion of clusters;

- by promoting diversification of rural economy and establishment of favourable conditions and the necessary infrastructure.

308. Furthermore, the NDP also concludes that, irrespective of the favourable tax system, the process of starting a business is hampered and proposes a range of measures to address the following problems, which are essential for the development of SMEs and export capacity: changes in business regulations, lack of human resources, lack of knowledge in generating innovations, limited cooperation among enterprises. The NSRF investments in the promotion of entrepreneurship correspond to the following NDP strategic measures and sub-measures: technological excellence and flexibility of enterprises (including application of knowledge to strengthen competitiveness of enterprises, creation of new competitive enterprises, development of creative industries, sustainable and efficient use of natural and energy resources).
309. In addition to the aforementioned strategic and planning documents, the policy of promoting entrepreneurship is determined by a number of policy documents of the European Union and Latvia – National Programme for Competitiveness and Innovations, Joint Economic Strategy, Long-term Economic Strategy of Latvia, and Industrial Development Guidelines of Latvia.
310. The ERDF contributions will be allocated to raise business activity, secure financial assistance for business development, paying special attention to business in regions, to facilitate interindustry cooperation, cluster development, and access to external markets, as well as to support raise of value added in production, the introduction in production of new, innovative goods and technologies.

### **3.2.3. OP Implementation**

311. The Operational Programme is co-financed by the European Regional Development Fund.
312. The Operational Programme constitutes 30.19% of finance available from the total ERDF appropriation.
313. The Ministry of Finance is the Managing Authority of the Operational Programme, whereas the Ministry of Education and Science, Ministry of Economics, and Ministry of Finance fulfill the functions of the Intermediate Bodies in accordance with their respective sectoral policies.

### **3.3. “INFRASTRUCTURE AND SERVICES”, EUROPEAN REGIONAL DEVELOPMENT FUND AND COHESION FUND OPERATIONAL PROGRAMME**

314. Investments in infrastructure are one of the most critical areas of investment that facilitate the reduction of disparities between the levels of socio-economic development in regions lagging behind – infrastructure is the backbone of the economy and society, and the strength of this foundation determines opportunities to ensure rapid, sustainable and balanced development.
315. Community Strategic Guidelines note the importance of national infrastructure and the attractiveness of regions in economic development and stress that the new EU Member States have particularly big needs for investments in infrastructure.
316. The Lisbon National Reform Programme of Latvia places special emphasis on the importance of environmental, transport and energy infrastructure for the development of national economy, as well as on investments in creating an information society through introduction of e-government.
317. The NDP provides a detailed overview of the current status of infrastructure and the impact of its quality on the development of other sectors of the national economy; the document also highlights regional differences characteristic to the availability and quality of several types of infrastructure.
318. Within the framework of the Single Programming Document 2004-2006, assistance was granted for investments to improve environmental infrastructure, enhance accessibility and transport systems, develop information and communication technologies, as well as strengthen educational, health and social infrastructure. The Cohesion Fund assistance for the 2004-2006 period was also provided for large-scale environmental and transport infrastructure projects.
319. The Operational Programme „Infrastructure and Services” is co-financed from the European Regional Development Fund and the Cohesion Fund.

#### **3.3.1. OP Objective**

320. In order to create a sound basis for rapid, sustainable and balanced development (Göteborg Strategy), the funds will contribute to improving the quality and accessibility of public infrastructure by co-financing investments in transport, environmental, energy, ICT, cultural and tourism, housing energy efficiency, urban development, educational and social infrastructure, as well as by addressing other issues related to infrastructure and accessibility to services that determine essential impediments for the achievement of regional development objectives of the EU and Latvia. The funds will especially favour initiatives that mobilise private resources in addition to the available public funding (EU and national), facilitate efficient application of public funding, i.e., exercise the public-private partnership mechanisms.

#### **3.3.2. OP Areas**

321. The Operational Programme „Infrastructure and Services” is aimed at the following areas:
- Transport;
  - Environment;
  - Energy;

- Information and communication technologies;
- Educational infrastructure;
- Social infrastructure;
- Socio-economic potential of cultural environment;
- Tourism;
- Development of cities and city – regions.

### 3.3.2.1. Transport

322. Investments in transport are critical, as an effective, accessible and competitive transport system is one of the most important preconditions of sustainable development and economic growth of the nation.
323. The main problems of the transport system in Latvia are related to the deteriorated condition of roads and railways, insufficient through-put capacity in specific segments, insufficient capacity of port access roads and Riga international airport, inadequate traffic safety level, non-competitive public transport. The main traffic problems are the following – deteriorated infrastructure, inefficient connections of bridges to relevant street networks, poor organisation of traffic and obsolete technical facilities in traffic regulation and organisation.
324. Community Strategic Guidelines emphasize that the provision of efficient, flexible and safe transport infrastructure can be regarded as a necessary precondition for economic development as it boosts productivity and thus, the development prospects of the respective regions by facilitating the movement of people and goods. Furthermore, the development of Europe-wide transport infrastructures, with a particular focus on cross-border projects, is essential to achieving greater integration of national markets, especially within the context of an expanded Union.
325. CSG provide the following guidelines for action:
- give priority to the 30 projects of European interest, TEN projects, and cross-border links;
  - investments in secondary connections at the regional level;
  - support to rail infrastructure and creation of an EU-wide interoperable rail network;
  - promoting environmentally sustainable transport networks;
  - improving connectivity of landlocked territories to the Trans-European network (TEN-T);
  - developing “the motorways of the sea”.
326. The Lisbon National Reform Programme of Latvia defines the following priorities for the coming years:
- to improve the condition of the national road network and increase the through-put of roads and bridges to meet the EU requirements, improve the system of funding and provide additional financial resources for the development and maintenance of Category 2 roads thus fostering regional development;
  - to improve and develop the quality of international transport corridors;
  - to develop an integrated passenger transport system by establishing a new, efficient public transport management system, defining roles and functions of different modes of transport in providing public transportation services and creating a uniform and rational network of public transport;
  - to improve the quality and development of international transport corridors, increase the through-put of roads and bridges in accordance with the EU requirements, in

order to meet the objective of Verona Declaration to reduce by 2010 the number of lethal road casualties by 50% compared to 2002;

- to create an efficient, safe, competitive, environment-friendly, balanced and multi-modal transport system that is integrated in the EU-wide system, meets the economic and social requirements of the country to ensure internal and international passenger and freight transport.

327. Although investments from different sources have been made across the whole country to improve the quality of infrastructure, the National Development Plan concludes that insufficient availability of services is still observed, especially in rural areas. Furthermore, the delayed territorial reform hampers the process of infrastructure planning in a nation-wide context. The NSRF investments in transport correspond to the NDP strategy sub-measure Multi-modal, Integrated and Safe Transport Systems Accessible to People.

328. The National Development Plan sets out the following measures:

- to increase the through-put of roads and bridges that form a part of the TEN network;
- to improve traffic safety in areas where intense traffic flows intersect with urban centres;
- when planning investments for the development of the East-West rail corridor, it is necessary to continue the commenced rail development projects related to the development of rail infrastructure and improving rail traffic safety, as well as to implement new projects;
- the proposed development perspectives include the electrification of railway lines representing the main rail transport corridors, modernisation of traction power-supply systems on the electrified lines, increasing the through-put capacity of specific railway lines.

329. In the 2004-2006 programming period the CF funding was made available for transportation infrastructure investments in various projects of the road Via Baltica. Furthermore, the Single Programming Document provided finance for the renovation of Category 1 road infrastructure and improving connectivity among the main centres of economic development and linking them to TEN-T, as well as providing support to increasing the efficiency of urban transport systems, renovating small ports, as well as renovating the rolling stock of passenger trains.

330. The transport development measures must be aimed at improving the quality of and developing international transport corridors, improving the national road network and increasing the quality of Category 1 national roads to ensure their compliance with standards, increasing the through-put of roads and bridges to meet the EU requirements, creating an effective and integrated passenger transport system, further developing rail infrastructure, including electrification, strengthening competitiveness of and developing port infrastructure of Latvia, optimising urban transport systems and securing the development of airport infrastructure.

### **3.3.2.2. Environment**

331. This area is important for Latvia as a region, as it influences overall quality of life and development opportunities. Investments in environmental infrastructure must be made to ensure substantial increase in the coverage, quality, cost-efficiency and sustainability of services. The implementation of the critical environmental priority to minimize climate change and reduce air pollution is possible by setting appropriate environmental standards for investments in the field of energy, transport and agriculture. The development of

environmental infrastructure comprises the following constituent areas:

- water management;
- solid and hazardous waste management;
- nature protection;
- rehabilitation of the inherited contaminated sites;
- the reduction of environmental risks.

332. In order to ensure sustainable development and improving environmental quality, a proper monitoring and control system has to be set up and adapted as necessary.
333. The main problem of Latvia in the area of water management is insufficient supply of clean drinking water from centralised water distribution pipe networks, degraded, out-dated, incompliant and inefficient waste water collection and treatment system, and discharging non-treated waste water into the environment. The main problem in the area of waste management is the low access to waste management services, large number of outdated dumpsites and their negative environmental impact, insufficient environmentally safe infrastructure for solid and hazardous waste management, limited possibilities of waste recycling and processing, negative environmental impact of the inherited contaminated sites and the related public-health risks, in case the pollution enters groundwater or surface waters. The country lacks a comprehensive environmental and technological assessment, not all objects and factors posing environmental threats have been identified. In addition to the need to implement all environmental requirements and objectives provided for in the EU legislation, it is crucial to ensure that these investments are not aimed only at increasing the attractiveness of individual areas to investors and visitors, but also securing appropriate living conditions for local communities. Latvia has underdeveloped eco-tourism infrastructure in the nature areas specially protected to preserve biodiversity. Collections of plant and wildlife specimens are displayed in unsuitable premises under inadequate conditions that threaten their preservation and undermine their educational and awareness-raising function for the general public.
334. Community Strategic Guidelines emphasize the need for assistance to projects that are environmentally friendly and promote the creation of jobs, thus support must contribute to investments in infrastructure in regions, especially in the new Member States, to comply with environmental legislation in the fields of water, waste, air, nature and species protection.
335. The Lisbon National Reform Programme of Latvia provides for the following environmental measures:
- to preserve biodiversity at its current level;
  - to improve and modernise environmental protection infrastructure by developing water management infrastructure, creating a waste management system, promoting the processing of municipal waste and establishing collection systems for sorted waste;
  - to reduce the effects of climate change as far as reasonably practicable and implement relevant adaptation measures.
336. The National Development Plan defines the following areas of environmental infrastructure: water management: it must be ensured that all waste water flows are collected and undergo secondary treatment or an equal processing phase before discharging them into receiving waters, collection systems must be designed, constructed and operated on the basis of cost-efficient best available techniques, volumes and contents of waste waters must be given due consideration, rainwater overflow discharges and pollution to receiving waters must be



reduced, wastewater sludge must be appropriately treated and managed; waste management: stabilize the production of municipal waste, recycle 50% of the total packaging, reduce dioxin emissions resulting from waste incineration, reduce the amount of waste to be deposited and hazardous waste. The NSRF environmental investments correspond to the following NDP strategic measures and sub-measures: Sustainable and Efficient Use of Natural and Energy Resources, Development of Public Services (water supply, waste management, heat supply etc.) and Rationally Used and Preserved Natural Environment.

337. As for the environmental sector in the 2004-2006 programming period, the CF funding was provided to large-scale environmental infrastructure projects in water management and waste management. Furthermore, in the framework of the Single Programming Document assistance was granted to water infrastructure projects in urban areas with a population equivalent of 2000, establishing sorted waste collection points in municipalities, as well as re-cultivation of environmentally incompatible small and medium dumpsites in accordance with requirements set by relevant national programmes.
338. The policy-making priorities for environmental investments include improving environmental quality and increasing quality of life for people, pursuant to currently effective environmental protection legislation; improving water management infrastructure in accordance with the current environmental protection requirements; introducing a sustainable system of solid and hazardous waste management; rehabilitation of contaminated sites; maintaining and developing biodiversity and protected areas, identification and elimination of environmental risks.

### **3.3.2.3. Energy**

339. The sufficiency of energy to sustain economic development of the nation and quality of life of its citizens is an issue of national security. The development of energy sector is required to ensure balanced, high-quality, reliable and sustainable supply of energy to the economy and general population. Investments in energy infrastructure would substantially improve the availability of energy to consumers, coverage, quality, cost-efficiency and sustainability of services, lower the impact of the energy sector on the environment and climate change, reduce the energy-dependence of Latvia on supplies from outside the EU. The energy infrastructure comprises the following:
- infrastructure for primary energy resource extraction, transportation and supply to consumers;
  - electric power supply system (production, transmission and distribution of electric power);
  - centralised, local and individual heat supply systems;
  - energy consuming systems of consumers.
340. The main problems in the energy sector are the following – high dependence on imported fuel (natural gas), decentralised heat supply, poor technical condition of heat supply systems, low energy efficiency of heat consumers, low safety of hydraulic structures of water power plants. The prolonged capital return cycle characteristic to the heat production industry and the large amount of required investments are the underlying causes for the poor condition of systems and low energy efficiency at heat supply enterprises. The requirements and objectives of the EU environmental legislation ensure that investments in the energy sector not only increase the attractiveness of specific areas to investors and visitors, but also secure quality of life for local communities.
341. Community Strategic Guidelines emphasize the need for support to energy efficiency projects and propose the following action:

- promote investments that contribute to the EU Kyoto commitments;
- support projects that increase energy efficiency, e.g., increase energy efficiency of buildings, develop renewable and alternative energy technologies, develop the traditional energy networks, where there is evidence of failure;
- promote the use of biomass in the energy sector;
- promote the production of electric power in co-generation facilities.

342. The Lisbon National Reform Programme of Latvia provides for the following action:

- promote the use of renewable energy sources;
- promote extended application of co-generation options for the electric power production.

343. The National Development Plan sets out the following development measures in the field of energy: increase the energy efficiency on the supply and demand side, promote extended application of biomass in the energy sector, promote the production of electric power in co-generation facilities. The NSRF investments in the energy sector correspond to the following NDP strategic measures and sub-measures: sustainable and efficient use of natural and energy resources, development of public services (water management, waste management, heat supply, etc.) and rationally used and preserved environment.

344. Within the framework of the Single Programming Document for 2004 - 2006, support was provided to modernizing some of the heat supply systems, in order to ensure compliance with environmental requirements and increase energy efficiency of heat supply systems.

345. The policy-making priorities for energy investments include support to the energy sector for increasing energy efficiency both on the supply side (production, transmission and distribution of electric power) and demand side, as well extended application of co-generation options, renewable and local energy sources including wind energy, and elimination of technogenic risks.

#### **3.3.2.4. Information and Communication Technologies**

346. The development of information society is closely related to the progress towards the society of a knowledge-based economy, as it is a precondition to access information and knowledge as the main sources of national development. In the information society, notable economic growth and strengthening of competitiveness is possible only through extensive application of ICT in public administration, entrepreneurship and households.

347. The development objective of the information society is to ensure that everyone benefits from options provided by ICT, consequently, equal opportunities for all must be created to utilise ICT and access information; ICT skills of people must be improved, social inclusion must be promoted and barriers set by regional disparities must be reduced.

348. Community Strategic Guidelines place special emphasis on the development of ICT infrastructure as a favourable option to increase the competitiveness of regions, and note the significant economic potential of improving the availability of e-government services.

349. The EU legislation and guidelines pertaining to the information society are binding for Latvia. The EU initiative „i2010 – a European Information Society for growth and employment” defines information society priorities in an integrated framework with the Lisbon strategy guidelines in support of growth and jobs that emphasise the role of ICT, especially in creating jobs, education and providing public services. When promoting the availability of benefits of the information society to entire population, the Commission Communication on e-Accessibility must be considered – the document emphasises the task

of ensuring accessibility of homepages for disabled and elderly people.

350. The Lisbon National Reform Programme of Latvia proposes the following priority areas, placing special emphasis on the knowledge-based economy:

- to facilitate extensive use of ICT in national and municipal bodies, SMEs and households;
- to introduce e-government, including electronic signature, at the same time improving the structure of public administration and, at the same time, eliminating redundant elements, ensuring transparency and improving efficiency of public administration, as well as increasing public participation in the processes of public administration;
- to ensure safety of networks and information, as well as compatibility and interoperability, to create an information area without frontiers;
- to promote the extension of broadband networks, including to regions with limited access to services, in order to develop a knowledge-based economy.

351. The National Development Plan defines a priority to develop ICT infrastructure and services, as well as general accessibility of public networks, in order to ensure improved availability of information, knowledge and services. The NSRF investments in ICT correspond to the following NDP strategic measures and sub-measures: Development of ICT Infrastructure and Services and General Accessibility of Public Networks, and Infrastructure and Services for Various Types of Human Activity and Lifestyle.

352. The E-government Development Programme provides for measures to increase the efficiency of investments in ICT infrastructure of public administration, integrate the main national registers, create the base infrastructure of e-government, improve public administration services through ICT, including the development of e-services, to improve the existing and create new information systems of public administration, digitalize archives, databases and registers, improve security, as well as compatibility and interoperability, in order to create an information area without frontiers.

353. The main future priorities of the EU to achieve the Lisbon agenda in e-government are defined in the EU Ministerial e-Government Declaration:

- All citizens must become major beneficiaries of e-Government, European public administrations must make public information and services more easily accessible through innovative use of ICT and through improving skills and support for all users;
- The public sector must achieve considerable gains in efficiency through the use of ICT; e-Government must significantly reduce the administrative burden on businesses and citizens;
- Delivery of public services must be designed around customer's needs, including the objective of at least 50% of public procurement above the EU public procurement threshold to be carried out electronically;
- Promotion of widely available trusted access to public services across the EU, through mutually recognised electronic identifications.

354. For the 2006-2010 period Latvia must abide by the EU Action Plan on e-Government that sets the following four tasks for Members States in the area of e-government:

- the development of inclusive e-government to promote social inclusion;
- more efficient and cheaper e-government;
- improving the quality of services, including through the use of e-procurement;

- cooperation of all stakeholders, including those of the public and private sectors, to achieve the objectives of e-government.

355. As for the 2004-2006 programming period, funding was made available under the Single Programming Document to the development of public information systems (municipalities, libraries, archives, museums), including digitalisation efforts, to improve the quality of services, creating public Internet access points, as well as developing ICT in peripheral areas and extending the high-quality broadband network. As for the 2004-2006 programming period, the ERDF funding is made available for the implementation of the National Programme „Development and Improvement of Base Infrastructure for E-government”.

356. The main objectives and results to be achieved in the area of communications by 2013:

- To ensure that by 2010 broadband Internet access is made available in an area covering 85% of the country, in 100% public administration bodies and in 100% educational establishments, encompassing improvements to the existing communication infrastructure, development and maintenance of new infrastructure;
- To ensure that by 2012 the conversion from analogue TV and radio broadcasting format to digital format is completed;
- To ensure that by 2013 the Geographical Information System comprises information on the coverage of electronic communications networks in Latvia.

357. The general information society issues and investment priorities for the 2007 -2013 programming period are the following:

- the development of state information systems, including the creation of databases, registers and archives of national importance, accessibility, digitalisation, compatibility and interoperability, as well as integration aimed at creating the technical basis for the development of e-services;
- providing the necessary ICT infrastructure and Internet access to public administration bodies, operating in such areas as employment, social services, health, culture, education and others; development of e-services;
- further development of public Internet access points;
- training of the public administration staff to improve their skills in response to the new ICT requirements;
- providing and ensuring access to broadband data transmission networks, paying special attention to areas lagging behind;
- creation, development and improvement of electronic communications networks of national importance, ensuring the security of data transmission.

### **3.3.2.5. Educational Infrastructure**

358. The long-term concept paper “Model for Growth of Latvia: Individual First”, which was approved by the *Saeima*, identifies knowledge, intelligence and their skilful application as the main resource for the future development of Latvia. Generation, accumulation, dissemination and application of knowledge must be considered a complex process that forms the basis for economic development, social life and knowledge-based society.

359. Education, science and research represent the main driving forces behind knowledge, innovations and high technology that must be given the highest priority in the country pursuant to the above concept paper, approved by the *Saeima*. Investments in the educational system play the most important role in the development of education, science and research, as well as providing high-quality, up-to-date, professional human resources.

360. The main problems of the education system, which have very serious financial implications

and require vast resources, are related to the obsolete and degraded educational infrastructure – buildings, premises, teaching equipment and facilities, teaching materials, research equipment, instruments and equipment. The vocational education requires the provision of at least such facilities that enable conducting vocational training activities in an environment that corresponds to workplace conditions in the most innovative enterprises of the particular sector.

361. Community Strategic Guidelines establish a close link between the educational development and promotion of employment, as well as investments to improve R&D and innovative potential. The central task of educational development is the provision of high-quality and accessible education and training at all levels for the entire life of an individual, as well as contribution to human resource development as the main element of the growth strategy.
362. The Lisbon National Reform Programme of Latvia identifies the following priorities in the area of educational development:
- to improve the adaptability of the education system and students in response to new labour market requirements;
  - to improve the accessibility of higher education and correspondence with the labour market requirements;
  - to improve the accessibility of education at all levels.
363. The above priorities are also highlighted in the National Development Plan that places special emphasis on the task to develop higher and vocational education, especially in regions, at the same time ensuring its correspondence with the labour market requirements. The NSRF investments in educational infrastructure correspond to the following NDP strategic measures and sub-measures: Educated and Creative Individual (including High-quality Primary Education, Mandatory Secondary and Accessible Higher Education, Training the Workforce to Meet Requirements of the Labour Market, and Efficient Application and Life-long Development of the Creative Potential of an Individual) and Modernisation of Scientific Infrastructure in Institutes and Higher Educational Establishments.
364. As for the 2004 – 2006 planning period, assistance for improving teaching facilities and infrastructure was granted to 28 vocational education establishments and 9 higher educational establishments, however, the imbalance between the ESF funding for improving educational programmes, teaching methodologies, ensuring continuing education of teaching staff and the tiny ERDF allocations to provide the necessary facilities, equipment, and to improve buildings and premises, frequently in emergency technical conditions, which were utilised to implement the elaborated educational programmes, poses threats of failing to achieve the planned developments in quality.
365. To address the above issues, the ERDF funding will be made available for investments in the following areas: provision of modern educational and study equipment and infrastructure in vocational educational establishments, including prisons; improvement of vocational education programmes and their implementation quality meeting the labour market requirements; modernization of rooms and devices in the higher educational establishments; provision of higher education quality and accessibility in the fields of national economy development priorities; insurance of material bases for qualitative natural science acquisition in secondary educational establishments; provision of access, special equipment and special study facilities to higher, vocational, general and special educational establishments for persons with various disabilities.

### 3.3.2.6. Social Infrastructure

366. To facilitate investments in human resources, improve welfare and provide accessible and high-quality public services in the whole territory of the country, considerable investments must be made in the social infrastructure.
367. The problems of the health-care system are related to the insufficient immediate possibilities of out-patient and in-patient service providers, explained by the recent reform aimed at improving the infrastructure. The problems are also related to the quality and availability in the whole country of primary health-care services and inadequate availability of emergency health-care services. In the area of social services, the main problems are related to the low availability, diversity and quality of social care and social rehabilitation services, technical facilities and equipment of professional rehabilitation services, the assessment system of health conditions, functional capabilities and their restrictions, infrastructure required to provide the above services. Insufficient facilities of institutions responsible for the implementation of labour market policies hamper the provision of up-to-date and high-quality services to customers, efficient and fast exchange of information among institutions, branches and service centres, as well as the functioning of a joint customer registration system, co-operation with employers, qualitative data exchange and analysis within the EU.
368. In accordance with Community Strategic Guidelines, special attention must be given to the quality and availability of health-care that has a direct impact on the productivity, competitiveness, and quality of life of the labour force. In addition to that, CSG propose a priority to modernise educational and training infrastructure by integrating ICT.
369. The Lisbon National Reform Programme of Latvia, by complementing the above priorities, defines the following as an essential measure – improving the infrastructure of social care and social rehabilitation, increasing the accessibility to technical facilities for professional rehabilitation, as well as improving the infrastructure of labour market institutions.
370. The above priorities are also highlighted by the National Development Plan. The NSRF investments in social infrastructure correspond to the following NDP strategic measures and sub-measures: Health as a Value, and Inclusive and Retaining Labour Market (including Support for Promoting Employment, and Reduction of Long-term Unemployment and Integration in the Labour Market of Groups of People at Risk of Social Exclusion).
371. The policy priorities related to support for disabled persons and individuals with potential disability are set in the Policy Guidelines for Reducing Disability and its Consequences 2005-2015. The document provides for the development of a range of disability prevention measures, improvement of the diagnostic system to detect disabilities, as well as the improvement of the social protection system for disabled persons and promotion of employment of people with special needs. The introduction of new social assistance measures is planned in the field of rehabilitation, employment and social services, in order to ensure that persons with potential disabilities avoid becoming disabled, whereas persons with severe functional disorders receive support to reduce risks of social exclusion.
372. The health care policy of Latvia is set out in the Implementation Plan of the Development Programme for Out-patient and In-patient Health-care Service Providers 2005-2010, which quantifies the parts of health infrastructure to be improved, as well as Guidelines for Development of Human Resources in Health Care that emphasize a long-term objective (2005 –2015) to provide human resources to and ensure their development within the sector of health care.
373. Latvia demonstrates considerable disparities between the levels of socio-economic development in Rīga and other regions, as well as between the main cities and the remaining

areas of the country. The current development model of Latvia can be classified as monocentric, whereas progress towards a polycentric development model is hampered by insufficient growth of development centres. Poorly developed public services, lack of interest of entrepreneurs as potential investors, and of people as potential residents represent the main impediments for the development of the above centres.

374. Community Strategic Guidelines place strong emphasis on the specific needs of certain areas, such as urban and rural territories, for the purpose of stimulating balanced development and eliminate obstacles to their growth. In addition to the above activities, CSG propose investments in public services and infrastructure to improve investment environment and quality of life in the above areas.
375. The Lisbon National Reform Programme of Latvia notes the considerably slower acceleration of economic activities in regions outside the capital city of Rīga and its surrounding area. One of the underlying causes for the above conditions is the slow administrative-territorial reform of Latvia, hence the prolonged survival of a large number of economically and administratively weak local governments incapable of fulfilling the full range of municipal functions. Consequently, the implementation of administrative-territorial reform, as well as stimulating economic activity in backward regions are considered priority tasks.
376. The National Development Plan identifies cities as the main driving force behind long-term economic growth and development of Latvia. This long-term development perspective will be implemented through polycentric urban systems that provide the best options of ensuring balanced economic and social development in Latvia as a whole. Cities must be developed as economic hubs that also secure the development of the surrounding area of region. Due to increased concentration and numbers of people in urban areas, cities will face a number of problems related to spatial planning and provision of high-quality physical infrastructure services. It corresponds to the following NDP strategic measures and sub-measures: Polycentric Urban and Rural Structures for Development, and Development Centres – Drivers of Balanced Development in Regions.
377. The Regional Development Law (effective as of 23 April 2002.) determines the objective of regional development – to stimulate 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 heritage features and development potential of each area. Due to geographical location, cultural, historical and economic traditions, different areas may pursue different development models that take full advantage of features or potential, which is characteristic to the particular location. Failure to harness the above potential to full extent has resulted in unfavourable socio-economic disparities between different regions that hamper the competitiveness of Latvia in the European Union.
378. To address the above issues, the ERDF funding will be made available for investments in the following areas:
- the development of institutions responsible for the implementation of labour market policies, social care, social rehabilitation, including improvements to prison and probation centre infrastructure;
  - professional rehabilitation, providing technical facilities and improving infrastructure to assess capacity for work;
  - the modernisation of health-care infrastructure, especially in primary health-care and emergency health-care, improvement of infrastructure promoting healthy and active lifestyle;

- making large-scale investments in sports facilities, in order to promote health of people and the quality of labour force, thus creating preconditions for the formation of a healthy, physically and mentally developed personality;
- renovation and development of pre-school education institutions (kindergatens) and alternative care infrastructure.

### 3.3.2.7. Socio-economic Potential of Cultural Environment

379. Attractiveness of cultural environment influences life quality and fosters the development of living environment, as well as social and economic welfare. Research of different economic growth factors suggests that culture specifically is regarded as an important factor in facilitating regional competitiveness. High quality cultural environment boosts the quality of labor force stimulates development, employment and income in other sectors. It attracts enterprises, consequently contributing to the creation of new and high-quality jobs and promotes the diversification of regional and local economies, their creative and efficient development thus reducing regional disparities.
380. The main problems of Latvia in cultural environment are as follows: out- dated cultural infrastructure, lack of up-to-date cultural infrastructure outside the capital Riga does not provide quality living and working environment ,lack of new, modern, important for regional development cultural objects that would foster creation of new innovative cultural products that correspond to developing needs of customers, insufficient use of cultural potential in development of a knowledge based society, insufficient supply of cultural services. Poor preservation of cultural heritage as well as lack of effective and innovative use of its socio economic potential of the heritage and other cultural resources created and gathered in Latvia.
381. Community Strategic Guidelines (2006/702/EC) indicate the role of cultural services in innovative entrepreneurship, attraction of highly qualified labor force, renewal of living environment in the context of Lisbon agenda.
382. The Lisbon National Reform Program of Latvia 2005 – 2008 in terms of providing more attractive environment for entrepreneurship anticipates implementation of coordinated sectoral and regional policies, ensuring favorable conditions for the creation and development of cultural products and services, tourism and cultural tourism.
383. The National Development Plan 2007 - 2013 identifies that quality cultural environment that is formed by well maintained and accessible cultural heritage as well as varied cultural traditions and creative activities is an important precondition for sustainable and well-balanced territorial development. Apart from fostering its local identity, it is crucial for Latvia to establish an intercultural dialogue through the development of relevant contemporary cultural environment and related infrastructure for reduction of regional disparities in accessibility of culture (minimum basket of cultural services), including diversification of cultural services, providing equal opportunities for socially deprived groups. The NSRF investments in cultural environment correspond to the NDP strategic sub-measures 4.2.2. Creation of a Common Cultural Space and 6.3.3. A Well Developed and Accessible Cultural Environment and Cultural Historical Heritage.
384. The main cultural policy documents of Latvia are the following: the long-term National Cultural Policy Guidelines 2006 –2015: National State and the National Program: Culture 2000-2010, as well as National Cultural Policy Priorities. The above guidelines reflect construction activities related to preservation and building of cultural objects, the development of creative industries and formation of regional cultural policies.



385. As for the 2004-2006 programming period, funding was made available within the framework of the SPD to provide support for the creation and development of nature- and heritage-related tourism products, as well as for the development and modernization of public tourism infrastructure by simultaneously striving to maintain and increase the economic potential of cultural heritage.
386. To ensure future strengthening and boosting of the socio-economic capital of cultural environment, full use of its resources by creation of contemporary multifunctional objects with cultural function in the regions need to be supported as well as support should be given to private owners of cultural heritage, legal owners and managers among them state and municipal institutions and non-governmental organizations that implement public functions stated in legal acts, non-governmental organizations and private owners who provide implementation of public function on the basis of cultural heritage objects and accessibility by integrating nationally important cultural heritage in formation of qualitative public space and in the process of development of creative industries.
387. The priority investment policy measures are as follows:
- Development of nationally important cultural infrastructure i.e. preservation of cultural heritage, creation of new multi – functional cultural objects and development of the related infrastructure;
  - Development of cultural heritage and contemporary cultural infrastructure in order to diversify and intensify economic activities and create new nationally important cultural products.

### **3.3.2.8. Tourism**

388. Highly developed infrastructure has a direct and immediate impact on quality of life of people in all areas, ensuring favourable living environment, as well as economic welfare. The development of tourism can foster growth in a number of related economic sectors, thus making a significant contribution to national development in general and strengthening competitiveness of the country in the common market of the European Union. By developing tourism as one of the priority economic sectors, its share may increase to 5-7% of GDP in the coming 5-8 years, hence boosting the overall GDP growth of the country.
389. Although the tourism sector has experienced rapid development, a number of problems still hamper future opportunities in the sector to attract tourists, e.g., insufficiently developed tourism infrastructure, its capacity and nature- and heritage-related tourism products (cultural tourism and eco-tourism). The development of tourism infrastructure will facilitate rational utilisation of natural and cultural resources, as well as stimulate sustainable development of different areas of the country. There is a lack of tourism market studies that can provide a sound basis for tourism marketing that could facilitate the image of Latvia as a popular tourism destination. A new set of innovative and distinctive tourism products is required; furthermore, the development of low-season tourism products and services is critical. It creates preconditions for additional investments for the development of economic and tourism infrastructure, improving tourism offer in regions and areas of clustered tourism resources.
390. Community Strategic Guidelines highlight an integrated approach to territorial cohesion; furthermore, the cohesion policy can help to create sustainable communities, by ensuring that economic, social and environmental issues are tackled through integrated strategies at the EU and national level. Tourism infrastructure is an essential component in both strengthening the economic competitiveness and sustainable development of the nation.

391. The Lisbon National Reform Programme of Latvia 2005-2008 sets the following priorities in promoting balanced development – promotion of entrepreneurship and innovations, development of human resources and promotion of employment that are inextricably linked to the tourism sector.
392. The National Development Plan highlights that tourism is a sector of high economic integration with links to development processes in transport, ICT, trade, services and other sectors. One of the main development objectives of the tourism sector is to increase its share in GDP of Latvia by positioning and promoting Latvia in international markets as a distinctive, reliable and recognised tourism destination, thus increasing the period of stay of incoming tourists in Latvia and, consequently, boosting revenues from the tourism sector. The NSRF investments in tourism correspond to the following NDP strategic measures and sub-measures: Preserved and Accessible Cultural Environment and Cultural and Historical Heritage, Rationally Used and Preserved Natural Environment, and Creation of New Competitive Enterprises, as well as Access to and Diversity of Jobs in Regions.
393. As for the 2004-2006 programming period, funding was made available within the framework of the SPD to provide support for the creation and development of nature- and heritage-related tourism products, as well as for the development and modernisation of public tourism infrastructure by simultaneously striving to maintain and increase the economic potential of cultural heritage.
394. Latvia is rich in natural medicinal resources and traditions that are currently under-utilised. For example, the development of national level infrastructure of resort, mineral water and medicinal mud management is necessary. Attractive cultural environment and developed cultural infrastructure both have direct impact on quality of life by providing preserved environment and foster economic well-being, facilitate the development of cultural tourism as an important tourism product of Latvia. To reduce the low-season effects in the tourism sector, Latvia must make investments in the development of international conference centres. A competitive advantage of Latvia in the European tourism market is ensured by the availability of the Baltic Sea coastal areas; balanced development and improvement of the above for environmentally friendly utilisation would both facilitate the creation of new tourism products and securing sustainable growth of these areas. According to experts, diverse active tourism products would increase the number of SMEs (up to 30 enterprises per 1000 inhabitants in 2010) and reduce the unemployment rate. According to market research data, 1/3 of Western tourists are willing to indulge in active tourism - trekking, biking, or boating.
395. The ERDF financial assistance for tourism development will be allocated to promote the development of tourism products of national importance and the development of tourism information system.

### **3.3.2.9. Development of Cities and City - regions**

396. To ensure the development of a well-balanced state it is essential to develop urban network and urban-rural cooperation with an aim to provide accessibility of services as close to inhabitants as possible. There is a wide recognition at the EU and national level (by researchers, politicians, sectoral experts etc.) of the important role of cities in strengthening regional competitiveness. The role of the cities, as the driving force of regional development, is growing, taking into account the aims set by the EU and Latvia's National Development Plan 2007-2013 to develop competitive knowledge-based economies. In addition, it is recognized both at the EU and national level that the development of cities and other territories is to be promoted on the basis of the principles of integrated territorial

development approach that should be ensured at the stages of planning and implementing territorial development priorities.

397. Latvia is characterized by a monocentric distribution of the population – there is one powerful centre, Riga, and a wide and evenly distributed network of towns. For a long time such a distribution of population was regarded as an obstacle for regional development; however, it has a significant growth potential that can be developed by implementing the concept of polycentric development. In the existing network of towns, in addition to the development of one major centre - Riga, the development of which is essential to ensure the national competitiveness of the international scale, other centres have to be purposefully developed until they become strong enough to facilitate regional growth. The most important development problems of the development of cities/ towns are outworn public infrastructure, including public transport, business, cultural etc. infrastructure, as well as lack of public services and low administrative capacity.
398. On the basis of the Lisbon Strategy objectives at EU level, the framework of Structural Funds for 2007-2013 - Community Strategic Guidelines on Cohesion and Structural Funds regulations highlight the necessity to provide support for development of urban territories thereby making cities attractive to investment and work.
399. Latvia's National Development Plan 2007-2013 declare that the towns have to become an important development driving force of each region and of all the country, whose potential and the perspective development direction is determined within the spatial planning process of the region, in co-operation with public institutions, local governments, NGO's and the public. Creation of the network of towns and their strengthening increases the mutual complementing abilities of them and it is an effective instrument for a balanced development.
400. Development planning documents of planning regions (development programs, spatial plans) emphasize the necessity to promote the growth of development centers, thereby ensuring accessibility of services, as well as the development of functional links between urban and rural territories.
401. One of the European Union structural funds priority in 2004-2006 programming period was the promotion of territorial cohesion, which included development of accessibility and transport system, improvement of environmental infrastructure and tourism, development of information and communication technologies. This priority comprised 32,6% (279 459 231,7 EUR) of financing made available to Latvia in 2004-2006 programming period. Development centers of national and regional importance during 2004-2006 programming period investments amounted approximately to 420 000 000 EUR, incl. 284 000 000 EUR from European Union structural funds, 59 000 000 EUR state budget financing and approximately 4 000 000 EUR local governments' financing.
402. Overall the support to cities and city - regions is meant to complement sectoral measures and activities under all three Operational Programmes<sup>10</sup>, providing opportunity for cities and towns to develop their competitiveness, accessibility and attractiveness factors according to integrated urban development strategies, int. al. to offer innovative ideas and approaches to promote different elements of crucial importance for growth of cities and city-regions.

### 3.3.3. OP Implementation

403. The Operational Programme „Infrastructure and Services” is co-financed from the European

<sup>10</sup> Operational Programme “Human Resources and Employment”, Operational Programme “Entrepreneurship and Innovation”, Operational Programme “Infrastructure and Services”.

Regional Development Fund and Cohesion Fund.

404. The Operational Programme constitutes 69.81% of finance available under the ERDF and 100% of finance from the Cohesion Fund appropriation.
405. The Ministry of Finance is the Managing Authority of the Operational Programme. The following Ministries fulfill the functions of Intermediate Bodies of this Operational Programme – Ministry of Transport, Ministry of Environment, Ministry of Economics, Ministry of Culture, Secretariat of the Minister on Special Assignment for Electronic Government Affairs, Ministry of Welfare, Ministry of Health, Ministry of Education and Science, Ministry of Regional Development and Local Governments, Ministry of Finance.

#### 4. FINANCING PLAN

406. For implementation of targets of Lisbon strategy there is indicatively provided approximately 61% from total financing of NSRF.

*Table 10: Financing plan for 2007 – 2013*

Financing of Community, EUR, current prices									
OP	Funds	Total	2007	2008	2009	2010	2011	2012	2013
European Regional Development Fund und Cohesion Fund									
OP "Entrepreneurship and Innovation"	ERDF	736 730 950	80 478 334	87 978 834	96 083 145	104 533 757	113 293 243	122 433 486	131 930 151
OP "Infrastructure and Services"	ERDF+CF	3 243 062 967	355 477 320	388 134 284	423 412 403	460 194 974	498 319 740	538 098 494	579 425 752
	<i>ERDF</i>	1 703 286 414	186 066 917	203 406 262	222 141 440	241 677 169	261 926 929	283 056 893	305 010 804
	<i>CF</i>	1 539 776 553	169 410 403	184 728 022	201 270 963	218 517 805	236 392 811	255 041 601	274 414 948
European Social Fund									
OP "Human Resources and Employment"	ESF	550 653 717	60 319 858	65 876 139	71 878 635	78 137 205	84 624 222	91 392 770	98 424 888
Total NSRF		<b>4 530 447 634</b>	<b>496 275 512</b>	<b>541 989 257</b>	<b>591 374 183</b>	<b>642 865 936</b>	<b>696 237 205</b>	<b>751 924 750</b>	<b>809 780 791</b>
Total ERDF		2 440 017 364	266 545 251	291 385 096	318 224 585	346 210 926	375 220 172	405 490 379	436 940 955
Total CF		1 539 776 553	169 410 403	184 728 022	201 270 963	218 517 805	236 392 811	255 041 601	274 414 948
Total ESF		550 653 717	60 319 858	65 876 139	71 878 635	78 137 205	84 624 222	91 392 770	98 424 888
EAFRD		1 041 113 504	152 867 493	147 768 241	142 542 483	147 766 381	148 781 700	150 188 774	151 198 432
EFF		125 015 563	13 597 544	14 887 723	16 282 146	17 736 296	19 243 706	20 816 794	22 451 354

## 5. SF AND CF MANAGEMENT FRAMEWORK AND ADMINISTRATIVE CAPACITY

### 5.1. Structural Funds and Cohesion Fund Management Framework

407. In accordance with the concept for the planning and management system for the European Union's Structural Funds and Cohesion Fund for the 2007-2013 period, as approved by the Cabinet of Ministers on 18 October 2005, the concentration model has been selected for the management of the SF and CF during the 2007-2013 programming period. This provides for succession of the SF management system for the 2004-2006 programming period, by maintaining a single Managing Authority, single Payment Authority and single Monitoring Committee. In contrast to the 2004-2006 programming period, the number and the status of Intermediate Authorities has been optimised by abandoning two-level Intermediate Authorities. Therefore, the Structural Fund and Cohesion Fund institutional framework for 2007-2013 includes elements of succession that were successful when implementing the SF, and improves upon the shortcomings in the management system for the 2004-2006 programming period.
408. The following authorities are engaged in the management system of the SF and CF:
- the Ministry of Finance as the NSRF Coordinating Authority and the OP Managing Authority,
  - the State Treasury as the Payment Authority,
  - the sectoral ministries (the Ministry of Economics, the Ministry of Education and Science, the Secretariat of the Minister for Special Assignments for E-government Affairs, the Ministry of Culture, the Ministry of Welfare, the Ministry for Regional Development and Local Governments, the Ministry of Transport, the State Chancellery, the Ministry of Health, the Ministry of the Environment, the Ministry of Finance) according to their policy areas as Responsible Authorities and performers of functions of Intermediate Bodies,
  - the agencies (State Employment Agency, State Education Development Agency, Central Finance and Contracting Agency, Investment and Development Agency of Latvia, Society Integration Foundation, State Regional Development Agency, Housing Agency, Health Statistics and Medical Technologies State Agency) 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.
409. Nevertheless 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.
410. The Minister for Special Assignments for Administration of the European Union Funds are in charge of coordination of the EU structural funds and Cohesion Fund in Latvia.
411. 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.

412. 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.
413. 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.
414. 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.
415. The planning regions are involved in the implementation of the Structural Funds and the Cohesion Fund (inter alia in working groups drafting tender documents, as well as in project

appraisal), thus ensuring compliance with the principle of partnership, as well as enforcing the needs of the planning regions by taking into account typical development trends and development potential.

### **5.1.1. Managing Authority**

416. 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.

417. 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.

418. 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.

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

### **5.1.2. Paying Authority**

420. The Paying Authority carries out payments to the Final Beneficiary. It also checks the payments and the advance payments received from the European Union.

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

### **5.1.3. Responsible Authorities and Cooperation Authorities as performers of functions of Intermediate Bodies**

422. The Intermediate Bodies represent a set of functions performed by a Responsible Authority or the Responsible Authority in conjunction with a Cooperation Authority.

423. 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,
- 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.

424. 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 (Implementing Body).

425. Other functions of the Intermediate Body, taking into consideration the scope of functions delegated to an Implementing Body 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.

#### **5.1.4. Audit Authority**

426. 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:
  - an annual control report on the Management and Control System,
  - an annual opinion on the effective functioning and compliance of the Management and Control System,
  - 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.

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

### 5.1.5. Certifying Authority

428. 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.

429. The State Treasury performs the function of the Certifying Authority.

### 5.1.6. Procurement Monitoring Bureau

430. 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.

431. 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,

### 5.1.7. Monitoring Committee

432. The Monitoring Committee is established by observing the principles of partnership and gender equality. The Monitoring Committee comprises representatives from the Managing Authority, the Intermediate Bodies, the Payment Authority, the Certification Authority and the implementing agencies, as well as social, non-governmental and regional partners. There are established two sub-committees of the Monitoring Committee – sub-committee for operational programmes co-financed by European Regional Development Fund and Cohesion Fund, and subcommittee for operational programme co-financed by European Social Fund.

433. The Monitoring Committee is responsible for the monitoring of OPs, as follows:

- carries out regular monitoring of the OPs according to specific indicators,
- approves the project selection criteria, and any amendments to the criteria,
- evaluates progress,
- examines the results of implementation and the attainment of objectives for each priority, as well as the results of evaluations,
- examines and approves the annual and final implementation reports,
- examines the annual control reports,
- examines the reports on the progress of implementing strategies and attaining objectives,

- evaluates and makes recommendations for amendments to the OPs,
- evaluates and approves recommendations for amendments to the Commission decision on the Fund's investments,
- ensures that the implementation of the OPs is of a high quality and timely,
- ensures the coordination of information between the Funds.

434. As regards the monitoring of the implementation of the Funds at the political level, it is expected that the Cabinet of Ministers will examine the annual and final implementation reports. Furthermore, the Managing Authority prepares a quarterly report for the Cabinet of Ministers on the current situation in implementing the SF and CF.

**Table 16: SF and CF management framework**

NSRF coordinating authority at the MoF						
OP	Infrastructure and services		Entrepreneurship and innovations		Human resources and employment	
Funds	ERDF, CF		ERDF		ESF	
Managing Authority	MoF		MoF		MoF	
Monitoring Committee	OP Monitoring Committee [Managing Authority, Intermediate Body (IB), Payment Authority, Certification Authority, implementing agencies, regions, Latvian Union of Local and Regional Governments, social partners, NGOs]					
	Monitoring Sub-Committee				Monitoring Sub-Committee	
IB and corresponding main OP areas	RA	Areas for investment	RA	Areas for investment	RA	Areas for investment
	MoT	Transport infrastructure, telecommunications	MoE	Entrepreneurship and innovations	MoW	Employment, social inclusion
	MoES	Education and science infrastructure	MoES	Science, research	MoES	Education, training, lifelong learning, access to education
	MoEnv	Environmental infrastructure	MoF	Technical Assistance	SChan	Administrative capacity at national level
	MoW	Social infrastructure			MRDLG	Administrative capacity at local level
	MoH	Health infrastructure			MoE	Training of employed
	MoE	Energy, tourism			MoH	Health of labour force
	Ministry of Culture	Cultural-historical heritage			MoF	Technical Assistance
	MRDLG	Regional and territorial development				
	SMSAEGA	E-government				
MoF	Technical Assistance					
Certifying Authority	State Treasury		State Treasury		State Treasury	
Audit Authority	MoF		MoF		MoF	
Payment Authority	State Treasury		State Treasury		State Treasury	

**Source: Ministry of Finance**

## 5.2. Partnership

435. 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 the 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.
436. In implementing the partnership principle during the elaboration of the NSRF and OPs, several instruments were used – such as involvement of partners (mostly industry associations, regional partners, municipalities) in the 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.
437. 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, Labourers' 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.
438. 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](http://www.esfondi.lv).
439. For each of the programming documents 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](http://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.
440. 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, etc.). 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.
441. In addition to that on January 25, 2006 the Ministry of Finance organized 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.

442. 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.
443. 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).
444. 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](http://www.politika.lv).
445. 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.
446. The planning regions has been involved in several discussions with line ministries 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.
447. 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 representatives of 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.
448. The principle of partnerhip will be observed also during the implementation stage of the EU funds – involving the partners in elaboration of implementation 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, as well as participating into the Monitoring Committee meetings.

### **5.3. Administrative capacity of institutions engaged in the management of the EU funds**

449. The existing human resources and administrative capacity will be taken over with the

continuation of the institutional system for managing the SF and CF. All the Intermediate Bodies (line ministries), except for the State Chancellery, have experience in managing and implementing the SF during the 2004-2006 programming period. The authorities also have experience of administering the pre-accession financial instruments Phare and ISPA.

450. There were a total of 897 staff positions in the Managing Authority, Intermediate Bodies and grant scheme administrators in 2004, for work related to the SF and CF. 603 (67%) of all the staff positions were filled. The lack of human resources is mainly due to the number of vacancies in the Rural Support Service, which is not engaged in the management of the SF and CF during the 2007-2013 programming period.
451. There were 991 staff positions in 2005, which is an increase of 10% on 2004, and this was mainly for strengthening the capacity of the second level Intermediate Bodies or implementing agencies. No significant increase in the number of staff positions is expected during the 2007-2013 programming period, because the type and similarity of functions performed in 2004-2006 can be ensured within the framework of existing human resources.
452. Additional strengthening of administrative capacity will be required in institutions that did not perform any SF management functions during the 2004-2006 programming period – the State Chancellery as the Intermediate Body and the Ministry of Finance as the Certification Authority.
453. Strengthening of the administrative capacity during the 2004-2006 programming period was mainly carried out with the support of SF technical assistance funds. A total of 16 training courses were organised by November 2005 on subjects such as EU regional policy and structural instruments, the legislative basis in the EU and Latvia related to the SF, SF project administration, SF project evaluation, risk management, State support system, data protection and others. A total of 707 employees took part in the training courses, i.e. on average, every employee engaged in the management of the SF.
454. The total scope of technical assistance for training projects in 2005 was LVL 102 for every staff position, however, given the need for acquiring new skills in order to manage the SF and CF more effectively, an increase in the scope of financing allocated for training is vitally important.
455. The SAS organises regular training courses for civil servants on issues related to the SF. However, surveys show that civil servants believe that the information provided on the courses is too generalised or even outdated. Employees are interested in acquiring practical knowledge, which cannot always be provided on the SAS courses, due to the lack of suitable training programmes and lecturers.<sup>11</sup>
456. Certain institutions paid salaries to those employees engaged in the management of the SF, during the 2004-2006 programming period, within the framework of the SF technical assistance funds. The average gross monthly salary from technical assistance funds is LVL 398, which is 40% more than the average salary of public sector employees during the second quarter of 2005.
457. Despite the relatively high salaries paid to employees from the technical assistance funds, when compared to the average salaries of public sector employees, there is frequent job rotation. For example, the job rotation in the Managing Authority was approximately 30% in 2004 and 2005, which is due to the great demand for specialists in the Latvian labour market, where other employers, particularly in the private sector, can offer better salary and working

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<sup>11</sup> UNDP project. "Strengthening institutional capacity for implementation of the EU Structural Funds". Final report. Riga, 2004, pp. 48.

conditions.

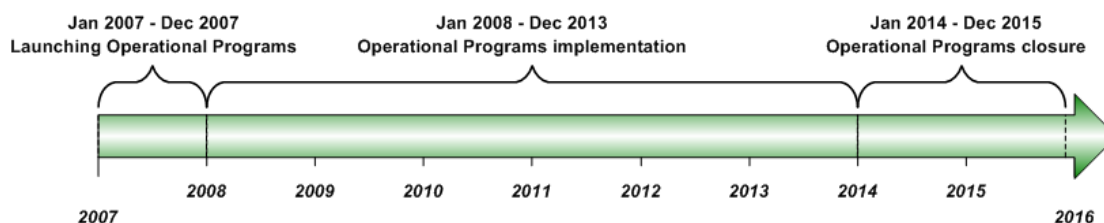
458. The quality of administrative capacity is ensured by the permanence of human resources. A third of the employees within the Managing Authority have three to six years experience of managing the SF and pre-accession final instruments, as at August 2005. At the same time, a quarter of the employees have less than one year's experience of managing the SF. Given that the human resources are relatively balanced in terms of professional experience with the SF, and given that the existing employees have acquired a wealth of knowledge and experience at Managing Authority level, the Managing Authority is in a position to perform its functions in an optional fashion.
459. A Human Resources Development Plan will be prepared during the 2007-2013 programming period, which will encompass all the bodies engaged in the management of the SF and CF.
460. When strengthening the administrative capacity during the 2007-2013 programming period, it is important to maintain existing human resources, by ensuring competitive salaries, and to provide the relevant knowledge and skills in respect of the management of the SF during future training. This applies to all institutions engaged in the management of the SF and CF. Therefore, the main areas to receive technical assistance for strengthening administrative capacity during the 2007-2013 programming period will be support for human resources training, as well as ensuring competitive salaries for those employees engaged in the management of the SF and CF.
461. Furthermore, given the experience of project development gained during the 2004-2006 programming period, whereby the implementation of almost a quarter of all projects was delayed due to the poor quality of the projects, it is important to strengthen the administrative capacity of project applicants, including public authorities, in respect of project development, within the framework of technical assistance.
462. Strengthening of administrative capacity is also needed in the planning of evaluation studies and ensuring implementation. The results of evaluations carried out during the 2004-2006 programming period have not been available during the development of the programming documents for the 2007-2013 programming period, which shows that due planning of evaluation studies is required, in order to offer the optimum solutions for administration of the Funds during the current and future programming periods.
463. Of equal importance is the strengthening of administrative capacity in monitoring of the Funds, by financing the creation and operation of a management information system within the framework of technical assistance, which would provide information on the implementation of the SF and CF. The experience gained during the 2004-2006 programming period, whereby there was no appropriate management information system IT solution, hinders the monitoring of projects, measures, priorities and the Funds.
464. Actions strengthening the institutional capacity are consistent with the national actions for public administration and public services and coherent with strategic choices identified in the NSRF. The actions will be undertaken under the priority "Administrative Capacity Building" of OP "Human Resources and Employment". The indicative contribution of ESF to this priority is estimated at 52 410 000 EUR. The main actions for strengthening of institutional capacity under this priority are as follows:
- Policy Impact Assessment and Conducting Policy Research,
  - Reduction of Administrative Barriers and Quality Improvement of Public Services,
  - Increasing Operational Quality and Efficiency of Public Administration Institutions,
  - Development of Human Resource Planning and Management System in Public Administration,

- Capacity Building of Social Partners, Non-Governmental Organizations and Municipalities,
- Improvements to Training Schemes for Public Administration Professionals,
- Attracting Specialists to Planning Regions, Towns and Amalgamated Municipalities,
- Development Planning Capacity Building of Planning Regions and Local Governments.



## **6. INFORMATION AND PUBLICITY MEASURES**

465. Information and publicity measures in respect of assistance under the SF and CF are aimed at fostering public awareness of the activities and transparency of the EU, by creating a uniform understanding of the assistance in all Member States.
466. The Managing Authority draws up an OP communication strategy within three months following approval of an OP. The Responsible Authorities participate in the development of the communication strategy by providing recommendations. Once the communication strategy has been agreed, it is forwarded for approval to the Monitoring Committee, which, in turn, sends the information on the communication strategy to the Commission.
467. The Managing Authority is responsible for the management of the SF and CF information and publicity measures, according to the procedures laid down in the OP communication strategy. The Responsible Authorities are responsible for implementing the communication strategy, whilst the Cooperation Authorities are responsible for providing support in the form of information to beneficiaries, when administering tenders and working with beneficiaries on a daily basis. The beneficiaries are responsible for compliance with the compulsory publicity requirements, when implementing projects co-financed under the SF and CF.
468. The Managing Authority is also responsible for coordinating the activities of the SF regional information centres within the context of the SF and CF information and publicity measures, and also informs the EU Monitoring Committee on the progress of implementing the OP communication strategy (which includes preparing information for the annual implementation report).
469. The indicative allocation of the EU funds financing for implementation of communication strategy 2007-2015 estimates at 7.5 million EUR.

**PUBLICITY MEASURES PLAN:****Stage 1: Launching Operational Programs: January 2007 – January 2008**

Measure type	Content	Target groups	Institutions involved
<b>MEASURE 1: Mass media relations</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> <li>- EU funds TV and radio programmes</li> <li>- Press releases</li> <li>- Interviews, comments, opinions</li> <li>- Press conferences</li> </ul>	<ul style="list-style-type: none"> <li>- EU funds availability</li> <li>- Launching open calls</li> <li>- Launching restricted calls</li> <li>- Major projects</li> <li>- Economic sectors development in context of EU funds implementation</li> <li>- Project implementation</li> <li>- Contact information etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Potential Project applicants</li> <li>- Final beneficiaries</li> <li>- Latvian society</li> <li>- Information intermediates</li> </ul>	<ul style="list-style-type: none"> <li>- Managing Authority</li> <li>- Responsible Authorities</li> <li>- Co-operation Authorities</li> <li>- Regional SF information centres (5)</li> </ul>
<b>MEASURE 2: Mass media monitoring</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> <li>- media monitoring</li> </ul>	<ul style="list-style-type: none"> <li>- LR national and local press reviews and content analyses</li> </ul>	<ul style="list-style-type: none"> <li>- Institutions involved in EU funds management</li> </ul>	<ul style="list-style-type: none"> <li>- Managing Authority</li> <li>- Responsible Authorities</li> <li>- Co-operation Authorities</li> <li>- Regional SF information centres (5)</li> </ul>
<b>MEASURE 3: Regional conferences about EU Funds</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> <li>- Regional conferences (5)</li> </ul>	<ul style="list-style-type: none"> <li>- EU funds projects in 5 planning regions</li> </ul>	<ul style="list-style-type: none"> <li>- Final beneficiaries in planning regions</li> <li>- NGOs, social and regional partners</li> <li>- Institutions involved in EU funds management</li> <li>- Latvian society</li> </ul>	<ul style="list-style-type: none"> <li>- Regional SF information centres (5)</li> </ul>
<b>MEASURE 4: Publicising and dissemination information materials and</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> <li>- Information materials in line of Cabinet of Ministers</li> </ul>	<ul style="list-style-type: none"> <li>- NSRF</li> <li>- OPs</li> <li>- OPs complements</li> <li>- Activities under</li> </ul>	<ul style="list-style-type: none"> <li>- Potential project applicants</li> <li>- Information intermediates</li> </ul>	<ul style="list-style-type: none"> <li>- Managing Authority</li> <li>- Responsible Authorities</li> <li>- Co-operation</li> </ul>

regulation „EU Funds publicity and visibility”	responsibility of Responsible Institution – Other information materials, content correspondent with the target group (s)	– Public administration institutions – Local authorities – NGOs, social and regional partners	Authorities – Regional SF information centres (5) –
<b>MEASURE 5: Consultations, information measures for potential applicants including informative support in planning regions</b>			
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
– Seminars, consultations etc.	– EU funds availability – Practical information to potential applicants and final beneficiaries – Contact information etc.	– Potential project applicants, especially in regions – Final beneficiaries, especially in regions – Information intermediates	– Responsible Authorities – Co-operation Authorities – Regional SF information centres (5)
<b>MEASURE 6: Promoting involvement of potential applicants and partners in drafting and discussion of project selection criteria</b>			
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
– Any form of promoting society’s participation	– EU funds project selection criteria	– NGOs, social and regional partners – Potential project applicants,	– Responsible Authorities
<b>MEASURE 7: Development of a single network in the EU Funds web-page <a href="http://www.esfondi.lv">www.esfondi.lv</a> among home pages of institutions involved in EU Funds management</b>			
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
– Development of a single home pages network – Unified contact information of contact persons of EU funds institutipns	– 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 Authorities and Regional SF information centres (5)
<b>MEASURE 8: Flying EU flag at the Managing Authority on 9<sup>th</sup> of May</b>			
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
– Flying EU flag		– Inhabitants of Latvia	– Managing Authority

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

Measure type	Content	Target groups	Institutions involved
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<b>MEASURE 1: Mass media relations</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> <li>- EU funds TV and radio programmes</li> <li>- Press releases</li> <li>- Interviews, comments, opinions</li> <li>- Press conferences</li> </ul>	<ul style="list-style-type: none"> <li>- EU funds availability</li> <li>- Launching open calls</li> <li>- Launching restricted calls</li> <li>- Major projects</li> <li>- Economic sectors development in context of EU funds implementation</li> <li>- Project implementation</li> <li>- Contact information etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Potential Project applicants</li> <li>- Final beneficiaries</li> <li>- Latvian society</li> <li>- Information intermediates</li> </ul>	<ul style="list-style-type: none"> <li>- Managing Authority</li> <li>- Responsible Authorities</li> <li>- Co-operation Authorities</li> <li>- Regional SF information centres (5)</li> </ul>
<b>MEASURE 2: Mass media monitoring</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> <li>- media monitoring</li> </ul>	<ul style="list-style-type: none"> <li>- LR national and local press reviews and content analyses</li> </ul>	<ul style="list-style-type: none"> <li>- Institutions involved in EU funds management</li> </ul>	<ul style="list-style-type: none"> <li>- Managing Authority</li> <li>- Responsible Authorities</li> <li>- Co-operation Authorities</li> <li>- Regional SF information centres (5)</li> </ul>
<b>MEASURE 3: Annual conference on EU Funds</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<p>Annual conference on EU Funds</p>	<ul style="list-style-type: none"> <li>- EU funds implementation with a focus on reached indicators</li> </ul>	<ul style="list-style-type: none"> <li>- Final beneficiaries in planning regions</li> <li>- NGOs, social and regional partners</li> <li>- Institutions involved in EU funds management</li> <li>- Latvian society</li> </ul>	<ul style="list-style-type: none"> <li>- Managing Authority in co-operation with Responsible and Co-operation Authorities and Regional SF information centres (5)</li> </ul>
<b>MEASURE 4: Dissemination of specific information</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> <li>- Information materials in line of Cabinet of Ministers regulation „EU Funds publicity and visibility”</li> </ul>	<ul style="list-style-type: none"> <li>- EU Funds implementation process and results</li> <li>- EU Funds project examples</li> <li>- Reached indicators</li> <li>- Project implementation experience etc.</li> </ul>	<ul style="list-style-type: none"> <li>- Final beneficiaries in planning regions</li> <li>- NGOs, social and regional partners</li> <li>- Institutions involved in EU funds management</li> <li>- Latvian society</li> <li>- Public administration institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Managing Authority</li> <li>- Responsible Authorities</li> <li>- Co-operation Authorities</li> <li>- Regional SF information centres (5)</li> </ul>
<b>MEASURE 5: Public opinion poll (1x year) about society’s awareness of EU Funds</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<ul style="list-style-type: none"> <li>- Public opinion poll</li> </ul>	<ul style="list-style-type: none"> <li>- Society’s awareness of EU Funds</li> </ul>	<ul style="list-style-type: none"> <li>- Latvian inhabitants (random choice / 1000)</li> </ul>	<ul style="list-style-type: none"> <li>- Managing Authority</li> </ul>

<b>MEASURE 6: Placement of Billboards and permanent information plaques and posters</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- 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 Authority
<b>MEASURE 7: Updating homepages</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- Home pages	- Actual EU funds information	- Potential project applicants - Final beneficiaries - Information intermediates - Home pages visitors	- Managing Authority - Responsible Authorities - Co-operation Authorities - Regional SF information centres (5)
<b>MEASURE 8: Consultations, information measures for potential applicants and final beneficiaries including informative support in planning regions</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- Seminars, consultations etc.	- EU funds availability - Practical information to potential applicants and final beneficiaries - Project implementation experience	- Potential project applicants, especially in regions - Final beneficiaries, especially in regions - Information intermediates	- Responsible Authorities - Co-operation Authorities - Regional SF information centres (5)
<b>MEASURE 9: Conferences, seminars of technical nature on major project implementation</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- conferences - Seminars - Exchanging experiences and good practice	- Practical information to major project applicants and beneficiaries	- major project applicants and beneficiaries - information intermediates	- Managing Authority - Responsible Authorities - Co-operation Authorities - Regional SF information centres (5)
<b>MEASURE 10: Publicising list of EU Funds beneficiaries</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- list of EU funds beneficiaries in line with the Cabinet of ministers regulation "Publicising information about EU funds project"	- Content in line in line with the Cabinet of ministers regulation "Publicising information about EU funds project"	- Final beneficiaries - Inhabitants of Latvia	- Responsible Authorities - Co-operation Authorities
<b>MEASURE 11: Flying EU flag at the Managing Authority on 9<sup>th</sup> of May</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>

- Flying EU flag		- Inhabitants of Latvia	- Managing Authority
<b>MEASURE 12: Qualitative research in 2010 about the impact of publicity measures</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- Qualitative research	- Reached indicators and impact of information and publicity measures	- Inhabitants of Latvia - Institutions	- Managing Authority

**Stage 3: Operational Programmes closure 2014-2015**

<b>Measure type</b>	<b>Content</b>	<b>Target groups</b>	<b>Institutions involved</b>
<b>MEASURE 1: Qualitative research in 2010 about the impact of publicity measures</b>			
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
- Qualitative research	- Reached indicators and impact of information and publicity measures	- Inhabitants of Latvia - Institutions	- Managing Authority

## **7. COORDINATION OF SF AND CF OPERATIONAL PROGRAMMES AND COORDINATION WITH OTHER SUPPORT MECHANISMS**

### **7.1. Coordination of sf and cf operational programmes**

470. The coordination of SF and CF operational programmes is important for mutual harmonisation and separation of sectors of assistance, and for alignment with horizontal objectives.
471. Thereby, CF investments are mainly focused on providing assistance for large-scale infrastructure projects, but the ERDF, for the most part, provides assistance for relatively small scale investments. Assistance under the ESF is aimed at investments in human resources and, to a lesser degree, in infrastructure, which are traditionally financed under the ERDF.
472. 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 and its Sub-committees. 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.

### **7.2. Coordination of operational programmes with other support mechanisms**

473. 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.
474. During the 2004-2006 programming period, the guidance section of the EAGGF and the FIGG were programmed together with the ERDF and the ESF, within the framework of the single programming document, thereby ensuring that there is no overlap between the funds and that there is complementarity. By re-grouping agricultural and rural support measures, as well as measures in the fisheries sector, under separate financing – programming, financial management, implementation and control systems – the management of these Funds is simplified, but there is an increased need for mutual coordination and to ensure complementarity.
475. The coordination of SF and CF operational programmes with the instruments for implementing the common agricultural policy and the joint fisheries policy will be ensured by the Ministry of Finance as the Managing Authority. During the development of the OP, the Ministry of Finance will consult with the relevant sectoral ministry, the Ministry of Agriculture, on the measures to be included in the programming documents and conditions for receiving financing.
476. The SF and CF and the European Agricultural Fund for Rural Development will be isolated at the territorial and sectoral level, in the areas of intervention. Financing under the European Agricultural Fund for Rural Development for developing competition, diversifying the economy and improving the standard of living, will be used for investments in rural areas.

Within the meaning of the Law on Agricultural and Rural Development, a rural territory is the entire territory of Latvia, except for towns of national importance and district centres.<sup>12</sup> Assistance for new enterprises, within the framework of the European Agricultural Fund for Rural Development, is to be provided for the creation of micro-enterprises in rural areas, and, to a lesser degree, for improvements to the local infrastructure (such as roads, telecommunications, energy supplies, water supplies, sewage and waste management).

477. At the sectoral level, co-financing under the European Agricultural Fund for Rural Development is to be provided for investments in agricultural processing enterprises irrespective of their location.
478. Coordination will be ensured during programme 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.
479. In addition, the Managing Authority will ensure coordination of the OPs with the National Development Plan, thereby ensuring harmonisation of investments under the SF and CF with the national regional development programming documents.

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<sup>12</sup> Saeima of the Republic of Latvia, Section 1, Paragraph five of the Law on Agricultural and Regional Development (in force from 11.05.2004), Latvijas Vēstnesis, 10 May 2004.



## **8. INFORMATION ON EX-ANTE EVALUATION AND SEA PROCESS AND RECCOMENDATIONS TAKEN INTO THE CONSIDERATION**

### **8.1. Ex-ante evaluation process**

480. 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.
481. Ex-ante evaluation of National Strategic reference framework and the all three operational programs commenced in July 2006 by preparing four reports. In the result of an open call procurement procedure SIA „PricewaterhouseCoopers” was chosen to be the ex-ante evaluators.
482. 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 Latvian normative acts, as well as in compliance with the country’s development needs and provisions laid down in the EU and Latvian planning documents.
483. According to the Article 48 of aforementioned Regulation the objective 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.
484. 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.
485. Until the end of October 2006, when the draft reports were prepared, discussions on each planning documents 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 was 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.
486. Experts were helpful in preparation of planning documents that ensure clear and constructive layout of issues and lucidity.

#### **8.1.1. Conformity assessment of socioeconomic analysis and elaborated strategy to the the needs identified**

487. 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 grounded by statistical information and analysis. This was taken into consideration updating the planning documents by drafting more precise activity descriptions, and providing more comprehensive information in the OP complements. In updating the data the line ministries used the most outstanding statistical data and unprejudiced information from studies within their limits. Regarding the justification of activities more detailed explanatory notes were included.

### **8.1.2. Conformity assessment of developed strategic justification to strategy**

488. 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; the final version of the planning documents the synergy part is significantly enhanced.

489. 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.

### **8.1.3. Conformity assessment of the developed strategy to the Community Cohesion strategic guidelines and Latvian line policies**

490. 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.

### **8.1.4. Assessment of the anticipated results and impact**

491. 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.

492. 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, including the indicators for horizontal priorities, ensuring the evaluation of targets achieved, in the OP complement the data sources and method used for its calculation is depicted.

### 8.1.5. Assessment of the implementation system

493. 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.

## 8.2. Strategic Environmental Assessment

494. 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.

495. 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.

496. 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.

497. Experts concluded that overall the planning documents are in line with the targets set out in the environmental policy planning documents. An invitation was expressed to enhance the involvement of people in addressing environmental issues, to make a more accurate definition of the historically polluted territories, as well as to evaluate a possibility to set alternative territories for the development of port (due to closeness of the protected area Natura 2000).

498. Managing Authority by making adjustments to planning documents have taken into consideration the comments expressed and made respective changes.

499. In the beginning of March 2007 positive opinions on the four environmental reports were received from the Environment State Bureau (ESB) – the competent authority.

500. In accordance with the part VII of the provisions laid down in the Cabinet of Ministers regulations No 157 of March 23, 2004 “Procedures for Strategic Environmental Impact Assessment” the Ministry of Finance within 14 days after the planning documents are adopted prepares and publishes on the website an informative report in which it points out

how the environmental report and opinion of the ESB on that is taken into account, and how the evaluation of alternative solutions and the comments in respect to environmental reports is carried out. The author within 5 days after the informative report is prepared publishes it on the website, publishes it in the newspaper "Latvijas vēstnesis" and sends electronically to the ESB the report on the adoption of planning documents to be published on its website, as well as sends it to the institutions that had commented or had given recommendations during the preparation process of the documents.

501. In order to attest direct or indirect environmental impact of the implementation of the planning documents, and in order to make amendments if necessary in the planning documents ESB in its opinion suggests to the Ministry of Finance to prepare monitoring reports at least two times during the planning period (preferably in 2010 and at the end of the period 2013) and hand it in to the ESB. In order to attest direct or indirect environmental impact, an environmental impact not foreseen before, and if necessary to amend the planning documents, the author of the planning documents carries out the environmental monitoring. The author prepares monitoring report that contains information available and at least the change of environmental situation and description of tendencies related to the implementation of the planning document. Environmental monitoring should utilize state statistical data, information obtained via carrying out the environmental monitoring and other information that is available to the author. Monitoring report is a base for focused further decision making based on precise data. ESB suggests considering a possibility to create unified monitoring programme for all four planning documents thus avoiding redundancy of data production, summarisation and analysis. Exploration of all interested parties involved and main environmental aspects is essential in building the monitoring system, taken into consideration environmental protection requirements and sustainable development principles.
502. The managing authority plans to implement the recommendations of the competent authority into practice.